

# ANOTHER LOST DECADE?

Building a skills system for the economy of the 2030s

Joe Dromey and Clare McNeil | July 2017

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## 60-SECOND SUMMARY

With wages lower than a decade ago, the UK suffers from a growing challenge of low-pay and in-work poverty. With productivity growth having stagnated, we are falling behind our European partners. Our economy will be transformed in the coming years as a result both of Brexit, and also trends such as rapidly advancing technology and our ageing society. We need a skills system that can both help adults, employers and communities to adapt to these changes, and that helps build an economy that works for everyone.

England's adult skills system is based on flawed assumptions and has failed to respond to past industrial change. Successive governments have assumed that 'supply-side' boosts to the skills level of the population alone will help workers succeed in the face of greater competition and labour market instability. However, the evidence we put forward suggests that in order to have any impact on productivity, pay and progression, improvements in skills levels must be complemented with action to increase employer demand for and utilisation of skills in the workplace.

Building on our first IPPR report in this series (Dromey and McNeil 2017), we set out four priorities for reform: boosting investment in the skills system; improving employer demand for and utilisation of skills to raise productivity; increasing the availability of high-quality specialist vocational provision and supporting industries and communities facing economic decline to adapt to the demands of the global economy.

### Our recommendations include:

- Expanding the Apprenticeship Levy into a 'Productivity and Skills Levy' to provide a £1.1 billion regional fund to drive skills devolution.
- Introducing a 'Personal Learning Credit' worth up to £700 a year for low-paid, low-skill workers to help people invest in their future careers
- Supporting both demand for and utilisation of skills as part of a modern industrial strategy, including by establishing strong sectoral institutions to drive a collective commitment to skills and productivity.
- A 'Productivity Commission' should be established to lead a national mission to boost job quality and workplace performance
- Introducing a 'Personal Retraining Allowance' of £2,000 to support low-skilled workers made redundant to return to the labour market and establishing a cross-government framework should identify and monitor industries in transition.

### KEY FINDINGS

The UK's skills system suffers from:

- low levels of demand for, investment in and utilisation of skills among employers
- a lack of high-quality vocational training
- a failure over decades to tackle persistent regional skills imbalances.

These weaknesses are largely the result of assumptions that have underpinned the skills system since the 1990s. Successive governments have mistakenly operated on the basis that raising skill levels among the population alone will create a 'knowledge economy' that will help workers succeed in spite of greater global trade and competition. The evidence, however, is that unless these changes are complemented with action to increase employer demand for and utilisation of skills, improvements in qualifications will have little impact on productivity, pay and progression.

**Given the profound changes our economy will undergo in the years up to 2030 the current situation is no longer sustainable.**

Our economy suffers from underlying weaknesses which stand to worsen without remedial action. Productivity growth has stalled, and the productivity gap with comparable countries is widening. There are five million adults in low pay in the UK, and the UK suffers from a chronic 'progression gap', with just one-in-four adults moving out of low pay over a decade.

Transformative trends such as Brexit, accelerating technological change, and population ageing will require more support for workers to retrain and upskill or risk getting left behind.

Our recommendations bring together government agendas on education and skills, industrial strategy, productivity and growth as part of a **new national mission to improve workplace performance and job quality.**

### POLICY PRIORITIES

We identify four priorities for the skills system as Britain attempts to forge a new role in the world following the outcome of the 2016 EU referendum:

1. **improving investment in the skills system**
2. **improving employer demand for and utilisation of skills to boost productivity**
3. **increasing the availability of high-quality specialist vocational provision**
4. **supporting industries and communities facing economic decline to adapt to the demands of the global economy.**

### RECOMMENDATIONS

#### Recommendation 1. Improve investment in the skills system

- **Introduce a 'Productivity and Skills Levy' to boost investment and increase productivity.**
  - The government's apprenticeship levy should be broadened out into a 'productivity and skills levy'. Set at 0.5 per cent of payroll for employers with 50 or more staff, and 1.0 per cent for large firms with 250 or more employees, employers should be given greater flexibility, with the ability to redeem levy funds against all high-quality training, not just apprenticeships.

- **Provide a ‘Personal Training Credit’ to support low-paid and low-skilled individuals to invest in their training and career.**
  - The credit would focus resources on those who need support the most, giving people control over their training and careers, and would help close the participation gap. The credit would be worth up to up to £700 a year for adults with low qualifications who are either in low-paid work or who are unemployed, with the individual required to co-invest where they can to unlock these funds.
- Local enterprise partnerships should be reformed and rebranded as local productivity partnerships to bring together local government, employers, providers and trade unions to govern economic development and the skills system locally.

### Recommendation 2. Improve employer demand for and utilisation of skills to boost productivity

- **Establish a new national mission to boost job quality and workplace performance.**
  - A new statutory duty should be introduced for the DWP to report to Parliament on the quality of work as well as progress towards full employment. The government should move beyond simply reporting on participation to reporting on the quality of work, with measures reported on to include task factors, employment factors, and relational and governance factors. These should be developed by DWP in partnership with stakeholders.
  - By 2020, the government should merge the Productivity Council and the Institute for Apprenticeships to form a broader and more powerful Productivity Commission to support employers to drive up workplace performance in the UK. Once the council has implemented its programme on management skills and leadership its remit should be expanded to incorporate vital issues for raising productivity and wages such as job quality and design, work organisation, HR policies and employee relations.
- **Introduce ‘progression agreements’** between commissioners, employers and employees, with public funding being provided in exchange for employers guaranteeing progression for an employee who completes an identified course or qualification.

### Recommendation 3. Increase the availability of high-quality specialist vocational provision

- **Build strong sectoral and local institutions to drive skills policy and industrial strategy.**
  - As part of its industrial strategy the government should use sector deals to build new institutions to improve the quality of training, and drive skills utilisation and workplace performance. These institutions would be responsible for identifying and articulating demand in their sector, designing standards, training content and career pathways, overseeing awarding bodies, investing levy underspend and boosting job quality.
- **Introduce greater devolution and reformed local institutions.**

- **Establish outcome agreements focused on productivity, pay and progression.**

- Local productivity partnerships should establish outcome agreements as the basis of local commissioning with a focus on labour market outcomes – such as improvements in pay, progression and productivity – not merely qualifications delivered.

### Recommendation 4. Support industries and communities facing economic decline to adapt to the demands of the global economy

As the basis of the government’s manifesto pledge to introduce a ‘national retraining scheme’ to help workers to stay in secure jobs as the economy changes, government should seek to:

- **Introduce a ‘Personal Retraining Allowance’ of £2,000 for workers who are made redundant and lack an NVQ level 3 to invest in upskilling.**
  - This funding should be made available through the personal training credit, and paid for by reducing the tax free allowance for redundancy payments.
- **Establish a cross-government framework to identify and monitor industries in transition as part of the government’s new industrial strategy.**
  - This should be targeted at those industries with both a high number of jobs with the potential to be automated, and a high proportion of workers with lower-level qualifications who are more at risk of slipping into long-term unemployment.
- **Give local areas powers to force certain firms to release workers for a set number of days per month for retraining.**
  - Firms would be compensated through the use of skills and productivity levy funds, or supported to set up job rotation schemes.

Finally, **the government should appoint a minister for productivity and skills.**

- Based jointly across BEIS and DfE, the minister for productivity and skills would be responsible for bringing together government agendas on education and skills, industrial strategy, productivity and growth as part of a new national mission to improve workplace performance and job quality.
  - The minister would be responsible for driving up both the quantity and the quality of training in the labour market, and ensuring skills are utilised effectively to deliver improvements in productivity.

For the full report, including all references, data sources and notes on methodology, see: [www.ippr.org/publications/skills-2030-another-lost-decade](http://www.ippr.org/publications/skills-2030-another-lost-decade)

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