

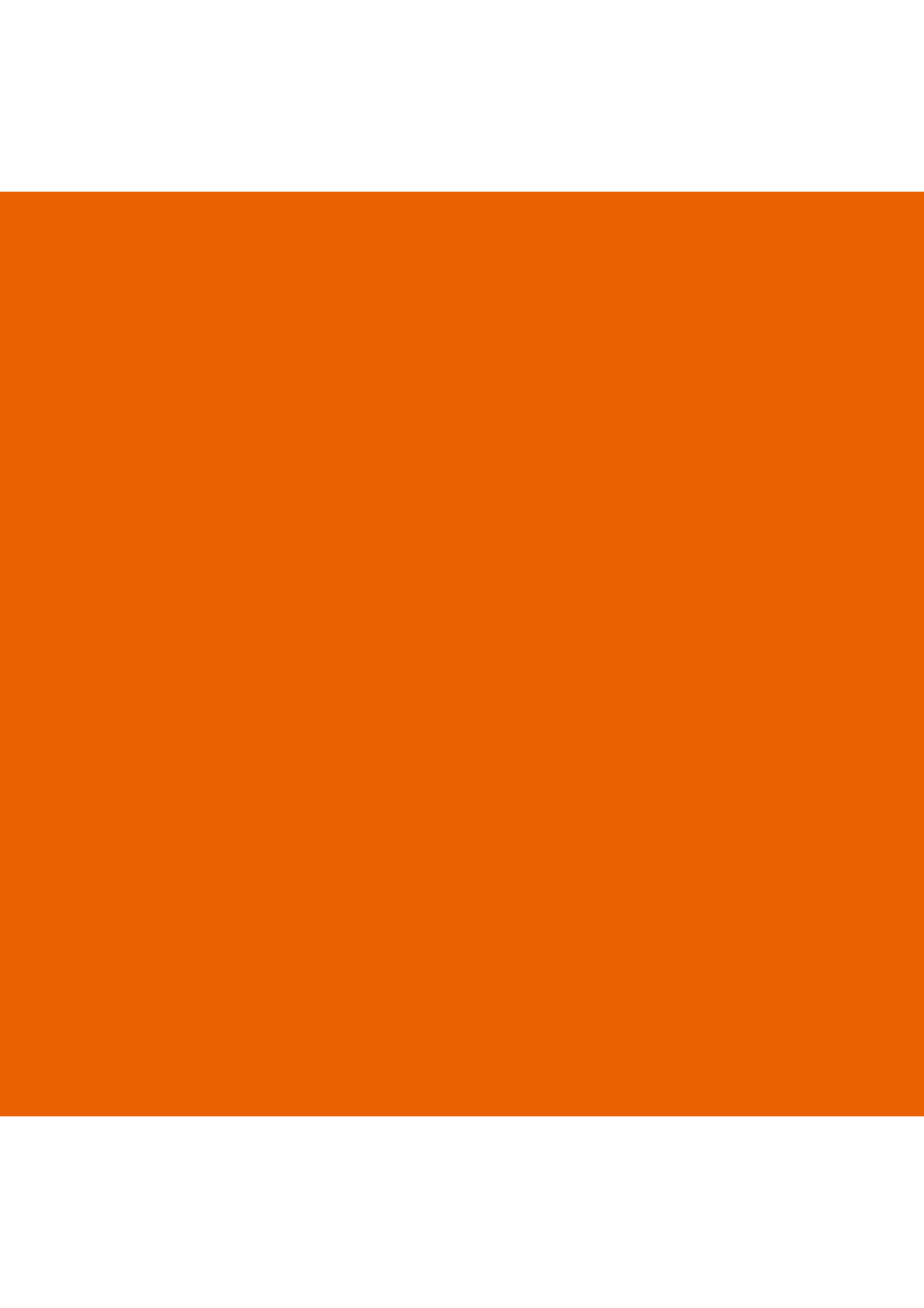
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Skilled for the future

Talking Points

Simplifying the UK
skills system

pwc



A background image of a smiling male worker in a workshop, wearing a light-colored shirt and a dark strap over his shoulder. He is standing in front of a workbench with various tools and equipment. The image has an orange tint.

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Introduction

The skills system in the UK has been the subject of significant change over the last 10 years, with new funding agencies and policies, new qualifications and a greater focus on employers' needs. However, the UK is still facing a shortage of skills: a fifth of all vacancies are difficult to fill due to a lack of skills for employees¹, and in PwC's 18th Annual Global CEO Survey², there was a 10% increase in business concerns over the availability of skilled staff.

This situation is a significant risk to long term economic recovery, the future prospects of our citizens and living standards. Indeed, in our joint essay collection with Demos, Ian Tomlinson-Roe noted that: "A happy, healthy and engaged workforce is critical for good jobs at an individual level, and higher productivity and living standards for the UK as a whole".³

We should see skills as an essential way to improve citizens' lives and wellbeing, providing them with more employment and career options. But does the current system provide the skills that businesses and their future employees need to compete in their markets?

This Talking Points publication considers whether the skills system⁴ is really working for its stakeholders and what changes could be made to its administration to make the UK skilled for the future.

1 <https://nationalcareersservice.direct.gov.uk/aboutus/newsarticles/Pages/News-EmployerSkillsSurvey.aspx>

2 <http://www.pwc.com/gx/en/psrc/publications/government-global-ceo.jhtml>

3 <http://www.pwc.co.uk/government-public-sector/2015-and-beyond/living-standards/good-jobs-a-demos-and-pwc-essay-collection.jhtml>

4 For the purposes of this Talking Point, the skills system covers post 16 skills education, supporting agencies and provision

The skills system today

The current skills system comprises a complex array of players, each of which have their own responsibilities and powers including:

- Sector-led bodies, primarily the Sector Skills Councils (SSCs);
- Local Enterprise Partnerships (LEPs), working with local and combined authorities to set strategy at the local level;
- Awarding Organisations and Ofqual, developing and certifying qualifications respectively;
- Providers, ranging from FE colleges to employment brokers, in the public, private and third sectors; and
- National as well as EU funding organisations including the Skills Funding Agency (sponsored by the Department for Business, Innovation and Skills), Department of Work and Pensions (DWP) and European Social Fund (ESF) which variously fund skills training according to different criteria.

The main beneficiaries of this system are twofold: citizens, who want high quality skills which enhance their opportunities to gain and retain good jobs; and employers, who require certain skills and competencies to drive revenue and increase profit growth.

Too complex – a skills system which is failing to maximise potential?

The Leitch Review of Skills⁵, published in 2006, noted that “people were unable to access quality training at a time and place that fitted in with their job, had little choice over training and faced a complex system of financial support”. In addition, the review noted that the “current skills and employment services have different aims, which means that delivery can be complex with an array of agencies trying to give help and advice to people. As a result, individuals do not receive the support they need and are unsure how and where to access it”.

It could be argued that little has changed since this fundamental review and that further changes to funding may have made things more, and not less, complex for the individual. Indeed, in trying to

create a skills system that works for everyone, it appears that we have created one which is now too complex, with a large number of different agencies trying to work together across organisational boundaries but each with a different purpose and set of objectives. The result is a situation which risks confusing and frustrating the two main stakeholders for which it was designed.

The case of skills funding for young people (16-24) is illustrative. The Skills Funding Agency (SFA) plans and funds skills programmes aimed at a range of learners, but with one set of policies and funding rates for 16-18 year olds and another for those older than 19 years. However, in parallel DWP provides skills training but has different rules for people aged 19-24 and those aged 24 plus. This creates unhelpful distinctions within the same skills system. And by differentiating in this way, the system targets funding

towards younger learners but risks marginalising older learners, increasing their distance from the labour market or limiting their options to progress in work.

The complexity of the skills system, with its mix of organisations involved in planning and funding skills, has also created overlapping provision around the country. Employers report that the system does not generate the skills and competencies that they need to sustain and grow their businesses. Skills shortage vacancies – which occur when employers cannot fill jobs with appropriately skilled and qualified people – now represent 22% of all vacancies, up from 16% in 2009⁶.

We need to step back and consider again how policies interact and how skills provision can be simplified to create a joined-up system which really works for the citizens and the employers that it was originally created to support.

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/354161/Prosperity_for_all_in_the_global_economy_-_summary.pdf

⁶ Winterbotham M., Vivian D., Shury J., and Davies B. (IFF Research) and Genna Kik (UK Commission for Employment and Skills), UK Commission's Employer Skills Survey 2013: UK Results, January 2014, Page 8

A changing employment landscape

The skills landscape is further complicated as the nature of employment in the UK is changing, creating new and different skills needs. Many have commented on the 'hour glass' economy, with a growing split between high skilled/high paid jobs and the growth of less skilled, less well paid jobs. A Financial Times article noted that "the UK has shifted far more towards lower-skilled service work than lots of other European countries".⁷

In addition, over the course of the recession there was a growth in part-time work and self-employment as well as so-called 'zero hours' contracts. For instance, in December 2014, there were an estimated 586,000 people on zero

hours contracts⁸ with a further estimate that 1.8 million people have contracts which do not guarantee a minimum number of hours.

But even as the nature of employment changes, the issue of skills shortages remains worryingly consistent. The availability of skills remains at the top of the concerns for UK employers and is seen as a priority for government action (Figure 1).

It is clear that if the UK is to be a high skilled and high performing economy, which is competitive globally, the skills system needs to respond. So if the current skills system isn't able to produce the skills that employers need, is it time for a change in direction?

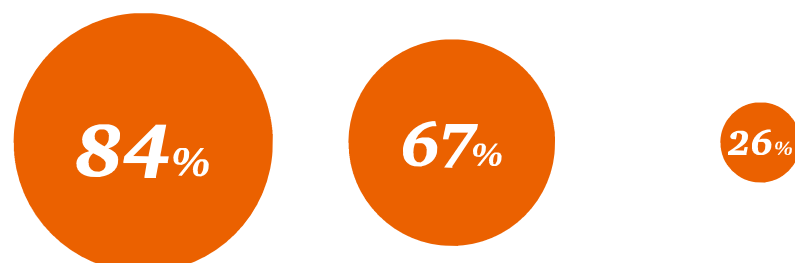
Figure 1: The lack of available skills is a threat to growth

When asked about a skilled and adaptable workforce, the UK CEO...

...is concerned about the availability of key skills

...thinks that a skilled workforce should be a government priority

...thinks that the government has been effective in achieving this



⁷ <http://www.ft.com/cms/s/0/6a8544ae-9d9e-11e4-8ea3-00144feabdc0.html#axzz3TPwkr8uG>

⁸ http://www.ons.gov.uk/dcp171776_396885.pdf

Skills are not just about demand, supply must also be managed

So far, we've focused on the demand side, and what employers think. But as well as employer demand, there's a need to consider the supply side – those who acquire the skills, be they young or old. And a key link is how individual learners acquire the information they need to make the right choices for them, which will also put them in a good position to match themselves with employment opportunities.

Since the closure of the Connexions Service (a government careers service), in recent years we have seen dramatic changes to the provision of careers advice for young people across the country. In 2012, schools were given the legal

responsibility for providing careers advice to those aged 14-16. But in a recent Ofsted report⁹, it was found that these arrangements are not working well enough.

Without specialists in place, and businesses involved, schools may fail to recognise local needs and not give young people a broad perspective to make informed choices about their best path into employment. As apprenticeships and other alternative routes to employment and careers become recognised and valued by employers, it is vital that young people are supported in understanding the training choices available to them and the impact that these choices have on their future.

“It is vitally important that young people have access to information on the full range of career pathways available so they can make informed choices about their next steps”.

Her Majesty's Chief Inspector of Schools, Sir Michael Wilshaw¹⁰

⁹ Ibid

¹⁰ Ofsted (2013), “Going in the right direction?”, p. 4: [http://www.theecd.net/write/Going_in_the_right_direction_\(Ofsted_Report\).pdf](http://www.theecd.net/write/Going_in_the_right_direction_(Ofsted_Report).pdf)

“If you want an apprenticeship, we’re going to make sure you do the best apprenticeship in the world”.

David Cameron¹¹

Apprenticeships – the opportunities for young people are changing

Many young people recognise that apprenticeships are now a real alternative route to employment with prospects, beyond the traditional Higher Education approach, and are a positive option for people to develop their professional careers too. Careers can be forged in all areas of the UK economy and employers are taking apprenticeships more seriously than ever. They represent a valuable and realistic way forward for those that prefer a more experiential learning. However, while apprenticeship opportunities are changing, we should also make sure the system improves too. We need to consider what apprenticeships are for and where their value lies. If we view apprenticeships as just being about skills and qualifications, we risk losing their value in being a tool for employers.

Apprenticeships also need to be reviewed at a fundamental and not just content level. At their heart, they were historically about providing occupational qualifications and allowing people to add value to their employer as they learned. This is a system employers embraced and valued but is it the system we have now?

The coalition government has shown a real commitment to improving the quality of apprenticeships and in October 2013 it launched eight Trailblazer groups¹² aimed at putting skills into the hands of employers, with each group taking responsibility for developing new provision for their industry.

PwC has been proud to lead the Professional and Business Services Trailblazer and we are seeing great results from this work with new skills training provision being shaped in accountancy, consulting and tax services. However, we still need to break down the barriers to taking up apprenticeships reported by learners – such as losing government benefits when taking positions – and consider the impact of the apprentice minimum wage (w learners feel leads to employers seeing them as cheap labour, rather than a valued employee).

The challenge we now face is raising the profile of apprenticeships, helping young people to understand and recognise the opportunities they provide, alongside more traditional qualification routes.

¹¹ Cameron, D. (28 October 2013), part of “Improving the quality of further education and skills training”:

<https://www.gov.uk/government/news/pm-announces-new-work-training-schemes-for-young-people-and-a-new-era-of-apprenticeships>

¹² <https://www.gov.uk/government/news/employers-in-the-driving-seat-for-reformed-apprenticeships>

What I really, really want...

There also needs to be a realistic understanding by young people of what the UK economy can support. A recent UK Commission for Employment and Skills, b-live and Education and Employers Task Force report found that “the career aspirations of teenagers at all ages can be said to have nothing in common with the projected demand for labour in the UK between 2010 and 2020”.¹³

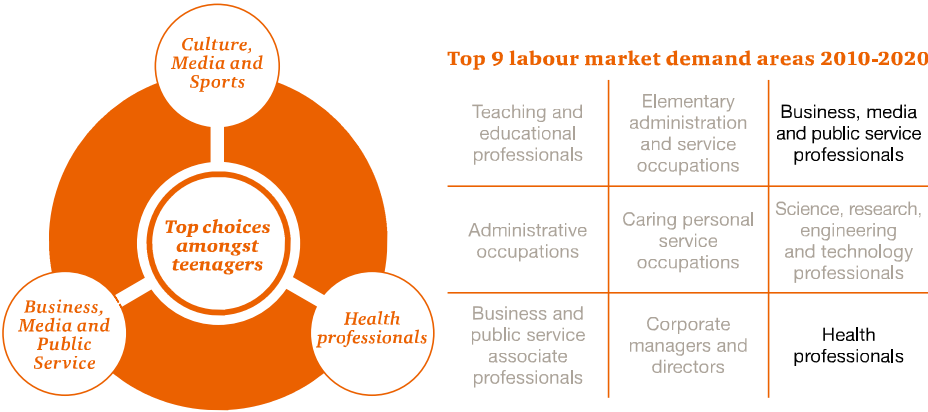
For instance, around 50% of teenagers have career ambitions in just three occupational areas, only 2 of which are key demand areas between 2010 and 2020¹⁴ which is a concern when considering the range of expected of labour market demand areas (see Figure 2). With such a mismatch between what learners want and what employers need, careers advisors and employment brokers need to find a balance between learner aspirations and employer demand, and shape an offer which effectively supports both and broadens the range of learner demand.

With new digital solutions emerging, there also needs to be more focus given to providing clear Labour Market Information (LMI) and careers advice to young people in a format that is accessible to them. With a better understanding of shifting employment trends in their area, school leavers can then make better decisions which are based on real time data.

Effective careers advice should also help young people feel empowered to take control of their future and start their

careers on the right path. We need to support young people in understanding what qualification options are available to them, what kind of career a qualification can lead to, what opportunities and employers are in their area and how they can embark on a career which suits their interests and abilities. This is a task which also needs to extend beyond traditional careers advice, usually the preserve of the public sector, and into the private and third sector employment brokerage services which operate across the UK.

Figure 2: The top choices for young people vs the current labour market demands in the UK



13 Mann, A., Massey, D., Glover, P., Kashefpadkel, E. and Dawkins, J. (2013), "Nothing in Common: career aspirations of young Britons mapped against labour market demand 2010-2020", p. 8: http://micros.swindon-college.ac.uk/sites/micros.swindon-college.ac.uk/files/nothing_in_common_final.pdf
14 Ibid

The older learner left behind

But it's not all about young people: with an ageing society, and increasing pension ages, the demand of older workers is set to increase. NIA (National Institute of Adult Continuing Education) report that "current employer plans suggest we need to fill 13.5 million job vacancies in the next 10 years, but there will be only 7 million young people leaving school or college".¹⁵ David Hughes of NIA

l "create a postcode lottery in terms of what's on offer for adults" and that "decisions will have to be made at a local level, and providers will be making difficult decisions in isolation".¹⁶

As the skills system is strongly skewed towards young people, older learners are often able to access far less in terms of skills support; SFA only funds part of older learners' provision such as apprenticeships. This can make training an older learner much more expensive for an employer and

can be a factor when making recruitment decisions. For older learners who are further from the labour market, suffering from some form of disadvantage, disability or having other responsibilities (as carers for instance), there are wider issues around how they access support and how the SFA and DWP rules interact in relation to them.

For instance, the DWP's Flexible Support Fund supports some 'flexible' local training. However not all those claiming benefits are eligible to apply and it is generally only available to those who are not involved in the government's Work Programme. As such, the size and scope of this fund could limit its impact and associated benefits.

The skills system is evolving, however, in some ways which may help. By allowing funding of non-Qualifications and Credit Framework (QCF) accredited courses (which often restricts funding to qualification bearing courses) other

training options can be promoted that provide the specific, high quality skills needed by employers to transition older (and other) workers into new jobs. This could open up the door for the funding of short term courses such as HGV or Fork Lift Truck driving.

With funding from SFA looking likely to remain lower for adult learners, there is also a challenge for employers to increase not just their youth apprenticeship uptake in their business but also that of older learners.

There is no doubt that older learners, be they re-entrants to the job market or those looking for in work progression, have experience and wider skills which can be useful to employers despite their potentially higher training costs. It is important that we are able to build a more balanced and inclusive workforce which values all employees for the skills they bring.

¹⁵ <http://www.niace.org.uk/news/vital-for-economy-to-hold-on-to-older-workers>

¹⁶ David Hughes quoted in article by Exley, S, (10 February 2014), "£460m cuts to adult skills budget 'will lead to jobs and courses being cut, colleges warn'", TES Connect: <https://news.tes.co.uk/further-education/b/news/2014/02/10/163-460m-cuts-to-adult-skills-budget-quot-will-lead-to-jobs-and-courses-being-cut-quot-colleges-warn.aspx>

Leading and delivering the right skills system for UK plc

So far, we've discussed issues from the point of view of employers and the individuals. But what about the organisations charged with looking ahead and designing a system fit for the future. The key development in recent years has been to make Sector Skills Councils (SSCs) responsible for ensuring that skills are kept relevant, and meet the needs of employers now and in the future. SSCs represent the skills needs of their associated sectors, with 18 SSCs and 4 Sector Skills Bodies covering the majority of UK industry and interacting with their sectors to deliver the skills development that employers need.

Despite a relicensing programme following the Leitch Review of Skills in 2006, some SSCs are still felt to be doing too little to lead skills development in the sector they represent. In particular, a research paper commissioned by the Federation of Small Businesses, reported the following key findings:

- 71% of small businesses had never heard of Sector Skills Councils;

- 90% of small businesses did not know which Sector Skills Council related to their industry; and
- Of the 928 businesses which had heard of Sector Skills Councils, only 10% felt that they were responsive to the needs of micro and small businesses.¹⁷

So although the SSCs are a key part of our skills infrastructure, far too many employers seem unaware of how integral they are to implementing a successful and coordinated skills system.

The UK Commission for Employment and Skills (UKCES), the industry-led organisation that offers guidance on skills and employment issues in the UK, already does a good job of representing the overall skills system. To build on this knowledge and networks, UKCES could take ownership of the SSCs and use their sectorial knowledge to feed into a more granular view of the nation as a whole. The SSCs need a national cross sector voice to maximise their potential and make links between sectors, identifying common ground solutions wherever possible.

SSCs can be a vital part of our skills system but they need to change the way they operate to better consider how they can support growth in their industries. Through helping to improve the quality and appropriateness of the skills in their industry, they can become a positive driver of change within the overall skills system.

But there is no doubt that greater ownership of the SSCs requires higher levels of employer engagement. The funded Industry Training Board (ITB) is an example of where a collaboratively owned and operated model has helped to address market failure. In industries with a clear and defined skills shortage, this model can and does work, being seen as a sector agent for change, rather than a stealth tax, but it is the industry employers that must call for this collaborative approach, not the government. And while a complete return to a levy-ITB model (seeing employers pay a levy based on their pay roll or revenue) is unlikely, employers do need to recognise that they need to be more engaged in a voluntary capacity if they want to avoid legislators forcing compliance.

¹⁷ <http://testiis2.fsb.org.uk/policy/images/sector%20skills%20council%20research.pdf>

Employers have a responsibility too

It would be easy to point the finger at SSCs, however, but engaging employers on the skills agenda is actually harder than might be expected. Many initiatives have been tried to increase employer ownership of the skills system but success to date has been limited, with the same small group of employers actively involved in local and national schemes ranging from the now defunct Training and Enterprise Councils and Work and Skills Boards to the more recently constituted business-led LEPs to which skills capital funding is being devolved to meet local needs.

For example, when funding apprenticeships in the UK we have relied on employer-led funding for a number of years as a vehicle to support employer buy in, but this is not prevalent in other countries where apprenticeships seem to be more valued. Models such as the German one see apprenticeships funded by the government and supported by an apprenticeship agreement. This agreement spells out what employers will contribute in terms of time and learning support, elements which can be argued to be more important than a simplistic cash contribution. Should we be considering this as an option in the UK?

While those employers who do engage must be credited for their efforts, there is still opportunity for many others to take more responsibility for skills development. With employers more engaged in the development of skills, it should lead to more relevant and appropriate skills provision which helps citizens into jobs and employers to thrive. Employers also have a responsibility to change the perceptions of the citizens they want to employ. Many people are uncertain about how to join certain industries, such as professional services or hold pre-conceived assumptions about the type of person who might 'fit in' in those fields. This is something employers must seek to change.

In particular, by working with schools to provide better careers advice, employers can build young people's aspirations, aid their understanding of career opportunities and help to stimulate demand in the skills needed to build UK plc. Employers are best placed to help young people understand what they do and the opportunities they offer. PwC, through visiting schools and talking at skills conferences, is committed to changing the perceptions of our industry and opening up professional services to those who would not have considered it before.

Making it simple

To help businesses and individuals, the government also has a responsibility to create a simpler system. The government currently spends millions of pounds across multiple departments on administering the skills system, with the DWP and SFA continuing to implement different funding rules for younger and older beneficiaries, with their own costs and their own rules. The cost of multiple administrations is one in particular which needs to be reviewed and could be reduced through simplification of the system.

In order to better respond to increasingly specific demands, employers need a skills system that is responsive to local needs and requirements.

We believe, however, that it is possible to reduce the complexity of the sector and, with the devolution agenda, take the opportunity for new models to be trialled in different areas to test and refine the best approaches through prototyping. If implemented well, local simplification of the skills system, with streamlined funding and contract management mechanisms, could reduce non-productive spend and be scaled up.

We need to realise that if the sector is to deliver, it needs to transform and change in order to maximise every pound of expenditure and deliver better for much less. But the skills system does not need to be complicated; it just needs clear focus, vision and relevance to its end users.

Figure 3 shows an example of the future. A more effective partnership is needed between funders and planners – with LEPs identifying skills gaps in their area, working with relevant local and combined authorities. SSCs and Awarding Organisations can help to build the skills programmes needed with the SFA managing contracts with their extensive range of providers.

Figure 3: A streamlined and agile system



At its heart, the skills system needs to have a logical and consistent flow throughout. There will always be a need for a number of different parties to be involved in elements of requirement gathering and design through to funding delivery, but this can be streamlined significantly in order to reduce costs and improve services.

The resulting funds saved through simplification could then be redirected towards improving front line education. For instance, saving £5 million at a local level through a more streamlined funding approach could, based on current apprenticeship funding rates, fund:

- 852 more 16 – 18 Level 3 apprenticeships in Management
- 1,700 more 19+ Level 4 apprenticeships in Accounting
- 712 more 16 – 18 Level 5 apprenticeships in Management

This simpler system will require data and policy architecture to support its development and management in the locality but is arguably a cost which will pay for itself year on year.



Conclusion

We face a critical time for our skills system, a time of opportunity and a time where improvements can be made. The complexity of the current system, combined with spending restraints and employer concerns over the availability of suitable skills training means the UK could face a future of shrinking economic capability and skilled job creation.

We need an evolved and simplified skills system, with providers who are agile, can adapt to new and emerging trends, technologies and market f
that new skills programmes are brought to market and made accessible to employers.

A clear vision, with stakeholders seeking to make changes for the better

to look again has never been greater. This is a call to action. By looking at our skills system again, we can make changes which will help everyone living and working in the UK.

A responsive system does not need increasingly complex machinery; it needs simple solutions that work locally and regionally. We must take the opportunity that devolution presents to try something new and all play our part in making the changes needed to make the UK skilled for the future.

The case for change is now.

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