

**Prosperity for all  
in the global economy  
- world class skills**

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**Executive Summary and Foreword**

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# FOREWORD

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In the 19th Century, the UK had the natural resources, the labour force and the inspiration to lead the world into the Industrial Revolution. Today, we are witnessing a different type of revolution. For developed countries who cannot compete on natural resources and low labour costs, success demands a more service-led economy and high value-added industry.

In the 21st Century, our natural resource is our people – and their potential is both untapped and vast. Skills will unlock that potential. The prize for our country will be enormous – higher productivity, the creation of wealth and social justice.

The alternative? Without increased skills, we would condemn ourselves to a lingering decline in competitiveness, diminishing economic growth and a bleaker future for all.

The case for action is compelling and urgent. Becoming a world leader in skills will enable the UK to compete with the best in the world. I am very optimistic.

I was asked by the Government in 2004 to consider what the UK's long-term ambition should be for developing skills in order to maximise economic prosperity, productivity and to improve social justice.

This challenge is formidable. Skills matter fundamentally for the economic and social health of the UK. I have listened to key stakeholders and eminent thinkers at home and abroad. There is consensus that we need to be much more ambitious and a clear message that the UK must 'raise its game'.

Today the UK is in a strong position with a stable and growing economy. We have world-leading employment rates. However, we cannot be complacent and we cannot predict future economic conditions with certainty, but we do know that demand for skills will grow inexorably.

Demographic, technological and global changes present enormous challenges and brilliant opportunities. The population continues to age. Technological developments are occurring faster than we dreamed, dramatically altering the way we work. Competitive pressures on all sectors of the economy are increasing. Manufactured goods, and increasingly services, are traded across the world. Developed nations are relying more and more on their capacity to innovate to drive economic growth. The ability to do this depends upon the skills and knowledge of their people.

Our nation's skills are not world class and we run the risk that this will undermine the UK's long-term prosperity. Productivity continues to trail many of our main international comparators. Despite recent progress, the UK has serious social disparities with high levels of child poverty, poor employment rates for the disadvantaged, regional disparities and relatively high income inequality. Improving our skill levels can address all of these problems.

How is the UK placed to respond to this challenge? We have many important strengths – an excellent higher education system where more people than ever are studying for degrees; many good initiatives on vocational training; an increasingly effective school system; and a strong record of improvement over the past decade.

We also have very considerable weaknesses. Today, more than one third of adults do not hold the equivalent of a basic school-leaving qualification. Almost one half of adults (17 million) have difficulty with numbers and one seventh (5 million) are not functionally literate. This is worse than our principal comparators. Continuing to improve our schools will not be enough to solve these problems. Today, over 70 per cent of our 2020 workforce have already completed their compulsory education.

**Our intermediate and technical skills lag countries such as Germany and France. We have neither the quantity nor the quality of necessary vocational skills. We have made enormous progress expanding higher education – and this is critical to becoming a high-skill economy. Over one quarter of adults hold a degree, but this is less than many of our key comparators, who also invest more. Our skills base compares poorly and, critically, all of our comparators are improving. Being world class is a moving target.**

**It is clear from my analysis that, despite substantial investment and reform plans already in place, by 2020, we will have managed only to ‘run to stand still’. On our current trajectory, the UK’s comparative position will not have improved significantly. In the meantime, the world will have continued to change and the global environment will be even harsher. The scale of the challenge is daunting.**

**Our recommendations start with an ambitious vision. The UK must become a world leader in skills. Skills is the most important lever within our control to create wealth and to reduce social deprivation.**

**We recommend radical change right across the skills spectrum. We have defined clear ambitions at basic, intermediate and higher skills. Our study focuses on adult skills but we express concern and suggest action for 14-19s.**

**‘Economically valuable skills’ is our mantra. Institutional change and simplification are necessary. However, we have tried to identify how to deliver better on what we have rather than to invent many more new structures.**

**Too many of us have little interest or appetite for improved skills. We must begin a new journey to embed a culture of learning. Employer and individual awareness must increase.**

**To reach our goals, we as a society must invest more. It is clear who will pay. It is all of us – it is the State, employers and individuals. But this will be the best investment we could ever make.**

**We have worked closely with the Devolved Administrations in Northern Ireland, Scotland and Wales. While many of our recommendations are specific to England, the issues are common to the four countries. The Devolved Administrations are analysing what best applies to them.**

**We look forward to a considered response.**

**This has been a complicated task and hard work. I acknowledge the support, advice and encouragement from many people. Thank you.**



**Lord Leitch**

# EXECUTIVE SUMMARY

The Leitch Review was tasked in 2004 with considering the UK's long-term skills needs. The UK is building on economic strength and stability, with 14 years of unbroken growth and the highest employment rate in the G7. Its skills base has improved significantly over the last decade with rising school standards and growth in graduate numbers. Despite this, the UK's skills base remains weak by international standards, holding back productivity, growth and social justice. The Review has found that, even if current targets to improve skills are met, the UK's skills base will still lag behind that of many comparator countries in 2020. The UK will run to stand still.

The global economy is changing rapidly, with emerging economies such as India and China growing dramatically, altering UK competitiveness. The population is ageing, technological change and global migration flows are increasing. There is a direct correlation between skills, productivity and employment. Unless the UK can build on reforms to schools, colleges and universities and make its skills base one of its strengths, UK businesses will find it increasingly difficult to compete. As a result of low skills, the UK risks increasing inequality, deprivation and child poverty, and risks a generation cut off permanently from labour market opportunity. The best form of welfare is to ensure that people can adapt to change. Skills were once a key lever for prosperity and fairness. Skills are now increasingly the key lever. A radical step-change is necessary.

**A compelling vision for the UK.** The Review recommends that the UK commit to becoming a world leader in skills by 2020, benchmarked against the upper quartile of the OECD. This means doubling attainment at most levels. Stretching objectives for 2020 include\*:

- **95 per cent of adults to achieve the basic skills of functional literacy and numeracy**, an increase from levels of 85 per cent literacy and 79 per cent numeracy in 2005;
- **exceeding 90 per cent of adults qualified to at least Level 2**, an increase from 69 per cent in 2005. A commitment to go further and achieve 95 per cent as soon as possible;
- **shifting the balance of intermediate skills from Level 2 to Level 3**. Improving the esteem, quantity and quality of intermediate skills. This means 1.9 million additional Level 3 attainments over the period and boosting the number of Apprentices to 500,000 a year;
- **exceeding 40 per cent of adults qualified to Level 4 and above**, up from 29 per cent in 2005, with a commitment to continue progression.

**Principles.** The following principles underpin delivery of a raised ambition:

- **shared responsibility.** Employers, individuals and the Government must increase action and investment. Employers and individuals should contribute most where they derive the greatest private returns. Government investment must focus on market failures, ensuring a basic platform of skills for all, targeting help where it is needed most;
- **focus on economically valuable skills.** Skill developments must provide real returns for individuals, employers and society. Wherever possible, skills should be portable to deliver mobility in the labour market for individuals and employers;

\* Broad definitions. Adults means age 19 to State Pension age. Basic means everyday literacy and numeracy skills. Level 2 equates to 5 good GCSEs; Level 3 equates to 2 'A' levels; Level 4 equates to a degree (or their vocational equivalents).

- **demand-led skills.** The skills system must meet the needs of individuals and employers. Vocational skills must be demand-led rather than centrally planned;
- **adapt and respond.** No one can accurately predict future demand for particular skill types. The framework must adapt and respond to future market needs; and
- **build on existing structures.** Don't always chop and change. Instead, improve performance of current structures through simplification and rationalisation, stronger performance management and clearer remits. Continuity is important.

**The Prize for the UK.** The prize for achieving this ambition is great – a more prosperous and fairer society. The Review estimates a possible net benefit of at least £80 billion over 30 years. This would come from a boost in the productivity growth rate of up to 15 per cent and an increase in the employment growth rate by around 10 per cent. Social deprivation, poverty and inequality will diminish.

**Remit.** The Review's remit is to focus on adult skills. This is because 70 per cent of the 2020 working age population have already left compulsory education and the flow of young people will reduce. However, the Review also recognises how vital effective education for young people is to the new ambition. School standards have improved over the past decade, with more young people than ever achieving five good GCSEs. And yet, more than one in six young people leave school unable to read, write and add up properly. The proportion of young people staying in education past 16 is below OECD average. The Review emphasises how critical reforms to GCSEs are to improve functional literacy and numeracy. The new 14-19 Diplomas must succeed. Once the Government is on track to successfully deliver Diplomas, demonstrated by rising participation at age 17, it should implement a change in the law, so that all young people must remain in full or part-time education or workplace training up to the age of 18.

#### **Main recommendations**

- **increase adult skills across all levels.** Progress towards world class is best measured by the number of people increasing skills attainment. The raised ambitions will require additional investment by the State, employers and individuals. The Government is committed to increasing the share of GDP for education and skills. Additional annual investment in skills up to Level 3 will need to rise to £1.5-2 billion by 2020. Increased investment is required in higher education, but costings are difficult to project accurately;
- **route all public funding for adult vocational skills in England, apart from community learning, through Train to Gain and Learner Accounts by 2010.**
- **strengthen employer voice.** Rationalise existing bodies, strengthen the collective voice and better articulate employer views on skills by creating a new Commission for Employment and Skills, reporting to central Government and the devolved administrations. The Commission will manage employer influence on skills, within a national framework of individual rights and responsibilities;
- **increase employer engagement and investment in skills.** Reform, relicense and empower Sector Skills Councils (SSC). Deliver more economically valuable skills by only allowing public funding for vocational qualifications where the content has been approved by SSCs. Expand skills brokerage services for both small and large employers;
- **launch a new 'Pledge' for employers to voluntarily commit to train all eligible employees up to Level 2 in the workplace.** In 2010, review progress of employer delivery. If the improvement rate is insufficient, introduce a statutory entitlement to workplace training at Level 2 in consultation with employers and unions;

- **increase employer investment in Level 3 and 4 qualifications in the workplace.** Extend Train to Gain to higher levels. Dramatically increase Apprenticeship volumes. Improve engagement between employers and universities. Increase co-funded workplace degrees. Increase focus on Level 5 and above skills;
- **increase people's aspirations and awareness of the value of skills to them and their families.** Create high profile, sustained awareness programmes. Rationalise existing fragmented 'information silos' and develop a new universal adult careers service; and
- **create a new integrated employment and skills service,** based upon existing structures, to increase sustainable employment and progression. Launch a new programme to improve basic skills for those out of work, embedding this support for disadvantaged people and repeat claimants. Develop a network of employer-led Employment and Skills Boards, building on current models, to influence delivery.

**Impact.** These recommendations will have a strong and enduring impact across all sectors of society. For example:

- all individuals will have a greater awareness of the value of skills development and easier access to the opportunities available;
- workless people will have a better chance to find a job through effective diagnosis of their skills needs and greater support as they make the transition into sustainable work;
- low-skilled workers will have more chances to gain a full Level 2 qualification and basic skills in the workplace through Train to Gain, and more control over flexible, rewarding learning through their Learner Account;
- skilled workers will have more opportunities to develop their careers in the workplace, through Apprenticeships, degrees and management and leadership programmes;
- small firms will have easier access to relevant training for their employees. Management skills, competitiveness and productivity will improve;
- employers will have more influence over skills strategy within a simplified system, greater incentives to invest in skills across all levels; advice through expanded skills brokerage and increased assistance for workplace training; and
- skills deficiencies will reduce. Upskilling and portable, economically valuable qualifications throughout the entire workforce will ensure improved labour supply.

The UK will be able to compete with the best in the world. Productivity and employment rates will increase. Poverty and inequality will decrease.

**Next steps.** This policy framework will deliver world class skills. The UK Government and Devolved Administrations in Northern Ireland, Scotland and Wales must now act to decide detailed next steps. The Government will need to consider value for money, capacity of the system to absorb investment, the balance between private and public investment and the trade off with other priorities when making its investment decisions.

**1** The Chancellor of the Exchequer and the Secretary of State for Education and Skills commissioned the Leitch Review in 2004 to examine the UK's optimal skills mix in order to maximise economic growth, productivity and social justice. In addition, the Review was asked by the Chancellor in Budget 2006 to consider how best to integrate employment and skills services.

**2** Skills policy in the UK is devolved. The Review has worked closely with the Devolved Administrations in Scotland, Wales and Northern Ireland. Its analysis of the UK's skills needs has implications for the policies and targets of the Devolved Administrations (DAs).

## THE CENTRAL IMPORTANCE OF SKILLS

### Box 1: What do we mean by skills?

Skills are capabilities and expertise in a particular occupation or activity. There are a large number of different types of skills and they can be split into a number of different categories. Basic skills, such as literacy and numeracy, and generic skills, such as team working and communication, are applicable in most jobs. Specific skills tend to be less transferable between occupations. Most occupations use a mix of different types of skills.

The most common measures of skills are qualifications. On the job training in the workplace is a vital source of skills development and career progression. The Review recognises the importance of looking at these wider definitions of skills. For individuals, they provide portability in the labour market, allowing them to demonstrate the skills they have acquired. For employers, they provide valuable signals when recruiting new workers and also motivate employees to complete their training. Qualifications form a major part of employer recruitment strategies, especially screening candidates prior to interview. As a result, the majority of individuals prefer studying towards a qualification<sup>a</sup> and over one half of employers say they would like to support their employees to gain qualifications through staff training.<sup>b</sup>

Qualifications can be grouped into five different levels: full level 2 equates to 5 good GCSEs or their vocational equivalents, full level 3 to two or more A Levels and level 4 and above to degree level qualifications. Levels of literacy and numeracy tend to be based on surveys or on the proportion of the workforce with English or Maths qualifications.

<sup>a</sup> National Audit Learning Survey, 2002.

<sup>b</sup> The market for qualifications in the UK, PWC, 2005.

**The UK economy 3** The UK is in a strong economic position. Economic growth is unbroken for 14 years, the longest period of economic expansion on record. The UK's employment rate is one of the highest in the G7, with 2 million more people employed now than in 1997. The challenge for the UK is to build on this, further increasing prosperity in a changing and more competitive global economy.

**4** The UK economy has changed significantly over time. Today the service sector accounts for around three quarters of the UK economy. Almost 29 million people are employed in the UK. Of these, 3 million are self-employed. Small firms with less than 50 employees, excluding the self-employed, account for around one quarter of employment, with large firms accounting for just under one half. The public sector contains more than 20 per cent of total employment. Improving the UK's economic prosperity will mean responding to the challenges that the different types of employer in the UK face.

**Global economic changes** 5 The UK's challenge is to drive greater increases in prosperity as the global economy changes fundamentally. Emerging economies, such as India and China, are growing dramatically. In 2005, economic growth in China exceeded 10 per cent. By 2015, China is likely to have become the third largest economy in the world.<sup>1</sup> Technology is rapidly breaking down the barriers between what can and cannot be traded. All work that can be 'digitised', automated, and outsourced can increasingly be done by the most effective and competitive individuals or enterprises, wherever they are located.<sup>2</sup>

6 Greater economic integration has been accompanied by increased global migration flows. Net migration to the UK was 185,000 in 2005.<sup>3</sup> The latest estimates show that around 510,000 people from the A8 accession countries<sup>4</sup> have registered to work in the UK since May 2004. Migration generally has a positive effect, helping to mitigate skills shortages and fill jobs that cannot be filled domestically. However, the perception is that individual competition for jobs increases in the short-term.

7 The Review has found that such changes are rapidly increasing the importance of skills. The Organisation for Economic Co-operation and Development (OECD) stresses that, as emerging economies start to deliver high skills at moderate cost, the OECD countries must themselves reform their skills policy.<sup>5</sup> As the global economy changes, an economy's prosperity will be driven increasingly by its skills base.

## Productivity

8 The UK's productivity – how much workers produce – has improved in recent years. Despite this, productivity in the UK still lags behind that of comparator nations: the average French worker produces 20 per cent more per hour than the average UK worker, the average German worker 13 per cent more and the average US worker 18 per cent more. Skills are a key lever within our control to improve productivity in the workplace – 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. Differences in management practices between the USA and the UK, for example, explain 10 to 15 per cent of the productivity gap in manufacturing between the two countries.<sup>6</sup> This indicates that both skills provision and management are important elements in increasing productivity.

<sup>1</sup> Based on market exchange rates. See *Long-term global economic challenges and opportunities for the UK*, HM Treasury, 2004.

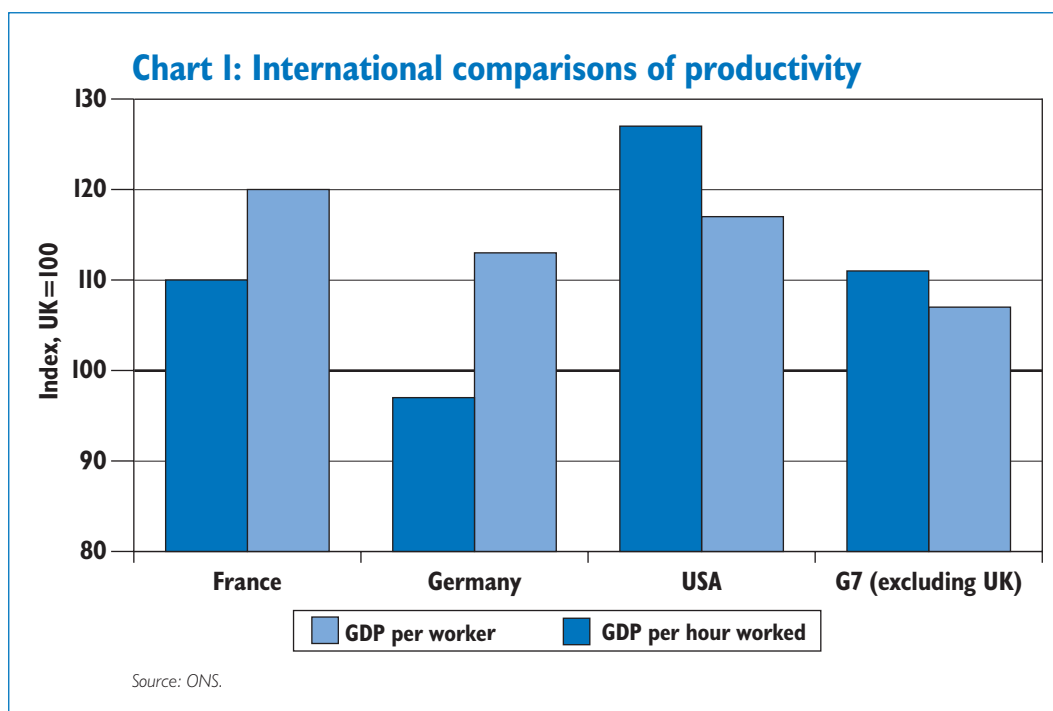
<sup>2</sup> Friedman, 2005.

<sup>3</sup> ONS, 2006.

<sup>4</sup> A8 countries are Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

<sup>5</sup> *Education at A Glance*, OECD 2006.

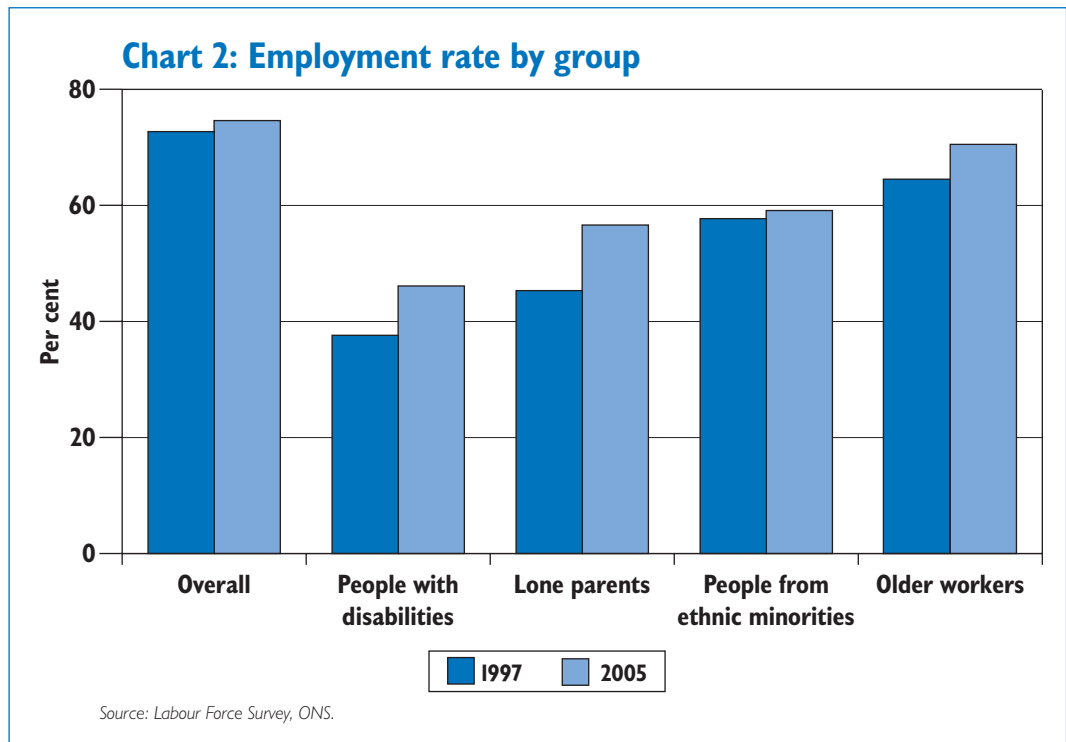
<sup>6</sup> *Management practices across firms and nations*, Bloom et al., LSE-Mckinsey, June 2005.



**9** Productivity is increasingly driven by skills. The ability of firms to succeed in the face of growing international competition depends increasingly on the skilled labour force they can draw from. Skilled workers are better able to adapt to new technologies and market opportunities. Higher levels of skills drive innovation, facilitate investment and improve leadership and management. For innovation to be effectively implemented, businesses must be able to draw on a flexible, skilled workforce.

## Employment

**10** The UK's employment rate – the proportion of the population in work – is one of the highest in the G7 at almost 75 per cent. The employment rate of disadvantaged groups, such as lone parents and people with health problems and disabilities, has risen faster than the average over the past decade. Despite this, more than 20 per cent are economically inactive (not in work or looking for work). Many people in this group want to work. The UK's economy can drive forward even further by increasing the available workforce.



**II** Increasingly, skills are a key determinant of employment – less than one half of those with no qualifications are in work, compared to nearly 90 per cent of those with graduate level qualifications. The employment rate of those with no qualifications has fallen over the past 10 years at a time when the employment rates of most disadvantaged groups have risen more quickly than the average. Lack of skills can be a key barrier to employment for people from some ethnic minorities and other disadvantaged groups.

**I2** In the new global economy, people's economic security will not depend on trying to protect particular jobs, holding back the tide of change. It is not enough to rely on the traditional model of protecting people from change. Instead, the best form of welfare will be to ensure people can find their next job, staying in the labour market. The best way to do this is to ensure that people have a basic platform of skills that allows flexibility and can update their skills as the economy changes. For people to progress in the modern labour market, they must be able to update their skills to adapt to change. Updating skills and retraining will increase in importance as many of us have longer working lives. World class skills are inexorably tied to world class employment.

**Wider benefits I3** Skills are a key driver of fairness; unequal access to skills has contributed to relatively high rates of child poverty and income inequality in the UK. There are clear links between skills and wider social outcomes, such as health, crime and social cohesion. Skills have important impacts on financial capability, helping households to manage the family finances and family life, enabling parents to help their children with their homework.<sup>7</sup>

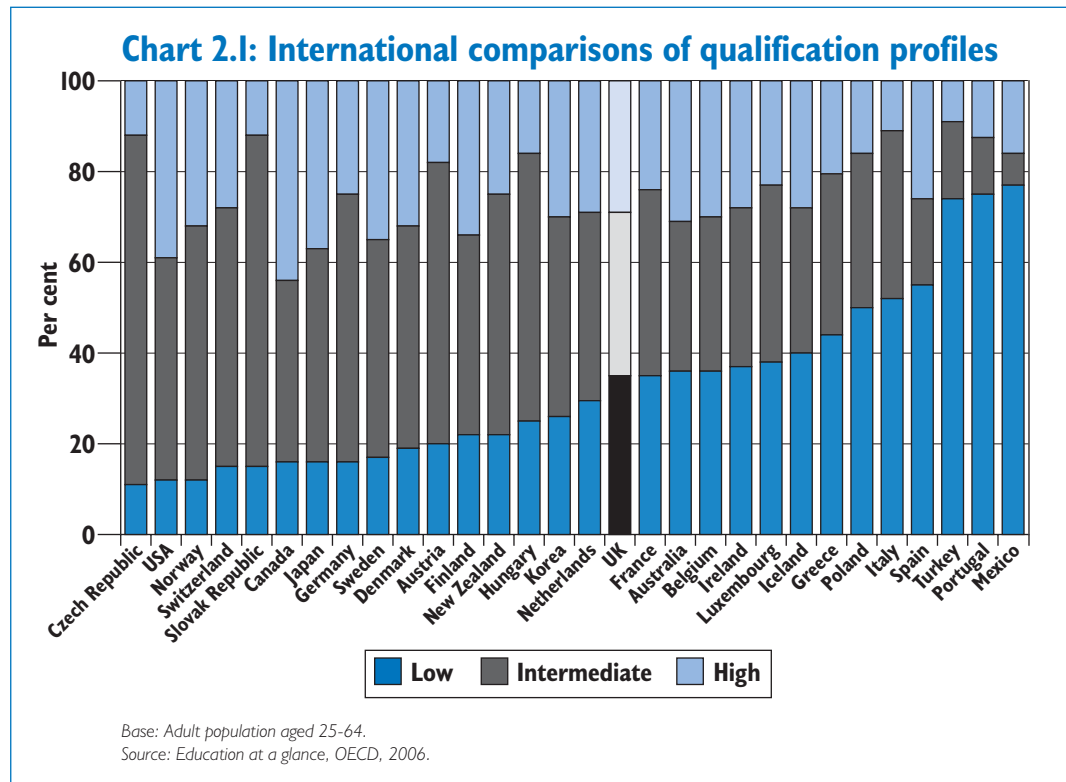
**Critical importance of world class skills I4** To achieve world class prosperity and fairness in the new global economy, the UK must achieve world class skills. Without world class skills, UK businesses will find it increasingly difficult to compete and innovate. The employment opportunities of the lowest skilled will continue to decline, risking a lost generation, cut off permanently from labour market opportunity. The Review has concluded that, where skills were once a key driver of prosperity and fairness, they are now *the* key driver. Achieving world class skills is *the* key to achieving economic success and social justice in the new global economy.

<sup>7</sup> *Education and skills: The economic benefit*, DfES, 2003.

## THE UK'S HISTORIC SKILLS DEFICIT

**15** The UK's skills base has suffered from historic deficits built up over a long period of time, despite pockets of excellence. The UK's skills base has improved significantly over recent years as reforms have begun to succeed in driving improvements. The proportion of people with a Level 4 and above qualification has risen from 21 per cent in 1994 to 29 per cent in 2005. The proportion of people with no qualifications has fallen from 22 per cent in 1994 to 13 per cent in 2005. The number of Apprentices in England has grown from 76,000 in 1997 to 256,000 in 2005.<sup>8</sup> Today around 42 per cent of young people age 18-30 participate in higher education, more than ever before.

**16** Other countries have also been improving their skills, often from a higher base. As a consequence, the UK's skills base remains mediocre by international standards. In OECD comparisons of 30 countries, the UK lies 17th on low skills, 20th on intermediate and 11th on high skills. 7 million adults lack functional numeracy and 5 million lack functional literacy. 17 million adults lack Level 1 numeracy – equivalent to a low level GCSE. The proportion of people with low or no qualifications is more than double that in Sweden, Japan and Canada. More than 50 per cent of people in countries such as Germany and New Zealand are qualified to intermediate level, compared to fewer than 40 per cent in the UK. The proportion of people with high skills is internationally average, but not world leading. The UK invests 1.1 per cent of GDP in higher education compared to 2.9 per cent in the USA and 2.6 per cent in South Korea.



**17** The Review's interim report, published in December 2005, found that the UK's skills base lags behind that of many advanced countries, the product of historic failures in the education and training system. The challenge of delivering economically valuable skills has

<sup>8</sup> Departmental Report, DfES, 2006.

been a longstanding concern for the UK. Even back in 1776, Adam Smith's *'The Wealth of Nations'* suggested that *'the greater part of what is taught in schools and universities ... does not seem to be the proper preparation for that of business'*.

**18** The balance of responsibilities for improving adult skills between government, employers and individuals has changed over time. In 1964, a period of compulsory training activity for employers began with the introduction of Industrial Training Boards (ITBs) and a training levy system. In 1973, the Manpower Services Commission (MSC) was established to plan workforce skill needs, also with statutory powers to improve skills and training among employers. By the 1980s, most of the ITBs were abolished and more voluntarist initiatives and organisations introduced to replace them. These included Training and Enterprise Councils (TECs) in 1989, and National Training Organisations (NTOs) in 1992, as employer-led bodies to assess sectoral and local training needs.

**19** The previous system was focused on asking employers to collectively articulate their future skills needs and then trying to plan to meet these needs. Too often, collective articulation of future skills needs has been an ineffective and inefficient mechanism. As a result, too much provision has been supply driven, based on trying to predict and provide. Consequently, employers were reluctant to contribute toward training costs because they did not have confidence in the quality of training on offer and felt frustrated by the lack of influence over qualifications. At the same time, they felt let down by poor levels of basic literacy and numeracy resulting from a failing school system.

**20** People were unable to access quality training at a time and place that fitted in with their job, had little choice over training and faced a complex system of financial support. The Government saw its role as protecting people from change through income support, rather than preparing them for it through skills support. It focused on overseeing a training system that tried to predict and provide future skill needs from the centre, rather than empowering people and employers to make the right training decisions for themselves.

**21** The impact of this was seen in:

- too little investment by employers in their employees;
- too little responsibility taken by individuals for their own learning;
- a qualification system divorced from the needs of the modern workplace; and
- a welfare system not meeting the needs of people in a fast-changing economy.

## Skills in the UK today

**22** Over the last decade, the division of responsibilities between government, employers and individuals has continued to evolve. A major recent innovation has been the introduction of the Train to Gain service offering employers workplace training to meet their needs, with public subsidy for training for first, full Level 2 qualifications and support for wider training beyond that level. This 'demand-led' approach is a success. The Employer Training Pilots, on which the rollout of Train to Gain is based, proved effective at engaging employers and employees and are popular with business: 30,000 employers and 250,000 employees had participated by March 2006.<sup>9</sup>

<sup>9</sup> ETP Management Information.

**23** Currently, employers collectively articulate their qualification needs through their Sector Skills Council (SSC). Their main tasks have been to drive up employer demand for skills and influence provision through drawing up Sector Skills Agreements (SSAs) to ensure that planned provision meets employer needs. They have also had a lead role in developing Sector Qualification Strategies, alongside the Qualifications and Curriculum Authority (QCA) and developing Skills Academies, together with the LSC. There are encouraging signs that the current system of SSCs is bedding down well, with some examples of excellence. However, overall performance is patchy due to conflicting objectives, the lack of a clear remit, deficiencies in performance management and ineffective leadership. Employers through SSCs are empowered to introduce measures, such as levies and licences to practise, where a clear majority in that sector support it.

#### **Box 2: A demand-led system**

**The Review's analysis shows that previous approaches to delivering skills have been too 'supply driven', based on the Government planning supply to meet ineffectively articulated employer demand. This approach has a poor track record – it has not proved possible for employers and individuals to collectively articulate their needs or for provision to be effectively planned to meet them. Employers are confused by the plethora of advisory, strategic and planning bodies they are asked to input to. Under a planned system, the incentives are for providers to continue doing what they have done in the past so long as that meets the requirements of planning, rather than responding flexibly as demand changes. As a result, less than 10 per cent of employer training is in further education colleges.**

**Recent reforms in England have attempted to develop a more 'demand-led' system, responding to demand rather than trying to plan supply. Train to Gain provides flexible training, designed to meet the needs of employers and employees. Providers only receive funding if they effectively meet the needs of their customers. The Employer Training Pilots show that this approach leads to provision that better reflects the needs of consumers, increasing relevance, higher completion rates and value for money.**

**The Review has concluded that this sort of approach must be embedded across the system so that providers only receive funding as they attract customers, rather than receiving a block grant based upon supply-side estimates of expected demand. Building a demand-led system is the only way in which to increase employer and individual investment in skills and ensure that increased investment delivers economically valuable skills.**

**24** Employers, individuals and the Government all invest significantly in skills improvements. In England, employers spend around £2.4 billion on direct course costs and up to £17.4 billion in total, excluding the wages of employees. Employer investment in skills varies significantly by type of employee, type of employer and sector of the economy. Training by employers is disproportionately focused on highly-skilled workers, who are five times more likely to be trained at work than low skill workers. Around one third of firms do no training at all, and this varies between 50 per cent of employers in some sectors to just under 5 per cent in the best performing sectors.

**25** The Government in England invests around £12 billion on adult skills each year, of which around £4.5 billion is on further education (FE), including work-based learning, and £7.4 billion on higher education (HE). These are the overall costs of tuition, learner support and capital. Individuals will pay £1.35 billion per annum through the new variable tuition fees, on top of the existing £0.9 billion per annum income from standard fees.

**26** However, the combined level of investment compares poorly by international standards. Although the overall proportion of adults trained is relatively high (61 per cent), only 19 per cent of adults in the UK report contributing any of their own funding towards education and training, compared with an OECD average of 37 per cent. In addition funding for higher education in the UK from both public and private sources is low by international standards – less than one half that in the USA and 40 per cent lower than in Sweden.

### Skills and employment

**27** The Review has found that the skills and employment systems, which should work in tandem to improve people's job chances, are disjointed. Out of work support is not joined up with in work support. There are no effective links between someone moving into work from the New Deal and in work support such as Train to Gain that can help them stay in work and progress. Current skills and employment services have different aims, which means that delivery can be complex with an array of agencies trying to give help and advice to people. As a result, individuals do not receive the support they need and are unsure how and where to access it.

**28** The key employment objective of the Department for Work and Pensions (DWP) is to increase the employment rate over the economic cycle. It has translated this into operational targets for Jobcentre Plus to help a certain number of people into work each year, with a focus on disadvantaged groups. Welfare to Work providers are also rewarded if their clients are still in work after 13 weeks. The short-term focus moves attention away from pre-work interventions that might improve the sustainability of employment, as well as creating little incentive to build links with in-work support that might improve retention. Two-thirds of Jobseekers' Allowance claims are repeat ones.

### Skills projections for 2020

**29** History tells us that no one can predict with any accuracy future occupational needs. The Review is clear that skill demands will increase at every single level. Better skills will be needed at higher levels to drive leadership, management and innovation – these are key drivers of productivity growth. Intermediate skills must be improved to implement investment and innovation. Basic skills are essential for people to be able to adapt to change. People lacking basic skills will be most at risk of exclusion in a global economy.

**30** Improving the skills of young people, while essential, cannot be the sole solution to achieving world class skills. Improvements in attainment of young people can only deliver a small part of what is necessary because they comprise a small proportion of the overall workforce. Demographic change means that there will be smaller numbers of young people flowing into the workforce towards 2020.

**31** More than 70 per cent of the 2020 working age population are already over the age of 16. As the global economy changes and working lives lengthen with population ageing, adults will increasingly need to update their skills in the workforce. There is a pressing need to raise the rates of skills improvements among adults – the UK cannot reach a world class ambition by 2020 without this.

**32** The Government and Devolved Administrations have extremely demanding targets already in place to improve skills across the UK, for young people and adults and across all skill levels. These will be difficult to achieve and must not be taken for granted. Even if these targets are met, the Review has found that the UK will still fail to significantly improve its relative position by 2020, lagging behind key comparator nations with deficits across all skill levels:

- 4 million people will still lack functional literacy skills, and over 6 million will lack functional numeracy skills;
- the UK will be 15th out of 30 OECD countries in low skills, with 11 per cent of those aged over 25 still lacking the equivalent of a basic school leaving qualification, treble that of the best performing OECD countries;

- 13th in intermediate skills, with 46 per cent of those aged over 25 qualified to this level, less than in Germany, New Zealand and Finland among others; and
- 13th in terms of those aged over 25 who have attained high qualifications, still lagging behind key comparators such as the USA, Canada, Sweden and Japan.

**33** This continuing shortfall will have profound implications for the UK economy and society, constraining prosperity, business ability to compete, and individual pay and job prospects. To succeed in the new global economy, the UK must raise its sights and aim for world class skills. This will require a new shared national mission, moving beyond the old distinction between voluntarism and compulsion, forging a new compact between the Government, employers, trades unions and individuals.

## A NATIONAL AMBITION FOR WORLD CLASS SKILLS

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**34** **The Review has concluded that the UK must commit itself to a world class skills base in order to secure prosperity and fairness in the new global economy.** The Review recommends moving the UK into the top eight in the world at each skill level by 2020, achieving the top quartile in the OECD.

**35** The Review's analysis shows that achieving world class skills will require the UK to commit to achieving by 2020:<sup>10</sup>

- **95 per cent of adults to have functional literacy and numeracy** (basic skills) up from 85 per cent literacy and 79 per cent numeracy in 2005; more than trebling projected rates of improvement to achieve a total of 7.4 million adult attainments over the period;
- **exceeding 90 per cent of the adult population qualified to at least Level 2**, with a commitment to achieving world class levels as soon as feasible, currently projected to be 95 per cent. An increase from 69 per cent in 2005; a total of 5.7 million adult attainments over the period;
- **shifting the balance of intermediate skills from Level 2 to Level 3.** Improving the esteem, quantity and quality of intermediate skills. Boosting the number of Apprentices to 500,000 by 2020; a total of 4 million adult Level 3 attainments over the period; and
- **world class high skills, exceeding 40 per cent of the adult population qualified to Level 4 and above**, up from 29 per cent in 2005, with a commitment to continue progression. Widening the drive to improve the UK's high skills to encompass the whole working-age population, including 18-30 year olds; a total of 5.5 million attainments over the period. Increase focus on Level 5 and above skills.

**36** These are stretching ambitions, more than doubling the projected rate of attainment in many cases. They are more coherent than the current set of targets: focused on outcomes, measuring attainment rather than participation and covering the whole adult population rather than subsets. Crucially, however, these ambitions will not deliver economic benefits unless they are based on economically valuable skills that are effectively used in the workplace.

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<sup>10</sup> Adults means aged 19 to State Pension age.

## The impact of world class skills

**37** The Government is committed to increasing the share of GDP devoted to education over the lifetime of this Parliament. Spending on skills will benefit as a result of this commitment. The level of ambition set out in this report will require additional investment by the State, employers and individuals. The Review recognises that greater efficiency in delivery, economies of scale and rationalisation in the skills landscape should reduce these costs.

**38** This report recommends the optimal level of skills in the economy. The Review estimates that additional annual investment in skills up to Level 3 will need to rise to around £1.5 - £2 billion by 2020 if we are to achieve world class status at basic and intermediate levels. In addition, increased investment is required in higher education to achieve world class status. Uncertainties over HE participation data and unstable trends across much of the OECD, make it problematic to provide accurate costings for world class levels. There will be a review of funding arrangements for HE in 2009.

**39** It is vital that the necessary reforms and capacity are in place to make best use of any additional investment, for example, to ensure that the additional qualifications are economically valuable. Increasing investment should be phased in carefully over time to ensure that value for money is maintained.

**Balance of responsibility** **40** The costs of raised ambitions must be shared between government, employers and individuals. Government investment in skills should be focused on ensuring everyone has the opportunity to build a basic platform of skills, tackling market failures and targeting help where it is needed most. There are key market failures at all skill levels, but these impact most at the bottom end. The Review recommends a much clearer financial balance of responsibility, based on clear principles of Government funding to be targeted at market failure and responsibility shared according to economic benefit. To meet additional investment this means:

- the Government should provide the bulk of funding for basic skills and the platform of skills for employability, with employers cooperating to ensure employees are able to achieve these skills;
- for higher intermediate skills (Level 3) employers and individuals should make a much higher contribution, in the order of at least 50 per cent; and
- at Level 4 and above, individuals and employers should pay the bulk of the additional costs as they will benefit most.

**41** An outstanding question for Government is to translate these principles into funding formulae, in England for Train to Gain, Learning Accounts and university tuition fees. Where the Government does invest, funding must meet employers' and individuals' needs, within this framework of responsibilities.

**'The prize'** **42** The Review has estimated the enormous benefits that achieving this ambition would bring for the UK. The prize means more economic prosperity and increased social justice. It would deliver a possible net benefit of at least £80 billion over 30 years, an annual average of £2.5 billion. This would be driven by increased productivity and improved employment. The rate of productivity growth would increase by at least 10 per cent, helping to close the UK's productivity gap and leaving the average worker producing £1,800 more output each year by 2020 than would otherwise be the case.

**43** The employment rate would grow 10 per cent more quickly than projected, with at least an additional 200,000 people into work by 2020, helping to move towards the ambition of an 80 per cent employment rate. People will have a fairer chance to progress, there will be less social deprivation and positive wider impacts on health, crime and social cohesion.

## Delivering world class skills

**Young people 44** If the UK is to achieve a world class skills base, it must aim for world class attainment among young people. It is unacceptable in the 21st century in the fifth richest economy in the world that young people should leave school unable to read, write and add up. Yet over one in six young people in England do.<sup>11</sup> The UK must avoid a new generation of people leaving school without basic skills.

**14-19 reform 45** Despite recent improvements, the UK's post-16 participation in education and training is below the OECD average. At age 17, 83 per cent are enrolled in education and training, compared to more than 90 per cent in the best performing countries. International evidence suggests that parity of esteem of the vocational route and a smoothing of the current break point at age 16 are needed to achieve world-leading levels of post-16 participation in education and training. The new specialised Diplomas in England are critical to increasing participation in education and training for all young people.

**46** The 14 – 19 Reform Programme must successfully deliver a fully integrated 14 – 19 phase, including curriculum, funding and financial support; and must ensure appropriate stretch and breadth in A levels. The 2008 Review of progress as set out in the 14 – 19 White Paper published in February, 2005 will be important in identifying what more can be done to achieve their objectives. Once the Government is on track to successfully deliver Diplomas, with rising participation at age 17 and significant improvement in the OECD rankings, it should implement a change in the law, so that all young people must remain in full or part-time education or workplace training up to the age of 18.

**47** Participation in higher education has increased significantly over the last decade so that around 42 per cent of young people now participate in higher education, driving a welcome increase in the proportion of highly skilled workers. However, access to university is extremely inequitable and the correlation between the chances of going to university and parental income have strengthened in recent years. Far too many young people who have the ability to go university are unable to do so because of their background. To tackle this situation will require firm Government action to raise aspirations across society so that those with the ability expect to go to university no matter what their background. It will require continuing the current trend so that standards in schools in the poorest areas rise to match those in the richest areas. And it will require firm action by the regulatory body, the Office for Fair Access.

**48** For the benefits of world class skills to be realised, the Review recommends the following principles underpin their delivery:

- **shared responsibility.** Employers, individuals and the Government must increase investment and action. Employers and individuals should contribute most where they derive the greatest private returns. Government investment must focus on building a basic platform of skills for all, tackling market failures and targeting help where it is needed most;

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<sup>11</sup> *Skills for Life Survey, DfES, 2003.*

- **focus on economically valuable skills.** Skill developments must provide real returns for individuals, for employers and for society at large. Where possible, skills should be portable to deliver mobility in the labour market for individuals and employers;
- **demand-led skills.** The skills system must meet the needs of individuals and employers. Vocational skills must be demand-led rather than centrally planned;
- **adapt and respond.** No one can accurately predict future demand for particular skill types. The framework must adapt and respond to future market needs; and
- **build on existing structures.** Don't always chop and change. Instead, improve the performance of the current structures through simplification and rationalisation, stronger performance management and clearer remits. Continuity is important.

**A new partnership** 49 Since 1945, debate has polarised around whether government needs to regulate to increase employer investment in training. The Review recommends a new partnership, building on the success of Train to Gain in England, that meets the new challenges the UK faces through common action. In practice, this means:

- **Government**, investing more, focusing on the least skilled. Ensuring that the education system delivers a highly-skilled flow into the workforce. Creating a framework to ensure employers and individuals drive the skills system so it delivers economically valuable skills. Being prepared to act on market failures, targeting help where it is needed most. Regulate if necessary and with care to reach the UK's skills ambitions.
- **employers**, to increase their investment in skills to raise productivity, wherever possible increasing investment in portable, accredited training. Ensuring that the skills system delivers economically valuable skills by effectively influencing the system. Pledging to support their low-skilled employees to reach at least a first, full Level 2. Introducing sectoral measures such as levies, where a majority of employers in the sector agree; and
- **individuals**, raising their aspirations and awareness. Demanding more of themselves and their employers. Investing more in their own skills development.

## A DEMAND-LED SKILLS SYSTEM

**50** To achieve a skills system that adds economic value, the Review recommends a simplified demand-led skills system with employers and individuals having a strong and coherent voice.

**Demand-led funding** 51 **Route all adult vocational skills public funding in England, apart from community learning, through Train to Gain and Learner Accounts by 2010.** The (LSC) Learning and Skills Council has made good progress in streamlining its operations. Going forward, the Review recommends further significant streamlining of the LSC and its working relationships with other partners. The LSC will continue to manage Train to Gain, Learner Accounts, Apprenticeships, process funding and ensure effective provider competition. There are some programmes which cannot be made wholly demand-led such as those for adults with disabilities. However, as far as possible, funding should be routed through mechanisms which put effective purchasing power in the hands of customers. This will give training providers a

real incentive to deliver the skills that employers and individuals need, flexibly and responsively. If providers do not deliver, they will not receive public funding. This will ensure that providers deliver training that directly reflects demand from local employers and individuals. This approach is an opportunity for training providers, including FE colleges, to raise their game, to compete on merit and to secure healthy growth. The Devolved Administrations should consider how best to ensure that provision is effectively led by the needs of employers and individuals.

**Commission for Employment and Skills 52** **Strengthen the employer voice, through the creation of a dynamic, employer-led Commission for Employment and Skills** to deliver greater leadership and influence, within a national framework of individual rights and responsibilities. This will rationalise the existing system by merging and streamlining the Sector Skills Development Agency (SSDA) and the National Employment Panel (NEP), both operating across the UK, into a new organisation. In England, the Commission will also replace the Ministerially-led Skills Alliance and will ensure better integration of the current, disjointed Employment and Skills services. It will be responsible for:

- reporting on progress towards the UK's world class ambitions; scrutinising system objectives and delivery; recommending policy and operational improvements and innovations; and
- SSCs and a network of Employment and Skills Boards.

**53** Establishing the employer-led Commission, will help to 'depoliticise' the skills agenda by securing a broad political and stakeholder consensus for the UK's world-class ambitions for 2020 and beyond. This will allow the UK to take a clearer, long-term view of its employment and skills needs towards 2020. Several Cabinet members will have an interest in the Commission. The Review suggests that it reports to the Prime Minister, or the Chancellor of the Exchequer supported by the Secretaries of State for Education and Skills, Work and Pensions and Trade and Industry. The Commission will also report to senior Ministers in Scotland, Wales and Northern Ireland. It will be chaired by an eminent business leader and comprise senior, high profile figures, including the Director General of the CBI and the General Secretary of the TUC. It will also include independent members, for example, relevant academics and representatives from the voluntary sector.

**Sector Skills Councils 54** **Increase employer engagement and investment in skills** – building on international evidence of successful sectoral approaches in Australia and the Netherlands and examples of excellence from existing SSCs. Reform, relicense and empower SSCs to focus on:

- taking the lead role in developing occupational standards, approving vocational qualifications;
- taking the lead role in collating and communicating sectoral labour market data;
- raising employer engagement, demand and investment; and
- considering collective employer action to address specific sector skills needs.

**55** This clearer remit will make it easier to judge whether SSCs are performing effectively. The increased responsibility SSCs will have under this more focused remit, particularly their lead role in qualifications, will give employers a much greater incentive to engage with their SSC and performance manage it from the bottom up. The Commission will performance manage SSCs from the top down, relicensing those that are failing.

**56** For vocational qualifications, only those approved by SSCs should qualify for public funding. Ensuring that only those qualifications approved by employers attract public funding will lead to a simplified qualification system, with fewer qualifications overall and only qualifications delivering economically valuable skills, attracting a return in the labour market, receiving public funding. This would apply to funding for work-based learning qualifications. SSC approved qualifications will be overseen by the QCA operating a risk-based, light-touch regulatory regime. There are currently over 22,000 qualifications which present a confusing picture for employers and individuals. **SSCs should develop a short list of valid qualifications, with a very significant reduction in the overall number by 2008.**

**Brokerage 57** The Review recommends that Train to Gain brokers are tasked to work with a full range of employers while retaining their focus on ‘harder to reach’ firms. The LSC’s National Employer Service should be expanded to provide a more effective advisory and brokerage service to larger firms.

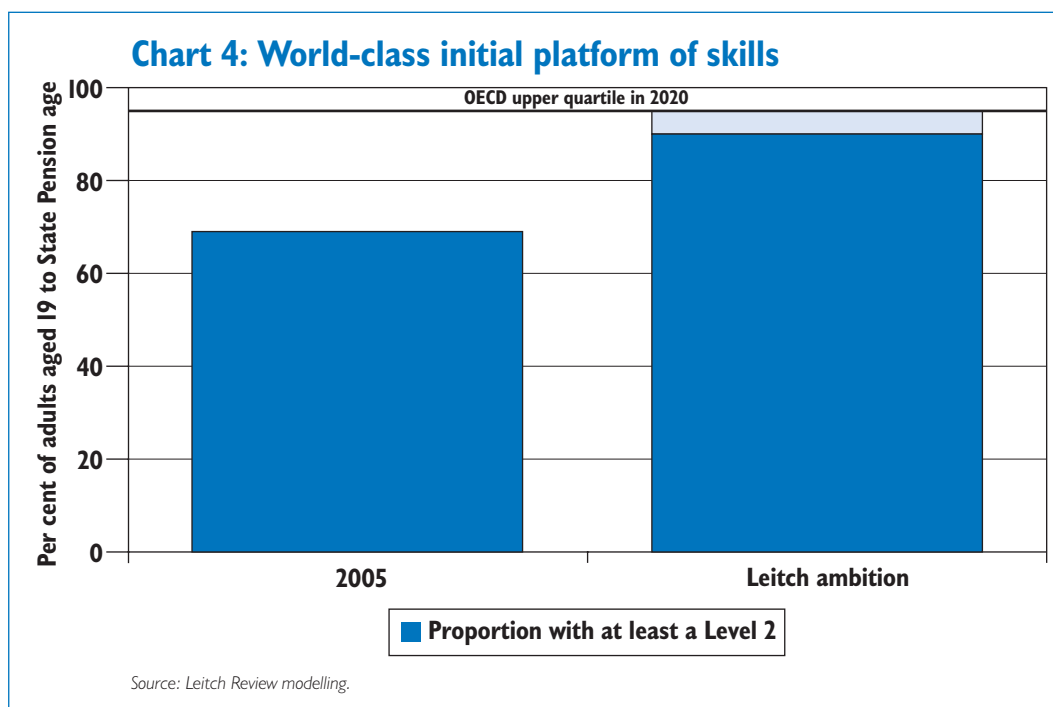
**58** Together, these reforms will deliver a simplified, economically valuable skills system driven by demand rather than central planning. This will transform the incentives of providers, requiring them to actively react to employers and individuals, rather than recruiting students to meet supply-side targets.

## EMPLOYER ENGAGEMENT

### Basic platform of skills

**59** Of the 11.5 million adults currently lacking a Level 2 qualification, almost 7 million are in employment. Level 2 broadly equates to 5 GCSEs A\*-C or equivalent. Increasingly, Level 2 is the minimum platform of skills required for employment and business competitiveness, as global economic changes reduce the employment opportunities for the unskilled. Exceeding 90 per cent of adults having a Level 2 qualification, achieving 95 per cent as soon as feasible, will require the commitment and sustained action on behalf of Government, employers and individuals.

**60** The most recent and successful approach to delivering this platform of skills to employees is through Train to Gain, delivering training flexibly and tailored to meet the needs of employers and employees. The Government has committed to increase funding to Train to Gain to £1billion by 2010. The Review’s analysis, in Chart 4, shows that, despite the expected success of Train to Gain in England, it will be extremely stretching for the UK to move from the 70 per cent qualified to at least Level 2 today to world class by 2020.



**The Pledge 61** In a recent initiative in Wales, over 10 per cent of employees are already covered by a Basic Skills Pledge by their employers, guaranteeing them access to training in work. **The Review recommends that the Government work with employer representative organisations to support and encourage all employers in the UK in making a skills pledge building on recent experience in Wales. The skills pledge would be a specific promise to the workforce that every eligible employee would be helped to gain basic skills and a level 2 qualification.** A major campaign, with public and private employer champions, would encourage employers to make a ‘Pledge’ that every relevant employee be enabled to gain basic and Level 2 equivalent skills – with tuition costs from the Government and time allowances at work. Government should consider giving small employers wage compensation for these time allowances. With key employers leading the way, the Review sees the potential of mass employer engagement with the ‘Pledge’ to deliver significant early progress against the world class objectives at Basic Skills and Level 2.

**Entitlement to workplace training at Level 2 62** In 2010, the Government and the Commission should review progress in the light of take-up and employer delivery on their ‘Pledges’. If the improvement rate is insufficient, **Government should introduce a statutory entitlement to workplace training** for individuals without a full Level 2 qualification, delivered in England through Train to Gain. The entitlement will need to be carefully designed so that it minimises bureaucracy and avoids being overly prescriptive. It must be designed in consultation with employers and trades unions.

**63** Investors in People (IiP) can engage employers in developing the skills of their employees to enhance business performance, recognising achievement through a common standard. **The Government should, in consultation with the Commission and leading employers, review the remit of IiP, to consider how IiPUK and its products, including the Standard itself and the new ‘profile’ tool, should be reshaped to support delivery of the Review’s ambition.**

## Intermediate skills

**64** Higher intermediate skills are increasingly critical to the success of business, with high private returns. The Review recommends shifting the balance of intermediate skills to Level 3, more than doubling the rate of attainment of Level 3 skills by adults. Apprenticeships are a crucial method of delivering work-focused intermediate skills. After a steep decline since the 1970s, more than 250,000 people are now participating in Apprenticeships.<sup>12</sup> However, the completion rate of the full framework is poor at 53 per cent<sup>13</sup> compared to 70 per cent in Train to Gain. Many employers complain that the Apprenticeship process is complex and bureaucratic. Government must take action to improve completion rates.

**Apprenticeships 65** The Government must work with employers to deliver a major improvement in the UK's intermediate skills base. The Review recommends that, as with vocational qualifications, employers should drive the content of Apprenticeships through their SSC. This will ensure that Apprenticeships are relevant to employers and high quality. SSA should include clear commitments and targets, including for the number of Apprenticeships, for increased employer achievement of intermediate and higher skills. The Government should work with the Commission, SSCs and LSC to dramatically increase the number of Apprenticeships in the UK to 500,000 by 2020, with skills brokers engaging with individual employers to demonstrate business benefits.

**66** The Government should build on the success of the Apprenticeship route, expanding it to become a pathway which is open to every suitably qualified 16-19 year old. It will always be a voluntary matter for employers to choose whether to offer apprenticeship places. SSCs and skills brokers should work with employers to achieve the necessary increase in the supply of high quality places for young people and adults. As a result of this shared action, **the Government should consider creating a new entitlement as resources allow so that every young person with the right qualifications should be able to take up an Apprenticeship place.**

## High skills

**67** A highly-skilled workforce drives innovation, leadership and management, enabling businesses to compete in the global economy. Ensuring that high skills are of world class quality and relevance to the economy is just as important as determining the quantity of people that should be qualified to these levels. The Review's world class ambition requires increased engagement and investment from employers with higher education, to drive management, innovation and workforce development. In 2009, the Government will establish an independent review, working with the Office of Fair Access, to report to Parliament on all aspects of the new variable fees and student funding arrangements based on the first three years operation of the policy.

**68** **The Review's recommendation is to exceed 40 per cent of the adult population with Level 4 or above skills, widening the drive to improve the UK's high skills to encompass the whole working-age population.** Changing the targets away from the sole focus on young people aged 18-30 will transform the incentives of HE providers to work with employers, delivering a step change in liaison between employers and higher education institutions. **To further embed these incentives, the Review recommends that a portion of higher education funding be delivered through a similar demand-led mechanism as Train to Gain in England, contributing to both young and adult HE attainment levels. Government funding should also be used to stimulate greater private investment, for example through the co-financing of university research chairs by employers and the Government.**

<sup>12</sup> *Departmental Report, DfES, 2006.*

<sup>13</sup> *Raising our game: our annual statement of priorities, LSC, October 2006.*

**Management and leadership 69** Skills must be effectively used for their benefits to be fully realised. Many small employers need support to ensure that they have sufficient management and leadership ability to deploy skills effectively. They also need access to impartial advice so that they can invest effectively in skills that will benefit their business. Employers are already investing a lot in improving management skills, though evidence shows it is less than elsewhere in Europe.<sup>14</sup> Over one half of CBI employers cite improving management and leadership skills as the most significant factor contributing to competitiveness. Over 30,000 firms have signed up to IiP standards, demonstrating a commitment to improving management.

**70** To further improve the UK's management and leadership, **the Review recommends that SSCs and skills brokers drive up employer investment in management skills by employers. It recommends that the successful Department for Education and Skills (DfES) Leadership and Management funding programme for small and medium size enterprises (SMEs) be extended to firms with between 10 and 20 employees so that smaller businesses can benefit from it. There is a good case for the current Leadership and Management Advisory Panel to report to the Commission.**

## EMBEDDING A CULTURE OF LEARNING

**71** Individuals must play their part in a shared mission for world class skills. This will require a culture of learning to be fully embedded across society, so that all groups are able to invest in the development of their skills, driving a step change in participation in skills improvements. Changing culture will be a generational task, but a change in behaviour can start today.

**Inequalities at school 72** The Review has found that inequalities in aspiration by adults drive inequalities in attainment for their children at school. This creates a cycle of disadvantage that locks generations of the same family into persistent poverty. It perpetuates the number of young people unable to read, write and add up and who drop out of school at 16, spending teenage years not in education, employment or training (NEET). This cycle needs to be broken by raising the aspirations of parents and children and standards in all schools.

**A new offer for adults 73** The Review recommends a new offer to adults to help increase a culture of learning across the country, ensuring everyone gets the help they need to get on in life:

- **raising aspiration and awareness.** A new and sustained national campaign to raise career aspirations and awareness of the benefits from learning, backed by local outreach activity. Increasing the appetite and the opportunity to learn;
- **making informed choices.** In England, a new universal adult careers service, learning from those elsewhere in the UK, providing a universal source of labour market focused, accessible careers advice for adults;
- **increasing choice.** Giving individuals choice and control by entitling them to a Learner Account, learning from the schemes in Wales and Scotland, that they can use to pay towards the accredited learning of their choice; and
- **ensuring individuals can afford to learn.** Financial support based on the principles of clarity and targeting to help those who need it most. In England, a new Skills Development Fund, subsuming the Learner Support Fund, will tackle the immediate barriers for those wanting to improve their basic and Level 2 skills.

<sup>14</sup> *Leadership and management in the UK: Raising our ambition*, The Leadership and Management Advisory Panel, Submission to the Leitch Review, October 2006.

**74** These reforms will raise awareness and aspiration across society. They will ensure individuals have the help and support they need to get a good job, build their career and deliver economic security in a changing global economy.

## INTEGRATING EMPLOYMENT AND SKILLS SERVICES

**75** In Budget 2006, the Chancellor commissioned the Leitch Review to consider how to better integrate skills and employment services. Skills, and particularly qualifications, offer individuals the flexibility to advance, change jobs and careers. The UK has significant problems with job retention at basic entry levels: around two thirds of all Jobseeker's Allowance (JSA) claims each year are repeat claims.

**An integrated service** **76** The Review proposes a new integrated employment and skills service, drawing together existing services such as Jobcentre Plus and the new adult careers service. It will offer universal access to work-focused careers advice, basic skills screening, job placement and links to in-work training. Common objectives and aligned incentives will drive delivery which will be monitored by the Commission and Employment and Skills Boards. This will ensure individuals receive effective support to get into work, stay in employment and progress. Delivering this will require:

- **a new single objective of sustainable employment and progression opportunities.** Meeting this aim will require all involved in such services, from DfES and DWP, the LSC and Jobcentre Plus, to front line staff and colleges, to change their work practices;
- **as stated above, a new universal adult careers service, providing labour market focused careers advice for all adults.** The new careers service will deliver advice in a range of locations, including co-location with Jobcentre Plus, creating a national network of one-stop shops for careers and employment advice;
- **a network of employer-led Employment and Skills Boards,** reporting to the Commission. Their role will be to engage local employers, articulate local labour market needs, scrutinise local services and recommend improvements in integrating labour market and training support. Engaging local employers will improve the matching of work-ready applicants to sustainable jobs, including the disadvantaged. This network will rationalise and build on successful city, employer coalition and regional models; and
- **a much greater role for basic skills training in the benefit system,** including a new programme to screen all those returning to benefits within one year, and better incentivising benefit claimants to improve their basic skills.

**77** These reforms will deliver an integrated service to help individuals get into the labour market and progress, equipping front-line workers with the tools they need to help people build economic security in a changing global economy. They will ensure that all services are incentivised to help people stay in work and progress, better linking services together and ensuring that support is not cut off when people move into work.

## IMPACT

**78** Together, these recommendations will deliver world-class skills and have a positive impact on the UK's economic and social welfare performance. The impact in particular areas is listed below.

**Individual awareness 79** All individuals will have a greater awareness of the value of skills development and easier access to the opportunities available to them.

**Workless people 80** People who are out of work will receive much more targeted, comprehensive help and support, focused on both their short and long-term prospects. Co-locating services is more convenient for customers. It opens up easy access to both employment and careers advice to all benefit claimants, from the unemployed to lone parents and those with health problems and disabilities. Individuals will be screened for basic skills needs at the start of their claim, rather than after 6 months. Where basic skills needs are the key barrier to work, they will be referred to flexible training, alongside job search activity. On finding work, they will be referred to training through Train to Gain. Training will be more relevant to the needs of the local labour market as a result of the input from Employment and Skills Boards and SSCs.

**81** People who struggle to stay in employment will receive a full Skills Health Check at the start of their claim, which will shape their Back to Work Plan. They will also receive additional in-work support. Individuals will be able to access labour market advice from the new adult careers service operating 'virtually' and in a number of locations, including a one-stop shop within Jobcentre Plus. Motivation will be increased through a high profile national awareness campaign, backed up by local activity.

**Low-skilled workers 82** Low-skilled workers will have much greater awareness of the benefits of training and know where to access relevant careers advice. The worker's employer may pledge to upskill all eligible employees or be advised by a local Train to Gain broker. Within the employer's training plan, the individual could access support for workplace training to their first, full Level 2 qualification. The individual is more likely to experience a positive wage return if their employer supports the training and it takes place in the workplace. After 2010, if the legal entitlement to workplace training is invoked, the individual may qualify for the statutory right to ask their employer to train towards a full Level 2 qualification within the workplace.

**83** An individual can use their Learner Account to act on the advice of the new national careers service. They will find out in advance what their financial support entitlement is, helping them to make an informed decision about the type and length of course they undertake. People will be more in control of their learning.

**Skilled workers 84** Skilled workers will benefit from greater opportunities to develop themselves and their careers. Both employers and individuals will invest more in training. Train to Gain brokers will be in contact with an increasing proportion of employers. Discussions will take place with managers and owners about the best training for their organisations. This will include the offer for match-funded Level 3 training, management training or Level 4 courses such as Foundation degrees. More adult Apprenticeships will be available for those individuals and their employers who wish to fill skill gaps.

**85** There are more options for employees who wish to develop their career away from their existing employer or alongside their current jobs. All people in the UK will be able to access an adult careers service. This will have up-to-date information on courses, financial support and also on the types of qualifications that have real value in the workplace. Individuals will be able to access training with real economic value and do so through their new Learner Account.

**SMEs 86** More small and medium employers will have access to Train to Gain brokers to advise on their training needs and on public subsidies available. SMEs will benefit from more relevant, economically valuable skills delivered through flexible provision. Employers with between 10 and 250 employees will be able to access a grant for management and leadership training. This will help them to maximise the bottom line impact of their employees' skills development. Employment and Skills Boards will scrutinise the functioning of local careers and employment information to ensure that it better reflects employer needs. Employers will be able to fill their vacancies more easily.

**Employers 87** Employers, both public and private, will have more influence over the skills strategy within a simplified system through the collective voice of the Commission. They will approve the qualifications that are publicly funded and control vocational content through their SSC. Employers with high quality in-house training schemes can apply to an SSC to have their training accredited, in a streamlined process regulated by the QCA. Employers will benefit from having more access to flexible, unitised qualifications across all skill levels to upskill and motivate their employees.

**88** Large employers will have access to an expanded, specialised skills broker service to advise on how to improve their bottom line through investing in skills across all levels; to advise on the public funding available and signpost suitable training providers. They will have greater incentives to invest in high quality training. There will be more public funding for adult Apprenticeships and other Level 3 qualifications. Universities will be more responsive to the needs of large employers who want to deliver degrees in the workplace or bespoke training for highly-skilled workers, including management and leadership training.

**Improved labour supply 89** Skills deficiencies will reduce. Upskilling will increase and ensure improved labour supply to a higher standard of competence.

## CONCLUSION

**90** The UK's skills profile has improved markedly against historical standards and the system is aiming to deliver stretching targets. In international terms, the scale of the challenge faced by the UK remains daunting. The UK needs a dramatic step change in its skills performance if it is to improve growth, productivity and social justice in a rapidly changing global economy. The Review has set out a radical and compelling vision. It recommends that the UK commit to world class skills, doubling projected rates of attainment. The costs of achieving this must be shared fairly. But they are dwarfed by the benefits – increased productivity, employment and social justice.

**91** Achieving world class skills will require shared action between the Government, employers and individuals. The Review recommends employer commitments to increase investment in intermediate and high skills. At the lower end, the Review recommends a joint Government and employer programme to train all eligible employees to a full Level 2 qualification. If this shared action does not meet the scale of the challenge by 2010, a statutory entitlement to workplace to Level 2 training should be introduced.

**92** The Review has set out proposals to rationalise the skills system, placing employers more at its heart and reducing supply-side planning of skills provision. The number of bodies involved in skills delivery and employer voice will be significantly reduced, simplifying employer engagement. The roles and responsibilities of remaining bodies will be clarified.

**93** The Review recognises the need to energise individuals, building a culture of learning by raising awareness. A new, universal adult careers service will be central to this, sitting alongside reforms to give learners clarity about financial support entitlements.

**94** The result of these reforms will be a step change in skills development. Skills will be one of the UK's key strengths, rather than a significant weakness. The UK will be on a higher trajectory toward increased productivity, growth and social justice, meeting the challenge of increased prosperity and fairness in the new global economy.

## NEXT STEPS

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**95** This policy framework will deliver world class skills, given the right investment and delivery reform. However, this is not a detailed blueprint for implementation. Government should now consider these recommendations and decide the next steps of the journey.

**96** The Devolved Administrations in Northern Ireland, Scotland and Wales should now consider the Review's recommended policy framework in the context of differing circumstances in those countries and their contribution for delivering world class, economically valuable skills.



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