Written evidence from The Financial Services Skills Commission (SFF0023)

About the FSSC

The Financial Services Skills Commission (FSSC) is a member-led body, representing the UK's financial services sector on skills. The FSSC works directly with the sector to ensure that businesses have the talent and skills they need for the future.
Our overarching purpose is to increase the supply of talent and skills across the sector. We do this in two ways:

1. Supporting the development and updating of the skills of our workforce through reskilling and upskilling.
2. Broadening the pool of talent through improved attraction, retention and diversity & inclusion.

We also act as a collective voice and convenor of skills for our sector on skills matters, communicating the skills needs in our sector to government and education sector. FSSC members include over 40 firms that collectively employ nearly a third of the industry's workforce. We are independent and not for profit.

Key findings

This is a topical inquiry into skills policy, focusing in particular on apprenticeships and training in the context of the skills the UK economy needs for the future. We are keen to use this opportunity to provide an employer and sectoral perspective about the current system and the role industry can play in building skills. By prioritising building skills in partnership with industry and the education sector, Government can positively influence competitiveness in financial services and overall growth for the UK economy.

- Employers must be at the heart of the skills system, which needs to respond to sectoral and regional perspectives.
- Government can provide a range of routes to build high-level skills to meet existing and future demand for skills to support a high skill economy.
- Employers in financial services are already coming together through the Financial Services Skills Commission, accelerating efforts to build skills and grow the pool of talent for everyone.
- As a country, most of our future workforce is already in the labour market and has left full-time education. Skills needs are changing rapidly, so we need to focus on upskilling/reskilling the existing

workforce. More flexibility to use apprenticeships for mid-career reskilling would support these efforts.

- Unlike for other sectors, FS investment in training has increased - FS is the only sector where spend per employee is higher than in 2022 in 2017 and in 2011.

The FSSC would be happy to attend an evidence session to elaborate on the points made in this submission.

RESPONSES TO CALL FOR EVIDENCE QUESTIONS

What kinds of skills do you think will be needed for the future of the UK economy? Is the UK's skills and training system capable of equipping increasing numbers of people with these skills?

The types of skills which will be needed for the future of the UK economy include a mix of technical and behavioural skills to allow individuals and firms to leverage evolving technology and meet future needs. Our members have identified a set of 13 skills for the future of the financial services industry in our Future Skills Framework. Most of these skills – such as relationship management, data analysis or empathy will be relevant to all sectors across the economy.

Our recent Future Skills Report (April 2024) features new data on skills supply and proficiency gaps of existing employees. For some skills, there is sufficient supply of talent, but there is a gap between actual and desired proficiency meaning people have the skills employers need, but not at the right level. The data shows that the highest proficiency gaps among Financial Services (FS) workers are in data analysis and coaching, and more upskilling is needed to build these skills.

Most of the people who need these skills are already in work and we need a system that focuses more on upskilling and reskilling the existing workforce. The UK's skills and training system focuses heavily on early career talent and is not ideally placed to equip increasing numbers of mid-career workers with upskilling or reskilling. Apprenticeships are not flexible enough to be used for reskilling activities at scale.

We are continuously monitoring the implications of the shift to net zero and other megatrends (see our People + Technology report) on skills. While it is too early to fully understand the impact of artificial intelligence, we are working with our members to identify and understand possible use cases and what they might mean for skills. Our early research shows that the sector will need deep AI skills for 0.5-1% of the workforce to build AI capabilities, with a further 10-15% being equipped to implement AI solutions to existing operational infrastructure. The remaining workforce will be users of AI and need to be skilled in areas such as data analytics, adaptability, and empathy to best use the AI tools available.

What is the appropriate level of government intervention in the development of skills policies? How can government best add value in this area?

Government can add value through the provision of data, national strategy and creation of supportive skills policies. The creation of the dedicated Unit for Future Skills is a welcome step and will help to equip business, education providers and policy-makers with up to date labour market and skills information. Data and strategy can drive better decision-making by the relevant players.

Creation of a clear, ambitious strategy and direction of travel for the economy (i.e. as a result of the shift to AI and net zero) in the form of industrial strategy is also needed. This can inspire greater clarity on skills needs and demand for relevant qualifications.

The scale of the skills challenge is such that a joint approach involving all relevant actors is needed. Government can support this endeavour as a convenor and by unblocking any issues business and education providers are facing and supporting the creation of effective mechanisms at national, regional and local levels to enable delivery of skills solutions by companies, providers, combined authorities etc.

Are current Government policies on skills, particularly apprenticeships and training, sufficiently clear? Have policies and the institutional set-up been sufficiently consistent over time? If not, what changes or reforms would you recommend?

The current skills offer is very initiative-based but is lacking something that adheres to an overall strategy. With a proliferation of initiatives, structures and responsibilities, it is hard for employers to identify where and how they can influence provision or feed-in their skills needs.

There may be merit in a centrally-set strategy focussed on skills growth that is delivered regionally, with employer needs at their heart. Local areas are best placed to develop skills solutions where there is demand and to set up partnerships between local employers, local government and providers for example. The involvement of employers is key to identifying skills needs and implementing effective solutions. There needs to be a focus on keeping people in employment, enhancing their skills and preparing them for the future.

Are the right institutions in place to ensure an effective skills system for the future? Should co-ordinating institutions be national, regional or sectoral, or a mixture of each?

We are open to considering what new institutional arrangements are needed to manage skills and training provision. A single institution alone cannot make for an effective skills system, as it will need to respond to the needs of different sectors, groups of society and regional variations. Coordinating institutions should be a mixture of institutions allowing for input from all regions and sectors but also enabling effective coordination.

The regional dimension is relevant, the previous Regional Development Agencies provided comprehensive coverage of the UK. and worked well for creating regional strategy and action on skills and labour markets. As a sector that employs 1 million people in the UK, with 2/3 of them outside of London, the current LSIP structure is not compatible with the national and regional nature of our sectors skills needs.

The growth and expansion of the Mayoral Combined Authority Model, presents a natural opportunity for a significant economic policymaker to drive coordination and collaboration across the regional education ecosystem. TheCityUK, the industry body for financial and related professional services, has called for a greater devolution of skills and education policy as part of future English devolution deals.

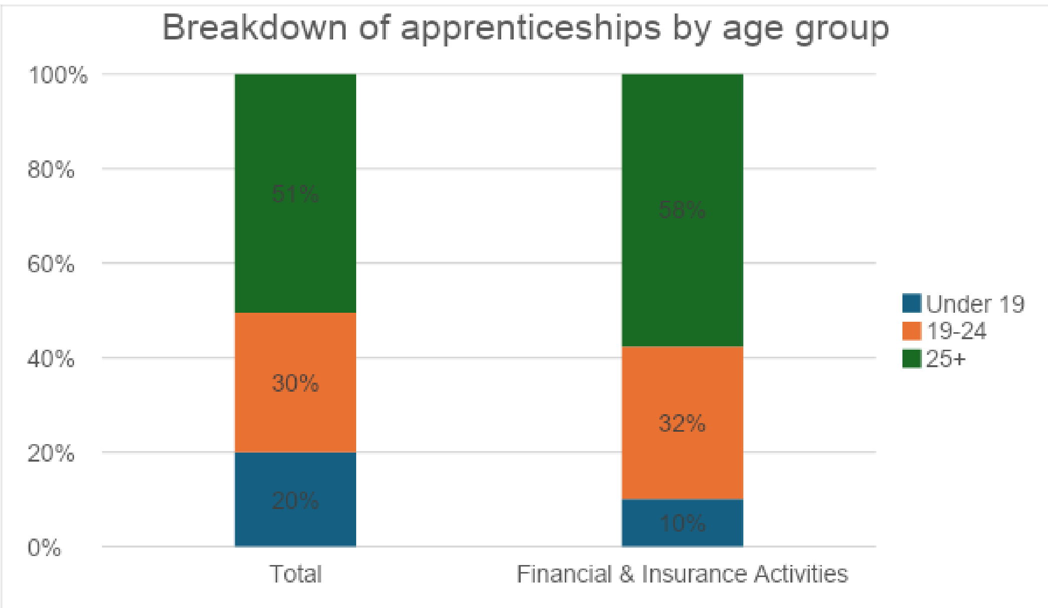
Employers with a footprint in more than one UK region and nation are required to engage with a number of different national, regional and local bodies on skills. The lack of a joined-up approach creates an extra burden for employers and can lead to duplication of effort or even disengagement.

Concerns have been raised over the operation of the Apprenticeship Levy, particularly in relation to the decline in young people taking on apprenticeships. Is there a case for reforming the levy, for example by ring-fencing more levy funding for training for younger apprentices?

Clarity is needed on the governments' overall aims and objectives for the apprenticeship system (including the levy). Without this clarity, evaluation of the impact and success of the programme is hard to measure. When launched, the apprenticeship reforms were intended to increase employer investment in training and give employers control of apprenticeship funding. Apprenticeships also offer an alternative route for individuals to secure employment and to gain new skills for a wide range of individuals – existing employees or newly recruited staff.

92% of our member firms offer apprenticeships, according to our latest FSSC Member Survey. Our data shows that some of our member firms offer all available apprenticeships to early careers entrants, while others offer only a few apprenticeships to this demographic. Most are in the middle, with a good mix of apprenticeships across reskilling/upskilling groups, younger colleagues and experienced hires.

While 58% of overall apprenticeship starts in FS are from those aged 25 and over, FS is still in the top 5 of industries with the highest proportion of apprenticeship starts made by 19-24-year-olds. With 32% of all starts, this is slightly above the national average (see chart below). As a highly-skilled industry, we employ fewer 16–18-year-olds than other industries. Ringfencing apprenticeships for young people might just limit the number of apprenticeships in industries that may not be able to offer opportunities to younger demographic groups.



Source: Gov.UK, Apprenticeships in England by industry characteristics - starts by enterprise sector and learner demographics, 2020/21 data.

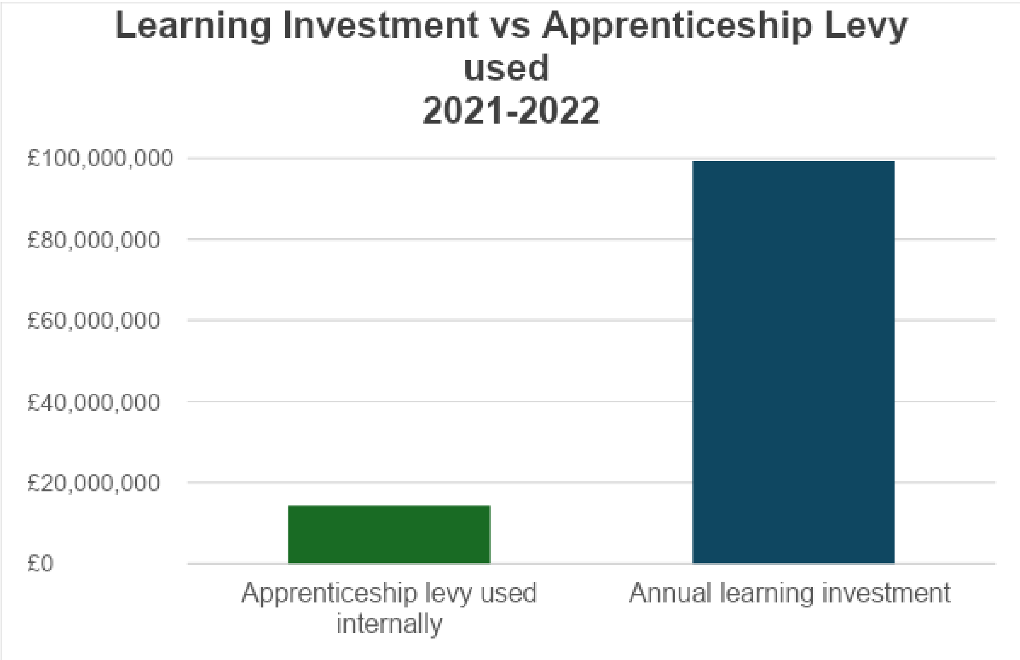
Ringfencing existing levy funding for early career apprenticeships would likely only make it harder to use apprenticeships to reskill mid-career workers. This is where we have a strong need and opportunity to use apprenticeships. Ringfencing might also limit the pool of available apprenticeships as it becomes harder to match supply and demand in a rigid structure.

Strengthening of apprenticeships as an entry route and enabling employers to use them as a reskilling and upskilling tool at mid-career stage would be beneficial for financial services. Additional flexibility to support this would be welcome.

TheCityUK has also outlined a number of practical suggestions for how the current levy could be made more flexible and achieve greater impact.

What should the role of business be in encouraging the development of skills in the UK? Should business be a consumer, funder, trainer or co-designer of skills provision?

In practice, business already takes on the roles of consumer, trainer, co-designer, even funder of skills provision. Overall, our member firms spend many times what they draw from the apprenticeship levy on training their workforce.



Source: FSSC Member Survey 2022, based on data from 8 firms (unpublished data)

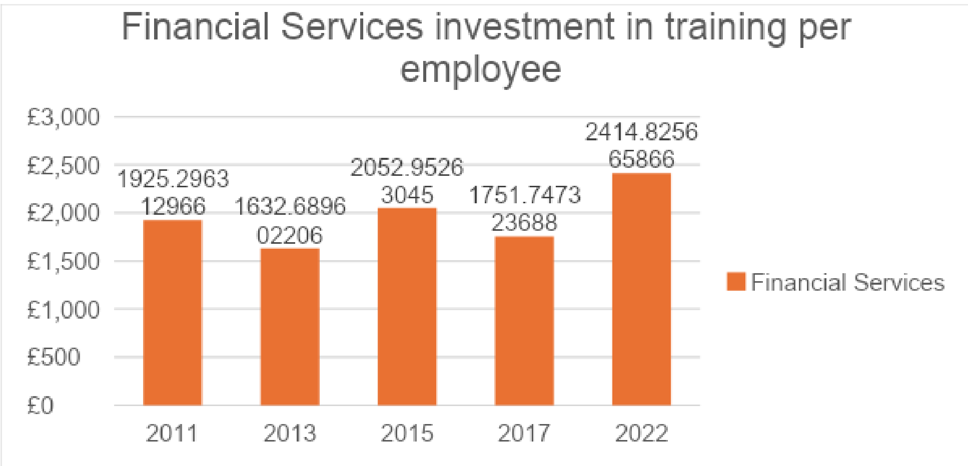
The activities firms fund to encourage learning are varied. These include micro-credentials that firms are co-designing with the support of chartered professional bodies and/or IT firms. A lot of focus is on enabling learning “in the flow” of work. According to data from our 2022 FSSC member survey, these include:

- Self-directed learning on and off corporate platforms
- Formal learning (classroom based or virtual)
- Informal learning
- Short-term project opportunities
- Hackathons
- Secondments

Source: FSSC Member Survey 2022, based on data from 17 firms (Unpublished data)

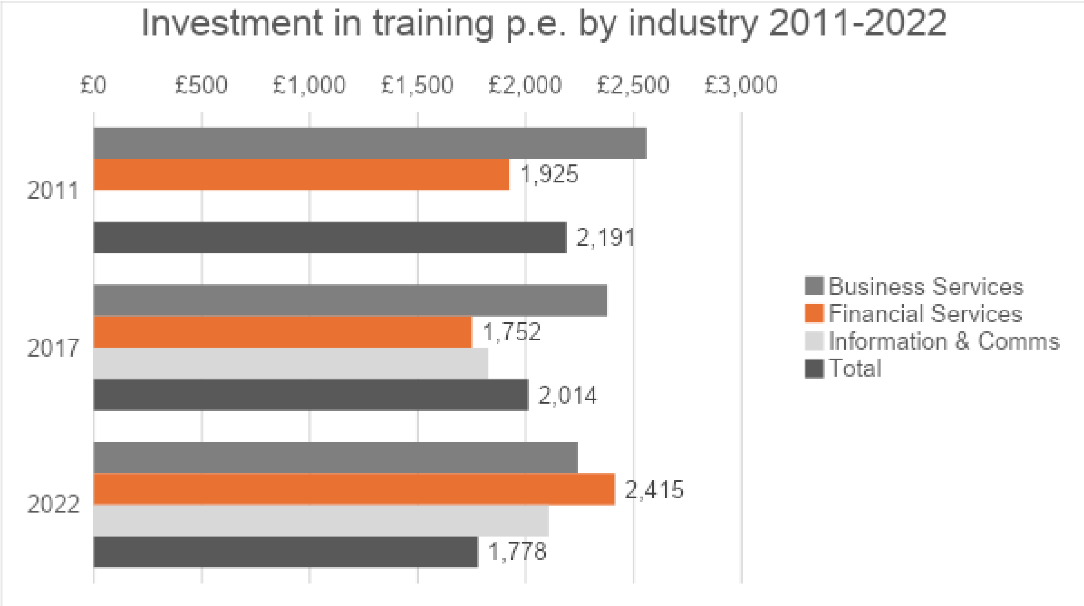
In a more mobile, flexible labour market, what incentives do employers have to provide training for their employees? Why do you think that employer investment in training has declined in recent decades?

ESS data shows that, unlike for many other sectors, financial services firms’ investment in training has increased over time on a per capita basis.



Source: Gov.uk [ESS 2022 – Investment in training] user generated tables (all data in 2022 prices).

FS is one of only two sectors – together with IT – to have seen an increase in per-employee spending between 2017 and 2022. FS is the only sector where per-employee spend in 2022 is higher than in 2017 and in 2011.



Source: Gov.UK, ESS 2022 – Investment in training user generated tables (all data in 2022 prices).

Our members' feedback suggests that the reason for the increase in investment is a combination of the growing awareness of the need to build skills to secure the talent that firms need, combined with regulatory drivers. Our People + Technology report (November 2023) showed that our sector will likely lose 260,000 highly-skilled people by 2035 due to an ageing society and workforce change and, coupled with existing skills gas, this creates a strong need to invest.

However, monetary investment in training will only ever show part of the picture. The nature of workplace learning has changed and provision is reflecting this, for example with an increased offer of online courses rather than classroom based. Through these and other efficiency gains, the same training can be delivered at lower cost, so lower monetary investment in skills does not necessarily equal less provision. What counts is getting the right training to the right person at the right time.

The measurement of the impact of learning on colleague and business outcomes remains to be developed further but existing data reported by our members show a positive correlation.

Should further incentives be put in place to reverse the decline in employer investment in training, and if so, what form should these incentives take?

What is needed to boost employer investment in training is a mindset shift. Given employee turnover is natural, it can be hard for firms to make the case for more investment in training. This is a zero-sum game mindset – where a trained employee leaving is seen as one firm's loss and another firm's gain.

At the Commission, the sector is coming together to address this problem and this is an example of a positive sum mindset. By taking a collaborative approach, our member firms consider skills as part of business strategy, taking a long-term view and understanding that investment in training means a larger and more highly-skilled pool of talent for all firms to choose from.

Our firms collaborate on industry standards via our Future Skills Framework and exchange best practice on the types of training and learning culture that enables them to build these skills – so that all firms can do more of it.

As such, skills education is the foundation and we cannot address the skills challenge without collaborating with business. Firms are ready to invest and can expect this to positively affect the bottom line, as our Business Case for Reskilling shows. Additional incentives from Government to further boost employer investment in training would be welcome.

23 May 2024