



GROWTH THROUGH PEOPLE

Introduction

The UK economy is on the mend. After one of the most challenging recessions in living memory we are now seeing growth and increasing employment. But the recovery is still fragile and long-standing challenges remain.

The recession was a powerful reminder that the UK's fortunes are played out within a dynamic and global economy.

Two features stand out. Firstly, the recession has provided further evidence of a shift in the shape of the labour market as globalisation and advances in technology transform markets, businesses and ways of working. This has fuelled growth in high skill jobs and new higher skilled technical roles, creating an 'hourglass' effect. Prospects are good for those at the top, with high level skills, but there is greater competition for those at the bottom, and bigger steps needed to get on and move up. The career ladder is becoming that little bit harder to climb.

Secondly, UK productivity continues to lag behind most Western nations, a frustratingly long-standing feature of UK economic history. Improving productivity is challenging and complex but it is essential if we are to maintain business competitiveness, increase wages and raise living standards. Competitive advantage will depend on creating the best conditions for businesses to thrive, innovate and move into higher value markets and for employees to be engaged in fulfilling and productive work. This is

the real route to prosperity and a fairer society - where everyone benefits from growth.

We know that skills are integral to employment prospects, pay and wellbeing, to business competitiveness and to the economy at large. In 2013 the value of employed human capital was estimated at £17.61 trillion - two and half times the value of 'hard' assets such as buildings, vehicles and machinery.¹

Our ambition is for a sustained recovery for the long term driven by the skills and talents of people – growth through people.

Industrial strategy is forming in key sectors and there are several examples where business, government and trade unions have worked successfully to establish growth. Progress is being made and we need to build on this success and ensure that better skills and better jobs are an integral part of the solution.

Against the backdrop of industrial strategy, the purpose of this UKCES statement is to set out long-term principles that underpin a shared ambition for growth through people. As a partnership that includes large and small businesses, trade unions, colleges, universities, the third sector and Commissioners from all of the Devolved Administrations we understand the challenge and the importance of collaborative leadership.

This statement is supported by the CBI and TUC, and whilst we may differ on how to implement solutions, we have more in common than not. What matters is effective leadership and stimulating an informed debate on how to tackle these deep-rooted challenges.

Building on our previous work, a substantial evidence base and what we see as showing promise, we have identified five priorities for action.

These priorities apply across the UK but the policy context and implementation will differ in each nation and, increasingly, within cities, regions and sectors.

As the economic outlook continues to brighten, we have an unparalleled opportunity to build a consensus about how to achieve economic growth that is sustained and fair – growth through people.

PRIORITIES FOR ACTION

1. Employers should lead on skills and government should enable them
2. Improving workplace productivity should be recognised as the key route to increasing pay and prosperity
3. 'Earning and learning' should be the gold standard in vocational education
4. Education and employers should be better connected to prepare people for work
5. Success should be measured by a wider set of outcomes not just educational attainment

Sir Charlie Mayfield, Chairman, John Lewis Partnership and Chairman, UKCES

John Cridland CBE, Director General, CBI and UKCES Commissioner

Frances O'Grady, General Secretary, TUC and UKCES Commissioner



HOW TO DELIVER GROWTH THROUGH PEOPLE

1

Employers should lead on skills and government should enable them

- We need a new level of leadership from employers to take responsibility for competitiveness and growth.
- Employers, working with each other and with their employees and trade unions, should raise the bar on skills in sectors, regions and supply chains. Collaboration is vital to building the skills we need for competitiveness.
- Governments should commit to supporting employer leadership on skills, individually and in partnerships, as a central part of long-term growth plans and a way of aligning public and private resources.

2

Improving workplace productivity should be recognised as the key route to increasing pay and prosperity

- Up to 90 per cent of the current workforce will still be in work in the next decade. To tackle the productivity deficit for the economy as a whole, there must be a much greater focus on job design, technology and progression for those in work.
- Equipping people with the right skills and giving them the best opportunities to use them will lead to better paid jobs.
- This means better leadership and management of people and organisations, increased employee engagement and more transparency about the value of people to business success.

3

'Earning and learning' should be the gold standard in vocational education

- We need a step change in attitude and uptake of quality vocational routes into good jobs. High quality apprenticeships should be a normal career pathway for many more young people, and a normal way for businesses to recruit and develop their talent pipeline.
- Employers, working collaboratively, should have the lead role in designing apprenticeships to ensure they have value in the labour market. The public contribution should be channelled via employers to stimulate greater employer uptake.
- In England, long-term stability in vocational education and training is essential for employers to have the confidence to engage.

4

Education and employers should be better connected to prepare people for work

- To create new pathways into work we need to start much earlier. All schools should have links with local businesses and use those links to inform and inspire young people about the breadth of career opportunities available.
- Further education colleges should be supported to work with employers to deliver higher level technical and professional education to meet the UK's technical skills gaps.
- Closer collaboration between employers, colleges and universities is essential to ensure there are seamless opportunities to work and learn over the course of longer working careers.

5

Success should be measured by a wider set of outcomes not just educational attainment

- We need to align measurement of schools, colleges and universities more clearly with the outcomes that are needed for sustained growth through people.
- These outcome measures should be more prominent in demonstrating accountability and key outcome data shared widely with employers, individuals and communities.
- Reliable labour market intelligence should be widely used to support better decision making by individuals, employers and education providers.

UK Challenge

In the UK, the economy is recovering and recent employment growth has been impressive by comparison to other developed economies. Yet within this positive picture there remain deep-seated challenges formed over the last 30 years that must be addressed if growth is to be sustained and competitiveness improved.

During the recession the labour market was effective at keeping people in work, and there has been a net increase of 5 per cent in employment since the low point of early 2010.² However, productivity - how much the economy produces per hours worked - has remained stubbornly subdued and is 2.2 per cent below where it was in 2008, around 14 per cent below its pre-crisis trend.³ Growth in productivity is now the most important factor for sustained recovery and, crucially, for improving pay and social mobility. Businesses can help turn this around by unlocking the potential of people to drive performance and productivity.

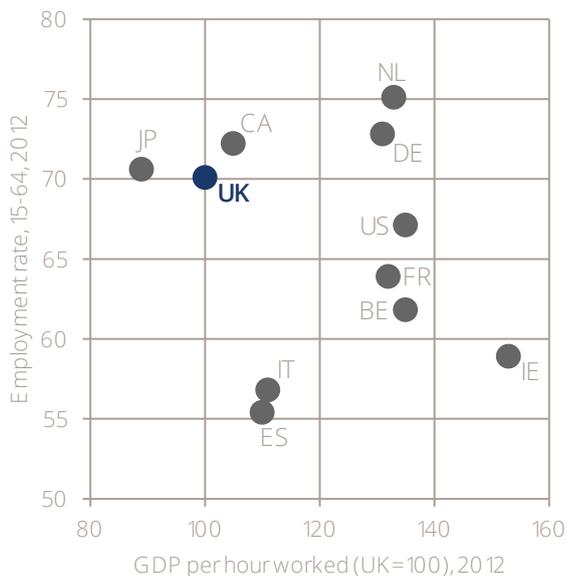
Skills play a critical part; they have become the global currency of the 21st century. Without proper investment in skills, people struggle to find employment, business opportunity does not translate into business growth and the UK will not compete to its full potential in the global economy.

Earlier this year we set out an analysis of the deep-rooted skills and employment challenges using the metaphor of rungs on the career 'ladder':⁴

Getting in to work

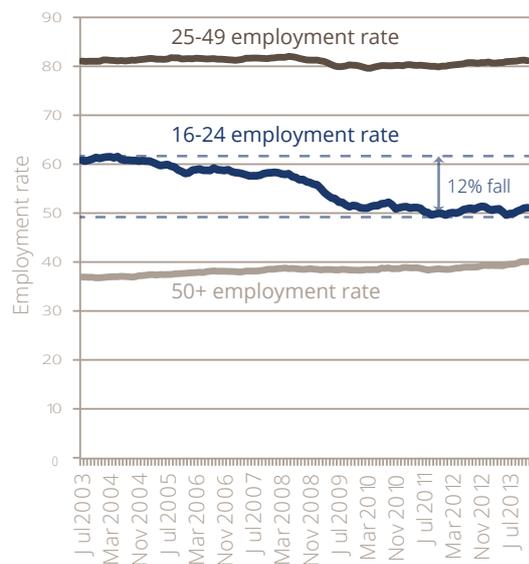
Youth unemployment is falling significantly; in the last year it's dropped by over a quarter.⁵ But securing a foothold into a good career is still harder than it was twenty years ago. In the UK the ratio of youth unemployment to adult unemployment is significantly higher than other leading economies.⁶ This is a structural problem, reflecting a long-term decline in entry level jobs in industries that young people traditionally go into, and fewer opportunities to combine earning, learning and to progress.

Productivity and employment, 2012, UK and selected advanced countries



Source: ONS (productivity) and OECD (employment)

Employment by age group, 2003 - 2013



Source: ONS Annual Population Survey, NOMIS.

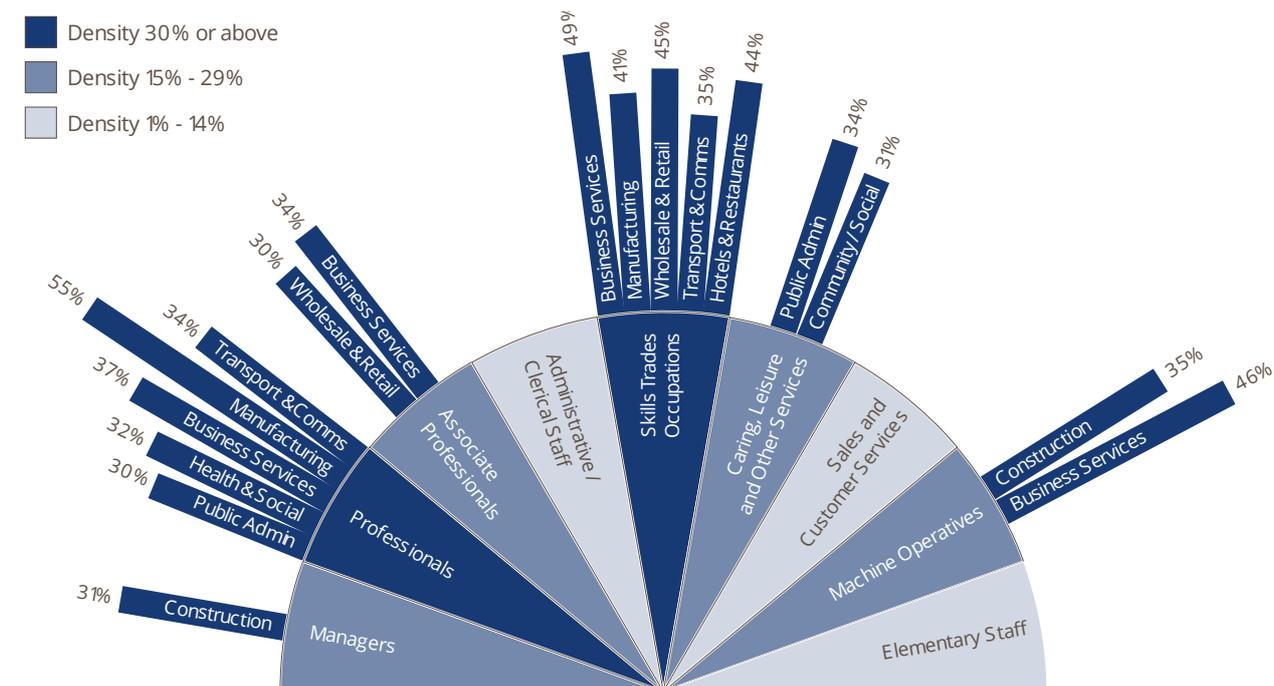
Getting on at work

At the middle of the ladder, globalisation, new technology and longer working lives are changing the labour market. Traditional middle-skilled work, which has high routine task content, has declined over the past several decades alongside the emergence of a new 'middle' requiring higher skill levels than before. This has created growing opportunities for highly skilled people – in both employment and wages – but longer pathways for those at the 'bottom' and greater competition for those in low skill roles. As gaps in the career ladder grow, it becomes more difficult for people to progress and improve their earnings potential. Ensuring that there are opportunities for everyone to progress by raising their skills and finding a better job is critical.

Moving up to higher skilled jobs

The workforce is getting better educated - by 2020 nearly half of the workforce will be qualified to degree level and above, overtaking the USA.⁷ This provides a strong platform for growth. But in certain sections of the economy businesses face long-standing skills shortages, for example in manufacturing and business services. At the same time there are significant portions of the workforce with skills that are under-utilised – this equates to 4.3 million workers or 16 per cent of employees.⁸ This suggests a problem of mismatch but also of demand. In the face of growing global competition, we need to retain, attract and exploit highly skilled talent to remain competitive. The challenge is whether enough UK managers can adapt and absorb those skills to drive productivity – the real route to better pay and progression.⁹

Skills shortage vacancies by occupation and major sectors affected



Source: UKCES (2014) Employer Skills Survey 2013

Complexity

These challenges are not new and there is no easy win. What's more, they vary by sector, locality and business size. They also impact disproportionately on different communities within society, entrenching long-standing inequalities. We must dig beneath the 'averages' to understand the whole picture.

Neither are the solutions new. **Effective implementation will require sustained leadership and collaboration on the part of government and industry over the next 10 to 20 years** – well beyond the life of any single Parliament.

Across the UK, industrial strategy is proving a strong starting point, as it is in other countries.¹⁰ There has been real progress in national and local government, businesses and trade unions, working together on long-term growth plans to support our key industries. This is hugely welcome. Skills and employment policies are an integral component of these and early momentum cannot be lost.

Growing demands for greater devolution have also thrown into sharp relief the importance of local flexibility in responding to skills and employment challenges. We need to unlock the expertise and leadership of local employers, working with other partners to make this happen.¹¹

As we head into the 2015 general election, the challenge will be to ensure that long-term growth plans can be realised and that a stable skills and

employment infrastructure is in place to support them – at the national, sector and local level.

In the last few decades, the UK skills and employment landscape has been characterised by constant change relative to other countries.

This lack of long-term stability discourages employer engagement and makes effective partnership working harder to achieve.

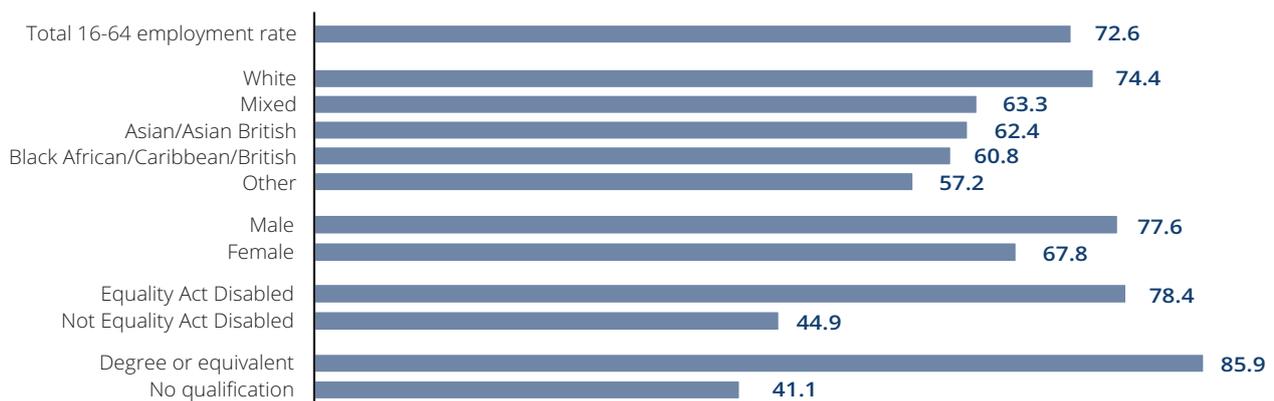
In our view, any government across the UK must maintain a stable policy environment over the next decade to enable employers and employees to invest in skills, jobs and growth for the long term.

Pressures on public and private finances also mean that traditional models of investment in skills are unsustainable. Private investment in training has been steadily declining and in England, part-time learning has fallen significantly. At the same time, changes in the nature and structure of work will require businesses and the people within them to adapt and innovate.¹² **With the public purse likely to be even more constrained in the future, employers and employees will need to invest more time and resources in their development and in new ways of working.**

It is imperative that public policy for employment and skills – in its broadest sense – is joined up, takes a long-term perspective and creates the conditions to support greater employer and personal investment in skills.

Employment rates by different groups

Source: ONS Labour Force Survey Q2 2014



1. Employers should lead on skills and government should enable them

To meet the skills and employment challenges we face, businesses, and the people who work in them, must be in the driving seat. They are the engines of growth and hold the key to improving productivity and providing good jobs.

UKCES has consistently argued that strong employer leadership is the key to tackling skills and productivity challenges.¹³ This means employers, with their employees, taking greater responsibility for developing skills and jobs for future competitiveness.

Collaboration is just as important. In supply chains, sectors and local areas, businesses of all sizes are increasingly working together to develop new products and create export opportunities - collaboration to build a skilled workforce is no different. Working together, businesses have the purchasing power to achieve economies of scale, stimulate demand and encourage new or more tailored training. They can set industry standards and work with employees and training specialists to drive up quality. They can also improve supply chain capability through best practice procurement and over-training for small businesses. In many areas this is already happening and there are models in place that facilitate investment in skills, for example the voluntary levy in the film industry.

This is not about big business calling the shots - it's about businesses of all sizes taking responsibility, with their employees and in their supply chains, for building a skilled workforce now and into the future, not leaving it to government or the education sector. This has worked for many years in the professions, which have produced world class skills.

Government's role is to create the right conditions and incentives to support employers, and employees, to work together on what's needed for long-term business or career development. This also means working with industry to rationalise programmes and keep the system as simple as possible.

BAE Systems operates a collaborative approach to apprenticeship recruitment and training for local SMEs across their supply chain. This includes the sharing of high quality candidates' details, who are then employed by the SMEs. Apprentices spend their first 12 months at BAE's training centre and then move on to their employer's workplace. Of the first cohort of 21 apprentices, the completion rate was 100 per cent and feedback from participating employers has been excellent.

We are making good progress in the UK. In line with industrial strategy, in England government has invested £131 million in industrial partnerships of businesses working with each other - often for the first time - and with trade unions, training providers, sector skills councils and other sector bodies to tackle the skills and recruitment challenges in their industries. For example, with £20 million of government co-investment alongside £17 million of employer investment, the Industrial Partnership for the Creative Industries is bringing together over 400 employers, including the BBC and Channel 4, to create thousands of jobs. Partnerships are in place across eight sectors ranging from aerospace, to automotive to science. As part of the apprenticeship reforms in England, groups of employers have also joined forces as 'trailblazers' to develop apprenticeship standards for their industry.

In Scotland, Industry Leadership Groups provide an employer voice and leadership for Scotland's key industry sectors, and set out skills investment plans to ensure the long-term skills needs of the industry are met. In Northern Ireland, Industry Working Groups in ICT, Advanced Manufacturing

Through the Energy and Efficiency Industrial Partnership led by National Grid, employers in the power and utilities sector are working together for the first time and with their supply chains to tackle issues of energy demand and job creation. The Partnership has received £33 million of government co-investment, matched by £82 million of employer investment. Through an annual employer survey, at least 80 per cent of employers in the Partnership say it has improved the effectiveness and value for money of the skills system.

and Engineering Services and Food and Drink Manufacturing and Processing are bringing together government, academia and local employers to identify skills needs and develop appropriate solutions.

But we know from past experience that establishing partnerships that are genuinely industry-led is difficult and takes time. In the past the UK has often got this wrong by not giving them a chance to bed in, or turning partnerships of business into agents of government. Equally, businesses have not always contributed their best leadership and resources over the long term, and the employee voice is not always heard. Compared to countries with strong vocational systems such as Denmark, Germany and the Netherlands, industry leadership and partnership working in the UK is underdeveloped. Only 13 per cent of firms work with other employers to access, share or provide training in the UK.¹⁴ But without industry-wide collaboration, it is difficult to see how we can raise skill levels to the scale that is needed.

Our view is that government must continue to support evolving industry-wide partnerships

and encourage new ones where there is an appetite from industry. This is not about prescribing numbers or form – it's about providing long-term stability and aligning public and private resources to enable business leaders to come together, with trade unions where present, both to set out a vision for growth through skills in their sector and to implement it.



“Major employers in the automotive sector, including manufacturers and suppliers, have engaged in an unprecedented level of collaboration to create the Automotive Industrial Partnership. The partnership provides a sustainable framework to address the skills needs of the automotive sector as a whole, in particular recognising the needs of SMEs and driving up standards.”

José Lopes, Head of Technical Excellence, Jaguar Land Rover Limited and Chair, Automotive Industrial Partnership

We also need to consider how national priorities play out at the local level. Variations in local economies are deeply entrenched and differences have been reinforced by the recession. Ultimately, local growth depends on the ability of businesses, not government, to create more and better jobs and skills. It will depend on the strength of business networks to cluster expertise and drive up demand, share costs, spread best practice and innovation and to engage smaller firms and work with wider partners, for example through group training associations.



“It is vital that employers from all sectors and sizes become increasingly engaged and better connected to the skills market. Locally, this means bringing employers together to actively participate in making the system more effective.”

Clive Memmott, Chief Executive, Greater Manchester Chamber of Commerce



This is already happening in pockets across the UK. For example, shared apprentice schemes such as those in the construction industry in South West Wales or in Cornwall through the Cornwall Marine Network, enable small and mid-sized employers to work together to share apprenticeships, creating new opportunities in the local area as well as meeting business demand. ‘Tech Skills Hubs’ are also being set up through the Tech Partnership in the West Midlands and the North East to cluster demand and expertise.

“Collaboration is vital to driving local economic growth, particularly in key industries, and strong leadership by local employers is crucial to this. Business, particularly SMEs, should be at the centre of our skills agenda.”

Sandy Anderson OBE, Chair, Tees Valley LEP



To scale up this kind of activity, strong employer leadership and networks are needed at the local level. Across the UK encouraging forms of employer leadership are emerging. In England, Local Enterprise Partnerships (LEPs) are bringing together business leaders and local authorities to develop skills and employment strategies that are embedded in local growth plans. A number are showing real promise such as Greater Manchester LEP which works in conjunction with the Greater Manchester Combined Authority, Sheffield City Region LEP and the Leeds City Region LEP. These have built on a history of partnership working. In Wales, Regional Skills Partnerships in the South East, South West and Central and North of Wales bring together employers, local authorities, providers and other key stakeholders to support local economies.

In the context of debates on devolution, **how best to build genuine employer leadership on skills at a local level must be a key consideration if we want sustainable growth through people.**

SUMMARY

- We need a new level of leadership from employers to take responsibility for competitiveness and growth.
- Employers, working with each other and with their employees and trade unions, should raise the bar on skills in sectors, regions and supply chains. Collaboration is vital to building the skills we need for competitiveness.
- Governments should commit to supporting employer leadership on skills, individually and in partnerships, as a central part of long-term growth plans and a way of aligning public and private resources.



2. Improving workplace productivity should be recognised as the key route to increasing pay and prosperity

The recession has left a gap in the productivity of UK workplaces compared to those of leading advanced economies. On average, an employed person will spend more of their waking hours at work than in any other activity, and up to 90 per cent of the workforce will be in work in 10 years' time.¹⁵ The workplace matters - to business competitiveness and to social mobility.

“If we are serious about raising productivity and creating better jobs, the workplace matters.”

*Jeremy Anderson, Chairman,
Global Financial Services, KPMG*



How productive people are in work depends on their level of skills but also on how those skills are used. In turn, this depends on management, how jobs are designed, how technology is deployed and, crucially, how people and organisations are led. This is an important issue at the lower end of the labour market, as evidence suggests that just under a quarter of all jobs only require primary school level education attainment.¹⁶

Over the last decade or more, there has been a focus on whether schools, colleges and universities are producing people with the skills and qualifications to meet the needs of business and the economy. But this has left little room to examine how skills are actually developed and used in the workplace to drive performance, productivity and pay - 4.3 million employees have skills that are not being fully used. **Without regular use, skills atrophy and without good management skilled employees disengage.**

At the same time, globalisation and technology are changing the way we work: work is becoming

more network-oriented, multi-disciplinary and technology intensive.¹⁷ The workforce is also getting older, better educated and more diverse. Traditional models of management, leadership and work organisation will be continually challenged in terms of effectiveness, particularly in a more flexible labour market. To prosper, businesses and workers must adapt to move up the value chain.

Productivity gains come from a combination of investment in skills, new technology, and new processes and organisations.¹⁸ There has been a focus in the UK on experimenting and learning from new technology, for example through Innovate UK, the Technology Strategy Board. To remain globally competitive, **business leaders, employees and policymakers need to recognise the importance of the workplace – and how skills and people are managed within in it – as a site for ongoing learning and innovation.**

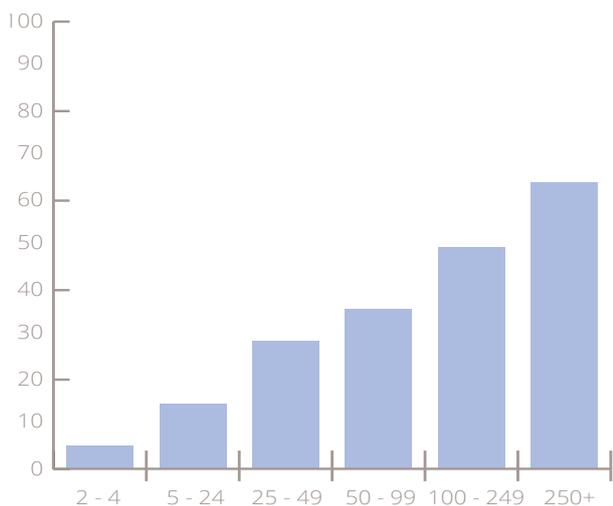
World class businesses such as O2, BAE Systems and Innocent among others are leading the way on this. We need to support more businesses to innovate in response to global and demographic challenges, to move up the value chain and to more effectively manage the skills and talents of people already in work. **Whilst the UK has many of the highest performing businesses in the world, there is a ‘long tail’ of poorly performing firms** – too few UK firms adopt high performance working practices such as training, performance reviews or processes to identify high potential.¹⁹ This is a particular challenge for small businesses that lack time and dedicated HR functions.

We need to see businesses taking the lead in their sectors, local areas and supply chains on raising productivity through improving management capability, job design and innovation.

There may be a case for bringing together leaders from business, trade unions, government and other stakeholders such as universities and research centres to focus on the workplace. This support

could provide policy insight and a focal point for promoting and sharing best practice. It could also help to develop a long-term strategy for working life and ensuring that those with low skills can respond to a radically shifting labour market.

Percentage of establishments defined as 'high performance working', by employment size band



Source: UKCES (2014) Employer Skills Survey 2013

“There is a key role for leaders in creating a workplace environment which is a fertile ground for high levels of productivity. High performing organisations achieve their differentiation in part through a long-term commitment to management and leadership development.”

Nigel Whitehead, Group Managing Director Programmes and Support, BAE Systems

In the Finnish Workplace Development Programme (Tykes), the Finnish government co-invest in workplace projects with private firms with the aim of improving productivity and the quality of working life. Projects have led to increased labour productivity and quality of operations and reduced workload and sickness absence.

To accelerate innovation the government could also consider pump-priming experimentation in workplace innovation in the same way that it invests in technological innovation, as has been tried in successful economies such as Finland and Norway. It could stimulate new forms of work organisation where it's needed most, for example among small and mid-sized businesses or those with large volumes of low productive jobs. It could also encourage new partnerships between business and expert communities, such as university research centres to enhance knowledge transfer, foster innovation ecosystems and share expertise about what works. In Wales, there are already pilot schemes in the construction and creative industries to test out skills utilisation in their sectors.

Unionlearn supports employee-led learning through its 30,000+ union learning representatives. Last year alone they helped 220,000 employees to engage in a range of work-based learning. For example, at a union-led learning centre jointly funded by retail union USDAW and DHL, apprenticeships have been introduced for the first time at a DHL-run distribution centre for Sainsbury's. Union representatives provide ongoing support to the apprentices including arranging work-based training at the learning centre.



UKCES's own UK Futures Programme is also testing out employer-led innovations in management and leadership in supply chains and progression for low-paid workers.

Employee participation is a critical component since much innovation takes place on the 'shop floor'. Models that stimulate employee-led learning, including new ways to deliver learning at work, and that increase employee engagement and innovation will be ever more important to both productivity and wellbeing at work.

Using the Investors in People Framework, the Landmark London hotel achieved £35k in savings and saw a rise in guest satisfaction ratings and mystery guest scores after increasing their employee engagement.

Underpinning this is a growing interest from employees and investors in demonstrating the value of people to business, and understanding corporate cultures. Having good quality metrics that capture the contribution of people to business performance is fundamental. This has the potential to bring about a real culture change in helping businesses to understand the value of their people as assets, not simply as costs. It would place decisions on HR and workforce investment centre stage in business strategy and could be used to reward and incentivise leaders and managers to pay careful attention to employee engagement scores.

The growth of employee rating websites also means that businesses will be increasingly judged on their people practices. While business leaders debate what to report, employees are already using social media

to provide their own feedback. **We would encourage businesses to be more open about their people data – in the same way they would their carbon footprint. In doing this, businesses can also demonstrate accountability to their employees and shareholders.**

The Valuing your Talent framework is a new tool designed to help businesses better measure and report on the value of their people. Developed by the CIPD in collaboration with the Chartered Institute of Management Accountants (CIMA), the Chartered Management Institute (CMI), UKCES, Investors in People, and the RSA it helps give employers a clearer understanding of, and common means of describing, the way in which people impact the performance of their organisation.

SUMMARY

- Up to 90 per cent of the current workforce will still be in work in the next decade. **To tackle the productivity deficit for the economy as a whole, there must be much greater focus on job design, technology and progression for those in work.**
- **Equipping people with the right skills and giving them the best opportunities to use them will lead to better paid jobs.**
- **This means better leadership and management of people and organisations, increased employee engagement and more transparency about the value of people to business success.**



3. 'Earning and learning' should be the gold standard in vocational education

It is hard to overstate the importance of combining work with learning in helping make that first step into a career. In general terms young people who combine work and learning are less likely to be NEET (not in education, employment or training) and earn more than those who don't.²⁰ In higher education, combining work with studies, for example through sandwich courses, leads to better degrees, higher wages and lower unemployment.²¹ For employers, these models provide an effective way to grow new talent and address long-term skill needs.

The best known model of the 'earn while you learn' route is an apprenticeship. The consensus across political parties on the importance and value of apprenticeships as the 'new norm' for young people has never been stronger. For the first time in a generation, apprenticeships will be a general election issue.

We welcome the shared political ambition for apprenticeships and the commitment and progress that has been made over recent years. Apprenticeships are a success story - in England alone nearly 900,000 people participated in an apprenticeship in 2012/13.²² This is unprecedented.

However, to achieve the ambition there is still a long way to go. In England there has been progress at all levels, but from an inherited low base. In particular, it has been harder to achieve the same scale of growth in advanced and higher level apprenticeships as those at intermediate level. Recent growth in higher apprenticeships has been impressive – there was a thirtyfold increase in starts in just four years.²³ However, when compared to young people starting a degree course, the distance to be travelled is clear - 3,000 young people started a higher apprenticeship in England in 2012/13 compared to 270,000 starting a degree course.²⁴ It's a similar story for 17 year olds; there were 272,900 studying AS and A-levels in 2012/13 compared to 11,100 participating in the equivalent level of apprenticeship (level 3).²⁵ A

step change is needed from within industry if we are to achieve high numbers of quality apprenticeships for young people in England.

To be an attractive career option for young people and address the nation's skills deficit, apprenticeships need to be substantial development programmes offering a pathway to a great career. This was highlighted in the Richard Review of Apprenticeships which is now being implemented by government in England.²⁶ In other countries this is typically expressed as equivalent to a level 3 qualification and supported by a pipeline of young people with a good technical education. Northern Ireland, for example, is developing apprenticeships with a minimum of two years duration and mainly at level 3, basing its approach on Switzerland.



"We now need a stable, demand-led skills landscape that drives cooperation between employers and educational providers. There is no doubt that this will be key in driving up productivity and securing the UK's global competitiveness."

Juergen Maier, Chief Executive, Siemens

Apprenticeships are first and foremost jobs with training. The primary responsibility for them should rest with employers. The problem is that successive governments have managed apprenticeships as programmes run by training providers and regulated by government – not as a form of employment and a means by which businesses recruit and develop their talent pipeline.

The result is that many employers simply don't

engage. Despite improvements, **only 10 per cent of UK employers actually employ apprentices**²⁷ – far lower than in Austria, Germany, Switzerland and Australia where there are three to four times as many.

To achieve more and better apprenticeships we need to give employers the scope, time and incentives to get involved. It is quality and employer leadership that will ultimately drive quantity.

“In today’s international, competitive market we believe that one of the biggest challenges we will face is productivity and resource constraints. It is essential that we continue to work, in collaboration with Government, other employers, unions and education, to recruit, retain and inspire the next generation of engineers in all disciplines.”

*Allan E. Cook CBE, Chairman,
Atkins*



Governments across the UK are moving in this direction. Apprenticeship reforms are in train in England and Northern Ireland, and under review in Wales – all aiming to boost quality and involve employers more in design and delivery. For example, in England ‘trailblazing’ groups of employers are designing new apprenticeship standards and assessment approaches including household firms such as BAE Systems, Jaguar Land Rover and BT as well as small businesses.

Our view is that governments must commit to and invest in these reforms for the long-term or risk them being viewed by employers, education

providers and learners as transient and therefore not worth investing in. In England, we have not yet reached the ‘tipping point’ that makes the reforms irreversible. We need to build consensus among employers, employees and education providers to mobilise action and ensure the reforms have deep roots.

Collaboration is an essential part of this.

Apprenticeships, and other vocational qualifications, should be underpinned by high quality UK-wide occupational standards that are owned by the industry. In England, industrial partnerships in growth areas of the economy are good examples of how this can work. For example, employers in the Tech Partnership are working with education providers to design, deliver and quality assure programmes ranging from occupations in software to big data analysts. The Energy and Efficiency Industrial Partnership is developing new apprenticeship standards for power distribution and water process technicians and has set up an independent assessment service to assure consistent validation of training across their industry.

UKCES continues to advocate the principle of routing public funding for apprenticeships through employers to give them purchasing power to ensure apprenticeships have real value in the labour market.

Most of the cost of an apprenticeship is borne by the employer, for example coaching and supervisory costs, wages during off the job training, equipment and providing sites for training. This means employers have a vested interest in the success of the apprenticeship and in achieving value for money. Public investment should be routed through the employer as a contribution towards the whole cost of apprenticeships. This, along with the design of sufficiently high and broad standards, that can only be achieved through significant time and resource, will guarantee quality and co-investment by employers.



Apprenticeship standards should also be underpinned by clear agreements on the roles and responsibilities of employers, employees and training providers.

The mechanism for making the public contribution needs to be simple and transparent to the employer. We should have confidence in the new apprenticeship standards and in proposed apprenticeship agreements to underpin them as the principle mechanism for assuring wise public investment. It is right that the government in England, in the context of ongoing reforms, is taking time to consider these issues carefully.

Building the capacity among employers to scale up this kind of practice will take time, particularly for small employers, but it is important to be patient. We must not compromise quality and sustainability in order to drive up numbers in the short term.

Apprenticeships are important, but they are not the only 'earn while you learn' route. More employers are starting to offer school leaver programmes, which incorporate a university degree and/or a professional qualification, and part-time or full-time work. By working with universities to tailor degrees that support work-based learning, employers often cover some or all of the costs to the learner. School leaver programmes are becoming established in a range of sectors from the professions to IT. For example, CGI, an international IT firm, has developed a three year programme in conjunction with the University of Winchester, which offers school leavers the chance to gain a BA in Business Management and a Higher IT Apprenticeship while working at the company.

Our view is that **employers should be encouraged to develop quality 'earn while you learn' routes that work best for their industries** - including apprenticeships, higher apprenticeships, school leaver programmes, sandwich degrees or other options, as long as these are high quality and recognised at the industry level.

We know that there is the appetite among employers to do more – our evidence shows that over a third of employers plan to offer apprenticeships in the future.²⁸ But this will only happen if there is long-term stability and clarity in our vocational education system, as is the case in other countries with successful systems.²⁹ This is a vital precondition for sustained employer engagement and investment in high quality apprenticeships and other work-based training routes.

The challenge now is to create long-term stability across the UK, allowing reforms to embed, so that apprenticeships and other 'earn while you learn' routes become a normal way for businesses to recruit and develop their talent pipeline. This is the only way to build a gold standard vocational education system that offers quality opportunities for young people and meets our future skills needs.

SUMMARY

- **We need a step change in attitude and uptake of quality vocational routes into good jobs. High quality apprenticeships should be a normal career pathway for many more young people, and a normal way for businesses to recruit and develop their talent pipeline.**
- **Employers, working collaboratively, should have the lead role in designing apprenticeships to ensure they have value in the labour market. The public contribution should be channelled via employers to stimulate greater employer uptake.**
- **In England, long-term stability in vocational education and training is essential for employers to have the confidence to engage.**



4. Education and employers should be better connected to prepare people for work

To create a workforce with the right skills and experience, far greater connectivity is needed between the education system and the world of work – at every level. This means businesses stepping up their level of engagement with education; schools, colleges and universities that routinely work with businesses; and individuals who develop a lifelong habit of learning.

Exposure to the world of work should be a central feature of every young person's educational experience, regardless of whether they follow a vocational or academic route. Combined with robust and accessible labour market information, this is the backbone of a high quality careers offer for young people.

“Experience of work and good quality careers information have a vital role in preparing young people for work and tackling occupational segregation. Schools must play their role in challenging the gender stereotypes, working with employers and union learning reps to do so.”

Gail Cartmail, Assistant General Secretary, Unite the Union



Work experience builds attitudes and behaviours in young people that are essential for work and impact positively on educational attainment.³⁰ For businesses, there are also clear benefits – opening up the workplace to young people brings fresh ideas and market insights, increases brand loyalty and grows future talent, as well as providing opportunities for existing staff to develop their management skills.³⁰ The emphasis on work experience in the new study

programmes for 16 – 19 year olds in England is therefore a welcome development.

But the reality is that only 30 per cent of businesses actually offer young people work experience placements during education.³² At the same time part-time work opportunities for young people have declined – the so-called ‘death of the Saturday job’ – making that first experience of work, which employers value so highly, even harder to find.³³

We know that the main challenges for businesses in providing work experience are time and resource, not being contacted and misperceptions around what work experience can be.³⁴ By work experience we don't mean two weeks just making tea. It can include job tasters, site visits, mock interviews, careers talks and skills competitions too. This kind of ‘work inspiration’ should start early and certainly by age 13 or 14. As young people get older and closer to the labour market, these experiences should start to look and feel like real work and include substantive placements with an employer, complementing the course of study.

The Skills Show is the nation's largest skills and careers event and inspires young people in a range of ways. It combines skills performances and competitions with careers advice and the opportunity for the 80,000 young people who visit to have a go at different skills, speak to employers and find out about training opportunities.

Given that there are around 4,000 secondary schools across the UK, it is not unreasonable to expect each one to have a strategic link with one or more of the UK's 1.1 million employers.³⁵ Large businesses deal with suppliers on much the same

scale. Sir Ian Wood's Commission for Developing Scotland's Young Workforce aims to achieve this for all 363 Scottish secondary schools in the next three years. There should be a similar aim for the whole of the UK. We know that this is doable; of the employers that do engage with schools only 8 per cent experience any difficulties whatsoever.³⁶

“Successful employer engagement in schools should be long term, strategic and connect the classroom with the world of work.”

Paul Drechsler, Chairman, Teach First and Chairman, BITC Education Leadership Team

This will require a framework for coordinating education and business links at a local level.

There is a wide range of excellent practice to build on such as Business in the Community's 'Business Class' and 'Inspiring the Future' run by the Education and Employers Taskforce, as well as the work of education business partnerships and employer bodies such as chambers of commerce and the CIPD. Many of these are already reaching large numbers of employers. For example, Lincolnshire and Rutland Education Business Partnership works with 15,000 employers and 68 schools in the region to broker work experience for young people via an online portal. The common success factors are strong business leadership, good local partnership working and effective brokerage.

The challenge now is to scale up activity at the local level, including bringing in smaller businesses, so that every school and college has a point of contact for business engagement and enterprise. This means stimulating the growth of

networks in local areas, and the development of new ones where they don't exist. This has the potential to create a national movement for inspiring young people about the world of work and will support them to make informed career decisions.

“Industry leadership is critical to ensuring all young people gain work experience. Large employers can act as ‘anchor institutions’ in local areas, working with SMEs, supply chains and local schools, colleges and universities. We work within our communities to offer hundreds of meaningful work experience placements and skills and employability training programmes.”

Fiona Kendrick, Chairman and CEO, Nestlé UK and Ireland

It's not just about work experience. **Employers need to play a more integral role throughout the whole vocational education system.** A focus on employer leadership and quality is just as critical in courses delivered in colleges or schools as it is in apprenticeships. This means all vocational courses should include a substantial work placement, employer engagement in design and assessment and the same focus on industry relevance and outcomes for students. It is more important than ever that we reinvigorate practical learning for young people and, working with employers, create high quality technical career pathways. University Technical Colleges in England are a good example of how technical education is being developed in partnership with employers.

One area which requires better connectivity between education and the world of work is tackling the deficit of mid and higher level technical skills. This deficit is especially acute in manufacturing and engineering, which are essential for export growth. In manufacturing, 30 per cent of all vacancies are reported as hard-to-fill due to a lack of skills, qualifications or experience. For specific roles this can be even more pronounced, for example 69 per cent of mechanical engineering vacancies are hard-to-fill.³⁷

As the OECD has pointed out, England has very little higher level technical provision below degree level compared to international competitors.³⁸ Fewer than 10 per cent of people are enrolled on programmes of this type, compared to 22 per cent people in the US with associate degrees or post-secondary certificates.³⁹

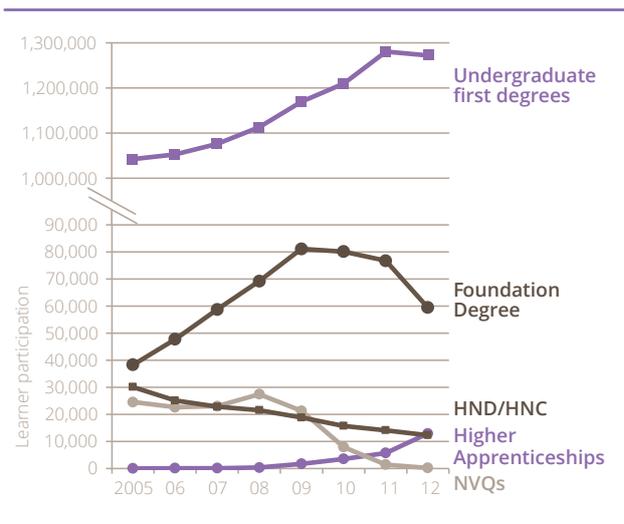
The reality is that higher level technical education has fallen through the gap between our further education (FE) and higher education (HE) systems.

As a result, businesses aren't getting the skills they need and there aren't enough pathways to higher technical skills, another barrier to social mobility.

Part of the problem is that there aren't enough high quality technical institutions with genuine employer leadership, to deliver advanced technical education. There has been lots of innovation, including the new National Colleges in England, but these will take time to embed and a greater scale of change is needed.

Our view is that further education colleges are well placed to fill the gap and should be supported to deliver higher level technical provision, alongside their wider offer. This means developing locally relevant specialisms, a distinct offer that colleges can become 'famous' for with employers that meet the needs of industry. Many colleges are already leading the way, for example, Blackpool and The Fylde's school of Maritime Studies, City and Islington's forensic science unit and Westminster Kingsway College's hospitality and catering

Participation in undergraduate higher education, England 2005-2011



Source: Data Service, Skills Funding Agency

programmes. However, a fundamental shift is needed across the FE sector to leverage higher level technical education and work more strategically with local businesses and universities.

Colleges have the potential, along with universities, to play an important role as economic and social 'anchors' in their local and wider communities, working closely with local employers and other education providers.

Clear and recognised technical and professional pathways are needed that go from school up to degree level and above, with stopping off points in between. This means **closer collaboration between colleges, training providers, universities and employers** to ensure that there are clear pathways between institutions and workplaces.

It also means closer employer engagement in the design and delivery of higher level vocational qualifications – resisting the temptation to fit them into academic structures. For example, Capgemini and Aston University have developed taught degrees in Software Engineering and Information Systems



that are delivered almost entirely in the workplace. As Nigel Whitehead set out in the Review of Adult Vocational Qualifications in England, we need to reorient the system to put employer demand and business growth at its heart.⁴⁰

“Creating more, well-articulated, vocational and technical pathways should be a joint enterprise between education and employers. By working together we can produce the outcomes that people building careers deserve.”

Professor John Coyne, Vice-Chancellor, University of Derby



SUMMARY

- To create new pathways into work we need to start much earlier. All schools should have links with local businesses and use those links to inform and inspire young people about the breadth of career opportunities available.
- FE colleges should be supported to work with employers to deliver higher level technical and professional education to meet the UK’s technical skills gaps.
- Closer collaboration between employers, colleges and universities is essential to ensure there are seamless opportunities to work and learn over the course of longer working careers.



5. Success should be measured by a wider set of outcomes not just educational attainment

To improve productivity and social mobility, measuring and rewarding educational attainment via qualifications alone is no longer good enough.

A system constructed in this way provides centrally driven incentives for education providers to produce high volumes of easy to deliver qualifications. It offers no incentive to collaborate with employers or other educational institutions to deliver the skills that people and businesses really need. Qualifications are important and give learners portable evidence of skills, but they must also lead to good labour market outcomes – a job, a better job, or for the business, the ‘job done better’. This has been recognised and reflected in policy development across the UK.

Schools, colleges, training providers and universities should be primarily accountable to their learners and employers, not upwards to government or funding agencies.

This isn't straightforward. Education providers are potentially accountable to a range of customers with competing priorities. Colleges, for example, need to be accountable to individual employers, to their students who want to find jobs or continue studying, to local business partnerships and local communities.

Different incentives in different parts of the employment and skills system can also add complexity and inefficiency. For example, welfare to work providers are incentivised to get someone into a job first, not necessarily to build the skills for sustained employment. Schools and colleges are primarily incentivised to support learners to achieve qualifications, not necessarily to prepare them for work. With constrained public resources, it is more important than ever that goals are aligned and public money is pulling in the same direction.

What's needed is a wider basket of outcome measures to which a range of skills and employment providers are held to account and that creates stability for employers and individuals to invest over the long term. In an outcome agreement model, like those in place in Scotland and the USA, targets can



“The success of our skills system should absolutely be measured by a wider set of outcomes than just qualifications, including jobs, progression and pay. This would have a positive impact – for example, measuring the success of schools, colleges and universities based on the employment outcomes of learners would go a long way in tackling youth unemployment.”

Dr Adam Marshall, Executive Director, British Chambers of Commerce

be negotiated between local employers, colleges and welfare to work providers, and reflect the priorities for that area including job outcomes and progression.⁴¹ This provides a direct line of accountability to the local economic community, and encourages providers to work together collectively to deliver what is needed in a local area over the longer term. It provides a way of aligning incentives and fosters a culture of continuous assessment and improvement.

We are moving in the right direction. There has been real progress across the UK in making the system more focused on outcomes. For example learner destination data for schools and colleges in England is now regularly published, and job outcome payments are built into elements of college funding. new Skills Performance Measures in Wales incorporate a range of metrics including jobs and growth outcomes,⁴² and in Scotland outcome agreements between the Scottish Funding Agency and colleges and universities are focusing on impact rather than simply activity.

Ideally, public investment should be paid against

Sheffield City Region LEP's Skills Bank is a £130 million workforce development programme designed to accelerate growth by negotiating 'deals' directly with employers based on their growth potential and private sector contribution. Designated a national demonstrator project, it is demonstrating a return on investment in positive economic outcomes including exporting, job creation and inward investment. At the same time, it's driving a step change in how employers and providers invest in, co-design and deliver demand-led training.

this wider set of outcomes. We recognise that this is difficult. There are a number of barriers, not least the diversity of local labour market contexts and specific circumstances of the student. But we must learn from where payment by results has been tried and scale up what works over the long term.

At the same time, any outcome-based investment model needs to be considered within the wider context of how investment in adult skills will work in the future. With diminishing public investment and growing pressures on individuals to adapt and update their skillsets in line with demographic, technological and global changes, the balance of responsibility for investing in workforce skills is shifting among employers, the state and learners. We do not yet have holistic and sustainable plans for long-term investment in adult skills in England. Given that 9 out of 10 of the current workforce will still be in work in ten years' time, this needs to be addressed as a matter of urgency as has been the case for pensions and social care.

As a first next step, we should break the link between funding and qualifications for adult skills in England – which is already at odds with other UK nations and European countries. If funding



“We need a substantive public debate as to how public investment most effectively leverages individual and employer investment in skills and learning over the long term and for an individual's career journey.”

Martin Doel, Chief Executive, Association of Colleges

were to follow students or programmes – as it does for 16-19 year olds in England - this would give institutions far more flexibility to focus on broader outcomes as well as qualifications.

Colleges should also be encouraged to move beyond transactional relationships with employers and gain trust and credibility as business partners.⁴³ By helping employers to understand their own skills needs, especially small businesses, colleges can develop strategic partnerships, support business development and therefore generate sustainable income streams. Many colleges are already doing this, for example the collaboration between Bridgwater College and EDF Energy to create the Energy Skills Centre. This needs to happen right across the further education sector and be recognised and rewarded in inspection and quality assurance processes.

Finally, **outcome agreements require robust, standardised and accessible data.** Robust and standardised labour market intelligence on jobs, skills and earnings is vital for an outcome-based system to work. It is also critical to the functioning of an effective labour market and is an essential foundation for quality careers guidance. If colleges are to effectively respond to local businesses and local labour markets, they need to understand them and help businesses and learners do the same.



Rapid advancements in technology have opened up possibilities to tailor high quality data to suit the needs of different audiences and the various ways they access and interact with information. For example, data tools such as the LMI for All data portal have real potential to excite and inform young people, careers specialists, parents and teachers about the fast changing world of work. **The challenge now is to make use of the data in a way that inspires people to take action and make well informed careers decisions.**

icould.com provides career ideas and information for young people. In 2013, icould integrated LMI for All data into their site to provide high quality labour market information in their offer to young people. Site users can now access data on average earnings, working hours, predicted employment, as well as the skills interests and abilities relevant to each occupation.

SUMMARY

- We need to align measurement of schools, colleges and universities more clearly with the outcomes that are needed for sustained growth through people.
- These outcome measures should be more prominent in demonstrating accountability and key outcome data shared widely with employers, individuals and communities.
- Reliable labour market intelligence should be widely used to support better decision making by individuals, employers and education providers.



Acknowledgments

Acknowledgements to UKCES Commissioners Douglas McCormick, Fiona Kendrick, Jeremy Anderson and John Coyne who have coordinated the various strands of work to develop this report.

This statement is supported by:

Anne Sharp, Chief Executive, Acas

Martin Doel OBE, Chief Executive, Association of Colleges

Dr Adam Marshall, Executive Director, British Chambers of Commerce

Stephen Howard, Chief Executive, Business in the Community

Andrew Carter, Acting Chief Executive, Centre for Cities

Peter Cheese, Chief Executive, CIPD

Nick Chambers, Director, Education and Employers Taskforce

Terry Scuoler, Chief Executive, EEF

Mike Cherry, National Policy Chairman, FSB

Andy Westwood, Chief Executive, GuildHE

Dr David Docherty, Chief Executive, National Centre for Universities and Business

David Hughes, Chief Executive, National Institute of Adult Continuing Education

Nicola Dandridge, Chief Executive, Universities UK

Dr Lynne Sedgmore CBE, Executive Director, 157 Group

Mark Stewart, Chair, Aerospace Industrial Partnership and General Manager & HR Director, Airbus

José Lopes, Chair, Automotive Industrial Partnership and Head of Technical Excellence Jaguar Land Rover

David Abraham, Chair, Industrial Partnership for the Creative Industries and CEO, Channel 4

Steve Holliday, Chair, Energy and Efficiency Industrial Partnership and Chief Executive, National Grid

Tony Handley, Chair, Nuclear Industrial Partnership and Engineering Director, Magnox

Dr Malcolm Skingle CBE, Chair, Science Industry Partnership and Director of Academic Liaison, GSK

Phil Smith, Chair, Tech Partnership and Chief Executive, Cisco UK & Ireland

Terry Morgan CBE, Chair, Tunnelling Industrial Partnership and Chairman, Crossrail

Endnotes

1. ONS (2014) Human Capital Estimates, 2013.
2. ONS (2014) Labour Market Statistics.
3. ONS (2014) Labour productivity key measures.
4. UKCES (2014) Climbing the Ladder: Skills for Sustainable Recovery.
5. ONS (2014) Labour Force Survey, table A05.
6. UKCES (2014) Precarious Futures? Youth employment in an international context. The youth unemployment rate is nearly four times higher than the adult unemployment rate.
7. UKCES (2014) UK Skills Levels and International Competitiveness, 2013.
8. UKCES (2014) Employer Skills Survey 2013.
9. UKCES (2014) Labour Market Story: Skills use at work.
10. OECD (2013) Beyond Industrial Policy, LLAKES (2014) Rethinking industrial policy design in the UK.
11. OECD (Forthcoming) Job creation in the UK.
12. UKCES (2013) Future of Work.
13. UKCES (2011) Employer Ownership of Skills, UKCES (2013) Building the Momentum.
14. UKCES (2014) Employer Perspectives Survey 2014.
15. UKCES analysis of Labour Force Survey 2013.
16. OECD (2013) OECD Skills Outlook 2013.
17. UKCES (2013) Future of Work.
18. OECD (2012) Better skills, better jobs, better lives.
19. UKCES (2014) Employer Skills Survey 2013. Firms are classified as high performance working (HPW) if they adopt 14 and out 21 listed HPW practices.
20. DfE (2011) Young people's education and labour market choices ages 16/17 to 18/19, Research report DFE-RR182.
21. BIS (2013) Learning from Futuretrack: the impact of work experiences on HE student outcomes, research paper 143.
22. BIS (2014) Further education and skills: statistical first release, table 5.
23. BIS (various) Further education and skills: statistical first release, table 6.1. In 2008/09 there were 100 higher apprenticeship starts for 16 to 24s and 3,000 in 2012/13.
24. BIS (2014) Participation rates in higher education: 2006 to 2013, table 2 and BIS (2014) Further education and skills statistical first release, table 6.1.
25. DfE (June 2014) Participation in education, training and employment, age 16 to 18.
26. Richard, D (2012) The Richard Review of Apprenticeships.
27. UKCES (2014) Employer Perspectives Survey 2014.
28. UKCES (2014) Employer Perspectives Survey 2014.
29. OECD (2009) Learning for Jobs.
30. The Edge Foundation and the Education and Employers Taskforce (2013) Profound employer engagement in education: what it is and options for scaling it up.
31. UKCES (2013) Not just making tea...Reinventing work experience.
32. UKCES (2014) Employer Perspectives Survey 2014.
33. UKCES (2014) Precarious Futures? Youth employment in an international context.
34. UKCES (2014) Employer Perspectives Survey 2014.
35. BIS (2013) Business Population Estimates for the UK and Regions 2013. This figure excludes businesses with less than two employees.
36. UKCES (2014) Employer Perspectives Survey 2014.
37. UKCES (2014) Employer Skills Survey 2013. The national average is 22 per cent.
38. The OECD refer to this level as 'postsecondary'. In the UK it includes Higher Nationals, Foundation Degrees and Higher Apprenticeships.
39. OECD (2013) A Skills Beyond School Review of England.
40. UKCES (2013) Review of Adult Vocational Qualifications in England.
41. OECD (2014) Employment and Skills Strategies in the US.
42. Welsh Government (2014) Skills performance measures - Delivering our ambition for skills in Wales.
43. UKCES (2014) 157 Group and Gazelle Group A new Conversation – Employer and College Engagement.

The UK Commission for Employment and Skills (UKCES) is a publicly funded, industry-led organisation providing strategic leadership on skills and employment issues across the UK. Together our Commissioners comprise a social partnership that includes senior leaders of large and small enterprises (including non-profits), trade unions, further and higher education institutions and representatives from the Devolved Administrations.

www.gov.uk/ukces
info@ukces.org.uk
[@ukces](https://twitter.com/ukces)

