

SKILLS 2030

Why the adult skills system is failing to build an economy that works for everyone

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60-SECOND SUMMARY

The government is seeking to build an economy that works for everyone. As we leave the European Union, we will need to ensure that our country can compete in a global economy, and the government has set goals of boosting living standards, growth and productivity, and addressing deeply engrained regional inequalities. However, England's adult skills system is ill-equipped to deliver this, or to address the trends that will affect our economy between now and 2030.

- **Demand for skills among employers is low.** Employer investment has fallen in recent years and there is a large investment gap with the EU average. Poor skills utilisation means improvements in qualifications haven't delivered improvements in pay and productivity.
- **Too much provision is low quality with poor outcomes.** In the absence of clearly articulated employer demand, providers have relied on government-designed funding and regulatory systems. This has led to perverse incentives, mismatched supply and demand, and a focus on courses with poor labour market outcomes. Efforts to build a more 'employer-led' system risk exacerbating this.
- **The training system has failed to tackle regional and social inequalities.** Adults who stand to benefit most from training are the least likely to participate. The adult skills system has failed to support regions scarred by deindustrialisation, and it has failed to address stark regional disparities in economic performance. The apprenticeship levy may accentuate regional skills inequalities by boosting investment most in London and the south east.

The apprenticeships levy as currently formulated would fail to restore employer investment to the levels of a decade ago. The government should therefore expand its apprenticeship levy into a 'skills levy', set at 0.5 per cent of payroll for employers with 50 or more employees, and 1.0 per cent for the largest. This would raise £5 billion. Contributions from larger employers should be top-sliced and devolved to provide a regional skills fund for high quality vocational education and training.

KEY FINDINGS

Our economy is set to change significantly between now and 2030. It is essential that England develops a skills system that not only responds to emerging trends, but actively shapes them in order to support stronger and shared growth. The prime minister has pledged to build an economy that works for everyone, rooted in a more proactive industrial strategy. However, the adult skills system¹ as currently configured is incapable of delivering the government's objectives of increasing living standards and driving economic growth across the country by increasing productivity and boosting social mobility.

In the past, policymakers in England have left decisions on training to the market: the assumption has been that with the right incentives, employers

will invest in training for the benefit of themselves, their staff and the economy. Successive governments have invested in training in the hope that a more skilled workforce will drive innovation and growth.

However, our market-led system has not delivered the right quantity or quality of training, and it has failed the people and the places that need it most.

If we are to build a skills system fit for the future, we need to overcome three key weaknesses:

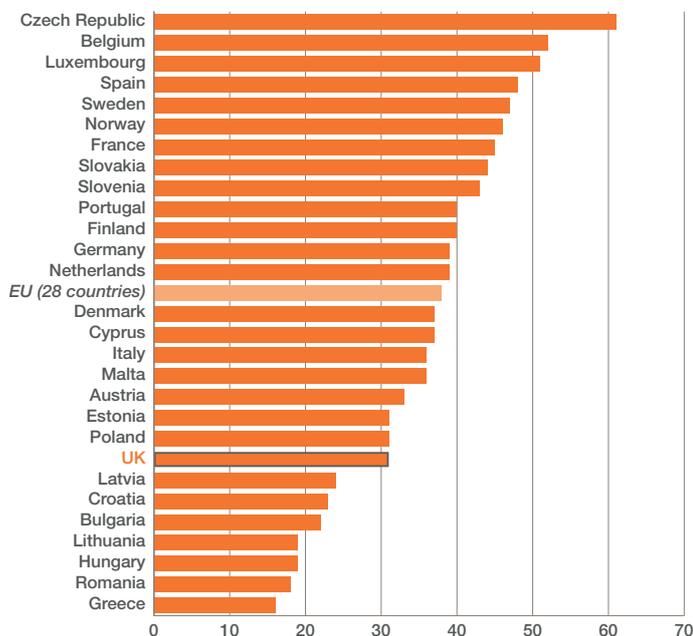
- First, levels of employer demand for skills are low, **and employer investment in continuing vocational training per employee in the UK is half the EU average**; investment in training and learning per employee fell by 13.6 per cent per employee in real-terms between 2007 and 2015. Neither are employers using the skills of the workforce effectively: the UK has the highest levels of overqualification in the EU. While the apprenticeship levy will stimulate

¹ This paper is focused on the publicly funded further education system for adult learners and employer-funded training; it does not include analysis of the higher education system. For previous IPPR work on higher education see Pearce N, Muir R, Clifton J and Olsen A (2013) *A critical path: Securing the future of higher education in England*, IPPR. <http://www.ippr.org/publications/a-critical-path-securing-the-future-of-higher-education-in-england>

investment, it will only affect large employers, and questions remain about the quality of training and the extent to which skills will be utilised to improve business performance and job quality.

UK employers invest half as much per employee as the EU average in vocational training

Cost per employee of continuing vocational training courses by EU country (purchasing power standard), 2010



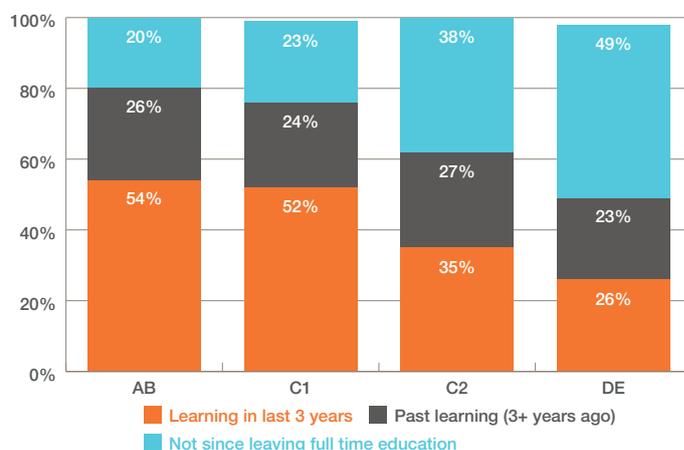
Source: Eurostat

- Second, in the absence of strong and clearly articulated employer demand, providers have relied on centrally-set funding and regulatory systems that have led to a focus on lower-quality courses which often fail to meet the needs of both learners or employers. **Half of all qualifications being worked towards by adult learners are below NVQ level 2, and many of these offer very low wage or employment returns.** Yet at the same time, many skilled sectors face persistent skills shortages that are not met by current provision. Current efforts to build a more 'employer-led' system risk exacerbating this problem, and increasing levels of 'deadweight' – training that would have happened irrespective of public funding.
- Third, the current system has failed to tackle entrenched regional and social inequalities. It has not supported those affected by economic change in the past, leaving many post-industrial areas with low skills equilibria. While the devolution of adult skills will help, proposals are poorly co-ordinated and the overall budget has been significantly cut. The apprenticeship levy will stimulate investment most in the areas where it is needed least. London and the south east have 38 per cent of the UK's large businesses who are likely to pay the levy, and only 27 per cent of the population.

Yet these areas also have far higher levels of qualifications. So the levy is likely to raise less, and stimulate training less, in the very regions that have the greater skills needs. **Adults who would most benefit from training – those with low skills, in low-pay occupations and in lower socio-economic groups – are the least likely to participate.** Individuals looking to upskill can face numerous barriers, including financial constraints, a lack of time, low self-esteem, the 'work first' approach of the welfare system, and poor information on options available. The decision to charge adults for the full cost of some courses has led to a 31-per-cent fall in participation. Taken together, these barriers mean that the demand for skills training from learners is likely to remain weaker than expected.

Adults in higher socio-economic classes are more likely to participate in learning

Participation in learning by social class, UK, 2015



Source: National Institute of Adult Continuing Education (2015) '2015 NIACE Adult Participation in Learning Survey: Headline Findings'. <http://www.learningandwork.org.uk/our-resources/promoting-learning-and-skills/2015-adult-participation-learning-survey>

Ultimately, many of the problems with the adult skills system stem from England's relatively 'hands-off' approach to vocational training, including low training standards and a reluctance to intervene in the quantity or quality of training used and delivered by employers.

A shift to a more innovative, higher skilled economy that works for everyone will require far more focus on how the skills of the adult working population are being developed and utilised in the workplace. A more ambitious adult skills policy should be informed by the following goals:

- improving investment in, and utilisation of, skills among employers
- increasing the availability of high-quality specialist vocational provision
- supporting industries and communities facing economic decline to adapt to the demands of the global economy.

The first-order problem we tackle here is underinvestment in the skills system, which needs to be addressed if the government's objectives are to be delivered on. The apprenticeship levy could help boost investment in skills, but it would not bring spending back to the levels of a decade ago, nor would it bring us close to the EU average. In the absence of further public investment in the skills system, and demonstrable under-investment in skills on the part of employers compared to similar countries, we recommend that the government expands the apprenticeship levy into a wider skills levy, which would:

- apply to all employers with 50 or more employees
- be set at 0.5 per cent of payroll for employers with 50 or more staff, and 1.0 per cent of payroll for the largest employers with 250 or more staff
- top-slice contributions from larger employers to form a regional skills fund, devolved according to local need, to invest in high quality, specialist vocational training.

We estimate that the skills levy as defined above would raise over £5 billion in 2017/18 – double the £2.6 billion raised by the apprenticeship levy. Top-slicing a quarter of the contributions of the largest firms would create a regional skills fund worth £1.1 billion, to be devolved to regions with lower skills. While the apprenticeship levy may actually accentuate regional inequalities, top-slicing the skills levy would narrow them. It would also come close to restoring the adult skills budget to 2010/11 levels in real terms, and would increase employer investment from 52 per cent of the EU average to 80 per cent.

The introduction of a skills levy will also provide greater scope for tackling the second- and third-order problems we identify here: a collective action failure, and persistent regional and social inequalities. We will set out how government can address these failures in our next report.

For the full report, including all references, data sources and notes on methodology, see:
www.ippr.org/publications/skills-2030-why-the-adult-skills-system-is-failing

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