

Written evidence from Policy Connect, The Skills Commission (SFF0036)

Policy Connect is a cross-party think tank. We specialise in supporting parliamentary groups, forums and commissions, delivering impactful policy research and event programmes and bringing together parliamentarians and government in collaboration with academia, business and civil society to help shape public policy in Westminster and Whitehall, so as to improve people's lives. Our work focuses on five key policy areas: Education & Skills; Industry, Technology & Innovation; Sustainability; Health; and Assistive & Accessible Technology.

The Skills Commission is an independent body comprising leading figures from across the education sector, industry and the major political parties. It conducts research inquiries into important issues in skills, training and further education policy.

We have responded to the questions within the consultation that are most relevant to our work, in particular, our recent report "Skills 2030: Building A World-Class Skills System". We would be very willing to expand on the report's findings in an oral evidence session for the inquiry.

Skills 2030

The Skills 2030 report follows an inquiry co-chaired by the Rt. Hon Sir John Hayes CBE MP and Barry Sheerman MP. With wide support from across the skills sector, it sets out a vision for reforming the skills system in England over the next Parliament, with the goal of building a world-class skills system by 2030. **Skills 2030 makes recommendations in 5 key areas, which we refer to throughout this evidence submission:**

Reshaping Skills Policy Decision-making

Recommendation 1: The Government should develop a national skills strategy that is embedded within a wider industrial strategy. It should create a Skills and Workforce Council, a non-departmental public body at arm's length from government, to oversee the delivery of the strategy's goals.

Recommendation 2: The Government should provide Mayoral Combined Authorities and other regional authorities with "no-strings-attached" funding settlements for adult skills and an enhanced set of powers to shape skills provision in their area.

A "no-strings-attached" funding settlement involves:

- A. A single consolidated budget for all 19+ adult skills funding.

Enhanced powers should include:

- B. A joint governance board with the Department for Education to co-design regional 16-18 education and careers guidance services.
- C. A statutory role in Local Skills Improvement Plans (LSIPs).
- D. A decision-making role in skills capital investment

Investing in the Future of Further Education

Recommendation 3: Further Education colleges should receive multi-year funding settlements of 2+ years from the Education and Skills Funding Agency or, where applicable, their regional authority.

Recommendation 4: The Department for Education should deliver a new Further Education Workforce Strategy. The strategy should include:

- A. A plan to increase the attractiveness of pay, contracts, and workload in the sector.
- B. Introducing a Workload Reduction Taskforce for Further Education.
- C. Rolling out the Workforce Industry Exchange Programme announced in 2021.
- D. Increased support for staff training and CPD, with a particular focus on student mental health and digital skills.

Removing Barriers for Young Learners

Recommendation 5: The Government should enact a multi-pronged strategy to address the financial and educational barriers that 16-19-year-olds face when seeking to take up and complete an apprenticeship. The strategy to help young apprentices should involve:

- A. Encouraging and supporting all regional authorities to introduce free travel.
- B. The Department for Work and Pensions (DWP) exempting them from earnings-based reductions in Universal Credit and Child Benefit payments.
- C. Providing a VAT exemption for their equipment purchases.
- D. Providing them access to the maintenance loan system.
- E. The Department for Education developing an alternative to maths & English exit requirements.

Recommendation 6: The Department for Education should extend the Pupil Premium Plus to looked-after children and care leavers aged 16-19 in Further Education, building on the successful pilot programme. Following the recommendations from the pilot's evaluation, premium

funding should also be expanded to a wider group of 16-19 students who could benefit from additional support.

Maximising Employer Investment in Skills

Recommendation 7: To increase investment in skills, all Apprenticeship Levy funding should be allocated to training and not be retained by the Treasury. Underspend should be redirected to:

- A. Fully fund and incentivise level 2 and 3 apprenticeships at SMEs of all sizes.
- B. A government lifelong learning initiative (see recommendation 9).

Recommendation 8: The Government should reform the Apprenticeship Levy. Employers should have greater flexibility to use funds for a range of high-quality training. Part of the levy should be ringfenced to promote entry-level talent in the workforce.

Flexibility for employers involves:

- A. Increasing the time limit to spend levy funds to 5 years.
- B. The option to spend up to 50% of their levy funds on an approved list of training courses beyond apprenticeships, such as Higher Technical Qualifications.

Ringfencing involves:

- C. 50% of an employer's levy funds must be spent on apprenticeships at level 2 or 3.

Making Lifelong Learning a Reality

Recommendation 9: The Government should launch a new lifelong learning initiative that supports the "right to retrain". It should include:

- A. A right to 5 days a year to train, strengthening the existing legal entitlement to request time off to train.
- B. Expanding the free level 2 and 3 qualifications all adults are entitled to through the Lifetime Skills Guarantee.
- C. A refreshed lifelong approach to career guidance that prepares young people and adults for lifelong engagement with the skills system.

Recommendation 10: The Department for Education should develop the digital infrastructure to underpin life-long learning. Each learner should have access to a personalised digital environment including a skills account and passport.

- A. A Universal Skills Account for all post-18 education funding would build on the current development of the Lifelong Learning Entitlement.
- B. A Universal Skills Passport would enable individuals to keep a record of their skills and educational achievements across their lifetime, using the Unique Learner Number system.

Recommendation 11: The Higher Education Minister should lead a working group on cross-provider credit recognition within the higher education sector. The group should include senior figures from the sector and the Quality Assurance Agency (QAA). The working group should first proceed to:

- A. Develop guidance on best practices for recognising prior learning.
- B. Promote credit transfer schemes to existing alliances and partnerships between higher education providers.

1. 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 UK faces future challenges that will require reshaping the workforce and amplify the urgency of skills system reforms. These include technological change that will redefine job profiles, an aging workforce, and the need to transition to a net zero economy. This points to a growing need for digital skills, upskilling/reskilling of older workers, and green economy skills.

The Skills 2030 report found that the current skills system has limitations in meeting these needs. Issues highlighted include:

- Insufficient coordination of skills policy with wider economic and industrial strategy
- Declining levels of public and employer investment in skills and training
- Challenges in the Further Education (FE) sector including funding constraints, limited budget flexibility, and difficulties recruiting, retaining and training teaching staff
- Barriers for young and disadvantaged learners to access training like apprenticeships
- A fall in apprenticeships at lower qualification levels that provide entry pathways into careers
- Limited support for lifelong learning, with adults facing barriers around cost, time constraints, and lack of flexible training options

2. Is it clear to everyone involved in the skills system what the respective roles of the Government, employers, individuals and institutions are within that system?

In short: no. The Skills 2030 report found that stakeholders across the system felt there was a lot of uncertainty over the roles of the actors in the system. Many called for a national skills strategy to address this, as the report ultimately recommends (see the discussion pg 16-17).

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

Setting a long-term strategic vision: The government needs to steer the system with a national skills strategy linked to wider economic and industrial policy and a 'Skills and Workforce Council' to oversee the strategy's delivery.

Ensuring adequate and strategic funding, particularly for FE and its workforce: Government has a vital role in providing sufficient funding for the skills system, particularly for Further Education (FE). The report calls for multi-year funding settlements for FE to enable strategic planning. It also recommends a workforce strategy for FE to tackle the growing issues of pay, contracts, and workload, which are barriers to recruitment and retention in the sector.

Tackling barriers to access and participation: Government must address barriers that prevent individuals, particularly young and disadvantaged learners, from accessing skills development opportunities. Recommendations include fully funding level 2 and 3 apprenticeships at SMEs, a multi-pronged strategy to address barriers to apprenticeships, and extending the Pupil Premium to support FE students.

Empower individuals to engage in lifelong learning: The government should develop a Universal 'Skills Account' and 'Skills Passport' to help individuals navigate their own learning journey across their life.

Incentivising non-governmental actors to play their part: The government should change the apprenticeship levy to incentivise employers better to invest in the training of early career individuals (at levels 2 and 3) and for employers to take part in exchange programmes between the FE workforce and industry. These are collective action problems which require government intervention to align incentives.

4. 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?

Government policies on skills has lacked consistency over time. The Skills 2030 report found that the skills policy has been hurt by a lack of long-term strategic vision and fragmentation in decision-making (see discussion pages 13-14).

To address these issues, the report makes several recommendations for reform:

1. *Develop a long-term national skills strategy*: The government should create a national skills strategy linked to wider economic and industrial policy. This should provide a stable, long-term vision for the skills system.
2. *Create a 'Skills and Workforce Council'*: This body would oversee the delivery of the skills strategy and lead on cross-departmental coordination of skills policy, providing greater coherence and stability for skills decision-making.
3. *Devolve skills policy and funding decisions*: Give Mayoral Combined Authorities and other devolved areas more control over skills provision in their locality to enable skills delivery to be more responsive to local needs.

5. 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?

The Skills 2030 report recommends a mix of national and regional institutions, with proposed changes at each level. A national Skills and Workforce Council (SCW) should be introduced to provide strategic oversight and coordination. Regional authorities would be empowered to shape provision according to local needs, with greater control over adult skills funding and a strengthened role in Local Skills Improvement Plans (LSIPs).

6. 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?

The Skills Commission is concerned by the following developments

1. *Decline in lower-level apprenticeships*: The levy has coincided with a significant decrease in apprenticeship starts at lower qualification

levels (levels 2 and 3), which are key entry routes into work for young people.

2. *Shift in apprenticeship demographics:* The age composition of apprenticeships has shifted, with an increase in starts by over-25s and a reduction in starts for under-25s.
3. *Underspend on the levy:* Levy funds are going unspent and being reclaimed by the Treasury. In 2022-23, around 14% of the levy raised (£514 million) was not spent on training.

The levy must be reformed to protect and grow the amount of apprenticeship funding that is targeted at early-career individuals, whether young people or career switchers later in life.

50% of a levy-paying employer's funds should be ringfenced for apprenticeships at level 2 and 3. This would help to protect the pipeline of entry-level apprenticeships. The competition for levy funds (which harms young people) should be reduced by ensuring that *all* funds should be allocated to training and not be retained by the Treasury.

7. 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?

N/A

8. 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?

There are significant incentives for employers to invest in training:

1. *Addressing skills shortages:* Many sectors face significant skills gaps which hamper their productivity and growth. Investing in training can help businesses to build the skilled workforce they need to thrive.
2. *Boosting productivity:* Skilled workers are typically more productive, innovative and adaptable.
3. *Enhancing retention:* Offering high-quality training and development opportunities can help businesses attract and retain talented staff, reducing the costs associated with high turnover.
4. *Responding to technological change:* Investing in continual workforce development is crucial for businesses to stay ahead of technological shifts and adapt to new ways of working.

However, there are also a range of issues that are likely part of the reason for the decline in investment in recent decades:

1. *Labour mobility*: In a more flexible labour market, employers may be less inclined to invest in training if they fear that employees will subsequently leave to work for a competitor. This collective action problem can lead to underinvestment in training.
2. *Inadequate incentives*: The current policy environment may not provide sufficient incentives for employers to invest in training. Many employers see the apprenticeship levy as a tax rather than an opportunity for strategic investment in skills.
3. *Lack of flexibility*: Levy funds can only be used for apprenticeship training and expire after 24 months, discouraging some employers from engaging with it. Some employers are 'shoehorning' existing training into apprenticeships just to recoup their levy payments.
4. *Policy churn and complexity*: Navigating the skills system and accessing relevant training can be complex and time-consuming for employers, particularly SMEs. This is particularly a problem when policy keeps changing. The administrative burden may discourage some firms from investing in training.
5. *Economic environment*: Firms invest in staff training when they generally feel comfortable investing—when economic conditions feel favourable to them for growth. In challenging economic circumstances, cutting back on training is often a first port of call.

9. 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?

To strengthen employer incentives to invest in training, the Skills 2030 report recommends:

1. Greater flexibility in the use of Apprenticeship Levy funds, including the ability to use funds for non-apprenticeship training.
2. Longer expiry periods for levy funds to enable more strategic planning.
3. Ringfencing to ensure sizeable investment in early-career apprentices. 50% of the pot of levy funds that levy-paying firms amass should be ringfenced for level 2 or 3 apprenticeships
4. A stable long-term policy environment that gives businesses the confidence to invest in skills over the longer term – with a national skills strategy and a Skills and Workforce Council to oversee it.

10. What incentives do individuals have to involve themselves in apprenticeships and training? Is the system available and attractive enough to encourage individuals to seek training, and if not, what can be done to improve this?

To make the skills system more attractive and accessible to individuals, the Skills 2030 report recommends several reforms.

1. Increased financial support for young apprentices (16-19), including free travel for 16-19-year-olds, exemption from benefits reductions, VAT relief on equipment costs, and access to maintenance loans (see recommendation 5 and discussion on pages 27-28)
2. Enhanced access to time off to train, more free courses and enhanced lifelong career guidance (see recommendation 9 and discussion on pages 41-43 of the report).
3. A simpler digital system to fund and find qualifications as an adult (see recommendation 10 and discussion on pages 43-45).

11. How does the UK's approach to skills and training compare to those of other countries? Are there examples of good practice that the UK should be learning from?

The Skills 2030 report offers some insights into areas where the UK appears to be lagging behind and suggests some international practices that the UK could learn from.

Areas where the UK is lagging:

1. *Funding for vocational education:* The UK is an international outlier in its approach to funding technical and vocational training. In 2020, the UK had one of the largest funding gaps in the OECD between academic and technical education pathways for 16-19-year-old students, with technical students receiving 23% less funding than their academic counterparts. Many other OECD countries prioritize funding for technical education.
2. *Employer investment in training:* Employer investment in training in the UK is around half of what employers spend in European countries.

Examples of international good practice:

1. *Paid training leave:* Several European countries provide more generous entitlements for workers to take paid time off for training. Austria subsidises a one-year career break for training, while France and Belgium provide subsidized training leave.
2. *Individual Learning Accounts:* The report recommends the introduction of a 'Universal Skills Account'. This would extend the digital account of the Lifelong Learning Entitlement (planned for 2025) beyond Levels 4 to 6 qualifications, encompassing all qualification levels in post-18 education. Worldwide, many countries

are successfully running some version of learner-driven funding accounts.

16 September 2023