

the skills
paradox
confronting
inequality in
adult learning

Deirdre O'Leary
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the skills paradox

Duncan O'Leary
Kate Oakley

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As ever, all errors and omissions remain our own.

Duncan O’Leary, Kate Oakley
September 2008

Foreword

Policy circles have talked endlessly over the last couple of years about the need for a ‘demand-led’ system, with the creation of a general consensus that the skills system needs to respond more effectively to the demands of employers. There has been little real definition of demand, however, nor sufficient research into what creates a truly employer-led system.

This research goes some way to addressing the dearth of serious discussion. Meeting demand is not as simple as listening to the proclamations of sector bodies or coming up with a list of levels at which a certain proportion of adults must be skilled by the year 2020. It is a complex, subtle equation, which must also take note of the need to create demand, both among individuals and employers, in certain high-skill areas to ensure that the UK remains economically competitive. Creating incentives for employers to move up the value chain is one way to help workers to avoid the low wages and low skills trap, and for industries to avoid ever diminishing returns.

As islanders, we have always had a slight introvert tendency in policy creation. While no system or idea is completely portable, there are lessons and innovations from other countries which can usefully inform the work that we do. The report draws on employer-led systems from other countries, finding that employers can be brought into the system in a number of ways depending on context and need – through compulsion, consultation, competency frameworks or market choice.

So what are the lessons that we can take away from this research? We argue for greater transparency through reporting arrangements for employers, with a requirement for publicly traded firms to publish their annual spending on employee education and training. Allowing individuals to get, where necessary, a second qualification at a certain level would ensure

that skills do not become obsolete – thus helping individuals and companies to push themselves up the value chain into innovative sectors with high returns. Most importantly, any funding subsidies should be directed at people, not at companies. This approach would avoid the government attempting to skew funding towards certain industries, and would empower individuals by putting them in charge of their own learning – thereby creating a true ‘demand-led’ system.

While the Leitch report had an important ambition, some of the methods and targets used had their flaws. We fully recognise the Leitch vision of a better skilled UK, but believe that there may be alternative, more effective routes to achieving it than the ones currently being driven forward by policy makers.

Chris Jones
Director-General, City & Guilds
September 2008

Introduction

For some, the victory of liberal economics in the 1980s marked the ‘end of history’.¹ With state planning buried under the rubble of the Berlin wall, societies across the world decided that they could not live without the wealth, dynamism and freedom promised by market economies. Many felt the big political choices had been settled. Yet this analysis obscured a new question: what kind of relationship should be forged between market and the state? One of the defining tasks of modern government is to shape and compensate for the market in an age of unequal life chances, earned incomes and quality of life.

Nowhere is this challenge starker than in the interaction between labour markets and adult education systems. In 2008, Britain is faced with a vicious circle. High skills² are worth more in labour markets than ever before. Those with a degree are paid around 25 per cent more than those without, while those with good numeracy skills earn 10–15 per cent more than those with poor numeracy skills.³ But millions of people still lack basic skills; five million adults have no qualifications at all, while one in six people do not have the literacy skills expected of an 11 year old.⁴ And the people most likely to take part in formal learning are those who are already well qualified. People without qualifications are three times less likely to receive job-related training than are those with some qualifications.⁵

This dynamic between labour markets and adult learning systems – the market and the state – produces a damaging social paradox. Those with the lowest qualifications are also the least likely to take part in formal adult learning. Despite the progressive goals of adult learning, the danger is that it leads to greater polarisation in skills, not greater equality.

This paradox has negative economic consequences, restricting Britain’s potential to become wealthier and more

productive. Governments can therefore play an important role in making the market work more efficiently, by correcting low investment in training through a mix of subsidies, support, incentives and regulation. There is a business case for investment in adult learning – and for policies that encourage high-skilled business models in the economy.

But, just as importantly, there is a social case for adult learning which overlaps with the needs of the market but does not depend on it. This rationale for investment in adult learning stems from ideals of fairness and equality, not just economic trends towards a higher skilled economy. In a fair society, employer ‘demand’ for high skills should not dictate whether people have opportunities to take part in learning. From well-being and quality of life, to parenting and the life chances of future generations, the skills paradox affects the daily lives of millions of people. In this respect, the role of the state should not be just to make the market work better on its own terms, important though that is. Government should seek to create opportunities for people to take part in learning, whatever their personal and professional circumstances.

About this report

Through exploring those issues, this report seeks to address the skills paradox – exploring its causes, its effects and the ways in which policy can help overcome it. It draws on 18 months of Demos research, focusing on three particular sectors: construction, information technology (IT) and children’s services. These three sectors were selected because they represent important but quite different parts of the British economy. Factors that differentiate them from one another include the skill sets they require, the make-up of their respective workforces, their levels of exposure to foreign competition, their forms of government intervention, and the working cultures that surround them (see Appendix 1). The research involved:

- a desk-based discussion paper and public event

- case study visits to 18 employers, drawn from the three sectors
- three sector specific research papers, exploring the causes and effects of the skill paradox in different contexts
- four discussion groups with members of the public to explore some of the tensions and trade-offs in skills policy
- international comparative work, drawing on best practice from abroad in the design of qualifications and the role of social partners in that process.

As with the Leitch review of skills, while specific recommendations apply to England, many of the issues raised are relevant to the devolved administrations in Northern Ireland, Scotland and Wales.

Our argument

Our core argument is that skills strategy must involve – but not be restricted to – reform of the education and training system. A comprehensive strategy needs to work on three fronts.

First it must ensure that learning opportunities are available for all, not just those who may be working in high skilled jobs at present. This requires a labour market strategy, not just a skills strategy. Many parts of the economy depend on high skills and continuous training, but this is not the case everywhere. Employers in some sectors often have little incentive to train low-skilled staff, even with government subsidy. Government should aim not just to provide the market with whatever skills it demands, but to drive high skilled business models, and to make sure opportunities to learn reach all individuals in all organisations.

Second, a successful skills strategy must create a training system that has the space to innovate, not just one in which resources are allocated efficiently to deliver full qualifications that have been approved by government. Policy is moving towards more competition between training providers, which is designed to make the system more efficient. But innovation in the training system is needed to attract people back into learning. This requires competition between ideas and new models of training, not just between institutions. In practice, this

means empowering individuals to make their own choices with the right advice and guidance, rather than trying to provide all quality assurance from the top down. Rather than expecting government bureaucracies to keep up with what is economically valuable at any one time, for every individual, more flexible bottom-up systems should be put in place.

Third, more coherent social policy is required to complement these other strands. To address the skills paradox training needs to be seen in the context of people's lives. From travel costs to childcare needs or disability, there are barriers that prevent willing learners from taking up the right learning opportunities. Widening participation in adult learning will require a system that is able to recognise and respond to people's personal circumstances more effectively. That means having a more personalised approach which starts from people's individual needs, not the category that they fall into within pre-established, sometimes inflexible, systems of support. The approach must be person-led, not programme-led.

In short, we argue that policy can do more to address the flaws of markets and to realise their potential benefits. On the one hand, more needs to be done to regulate and compensate for the effects of labour markets that skew learning opportunities away from those who need them most. And on the other, there is a public market for training that is overly prescriptive in what can and cannot be learnt – and who is eligible for wider support. This cramps the room for innovation and real responsiveness in both the training system and in social policy.

Although the challenge posed by the skills paradox is a significant one it is far from impossible to overcome. Each of the three areas described above can be addressed through the evolution of policy towards more flexible systems of public services alongside clearer rights and responsibilities and incentives for employers. Much of this is reflected in the post-Leitch settlement and many of the tools needed already lie within the government's repertoire in other areas of policy. Lessons can be drawn from the use of individual budgets in social care, for example.

We set out our argument in detail in the following chapters:

- Chapter 1 explores why skills matter. It sets out the aspirations that should inform policy and asserts the difference between market and social goals for adult learning.
- Chapter 2 sets out the skills paradox and its effects on both material poverty and people's quality of life.
- Chapter 3 looks at the current approach to skills policy. Drawing on the international evidence it identifies the assumptions implicit in the current approach.
- Chapter 4 looks at demand for training and skills from employers. It starts from the recognition that skills are a 'derived demand', driven by business models and approaches to management and job design. It questions whether all employers in all sectors want or need high skills.
- Chapter 5 explores how best to produce a training system that both meets demand for learning and creates more of it in the future. It argues that although the principle of a demand-led system makes sense, there are a number of key tensions to be resolved within the current system.
- Chapter 6 looks at the support that people can access in order to remove everyday barriers to training, from travel costs to childcare needs or disability. It identifies the complexity of the current system for support, and argues that a more personalised approach is required.
- Finally we conclude with a series of practical recommendations for change.

Our recommendations

Measures to increase demand for skills

1 Create incentives for employers to move up the value chain

Incentives are needed to encourage individual employers to move from seeing skills as costs to regarding them as investments in the future. One way of putting this into practice would be to require publicly traded firms to publish annual spending on employee education and training. Greater transparency would create different points of comparison between firms, encouraging long-term investment in skills rather than just short-term competition on costs.

A second option is the use of financial incentives to encourage business models based on high skills rather than low costs. For example, in recent years Singapore has taxed firms employing low-paid labour as an incentive for firms to move into higher value-added industries and product markets.⁶ The principle of having differential tax rates for high and low paid labour could be applied in Britain in various ways. For example tax rises in one area could be offset by reductions in others, reflecting the idea that incentives are there to change behaviour, not raise revenues.

2 Establish rights for employees to train

The recent announcement that employees will be given the right to request training⁷ is an important step because it changes the terms of the debate: to ask employers why they are not investing in training, rather than to persuade them to do so from a position of scepticism. This new legislation should also provide important data showing how many requests are rejected – informing the debate about future legislation.

3 Build skills into welfare reform

Welfare policy and skills policy need to reinforce one another to overcome the skills paradox. The Freud review and subsequent welfare reforms are built around the idea of payment by results. Contractors in the welfare system should also be incentivised to find posts that support the development of new skills for those being helped back into work. People themselves could assess their own experiences after a given period in employment.

4 Remove disincentives to invest in training for casual labour

The challenge of supporting those in low-skilled casualised employment is a significant one, but the danger is that some legislation can be counter-productive. At present the Inland Revenue can use a formal training relationship between employer and employee as evidence of permanent employment.

This can inadvertently create a disincentive for employers to provide training opportunities for those in temporary work, for fear of changing the terms of the employment relationship. Training should be exempt from any such assessments, to encourage rather than discourage employers to invest in people.

5 Experiment with a peer-to-peer system to encourage people to take part in learning

To help create a learning culture, policy should do more to draw on social relationships. The government should experiment with a peer-to-peer system, rewarding individuals, unions and other intermediaries such as recruitment agencies for introducing people to (completed) modules of adult learning.

6 Introduce long-term strategies to close the gap between the interests of employers and employees

The most fundamental problem lying behind the skills paradox is the oldest problem of capitalism: although the interests of employers and employees may overlap, they are not the same thing. The skills paradox is a reflection of this: it is natural for employers to train their staff when there is a business case, and to eschew training when there is not. In the long term, governments should look for ways to align the interests of employers and employees. The government should commission a review of cooperative ownership of firms,⁸ where employees *are* the company, they don't just work for it. This form of ownership accounts for around 2 per cent of the UK economy⁹ at present. The review would explore the impact, benefits and difficulties of this form of ownership, and which policies might be used to encourage more of it.

Measures to meet demand for learning in the training system

7 Subsidies for individuals, not companies

The idea of demand-led funding can have a number of applications: it can reflect the choices made by individuals or

single employers, or perceptions of what whole sectors require, as judged by Sector Skills Councils. To avoid directly subsidising specific businesses and to help empower employees, entitlements should go, unequivocally, to individuals. In this context, the recent legislation enshrining the right to training is an important step.

8 Create 'learning budgets' for maximum flexibility and support

'Learning budgets', drawing on the lessons of individual budgets in social care, would extend the idea of universal skills accounts and the new universal adult careers service to create real flexibility and innovation in the training system. All the current funding streams for non-learning-related grants and loans would be collapsed into one stream and a personal budget established and commissioned with a personal adviser from the new universal adult careers service. Those with greater support needs would be placed in higher bands of funding, akin to the recommendations in the Freud review of welfare.¹⁰

Quality assurance would be provided by the personal advisers, who would retain the ultimate say over whether a course of formal learning could be chosen or not and would be accountable for the proper use of public funds. This more bottom-up system of quality assurance would also allow courses leading to qualifications not presently recognised as 'economically valuable' to be eligible for funding, as advisers would be there to guide people's choices. With such an approach, people would be empowered to follow their own interests and ambitions – and would choose nationally approved qualifications not because they were forced to, but because they were the best option available among many.

9 Build in scope for second chances – but not too easily

Given the reality that people's skills can become obsolete in a fast-moving economy, there would at least be some scope for individuals to be given second chances to refresh their skills at a certain level. This option should be subject to more stringent

assessment than for first-time learners, with decision-making lying with the new adult careers service.

10 Recognise the difference between market-led and demand-led: a strategic role at local level

In the language of public service reform, ‘demand-led’ is often equated with ‘market-led’ and ‘needs-led’. In truth, these terms overlap but are not the same. Markets respond where there is *sufficient* demand for something, rather than simply where there is *any* demand for it. There will always need to be some strategic commissioning at local levels to bring about truly demand-led systems of public services, which meet the needs of all service users. Whether this governance comes through local Sector Skills Councils, local authorities or city government, the specific governance arrangements are less important than the principle of there being some means for market management and oversight.

11 Establish diversity goals for Sector Skills Councils

People should feel able to work in any sector – and society should benefit from workplaces that support social integration, not segregation. Yet too often people from particular backgrounds cluster in low-pay, low status sectors, which hampers both social mobility and social integration. To help address this, Sector Skills Councils should be given as a core goal the task of attracting the widest possible pool of talent into an industry – involving new and different people from all backgrounds to work and prosper in the sector.

1 Why and how skills matter

In some respects it seems unnecessary to establish why skills matter: who doesn't want a good education? Which government would choose an unskilled population over a skilled one? Yet over the last decade alone, the goals attached to adult learning have been far from constant. David Blunkett's green paper in 1998 heralded a 'learning age',¹¹ celebrating the spiritual and civic benefits of learning; the Foster review of further education in 2005 concluded that the mission of a further education should be an economic one,¹² while the Leitch review of skills was asked to produce a framework that would 'maximise economic prosperity, productivity and... improve social justice'.¹³ Success in skills policy often resembles a moving target, with new and different criteria added over time.¹⁴

Headline goals matter: they create priorities which are returned to as governments encounter trade-offs and are forced to decide how to distribute power and resources. Establishing what matters influences how policy works. So while the broad political consensus around the importance of adult learning is welcome, it is important to be clear about what exactly is at stake. In that vein, this chapter addresses why skills matter. It argues that the existing rationale for investment in adult learning (established principally by the Leitch review of skills) is important, but too narrow.

Meeting 'demand' for higher skills in a globalised world is not enough – even if it coincides with greater equality. Governments should take their cues not just from labour market signals, important as they are, but also from wider social goals. These include giving people the chance to fulfil their potential, helping people take greater control over their own lives and improving well-being through learning. These does not mean 'learning for learning's sake', but an aspiration to help create a

fairer society in which people lead more fulfilling lives. In this way, policy should seek to contribute to:

- high employment
- high productivity
- high social mobility
- quality, not just quantity, of work
- personal development and well-being

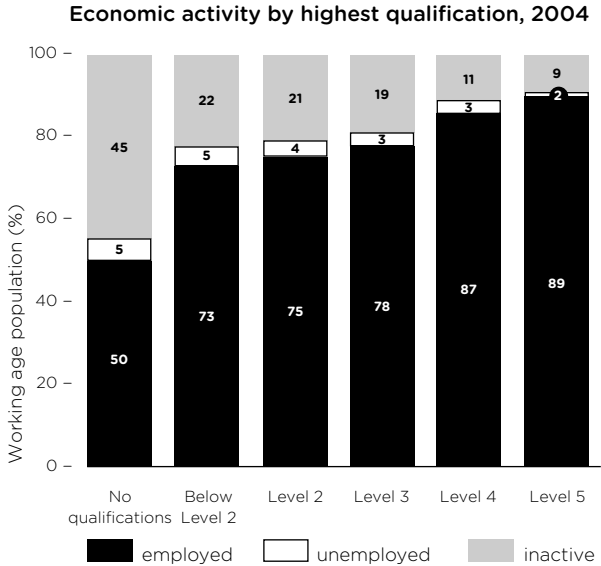
Employment

The role of skills in helping reduce unemployment is clear. First, the evidence suggests that skills are important in attracting inward investment, increasing the number of jobs available in an economy. Research conducted by the management consultants KPMG has revealed that skilled labour is among the most important factors for firms in attracting investment to nations.¹⁵ In an age where capital is extremely mobile – and where developed economies can no longer compete on cost alone¹⁶ – highly skilled nations hold an edge in attracting investment and creating jobs.

Second, not only do skills help increase the number of jobs in an economy, they also help the individuals who have the skills to find employment. The Leitch review of skills identified a clear link between demonstrable skills (qualifications) and employment, noting that only half of all those with poor literacy skills are in employment compared with around 75 per cent for those with good literacy skills¹⁷ (see Figure 1¹⁸ below). In many sectors, such as the IT sector, this reflects a trend towards there being a greater number of high skilled jobs due to technological progress and global competition. In others, it relates more closely to the impact of government regulation; in children's services for example, there is a drive to professionalise the workforce in organisations such as government-sponsored children's centres.

Third, while skills are increasingly important to finding work, *staying* in work can also depend on refreshing and enhancing skills over time. In the research conducted for this

Figure 1



Source: Labour Force Survey.

report, the pace of change in the IT sector in particular meant that sustained learning had become a condition of sustained employment for many employees. Over half of the UK's IT and telecoms professionals hold a qualification at Level 4 or higher,¹⁹ and studies of the sector have demonstrated that there are demands on employees to update their skills over time, so they can use new and more sophisticated software packages as they are developed.²⁰ In sectors with technological change and high levels of competition, employees must refresh their skills to remain in employment.²¹

Productivity

Skills also correlate strongly with productivity. Here the Leitch review was also clear in its conclusions, citing evidence that 'one

fifth or more of the UK's productivity gap with countries such as France and Germany results from the UK's relatively poor skills'.²² Similarly, studies from the United States support the link between skills and productivity, with one major study finding that those firms which adopted long-term strategies to invest in training were likely to outperform their competitors.²³

This competitive advantage can be harder to trace in some sectors than others. In service sectors, improvements in 'productivity' can be harder to measure than in others like construction, where the impact of training can be easily traced, from the ability of project managers to coordinate efficient supply chains, to the ability of joiners to install building components more quickly and effectively on site. Broadly, though, the impetus to invest in skills at a policy level is therefore powerful: it has been estimated that raising productivity by just 1 per cent point would be worth £10 billion to the British economy.²⁴

It is important, however, not to overstate the extent to which greater skills levels alone can drive productivity improvements. For skills to add value they must be *used in practice* and this depends on changes in a range of other areas, from product strategies to management and job design.²⁵ So while highly productive firms are likely to depend on highly skilled employees,²⁶ higher skill levels will not necessarily produce higher productivity. For that to be possible, individual firms must also decide to alter their business models. It is important, then, to recognise that skills are a necessary but insufficient condition for greater productivity.

Social mobility

A third aspiration to which skills contribute is greater social mobility – enhancing the life chances of each individual. Greater skill levels open up opportunities for individuals within organisations, within sectors and in entirely different fields where skills in one area are used as evidence of the capacity to learn in another. The link between demonstrable skills (qualifications) and earnings is clear – those with a degree, for example, are paid

around 25 per cent more than those without – while it is also true that education is likely to have a positive impact on career progression.²⁷

Moreover, improving parents' education levels can enhance the life chances of their children, reducing stark inequalities that exist between children who have parents from unskilled manual backgrounds and children with managerial or professional parents.²⁸ Given that social mobility has not improved in the UK over the last 30 years, investment in adult learning is therefore both a sensible and important way of moving towards a fairer society.²⁹

Quality, not just quantity of work

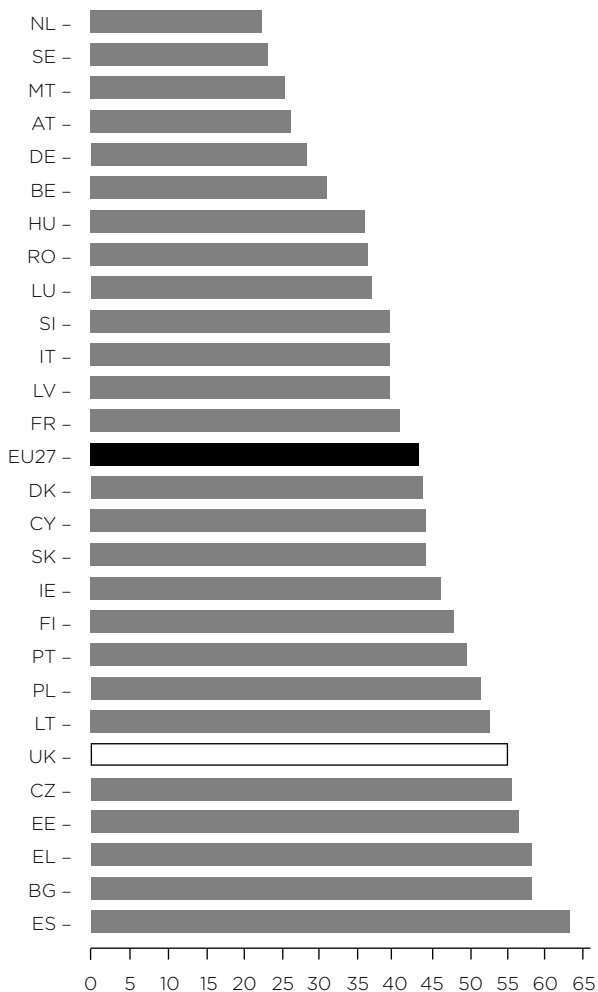
The previous three objectives – employment, productivity and social mobility – represent important goals, which are likely to be pursued by any government and form part of a broad consensus.

Beyond this, though, skills should also be part of a wider story and policy agenda geared at improving people's experience of work and when they find employment. On average, we each spend around 1,700 hours per year at work;³⁰ any progressive agenda concerned with empowering people³¹ or enhancing 'general well-being'³² must therefore engage with how to improve people's experience of the workplace. Without this, rhetoric of giving people more power and control over their lives becomes empty: people's levels of autonomy and fulfilment at work matter and policy must reflect this.

Yet despite the importance of there being a progressive agenda around work and its relationship with well-being and happiness, recent Demos research suggests that people in Britain enjoy relatively little control over their own working lives, when compared with their counterparts in other European countries.³³ And according to analysis from the Department for Trade and Industry,³⁴ barely half of all British workers benefit from the following elements of control over their daily work:

- choosing or changing the order of tasks they do

Figure 2 **Employees who say their jobs are boring and monotonous (%)**



Source: European Working Conditions Survey, 2005.

- choosing or changing their methods of work
- choosing or changing their speed of work
- influencing the choice of their working partners
- choosing when to take a break³⁵

The challenge is for a skills policy to help address these deficits. Historically, measures in the workplace have often sought to prevent bad things happening to people, from anti-discrimination legislation to health and safety law. Over the last decade there have been some more tentative measures to give employees greater power and freedom at work, such as enhanced maternity and paternity rights and measures on flexible working. But the time is now right to connect this agenda with learning and skills: good work, not just more work (see Figure 2).³⁶

Skills are no panacea here – not everyone can work in the knowledge economy and wider reforms are necessary, from flexible working legislation to maternity rights and other in-work benefits, to ensure that good working conditions are confined only to some sectors. Adult learning, however, can and should play its part. Empirical evidence shows that autonomy and discretion at work is generally greater in high skilled jobs and lower where employees are underskilled.³⁷

The reasons for this are clear: sustained employment becomes more likely and feasible if employees are clearly qualified to do their jobs; skills equip people to work more autonomously and creatively in everyday tasks; and a good skill-base gives employees important bargaining power with employers – reflecting their value to an organisation and their ability to find employment elsewhere. In other words, employers have more incentive to retain, value and listen to their employees if they have high skills.

Establishing the quality of people's working experience as a goal for skills policy is more than semantics. This went largely unrecognised in the Leitch review of skills – perhaps because of the terms of its remit. Improving the quality of people's working lives is a goal that should be stated clearly and reflected in the way in which policy is implemented.

Personal development and well-being

Finally, it is important to recognise that learning has benefits which go beyond economics or even the workplace. Many of our interviewees and the participants in our public engagement workshops saw learning as a way of broadening their horizons: many of their learning experiences – often informal – had been driven by curiosity rather than rational calculus about the economic returns of a qualification.

Years of research conducted by Leon Feinstein and his colleagues at the Centre for Research on the Wider Benefits of Learning have shown that learning in adult life can improve outcomes in a number of important areas, including physical³⁸ and mental health.³⁹ This value was reflected rhetorically in the Leitch review of skills but, as we shall argue, has been crowded out – perhaps unintentionally – by an overly centralised system for rationing public funding.

Recognising the full set of reasons to invest in adult learning is therefore important. Considerations like fairness and quality of life should provide the rationale for adult learning, as well as meeting the ‘demands’ of employers. Meeting employment and productivity goals are vital, but government should take its cue not just from labour market signals, but from the ideal of creating opportunities for all adults to take part in learning. In short, the challenge for policy is to recognise and reflect the economic value of adult learning, without either overstating what higher skills can achieve on their own, or losing sight of the wider public value that there is to be unleashed through learning.⁴⁰

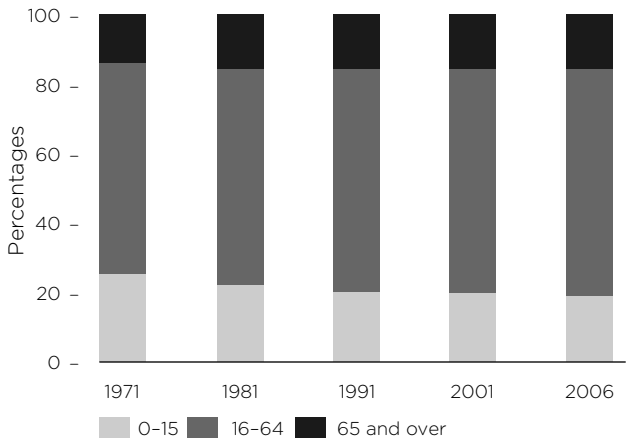
2 The skills paradox and its effects

Measuring skills is a difficult exercise, but on the best measure that we have – qualifications – Britain compares unfavourably with a number of other developed economies. The Leitch review's assessment was blunt: 'our nation's skills are not world class... on our current trajectory, the UK's comparative position will not have improved significantly [by 2020]'.⁴¹ In 2008, 17 million adults have difficulty with numbers and 5 million are not functionally literate.

What is also clear is that, with an ageing population (see Figure 3⁴²), adult learning is becoming more important, not less, in reversing these trends. More than 80 per cent of the UK population is now 16 years old or more,⁴³ meaning that

Figure 3

Population by age in the UK, 1971-2006



Source: www.statistics.gov.uk/cgi/nugget.asp?ID=949.

improvements to the school-age education system will not be enough to help millions of adults who struggle to read and write, or to improve Britain's position in the international league tables.

Within this headline challenge, however, is a fundamental issue. Not only does the school-age education system have a historic problem of producing unequal outcomes, but the problem gets worse rather than better in adult life. Those with the lowest qualifications are also the least likely to take part in formal learning in adult life. In social terms this produces something of a paradox: skills formation (as measured by qualifications) happens in inverse proportion to need (see Table 1).

Table 1 **Proportion of population who had received training in the last 13 weeks, 1996, 2001 and 2006**

	1996 (%)	2001 (%)	2006 (%)
Level 5	40.7	44.4	40.8
Level 4	41.0	41.9	38.2
Level 3	35.8	29.5	28.6
Level 2	29.2	26.7	25.3
Level 1	27.3	23.6	22.2
No qualification	13.2	10.8	10.8

Source: LSC, Skills in England.⁴⁴

Economic inequality

Given the economic significance of skills, discussed in the last chapter, it is unsurprising that this skills paradox feeds into economic inequality. Those who already benefit from high skills continue to benefit from learning, leaving their less qualified counterparts behind. Since the 1980s, the wage differential between skilled and unskilled workers has increased rather than decreased.⁴⁵ And wage inequality seems to grow, rather than shrink in a more knowledge-based economy due to greater wage polarisation between service and 'knowledge' roles. Research conducted by academics at the University of York has found that 'those regions that have led the way in recent shifts towards a

knowledge-based economy are also likely to be leading the way in terms of widening income inequalities'.⁴⁶

The skills paradox in this context is a major concern: the effects of 'an hour-glass economy' (Table 2), with a trend towards either highly skilled or low-skilled work, are exacerbated by a lack of mobility between the two. Those in low paid work are likely to stay there. Both the structure of the economy and trends in adult learning feed into economic inequality.

Table 2 **Changes in the structure of employment, 1982-2012**

	1982 (%)	1992 (%)	2002 (%)	2012 (%)
Higher occupations	28.3	33.3	40.2	45.1
Intermediate	32.5	30.4	24.6	20.5
Lower	39.3	36.3	35.2	34.5

Source: Keep, 'Initial submission on adult learning and the workplace'.⁴⁷

Everyday inequality

Importantly, though, it is not just economic inequality that is likely to worsen as a result of the skills paradox. As Chapter 1 discussed, skills play an important role in a number of other areas, including quality of life and enjoyment of work. A feature of the public engagement work done for this report was that many of those who were either in low-skilled work or claiming Job Seeker's Allowance expressed disillusionment with working life. People frequently were pessimistic about their prospects of finding employment and about the likelihood of finding work with any real degree of job satisfaction. This trend is reflected in quantitative evidence showing that those with low skills (as measured by qualifications) are disproportionately likely to suffer from job instability, lack of progression, and poorer quality of working experience.

Research suggests that perceptions of job instability increase strain at work⁴⁸ and many of those in low-skilled jobs

find themselves moving in and out of the labour market, unable to find sustainable employment. The better educated tend to be more mobile between jobs, but this is almost certainly a reflection of the fact that more qualified people have more options.⁴⁹ By contrast, those with lower skills face both declining job tenure⁵⁰ and the highest risk of unemployment. Around one in four of those who leave Jobseeker's Allowance to move into work return to benefits within three months, and almost 40 per cent return within six months,⁵¹ for example. Those without basic skills are less likely than others to have a stable job.

Further to this, comprehensive work conducted at the London School of Economics (LSE) tracking measures of job satisfaction over extended periods has found large discrepancies in 'job desirability' (including aspects such as flexible hours and autonomy in planning tasks). The authors found that: 'job desirability differed greatly by class. There was a much larger gap in job desirability between upper-level and lower-level occupations than between full-time and part-time employees or between permanent and temporary.'⁵²

And in an age when trade union representation is low in many sectors,⁵³ the LSE researchers also found that collective bargaining has been replaced by individual consultation and negotiation.⁵⁴ As discussed in Chapter 1, those with lower skills often have less power to bargain in such situations and are likely to hold little influence as individuals over pay structures and wider benefits offered by employers. The LSE academics link increasing inequality between classes to this more atomised bargaining structure. They add that 'fringe benefits' like occupational pensions, occupational sickness pay and paid holidays are also likely to be unevenly distributed along a 'class gradient', with those in routine jobs enjoying far fewer benefits than those in managerial and professional roles.⁵⁵

The effects of the skills paradox are therefore both damaging and pervasive. The paradox feeds into both material inequality and poverty of experience. In the next chapter we outline the response of skills policy to this challenge so far.

3 The current approach and its assumptions

Chapters 1 and 2 looked at the value of skills and the problem of the skills paradox. This chapter⁵⁶ summarises the existing policy response and identifies some of the assumptions that lie behind it. Drawing lessons from the international evidence, it asks whether the current policy framework offers a complete analysis of the problem of the skills paradox – and whether the specific policy mechanisms employed so far are the right ones.

It argues that the international evidence reveals the range of possible means of involving employers in education and training systems, from consultation right through to compulsion. The biggest dilemma behind these different approaches is the precise purpose of involving employers – some approaches focus on increasing demand for training while others are more concerned with improving the supply of training. In Britain the Leitch settlement focused on the latter, but policy is beginning to shift towards a more balanced approach.

The drive to involve employers

For a decade or more national vocational education and training systems in Britain and abroad have been criticised for struggling to meet the needs of industry, despite the pressures of global competition and successive waves of Vocation, Education and Training (VET) reforms in most industrialised countries in the 1990s. Behind this lies the challenge for governments to create training systems capable of keeping pace with shifts in sectoral profiles, occupational level profiles, occupational specific skills, alongside an increasing emphasis on generic skills.⁵⁷

The response to these challenges has been a flurry of activity designed to bring the training system closer to the labour market. Through involving employers more closely in the

training system, policy makers have tried to create more responsive training systems and establish a firmer relationship between business development and investment in learning.

The dominant international approach to delivering this has been sectoral approaches, designed to equip training systems to recognise, respond and even anticipate the changing needs of industries. However, within this broad approach lie very different types and forms of engagement, whereby employers are involved, coerced and consulted to different degrees in different systems. The most helpful categorisation of the differing types of employer engagement has been produced by Raddon and Sung⁵⁸ (see Figure 4). They draw out four models, which each display distinctive features in terms of ownership, forms of funding and responsibility.

Figure 4 **Sectoral models of employer engagement**

Employer-involved (two variants)

- a) Voluntary engagement of employers in sector skills debates, primarily via consultation (Australia, Canada, NZ)
- b) Statutory engagement of employers in financing sector skills delivery and voluntary consultation (South Africa, France)

Employer-modelled

Best practice models of skills development used to shape training practice within the sector (Singapore)

Employer-owned

Employer-funded sectoral approach, which ties into sectoral skills strategies and needs, as identified by employers' associations and representative groups (Hong Kong)

Employer-driven (two variants)

- a) Public VET system determined by employer-demand (Netherlands, USA)
- b) Private partnerships bringing employers together in order to identify and invest in training (USA)

The employer-involved approach

As Figure 4 outlines, the employer-involved approach has two variants, one reflecting a ‘voluntarism’ tradition and the other underpinned by statutory provision. The voluntarism model operates in the UK, Australia, Canada and New Zealand. The emphasis in all of these countries is on the sector bodies to reach out and engage employers in a dialogue about their demands and the wider skills agenda. The other variant of the ‘employer involved’ model is underpinned by the statutory engagement of employers in financing sector skills delivery and voluntary consultation (South Africa, France).

Within this variant of the employer-involved model, employers are required by law to invest in training and development – and the common features of this model are a statutory training levy, collective agreements, and ‘sector like’ bodies created in certain sectors and professions.⁵⁹

Box 1

The training levy in France

The key sectoral approach to skills development in France is a statutory training levy. This was established in 1971 and continues to evolve through social dialogue and consensus.⁶⁰

The main aims of the levy are to encourage employers to provide training and development for their employees, to develop a training plan for each company and to contribute funding to the initial vocational training system (eg apprenticeships). It is often described as a ‘train or pay’ system in which employers must demonstrate that they have spent a certain percentage of their wage bill on training provision.

Unlike South Africa, where levies are raised to fund a national sectoral system, the French approach is to facilitate sectoral and professional groupings – which can provide focused strategic leadership in terms of developing skills and planning for future skills needs.

The employer-owned and employer-modelled approaches

Employer-owned approaches are characterised by high, and often sole, employer funding and a singular focus on meting

employer demand within the same sector, with little government intervention. A key example of an employer-owned approach can be seen in the case of the Hong Kong industry training associations.

The most notable example of an employer-modelled approach is in Singapore, where best practice models of skills development ('Blueprints' developed by the government), in particular those relating to on-the-job training, are used to shape training practice within specific sectors. The Blueprint forms a crucial element of the overall government skills strategy. In order to qualify for funding, employers must make use of the Blueprint approach when designing and delivering on-the-job training. The aim is to ensure that on-the-job training is of the very highest standard and, importantly, that it is certified.

The employer-driven approach

It is possible to distinguish two variants within this model – public vocational education and training systems determined by employer-demand (Netherlands) and private partnerships bringing employers together in order to identify and invest in training (USA).

The reform of the Netherlands' vocational education and training system in 1996 was designed explicitly to correct the defects of a system that was often criticised for not responding adequately to demand. The result is an employer-led competency framework, with sector bodies developing strong links with the qualification framework. Once the curriculum has been developed, employers play a vital role as the primary training provider within the work-based pathway, which involves a work contract for each trainee, up to 80 per cent on-the-job training, and release for school-based training. The sector body must accredit employers before they can take on a trainee, ensuring the quality of training provision.

Box 2

The Dutch approach to sector skills development

In the Netherlands employers work through sectoral bodies, the Kenniscentra (or knowledge centres) to identify and express

the skills that are required for the sector.⁶¹ This information is fed through to the BVE Raad, the umbrella body for the regional and technical colleges, which then passes it on to the regional colleges in order to develop a curriculum primarily based on the standards and requirements set by the employers, allowing room for regional variation.

The resulting competencies then provide the basis for the national VET framework, and are used to ensure that both work-based and school-based trainees are trained to the same standards and competencies as identified by the sectors. VET programmes are then generally delivered in one or two ways, either work based or school based, with different percentages of training time within the workplace or the school depending on which pathway is chosen.

Once the curriculum has been developed, employers play a vital role as the primary training provider within the work-based pathway, which involves a work contract for each trainee, up to 80 per cent on-the-job training, and release for school-based training. The sector body must accredit employers before they can take on a trainee, ensuring the quality of training provision.

Dilemmas in ‘employer involvement’

What this patchwork of approaches reveals is the range of possible means of involving employers in education and training systems – from consultation right through to compulsion. The biggest dilemma behind these different approaches is the precise purpose of involving employers. As the typology above suggests, different approaches reflect different views as to the root causes of underinvestment in training. In France, for example, the issue is perceived to be one of employer ambition and therefore demand for training: employers are coerced in order to push them towards greater investment in skills. By contrast, New Zealand and Australia have tended to locate the problem in the training system itself: in Australia employers are consulted in an effort to improve the supply of training.

Similarly, even when different systems share a common goal, such as improving the supply of training, approaches to involving employers vary. The Netherlands has built an approach based on identifying competencies that should be reflected in training, while Singapore has focused on scaling up particular models of employer training. In practice these different methods also bring with them different benefits and stumbling blocks. More voluntaristic approaches can help create employer-led competency frameworks with and pathways to certification, which are strong on consistency and accreditation.⁶² But they can also be slow to respond to changing needs, leaving employers in a relatively reactive stance within the skills system.

Greater compulsion through mechanisms like levies can begin to affect employer behaviour and create a more embedded recognition of the value of training,⁶³ but these mechanisms can also be cumbersome and bureaucratic to administer in practice. And greater employer ownership of the training process is more likely to galvanise employers by aligning learning with business objectives,⁶⁴ but requires government to let go to some degree, prescribing outcomes a little less, and providing the opportunity for others to lead.

The lesson for the UK seems to be that the key question is where and how to involve employers – rather than whether they should play a part in some form. The test is how to create a relationship between the training system and labour market in which each stimulates the other in a move towards high skilled work. This suggests a strategy that works simultaneously on issues of supply and demand for skills.

The Leitch settlement

The form of employer engagement settled on in the Leitch review reflects the view, expressed by representatives of employers⁶⁵ that the main stumbling block to greater participation in training lies in the training system. As the government's World Class Skills document puts it, 'we will give employers the opportunity to exert real leverage and decision-making over both the content and delivery of skills and

employment programmes. That will help us to build employer confidence in the qualifications... and it will open the door to increased employer investment in skills.’⁶⁶

The main components of the settlement were that:

- A new Commission for Employment and Skills has been established to deliver greater employer leadership and influence over policy.⁶⁷
- The responsibility for making sure that the content of publicly funded training courses and resulting qualifications meet employer needs will be passed to employers via Sector Skills Councils.
- Some employers will be able to award their own accredited qualifications, allowing for more on-the-job training to become nationally recognised and accredited.
- Train to Gain will be the mechanism used to determine that the greater proportion of public funding for training will be employer-led, with all adult skills funding routed through Train to Gain and Learner Accounts by 2010.
- Market failures around information will be addressed through skills brokers helping businesses assess their needs, and a new universal adult careers service working for individuals to advise individuals about the learning and professional development opportunities available to them.
- Funding will be provided to address another perceived market failure: funding for basic skills qualifications – reflecting the view that formal qualifications to Level 2 often lack economic value in the labour market, but serve as a platform for learning to higher levels.⁶⁸

As has been noted elsewhere,⁶⁹ the Leitch settlement therefore aimed to remove some of the common complaints about the education and training system. Employers have been afforded greater influence over qualifications and the desire for more competition between training providers has been acknowledged. The assumption in the Leitch settlement was that in a global market, with the supply of training reformed, demand for training among employers would be unleashed.

Employer engagement was decidedly focused on improving the supply of training, rather than more direct measures to improve demand.⁷⁰

The post-Leitch settlement

Since the government's initial response to the Leitch review, however, a more rounded approach has begun to take shape. Just as other countries have sought to address wider issues of demand for skills, through a combination of workers' rights (as in France) and employer incentives (as in Singapore), the government has sought to broaden its own repertoire. Unveiling the government's draft legislative programme for 2008/09 the Prime Minister announced new proposals to establish the right to request training for employees, alongside a duty to consider requests for employers.⁷¹

This shift marks a tacit acknowledgement of wider reasons for low participation in formal learning, which lie beyond an unresponsive training system. And it reflects the reality, born out by training systems around the world, that employers can and should be engaged in ways that reflect the long-term aspirations of whole societies, not just the short-term aspirations of particular businesses.

In that context, the remainder of this report explores the full range of reasons for the skills paradox. It scrutinises the specific arrangements governing the training system but also seeks to put skills and training in the context of labour markets where demand for training is created (or not). It is in people's everyday lives that training must find a place.

In this way the following three chapters explore three specific areas:

- whether all employers need high skills and want to commission training: is training held back by the issues described above, or by the absence of any real need to train their staff to compete?
- whether the best way to produce a responsive training system is for providers to compete to deliver courses that lead to the

qualifications that are determined by the government, through Sector Skills Councils

- whether once these issues have been addressed, there will still be the wider issues in people's everyday lives that prevent them from taking part in learning.

4 The labour market and demand for skills

The operating assumption of much skills policy, reflected in the Leitch review, is that boosting skills will help to deliver improved economic competitiveness for hard-pushed firms. Such an approach is based on a number of studies which illustrate the benefits of high skills to firms looking to boost productivity.⁷² The assumption that arises from this link between skills and productivity is that *all* firms need to ‘raise their game’ to compete in a globalised and fast-moving world – and that means that they will train all of their staff, not just some of them.

Set against this belief is the reality that both individuals and organisations are reluctant to invest in courses that lead to low level qualifications. This chapter explores why that is the case at a time when such significance is attributed to human capital. It argues that the case for a ‘market failure’ in training at lower qualification levels is overstated. Rather, we argue that in some sectors there is a fundamental lack of demand among employers for low-level training as business models easily coexist with low skills. Reasons for this include:

- consumer demand driving low-cost, low-skill business models in some sectors
- recruitment of skilled migrants rather than training existing or potential employees
- the effects of casualised employment patterns on opportunities to take part in training
- lack of pressure from outside the market, in the shape of either high trade union coverage or formal regulation.

Identifying low levels of employer demand should not be mistaken for an argument against public investment in adult learning. Rather, it illustrates two important points. First, where

possible, governments need to find ways to encourage employers to move further up the value chain, competing on high skills and high pay, rather than the reverse. Without doing this, there is a risk that people will be overqualified, poorly paid and unsatisfied with the work that they are doing.⁷³

Second, in any case, progressive governments should aspire towards social goals rather than just what the market ‘demands’. The role of the state should not be just to make the market work better on its own terms, but to shape it – and compensate for it in other ways – so that better *social* outcomes are achieved. Put simply, finite demand for high skills from employers does not mean that a government should be satisfied with limiting opportunities for people to take part in learning. Helping people fulfil their potential is an essential task of any progressive government.

Rather than challenging the overall goals of skills policy, therefore, this chapter sets out the challenges of overcoming the skills paradox as clearly as possible, asking what might be done differently, or in addition to the current approach.

Evidence on the demand for skills

Much of the public discussion on levels of demand for skills risks self-contradiction. When employers report skills shortages analysts are quick to report a ‘skills crisis’ – yet when employers report satisfaction with existing skill levels they are told to ‘raise their sights’.⁷⁴ Employers are a credible voice in one case, but not in the other.

In reality, some of the evidence indicates that the supply of skills has improved so that it is now running ahead of employer demand. While graduate under-employment may be stabilising,⁷⁵ many employers themselves report little need to train their staff. Survey evidence shows that 35 per cent of employers offer no training to employees, while 6 per cent only offer induction or health and safety training. Rather than a market failure, or lack of resources, the main barrier they cite is the lack of need for more skills.⁷⁶

The reason for this is that although unskilled jobs (manual and non-manual) have declined as an overall part of the labour

force, many still remain the bedrock of employment in some sectors. While there are fewer manual jobs such as industrial labouring, there are more jobs such as cleaners and kitchen assistants, care and hospitality workers and in sales and customer service.⁷⁷ The demand for low-paid, unskilled labour thus varies hugely across the economy, with some areas and some sectors showing much greater demand for high skills. The Low Pay Commission estimates, for example, that nearly one in ten childcare jobs are paid at or below the adult rate of the minimum wage.⁷⁸

Further analysis from the former Sector Skills Development Agency⁷⁹ reveals that there are differing demands for skilled labour in different industries. Among men, more than 20 per cent of the workforce has no qualifications in either the fashion and textiles industry or the UK food and drink manufacturing industry. And among women, more than 20 per cent of the workforce is unskilled in the retail and logistics sectors, among others.⁸⁰ Therefore, although there is clearly a broad trend towards higher skilled employment in the UK, the assumption that this applies to all employers in all sectors is very difficult to sustain.

The role of consumer demand

One reason why employing low skilled workers – and eschewing training – may seem a reasonable strategy for individual employers to pursue is that consumers may not always notice, or be willing to pay for, the difference. Low-cost airlines, for example, continue to thrive whereas national ‘flag carriers’, which have consistently won awards for their service quality, have experienced trouble competing. The ‘cost’ of better service was simply not important enough to be worth bearing for consumers, even in a market with strong competition. In more localised markets, these pressures are even weaker – the job of cleaning an office, or serving food in a café, for example, is not something that can be outsourced to workers in another part of the world.

‘Globalisation’ therefore has very different impacts on different sectors, affecting the quantity of jobs and the need for

skilled labour far more in some industries than others. In addition, the link between skill and effectiveness at work is very hard to measure in the service sector – the largest part of the economy. To the customer, good service may be judged simply on whether there are a large number of staff available, rather than on an individual's capabilities.

The way that this plays itself out is that even in sectors such as children's services, which might be associated with high levels of professionalism, levels of training and formal qualifications vary significantly within the sector. One childcare workforce survey found that only 9 per cent of workers in playgroups, day nurseries and out-of-school services had a Level 4 qualification, while less than half of playgroup or out-of-school workers had a Level 3 qualification.⁸¹ Other surveys show that only 52 per cent of childminders are qualified to Level 1 and 43 per cent qualified to Level 2. Moreover, many classroom assistants in reception classes do not have formal training, except for some hours provided by local authorities.⁸²

Box 3

Case study: The impact of consumer demand

The difficulties faced by Sue, one of our discussion group participants, sum up the conundrum of relying on employer demand for training and skills. Sue spent years out of the labour market, looking after her daughter, before finding a job at the local cinema. Her job was to work on the cash till, selling cinema tickets. Many of her co-workers were younger people working in the cinema as a stop-gap in between studies or before moving on to full-time jobs, rather than treating it as a rung on the career ladder.

At the cinema, there were very few layers of management or other more specialist roles to fill, leaving little chance for her to progress into other positions in the organisation that would require new skills and further training. The result was that Sue spent one unfulfilling year at the cinema, collecting a wage but never taking part in training or professional development. Her professional development was the victim of the success of the cinema's business model: put simply, high skills were not needed to staff the front desk so the decision was made not to invest in them – or her.

Similarly, although there may be considerable investment in some sectors, time and money may well still be skewed towards those at the top of hierarchies or supply chains. For example, in a number of the construction firms that we visited during the research, the biggest investments in training were focused on adopting 'lean' principles for managing and coordinating supply chains. The reason for focusing resources here is simple: training that equips managers to make a supply chain 1 per cent more efficient creates greater returns than training that improves the skill levels and productivity of a joiner on a building site tenfold.

The picture here, as always, is a nuanced one. There is a drive to professionalise the children's workforce through a mix of rationalisation, investment and regulation – based on the evidence that a high skilled workforce will deliver improved outcomes for children.⁸³ And as companies in the service sectors like the telecoms industry develop more sophisticated models of customer service, their employees are increasingly asked to adapt to a wider range of tasks and to craft their own responses to unexpected problems. In our case study interviews, employers in telecoms firms in particular were keen to stress the importance of 'soft skills', such as the ability to engage with customers, as opposed to high technical skill levels. As a recent overview of the IT sector found, 'IT & Telecoms professionals are increasingly expected to be multi-skilled, with sophisticated business and interpersonal skills as well as technical competence.'⁸⁴

But the broader point is important in that the absence of training in some sectors may be driven by the ability of organisations to compete on price rather than sheer expertise. The implication of this is that the outcome of consumer preferences represents an undesirable outcome from a skills perspective, but not a market failure. And the significance of this factor needs to be recognised: a lack of demand for skills in some sectors signifies neither a collective action problem, nor a lack of rational thinking from employers. And the problem is that this creates a divergence between the long-term achievement of public goods (high participation in adult learning) and the short-term pursuit of private goods (profit), which illustrates

that policy cannot rely on employer demand alone. Although employers may decide to opt out of training, when it becomes expedient, policy has wider goals to fulfil.

The option of skilled migrants

If consumer demand for certain products and services drives down the ‘derived-demand’⁸⁵ of skills, the availability of skilled migrant labour may add, in the short-term at least, to the skills paradox. The reason for this is that employers may use immigration to address skills shortages, rather than labour shortages, choosing to employ those who already have high skills rather than training those who do not.

As a recent report on the economic impact of migration found, while the overall economic impact of migration appears to be positive, any negative effects are likely to be felt by low-skilled rather than high-skilled workers.⁸⁶

Of the three sectors that were the focus of our research, this (potential) effect seems to be most apparent in construction. Employers’ skills surveys have shown that that only a minority of the establishments in the sector reporting such vacancies respond by increasing or expanding trainee schemes; with the more commonly adopted responses being to expand recruitment channels. A number of employers we interviewed in the sector expressed a dilemma between training local people – often their preferred option – and drawing on skilled labour from abroad. The result is a sector in which around 14 per cent of foreign-born workers from the A8 countries (Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, and Slovenia) are in employment, and where employers link the recruitment of migrant workers directly to skills shortages.⁸⁷

There are a number of reasons not to overstate this point: first, the evidence is inconclusive so conclusions can only be tentative; second, migrants still only account for a small proportion of employment in most industries (only 7 per cent in the construction industry⁸⁸); third, given the decline in the working age population migration will be one important way of filling labour shortages; fourth there are not a fixed number of

jobs or training opportunities in an economy and the evidence is often more anecdotal than systematic.

This should also not be interpreted as an argument against immigration. Rather, it should be understood as recognition that the benefits of migration are often unevenly felt in the short-term at least – and of the importance of finding ways to overcome and compensate so that those in low-skilled, low-waged sectors do not lose out.⁸⁹

Casualised employment patterns

A third factor driving down employer demand for training relates to casualised labour in low-skilled parts of the labour market: job patterns in which people are employed freelance instead of being offered full-time contracts. Around 5.5 per cent of all employees in the UK are currently in temporary work, with the most common form of temporary employment being fixed-term or fixed-task contracts.⁹⁰ Our public engagement work gave a clear picture of stratified labour markets. Those in permanent employment, particularly at larger firms, often reported receiving more than adequate training; meanwhile those in short-term or casual work often reported faring the least well.

This reflects much of the evidence presented elsewhere that temporary workers in low-skilled occupations are often disadvantaged relative to permanent employees in accessibility to training and employment prospects.⁹¹ As a recent commission on vulnerable employment found, the proportion of temporary agency workers who had never been offered training by their employer was more than twice as high as the proportion of all employees who had never been offered training. And even within sectors, there is evidence that temporary workers can lose out in comparison with those on permanent contracts. For example, in administrative and secretarial occupations agency workers are less likely to receive training than permanent workers in the same occupation.⁹²

In case study visits to employers, this trend seemed to be most apparent in the construction sector, one that is highly fragmented, with large numbers of very small firms and high

levels of self-employed workers, together with extensive use of contract, often casualised, labour. Around one-third of the sector is classified as self-employed, though according to research on labour mobility the level of self-employment varies by occupation, being particularly high among dry liners, bricklayers, glaziers, carpenters, joiners, roofers and plasterers.⁹³

Box 4

Case study: Casualised employment

Dan has done a number of jobs over the years, from washing dishes in restaurants to labouring on building sites. He is philosophical about the range of jobs he has undertaken, taking some pride in his versatility. But his irregular pattern of work has had two effects. First, he has moved from employer to employer over the years, so he has rarely spent long enough at a single organisation to develop a specialism and progress as a result. Equally, he has rarely spent extended periods out of employment altogether – and has neither benefited from the support structures of a single employer, or of the learning opportunities that can come with out-of-work benefits.

Second, when Dan has worked for a single employer over time, it has often been for intermittent fixed periods of time, rather than on a full-time contract. This too has provided work, but little continuity, training or progression. The effect of these two factors is a vicious circle, where low skills leads to a lack of sustained employment – which in turn leads to lack of employer investment in skills. In this sense, Dan is not the victim of unemployment, but of the effects of short-term, episodic employment in low skilled work.

People in casualised, low-skilled work often appear to fall between the cracks of specialised public schemes for those out of work and the institutional training structures that come with sustained employment. Those in part-time or unstable employment find it difficult to encourage employers to invest in them. In interviews employers were frank about the opportunity costs of having time off for training for those only working a few days per week, or for those who had yet to demonstrate their

long-term employability. If someone works for a company only for a few weeks in total every year, then the incentive to spend time and resources on training diminishes. These factors serve to underline the importance of sustained employment to addressing skills issues – and of government-sponsored support that provides security to go alongside flexibility.

Lack of pressure from outside the market

In the UK there is some evidence that unionised workplaces have higher skills levels than non-unionised ones – suggesting that pressures from outside the market are capable of driving investment in skills. Analysis of the 2004 Workplace Employment Relations Survey (WERS) demonstrates that where unions are recognised and negotiate over training, employees are considerably more likely to report having received some training. It also appears to be the case, however, that larger firms (which are more likely to be unionised) and the public sector (where unions are also stronger) are also places where workers are more likely to receive training, so unionisation is not the sole factor.⁹⁴

Nonetheless the decline of trade union representation in the UK parallels a general picture of weak employee voice in UK workforces. Recent evidence suggests that despite all the rhetoric of ‘empowerment’, a growing group of employees believe that they have less and less control over their working environment.⁹⁵ It is thus hardly surprising that employees are rarely consulted about training plans. This is a finding borne out by our focus groups, where even those workers who received more than adequate levels of training reported very little involvement with the process of identifying training needs. Other research suggests that UK employers only negotiate with employee representatives (unionised or not) in 3 per cent of workplaces and consult a further 13 per cent. In three-quarters of UK workplaces, employee representatives are not even informed about their employers’ training plans.⁹⁶

With the decline of trade unions to bargain, research supports the notion that it is measures in areas such as health and safety (such as the Construction Skills Certificate, which

follows a health and safety test) or licence to practise schemes (as in children's services, which affects qualification levels in institutions like children's centres) that drives the take-up of training. When people are compelled to take part, they generally do.⁹⁷ But in these cases training is more about compliance than about skill reproduction within their industry.⁹⁸ Broadly, the UK labour market remains one of the least regulated in the developed world, and the policy levers that might be needed to drive up the demand for, and use of, skills remain relatively weak.

Box 5

Case study: the Construction Skills Certificate Scheme

The Construction Skills Certificate Scheme (CSCS) was set up to help the construction industry to improve quality and reduce accidents on site. It has been driven and administered by ConstructionSkills, the Sector Skills Council for construction. The cards follow hundreds of occupations, from architects to bricklayers, reflecting that diversity of skills sets in the industry.

What began primarily as a health and safety drive by the industry has become more of a skills initiative over time as coverage across the industry has improved. Firms identify this as a driver of training and the card is gaining currency: increasingly, CSCS cards are used as proof of occupational competence by contractors. Previously, individual firms operating in a market had fewer incentives to demonstrate the competencies of their workforces. The CSCS card has helped address this by creating a common threshold for judgement across the industry.

A dilemma for policy

These factors combine to reduce incentives for employers to make investment in skills. They illustrate a challenge for policy: far from acting irrationally, employers seem to be reacting to the demands of consumers, within a regulatory framework set by government. It has long been argued⁹⁹ that what the UK needs, more than another skills policy, is a labour market strategy. In

other words, it is in the *utilisation* of skills where the problem lies. Skills are a ‘derived demand’¹⁰⁰ – and unless employers’ business models change, there is unlikely to be a surge in demand for training, however responsive the training system itself becomes.

The lesson to draw from this should not be mistaken: skills still matter enormously to individuals. Learning creates options for people in their personal and professional lives to which everyone deserves access – whatever the level of overall demand in the economy. As we argued in Chapter 1, there are social goals that should underpin adult learning, which go beyond meeting the ‘demand’ created in the market and articulated by employers.

The issue of a fundamental lack of employer demand for skills in some sectors – rather than just a market failure, which can be addressed through subsidies – creates a challenge for government. Policy must find ways to shift more of the economy up the value chain, through fiscal measures, regulation, sectoral job design programmes or encouraging new forms of company ownership entirely. And notwithstanding these efforts, governments must find means to improve the skills and working experiences of those in jobs that will never require high skills, however much training is subsidised, by giving employees clearer rights and entitlements.

Recommendations

The following recommendations address these issues – and are expanded in the concluding chapter of this report.

Create incentives for employers to move up the value chain

The implication of this chapter is that low investment in training in some sectors is a reflection of a wider problem: business models that do not require high skills. Governments can therefore play a role in incentivising employers to move up the value chain. One way to achieve this would be to require publicly traded firms to publish annual spending on employee education and training, as part of an effort to promote training as an investment rather than a cost. More transparency in this area

would create different points of comparison between firms beyond short-term profit. Shareholders would be able to judge which firms are making long-term investments in training and which were not, giving them clearer information and creating a competitive environment more conducive to training opportunities.

A second available option is the use of financial incentives. As one recent review of the international evidence found: ‘[T]he UK government does not utilise the full range of financial incentives, and is therefore deprived of a powerful tool in changing employer behaviour.’¹⁰¹ Where measures such as the national minimum wage have been adopted, there are signs that employers have adapted by boosting the training of staff, to offset the effects of increases in labour costs by improving productivity.¹⁰²

The challenge with such fiscal measures is simplicity: it is important to avoid the unnecessary bureaucracy that often accompanies levy systems and undermines the progressive goals behind them. In our research, employers in the construction sector frequently complained about the wasted time and effort involved in any attempt to collect large amounts of money and then redistribute it to firms. Given this problem, it may be best to see any fiscal measures not as fundraising attempts – involving collecting and dispensing money for training – but rather as straightforward incentives.

In recent years, Singapore has taxed firms employing low-paid labour as an incentive for firms to move into higher value-added industries and product markets.¹⁰³ The principle of differential tax rates for high and low paid labour could be applied in Britain in various ways. For example, tax rises in one area could be offset by reductions in others – reflecting the idea that incentives are there to change behaviour, not raise revenues.

Establish rights for employees to train

Although it is important to encourage employers to adopt skilled business models that depend on – and therefore reinforce – high skills, the reality is that there will always be some jobs where

employers do not depend on training nearly so much. In these situations, another route to creating opportunities for people to take part in training is to establish rights for employees. The recent announcement that employees will be given the right to request training¹⁰⁴ is an important step here, because it changes the terms of the debate: to ask employers why they are not investing in training, rather than to persuade them to do so from a position of scepticism. Since employees were allowed to request flexible working, around 60 per cent of requests for flexible working have been met in full.¹⁰⁵ This new legislation should also provide important data showing how many requests are rejected – informing the debate about future legislation.

Build skills into welfare reform

As the government recognises, welfare policy and skills policy need to reinforce one another, working together as effectively as possible – and this is especially important for the skills paradox. The Freud review and subsequent welfare reforms are built around the idea of payment by results – and the incentive for helping people into sustainable employment is very welcome. Further incentives in these contracts could be for welfare providers to find posts that support the development of new skills.

There are different ways in which this could be measured in practice. The temptation would be to measure numbers and levels of qualifications achieved, but another option would be to ask employees themselves to give a measure of their own professional development over a period of employment. This would be another way of gearing policy – in this case the welfare system – towards the goals of good work, not just more work.

Remove disincentives to invest training for casual labour

Although it is important to encourage employers and welfare providers to move towards models of sustainable employment, it is also important not to discourage firms from investing in those on temporary contracts. At present the Inland Revenue can use a

formal training relationship between employer and employee as evidence of permanent employment. This is just one of a number of criteria that the Inland Revenue can use, but it can inadvertently create a disincentive for employers who need casual labour for peak demand or intermittent demand to provide training opportunities, for fear of changing the terms of their relationship with employees.¹⁰⁶ Establishing the terms of people's employment status is important, but training should not be part of the equation.

Generate peer-to-peer encouragement to take part in learning

In attempting to raise demand for training, policy should also consider people's social relationships, not just their employment conditions. This insight lies behind the creation of the union learning representatives and could be built on through a peer-to-peer system, rewarding individuals, unions and other intermediaries for introducing friends and colleagues to (completed) modules of adult learning.

Explore long-term strategies to close the gap between the interests of employers and employees

The most fundamental problem lying behind the skills paradox is the age-old problem of capitalism: while the interests of employers and employees may overlap, they are not the same thing. The skills paradox is a reflection of this: it is natural for employers to train their staff when there is a business case to do so – and to eschew training when there is not. In the long term, governments should look for ways to align the interests of employers and employees, including the potential to expand the reach of co-ownership of firms,¹⁰⁷ which account for around 2 per cent of the UK economy¹⁰⁸ at present.

In these firms, where employees have a share in the ownership of the company, the interests of managers and employers are much more closely aligned – the employees *are* the company, they don't just work for it. The model is designed so that employees have a voice in the future direction of the

company – including the business model that it adopts, the way its profits are shared, and opportunities that it creates for training and development. The government should launch a review of cooperative ownership of firms exploring its impact, benefits, difficulties – and which policies might be used to encourage more of it.

5 The education system and the supply of training

The last chapter dealt with the labour market and demand for training – whether all employers need high skills and require training for their staff. This chapter explores how best to produce a training system that both meets demand for learning and creates more of it in the future. It argues that although the principle of a demand-led system makes sense, there are a number of key tensions to be resolved within the current system. These concern:

- *length of courses*: the tension between people’s preferences for short bursts of learning and the policy preference for courses that lead to full qualifications
- *content of learning*: the tension between centralised systems of quality assurance and distributed information about which courses are valuable
- *entitlements*: issues of power and the potential divergence of interests between employers and employees
- *delivery of training*: the disparities between ‘demand-led’, ‘market-led’ and ‘needs-led’ systems of service provision

According to the projections by the Department for Innovation, Universities and Skills (DIUS), the total amount of employer-focused public funding will be around £1.3 billion by 2010/11.¹⁰⁹ A basic requirement of policy is to ensure that this level of public investment yields some discernable value – and the response to this has been to focus the bulk of public subsidy on courses that lead to full qualifications that are believed to be economically valuable. In practice, this means that government no longer plans training provision, but does seek to exercise control over the use of public spending through determining which qualifications are eligible for public funding. There may

be demand for a course or qualification at a certain level, but unless it leads to a full qualification that has been approved by a Sector Skills Council, it will not be eligible for public subsidy. The reasons for this approach are understandable, but our research suggests that changes need to be made to ensure that the overall goal of widening participation and supporting progression through learning is not undermined.

Length of courses: people's choices vs policy priorities

The desire for public funding to produce full qualifications stems both from the belief that learning should produce 'portable' qualifications and a more mechanistic desire of policy makers to achieve PSA targets for qualifications achieved. Where employers are concerned, however, full-length qualifications often jar with the more discrete and bespoke forms of training in which they are interested. The effect of this is that employers can be reluctant to allow time off for their employees to take part in learning not seen as relevant to their job.

In case study visits to employers, we found that they often required quite specific courses of training for their staff (see Box 6 for one example), which they had found difficult to align with a public system of funding based around full qualifications. Employees at telecoms firms, for example, had been asked to attend short courses of training, focused on how best to use new database software and integrate it into their work, rather than being directed to full courses of learning that lead to an ITQ, the national vocational qualification for IT users, which is offered at levels 1, 2 and 3. Similarly, in children's services, childminders are required only to complete a registration course and a first aid course, rather than gain an NVQ in early years.¹¹⁰

This common preference among employees and employers for short courses is an issue that has been articulated by the British Chambers of Commerce, among others¹¹¹ and reflects the findings of one recent study by the government's Sector Skill Development Agency,¹¹² which reported: '[T]he central conclusion that emerges from the study for all four sectors is that

significant gaps exist in training provision, in particular, in short courses designed to update the skills of adult employees and particularly adult employees in SMEs. Given the diversity of the four sectors in question, it would not be surprising to find that these gaps are in fact widespread across England.¹¹³

A similar theme emerged through workshops held with members of the public, many of whom were most concerned with addressing a specific skills deficit, or ambition – and had far less fixed ideas about the length or particular outcome of the courses that helped achieve that. Thus while the goal of partnership between the state, employers and individuals is a sensible one, it risks being undermined unless the tension between people's choices and the government's priorities can be addressed.

Where both individuals and organisations are concerned, there is another issue relating to tying public funding to full qualifications: the all-or-nothing nature of the choice available to people. The issue is that this kind of choice provides few opportunities for people to test out training and begin to recognise its benefits. In practice, the need for people to commit to achieving a full qualification, rather than just a short taste of learning, can prevent people from *unlearning* many of their assumptions – perhaps engrained since school – about whether learning is for them.

Often the approach to encouraging more people back into learning has been to stress correlations between average qualifications and average earnings. Take part in training and, on average, people are likely to earn more. This is a sensible message to communicate, but it is likely to be unsuccessful if people have already decided that this is something that does not apply to them. The reasons that people may be resistant to this message range from the basic belief that learning has no value, to doubts about their personal ability¹¹⁴ or the psychological challenge posed by starting again in a new field after years working (and learning) in one sector.

In the present system, overcoming these doubts and assumptions requires big leaps of faith, because people are expected to sign up for full qualifications, or forgo public funding. The system is based on people's ability both to cast

aside previous experience and calculate the impact of a qualification on their own future earnings and well-being. This would pose no problems if people really made decisions along the lines of the hyper-rational individuals identifiable in much traditional economics. Yet increasingly economists are adjusting their models to reflect the way people deal with imperfect information, past experience and future uncertainty.

Researchers at the Santa Fe Institute in the USA argue that one way to view the economy is in ‘in psychological terms: as a collection of beliefs, anticipations, expectations, and interpretations; with decision-making and strategising and action-taking predicated upon these beliefs and expectations’.¹¹⁵ Understanding people’s decision-making *processes*, they suggest, is key if we are to build useful models for future policy-making.

Author Eric Beinhocker has built on much of this work and argues that economics should learn to work with ‘realistic rationality’, a model in which people make decisions through the scientific method – creating hypotheses through experience and testing them continually over time¹¹⁶ (see Table 3). He argues that this explains various features of modern economies. For example, investment bubbles are originated by people creating rules of thumb and repeating successful strategies rather than looking closely at the value of each firm and weighing this against its price on the stock market. We make rules such as ‘if a

Table 3 **Beinhocker’s model of realistic rationality**

Traditional: perfect rationality	Complexity: realistic rationality
Deductive logic	Inductive rules of thumb
Perfect information	Imperfect information
Infinite computational power	Finite computing power
No errors, biases	Errors, biases
No learning	Learning over time

Source: Beinhocker, *The Origin of Wealth*.

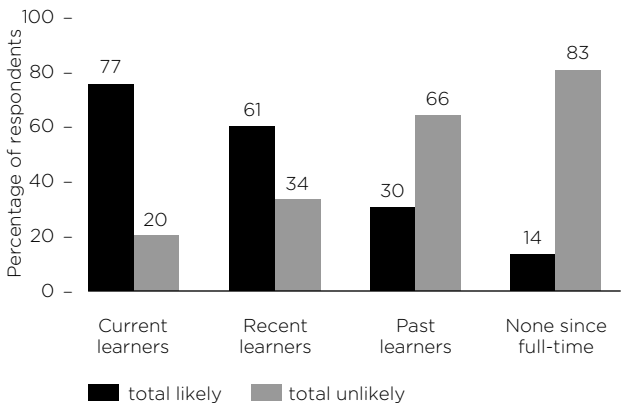
firm's stock is rising then repeat investments' rather than the more typically rational method of deciding that 'if a firm is beginning to look overpriced then sell'.

This model is strikingly consistent with many of the interviews from this project and patterns of investment and participation in skills. Both employers and employees referred back repeatedly to prior experience to explain why – or not – they were prepared to invest time, energy and finance in learning. If investing time and energy in learning had proved beneficial in the past, people tended to view it positively and vice versa.

In short, it seems that the way in which we learn from experience, rather than rational calculation, produces aggregate patterns of behaviour – such as the skills paradox – which repeat themselves over time (see Figure 5). This being the case, advertising campaigns and clear advice will play their part, but the best way to break negative cycles is to create new experiences that help people adjust their working assumptions. The lesson for policy is clear: the best way to break negative cycles, where people are disengaged from learning, is the offer of short, flexible learning options.

Figure 5

Future intentions to learn by learning status, 2005



Source: NIACE, 'Adult participation in learning'.¹¹⁷

Box 6

Case study: Changing perceptions of learning

Jan took a course of learning after years out of the labour market. Having spent some time volunteering at a local primary school, Jan decided that she wanted to work in children's services – possibly the local children's centre. Working at the centre, however, required an NVQ2 level qualification, which she was reluctant to commit to at first. Instead, she took part in some of the in-house training at the centre, including some basic work on child protection, alongside some of the informal adult learning put on by the centre itself. With some encouragement from the centre, Jan says she felt renewed confidence to go on and achieve her NVQ2 after her rehabilitation back into learning. She has now been working at the centre for two years.

Jan says getting there was a struggle – not necessarily something she enjoyed, but she benefited from the training and is pleased to have done it. She now hopes to progress towards the national professional qualification in integrated centre leadership – the national requirement for children's centre managers, which qualifies as one-third of a Masters' degree. The course may be a way off yet, but Jan's perception of learning has now changed. This change has come about not because she has an idealised love for learning itself, but because she has newfound confidence built on her successful experience. 'I'm glad I took the plunge,' she says.

Content of learning: centralised quality assurance versus distributed information and innovation

The Leitch review emphasised the importance of publicly funded learning holding value in the labour market. Systems of quality assurance to ensure that people are able to select relevant, up-to-date courses are therefore necessary. Unquestionably the view of employers needs to inform the design qualifications, and by extension courses of learning. The value of vocational learning lies in its applicability in workplaces. As Chapter 3 discussed, however, the specific means to achieve this vary considerably from conversations between employers and Sector Skills Councils

about occupational standards and competencies informing qualifications, to actual choices made about which training courses individuals and employers choose in the training market.

The issue is where and when employers, who are busy running their own businesses, can add value – and with whom they should engage to achieve this. Our research suggests that positioning Sector Skills Councils as intermediaries between employers, qualification agencies, training providers and individual learners serves to complicate the process unnecessarily. Frequently, the employers we visited complained that the qualifications eligible for public funding were often not those that are most up to date and useful, while efforts to gain Sector Skills Council approval for new qualifications have proved difficult and time consuming.

There are several reasons to believe that expecting Sector Skills Councils to be the arbiter of what is economically valuable – and therefore gatekeeper to public funding – is problematic:

- *Difficulties of definition* are the first problem faced by Sector Skills Councils: there is the issue of defining precisely what *kind* of skills are valuable in a modern economy. Many of the employers to whom we spoke during the research were clear that the skills that they required most as a ‘platform for employability’ are soft rather than technical skills. Evidence from employer surveys shows that interpersonal skills often represent the biggest skills gap,¹¹⁸ prompting suggestions that the very meaning of ‘skill’ is shifting in an economy that depends more and more on personal contact and communication.¹¹⁹ Defining what is ‘economically valuable’ therefore requires a lot more than knowledge of a sector – it also means identifying which forms of learning will produce rounded ‘work-ready’ employees.¹²⁰
- *The pace of change in labour markets* is always likely to prove problematic for centralised systems that hope to keep up with what is valuable at any particular time. Products and services change, as do ways of producing them, so a particular qualification may be overtaken by changes in demand for skills. This is a problem that we encountered in visits to firms in the construction and IT sectors in particular, where changes to

products and services drive fairly constant change in the specific skills and techniques required by people working in the sector.

- In the IT sector most training does not lead to a formally recognised qualification. Instead, around 40 per cent of technical training is working towards a recognised vendor-specific award – allowing one organisation to deliver products and services created by another. Private training provision is by far the most popular route option for technical training for vendor awards (used by 83 per cent of organisations that trained staff for this type of award).¹²¹ The point here is that fast moving markets do not sit easily with slow moving bureaucracies – and that poses challenges for systems of quality assurance. This problem, of course, is inherent in the challenge of selecting a course of learning or qualification, but is made worse if public bodies are expected to scrutinise and approve every qualification before it becomes available.
- *The unpredictability of labour markets* makes tasking Sector Skills Councils with identifying the ‘economically valuable’ qualifications of the future extremely difficult. The logic of a demand-led system is that individuals and businesses are best placed to understand their own needs – and indeed they may be the *only* people who know their own ambitions. Information is distributed among people rather than held by a government agency. A yoga course is economically valuable if you are about to start a yoga business – and less so if you are not. Trying to predict what might be economically valuable for an individual’s future, then, makes the assumption that Sector Skills Councils will be able to predict and keep up with fast moving labour markets *and* be aware of what each individual needs to fulfil his or her ambitions.
- *The need to create new demand through product innovation* risks being undermined if systems of quality assurance become overly prescriptive. Creating new demand – for learning, in this case – is often achieved not just through delivering existing products better, but through creating new products altogether, which anticipate and create new demand. As Mick Fletcher points out, few of us were demanding iPods until they entered the shops.¹²²

This being the case, the danger is that the process of Sector Skill Council approval for qualifications is too cumbersome to support innovation and that the range of learning opportunities eligible for funding is too narrow.

Box 7

Case study: Telecommunications firm, soft skills not full qualifications

A call centre employs several thousand people, providing the key point of contact with customers. The call centres' role – and that of their managers – is to respond to the growing demands of customers for responsive and integrated customer service. This means that employees must do more than follow fixed protocols and respond only to certain problems: they must be able to create a positive customer experience.

These demands are driving changes to company strategy around recruitment, training and performance management. The company has developed eight core competencies, which inform recruitment processes and underpin an eight-week training and induction scheme for all new workers. The training manager for one centre described what the company is looking for: 'In this job, it's all about tone, pitch and intonation with customers... that, more than technical skills, defines the customers' experience.'

All employees must learn to use the online database to log calls and track responses – so IT skills, literacy and numeracy all matter – but it is soft skills that really make the difference to the bottom line.

In other words, there is a need to question the assumptions that underpin current policy in positioning Sector Skills Councils as the sole arbiters of what is economically valuable in the labour market – and training system – at any one time. Policy needs to be able to draw on the distributed information held by employers and people themselves about their local labour markets and their own futures; it needs to be built on build around a dynamic, rather than static model of what is economically valuable; and it needs to support the

emergence of new products and services, which entice people back into learning.

Achieving this means thinking carefully about what *kind* of competition is needed in the training system. ‘Contestability’ is a widely used term but means different things in different contexts. Supermarkets compete with each other, for example, but compete *in* a market rather than *for* the right to deliver a specific product. This means there is competition not just for the most efficient way to deliver certain product, but also for ideas: which products and services to offer in the first place. Rather than have government specify which products and services should remain in stock – with or without consulting ‘social partners’ – the system brings together the combined wisdom of both producers and consumers to decide what is needed and where. Similarly, the creation of individual budgets in social care has created a market for innovative new ideas: not just a battle between providers of care homes to deliver the same service more efficiently.

By contrast, providers of refuse collection services compete for a market: there is a competition to deliver a specified service. Government may consult ‘social partners’ and even the public itself, but ultimately it decides what is needed and then commissions services. Competition to deliver these services may increase levels of efficiency, but is unlikely to produce radical new business models, products and services.¹²³

The issue in question is which model of competition should apply to the further education sector. Our research suggests that to gain the real benefits of a demand-led system, what is required is competition between ideas and products, not just between providers delivering pre-approved qualifications. This requires a system that does not get caught in the bottle-necks currently created by Sector Skill Councils. Employers may be consulted, collectively, by Sector Skills Councils, but ultimately the system serves both to restrict the choices that people are able to make in practice and to inhibit innovation. Just as governments risk locking industries into a given technology if regulation is too prescriptive,¹²⁴ this can be a risk too if they tie public funding to full, nationally approved qualifications.

The best people to judge value – and to negotiate the trade-offs between different learning opportunities – are individuals themselves, so long as they are well informed and supported in the choices that they make. More organic and bottom-up systems of accountability and quality assurance need to be built into the system for the full benefits of a demand-led system to be realised.

Entitlements: the interests of employers versus those of employees

Beyond the issue of which choices are available in the training system, there is also the question of who actually makes choices in any demand-led system: employers or employees? The language of ‘demand-led’ tends to blur this distinction, implying that the two are the same thing. The Leitch review argued, for instance, that ‘the skills system must meet the needs of individuals *and* employers. Vocational skills must be demand-led rather than centrally planned’ (our emphasis).¹²⁵

Yet the evidence suggests that the precise nature of entitlements – whether they lie with employers or employees – matters. This relates to wider issues of power between employers and employees and the specific question of whether public subsidy supports skills maintenance and job-specific learning or learning for career development. In our visits to employers, tensions emerged between job-specific and transferable training even within firms, let alone between them or even between sectors. The (understandable) temptation for organisations is to train people to do their current jobs, rather than to equip them to go and to do new and different jobs, perhaps in other organisations altogether.

As case study visits and interviews revealed, training for people working in call centres is likely to be designed to produce good call centre workers, not necessarily future managers within the company, or employees elsewhere. Similarly, labourers working on construction sites may be given a specific skill that relates to a specific task required of them by an employer, without ever really benefiting from the opportunity

to develop craft skills and job knowledge that can be applied elsewhere.

Box 8

Case study: A construction firm and the training preferences of employers

Specialisation is a source of competitive advantage in all sectors – and the construction industry is no different. This construction firm specialises in bathroom fittings, including a number of its own patented products. To save time and increase efficiency on site, the firm uses the technique of pre-fabrication: assembling components of a structure off-site and transporting the ready-made components to be put together rapidly on the construction site itself.

This technique differs from the more conventional practice of transporting materials to the site and starting from there. One effect of this is that it can be quicker and cheaper to execute – another is that it requires specific training based around putting together pre-established packages for customers. In other words, there is an incentive for employers to train people to put together their products, rather than to invest heavily in a full range of skills and competencies that might have been prioritised in the past – and provided transferable skills for employees. In this sense, training continues apace, but is not always likely to lead to transferable skills that have value elsewhere in the labour market.

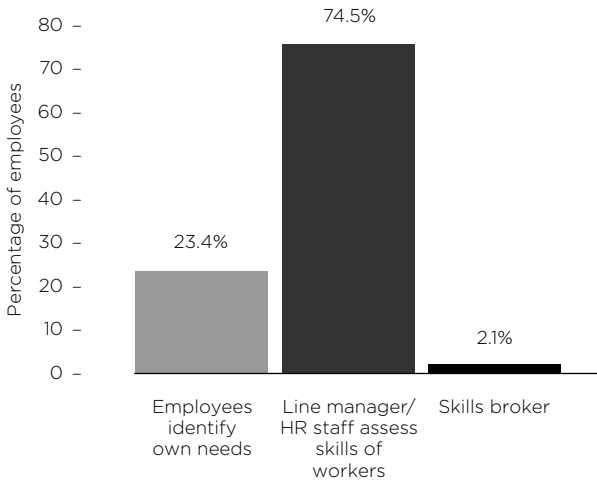
One study conducted by researchers at the University of Cardiff sums up this tension neatly. The study of training of music instructors identified two types of training offered by employers to employees in the sector: one that equipped instructors to put together their own exercise routines and music packages, and another which taught instructors to conform and follow scripts written by others.¹²⁶ The point that the study's findings underscore is that training can lead to quite different outcomes depending on how it is put together – it can support knowledge and development, or simply create more efficient

labour for existing employers. Given this tension, it should not be surprising that research for the SSDA has concluded, ‘certain types of training can raise levels of job satisfaction... It is dangerous, therefore, to infer that training is homogenous and equal, or greater, consideration needs to be given to the use of skills by workers in the workplace.’¹²⁷

In short, training is not always progressive: it can either reinforce Fordist models of management, which do little to improve people’s experience of work, or it can transform people’s long-term prospects and personal capabilities. Survey evidence shows that employers are presently far more likely (see Figure 6) to determine the skills needs of employees than are employees themselves. The question is whether public subsidy should be used to support the former of these two options.

Figure 6

Who identifies the training needs of employees



Source: BCC, *UK Skills*.¹²⁸

Related to this issue is the question of power relationships between employees and employers. As Chapter 2 discussed, those with low existing skills are unlikely to enjoy strong bargaining positions with employers, affecting their ability to carve out fulfilling and rewarding working lives. 'Good work' is harder to acquire if it depends solely on good will. Channelling all entitlements through employers risks reinforcing, rather than helping to disrupt, this trend, as it gives employees no more authorship over their own futures and no greater bargaining power with employers. As the government increasingly recognises, the challenge is not just to create more efficient labour but to create new kinds of conversations between employers and employees that create good work, from greater autonomy, to clearer routes of career progression.

Delivery: demand-led vs market led vs needs-led

Finally, once the nature of the product and the structure of entitlements have been established, there is the question of whether the supply of training will meet demand. The present direction of policy is to move beyond a system of central planning to one where provision is shaped around the choices made by learners (albeit within constraints described above). The training system, it is expected, will configure around demand. This direction of reform is consistent with a wider move towards quasi-markets replacing more centrally planned systems of funding in other areas of public service reform.

The reasons for this change are clear, but the next set of issues for policy makers to resolve are the tensions between demand-led funding and market-led systems. In the language of public service reform (including the Leitch review) the two are the same; in reality they overlap but are different. As Demos has argued elsewhere,¹²⁹ there may be demand for something but no market to provide for it – and there may be need for something without there being any articulated demand. For example, someone may need healthcare, but never attend a GP surgery or hospital; they may need to update their skills, but never attend a college. And the issue here is that markets respond where there is

sufficient demand for something that is profitable, rather than simply where there is any demand for it. In this sense they are often based on ‘big hits’ rather than niche needs.

This raises questions about how best the state can ensure that it meets demand where the (quasi) market mechanism of service delivery would not necessarily achieve that alone. The hard-to-reach, for example, often cost the most to reach and encourage into learning. And this fact needs to be reflected through funding, to ensure their needs are not overlooked in a system where money follows learners. At present there is a ‘disadvantage uplift’ for certain categories of learners, which attempts to resolve this problem. Likewise, the Freud review of welfare proposed multiple bands of funding to reflect the resources needed for providers to serve those suffering from multiple disadvantage.

Similarly, in our visits to employers as part of the research for this report, employees in rural areas expressed difficulty in finding training courses near to them which matched their needs. With lower concentrations of people living in rural areas, there may be demand for training, but not a market for it – an issue that government is already encountering with post offices, schools and hospitals among other services.¹³⁰ Lastly, part of the rationale for the use of the market mechanism in service delivery is that some providers will end up closing down. The price of markets is a degree of instability, and provisions need to be made to ensure that service users do not lose out.

These factors raise a fundamental question about whether to understand (quasi) markets as one of a range of tools for delivering services, or as a way of deciding which services should be delivered where. The former is compatible with a progressive vision of public service delivery, the latter is not. As John Kay has argued, the market needs to be understood as ‘a tool, not a font of wisdom’.¹³¹ A demand-led system still needs to be managed according to public service values of universality and equal access. The challenge in a demand-led system is to identify how and at what level this oversight of the system will take place.

The issues discussed in this chapter are fundamental both to the skills paradox and to the wider direction of public service

reform. For public services, they illustrate the benefits of different forms of competition and the ways in which governments can infuse public progressive values into ‘self-sustaining’ systems.¹³² Where the skills paradox is concerned, the challenge is to bridge the gap between the so-called ‘parallel universes’ of industry certificates (industry-led training) and public certifications (public training or curriculum schemes). Without this there is a risk that there will be a public system for those working towards low-level qualifications – with considerable restrictions on choice, poor responsiveness and little scope for innovation – and a private system where there are not the same constraints.

Recommendations

The following recommendations address these issues – and are expanded in the concluding chapter of this report.

Provide subsidies for individuals, not companies

In some areas of skills policy, the language used can mask important choices: ‘employer engagement’ and ‘demand-led’ are two such terms. As has been noted elsewhere,¹³³ the idea of demand-led funding can have a number of applications: it can reflect the choices made by individuals, single employers, or the perceptions of Sector Skills Councils about what whole sectors require. None of these means the same as the other and they may be mutually exclusive. At the heart of the dilemma about what a ‘demand-led’ system should look like in practice is the question of whether government should be subsidising individuals or companies. There are two good reasons to suggest that it should subsidise individuals.

First, where possible, governments should avoid subsidising the specific needs of individual firms.¹³⁴ Where skills are concerned, this implies that the task for policy is to help build the capabilities of the workforce in general, rather than to subsidise specific firms’ business models. Second, progressive governments should take an interest in empowering individuals

to improve their experience of work and their employability in the long run. One way of doing this is by putting people in charge of their own learning opportunities. For these reasons entitlements should go, unequivocally, to individuals. In this context, the recent legislation enshrining the right to training is an important step – policy needs to ensure that decision-making power is in the hands of employees themselves.

Create ‘learning budgets’ for maximum flexibility and support

One of the great challenges in adult learning is to negotiate trade-offs between the specific demands of employers and long-term portability. This lies behind much of the discussion in this chapter: government tries to strike this balance by consulting employers on the design of qualifications and then restricting funding to those that are approved. This is understandable, but locates decision-making power in the wrong place and restricts the ability of the training to respond to people’s real preferences.

Decision-making power should lie with individuals themselves – allowing them to make their own decisions, with the right advice and support, about how to spend the money available to them. To achieve this the government should create ‘learning budgets’, drawing on the lesson of individual budgets in social care¹³⁵ and bringing together universal skills accounts and the proposed universal adults’ careers service. Rather than starting with a predetermined service, people would be given much greater power over how to spend the money available to them.

Under a system of learning budgets there would, initially at least, be two main routes for individuals to spend the public subsidy available to them. Route 1 would be consistent with the current approach. It would be quick and convenient for those who know what they want from a course (a full qualification, approved by a Sector Skills Council); it would need little support; and people would be able to find training for themselves from the list of courses approved by Sector Skills Councils. As with other systems of individual budgets, employees would importantly have the option of ‘making no

choice’ – of accepting a standard offer and avoiding the complexity of making a personal choice that might be more complicated, risky or time consuming.

Route 2 would be more flexible and personalised, with a personal budget established and commissioned with a personal adviser from the new universal adult careers service. The budget would be created through a needs assessment and then be spent on the learning opportunities judged right for the person in question. Quality assurance would be provided by the personal advisers, who would retain the ultimate say over whether a course could be chosen or not and would be accountable for the proper use of public funds. This more bottom-up system of quality assurance would also allow courses and qualifications not presently recognised as ‘economically valuable’ to be eligible for funding, as advisers would be there to guide people’s choices. Suddenly there would be much greater competition between ideas, not just between institutions in the training system – and people would choose nationally approved qualifications not because they were forced to, but because they were the best option available among many (see Table 4).

It would be important within this system for those working as personal advisers to be highly trained and genuinely independent. One way of achieving this would be to create a code of practice that sets out ways to ensure that advisers act in the interests of the individual. Personal advisers should work towards broad outcome goals, such as ‘improved employability’, which might contain within it a number of core competencies like basic literacy and numeracy, rather than towards targets for qualifications achieved.

Build in scope for second chances – but not too easily

Whatever the method of determining which courses are eligible for public funding and which are not, it is important that there is at least some scope for individuals to be given second chances to refresh their skills at a certain level. Arguments against this view ignore the fact that people’s skills can become obsolete in a fast-

Table 4 **Comparison between traditional services and individual budgets**

Traditional services (care homes; approved courses)	Individual budgets
High choice between providers, low flexibility over products	High choice between providers, high flexibility over products
Process innovation: competition for the market	Product and process innovation: competition in the market
Quality assurance and risk management from top down: approved courses	Quality assurance and risk management from bottom up: personal advisers
Entitlements determined by categories: segmentation	Entitlements constructed through personal contact: needs assessment
Coherence through aligning pre-established services	Coherence from commissioning integrated support package

moving economy. When a sector loses a lot of jobs very quickly, people often need to retrain – and not necessarily at a higher level than their prior qualifications. ‘Economically valuable’ qualifications can lose their value. For example, 70,900 people a year join the IT sector from occupations other than IT or telecoms. Given this reality of the modern economy, a strategy based on focusing funding on those who need it most should be sensitive to people’s individual circumstances, not generalisations based on qualification levels. While there needs to be scope for people to be given second chances to learn at a certain level, this option should be subject to more stringent assessment than for first-time learners.

Recognise the difference between market-led and demand-led: a strategic role at local level

In the language of public service reform, ‘demand-led’ is often equated with ‘market-led’ and ‘needs-led’. The three are all used

as shorthand for a responsive system. In truth, these terms overlap but are not the same. Markets respond where there is *sufficient* demand for something, rather than simply where there is *any* demand for it. In this sense they tend to require economies of scale – and opportunities for profit – for products and services to be sustainable. As a result, there will always need to be some strategic commissioning at local levels to bring about truly demand-led systems of public services, which meet the needs of all service users and potential service users. Whether this is through local Sector Skills Councils, local authorities or city government, the specific governance arrangements are less important than the principle of there being some means for market management and oversight.

6 Everyday lives and wider support systems

Addressing issues about the demand and supply of training are key parts of a rounded strategy for adult learning – but there is a further piece of the jigsaw. This chapter looks at the support that people can access in order to remove everyday barriers to training, which prevent willing learners from taking up the right learning opportunities. It identifies the complexity of the current system for support, and argues that the system needs to become more personalised so that it starts with people's individual needs, not the category that they fall into and a pre-established, sometimes inflexible, system of support.

Barriers to employment and training

Some of the barriers that people face to entering (and remaining in) learning are not a reflection of the labour market or the training system. They relate to the problems and responsibilities that people face in their everyday lives ranging from travel costs, to childcare needs to disability. As the Leitch review illustrated, people with disabilities and lone parents, among other groups, are considerably less likely to be in employment than the overall figure for the UK population. The same appears to be true of accessing opportunities to take part in learning.

In our research, many of these everyday barriers, such as the need for someone to look after a person's children while they take part in learning, emerged as important reasons why people had found it either difficult or undesirable to return to learning, despite being aware of the need to boost their skills. Caring relationships frequently arose as important considerations, particularly among those working in children's services, the sector with the highest proportion of female staff.

Box 9

Case study: Time constraints, conflicting priorities and lack of information

Jill's number one priority is her daughter. And as a single mother, one of the most valuable commodities to her is time. She has clashed with Jobcentre Plus over the years, because she was reluctant to go out to work while her daughter was growing up – and has struggled to find employment that fits around the school day.

In this context, the prospect of taking part in a course of learning is pretty remote. Jill has been reluctant to leave her daughter alone to go to work and is even more reluctant to leave her to take part in learning at the end of a working day. Part of the challenge here is providing Jill with information about courses that she can fit around her lifestyle. But helping Jill progress in adult learning is therefore as much a personal issue as it is one of the labour market, or training system. Being given support with child-minding costs, she says, would be the biggest incentive for her to sign up to a course of learning. She has worked as a receptionist before and wants a secretarial career to bring in more money for her family – but immediate caring responsibilities come first.

The impact of a range of other potential barriers to learning is reflected in the wider research base. To give just three examples:

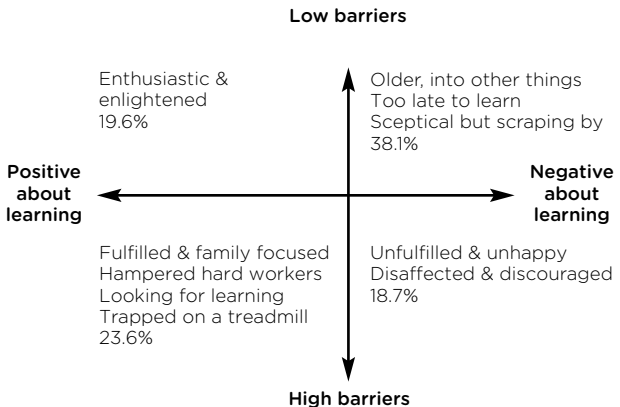
- Labour force figures show that there are 357,000 lone parents holding no qualification¹³⁶ – leaving low-skilled single parents at high risk of social exclusion.¹³⁷ Yet, a study by the Joseph Rowntree Foundation found that 51 per cent of lone parents identify childcare costs as a major barrier to accessing training and education.¹³⁸
- While 29 per cent of the workforce lacks a qualification at Level 2 or above, this figure is much higher for people with disabilities (up to 48 per cent), leaving 1.8 million people with disabilities without any qualification.¹³⁹ Yet only 9.5 per cent of learners in Learning and Skills Council (LSC)-funded provision are

disabled, although 20 per cent of the working age population is disabled.¹⁴⁰

- 60 per cent of homeless people have qualifications below Level 2 or no qualifications; almost twice that of the adult population (32 per cent). Yet only one-fifth (19 per cent) of homeless people are currently taking part in a training or educational activity – despite the fact that over half would like to. Surveys suggest that homeless people would be encouraged to take part if some of the costs associated with learning, such as travel expenses, could be removed.¹⁴¹

The cumulative impact of this is that many of those with low or no qualifications are more than disaffected from learning – they also face multiple barriers to learning. As recent work published by the Department for Innovation and Skills found, twice the proportion of those without a Level 2 qualification fit into this category, when compared with the whole population. The research also illustrates that others are keener to take part in learning but face similar practical barriers (see Figure 7).

Figure 7 **How barriers to learning affect learners' attitudes**



Source: Chilvers, *Segmentation of Adults by Attitudes Towards Learning and Barriers to Learning*.¹⁴²

The implications of this are clear: support, not just incentives, is required to help people back into learning. The government recognises this challenge and there are a variety of support programmes in place to help disadvantaged learners. The question is how to provide these forms of support more efficiently, fairly and coherently.

A complex system

The following programmes exist to support people to enter learning:

- Adult learning grants (ALGs) provide up to £30 per week for individuals going back to college to study for their first full Level 2 or Level 3 qualification. It is intended that they help with the costs of items like travel and books
- Career development loans (CDLs) are essentially bank loans to help pay for training, including course fees, other costs such as books or living expenses
- Learner support funds (LSFs) are discretionary funds for those who face financial hardship including one-off emergencies, and provide ongoing help with childcare, accommodation or travel
- Dance and Drama Awards (DaDAs) provide scholarships for talented performers and stage managers who want to work in the performing arts sector
- Residential support schemes help with accommodation costs if the education needed is not within a reasonable daily commute
- The Sixth Form College Childcare Scheme helps towards the childcare costs of parents over 20 years of age studying at a school sixth form or sixth form college
- Care to Learn offers financial support towards childcare and travel for teenage parents who want to continue to study at school or in a further education college.

There is also the ‘disadvantage uplift’, which provides extra funding to providers for certain categories of learners including homeless people and those living in the 15 per cent of most deprived wards in the country.

Each of these programmes serves an important purpose – but each also has its own rules for eligibility, age brackets, sets of relationships with other programmes and benefits, rules and regulations and governance arrangements (see appendix 1). In just one case, learner support funds, the role for local LSCs is to:

- work with local authorities and providers locally to agree allocations and LSF agreement schedules
- work with LSC national office to ensure up-to-date information is held
- ensure that accurate payments are made to providers and local authorities at the appropriate times
- liaise with local authorities and providers to ensure expenditure and management information will be available by the required deadline
- reconcile funds, recovering and redistributing unspent funds as appropriate
- ensure provider management information is processed accurately and is available to the LSC national office
- answer queries from providers on learner support.

This is replicated across programmes, creating levels of complexity that are difficult for both providers and users to manage – and which get in the way of providing simple but effective support for people. Many employees we interviewed were unaware of their exact entitlement, while others expressed frustration and bemusement at the range of sources of help, the relationships between different forms of support and the different documentation required to make an application in each choice.

In some cases, take-up of existing benefits may be compromised – the Sixth Form College Childcare scheme may not be combined with other sources of help for childcare or travel, and career development loans can affect benefit entitlements. Students on low income taking advantage of the Dance and Drama Awards are assessed by yet another body, the Help, Assessment and Payment Body (HAPB) on behalf of the

LSC. If a person's attendance on the course is declared unsatisfactory at any point, they could lose their entitlement to income-assessed support. While many of these restrictions may seem reasonable in themselves, the potential for conflict, contradiction and confusion is enormous.

In other cases, lack of awareness that financial help is available at all is the problem. Employees on case study visits and members of the public in our discussion groups were often unclear about where to go for advice, let alone what their entitlements were, and how they related to one another. One member of a public engagement group stressed the irony of people having to engage with a time-consuming process designed to support those with extra needs precisely because they have little time to take part in learning.

This is not to suggest that these programmes have been entirely ineffective. Despite imperfections, there is evidence that the ALG has achieved an element of 'additionality', with 15 per cent saying they probably or definitely would not have gone ahead with their course without it.¹⁴³ A large majority of those who accessed Care to Learn (88 per cent) said that they would not have gone on the course without the support provided. And only 2 per cent reported that the funding they received to pay for their childcare had made no difference to their learning.¹⁴⁴ Schemes also appear to improve retention rates, with 17 per cent of recipients saying they would probably or definitely have dropped out of their course without ALG. Similarly students in receipt of learner support funds were found to be less likely to withdraw from further education than those who had not accessed them.¹⁴⁵

As with many such schemes, however, the truly disadvantaged appear less likely to benefit from them. Take up of ALG, for example, has been more successful among certain ethnic groups, among those who are studying at Level 3 rather than Level 2 and with those who do not have children rather than those who do.¹⁴⁶ Research on take-up of learner support funds suggests that the groups who are still not benefiting include adult asylum seekers (who do not meet the residency criteria) and young people living independently.

These issues feed into the skills paradox because non-learners are those who are most likely to have to rely on state support to help them access and stay in learning. Those who are more highly paid are able to fund their own services and make their own arrangements.

The need for personalisation

Skills policy does recognise that the barriers that exist in people's lives prevent them taking up training opportunities. But over time, the system designed to help overcome those barriers has itself become a barrier. Instead of starting from an assessment of need and being centred on the person, it starts from a category – single parent, homeless person, person on low income – many of which overlap in the case of vulnerable people. The system is therefore complex to administer and confusing to access, reducing take up and effectiveness.

The system needs to be simplified, but above all personalised. We need to move to a system that starts from people's interrelated needs, rather than from different streams of funding that struggle to cohere or to adapt to the complexity of people's problems.

Recommendations

The following recommendations address these issues – and are expanded in the concluding chapter of this report.

Bring together course-funding and wider support into a single budget through 'learning budgets'

As government systems, such as the funding streams discussed above, become more complex over time there are always efforts to rationalise and align them. Often these efforts make some difference in the short term, but are eventually undermined because they never escape the logic of an approach that starts with government programmes rather than people's individual needs.

Increasingly, however, policy makers recognise that coherence and personalisation can be created through commissioning from the individual, rather than programmes from government. In adult learning this could be achieved through the mechanism of 'learning budgets', discussed in the last chapter, which would seek to learn the lessons of social care. As well as including funding for courses of learning, all the current funding streams for non-learning related grants and loans could be collapsed into one stream, to be accessed through a personal needs assessment. The budget would then be spent on the combination of learning opportunities and support measures that was right for the person in question. The benefits of this approach could be huge, making the system much easier for people to negotiate and making it much more capable of responding to their needs.

Establish diversity goals for Sector Skills Councils

To complement the work of this wider support system, there should also be sector-wide efforts to help broaden the range of people that work in any particular sector. People should feel able to work in any sector and society should benefit from workplaces that support social integration, not segregation. Yet the reality is that many women remain in low pay, low status sectors and people of all backgrounds often feel discouraged from entering very homogenous sectors and workplaces. This can contribute to skill polarisation and is damaging to the goal of having a more cohesive, integrated society. For example, only 2.8 per cent of those employed in the construction industry are from ethnic minority groups although they constitute 7 per cent of the economically active population. Similarly, the IT professional workforce has an imbalance of almost 5 to 1 in some age groups; in 2007, only 18 per cent of IT and telecoms professionals were female.¹⁴⁷

As Demos has argued before,¹⁴⁸ there is not always a 'business case for diversity' at the level of the individual firm, especially for smaller firms with limited resources for recruitment – despite the strong case for more diverse workplaces in wider

society. In this vein, Sector Skills Councils should be given as a core goal the task of attracting the widest possible pool of talent into an industry – involving new and different people from all backgrounds to work and prosper in the sector.

7 Conclusion and recommendations

The question of how to address the skills paradox is one that includes (but is not restricted to) issues relating to the make-up and delivery of qualifications. Skills and learning, by their very nature, need to be seen in context. It is in the labour market where demand for skills is created (or not) and it is in people's everyday lives where training must find a place. A coherent skills strategy therefore needs to work on three fronts: the labour market, the training system and people's personal lives. In other words it should address issues of demand, the question of how to meet it and the barriers that stand between those two things.

This report has explored the factors that serve to create and reinforce a skills paradox through those three lenses; the recommendations that follow do the same.

Measures to increase demand for skills

1 Create incentives for employers to move up the value chain

Exhortation for employers, as a group, to 'raise their game' on investment in training is unlikely to yield the revolution in learning that the government's commendable ambitions demand. Incentives need to be created for individual employers to make the shift from seeing skills as costs to regarding them as investments in the future as they move up the value chain. One way of putting this into practice would be to require publicly traded firms to publish figures on their annual spending on employee education and training. Evidence from the USA suggests that firms tend to under-invest in training for their staff. One persuasive reason given for this is that firms face pressure to bow to short-term demands for profit based on low costs, rather than making long-term investments based on skills and capability. Getting the balance sheet right for one year becomes

more important than making investments for the longer term.

More transparency in this area would create different points of comparison – and competition – between firms by revealing which firms are making long-term investments and which are not. Shareholders would be given more information about the investments being made in human capital by different firms and employees would benefit from an environment that is more conducive to training opportunities.

A second available option is the use of financial incentives. One recent review of the international evidence found that ‘the UK government does not utilise the full range of financial incentives, and is therefore deprived of a powerful tool in changing employer behaviour’.¹⁴⁹ The challenge with such measures is simplicity: it is important to avoid the unnecessary bureaucracy that often accompanies levy systems. In our research, employers in the construction sector frequently complained about the wasted time and effort involving any attempt to collect large amounts of money and then redistribute it to firms. Given this problem, the best approach may be to see any fiscal measures not as fundraising attempts – involving collecting and then dispensing money for training – but rather as straightforward incentives.

In recent years Singapore has taxed firms that employ low-paid labour as an incentive for them to move into higher value-added industries and product markets.¹⁵⁰ The principle of differential tax rates for high and low paid labour could be applied in Britain in various ways. For example, tax rises in one area could be offset by reductions in others, reflecting the idea that incentives are there to change behaviour, not raise revenues.

2 Establish rights for employees to train

While encouraging employers to adopt skilled business models that depend on – and therefore reinforce – high skills, the reality is that there will always be some jobs where employers do not depend on training nearly so much. In these situations, another

route to creating opportunities for people to take part in training is to establish rights for employees. The recent announcement of a right to request training is an important step here because it changes the emphasis: asking employers why they are not investing in training, rather than to persuade them to do so from a position of scepticism. Since employees were allowed to request flexible working, around 60 per cent of requests for flexible working have been met in full.¹⁵¹ This new legislation should also provide important data showing how many requests are rejected, informing the debate about future legislation.

3 Build skills into welfare reform

The Leitch review noted that the employment and skills systems struggle to work with one another effectively, to the detriment of both. Part of this is a question of measurement and accountability: the skills system concerns itself with qualifications; the employment system concerns itself with getting people into work. Personalising the skills system (Route 2 described above) is one way of addressing one side of this – making training as relevant and flexible as possible. The employment system also needs to make sure that it contributes to skills goals. The Freud review and subsequent welfare reforms are built around the idea of payment by results – and the incentive for helping people into sustainable employment is very welcome. Further incentives in these contracts could be for welfare providers to find posts that support the development of new skills.

There are different ways in which this could be measured in practice. The temptation would be to measure numbers and levels of qualifications achieved, but another option would be to ask employees themselves to give a measure of their own professional development over a period of employment. This would be another way of gearing policy – in this case the welfare system – towards the goals of good work, not just more work.

4 Remove disincentives to invest in training for casual labour

Although it is important to encourage employers and welfare providers to move towards models of sustainable employment, it is also important not to discourage firms from investing in those on temporary contracts. At present the Inland Revenue can use a formal training relationship between employer and employee as evidence of permanent employment. This is just one of a number of criteria that the Inland Revenue can use, but it can inadvertently create a disincentive for employers who need casual labour for peak demand or intermittent demand to provide training opportunities, for fear of changing the terms of their relationship with employees.¹⁵² Establishing the terms of people's employment status is important, but training should not be part of the equation.

5 Peer-to-peer encouragement to take part in learning

A frequent refrain from policy makers is that the UK requires a learning culture in which it becomes natural and commonplace for people to take part in learning. The question is where and how government can help bring this about, if at all. One way of thinking about meeting this challenge, which lies well beyond the control of government, is to seek to affect or influence peer-to-peer relationships. Cultures, after all, are generated not just through advertising campaigns and employers and employees, but through peer interactions. As Malcolm Gladwell has argued, 'tipping points' are often created through people taking their cues from one another, rather from information they receive from governments or companies.¹⁵³

This insight lies behind the creation of the union learning representatives and could be built on through a peer-to-peer system, rewarding individuals, unions and other intermediaries for introducing friends and colleagues to (completed) modules of adult learning. Any system of this type would need to be piloted to guard against deadweight costs, but would be an innovative way of achieving something that most policy makers regard as an important, but elusive goal.

6 Long-term strategies to close the gap between the interests of employers and employees

The most fundamental problem lying behind the skills paradox is that while the interests of employers and employees may overlap, they are not the same thing. The skills paradox is a reflection of this: it is natural for employers to train their staff when there is a business case to do so – and to eschew training when there is not. In the long term, governments should look for ways to align the interests of employers and employees, including the potential to expand the reach of co-ownership of firms,¹⁵⁴ which account for around 2 per cent of the UK economy¹⁵⁵ at present.

In these firms, where employees have a share in the ownership of the company, the interests of managers and employers are much more closely aligned – the employees *are* the company, they don't just work for it. The model is designed so that employees have a voice in the future direction of the company – including the business model that it adopts, the way its profits are shared, and opportunities that it creates for training and development.

The government should launch a review of cooperative ownership of firms exploring its impact, benefits, difficulties – and which policies might be used to encourage more of it. While this would reflect a long-term and ambitious approach to policies around work and skills, it would also reflect an important progressive idea: 'capitalism' and 'free markets' mean different things. The first implies a system of ownership, the second a method of exchange. Some free-market societies can be decidedly capitalist with ownership split very sharply between employees and employers, while others may not. A progressive government should explore how it can put power in the people's hands by giving them greater ownership – in the literal sense – of their workplaces.

Measures to meet demand for learning in the training system

7 Provide subsidies for individuals, not companies

In some areas of skills policy, the language used can mask important choices: ‘employer engagement’ and ‘demand-led’ are two such terms. As has been noted elsewhere,¹⁵⁶ the idea of demand-led funding can have a number of applications: it can reflect the choices made by individuals, single employers, or perceptions of what whole sectors require, as perceived by Sector Skills Councils. None of these means the same as the other and they may be mutually exclusive. At the heart of the dilemma about what a ‘demand-led’ system should look like in practice is the question of whether government should be subsidising individuals or companies. There are two good reasons to suggest that it should subsidise the former.

First, where possible, governments should avoid subsidising the specific needs of individual firms. Governments now recognise the dangers of ‘picking winners’ in a market – preferring to create a level playing field and the right conditions for innovation.¹⁵⁷ Where skills are concerned, this implies that the task for policy is to help build the capabilities of the workforce in general, rather than to subsidise specific firms’ business models by offering existing firms money for job specific training.

Second, progressive governments should take an interest in empowering individuals to improve their experience of work and their employability in the long run. One way of doing this is by putting people in charge of their own learning opportunities. Employees may choose to use the money that they are given to gain specific craft skills for one industry, or perhaps even one employer, but the choice should be theirs. Governments should work hard to inform people and then trust them to assess where they think they will gain the most benefit from a course of learning rather than restrict their choices – and they should give them a bargaining chip with their employers in doing so.

For these reasons of government impartiality and individual empowerment, entitlements should go, unequivocally, to individuals. In this context, the recent legislation enshrining the right to training is an important step – policy needs to ensure

that decision-making power is in the hands of employees themselves.

8 Create 'learning budgets' for maximum flexibility and support

Two of the great challenges for skills policy, discussed in this pamphlet, are to create a responsive training system and wrap-around systems of support that remove the everyday barriers that stop people taking part in learning. At the moment, the training system finds it too difficult to respond to people's learning needs. And the system for providing non-learning-related support can be difficult to negotiate and insufficiently personalised. These two issues should be addressed together by collapsing all funding (course related and non-course related) into flexible 'learning budgets'.

'Learning budgets' would extend the idea of universal skills accounts by drawing on the lessons of individual budgets in social care¹⁵⁸ and 'budget holding lead professionals in children's services'.¹⁵⁹ Rather than starting with a predetermined service, people would be given much greater power over how to spend the money available to them.

In doing this, learning budgets would make real use of the proposed universal adults' careers service. As the Secretary of State for Innovation, Universities and Skills has argued before, the ability of these services 'to broker and negotiate ways forward will be greatly enhanced if they can bring real resources to benefit employees and employers'.¹⁶⁰

Under a system of learning budgets there would, initially at least, be two main routes for individuals to spend the public subsidy available to them. Route 1 would be consistent with the current approach. It would be quick and convenient for those who know what they want from a course (a full qualification, approved by a Sector Skills Council); it would need little support; and people would be able to find training for themselves from the list of courses approved by Sector Skills Councils. As with other systems of individual budgets, employees would importantly have the option of 'making no choice' – of accepting a standard offer and avoiding the

complexity of making a personal choice that might be more complicated, risky or time consuming.

Route 2 would be more flexible and personalised, with a personal budget established and commissioned with a personal adviser from the new universal adult careers service. The budget would be created through a needs assessment; learning goals would be established and any wider support needs assessed. All the current funding streams for non-learning related grants and loans would be collapsed into one stream, to be accessed through the needs assessment. Those with greater support needs would be placed in higher bands of funding, akin to the recommendations in the Freud review of welfare.

The budget would then be spent on the combination of learning opportunities and support measures that was right for the person in question. Quality assurance would be provided by the personal advisers, who would retain the ultimate say over whether a course could be chosen or not and would be accountable for the proper use of public funds. This would be an important safeguard of public funding, given the lessons of individual learning accounts,¹⁶¹ which were withdrawn in November 2001 following evidence of fraud in the system. This more bottom-up system of quality assurance would also allow courses not presently recognised as 'economically valuable' to be eligible for funding, as advisers would be there to guide people's choices.

One objection against this approach might be the importance of qualifications in achieving 'portability' in the labour market, rather than just job-specific or firm-specific skills. This lies behind much of current policy: government tries to strike this balance by consulting employers on the design of qualifications and then restricting funding to those that are approved. This is understandable, but locates decision-making power in the wrong place: it should lie with individuals themselves – allowing them to make their own decisions, taking into consideration the opportunities for work in their local areas and negotiating trade-offs, with the right advice and support, about how to spend the money available to them.

Table 5 **Comparison between traditional services and individual budgets**

Traditional services (care homes; approved courses)	Individual budgets
High choice between providers, low flexibility over products	High choice between providers, high flexibility over products
Process innovation: competition for the market	Product and process innovation: competition in the market
Quality assurance and risk management from top down: approved courses	Quality assurance and risk management from bottom up: personal advisers
Entitlements determined by categories: segmentation	Entitlements constructed through personal contact: needs assessment
Coherence through aligning pre-established services	Coherence from commissioning integrated support package

It would be important within this system for those working as personal advisers to be highly trained and genuinely independent. In our research, many of those people who had experienced bouts of unemployment or unsatisfactory careers bemoaned the lack of personal advice available to them, given by someone whom they perceived to be well informed and on their side. Furthermore, one of the major criticisms of the brokers currently operating in the skills system is that that they are not genuinely independent – they work towards targets set by central government and are always likely to be more interested in meeting these than the needs of those they are supposed to be serving.¹⁶² Rather, personal advisers should work towards broad outcome goals, such as ‘improved employability’, which might contain within it a number of core competencies like basic literacy and numeracy, rather than towards targets for qualifications achieved. One way of achieving this would be to create a code of practice that sets out ways to ensure that advisers act in the interests of the individual,

rather than either their employer or national targets set by governments.

The two routes are set out below:

Route 1:

- want to take a course
- register for course as in current system
- must be economically valuable
- fee remission.

Route 2:

- want to take a course but have specialist learning needs and/or specialist course requirements
- self present to careers service, job centre, learning provider
- needs assessment
 - learning plan agreed with adviser
 - non-learning support needs determined with adviser (eg travel, childcare)
- learning budget established
- commissioning with adviser
 - course commissioned – would need to reflect broad set of outcome criteria (eg can read and write by the end of it) but not be approved by Sector Skills Council, thus in the personalised route ‘economically valuable is a kitemark, not a requirement’
 - learning support commissioned with personal adviser in whatever solves problem in most effective way.

9 Build in scope for second chances - but not too easily

Whatever the method of determining which courses are eligible for public funding and which are not, it is important that there is at least some scope for individuals to be given second chances to refresh their skills at a certain level. The arguments against this are clear: public funding has to be rationed for those who have not yet had the opportunity to take a course at a certain level. But this view obscures the fact that people’s skills can become

obsolete in a fast-moving economy. When a sector loses a lot of jobs very quickly, people often need to retrain – and not necessarily at a higher level than their prior qualifications. ‘Economically valuable’ qualifications can lose their value.

To give the example of one of the sectors in this research, the IT sector, there are 141,300 new entrants a year into IT and telecoms professional job roles; of those, 70,900 people a year come from occupations other than IT or telecoms, while 43,600 are those who are re-entering the workforce after a career break, early retirement or unemployment.¹⁶³ Given this reality of the modern economy, a strategy based on focusing funding on those who need it most should be sensitive to people’s individual circumstances, not generalisations based on qualification levels.

Although there needs to be scope for people to be given second chances to learn at a certain level, this option should be subject to more stringent assessment than for first-time learners – to avoid people planning on taking courses the first time round that they know will not help make them any more employable in the long run. Governments may also wish to impose more restrictions on which courses are eligible for second-time funding, to reinforce this. This third route is laid out below:

Route 3:

- have taken course and/or have qualification but require future learning
- self-present to careers service, job centre, learning provider
- needs assessment
- register for course as in current system
- must be economically valuable
- fee remission.

10 Recognise the difference between market-led and demand-led: a strategic role at local level

In the language of public service reform, ‘demand-led’ is often equated with ‘market-led’ and ‘needs-led’. The three are all used as shorthand for a responsive system. In truth, these terms overlap but are not the same. Markets respond where there is

sufficient demand for something, rather than simply where there is *any* demand for it. In this sense they tend to require economies of scale – and opportunities for profit – for products and services to be sustainable. For example, video and DVD shops do not need to carry all the titles that people want to watch, they simply carry the most popular choices. There is a ‘long-tail’ of films that will never make it into the video store, but for which there is still *some* demand.¹⁶⁴

Truly demand-led systems of public services, therefore, have to find ways of meeting the long tail of all service users – and potential service users. The point here is that public services are different from private markets: they have goals embedded in them such as equality and fairness, which operators in the private market are not obliged to consider. Video shops are there to meet demand, not need. The implication of this is that governments should not be satisfied with allowing market logic to dictate which courses receive public funding and should ensure that the needs are met of those who are furthest away from the labour market. There will need to be some strategic commissioning at local levels; whether through local Sector Skills Councils, local authorities or city government as in London. The specific governance arrangements are less important than the principle of there being some means for market management and oversight.

11 Establish diversity goals for Sector Skills Councils

To complement the work of wider support systems, there should also be sector-wide efforts to broaden the range of people that work in any particular sector. People should feel able to work in any sector – and society should benefit from workplaces that support social integration, not segregation. But as Demos has argued before,¹⁶⁵ there is not always a ‘business case for diversity’ at the level of the individual firm, especially for smaller firms with limited resources for recruitment – despite the strong case for more diverse workplaces in wider society.

For example, only 2.8 per cent of those employed in the construction industry are from ethnic minority groups although they constitute 7 per cent of the economically active population.

Similarly, although the IT professional workforce has an imbalance of almost 5 to 1 in some age groups, in 2007, only 18 per cent of IT and telecoms professionals were female.¹⁶⁶ In this vein, Sector Skills Councils should be given as a core goal the task of attracting the widest possible pool of talent into an industry – involving new and different people from all backgrounds to work and prosper in the sector.

Under these new arrangements, Sector Skills Councils could be held to account by government against progress made, while providing an institutional focus for collaboration between charities, campaigning groups and business organisations. In this way, Sector Skills Councils could not only perform a useful business function for smaller companies in particular, but would be responsible for helping to make a number of homogenous sectors more accessible to people from all backgrounds.

Taken together, these proposed reforms represent a comprehensive package to begin to address the skills paradox, and to make a difference to the lives of millions of people in the process. The time has come to do everything possible to meet the needs of those who have low formal skills but bigger ambitions, and who deserve better.

Appendix 1 The three sectors

The three sectors involved in the research for this report were selected because they represent important but quite different parts of the British economy. Factors that differentiate them from one another include the skill sets they require, the make-up of their respective workforces, their levels of exposure to foreign competition, their forms of government intervention, and the working cultures that surround them:

IT sector

Value

The IT sector is extremely important to the UK economy. E-skills, the Sector Skills Council, estimates that 1.2 million people work in IT in the UK and a further 250,000 in telecoms.¹⁶⁷ The approximate direct gross value added (GVA) to the British economy by the eight Standard Industrial Classification (SIC) codes identified as the IT industry in 2002 was £29.8 billion, which amounts to 4.64 per cent of the value added by all industry.¹⁶⁸ More broadly defined, IT-intensive sectors represent 55 per cent of the UK's total GVA, and GVA per job in the IT and telecoms industry is nearly three times that of the average for the UK.¹⁶⁹

Skills base

The IT and telecoms workforce is highly qualified. Over half (55 per cent) of the UK's IT and telecoms professionals hold a qualification at the equivalent of an undergraduate degree, almost double that of the UK working population overall. Only 3 per cent of IT and telecoms professionals are not qualified to Level 2, by comparison with 13 per cent of the UK's employed

workforce. Telecoms professionals, however, are considerably less likely than IT professionals to have the higher levels of qualification.¹⁷⁰

Growth

E-skills UK research indicates that employment in the UK's IT industry is growing at five to eight times the national rate and around 150,000 entrants to the IT workforce are required each year.¹⁷¹

Key factors

The IT sector is one where the rhetoric of globalisation meets the reality. It is less bound by geography than many others, making outsourcing a possibility for many services in the sector.

Companies can often sell products and services as easily on the other side of the world as in their home country. While some see considerable threats to the IT employment base within the UK through this,¹⁷² others are more optimistic.¹⁷³

Training patterns in the sector are also significant. Private training provision is, by far, the most popular option for technical training for vendor awards. In this respect, most of the training in the sector does not lead to a formally recognised qualification; 40 per cent of technical training is working towards a recognised vendor-specific award.¹⁷⁴

Construction sector

Value

The government's plans to allow the building of build 3 million new homes by 2020, together with the desire to improve public infrastructure, particularly transport, and the 2012 Olympics, means that the skills of the construction workforce are likely to be more than ever under examination. The UK construction output is the second largest in the EU and contributes 8.2 per cent of the nations GVA.¹⁷⁵

Skills base

Recent national surveys have pointed to the high concentration of skills shortages in the construction industry compared with other sectors.¹⁷⁶ In 2002, 15 per cent of construction employers reported a 'skill shortage' job vacancy (defined as a hard-to-fill vacancy resulting from low numbers of applicants with required skills, a lack of applicant work experience or a lack of required qualifications), compared with 8 per cent of all establishments in other sectors.

Growth

The UK construction industry consists of over 250,000 firms employing 2.1 million people in a multitude of roles. ConstructionSkills projects an increase in the size of the sector's workforce from 2,224,890 in 2007 to 2,431,240 at the end of 2011.¹⁷⁷ UK construction output growth is forecast to average 3 per cent annually between 2006 and 2010, with increases in output expected across the sector. Around 2.5 million people are currently employed in construction in the UK and delivering predicted growth requires around 90,000 new recruits a year.¹⁷⁸

Key factors

Around one-third of the sector is classified as self-employed, though according to research on labour mobility,¹⁷⁹ the level of self-employment varies by occupation, being particularly high among dry liners, bricklayers, glaziers, carpenters, joiners, roofers and plasterers. This, combined with the ready supply of labour, often via international migration, means that even with less-than-optimal investment in skills, solutions have been found to the issues facing the construction industry.

Recent national surveys have pointed to the high concentration of skills shortages in the construction industry compared with other sectors.¹⁸⁰ There is a sector-wide levy, designed to address these issues: A record £140 million in CITB-Construction Skills grants is available in 2008.

Children's services

Value

Raising the status of childcare through a better-skilled workforce is key to improved social mobility (given what we know about the importance of early years' education) and helping more parents back into work. In total the childcare market is worth £6,685 million, of which £3,465 million is private sector and £3,220 million is direct government provision.¹⁸¹ In this sense, the sector is important as an employer in its own right – and for its wider social value.

Skills base

500,000 staff are employed in early years and childcare, children and family social care, as well as in advisory and education support roles in England.¹⁸² Skills profiles vary considerably within the sector – with more institutionalised (and publicly funded) parts of the sector tending towards higher skill levels. Of those working in full-day care and in maintained early years' provision, 86 per cent are qualified to at least Level 2, with over 70 per cent qualified to at least Level 3.¹⁸³ By contrast only 52 per cent of childminders are qualified to Level 1 and 43 per cent qualified to Level 2.¹⁸⁴ In 2008 average pay is £6.80 an hour.

Growth

The government has pledged to increase access to free childcare for three and four year olds. By 2007/08 government funding for childcare will reach £5.5 billion a year, up from £1.1 billion a year in 1996/97. By 2010 there will be a total of 3,500 children's centres and 300,000 childcare places for school-age children,¹⁸⁵ heightening demand for employees across the sector.

Key factors

The role of government is significant. Although childcare is far from being overwhelmingly provided by the state, indeed some 70 per cent of the workforce in the early years and childcare sector is employed or self-employed in the private, voluntary or

community sector, the state does play a huge role, both as employer and as regulator. This is not an area where public policy has relatively little leverage, but considerable clout.

Appendix 2 Learner support systems

Support programme	What is it?	Other eligibility requirements	Programme in relation to other benefits and programmes	LSC integration with other organisations
Adult learning grant (ALG)	<p>Up to £30 per week for individuals going back to college to study for their first full Level 2 or Level 3 qualification. The ALG is intended to help towards costs such as travel and books.</p>	<p>Payments are contingent on satisfactory course attendance at college. ALG is open both to learners who are starting a new course and to learners who are already on a course who meet all of the eligibility criteria.</p>	<p>Need to have earned less than the income threshold during the previous financial year. No applications while collecting 'out of work' benefits.</p>	<p>Applications are made through colleges or the Learner Support Service.</p>

Career development loan (CDL)

A CDL is a bank loan designed to help pay for work-related learning. There are three areas that a CDL can cover: course fees and other course costs - including equipment; childcare; and living expenses.

Must be unable to pay for the course yourself.

Receiving a CDL may affect benefit entitlement, so a loan may be required to cover living expenses too. It is possible to postpone the start of repayments for up to 17 months, for example, if recipients are unemployed and claiming benefits such as: income support, housing benefit, council tax benefit, working tax credit or pension credit.

CDLs are available through an arrangement between the Learning and Skills Council (LSC) and three high street banks. People can apply for CDLs with Barclays, The Co-operative Bank and The Royal Bank of Scotland.

Dance and Drama Award (DaDA)

Income-assessed student support fund is administered by the Help, Assessment and Payment Body (HAPB) on behalf of the LSC.

All students in receipt of income-assessed support must sign a statement provided by the HAPB confirming their attendance and declaring that they understand that they could lose their entitlement to income-assessed support if their attendance is not satisfactory.

DaDA courses are at Levels 5 and 6 on the National Qualifications Framework and are delivered through private providers. This means you are not entitled to an ALG or help from the discretionary Learner Support for Hardship and Childcare.

When Providers are allocating DaDA awards they must not allocate any awards to students prior to their allocation being confirmed by the LSC.

Support programme	What is it?	Other eligibility requirements	Programme in relation to other benefits and programmes	LSC integration with other organisations
Learner support fund (LSF)	<p>The funds are prioritised for those who face financial hardship. They can be used to help with financial hardship and emergencies, childcare costs (for Ofsted-registered childcare), accommodation costs, for those who have to study beyond daily travelling distance, travel costs, essential course-related equipment, materials and field trips.</p>	<p>With the exception of asylum seekers aged 19 and over, where a learner has been accepted onto, and studying, a programme of learning funded by the LSC, they will be eligible to apply for LSF.</p>	<p>Claims are permitted alongside other grants and funds, including:</p> <ul style="list-style-type: none"> • an education maintenance allowance (EMA) • an adult learning grant (ALG) • a career development loan (CDL) • Care to Learn support • New Deal for Lone Parents • Disability Living Allowance, which is ignored when assessing income. <p>The funds are intended to meet special needs and circumstances which can't reasonably be met by other grants. See also 'Other eligibility requirements'.</p>	<p>Local LSC will:</p> <ul style="list-style-type: none"> • work with local authorities and providers to agree allocations and LSF agreement schedules • work with LSC national office to ensure up-to-date information is held • liaise with local authorities and providers to ensure expenditure and management information will be available by the required deadline • reconcile funds, recovering and redistributing unspent funds as appropriate • ensure provider management information is processed accurately and is available to LSC national office • answer queries from providers on learner support.

Residential support service (RSS)

These enable people to access education that is not available within a reasonable daily travelling distance of your home. The RSS will support accommodation costs.

Checks are made with learning providers against learning agreements. RSS is withdrawn if person does not attend course.

Sixth Form College Childcare Scheme

Help towards the childcare costs of parents over 20 years of age studying at a school sixth form or sixth form college.

Must have a joint household income below £50,502 for the previous tax year.

Must not be receiving support from other sources for the costs of childcare and travel claimed for under this scheme.

Notes

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In 2008, Britain faces a vicious circle. High skills are worth more in labour markets than ever before. But millions still lack basic skills, and the people most likely to take part in formal learning are those who are already well qualified. Despite the progressive goals of adult learning the danger is that it leads to greater polarisation in skills, leaving Britain less productive and less equal.

This pamphlet explores which policies can help reverse this trend. It argues that reform of the education and training system is important, but insufficient. People face everyday barriers to training – from busy personal lives to low-skilled jobs – that limit their access to training opportunities. A coherent skills strategy therefore needs to work on three fronts: the labour market, the training system and people's everyday lives. The time has come to do everything possible to meet the needs of those with low formal skills but bigger ambitions, who deserve better.

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