

Overview of Question 3: What is the role of skills and the skills system in promoting productivity growth in areas of the country that are poorer performing economically?

Skills and Productivity Board

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Introduction

The Skills and Productivity Board (SPB) is an expert committee set up to provide independent, actionable insights to help shape skills policy, focusing on strategic issues and identifying opportunities for skills to drive stronger productivity growth. The committee consists of six leading labour market experts, supported by an independent Chair and a small secretariat of civil servants. The previous Secretary of State (SoS), Gavin Williamson, set the SPB three questions:

1. Which areas of the economy face the most significant skills mismatches or present growing areas of skills need?
2. Can the board identify the changing skills needs of several priority areas within the economy over the next 5-10 years?
3. What is the role of skills and the skills system in promoting productivity growth in areas of the country that are poorer performing economically?

Analysis and insights from the board covering all three of these questions were published in Spring 2022.

Structure of this Overview

This overview considers the board's third question (above). The scope of this question is broad and the board decided to narrow their focus on areas that would offer a strong platform for future research and policy development. The following three papers comprise the board's response:

1. A broadly focused discussion paper that seeks to draw together what we know about the relationship between skills, productivity and place; and the role that skills might play within the delivery of a 'levelling up' agenda (by Keep).
2. A critical exploration of extant research that explores some aspects of the spatial relationship between skills and productivity in greater detail (by Mayhew).
3. New research that focuses on the extent to which skill investments – especially investments in qualifications below degree level – in poorer-performing areas are likely to result in benefits to those areas (Advani and Crawford, in collaboration with Jack Cornish, a civil servant in the Central Analysis Unit in the Department for Education).

Taken together, these papers provide a useful starting point for reflection by policy makers (in DfE and beyond) about the contribution that skills policy can make to levelling up and its relationship with other policy initiatives and factors that impact on productivity at a local level.

What follows is a series of overall lessons distilled from the three papers, then an overview of three papers in turn, seeking to extract the key messages and policy advice they offer.

Overall lessons

The three papers take different approaches to analysing the research and policy issues that surround answers to Question 3, but a number of common themes and issues emerge across the papers, particularly those by Keep and Mayhew. We discuss them below within the context of recent government policy developments.

A responsive and effective education and training system will be one of the key factors underpinning future economic success but this must be integrated with wider local economic strategies. There is a need to strengthen the supply of skills, among both new entrants to the labour market and the existing workforce in less prosperous and productive localities. At the same time technological change and the emerging needs of the green economy will require major responses from the skills system.

The government is exploring and developing new ways of empowering local actors to make decisions impacting their localities – a positive sign because geography matters. For the past 30 years, UK skills policy has been largely ‘place-blind’, seeking to deploy national, one-size-fits-all policies, initiatives and programmes that afforded little if any importance to different needs in different places. Now, the levelling up white paper acknowledges the importance of place and marks a ‘turn’ towards a sub-national spatial dimension to policy making, supported, for example, by the recently devolved Adult Education Budgets to MCAs, and the development of LSIPs.

The turn towards sub-national policy making can represent a positive shift because...

- **Needs vary by locality, although the relevant definition of ‘locality’ can span a number of spatial levels** – not necessarily fitting easily within the operating boundaries of existing entities (such as Local Enterprise Partnerships or local authorities). For example, research shows that while there can be a Greater Manchester-wide set of Mayoral Combined Authority (MCA) skills policies, the problems and challenges faced by Oldham will be very different from those experienced in Trafford. This requires active consideration for how to tailor policies and interventions to meet very specific ‘local’ needs.
- **Investments in skill development in poorer performing areas are likely to benefit both individuals and the local area, but supplying skills on their own will not close productivity gaps that exist between different towns, cities, and regions.** There are strong returns to education for individuals, including in poorer performing areas, but a substantial proportion of the variation in earnings across areas is not due to the characteristics of the individuals that live there, including qualifications and skills. As the white paper on levelling up makes clear, there are five other types of capital that underpin economic success, with investments in these other factors likely to complement and enhance policies that invest in human capital. Skills interventions need to occur within the context of

broader local economic development strategies. A greater role for local actors in skills policy and delivery provides an opportunity for a more integrated approach to local skills *and* economic planning.

...but this requires representative, capable, and coordinated local infrastructure – and it will take time to develop

- **Capable, high-quality leadership.** Outside of MCAs (and even within some of these) the capacity to design and deliver well thought through skills interventions is patchy and will need to be strengthened. There is a role for government in supporting local actors to ensure they are equipped to carry-out their responsibilities, such as supporting Employer Representative Bodies who may be tasked with producing Local Skills Improvement Plans (LSIPs).
- **Democratic and representative decision making.** There is a risk that devolving decision making to a select few local actors enables them to advance their own interests rather than those of their locality as a whole. MCAs and local authorities provide established democratic organisations, but there can be value from including wider employer and union representation to help understand their skills needs and the direction of local economic development.
- **Coordination and alignment between local and national.** National level policy formation must successfully engage and coordinate with local level planning and aspirations. It is important that local and national actors have clearly defined roles and that priorities and planning are not in conflict, as this could risk complicating messaging for training providers and other interested parties. Adding to the complexity of coordination is the potential need for MCAs or (other actors) to coordinate across more granular levels of locality within their boundaries, or with neighbouring localities where there is common interest – coordination should not be framed as a binary relationship between the local and national but recognised as a complex arrangement across multiple spatial levels.
- **Taking time for new arrangements to develop and flourish.** There is value from having a clear, shared vision for future arrangements between local and national actors. A strong commitment to future power sharing sends an important signal to those involved that investing in building capability and relationships is worth the effort – and government should expect this process to take time before judging whether it is a success or not.

Paper 1 – Ewart Keep – How can skills and the skills system promote productivity growth in areas of the country that are poorer performing economically?

Initial findings and questions and issues for policy

This paper seeks to provide an overview of what research tells us about the potential of education and training interventions to contribute to the government's levelling up agenda.

This overview draws on a range of different disciplinary perspectives including regional economic development, regional studies, and policy studies. The paper does the following:

- Identifies some of the main lessons and limitations of our current knowledge of the extent and causes of spatial variations in productivity and the role that skills play therein.
- Offers a selective overview of a sample of existing local skills initiatives and institutions. This highlights the variety of bottom-up local initiatives that already exist, and then explores some of the challenges faced by local skills interventions and what these might tell us about future policy development at national and local levels.
- Concludes with some lessons, policy questions and recommendations concerning where national skills policy goes next in relation to levelling up productivity.

There is no clear consensus on the importance of skills within the UK's 'productivity puzzle'. One school of thought argues that increases in human capital (skills) can make a major contribution on its own, while another argues that skill is but one part of the story and that the productivity puzzle has multi-factor causes that can only be addressed by a broadly-focus, coordinated response. The government's white paper on levelling up subscribes to the second school and suggests that human capital is just one of the six 'capitals' that policy needs to address. The paper also notes that there is relatively little English research on local skills interventions as, until relatively recently, government policy has centred on national programmes and initiatives that offered little opportunity to 'localise' the intervention.

There is extensive research literature on different spatial levels of analysis and governance but 'Local' means different things to different people. Research demonstrates that differences in productivity and host of other indicators vary across relatively small geographic distances in the UK. For instance, the structure of the local economy and the labour market brings profound impacts on individual life chances and community.

The relationship between skills and other factors that impact productivity

There are three potential implications for policy design from a 'deep dive' into the available evidence:

1. Demand for skills is derived from business need. This means that if businesses lack the need for higher levels of skill and the 'absorptive capacity' to deploy a better-qualified workforce into more productive activities, then to up-skill may be wasted. This signals the importance in developing policies that support business improvement alongside any re-skilling efforts. The evidence on attempts to help firms to move away from low paid, low skilled employment is reviewed.
2. Related to the first point, some localities appear to be trapped in what is termed a 'low skills equilibrium', whereby demand for skill is low and local skills supply matches this limited demand. Similar to the point above, in this situation, efforts to better align skills supply with current demand on their own will potentially generate limited economic or social gains. It will be important to stimulate the underlying level of demand for skills within the sector or locality in parallel.
3. The large body of research on industrial cluster theory and smart specialisation and innovation support suggests that higher skills can contribute towards the emergence and growth of successful 'high tech' clusters and industries, but there are many other factors at work alongside education and training. It is also apparent that high tech clusters do not necessarily transform the prospects for the bulk of the local population. They may create some high skilled high wage employment but will also support the creation of relatively low wage work in local non-tradeable services (like childcare, retail, hospitality, domestic services) and therefore in and of themselves will not solve problems of low pay in a locality.

Local institutions

There is already a range of active local institutions of varying scales. The actors involved in organising these local fora/delivery agents are varied, ranging across: local government, FE College groupings, colleges and other providers, universities, university groupings, university and college groupings, and employers.

These institutions are largely invisible in the national policy discourse, but in many instances engage in precisely the kinds of activities required to deliver the levelling up agenda (as revealed through a 'light touch' mapping of a sample of local skills initiatives). Their activities included, for example, providing careers advice, work experience, apprenticeship promotion and delivery, collective local delivery of government programmes such as Skills for Growth, digital training, skills support for SMEs, and community wealth building. Their work is funded from a diverse range of sources.

The emergence of the above local bodies, considered from the perspective of national policy, raises a number of questions and requirements, in particular:

1. DfE (and other government departments) should be seeking to encourage the emergence of local bodies and the exchange of best practice (once identified). How best might this be accomplished?
2. The DfE needs to have a better understanding of these local institutional arrangements to be able to identify the design and operational principles that can best help deliver national policies and programmes at local levels. How does government obtain this overview?
3. Finally, there is the future relationship between local institutional arrangements and priorities and national policies and programmes. Besides the rich, and in national policy terms only semi-visible, array of locally-sponsored bodies, there are now or will shortly be a number of nationally-sponsored but locally-focused institutional and programmatic elements of policies in play. It will be extremely important to avoid fragmentation of effort and work out a structure that enables these pieces to interact and operate in a mutually supportive fashion.

Lessons for policy makers

The paper explores lessons for policy makers at both national and local levels focusing on the following areas:

- Design principles for a local skills system and for local growth strategies
- There may be trade-offs and choices between inclusive economic growth and productivity growth
- The need to develop local capacity to support policy design and delivery
- The need to think about these issues as constituting a long-term agenda
- Linkages between skills policies and other areas of government work.

Paper 2 – Kenneth Mayhew – Left behind localities and levelling up: skills and productivity

The paper seeks to extract some potential themes and lines of future research that policy makers may want to pursue as the DfE's develops its contribution to the levelling up agenda.

The paper explores the many possible reasons why certain localities lag on productivity. The lack of clear general conclusions illustrates two simple facts:

1. There is rarely, if ever, one single problem which, if addressed, will significantly transform the fortunes of a locality.
2. The mix of problems faced by a lagging locality is often specific to that locality.

Most importantly, skills initiatives on their own are unlikely to transform the productivity performance of lagging areas. In the short run they may achieve better matching of the supply and demand for labour, with some associated productivity gain, however further gains will require skills initiatives to be embedded in broader changes involving the other five "capitals".¹

Exploring the different levels of spatial disaggregation to define and look at localities

Echoing Keep's paper, Mayhew notes that unless the focus is on quite small units of space and population, intra-locality differences in performance become important. The key issue is that inequalities in the UK, both economic and social, occur over very small (by international standards) distances, and are also greater than in most comparator countries. Depending on the unit of spatial analysis deployed, different mappings of disadvantaged or underperforming localities emerge. The paper summarises these patterns.

Exploring different taxonomies of success and failure at a local level

Essentially, there are three broad categories of *laggard localities* that can be identified:

1. The Long-term disadvantaged (like Cornwall) where economic problems have existed for a very many years
2. Those which suffered the secular decline of a dominant sector or sectors (e.g. parts of the North-West)

¹ The Levelling Up White Paper identifies six capitals - human, physical, intangible, financial, social and institutional

3. Those that experienced a major macroeconomic shock from which they have failed to recover. Research suggests that shocks can destroy performance even in localities that were hitherto relatively wealthy and high-performing.

Categories 2 and 3 are not mutually exclusive.

At the other end of the spectrum, *successful localities* cover:

- Those driven by place fundamentals, like access to excellent transport links
- Sorting, whereby a virtuous circle emerges in some places which are successful, thereby attracting the brightest and the best through exciting and well-paid employment together with an attractive living environment, and in turn the availability of a pool of highly qualified labour attracts new businesses and investment.
- Agglomeration – which comes in two forms both of which experience economies of scale. The first is localisation, where groups of firms in the same industrial sector and their supply chains operate successfully within a geographical cluster (e.g. aerospace in Seattle). Urbanisation describes localities where there are firms in different sectors but where there is a single large employer (or a small number of them) that enjoy increasing returns to scale. Other activities spring up around them, and positive externalities are created by the presence of a large labour pool and good physical and services infrastructure.

Considering the sectoral composition of the economy as a specific potential cause of poor local economic performance

Does the area specialise in or heavily rely upon low productivity sectors, or are its problems more the result of local ‘capacity’ problems? Received opinion tends to downplay compositional effects in favour of place-based explanations or deficiencies in local capacity relating to the six “capitals”. Important though these local capacity effects are, the paper argues, there is scope for further investigation of sectoral compositional effects.

Areas for further investigation and concluding comments:

Mayhew identifies six areas that stand to benefit most from further research and investigation of policy options:

1. Knowledge diffusion, innovation systems (and their links to management practices) and the role of local narratives that are used to explain the causes of local under-performance; negative or defeatist narratives hinder the construction of effective local growth strategies.
2. The slow speed of scaling up and SME growth in some areas caused in part by lack of access to capital, reflecting an over-centralised commercial banking system.

3. Workplace relations (broadly defined), including job quality, job design and work organisation.
4. The causes of spatial differences in early years educational provision.
5. Measures to improve the quantity and quality of teaching provision in lagging areas.
6. Delivery of better careers information advice and guidance.

Addressing the problems or variations in the last three items would result in benefits to individuals. However the extent to which their localities would also benefit would depend on two things – the extent to which these localities could raise the quality of production, and the propensity of the individuals concerned to move to other areas.

Mayhew concludes with a review of the prospects for the new Local Skills Improvement Plans (LSIPs) which DfE is piloting and suggests a number of preconditions for their success, not least their becoming linked to some form of local growth strategy. Also of critical importance will be the extent to which the design of LSIPs is truly representative of all local employers, and the extent to which they are based on high quality labour market information.

Paper 3 – Arun Advani, Jack Cornish and Claire Crawford – Would additional investment in skills benefit areas of the country that are poorer performing economically?

This paper explores the extent to which investing in education and training – particularly below Level 6 (undergraduate degree level) – in order to increase skills in poorer performing areas of the country is likely to bring economic benefits to those localities. It does so by addressing three broad questions:

- **How do the returns to qualifications vary across different areas of the country?** If acquiring skills does not provide a boost to individuals' earnings in poorer performing areas, then, on their own, skill investments are unlikely to be successful in boosting the income or productivity of these areas.
- **Are skill investments likely to lead to an exodus of more skilled individuals from poorer performing areas?** We know that graduates are more mobile than those without undergraduate degrees, but we know less about whether those with Level 3 qualifications, for example, are more mobile than those with Level 2 qualifications. If those acquiring additional education qualifications are more likely to move out of poorer performing areas as a result, then the benefits of those skill investments won't fully benefit the areas in which they were made.
- **How important are education and skills – and the characteristics of individuals living in different areas more generally – in explaining the variation in earnings across areas?** This sheds light on the extent to which the variation in earnings across areas is driven by 'people' (the characteristics of the individuals who live there) vs. 'place' (other area-specific factors – potentially including some of the other five 'capitals' from the Levelling Up White Paper). If individual characteristics are important, this suggests that skill investments are likely to play a greater role in being able to level up poorer performing areas.

Approach

The research used Longitudinal Education Outcomes (LEO) data for England, which combines administrative data on educational outcomes at school and in further and higher education, with earnings data from tax records, for individuals who took their GCSEs in England after 2001/02. These data provide much larger sample sizes and more detailed education information than traditional survey-based data sources, but only for relatively young cohorts: the analysis focused on individuals up to age 27.

As outlined in the other papers, it is not obvious which is the right geographic area to use when undertaking studies seeking to classify areas as 'poorer performing'. The study

used Middle Layer Super Output Areas (MSOAs)² as its main unit of analysis and identified poorly performing areas using the Index of Multiple Deprivation (IMD). The IMD measure captures disadvantage across a range of domains, including income, health and education. An alternative definition of 'poor performance' – average employment rates across Travel to Work Areas – was also explored in the study, with the results found to be highly consistent with those using the IMD.

The study had three broad findings:

1. The returns to getting higher levels of qualifications are just as high, indeed higher, on average, in poorer performing areas of the country as elsewhere. Therefore, there is the same incentive to engage in skill upgrading in areas which are generally less well-off as those which are performing better economically.

2. Individuals from across the education spectrum – at all qualification levels – are similarly likely to move across local neighbourhoods (MSOAs), but those with higher education degrees are far more likely than those with lower level qualifications to move across labour markets (TTWAs). This may be because, even by the age of 27, there is relatively little economic benefit to moving for those without a higher education degree, at least in the short-term: men see a small increase in employment prospects but no change in earnings, while women are less likely to be employed but have slightly higher earnings if they are employed.

Importantly, mobility across labour markets is higher for those coming from better off areas: perhaps surprisingly, those from more deprived areas are less likely to leave. Taken together, this suggests that the benefits of investments in skills up to Level 5 are highly likely to remain within the areas in which they are made, suggesting this could contribute to levelling up poorer performing areas.

3. The study decomposed the variation in earnings across areas into that explained by the qualifications (or other individual characteristics) of the people living there, and that explained by other area characteristics, finding that one third of the variation was explained by area rather than individual characteristics.

This is much higher than has been found in previous studies in the UK. This highlights that investments in skills alone will not be sufficient to level up earnings across areas, and that complementary investments – potentially including boosts to the other five capitals in the Levelling Up White Paper (the study is silent on the specific area characteristics that are important drivers of variation in earnings) – are likely to be

² MSOAs are (mostly) 5000-15000 people, 2000-6000 households, and there are approximately 6800 MSOAs in England

needed in poorer performing areas to ensure the benefits of investments in skills are fully realised. This complementarity echoes points made in the other Q3 papers, and suggests that investing in skills is an important element of the productivity story, but is not the whole story.

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