



SKILLS FOR THE NORTH

DEVOLVING TECHNICAL EDUCATION TO CITIES

Anna Round

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CONTENTS

60-second summary	3
Recommendations.....	4
1. The adult skills system	5
1.1 Project context and background	5
1.2 The adult skills system in England	6
1.3 Funding for adult skills.....	7
1.4 The benefits of adult skills provision	11
2. Challenges for the adult skills system	13
2.1 Qualifications, skills needs and gaps in the North.....	13
2.2 Demand for skills and skills utilisation	18
2.3 Quality of provision and labour market outcomes.....	19
2.4 Social inequalities	20
2.5 Better technical education	20
3. The opportunity of devolution	23
3.1 Why devolve policy for skills?.....	23
3.2 Skills investment – the logic of skills devolution in economic development and the industrial strategy	24
3.3 Skills devolution in northern city regions	25
4. Experiences of skills devolution	28
4.1 The AEB and beyond	28
4.2 Outcome agreements and incentives	29
4.3 Partnerships and networks.....	31
4.4 Resources and lack of resources.....	32
4.5 Data and labour market information (LMI)	32
5. Recommendations	35
5.1 Further skills Devolution Deals	36
5.2 Integration of skills devolution with the industrial strategy, economic development and other areas of devolution	38
5.3 Capacity and resources	38
References	40

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60-SECOND SUMMARY

Skills are crucial to productivity and to the wellbeing of communities, businesses and individuals. The north of England needs a skilled workforce and a system for skills development that meets the changing needs of the regional economy.

At present qualifications levels across the north of England are lower than for England as a whole. A higher proportion of the population of the north have no qualifications or a qualification at or below Level 3 as their highest qualification, while a lower proportion hold a degree or other Level 4 certification. Furthermore, the available evidence suggests that skills needs in the north of England are different from those of the UK as a whole.

The Employer Skills Survey (DfE 2017d) suggests that trends in skills shortages and gaps in the north of England are distributed differently across occupations from national ones, and also that there are some striking contrasts between parts of the North. Yet systems for developing adult skills are both highly centralised and extremely complex. Across the North there is much excellent provision, including fruitful collaboration between providers and employers at the local level. However, some stubborn challenges remain.

Historically the UK skills system has been largely supply led, rather than shaped by the identified needs of learners, employers and local economies. It also suffers from:

- relatively low levels of investment in skills provision by employers and government, compared to similar nations
- low employer demand for skills, and poor skills utilisation
- too much provision that has poor labour market outcomes, and some aspects of funding that may inadvertently incentivise this.

Devolving some powers and budgets for skills would help to align provision with regional economic and social priorities, and to create more agile and efficient systems. For this project, we worked with officers from a small group of northern Local Enterprise Partnerships

(LEPs) who are engaged in skills devolution and related issues, to identify the opportunities of this policy and develop recommendations for its future.

City Deals and Growth Deals passed some powers and budgets for skills to northern city regions. This experience has given LEPs a strong resource of knowledge on which to build and some excellent projects and programmes are in place. Devolution of the Adult Education Budget (AEB) is an important but limited addition to these. The AEB offers new opportunities to LEPs but is a relatively small funding stream, spent mainly on statutory entitlements to basic skills provision.

In our project regions, there is considerable ambition for skills devolution. Desired outcomes include a highly coherent skills system, developed in the light of specific aims for economic and social development in particular places. The introduction of a place-based industrial strategy in England offers an important opportunity, especially where LEPs have a role in its delivery. Their remit for economic development provides a lever to align skills provision with skills utilisation in the context of local sectoral mixes and opportunities. This should include the 'everyday economy' – including industries with a history of low pay, low skills and poor progression – as well as high-growth, high-tech sectors, to ensure that skills provision has its full potential impact on both economic and social outcomes.

Within LEPs, extensive good practice is in place to help achieve these priorities including:

- using limited skills devolution to leverage wider influence through alignment of programmes, using the AEB (or other frameworks) to articulate priorities, and using evidence from previous rounds of devolution to argue for desired outcomes
- developing clear, shared frameworks of desirable outcomes for skills devolution and shaping funding and other incentives to achieve these
- partnership working and the establishment and use of networks to achieve collaboration, coherence, a shared vision and effective actions by stakeholders
- the production and use of high-quality data on skills needs, provision and current and future labour markets.

Limited resource to put skills devolution into practice represents a risk for LEPs. As well as developing policy and data and working with partners, they will eventually have to assume some of the operational management functions currently undertaken by the ESFA. Yet skills devolution takes place in the context of reduced funding and staff numbers. The North needs a clear strategic vision to co-ordinate the potential of skills investment as a contributor to economic growth, productivity and prosperity with the opportunity to bring social benefits to individuals and communities.

RECOMMENDATIONS

Our recommendations are set in the context of the Skills 2030 framework for reform of the adult skills system in England (Dromey et al 2017). We propose the following.

1. **Further powers and budgets for skills should be devolved to LEPs**, including powers to shape apprenticeship provision (building on a strong track record of work under the City Deals and Growth Deals).
2. **To support further skills devolution, LEPs should develop and publish regional Skills Priority Lists** to shape incentives for providers and learners.
3. **LEPs should commission skills budgets using Outcome Agreements** focussed on developing local skills ecosystems, and on labour market outcomes including pay, work progression, and productivity in the local economy. LEPs should be allowed to use funding to incentivise programme completion, initiatives to support pay and work progression, and both economic and social outcomes.
4. **Business support provided by LEPs should focus on skills utilisation**, and should be closely integrated with devolved powers for skills policy.
5. **Sector Deals developed as part of the industrial strategy should include a skills element**, with associated investment where appropriate.
6. **Skills devolution should be integrated with other devolved powers to improve place-based approaches to social and economic development**, including economic development and employment support; this could also extend across the range of devolved powers.
7. **Partnerships and networks should play a key role in developing and implementing skills devolution** and a requirement for partnership working should be included in Devolution Deals.
8. **A 'Skills for the North' body should be established**, based in a northern city, with a remit to support northern LEPs to take forward skills devolution and:
 - co-ordinate a high-quality data training, collection and analysis including labour market information
 - provide shared 'back office' and management functions to administer devolved budgets and powers
 - convene LEP representatives to collaborate and to share learning and good practice.

1. THE ADULT SKILLS SYSTEM

1.1 PROJECT CONTEXT AND BACKGROUND

Skills are a crucial input to national and regional productivity, and to the wellbeing of communities, businesses and individuals. In developed nations, the most concentrated period of skill development is childhood and youth, through the school system and various ‘standard’ post-compulsory routes; upper secondary education, university courses and vocational training.

However, learning continues well beyond the school and immediately post-school years. Not everyone gains all the skills they need at this early stage, and today’s rapid pace of technological, economic and social change means that most adults will update or augment their skillset during their working lives. Skills systems must adapt so that they can prepare people effectively for the contemporary and future worlds of work.

Adult skills policy has been included in successive phases of devolution to English regions over the past six years. This report presents findings and recommendations from a project in which IPPR North worked with officers from five northern Local Enterprise Partnerships (LEPs) where some powers and budgets had been passed to local areas under the City and Growth Deals, and where further skills devolution was planned or anticipated. Between January and September 2017, they came together in a ‘learning network’ to explore common themes, share examples of initiatives and outcomes, pool information and approaches, and work together to address challenges. This research is informed by the experiences of people involved in the day-to-day work of shaping and implementing policy for skills devolution.

We also conducted interviews with the officers leading on policy and data analysis in September 2016 and October 2017, with representatives of chambers of commerce and further education providers in several regions, and the relevant political leads for two combined authorities.

Our recommendations reflect both the good practice identified through this process, and the ways in which further devolution and integration of powers in a place-based approach could strengthen provision for adult skills development. Although we make reference to the compulsory, 16–18, and higher education systems, the main focus of the work is on vocational education and training (VET) for people aged 19 and above.

Figure 1.1 shows the project phases and design.

FIGURE 1.1
Project phases and design



Source: IPPR, author's analysis

Chapter 1 outlines the skills system in England, including recent reforms that are relevant to devolution. Chapter 2 sets out some of the challenges that a devolved skills system must address, and chapter 3 examines how devolution offers opportunities to do so. Chapter 4 gives an overview of skills devolution in northern England, and considers some of the effective practice and key challenges which we identified. Chapter 5 presents our recommendations for the future of skills devolution, in the context of ongoing devolution to the English regions and the development of the relevant institutional capacity.

1.2 THE ADULT SKILLS SYSTEM IN ENGLAND

The term 'adult skills system' refers to the diverse learning opportunities and institutions used by people aged 19 and above, with the exception of higher education undertaken in universities¹. Much of the adult skills system is in some way vocational, i.e. specific to a particular occupation or job, and it is to a large extent concerned with practical skills and their application. As such, it has a large overlap with vocational education and training (VET) for learners aged 16–19. It

¹ The 'strong separation' of VET and higher education in the UK is relatively unusual among developed countries (Round and Gunson 2017). Although funding, student support and administrative systems remain discrete, in practice the division is being eroded through the integration of vocational and work-based learning, and projects relating to the needs of the local economy. As partnerships between universities and other local partners are formed in the context of devolution, this process is likely to continue.

also includes some courses designed to improve basic skills, such as literacy, numeracy and proficiency in English as an additional language. Adult learners may also use the routes available to them to pursue 'academic' programmes, such as university access courses or A-levels.

Adult learners study in colleges (further education or specialist institutions), in their workplaces, with independent training providers (who may be subcontracted by an employer or a college), or with organisations contracted by the Jobcentre Plus and Work Programme, third sector organisations², and offender learning services (Skills Commission 2017). The range of qualifications sought is vast. As well as the highly recognisable Apprenticeship, learners may seek certificates, diplomas, traineeships or other VET accreditation. They may also study to improve their 'basic skills', take or retake GCSEs and other school-leaving exams, or engage in training which is not associated with a formal award. And diverse modes of learning are available, including work-based, online and distance formats.

The diversity of the adult skills offer is one of its strengths. An OECD study found that the range of provision across further education (FE) and private providers helped to meet the needs of different learners, while the relative autonomy of FE colleges supported 'a strong foundation for the development of new programmes' (Mussett and Field 2013). Adult skills provision is also resilient and adaptable, with good opportunities to focus on employer and student needs (AoC 2014).

However, the system is '... extraordinarily complex and opaque by European and international standards' (Wolf 2011). Students (or potential students) and employers can find it difficult to navigate and may miss out on the best match of provision to their needs. Learners following an 'academic route' proceed through A-levels to degree programmes via a common recruitment process and supported by a single funding mechanism. By contrast a different application must be completed for every institution (or even course) in VET, choosing between over 1,300 public and private providers (Lupton et al 2015), multiple subcontracting relationships (Wolf et al 2016) and a confusing – sometimes overlapping – range of qualifications.

The system's complexity results not from careful planning to create vibrant diversity, but from ongoing reform of individual elements and a lack of 'systems thinking'. Over the past decades VET has been subject to 'frequent policy and procedural change' which can lead to instability and a lack of capacity for innovation and flexibility (Skills Commission 2016). Funding cuts – and a shift to student loans to pay for many higher-level qualifications and for older learners – have reduced the amount of money in the system and reshaped financial incentives.

1.3 FUNDING FOR ADULT SKILLS

Adult skills are funded from a range of sources. The bulk of government funding is routed through the Education and Skills Funding Agency, formerly the Skills Funding Agency (SFA), from the Department of Education (which in 2016 took over responsibility for post-16 education from the Department for Business, Innovation and Skills). The annual budget for adult learning is set out in a ministerial letter, and the agency confirms allocations to individual providers. Table 1 shows a breakdown of the main areas of SFA-routed funding in 2016/17. The [E]SFA also manages funding for apprentices aged 16-18.

Other government departments use a small proportion of their budgets to pay for adult skills development. For example, the Ministry of Defence funds some learning for its employees and for service leavers, Work Programme providers can

² In 2016, more than 2,000 voluntary and community sector organisations were registered as offering some education and training within their remit (Gloster et al 2016).

draw on DWP funds as well as the SFA, and offender learning budgets are now managed by the Ministry of Justice. In addition, employers also spend around £36 billion on on- and off-the-job training (Gloster et al 2016). Some learners may pay upfront for their own studies.

TABLE 1.1

Education & Skills Funding Agency Allocations, 2016/17

Adult Apprenticeships	£909,389,367
Adult Education Budget	£1,365,354,019
Advanced Learning Loans facility & bursary	£386,053,304
Age Facility	£64,313,000
ESF (allocation for 2014 to 2020)	£128,900,000

Source: ESFA 2017, author's calculations

Changes to the funding system

Important recent changes to the Adult Skills Funding system include.

- *The creation of the Adult Education Budget (AEB).* In 2015, other funding streams were pooled to create the AEB. It includes *all* SFA/ESFA participation and support funding for people aged 19 and over, *apart from* ESF, Advanced Learner Loans, offender learning, and – following the introduction of the apprenticeship levy – funding for adult apprenticeships. The separate Community Learning budget is now part of the AEB. The aim of the AEB is to ‘... engage adults and provide the skills and learning they need to equip them for work, an apprenticeship or other learning’, in particular those ‘furthest from learning or the workplace’ (SFA 2016a). It is paid by the SFA to providers, with allocations determined by a formula based on the rates associated with learners and courses, multiplied by uplifts for disadvantage and regional delivery costs (ESFA 2017). A substantial part of the AEB allocation must be spent on ‘statutory’ provision to ensure that people gain basic skills as a ‘stepping stone’ to employability or further learning. These legal entitlements include:
 - for people aged 19 or above *without* a GCSE at A* to C in English and maths, study towards a Level 2 or other basic qualification
 - for people aged 19–23, study to support progression towards their first full Level 2 qualification; for this age group, unemployed learners can also work towards a second Level 2 qualification or a Level 3 qualification
 - For people aged 24 or above, full funding for a qualification up to Level 2 if they are unemployed; other learners may receive co-funded provision to this point.

Some other funding is available for traineeships (under certain conditions relating to work-readiness), English for Speakers of Other Languages (ESOL), and some learners with learning difficulties or disabilities (SFA 2016a). In practice, this means that by far the greatest part of the AEB must be spent on this statutory provision.

- *The apprenticeship levy.* In 2015 the government announced a target of 3 million new apprenticeships by 2020. To support this and to give employers more control over ‘designing, choosing and paying for apprenticeship training’ (DfE 2017c), the ‘apprenticeship levy’ was introduced. Employers pay the levy if they either:
 - have an annual pay bill of more than £3 million, or
 - are connected to other businesses with a total annual pay bill of over £3 million.

Levy payments vary by firm size, at 0.5 or 1 per cent of payroll minus a small allowance.

Each levy payer has a digital 'Apprenticeship Account' which is credited each month with a sum equivalent to their monthly levy payment, multiplied by the proportion of their pay bill paid to their workforce living in England, and augmented by a 10 per cent top up from the government. The account must be spent on apprenticeship training within 24 months (DfE 2017c). Employers and providers negotiate the price for training and assessment, and each framework or standard is associated with a funding band.

Some funding is available for non-levy payers who want to train an apprentice, levy payers who want to spend more on apprenticeships, and training young apprenticeships and particular categories of apprentices such as care leavers (Powell 2017).

These changes severely limit the potential of skills devolution. The main budget which has been devolved is the AEB (see chapter 4). However, the vast majority of this budget must be spent on nationally-defined legal entitlements; this is estimated at just over £800 million for fully-funded provision in 2016/17 (AoC 2016), with co-funding accounting for up a further part. Thus LEPs have very limited scope to shape its allocation. The implications, and responses in our project LEP areas, are discussed in chapter 4. And despite a track record of successful initiatives where previous apprenticeship funding was devolved (see chapter 4), apprenticeship policy has taken a turn *away* from devolution. Individual employers will make decisions about how to spend their allocations, the Institute for Apprenticeships will approve standards and assessment plans, and the DfE will have overall oversight (Dromey et al 2017).

Investment in adult skills

Government investment

Investment in skills has fallen substantially in the UK. Spending on FE '... fell faster [than spending on secondary schools] during the 1990s, grew more slowly in the 2000s, and has been the only major area of education spending to see cuts since 2010' (Belfield, Crawford and Sibieta 2017). This has created particular challenges for FE colleges (AoC 2014) and in July 2016 the NAO forecast that many could face bankruptcy.

As a contributor to prosperity, investment in skills appears to be seen as a somewhat secondary issue. For example, the government's 2016 commitments to follow up the Coalition's productivity plan include investment in infrastructure, science and innovation but propose little additional funding for skills, despite their importance in productivity (Brinkley and Crowley 2017). As with higher education, the move to loans has emphasised the *individual* returns of learning beyond a basic level, rather than the wider economic or societal benefit. Devolution, where the focus is on *local prosperity*, offers an opportunity to reframe skills spending as investment which will have returns for local economies as well as for employers and workers.

Adult skills funding has been hit especially hard by austerity. A comparison of SFA accounts (Foster 2017) shows that for the period 2010/11–2015/16:

- total spending on teaching and learning fell in cash terms by 32 per cent (£1.15 billion); ASB spending on teaching and learning fell by 36 per cent
- non-apprenticeship expenditure in the ASB fell by 54 per cent (£1.36 billion).
- Funding for non-apprenticeship workplace training fell by 87 per cent
- classroom-based expenditure – which includes much of the basic skills provision required to meet statutory entitlements – fell by 17 per cent.

Non-teaching expenditure on learner support increased between 2010/11 and 2013/14, but fell towards the end of this period:

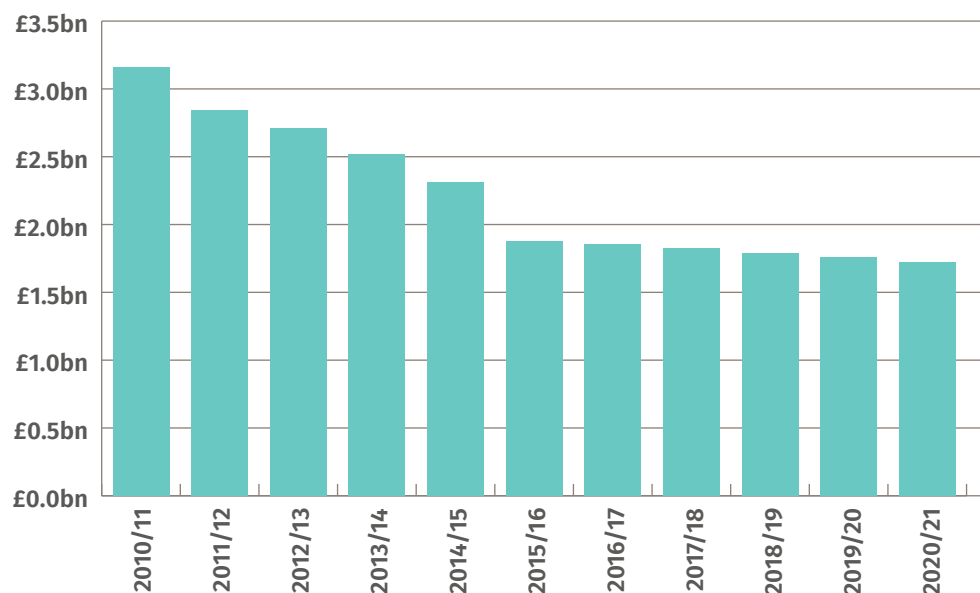
- learner support expenditure rose in cash terms by 33 per cent to 2014/15 but fell again in 2015/16; it stood at £120 million in 2010/11 and £133 million in 2015/16
- expenditure on the National Careers Service rose from £63 million in 2010/11 to £93 million in 2013/14, but has since decreased to £61 million
- expenditure on skills infrastructure fell by 81 per cent (from £162 million to £31 million) and the administration budget fell from £122 million to £90 million.

The 2015 Spending Review includes protection for the ‘core adult skills participation budgets’ in cash terms of £1.5 billion, and the indicative AEB for 2017/18 to 2019/20 will be held constant at this level (Foster 2017). Funding for apprenticeships will increase with the introduction of the levy, which is projected to provide around £2.5 billion of funding for learning of this type, and the budget for Advanced Learner Loans will also increase from around £0.2 billion to £0.48 billion in 2019/20. Non-teaching funding will also be reduced.

All this means that, in real terms, skills devolution will happen in a climate of declining government funding for adult skills, as shown in Figure 1.2. This could reduce its potential to effect real change and to have a lasting impact on local prosperity.

FIGURE 1.2

Adult skills budget in real terms and projected change, 2009/10 and 2019/20, £ billion



Source: Dromey and McNeil 2017

Employer and individual investment

Employer expenditure on training has declined by 13.6 per cent since 2007. The per head figure stands at around half of the EU average, and under the apprenticeship levy it will only rise to around 72 per cent (Dromey and McNeil 2017a). This investment is unevenly distributed between organisations, with much higher concentrations of training in the public than the private sector, in larger than

smaller companies, and in high-value services sectors (Dromey and McNeil 2017). And expenditure across the workforce also varies; despite the overall reduction, employers are investing *more* in management training (New Economy 2017).

The advent of loan funding has seen a substantial increase in individual spending on skills. It is difficult to disaggregate the sum spent on post-19 VET from the total spend for this age group – which includes higher education students – but spending by adults on their own education has risen by 37 per cent over five years. In 2016, 82,920 Advanced Learning Loans were approved. Of these, 71.5 per cent funded Level 3 training and 7.1 per cent funded training at Level 4 or above, while 20.7 per cent funded QAA-accredited Access to Higher Education provision (DfE 2017b, author’s calculations).

1.4 THE BENEFITS OF ADULT SKILLS PROVISION

Financial benefits

Numerous studies have examined the evidence for financial benefits in earnings and employment prospects as a result of participation in learning. Most explore the relationship between earnings and the acquisition of a *qualification* rather than the more complex relationship between *skills* gains and earnings (Bhutoria 2016).

Evidence suggest that earnings, firm productivity and the wider economy all benefit from investment in skills, although these impacts are mediated by other factors including gender, age, subject area (Gloster et al 2016), and the wider business and economic context.

- Wage returns are highest for completed degree programmes. For sub-degree provision, including VET, the greatest uplift seems to be associated with Level 3 qualifications. Wage returns to lower qualifications are harder to identify. Level 2 may have some effect, but below this little impact on wages is found (Bibby 2014, Bhutoria 2016, New Economy 2017).
- Returns to sub-degree qualifications, where found, may be more delayed than those to HE (New Economy 2017). Workers planning on investing time or money in learning and development must make complicated calculations about whether and when they will realise any financial benefits. Some of those choices inevitably involve a leap of faith, and the factors involved may be far beyond the control of the individual.
- Returns of employability and employment probability are found for all qualification levels at and above Level 2 (Bhutoria 2016, Gloster et al 2016).
- Higher education brings substantial gains for the government, via higher tax take and National Insurance contributions (New Economy 2017). For the wider economy, the evidence suggests that ‘human capital investments are associated with higher Gross Domestic Product and lower inequality’ with a premium of between 18 to 35 per cent for each additional year of education. Increased rates of tertiary and higher VET qualifications can also help to propel innovation and economic growth (Bhutoria 2016).
- Firm-level studies are comparatively limited, but the evidence for returns on learning is good. A study of companies whose staff undertook ESF-funded adult FE found reports of higher productivity (57 per cent of participants), increased profitability (28 per cent) and greater turnover (19 per cent) associated with this learning (Dickinson and Lloyd 2010). Another, looking at the changes associated with staff attainment of VET qualifications, identified better levels of knowledge and understanding (96 per cent), better work performance (86 per cent) and greater adaptability to business needs (85 per cent), as well as generally good value for money from the courses used (Owen et al 2013).

Social benefits

Learning has diverse social benefits. For example, participants in a study of learners who had taken part in Level 4 adult FE found gains in confidence and self-esteem as well as a belief that learning had helped with health or disability issues (London Economics/Ipsos Mori 2013a). Health improvements are described in several studies, as are outcomes including better general workplace skills, reductions in social isolation, 'life satisfaction', lower levels of anxiety, and greater likelihood of engaging in further learning (Gloster et al 2016). Parents who have taken part in VET may also feel more confident about supporting their children's learning (London Economics/Ipsos Mori 2013b, Harding and Ghezalayagh 2014).

All of these outcomes are important in the context of devolution and place-based decision making for economic development and social policy. Improved employability and earnings for individuals, productivity of local firms, and improved health and wellbeing all contribute to local prosperity, and also to cost savings. A place-based approach, bringing them together, provides a basis for a coherent articulation of what the skills system is for. These issues are explored further in chapter 3.

2. CHALLENGES FOR THE ADULT SKILLS SYSTEM

The skills system has a key role to play in meeting Britain's economic and social challenges including stagnated productivity growth and a productivity 'gap' with comparable countries, low pay and increasing in-work poverty, and persistent regional inequalities (IPPR 2017). The UK's participation in global markets depends on a population with 'skills mixes of both cognitive and social and emotional skills' as well as greater equality in learning outcomes and a willingness for adults to continue learning throughout their working lives (OECD 2017a).

Developments such as withdrawal from the EU, rapid technological change and population ageing all demand a prompt and effective response. Without this Britain may face severe skills shortages, and a shortage of high-level technical skills in particular could lead to an increase in social and intergenerational inequality (Anderson and EPI 2016).

Adult education and VET face some systematic challenges, including:

- low employer demand for skills and poor skills utilisation, associated with low productivity and low employer investment in skills (see 1.3 above)
- too much low-quality provision, or provision with poor labour market outcomes
- an ongoing failure to support greater social or regional equality.

(Dromey and McNeil 2017)

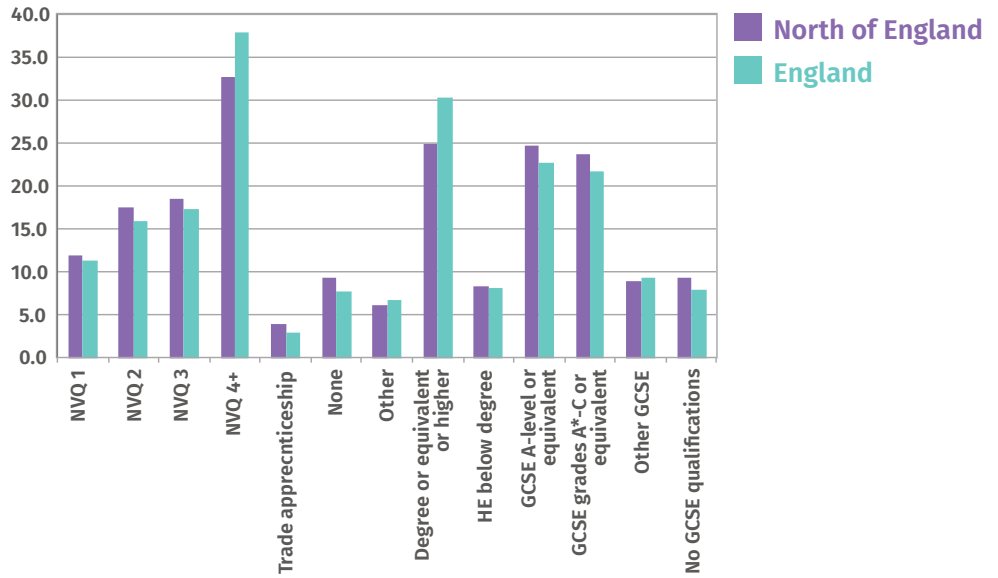
2.1 QUALIFICATIONS, SKILLS NEEDS AND GAPS IN THE NORTH

A strong argument for the devolution of skills policy is the presence of distinctive regional or local patterns of qualifications as well as skills needs or shortages.

At present qualifications levels across the north of England are lower than for England as a whole. A higher proportion of the population of the North have no qualifications or a qualification at or below Level 3 as their highest qualification, while a lower proportion hold a degree or other Level 4 certification (figure 2.1).

FIGURE 2.1

Percentage of population with each type of qualification as their highest qualification level, 2016.

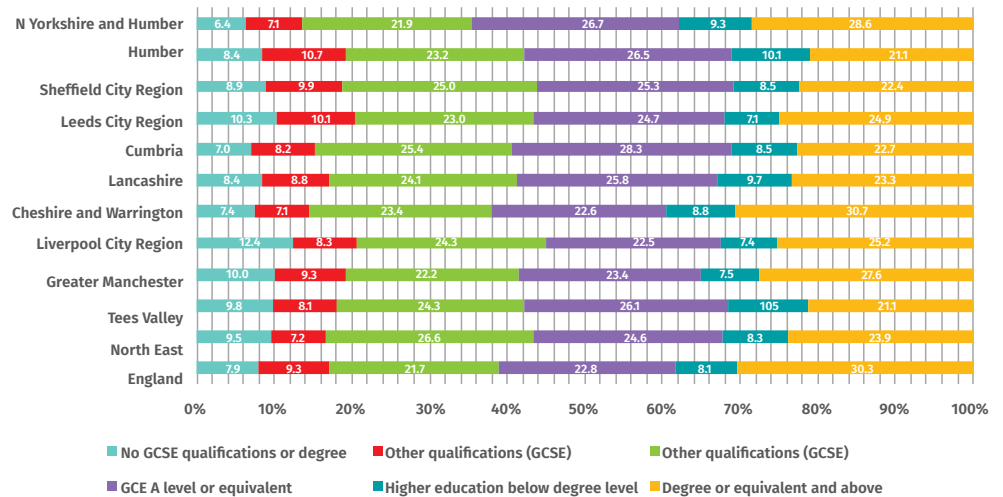


Source: Annual Population Survey via NomisWeb, author's analysis

Once again there is considerable variation between qualification levels between LEP areas within the North (figures 2.2 and 2.3).

FIGURE 2.2

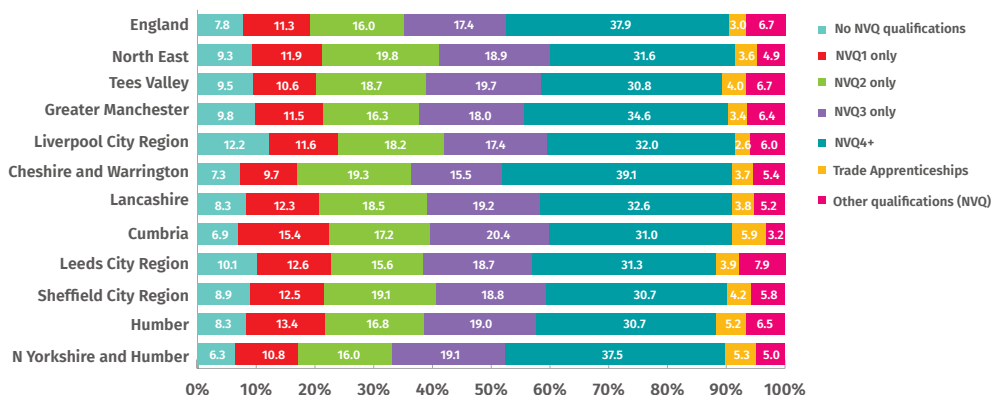
Percentage of population with each type of higher education/GCSE qualification as their highest qualification level, 2016.



Source: Annual Population Survey via NomisWeb, author's analysis

FIGURE 2.3

Percentage of population with each type of NVQ qualification as their highest qualification level, 2016.



Source: Annual Population Survey via NomisWeb, author's analysis

Alongside policy designed to achieve higher qualification levels, the mix of occupational and disciplinary specialisms gained through this learning must reflect the local economy and the best available projections for its future skills needs.

The available evidence suggests that skills needs in the north of England are different from those of the UK as a whole. The partial nature of this evidence suggests the need for new and sensitive approaches to gathering data on the current position, and to conducting analyses of likely future skills needs across and within the North.

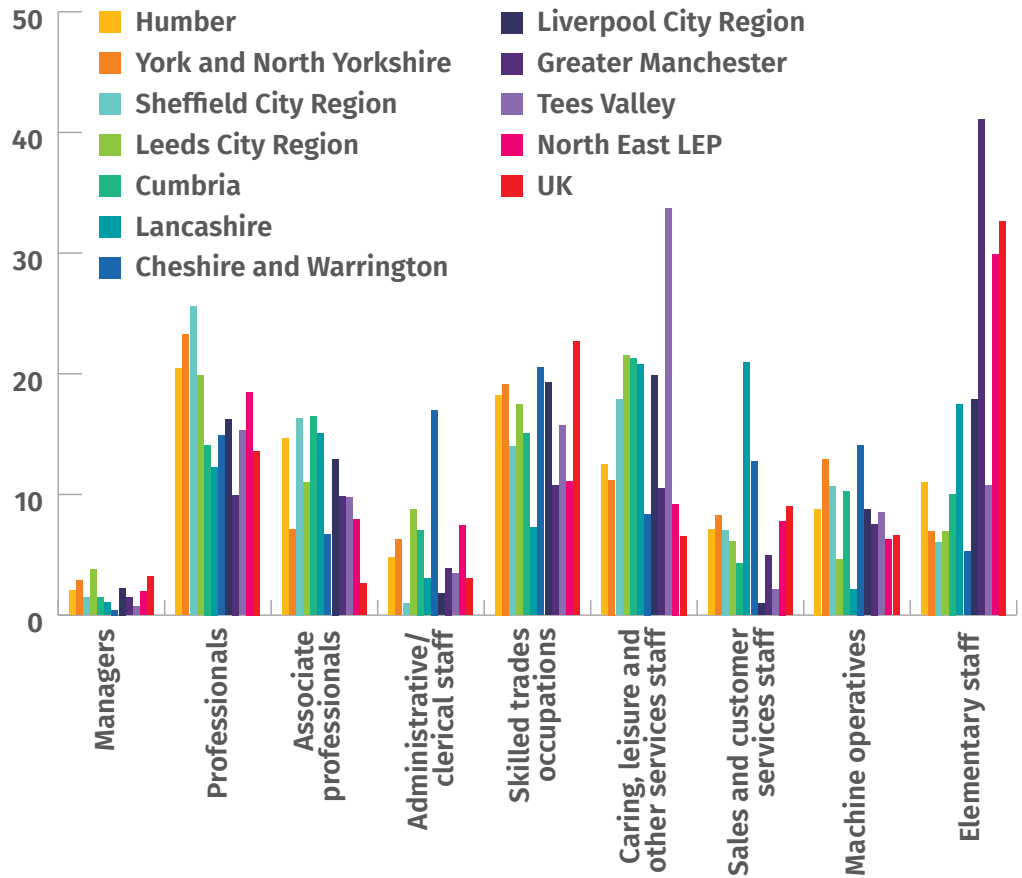
The Employer Skills Survey (DfE 2017d)³ provides the most geographically comprehensive account of skills needs across the UK and in the regions. Its findings suggest that that trends in skills shortages and gaps in the north of England are distributed differently across occupations from national ones, and also that there are some striking contrasts between parts of the North.

Figure 2.4 shows the density of 'skills shortage vacancies' in different types of occupation across the North's LEP areas. The most striking feature of this data is the diversity between different parts of the region. For example, the density of skills shortage vacancies for professional roles is higher than the national rate in the North East and Tees Valley areas, but substantially lower in Leeds and Cheshire and Warrington. Only in two LEP areas – Greater Manchester and York and North Yorkshire – is the figure close to the national rate.

3 This survey was conducted by the UK Commission for Employment and Skills until its closure in 2016. It is now commissioned biannually by the Department for Education and the Governments of the devolved nations. The most recent dataset contains findings from 2015 and data for 2017 will be released this summer.

FIGURE 2.4

Density of skills shortage vacancies in different occupations, northern LEPs and UK.

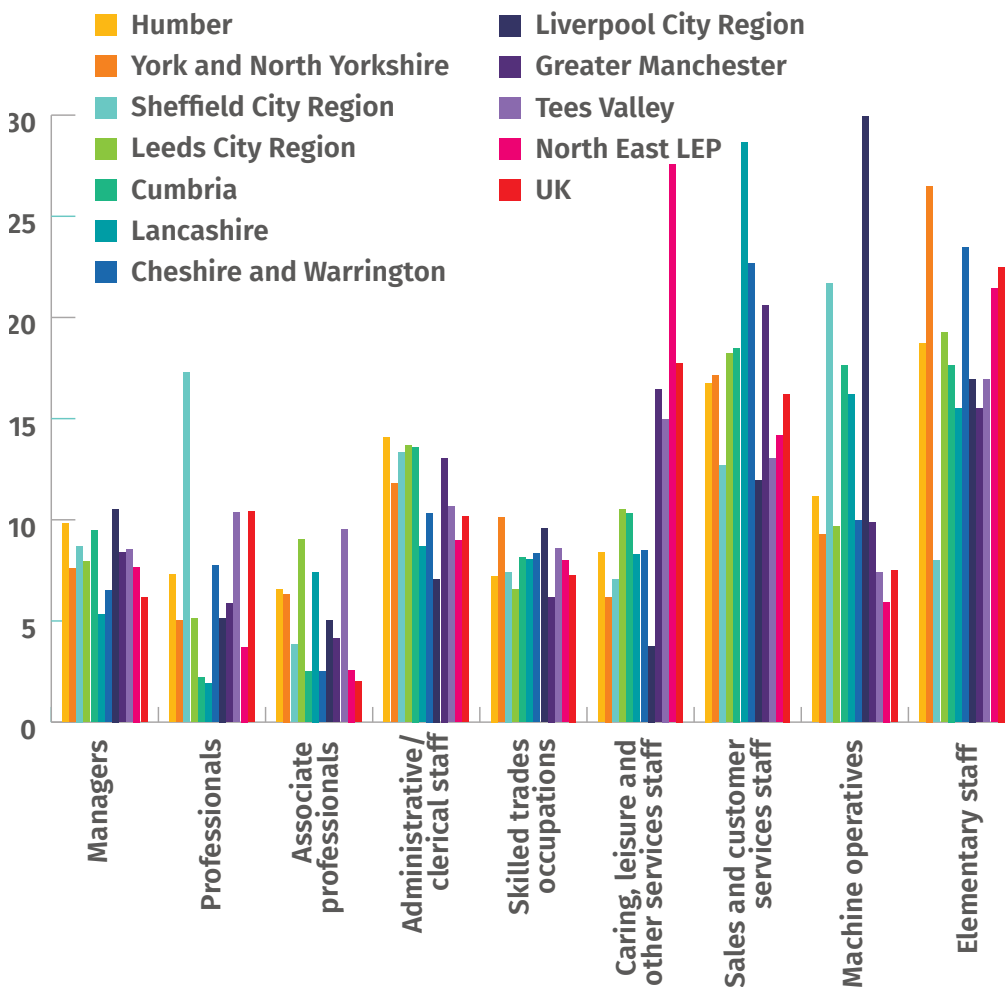


Source: UKCES 2016

Similarly the rate of skills gaps (employers’ skills needs within their existing workforce) varies considerably between areas, as shown in figure 2.5. The north of England follows the general trend of higher levels of skills gaps in intermediate and lower-skilled work, but even here there are some major differences even between neighbouring regions. For example the Tees Valley has some of the highest levels of skills gaps among machine operative workers but the lowest among elementary staff; in the neighbouring NELEP region, the situation is reversed. Even the North’s Core Cities are very different from one another, and from any kind of ‘national average’.

FIGURE 2.5

Density of skills gaps in different occupations, northern LEPs and UK.



Source: UKCES 2016

These findings chime with comments in our project interviews, which suggested that skills needs are often highly local in their nature. LEPs need good quality local intelligence, almost certainly in more detail that would be shown in a national survey.

In addition, the skills needs associated with gaps and shortages are just one part of the picture. Those planning for skills devolution must also use their local knowledge to identify the best ways to match distinctive local populations to local needs. A fine-grained account of demand must ‘match’ with an approach to local opportunities to shape supply, taking account of geography, demographics and communities (see Boschmann 2011). For example, the reasons which underpin skills gaps and shortages vary as greatly between LEP areas as do the gaps and shortages themselves (UKCES 2016). All of this adds weight to the recommendations discussed in 4.5 and 5.3 below⁴.

⁴ At present one of the most comprehensive accounts of skills needs and shortages, the UK Shortage Occupation List (<http://www.visabureau.com/uk/shortage-occupations-list.aspx>), is not generally available in a regionally disaggregated form.

Some large-scale national trends in skills demand have specific regional manifestations in the north of England, which skills devolution must address. Current skills issues and – crucially – a likelihood of a major shortfall in skills supply over the coming decades are well-attested in relation to particular skillsets and sectors. To remain competitive, the north of England will need substantially increased numbers of workers with skills for construction (Construction Skills Network 2017), engineering (RAE 2016) digital roles (Blakeley 2017) and exporting and international trade (Round 2016). In addition, higher levels of basic skills are likely to be required of workers even in traditionally lower-skilled roles (Vivian et al 2016).

2.2 DEMAND FOR SKILLS AND SKILLS UTILISATION

The English skills system has historically been supply-led rather than shaped by employer demand or the articulated needs of local and national labour markets. In turn, provision tends to reflect perceptions of historical demand, rather than responses to active employer engagement (CCN 2015). In a marketised system individuals and employers should, in theory, make rational choices leading to better outcomes for themselves and the wider economy. Skills policy has been formed on the basis of a ‘domestic bargain’ in which the route to prosperity is via education and enhanced employability in the knowledge economy (Brown and Lauder 2006).

However, the assumption of a ‘latent demand’ for education, training and skills is not necessarily a safe one (Payne and Keep 2011). Engagement with adult learning is actually falling; FE participation declined for people aged 19 and over during the past decade (Dromey and McNeil 2017). Data from the Adult Education Survey indicates that participation in non-formal education and training (including job-related learning sponsored by employers) is low in international terms. In 2011 the UK ranked 20th in the EU overall and 23rd for the amount of job-related employer-sponsored training provided. Both of these figures represent a fall of around ten percentage points from 2007, despite substantial increases across the EU (Brinkley and Crowley 2016).

And simply raising employee skills levels is unlikely to be enough on its own to affect a major improvement in a firm’s economic performance. Rather, ‘... it is the societal, regional or local “capacity” for high-skill utilisation that counts, rather than merely increasing the supply of employable graduates’ (Brown et al 2008). Demand for skills stems from ‘...amongst other things, the use of process and product technologies, entrepreneurship, management practices, and product market strategy’, and skills both help to drive and are demanded by innovation (Gamblin et al 2009).

The business environment may dissuade firms from even attempting this route. Pressures to maximise short-term returns may inhibit ‘long-term and holistic organisational change’, while operating in a flexible, deregulated labour market could encourage competition using ‘low value-added strategies with a relatively cheap and disposable workforce’ (Payne and Keep 2011). Good skills utilisation and ‘best management practices’ for using skills are widely found in England, but they are unevenly distributed between firms (OECD 2017b).

To make the most effective use of better skills levels, employer involvement must go beyond a simplistic statement of needs. Rather it should involve engagement throughout the skills planning process; a sophisticated and up-to-date account of demand, support for skills development; and effective ongoing learning about how to make the best use of a skilled workforce. In 2009 the UKCES stated that: ‘the future employment and skills system will need to invest as much effort in raising employer ambition, on stimulating demand, as it does on enhancing skills supply’ (UKCES 2009). Without this, higher skills levels may not translate into better labour market or economic outcomes. There is some

evidence that the supply of highly-skilled workers is already growing faster than the capacity of the economy to absorb them into highly-skilled jobs. *Over-qualification* is fairly high by international standards, and somewhat more common in the UK than under-qualification (OECD 2016).

The position of LEPs as a ‘broker’ between employers and providers (see chapter 4), and their role in forming partnerships at the local level, means that they are uniquely positioned to square the various circles around skills utilisation. The development and implementation of a place-based industrial strategy brings an important opportunity to work with employers and key sectors, bringing together the diverse beneficiaries of effective skills utilisation and investment.

2.3 QUALITY OF PROVISION AND LABOUR MARKET OUTCOMES

Defining and identifying quality in educational provision is a complex matter, and labour market outcomes are just one of a range of available measures. Here, ‘quality’ refers to how well programmes match employer needs and prepare learners for work. In the absence of good-quality local labour market information, provision outside the workplace can often be highly generic, leading to some significant mismatches (Dromey and McNeil 2017). This may be particularly problematic when employers buy ‘off the shelf’ training products (Morris 2016) rather than working closely with providers to shape course content.

One outcome of limited employer investment in skills is the trend for providers to focus on programmes and learners who attract government funding. In practice, this means that the definition of certain qualifications – most notably apprenticeships – has become relatively loose. With the removal of requirement that a nationally-recognised qualification must be included in any apprenticeship programme, this poses a challenge for quality and relevance of apprenticeships (Pullen and Clifton 2016). An Ofsted report found considerable variation between the quality of provision in different sectors and companies, with quite high levels of both excellent and very poor practice. Many outstanding apprenticeships build learners’ skills and prepare them very well indeed for work. However, these are often found in firms and areas of employment where apprenticeships are well-established with a long history (Ofsted 2015).

There is sometimes an unhelpful lack of clarity (for employers and potential learners) over what is involved even in this ‘flagship’ vocational qualification. Much of the good practice which we identified in this project related to the role LEPs can play in developing, publicising and sustaining apprenticeships, and other types of VET, at the local level (see chapter 3).

Labour market outcomes for adult learners are also limited by the enormous weighting of adult participation in learning towards ‘low-level’ qualifications. More than half of all courses studied by adult learners in 2014/15 were led to an outcome below Level 2, the equivalent of an A to C grade at GCSE, and 83 per cent of adult learners were working towards a qualification below Level 3, or A-level equivalent (Dromey et al 2017). Participants in our research noted that by far the greater part of their AEB allocation was likely to be spent on courses at these levels.

The importance of basic skills in the overall ‘skilling’ of the workforce and in individual development cannot be overstated. But these figures suggest that relatively few adult learners build on this initial grounding once they have gained it. The other troubling implication is that many adults who have passed through the school system nevertheless need this provision once they are of working age. Compulsory education is outside the scope of this project, but the proximity of devolved authorities to local labour markets and communities increases their potential to support upskilling once a basic level has been

attained. Better skills utilisation would increase the visible benefits of this for both employers and workers.

2.4 SOCIAL INEQUALITIES

Improved skills are frequently cited as a key driver of social mobility for individuals and improved prosperity for communities. The association between a lack of qualifications and unemployment is stronger in England than in many comparable nations (OECD 2016), and in parts of the North than in the rest of England (Round 2016). And skills shortages are most pronounced in occupations where many jobs demand lower skills levels, such as retail, caring and elementary roles (UKCES 2016).

The percentage of young people (16–24) with relatively low basic skills is almost the same as that of older people (55–65). At just under 30 per cent of each cohort, this is a relatively high rate compared to other OECD nations. For example, in Germany and France around 20 per cent of young people have low basic skills, close to the OECD average. In the Netherlands and Finland, the figure is around 10 per cent. Low basic skills are – unsurprisingly – more common among young people with low qualification levels, but this rate is substantially higher than for poorly qualified young people elsewhere in the OECD (Kuczera et al 2016). For local areas, poor basic skills may lead to particular challenges for employability and progression in work.

Although training and upskilling impact on pay and progression for the lowest-paid workers, this group are also the least likely to be offered these opportunities, or to take them up (Keohane and Hupkau 2014). They are also at risk of becoming trapped in low-skilled, low-paid work, suffering from a ‘progression gap’ (Thomas and Gunson 2017). The potential for *social* change through skills policy was important to our interviewees, who felt that devolution provides an opportunity to achieve this.

In the coming decades, skills systems must also support longer working lives and meet a growing need for ‘mid-career’ upskilling or reskilling. This demands new approaches both to content and to engagement (Thomas and Gunson 2017, Round 2017). Historically the financial return to learning has diminished with age (New Economy 2017, Gloster et al 2016), but current models are likely to become outdated as the effective age of retirement rises and ‘typical’ career paths change. Participation in adult learning by older people is relatively low at present (Dromey et al 2017), but ageing represents a challenge for local economies (Raikes 2017) and local policymakers can use newly devolved powers to help solve this.

2.5 BETTER TECHNICAL EDUCATION

The remit for this project included a focus on how devolution could improve the quality and provision of *technical education*, defined as ‘education and training from Level 3 (A-level equivalent) to Level 5 (HND/Foundation Degree equivalent)’. Technical education is the main source of qualifications that help to build intermediate skills, and facilitate entry into – and progression in – skilled employment. The skills gained through technical education are associated with productivity, and with pay and job progression (Kelly 2015, Independent Panel on Technical Education 2016).

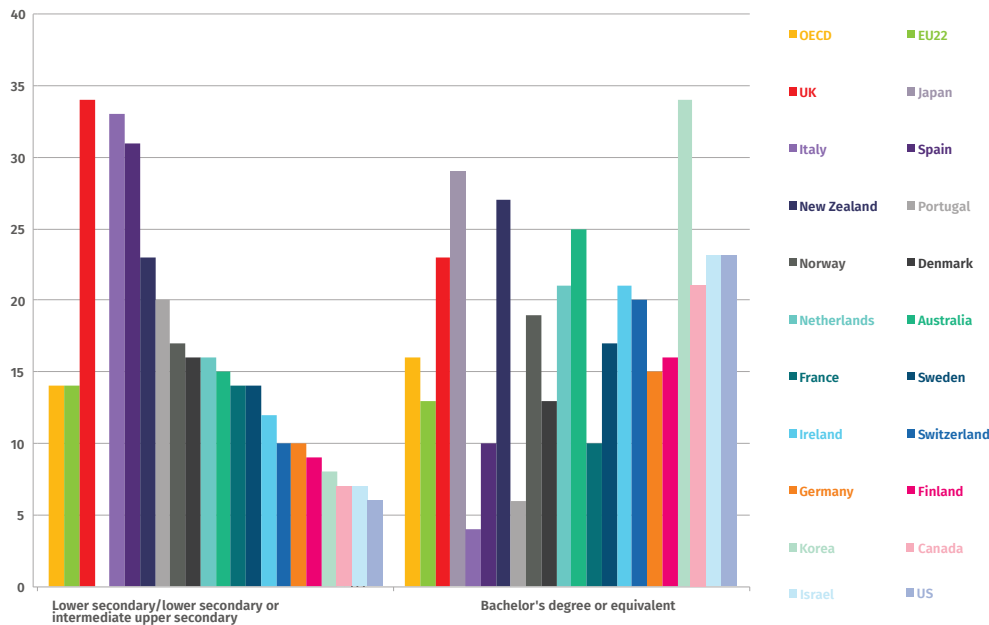
The post-secondary technical education sector in the UK is very small by international standards (figure 2.6). A relatively *high* proportion of British adults – around 23 per cent – hold a Bachelor’s degree as their highest qualification⁵. The OECD average is 16 per cent and the EU22 average is 13 per cent. The proportion

5 Around 13 per cent have a higher degree

of people whose highest qualification is below the upper secondary level also comparatively large, at 34 per cent (split roughly evenly between those with a lower secondary qualification and those qualified between lower and upper secondary levels).

FIGURE 2.6

A high proportion of adults in England have a Level 1 or Level 6 qualification as their highest qualification



Source: Source: OECD 2017c

The ‘squeezed middle’ of this spectrum means that the UK has relatively few workers with a post-secondary VET qualification (Kelly 2015). Just 10 per cent of adults have studied in ‘short cycle’ HE, and even fewer have a diploma or certificate from a post-secondary but sub-tertiary programme. By contrast around 12 per cent of US adults hold a qualification of this type, and a further 10 per cent hold an associate’s degree (Kuczera and Field 2013). England’s post-secondary VET sector is structurally similar to others but far smaller, probably accounting for less than 10 per cent of the age cohort. Across the OECD provision of this type educates up to one third (Musset and Field 2013).

And this gap in the skills profile of the UK workforce could have serious consequences. Analysis suggests that the employment share of people with medium-level qualifications will rise (CEDEFOP 2012), and ‘... globally, developed countries display a growing demand for post-secondary qualifications involving less than a bachelor’s degree’ (Musset and Field 2013). The last UKCES survey found relatively high rates of skills shortage vacancies among skilled trades occupations (at almost 45 per cent of vacancies), machine operative roles (around one third) and associate professional roles. Skills gaps among established workers are also relatively high for these job groups, as well as for lower-skilled ones (UKCES 2016).

Our interviewees were clear that technical education was key to meeting regional goals, fulfilling the needs of the local business base and improving pay and progression. Relatively little of the AEB is spent on technical education, but the

basic skills funded by statutory entitlements provide a 'stepping stone' to this level. Where learners are initially engaged through AEB-funded basic provision, this offers a route to encouraging further, more advanced learning. Partnership working and influencing are crucial to this.

Local areas also need the infrastructure to support adult participation in good-quality technical education. Some interviewees questioned whether, at present, there is sufficient Level 3 and 4 provision to support growing sectors and the potential for increased employer and learner demand. The 2016 Report of the Independent Panel on Technical Education (Independent Panel on Technical Education 2016, sometimes also referred to as the 'Sainsbury Review'), which forms the basis of the Government's Post-16 Skills Plan (DfE 2016b), sets out a framework for a new system of technical education routes. These include Level 3 technical programmes ('T levels'), and also higher technical education options. The programmes address the needs of diverse occupations and include a technical qualification alongside other elements, including a substantial work placement, by expert panels established by the Institute .

T levels will offer a clear technical alternative to A-levels for 16–18 learners, and simplify the transition to a technical pathway for young people. The government has announced a substantial package of funding to help secure the required work placements and support FE colleges to deliver the supported learning elements. Implementation of the skills plan will also support the establishment of new institutions and collaborations for technical education. This is a welcome development, but even with the new investment, spending on VET will still stand at the same level as it did 25 years ago (McNeil 2017).

Our interviewees identified several factors that could help strengthen technical education. Well-established buy-in across sectors, including employers and experts on different occupations, is key. For example, in analogous systems overseas the process of standard setting has national government oversight and engagement from a range of partners, including employer organisations. Engagement also depends on clear progression routes and good-quality advice to students, employers and potential entrants within the adult workforce. Institutions need to work together to articulate the nature and potential of technical education. We found enthusiasm for T levels and their potential to boost adult participation in technical education.

High quality technical education includes extended and supported work placements alongside a strong underpinning knowledge component. The latter supports crucial skills, including problem-solving and the ability to adapt to changes in work which come with innovations or market shifts (Wheelahan 2012), as well as social mobility and work progression for individuals (Anderson and EPI 2016). However, although this is a long-term feature of the 'dual systems' of education and training in countries such as Germany and Japan (ICF/GHK 2012), it has been less prominent in the UK context (Keep et al 2007).

Devolution offers opportunities to address all of these issues. LEPs frustrated by a lack of suitable provision and by the apparently 'perverse incentives' of national funding frameworks could commission budgets and allocate funding in ways that encourage desirable labour market and social outcomes. And these can be further refined through a rigorous and timely analysis of regional priorities. The integration of powers for economic development and skills provision can drive improvements in skills utilisation and the provision of technical education to meet local needs. These issues are considered in more detail in chapter 3.

3.

THE OPPORTUNITY OF DEVOLUTION

3.1 WHY DEVOLVE POLICY FOR SKILLS?

Like other policy areas in the UK, post-compulsory VET is unusually centralised by international standards (Wolf 2011, Volger-Ludwig et al 2012, Wilson et al 2017). Devolution is framed as an opportunity to develop provision that is highly responsive to local needs, and strengthen employer engagement by working locally: ‘...the government wishes to see local areas and employers leading in establishing a stronger, more responsive skills system...’ (BIS/DfE 2016). Participants in this research saw a place-based approach as an opportunity for greater coherence across the skills ‘ecosystem’, based on shared economic and social aims.

Devolution potentially fosters collaboration between the state, employers and providers to shape effective specialist VET (Lanning 2016, SFA 2016b), because both delivery and skills demand are, to a large extent, highly local. Advocates of devolution stress that working on a regional scale makes it easier to avoid the mismatches sometimes associated with a ‘supply-led’ system, and minimises the risks that arise from misaligned incentives and failures of information (London Enterprise Panel 2016). Proximity should, in theory, make it easier to respond to distinctive ‘mixes’ of sectors and companies within a local area (AoC 2014).

Funding criteria and allocations determined locally offer greater consistency and stability (Painter 2016). Decisions can be informed by ‘localised, practice-based knowledge’ which could be missed where only limited trust is placed in regional stakeholders (Keep 2016). The ‘broad brush strokes’ of national policy priorities contrast with the finer lines that can be drawn locally. An important part of this alignment is partnership working, and active collaboration to build consensus and work together towards outcomes (CollabGroup 2017).

Effective partnerships need shared aims and understanding, and devolution demands deeper reflection on: ‘... what the skills system is ultimately for, as well as more practical considerations of best practice and the transitions of learners between different agencies’ (New Economy, 2017). This is not always straightforward. For example, research examining the Area Based Review of FE in London found ‘two different logics’ applied to the process. Government espoused ‘the idea of an education market and cost reduction that could result in a minimalist approach... creating bigger institutional formations that are better able to compete’. By contrast, local stakeholders prioritised a ‘... planned, co-ordinated and collaborative approach’ to support improved provision and progression into work (Spours et al 2016).

Interviewees suggested that within a devolved, place-based approach, integration of skills with apparently quite separate policy areas could be fruitful. Research exploring the integration of transport provision and access to skills is planned in one project region. The integration of skills elements into procurement criteria is another proposed approach, and integrations with capital construction projects and work on health have been explored. Hughes et al (2016) suggest that the latter could in fact be a source of cost savings over the long term.

With integration comes the simplification of complex systems for learners and employers, within the skills system and between skills and other services, such as health, budgeting or housing support. Proposals for skills devolution stress these benefits (e.g. the 'Work Local' framework set out by the LGA, LGA 2017). Our interviewees were committed to the potential of skills devolution to effect positive change, through both 'hard' powers and through convening, influencing and evidence. Throughout the project devolution was framed in terms of this opportunity, despite the challenges of managing the day-to-day practicalities involved. The Institute for Government's guide to 'making effective Devolution Deals' (Randall and Casebourne 2016) proposes various tests to identify 'local area readiness for devolution', including 'a clear (and compelling) vision for what devolution will realise locally'. This was demonstrated through the conversations which took place during this project.

3.2 SKILLS INVESTMENT – THE LOGIC OF SKILLS DEVOLUTION IN ECONOMIC DEVELOPMENT AND THE INDUSTRIAL STRATEGY

Powers for economic development are at the heart of all of the English Devolution Deals to date, following the rationale for devolution proposed by Michael Heseltine in 2012. Skills policy is described as a contributor to economic prosperity, and participation by individuals in that prosperity. The economic development remit of LEPs, and the close relationships between LEPs and business, creates an opportunity to integrate the 'individual' benefits of improved skills – higher pay, progress into and in work – with the structures where that will happen.

The 2017 industrial strategy green paper (HM Government 2017) includes a commitment to boosting skills as a key input to national growth and prosperity using a place- and sector-based approach. It proposes a series of 'sector deals' and the creation of institutions to support innovation and development. The relationship of these to devolution is not yet determined, but LEPs are likely to be responsible for delivering at least some of the industrial strategy, which also includes skills as a key input to sectoral economic development.

Under these frameworks, plans to boost prosperity and productivity can be brought together with local knowledge about skills supply, skills need and opportunities to make the best use of regional skills provision within the local labour market. The investment to support the strategy should include funding to make sure that the skills for its implementation are available, locally and promptly. The importance of this policy initiative, particularly in the context of Brexit, is such that explicit links would be preferable to a more laissez-faire approach. LEPs and Combined Authorities have an important convening power to drive a 'holistic vision' of local labour market influencing (Booth-Smith and Fyans 2017).

But skills utilisation in the 'everyday economy' (Raikes 2017) is just as important in improving productivity and individual prospects. Economic development provision to this end should be directed towards businesses right across the labour market, including sectors where low pay and low skills levels are common (Dromey et al 2017, Froy et al 2012). The potential returns for employers and the local economy are high, although awareness may be low. For example, ACAS (2015) quote research findings estimating that poor workplace and human resources practices may account for around a quarter of the UK's productivity gap. BIS (2012) found that small improvements in management practice can have the same impact on output as major increases in labour force or investment capital.

Such a strategy would represent a commitment to the 'high road' approach to competitive advantage, where 'highly-skilled workers deliver sophisticated, high-specification goods and services that are sold on the basis of their quality rather than their price, and where firms come to the UK because this is our model' (Mayhew and Keep 2014). This contrasts with a 'low road' model, where 'a

disposable workforce produces relatively standardised goods and services that are primarily sold on the basis of low price'. These extremes effectively coexist in the UK labour market, but the latter has costs including in-work poverty, insecure work, and impacts on places, social lives, health and local economies – all of which constitute risks for local leaders.

3.3 SKILLS DEVOLUTION IN NORTHERN CITY REGIONS

The progress of devolution

The progress of devolution in England has not been smooth. At the time of writing deals are in place in two of the regions represented in our Learning Network and in a third a 'minded to' deal was announced in the 2017 Budget for three of seven local authority areas. In two others devolution is effectively paused, awaiting agreement over regional boundaries. The overwhelming likelihood is that the LEP will continue to work across the whole of the original combined authority area.

Devolution Deals aside, skills policy is an extremely busy agenda for all of these LEPs, which have a strong history in this area under the City and Growth Deals, and an extensive remit for skills associated with the local Strategic Economic Plans (SEPs). The limited scope of the AEB means that much of their focus is on these wider projects, and the ways in which regional bodies can influence skills provision. The influencing facilitated by skills devolution or the possibility of skills devolution is considerable, and even in areas where no devolution deal has been implemented has already had an impact.

Skills devolution in the 2015 Devolution Deals

A core item in the 2015 'menu' for Devolution Deals was the AEB (defined in 1.3). This is devolved to Greater Manchester and the Tees Valley, and it was included in the Leeds City Region and Sheffield City Region Deals. Typically powers to commission the budget were offered to local areas in 2016/17, with full devolution in 2018/19. This timetable has now been delayed by a year. The AEB, as discussed above, represents a relatively small part of adult skills funding: 'only the supervision and delivery of a relatively narrow sub-set of E&T [education and training] activity is being devolved, rather than any influence over the overall nature and direction of E&T policy [which] remains firmly located at national level' (Keep 2016a).

As noted above, some strong 'red lines' surround certain policy areas and the devolution of any relevant powers seems extremely unlikely. One of these is compulsory education, where there is little prospect of any shift (and general education policy is not particularly devolutionary in spirit). However, some LEP initiatives *do* involve working closely with schools to develop responsive local provision of various kinds (see example).

16-18 education, including VET provision, is also excluded. The Area Based Review of FE provision, which were part of several Devolution Deals, have in fact had relatively little impact on the landscape of local colleges; few mergers took place in the project areas. And policy for apprenticeships is effectively brokered between central government and employers.

Local powers for skills in previous deals

Since the publication of the 2011 Localism Act, each wave of Devolution Deals has included some powers for skills.

- **Wave One City Deals**
 - Funding to support local establishment of Apprenticeship Hubs.
 - Ring-fenced devolution of the Apprenticeship Grant for Employers (one region).

- Provision to set up Apprenticeship Training Agencies (one region).
 - Investment packages to support local Employment and Skills Partnerships.
 - Agreements to align DWP commissioning or Job Centre Plus services with local need.
 - Direct delivery by cities of the 16-17 Youth Contract.
 - Tax incentives to test SME strategies for workforce skills investment.
- **Wave Two City Deals**
Programmes to test approaches to adult skills development and a range of pilot programmes on skills development and employability.
 - **Local Growth Deals** assigned pooled central department funding from the Local Growth Fund. This could be spent on employment and skills support, for example:
 - Sheffield City Region received a commitment to investment of £21.7 million in the region’s Skills Bank.
 - Greater Manchester gained control of £12 million of adult skills funding over two years, plus funding for the ESIF Access to Employment theme.
 - Greater Manchester, Leeds City Region and Sheffield City Region were given powers to redirect Growth Deal funds if appropriate.

(this account draws on Clayton and McGough 2015 and Sandford 2016)

In the regions where apprenticeship provision, including the establishment of Apprenticeship Hubs and the Apprenticeship Grant for Employers (AGE) was organised locally, this is considered to have been a success. Although these funding streams had concluded by the time of the final project interviews, some of the frameworks established during their lifetime were still in place, albeit in some cases with a slightly different title or remit. LEPs had used this funding successfully to change provider behaviours. For example, allocations from the Apprenticeship Grant to Employers had been varied to incentivise apprenticeships starts in particular sectors or locations.

Interviewees expressed some frustration that these projects had of necessity been short term. Wider policy changes meant that it had not always been possible to preserve all the work done, and the horizons – in some cases only two or three years – were too short to create genuine changes to career paths or cultures. The 30-year settlements under Devolution Deals were seen as a welcome innovation.

Several of the teams who worked on skills devolution – and local policy for skills more generally – had also been involved in the devolution of the Work Programme and employment support. These dual responsibilities had supported effective integration between the two workstreams. In particular, partnerships and opportunities to share data and information had been important (see 4.3 and 4.5).

Structures for decision making on skills

Although the names of the groups involved in devolved governance of skills provision vary, the structures we identified were very similar across the LEP areas (figure 3.1 shows its main features). A single team worked on skills for both the LEP and the combined authority in every case. Their location at one or the other did not appear to be associated with any practical differences. Some network members noted that they were ‘servants of two masters’, but this was not framed as a problem. Here the term ‘LEP’ is used as a shorthand for both groups.

Policy is initially developed by officers, in response to political priorities, data analysis and other inputs. They feed their work in to a panel or working group which focusses on skills and related issues such as employment. This skills panel receives, develops and ‘sense tests’ proposals. Membership varies but may include

officers working on skills and employment policy and delivery in local authorities across the combined authority area, combined authority staff, and representatives of providers and employers.

The skills panel then passes advice and recommendations to a sub-group of the LEP or combined authority board with responsibility for skills. Such ‘skills sub groups’ are generally made up of senior business representatives, representatives from constituent local authorities of the combined authority, representatives of public and private providers, and officers from other departments in the LEP or combined authority. Decisions taken by this group go to the LEP board and combined authority board (or a joint body). The latter can allocate funding and make decisions about how money will be spent. The LEP board and combined authority board share a ‘master plan’ in the form of the SEP and in most areas a more detailed delivery plan for skills is also in place (e.g. an ‘Employment and Skills Plan’ or similar policy document). The skills panel is responsible for delivering this.

FIGURE 3.1
Typical structure for developing, agreeing and ratifying policy on skills



Source:IPPR/author's analysis of interview data

Most participants felt that these structures worked well, primarily because of the extensive opportunities for sense-testing which they offered, and their reinforcement of partnerships across different sectors (employers, VET providers and local government). In some cases, representation from civil society was also included, although at the ‘lower levels’ this tended to be secondary. Sector bodies and trades unions were also mentioned, as both formal and informal partners. Members of the LEP structures represented other bodies including people from third-sector, community or voluntary organisations. Within the main framework representatives of these groups were most likely to sit on the LEP or combined authority board.

This very brief overview sets out the extent of current and former skills devolution across the Northern regions included in the study and the main structures for decision making. The next chapter explores some key issues which emerged from our interviews and discussions.

4. EXPERIENCES OF SKILLS DEVOLUTION

4.1 THE AEB AND BEYOND

Priorities for skills devolution

The main priorities for skills devolution raised by our interviewees provide a good example of common themes with detailed and distinctive local manifestations. These include the following.

- Supporting regional economic development and prosperity through better matching of skills supply and demand. In all regions interviewees mentioned sectors where skills gaps and shortages have been experienced or present a threat to future growth. These included digital, IT, construction and health technology.
- Driving growth in key regional sectors, including those identified in the industrial strategy green paper.
- Improving employment prospects, helping people into work, and addressing the issues faced by people who are in some way 'far from the labour market', such as the long-term unemployed, the low skilled, or people with disabilities. For example, in several regions initiatives to support people with chronic health conditions or mental health issues were in place (and had enjoyed success).
- Progression in work, pay progression, promotion prospects, and retention in work and in the workforce. In most areas, this was especially challenging for certain communities or places, demographic groups and sectors. For example, in one region sectors that had large 'transient workforces' on short-term contracts presented a problem. It is difficult to involve this group in VET, which means – paradoxically – they are likely to remain in precisely the sort of work where training isn't offered.
- Addressing the supply of good-quality training, including facilities for teaching and learning, and qualified, competent teaching staff.

Devolution of the AEB was one contributor to achieving these aims. However, it would probably be more accurate to say that interviewees regarded these as priorities for *local work on skills and employment*, of which the AEB is one element. This is congruent with the Skills Funding Agency's [SFA's stated expectation that 'the devolved AEB would focus mainly on unemployed adults and those furthest from the labour market' (Keep 2016a), but local priorities are considerably broader. Given the opportunities and potential of skills devolution, this is not surprising.

Using AEB and earlier devolution to leverage wider influence

Arguably the ambitious aims for devolution discussed in chapter 3 go well beyond just one budget, which is already heavily committed to statutory entitlements. Local areas need powers for a wider range of skills policy, along with substantial funding and the freedom to change at least some of the conditions attached to funding. One critique describes the current situation as 'undermining' devolution,

with local areas hosting programmes which are ‘beyond the influence’ of LEPs or Combined Authorities, and poorly aligned with their priorities. Overall:

'Devolution is highly selective: what is being devolved is the supervision and delivery of a relatively narrow sub-set of employment and skills activity... rather than any locality influence over the whole design, nature and direction of travel of policy and practice'

Etherington and Jones 2016

The AEB represents a relatively small part of adult skills funding, enjoying less profile and prestige than apprenticeship funding, and primarily earmarked for statutory provision. Although the question of how much education and skills funding should be devolved is outside the scope of this report, it is almost certainly the case that an effective skills ‘ecosystem’ would include a much greater degree of local control over learning provision throughout people’s working lives, from the earliest years to adult returners, in which education is cast primarily as a ‘public good’ (Lupton 2017). In the absence of this, our interviewees described a number of approaches.

Alignment with other programmes and priorities

In all areas, there was a commitment to ensuring that skills devolution and other work on skills within the LEP were aligned with programmes for employment and employability support. This built on experiences and successes in earlier phases of devolution such as devolution of the Apprenticeship Grant for Employers. Interviewees from all regions described programmes in which better data and labour market information (LMI) – as well as clearly articulated strategic priorities and an overview of the local skills system – was being used in projects and workstreams on employability.

The AEB as a ‘lever’ to articulate priorities

AEB devolution can be used, as one interviewee put it, ‘as a lever to say where our priorities are’. For example, better overall outcomes for adult learners, and an increase in progression to Level 3 qualifications. One LEP had worked with providers to explore opportunities to combine AEB entitlement funded learning with a Level 3 qualification, or to make sure learners on lower level courses were aware of progression routes and started planning for these at an early stage.

Devolution of the AEB functioned in most areas as something of a ‘conversation starter’ with colleges and other partners. In general, influence was greater where a provider had a relatively large proportion of adult (rather than 16-18) learners. In these cases, the relationship between learning and employment was particularly salient and opportunities for persuasion were stronger. Such conversations could start through formal or informal meetings and partnerships, or even at events and presentations.

Using evidence from previous devolution to argue for provider behaviours

Evidence of success in using devolved funding to achieve local aims was used to engage providers and convince them that changing behaviour could have an impact. For example, where a significant improvement in apprenticeship provision was associated with devolution of the AGE or hub provision, this precedent could persuade providers to ‘buy in’. This was generally effective, although the limited scope of actual devolution was sometimes presented as a counter argument.

4.2 OUTCOME AGREEMENTS AND INCENTIVES

A key task for LEPs was the development of an ‘Outcomes Agreement’ as the basis for commissioning the AEB in a way that matches skills supply to demand.

Ideally, they should set out the purpose of skills provision in terms of ‘the whole local condition and ecosystem rather than hitting a national target’ (as one of our interviewees put it). Effective Outcome Agreements are key to matching skills supply to demand.

Formally, Outcome Agreements are ‘... collectively established, written agreement[s] identifying both the skills needs in a local area and the solutions to address them’ (UKCES/AoC 2016). They depend on good-quality data about provision, employer needs and the local labour market, and on strong partnerships between regional stakeholders, who come together to agree priorities, desirable results, and how each partner will contribute to achieve these. Unlike payment by results systems, they focus on strategic outcomes rather than targets for individual providers; their aim is to change behaviours and ultimately cultures, and to create a sense of ‘shared ownership’ of goals. Crucially this will take time and measurement of progress needs to be realistic, taking this into account.

Currently funding systems drive provider behaviours but incentives to match supply to demand are not as strong as the need to protect the financial ‘bottom line’ from year to year, maintain a strong Ofsted score and deliver on SFA contracts:

‘... in a centralised system with a national funding regime providers can “hit their targets” (i.e. in accordance with the strictures of public funding) but “miss the point” in terms of providing education and training that meets the needs of employers and learners’

Green and Hogarth 2016

The national funding regime can interact with performance measures and government targets to deliver a high volume of relatively low-level outcomes, where providers are rewarded for recruiting to short courses which are likely to be completed (Dromey et al 2017). In 2014 around 83 per cent of adult learners were placed on courses below Level 3 (Fletcher et al 2015). This may reflect success in encouraging learners to engage with basic skills provision, but it does not provide the graduates of higher-level technical education that employers need.

The current system of loans may not be effective in attracting students to higher level programmes. Those aged 24 or above who hold a full Level 2 qualification must take out an Advanced Learning Loan to fund further training. However, the introduction of loans was accompanied by a fall of nearly one third in the number of learners aged 25 or above ; debt aversion, a lack of awareness of the new system or a combination of these may be to blame (Adams et al 2016). This fall in older people’s engagement with VET is especially problematic in a period when working lives are lengthening, and lifelong learning needs to become the norm rather than the exception (Anderson and EPI 2016, Round 2017). In a skills ‘ecosystem’ incentives can be directed at learners, employers and providers.

Where AEB devolution was planned or under way, Outcome Agreements or equivalents were produced using a strategic approach to the whole ‘ecosystem’ of skills provision and demand. Experience under the City or Growth Deals informed this. Key issues included support for sectors offering economic and jobs growth, and also those where pay, progression and productivity pose thorny ongoing challenges. Progression between levels of learning and through promotion in work was also a priority in many areas. And wider social outcomes are also sought, including improvements in employment rates, and better engagement with social groups and places which are vulnerable to poor labour market outcomes or excluded to some extent from the labour market.

LEPs were keen to incentivise providers to get learners onto courses that would genuinely advance individual labour market prospects *and* wider economic aims, and to ensure that basic skills achievements translated into further skills

development and ultimately into better employment. This demands different kinds of incentive for employers, providers and students, and also a much 'deeper' collaboration in the delivery of VET. Rather than rewarding course starts, payments to providers could be structured around course completion or progression between levels. And in order to establish an effective 'skills ecosystem' providers might also receive co-investment and other kinds of support from employers, for example in sponsoring equipment and work experience.

4.3 PARTNERSHIPS AND NETWORKS

Partnership working was described extensively throughout the project and widely recognised as crucial to effective skills devolution (cf. Randall and Casebourne 2016). Participants described the establishment of partnerships while working on devolution under the City and Growth deals; this sometimes included an explicit commitment to brokerage, or established brokerage models were established to improve employer engagement in skills policy (Clayton and McGough 2015).

For example, providers in some areas had established and signed agreements about aims and provision, and had set up networks with regular meetings.

Partnerships were important in establishing consensus, sharing and refining the vision for a region and developing cross-regional collaboration. This is particularly important when achieving local goals depends on establishing common aims while working with partners who in theory are in competition, which is often the case for FE colleges and private sector training providers (Greene and Hogarth 2016). LEPs have an 'enabling, strategic and facilitating role' which was strengthened by the prospect of devolution and real powers at the local level.

Once partnership working had become normalised as a way of working on skills, it was easier to engage with new partners, and sustain relationships. At this point, the impact of local control and the benefits of becoming involved were clear. In some regions partnerships had started small and 'scaled up'. Relationships forged through earlier policy processes helped to build up trust and familiar 'shortcuts' to working together. For example, collaboration on the use of Skills Capital funding, devolved to LEPs in several City and Growth deals, contributed to this. However other networks had emerged informally; for example, some LEPs had gained a reputation locally as an effective nexus for advice and learning on data analysis and LMI.

Partnership is resource intensive and demands good negotiating and convening skills, especially where sensitive issues (such as collaboration between potential competitors) are under discussion. Facilitators must be able to challenge partners (such as providers or employers) where necessary, creating an atmosphere within which this is constructive and supports ongoing relationships. In fact, while some processes were described as having been difficult *at the time*, overall there were no reports of partnerships which had become ineffective or broken down. Most matured as representatives became accustomed to working together.

As well as setting up partnerships, LEPs engaged with established networks outside the 'official' structures. For example, VET provider networks were active in most regions and provided representatives to take part in LEP activities, join boards or committees, and offer a 'provider voice'. They usually brought together both FE colleges and private providers, and could also include representatives from universities and/or civil society. Partnerships with employers could focus on tasks such as input to programmes or the identification of skills needs, and well-embedded partnership working was a key part of employer engagement. Again, LEPs often 'tapped into' established networks; excellent relationships with local chambers of commerce were found, for example. Partnerships with community groups and other public services are important in engaging learners (Hughes et al 2016).

Partnerships with skills providers also brought an important link between LEPs, schools, and higher education. Good relationships with all of these were reported, as a result of participation in formal and informal local networks. One participant noted that, although LEPs have no statutory responsibilities or budgets for compulsory education, they are keen to make sure that the approaches of schools support greater inclusion and wider LEP aims – so networks were important in ‘soft influencing’. Partnerships outside the skills devolution remit also facilitated this; for example, LEPs are involved in discussions of university technical colleges (UTCs) and free schools.

In the North East LEP area, the LEP led on the implementation of the Gatsby Good Career Guidance Benchmarks (Gatsby 2017), working with a range of schools across the region. This experience highlighted the valuable role of the LEP as a neutral ‘honest broker’ for stakeholders such as schools, which are used to working with agencies that have some regulatory or inspection function.

In regions where devolution has been delayed or abandoned, there was concern over how partnerships could be sustained. The relationships – especially those with providers – were described as dynamic and constantly evolving as devolution progressed. This means that they are dynamic, flexible and a source of timely input and information. However, a halt to progress presented a risk of disengagement.

4.4 RESOURCES AND LACK OF RESOURCES

In practice resources for skills devolution are extremely stretched. The teams working on skills devolution in most LEPs are very small (with two or three full-time policy staff, and one or two analysts), and most of these teams have other responsibilities alongside this work. Some additional support might be available during the busiest periods, but skills devolution teams all worked on other projects as well.

Particular concerns arose over what would happen at the point when, with devolution of the AEB, LEPs and CAs effectively take on the functions of the Skills Funding Agency (SFA) for their areas (‘we effectively become the SFA’, as one interviewee put it). Options might involve procuring from the SFA, working with other LEPs, or bringing provision in-house, depending on cost, effectiveness and risk. Reproducing SFA functions in every LEP was seen as an extremely inefficient approach. Interviewees noted that only funds for teaching and learning had been devolved, without additional budget for administration and management (cf. also AoC 2014).

Resource constraints bring a range of risks, and precedent suggests that devolution puts additional pressures on LEPs; cuts to college funding and capacity add to these problems (AoC 2016). It was also noted that resources in central government and its agencies were stretched. This year the process of allocating the AEB has led to some issues for the SFA (Camden 2017), and LEPs generally operate with extremely tight funding (Healey and Newby 2014).

4.5 DATA AND LABOUR MARKET INFORMATION (LMI)

Data on learners, learning and skills

Data for skills devolution emerged as a major theme throughout project. Analysts working in LEPs and combined authorities were highly engaged members of the network. All were involved to some extent in innovative analyses to meet the challenges of skills devolution, and in all regions analysts worked closely with policy teams and were co-located with policy colleagues.

Good-quality data and labour market information are essential for effective decision making under devolution. However, LEP analysts sometimes found it difficult to access data, or to access it in a form which could be used to generate the kinds of analysis required. This situation improved considerably throughout the lifetime of the project as relationships with data and analytical staff in central government developed and the issues for data use in devolution were discussed and refined further.

Two key issues

- Access to the main database – the Individual Learner Record (ILR) – was initially limited. This was not initially shared with LEP analysts, partly because the legislation on data access had not yet fully ‘caught up’ with skills devolution. At first LEPs received only ‘Cube’ data, which relates to course starts and completions but does *not* provide the information about individual learners and learner journeys which would allow them to examine learner progression and local labour markets. Over the past year the formats in which data was passed to LEPs has improved considerably.
- The ILR itself may not be suitable, over the long term, for the kind of analysis that would fully support skills devolution. It is essentially a management information system which collects data primarily to identify where payments should be generated. It may not capture the full range of detail to support a fine-grained picture of ‘what is happening on the ground’.

The ambition for devolved decisions based on high-quality local intelligence may simply demand a reformed system of data *collection* as well as analysis. Various organisations, including the ONS, are currently involved in an examination of how official statistics and data collection by local and central government must change to support – and make the most of – devolution (e.g. Athow 2016, Fenton et al 2016, Copeland 2016, Centre for Cities 2016).

The complexity of the FE market brings some specific difficulties for gathering data. For example, one project conducted by the Centre for Vocational Education Research found ‘... major divergences between lists provided by funding agencies and the “Individual Learner Record” [ILR] information which ... tracks the individual qualifications taken by an individual learner, and is the basis for payments made to providers’ (Wolf et al 2016). Network participants noted that colleges are required to collect and report large quantities of data without necessarily having much time or resource for this.

LEP and Combined Authority staff include highly skilled analysts, but there are multiple demands on their time, and they themselves need good-quality IT capacity and access to data. Expertise in data analysis, including innovative approaches to modelling, needs to be accessible to LEPs and other stakeholders.

Evaluation

In some areas LEPs have agreed to use improved data gathering as the basis of an ongoing evaluation framework, agreed with central government. This sets out the evaluation methods which will be used with major projects including baselining, appraisal, identifying and assessing likely benefits, and contextualising using national comparators. This can be used for all major projects and interventions, and findings can be used to support the case for further investment or devolution of powers.

Labour market information (LMI)

As well as data on learners and outcomes from VET, many aspects of skills devolution rely on LEPs having access to high-quality and timely LMI, providing a clear account of employers’ skills needs across the local economy. This is

considerably easier said than done. Our project areas were all engaged in excellent practice to develop LMI and this was already in use to inform LEP actions and policy.

Network participants were also keen to explore the use of innovative tools for labour market assessment and forecasting, such as O*NET's framework (Hillage and Cross 2015) or the Burning Glass project (Dromey and McNeil 2017). These were welcome although it was noted that *any* such model has its limitations (OECD 2017d). It is also essential that LMI exercises *both* identify current skills needs and forecast likely future ones (Booth-Smith and Fyans 2017).

Participants discussed need for sensitive frameworks which accommodate nuanced understandings of data, terminology and analytical frameworks. For example, the relationship between *job titles* and *skills for employment* presents a challenge; skills learned in a programme with a highly occupation-specific title may actually prepare students well for a wide range of different jobs, many of which are seeking to recruit. This is almost certainly why, despite the fact that the number of hairdressers trained outstrips the number of jobs in hairdressing, graduates of these programmes have good rates of employment (Durman 2013). One response to this is skilled qualitative and 'mixed methods' research in local areas, alongside quantitative analysis and modelling.

The language used to talk about skills and employment is often problematic, with ambiguity, disagreement (often tacit) over the meaning of key terms, and poorly-defined terminology ('employability' was one example). Network participants suggested that LEPs need a 'clear, common and granular frame of reference' to talk about these topics.

5. RECOMMENDATIONS

These recommendations for skills devolution are set in the context of the wider proposals in the final report from the Skills 2030 project (Dromey et al 2017). The following features of the national adult skills set out in their *Vision 2030: An adult skills system that works for everyone* offer a strong framework for further devolution.

- **Principles** – the government should:
 - pursue the devolution of powers and budgets for skills, strengthening the remit of LEPs to boost local productivity through enhanced and extended partnership working
 - encourage employers to pursue the ‘high road’ to business success (see 3.2).
 - focus skills demand and utilisation as well as skills supply
 - support strong dialogue between providers and employer, and social partnerships for skills
 - use high quality labour market information and forecasts to shape the skills system.
- **Improve investment in skills** by:
 - broadening the apprenticeship levy into a ‘productivity and skills levy’
 - providing a ‘Personal Training Credit’ which focuses investment on priority learners, such as unemployed, low-paid and low-skilled individuals.
- **Improve employer demand for and utilisation of skills** to boost job quality and workplace performance.
- **Increase the availability of high-quality specialist vocational provision** by building strong dialogue between employers and providers, and use sector deals to support this.
- **Establish outcome agreements** as the basis of local commissioning, focussing on labour market outcomes as well as qualifications delivered.
- **Give local areas the power to mandate firms to release workers for retraining**, and to compensate them or support them in redeploying their workforce.

Our recommendations explore how skills devolution can help to meet the challenges for the UK skills system which were outlined above. The recommendations in this chapter focus on four key areas identified during the research.

- **The extent of devolved powers** – a wider range of powers should be devolved to let regions shape their local economies effectively.
- **Integration of skills devolution** into economic development and industrial strategy workstreams, framing skills as a key input for productivity and prosperity. Integration across devolved areas of policy should also be encouraged.
- **Capacity and resources** – skills devolution must be properly resourced.

5.1 FURTHER SKILLS DEVOLUTION DEALS

The AEB represents an important but relatively small proportion of skills funding and much of this budget is taken up with the statutory provision of lower-level qualifications. Further devolution would allow LEPs to make long-term transformational changes within their regions.

Such devolution should allow LEPs to use locally tailored outcomes-based commissioning, and to integrate skills with other areas of devolved powers in a place-based approach. We recommend that this be implemented progressively, alongside wider reform of the adult skills system.

As well as extending powers for skills devolution, the time-frames within which LEPs can work should be extended. Devolution Deals offer 30-year settlements and skills devolution should include the opportunity to plan for short, medium-, long- and very long-term horizons, with robust milestones and frameworks for accountability. The stronger data and information sharing capacity build in collaboration with Skills for the North would facilitate this.

Recommendation 1: New Skills Devolution Deals should pass further powers and budgets for skills should be devolved to LEPs.

These should include a role for LEPs in shaping local use of apprenticeship levy budgets in the short-term, in the context of the integration with industrial strategy and economic development policy described below. Over time the majority of powers for adult skills provision should be devolved, within a national framework of common standards, minimum entitlements etc.

In the short-term skills devolution should include:

- the **AEB**
- the **use of pooled regional ‘underspend’ of the apprenticeship levy** to fund advice and guidance on learning and training opportunities (cf. Raikes 2017)
- a **requirement for apprenticeship levy payers and other employers training apprentices to work with LEPs**, through regional partnerships, sector bodies and other networks, following the models for good practice developed through devolution under the City and Growth Deals. This collaboration should aim to align provision with local skills needs, and LEP support with commissioning supported learning elements of apprenticeships. LEPs should be able to support firms’ use of their digital accounts to pay for training within their supply chain.

In the medium term, skills devolution should include:

- **devolution of the Advanced Learning Loans Facility**, with powers to vary the terms of loans and repayments to facilitate and incentivise take-up of loans which will help to meet regional skills needs as defined in the LEP’s Skills Priority List, and which support social aims such as improving prospects for employment, pay and progression.

In the longer term, with reform of the national Adult Skills System, devolution should include:

- the **regional portion of a ‘Skills and Productivity levy’** as proposed by Dromey et al (2017), and **investment associated with the industrial strategy** (see below), in the context of the *scrapping* of current apprenticeship targets and the introduction of a new system of technical education for adults as proposed by the Independent Panel on Technical Education and set out in the Skills Plan

- **Personal Training Credit** accounts, with co-funding powers to facilitate and incentivise take-up of provision to help meet regional skills needs as defined in Skills Priority Lists.

As part of further ‘skills deals’, LEPs and combined authorities should make the following commitments or ‘offers’:

Recommendation 2: LEPs should develop and publish regional Skills Priority Lists, mapped to provision. Lists should be regularly reviewed and updated, and shared across LEPs via Skills for the North (see Recommendation 8) to identify common pan-Northern skills needs. The proposed data team at Skills for the North (see 5.3) should support the development of Skills Priority Lists.

Recommendation 3: LEPs should commission skills budgets using Outcome Agreements focussed on developing the local skills ecosystem, and on labour market outcomes including pay, progression in work, and productivity in the local economy.

Using the Skills Priority Lists alongside high-quality local labour market information and forecasting (see 5.5), these should **identify outcomes from VET which will help to meet local priorities, and mutual responsibilities for delivering these**. Outcomes should, in general, seek improved pay, progression and productivity locally, in the context of local communities and economic priorities. They will also be associated with LEP Skills Priority Lists.

However, **LEPs should have wider powers to set funder outcomes and incentivise desirable behaviours** among providers. For example, they might:

- **fund programme completions** rather than starts
- **incentivise the provision of accessible learning**, e.g. distance, online or community-based delivery, part-time and modular options, workplace-based modules, etc
- **allocate funding to address social and community outcomes** in the region, e.g. reskilling of older people to support extended working lives
- **incentivise providers to support improved learner progression** from basic to more advanced learning.

Recommendation 4: Devolution Deals should include a requirement to work in partnership with key regional stakeholders, with support and resource for partnership working. Partners would include providers, employers, public services, the voluntary and community sector, sector bodies and trades unions. Models might include brokerage or convening roles for the LEP. Partnership membership should be determined by LEPs based on their local knowledge.

Recommendation 5: Business support provided by LEPs should focus on skills utilisation and should be closely integrated with devolved powers for skills policy.

This should include support both for priority sectors within the industrial strategy, and sectors or occupations that have established issues with pay, progression, and/or productivity (Dromey et al 2017), where skills gaps have social and community impacts.

Growth Hubs should work closely with other LEP staff to ensure that skills issues are included in business support and offered proactively to local firms.

5.2 INTEGRATION OF SKILLS DEVOLUTION WITH THE INDUSTRIAL STRATEGY, ECONOMIC DEVELOPMENT AND OTHER AREAS OF DEVOLUTION

Skills investment is a key component of a place-based industrial strategy, and should be recognised as such. LEPs should be involved in shaping how this is spent in local areas.

Recommendation 6: Government should ensure that sector deals, developed as part of the industrial strategy, should include a skills element, with associated investment where appropriate.

To support this:

- local implementation of **the industrial strategy should be considered when developing and reviewing local Skills Priority Lists**
- **allocation of skills funding under Sector Deals should normally be undertaken by or in collaboration with LEPs**, possibly brokered via Skills for the North where a Sector Deal involves investment across multiple LEP areas. Sector bodies should work with LEPs as a matter of course (see 5.4) where they have a strong regional presence
- the use of **skills investment allocated under the industrial strategy Sector Deals should be planned in relation both to economic development priorities and opportunities to support entry into work, improved rates of pay, and in-work progression**. Skills devolution would become a key driver of wider social development and ‘prosperous places’ as the industrial strategy progresses.

Recommendation 7: Government should work together with LEPs and combined authorities to ensure that skills devolution should be integrated with other devolved powers to improve place-based approaches to social and economic development.

The following examples of integration were discussed in network meetings or project interviews:

- integration with transport provision to support access to learning, particularly for basic skills provision
- integration of work on basic skills and more specialist learning with powers for health and social care to support productivity and the supply of skilled workers
- integration with capital projects to support skills development in construction and other industries, particularly where there are identified skills needs.

5.3 CAPACITY AND RESOURCES

LEPs have limited resources with which to develop policy and manage powers and budgets for skills. This could inhibit innovation or compromise effectiveness. Full devolution of AEB commissioning requires every LEP to take on some of the functions of the ESFA, which risks the inefficient use of resources and duplication across areas.

It makes sense for neighbouring LEPs to share services, but institutions to support work at a larger geography would have substantial benefits beyond simply providing a common ‘back office’. A pan-regional framework could co-ordinate specialised expertise, most crucially in data collection and analysis (see 4.5) and in the localised accreditation and inspection of provision, as proposed by Dromey et al (2017). It could also support and co-ordinate work on issues which cross LEP boundaries, for example where skills needs affect in more than one area.

Recommendation 8: A ‘Skills for the North’ body should be established, based in a northern city, with a remit to support northern LEPs with skills devolution. Skills for the North should be a lean organisation with a small staff, and functions limited to those which work most efficiently at a ‘mezzanine level’ (Cox et al 2014), above the size of an individual LEP and large enough to facilitate broad sharing of expertise and learning as well as genuine links of economic geography and also economy of scale. It should support LEPs and broker agreements between them on how to use their powers rather than have powers of its own.

Skills for the North should co-ordinate and support the improved data and LMI services needed for skills devolution. To this end, its staff should include a **small expert team of statisticians, data analysts and data management professionals.**

This team should:

- collect and manage data on learners and funding across the North, develop data sharing protocols, and share data with LEPs
- work with LEPs to develop a regional skills data strategy which facilitates the identification of outcomes, trends and other information needed for policy development. This will underpin how data is collected in the long term
- undertake detailed and innovative data and labour market analysis relating to the North (for example, at pan-northern sectoral level and to compare the impact of national trends on the North)
- support LEP capacity in data and labour market analysis, e.g. by training LEP analysts, advising on data analysis and collection, and where appropriate carrying out analysis commissioned by LEPs, or supporting commissioning from other organisations such as this or consultants
- disseminate findings and shared learning.

Skills for the North should also:

- **co-ordinate the inspection and accreditation of skills provision** where this is required, working with national and sector bodies
- where appropriate, **provide regional co-ordination for policy**, for example in relation to the ‘prime capabilities’ identified in Transport for the North’s Independent Economic Review, when co-ordinating skills devolution with other devolution at the regional level, or in relation to elements of the industrial strategy
- **provide shared ‘back office’ and management functions** to administer devolved budgets and powers, where these services would previously have been undertaken by the SFA/ESFA or another national agency. Initially this would support devolution of the AEB; with further devolution, other functions would be added
- **regularly convene meetings of LEP representatives and staff** to share experiences, address common concerns or cross-LEP issues, develop responses to national government and national issues, and work with sector bodies as appropriate.

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