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# Employer Ownership of Skills

Securing a sustainable partnership for the long term

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December 2011

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# Introduction

## Charlie Mayfield

Chairman, UK Commission for  
Employment and Skills



The world economy is once again creating difficult conditions for both growth and employment in the UK. The business climate is challenging, and rising youth unemployment a particular concern. The last decade of continuous growth and high employment is a distant memory unlikely to be enjoyed again any time soon.

Economic renewal in this decade will be a long haul, and to be sustainable must be powered by the skills and entrepreneurship of people up and down supply chains in different sectors of our economy. Developing skills is not a separate agenda, but an intrinsic part of securing growth and prosperity for the UK. It is central to the Commission's vision for a more dynamic demand led approach to skills as a source of competitive advantage for the UK economy.

Just over a year ago I became Chairman of the UK Commission for Employment and Skills. Over the last 12 months of meeting with a wide range of businesses I have realised that to achieve our vision we need to rely less on government setting the agenda, and give employers the freedom to take the lead, working in partnership with employees and trade unions, working closely with colleges and training providers. We need more opportunities for young people and those in work through a skills agenda that is employer owned and focused on competitiveness and growth.

### The Challenge

Over the past two decades successive governments have driven the reform and expansion of our vocational skills system with notable successes. But the fact is we have become less competitive globally on skills, and for many employers the 'system' is still too complex. We have developed a habit of incentivising businesses to join government schemes, and too often when the funding

ceases so does the training. At the same time, forward looking colleges and training providers have been constrained by a system which encourages them to pursue government priorities.

As a result, we have two markets for skills development; a publicly funded market built around qualifications, and a privately funded training market addressing business needs. These two markets do not align sufficiently, which perpetuates the debate about a skills system that fails to meet employer needs and supply-side initiatives lacking employer investment. Instead, we need to create the conditions for employers to own the agenda, to develop the skills they need to compete and to make it easier for them to do so.

### The Proposal

So what should we do differently? The answers lie in the best examples of where we have got it right, where partnerships between employers and colleges, often working with trade unions, are developing valuable skills and creating new opportunities. However, there are too few of these examples because many employers are put off by a system that appears bewilderingly complex and excessively centralised. Commissioners, including leaders of businesses large and small, trade unions, universities, colleges and third sector organisations, have concluded that we need to take determined steps to encourage greater employer ownership of skills, working to secure a sustainable partnership for the long term.

We do not need a new set of initiatives. Instead we need to transform the way in which the skills system works for employer-led training. We must create the space for employers to step up and work within their supply chains and business clusters, together with employees, colleges and training providers, to develop the skills they need, framed within a skills agenda which is employer rather than government owned. Greater employer ownership means greater responsibility. We need a single market for skills development into which employers and employees are prepared to make a greater contribution for higher quality training.

We believe the most powerful way to achieve this is to change the way funding flows through the system, and to place responsibility and reward for investment more squarely with employers for employer-facing programmes such as Apprenticeships. For young people, this means moving from provider grants to employer incentives for Apprenticeships and work experience; and for adults, shifting from provider grants to employer investments and loans. But this is about more than just transferring funding. It is about transforming our entire approach. Government needs to step back and review where it is encouraging greater employer ownership and, frankly, where it is getting in the way.

## **The opportunity to take action now**

Reversing a centralised trend in skills policy that goes back decades is not easy. Nothing less than a substantial shift is required. We welcome the steps this government has taken to introduce a more user-focused skills system with greater freedoms and flexibilities to colleges and training providers. The challenge now is for real employer-led partnerships to take centre stage.

We are pleased that government has responded so positively to our vision for greater employer ownership, and committed up to £250 million over the next two years to pilot this new direction. This will enable forward thinking employers to come forward with new approaches that are more effective in improving the skills and potential of new recruits and existing employees. We hope this pilot will work with the grain of industry sectors, reaching small and medium-sized companies through the natural operation of supply chains and through industry ‘hotspots’.

We have been particularly encouraged by the enthusiastic reception we have received to these proposals from businesses in sectors ranging from facilities management to engineering. We urge employers, in partnership with their employees and working with trade unions, colleges and training providers, to come forward with game changing propositions that thoroughly test the proposals in this report. Proposals that create greater employer ownership, place skills right at the heart of the growth agenda, create real opportunities for those in and out of work and deliver a better return on investment in terms of public expenditure.

This is our opportunity to own skills as an intrinsic part of securing sustainable growth and prosperity for the UK.

## **Charlie Mayfield**

Chairman,

UK Commission for Employment and Skills

# Principles for reform

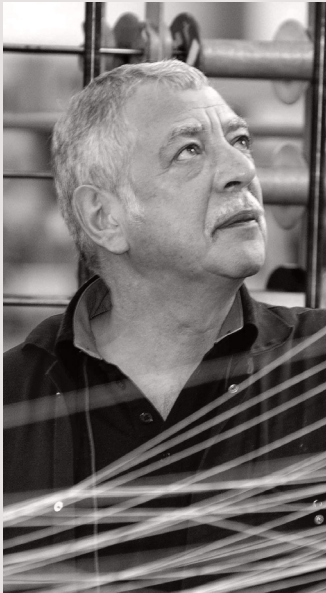
The ambition of the UK Commission is to secure a much greater collective commitment to invest in skills to drive enterprise, jobs and growth. We need an internationally competitive skills base built on a sustainable market for skills development which:

- continually **adapts** to drive enterprise and growth
- produces high **quality** training
- creates more **opportunities** for young people
- is **less reliant** on government intervention.

This will require a radical shift, moving from government leadership to greater employer ownership of employer based training such as Apprenticeships and work experience.

We have developed **five design principles** that outline how employer ownership is different and has the potential to transform skills.

# 1



## Employers should have the space to own the skills agenda

Government should create the space for employers to step up and take ownership of the skills agenda for the growth strategy of their industry or sector.

For too long skills policy has sought to engage employers in a government led enterprise. It is time for government to step back and to create the conditions where the best employers, working with their employees, trade unions, colleges and training providers, can take charge and develop quality training opportunities, jobs and work experience.

# 2



## There should be a single market for skills development

We need a single market for skills development which delivers training in response to individual and business need.

Currently we have two training markets: a publicly funded market providing qualifications built around government priorities, and a private training market delivering skills in response to business need. These markets are not sufficiently aligned. A single market for skills development, where further education colleges and training providers respond to genuine demand rather than state funding incentives, would deliver more economically valuable skills, for which people and businesses would be prepared to pay.

# 3



## **Skills solutions should be designed by employer-led partnerships to reach more people and businesses**

Employers and employees know what training is best for them. Working together in partnership with employees, trade unions, colleges and training providers, employers should be driving the design and delivery of skills solutions for a world class skills base.

Moving decisions closer to the ground will reach more employers and employees, including small businesses, operating within sectors, supply chains or local networks and clusters.

# 4



## **Public contributions for vocational training should move to employer incentives and investments**

Funding should follow ownership. For employers collectively to own the skills agenda, public expenditure should shift from provider grants to incentives and investments which flow through employers into a single market for skills development.

This way, public money works harder and directly transfers ownership and purchasing power to employers. At the same time it should be expected that employers and employees will contribute more to a system they own for training which brings real benefits and value.

Loans and investments should be designed innovatively to reach a wider range of large and small employers, to leverage greater investment from people and businesses, and to create more training opportunities, especially for young people.

# 5



## **Transactions should be transparent**

The current publicly funded skills system is built around a complex funding model that often leaves employers and individuals unaware of government's contributions. This makes it difficult for employers and individuals to make a considered decision based on quality and value for money.

Public contributions should be transparent, simple and less bureaucratic. Public contributions should be designed to facilitate employer/employee choice, empowering them as customers to drive quality, innovation and value for money. Accountability for public contributions should be based on outcomes that achieve jobs and growth.

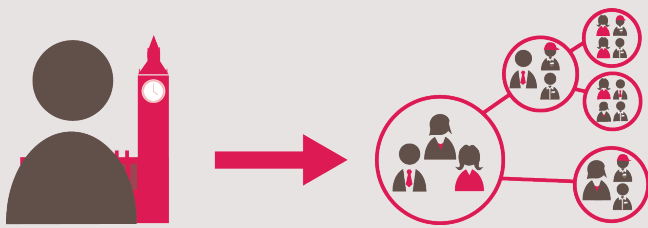


# Proposals

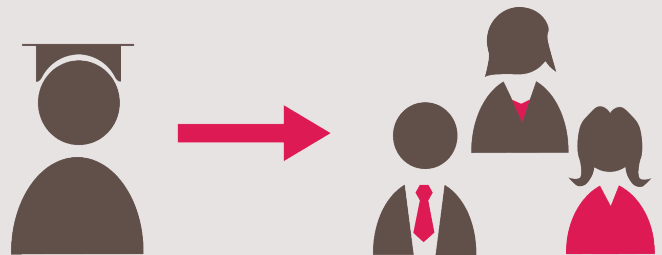
Employer ownership of skills is a **long term agenda** intended to build on the commitment of this government and the last to increase significantly the level and quality of participation in skills training in the workplace. These proposals are an opportunity to make recent Apprenticeship growth sustainable, raise quality and maximising opportunities for young people.

We believe that there needs to be **two radical shifts** in the leadership and ownership of skills:

Firstly, to move from government leadership to employer ownership of vocational training for young people aged 16-24



Secondly, to move from provider-led to employer-owned adult workforce development



We propose that Government should:

1

Invite employers to step up to the challenge of bringing more **young people (16-24)** into the productive workforce by **funding employers directly** for Apprenticeships, for example through the tax system (e.g. via National Insurance rebates) and incentivising work experience.

2


Incentivise greater investment in **adult workforce development** (up-skilling for those aged 24 and above) by employers and employees, by moving from qualification-based provider funding to **employer-based investments and loans** to leverage additional outcomes and work experience opportunities.

3

Review where **current policy and infrastructure** are enabling employer ownership and where they are **getting in the way**, as a means of creating the conditions for **employers to step up and take ownership of skills in partnership with employees and trade unions, colleges and training providers**.

4

Nurture employers' ambition and capacity for skills development by extending the scope of **competitive investment funds** to support more collective action by employers of **all sizes** working together through their **sectors, supply chains and local networks**.



The fact that the public contribution for vocational training flows through the employer puts purchasing power in their hands, making for a more responsive training provider network. Moving to incentives and investments places accountability and reward for investing with employers. Employers will be more likely to contribute as they would have more at stake and co-investment could be hardwired into incentive models. If payments were made through the tax system, this would have the potential to reach more employers, more efficiently and with less bureaucracy.

**We welcome the Prime Minister's announcement to pilot approaches to employer ownership to give employers the power to take control of training so that it best meets the skills they need.**

We also welcome government's commitment to freeing up the skills system as outlined in the recently published further education reform plan 'New Challenges, New Chances'. We will now be working closely with government over the the next few months to develop a prospectus for the Pilots and urge forward thinking employers to come forward with bold new approaches that test our principals and proposals.

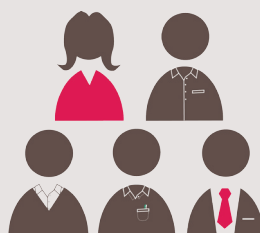
# Benefits

The benefit of employer ownership is that it will create the conditions for employers, employees, colleges and training providers to step up and take responsibility for skills. The proposals are challenging and there is clearly more work to do to develop how they might work in practice but we believe the benefits will be worth it.



## Employers

- Opportunity to take charge and develop training that meets business needs
- More purchasing power in the training market and increased training provider responsiveness
- Transparent financial support that enables easier and better investment decisions
- Opportunity to develop strategic investment relationships
- More freedom and influence, less bureaucracy
- Partnerships with employees, trade unions and training providers driving skills solutions
- Solutions that reach more small businesses through supply chains and business clusters
- Skills development becomes an integral part of business strategy



## Young people & adults

- Increase in economic value and status of skills
- Higher quality training options for young people that are valued by employers
- Strong Apprenticeship brand
- More Apprenticeship opportunities
- More work experience opportunities
- Real up-skilling for adults in the workplace developed in collaboration with employers
- Culture of strong employer-employee partnerships
- Greater commitment to skills development from employers



## Colleges and training providers

- Ability to compete on the basis of quality and innovation rather than volumes and priorities
- Empowered to build long term partnerships with employers
- Opportunity to develop and use expertise in understanding and articulating how training can benefit employers
- More committed employers that are more willing to engage with skills development



## Government

- Long term strategy for skills development that is sustainable and linked to growth
- Opportunity to leverage a broader set of outcomes and achieve better value for money
- System built around employer and individual need that delivers economically valuable skills
- Less involved



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# Main Report

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# About the UK Commission for Employment and Skills

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and economic growth.

Our Chairman is:

**Charlie Mayfield**, Chairman, John Lewis Partnership

Our Commissioners are:

**Sir Adrian Webb**, Chairman, Wales Employment and Skills Board

**Dr Bill McGinnis CBE**, Northern Ireland Adviser on Employment and Skills

**Brendan Barber**, General Secretary, Trade Union Congress

**Chris Hyman CBE**, Chief Executive, Serco Group PLC

**Dave Prentis**, General Secretary, UNISON

**David Fairhurst**, Chief People Officer, McDonald's Europe

**Dr Deirdre Hughes**, Lead Consultant, European Lifelong Guidance Policy Network

**Grahame Smith**, General Secretary, Scottish Trades Union Congress

**James Wates**, Deputy Chairman, Wates Construction Limited

**Jeremy Anderson CBE**, Chairman, Global Financial Services, KPMG Europe LLP

**Professor John Coyne**, Vice-Chancellor, University of Derby

**John Cridland CBE**, Director-General, CBI

**Julie A Kenny CBE DL**, Chief Executive, Pyronix Limited of Rotherham, South Yorkshire

**Larry Hirst CBE**, Former Chairman, IBM Europe, Middle East and Africa (EMEA)

**Liz Sayce OBE**, Chief Executive, Radar

**Lucy Adams**, Director of Business Operations, BBC

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

**Sean Taggart**, Owner and Chief Executive, The Albatross Group

**Seyi Obakin**, Chief Executive, Centrepont

**Tony Lau-Walker**, Chief Executive Officer, Eastleigh College

**Trevor Matthews**, Chief Executive Officer, Aviva UK

**Valerie Todd**, Director of Talent and Resources, Crossrail Ltd

**Lord Victor Adebawale**, Chief Executive, Turning Point

**Willy Roe CBE**, Chairman, Highlands and Islands Enterprise, Scotland

# 1. Skills Matter

## 1.1 Strong vocational skills are vital for our economy and society

**Vocational skills matter.** The capabilities of our people are ultimately the basis for the UK's long term competitiveness and growth. They contribute to personal wellbeing, social mobility and stronger communities.

**For businesses,** a higher skilled workforce improves productivity and performance. The productivity of a trained worker is on average 23% higher than an untrained worker<sup>1</sup>. Firms that train are also two and a half times more likely to survive than firms that do not<sup>2</sup>. Training increases job satisfaction, lowers absence and turnover, and creates 'home grown' talent that is closely aligned to the specific needs of the business.

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**2.5 X** Survival rate of firms that train compared to those that do not

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**For individuals,** higher skill levels improve the chances of being in work as well as the chances of progression. Vocational qualifications can offer significant pay benefits, particularly at the higher levels; completing a Level 3 Apprenticeship (equivalent to A-levels) offers lifetime benefits of between £77,000 and £117,000<sup>3</sup>. Skills development increases the likelihood of future learning and is linked to wider health and social benefits<sup>4</sup>.

**Skills are vital for growth.** They are a key driver of employment and productivity growth. In the last 25 years around a fifth of UK economic growth was due to increased workforce skills<sup>5</sup>. The UK's future comparative advantage will be defined by high performing, high value added sectors which depend on growth in high level skills.

## 1.2 There has been real progress in vocational skills

There is much to celebrate. Over the last decade, there has been considerable investment in skills and real progress in raising the capability of the UK workforce.

Qualification attainment has increased at the high and low ends of the spectrum. In the past ten years, the number of people with high level qualifications (degree or equivalent) increased by 44% and the number of people with no qualifications decreased by over a quarter<sup>6</sup>. These trends look set to continue. There has been significant public investment in the expansion of Apprenticeships. The current government is delivering the highest number of Apprenticeships this country has ever seen and demand from people keen to train as apprentices is high.

Our Further Education (FE) sector serves some 200,000 employers and three million learners, the largest and most diverse group in post-16 education<sup>7</sup>. Successive reviews have highlighted outstanding colleges and training providers with national and international reputations.

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**" Enhancing skills is critical if we are to be world class. Talent drives growth and ensures business survival "**

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

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### 3.1 We are still treading water by international standards

But despite significant investment and progress, we must be honest about the fact that the UK is not keeping up with its international competitors. Compared to other OECD nations, the UK ranks 20<sup>th</sup> for low skills, 26<sup>th</sup> for intermediate and 9<sup>th</sup> for high skills<sup>8</sup>. Other countries are up-skilling faster.

Despite radical expansion in qualifications at the higher and lower levels, one in eight people in the UK still has poor literacy and nearly one in five has poor numeracy. There are also skills shortages at middle levels, including 'technician' skills which are important for future growth<sup>9</sup>.

UK productivity lags behind a number of key competitor countries. According to the latest data, UK productivity has fallen to 17<sup>th</sup> place (from 11<sup>th</sup>) and GDP per hour worked is also 10% below the G7 average<sup>10</sup>. This is not good enough if we want to remain a global economic force in the future.

The UK also has a high NEET (Not in Education Employment or Training) rate compared to other competitor nations<sup>11</sup>. Youth unemployment has been rising since 2005 and lack of skills is increasingly having an effect<sup>12</sup>. We risk losing a generation of talent and the scarring effects will be felt by individuals, communities and the economy. Now more than ever, on-going skills development really does make a difference.

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**" I know personally the importance of supporting staff progression - their ambitions are key to driving the growth of my business "**

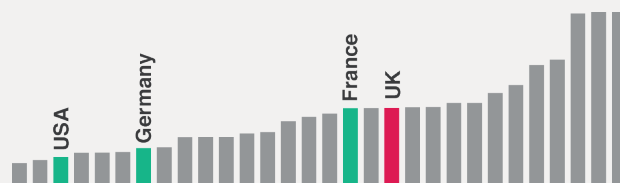
**Julie Kenny CBE, Chief Executive,  
Pyronix Ltd**

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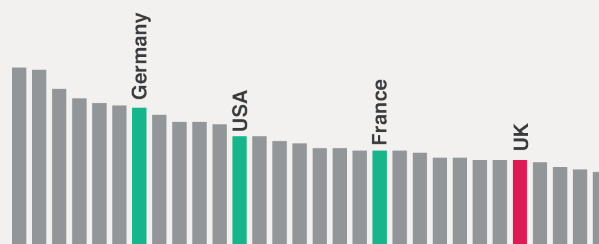
## Falling behind

*Reviewing the position of the UK compared to competitor nations reveals the scale of the skills challenge<sup>13</sup>.*

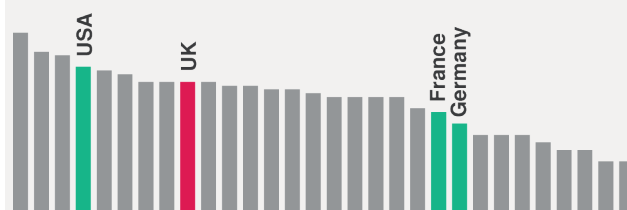
**20<sup>th</sup>** **Low skills** is an increasing problem in the UK. Compared to similar sized economies, we are falling further behind in addressing basic english and maths skills in our workforce.



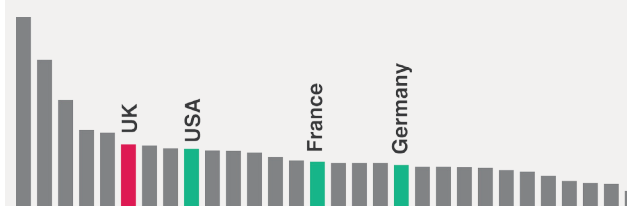
**26<sup>th</sup>** The UK has a concerning shortage of intermediate skills.



**9<sup>th</sup>** Whilst the UK's **highly skilled** workforce population has improved, this needs to continue if we are to compete on a global level.



**6<sup>th</sup>** The UK has a high percentage of young people **Not in Education, Employment or training (NEET)**<sup>14</sup>.



(Source: OECD, Education at a Glance 2011, OECD, Off to a Good Start? Jobs for Youth, 2011)

## 2. The Current System

**Public investment in skills has increased significantly in the last decade.** We estimate that total public spending on further education rose by 36 per cent in real terms from 1997/8 to 2008/9<sup>15</sup>. As a result, the number of people with qualifications and volume of training has increased, as shown by recent growth in Apprenticeships in England. It is critical that we now build on these successes and ensure that the system delivers the skills and opportunities for sustainable growth.

### 2.1 Parts of the system are not supplying the skills businesses need for growth

**In the past, public expenditure has been directed towards qualification attainment against government targets,** for example Train to Gain. This strategy has increased participation levels and the volume of qualifications, creating strong foundations on which to build. However, governments over the years have frequently struggled to generate employer engagement, and well intentioned policy has crowded out employer ownership.

- **Public initiatives have had difficulty driving up economically valuable skills that support growth.** It is widely recognised that for many occupations Level 3 (equivalent to A-levels) skills are needed for growth. But in 2010-11, around two thirds of Apprenticeship starts were at Level 2 (equivalent to 5 GCSEs A\*-C). This contrasts markedly to many other countries where most Apprenticeships are Level 3 and above. Much recent growth has been among older workers<sup>16</sup>. There is concern that this represents accreditation of existing skills rather than substantive new ‘up-skilling’ and new employment.
- **Public initiatives have had difficulty leveraging additional employer investment to support growth.** In the past, government schemes to engage employers

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**“ Employers are best placed to shape the skills solutions that suit them, and it is right that they are now being put in the driving seat. For too long the government model has led to a divergence between what employers really wanted and what the publicly led system was able to offer ”**

John Cridland, Director-General, CBI

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in training have led to significant deadweight. Around half of employers that received Train to Gain training said that they would have funded training without the subsidy<sup>17</sup>. Two thirds of employers said the funding was used to supplement legal requirements for training rather than to support more ambitious skills development to drive growth<sup>18</sup>. Public money was not working hard enough and training typically more provider driven than demand driven by employers. Government has taken steps to address such issues through the Apprenticeship programme, however, we believe some problems persist and more can be done to leverage additional employer investment.

- **Employers are not engaging with the publicly designed system.** Only 27% of employers have arranged or funded training leading to a recognised vocational qualification in the past 12 months<sup>19</sup>. This shows a lack of alignment between qualifications developed to meet employer need and the reality of where employers go for training. Most employers who invest use the private training market. Three



fifths of employers who trained in 2008/9 used private providers to deliver training compared to just over a quarter which used colleges. We know that employers spend around £2 billion on fees yet colleges only generate £75 million from employers in co-funding. The bulk of employer investment is flowing outside the public system<sup>20</sup>.

**There is a risk that we have two unrelated markets for skills;** a publicly funded market in which government policy has increased the number of qualifications, and a private market delivering skills in response to business need. The two markets are not sufficiently aligned. Whilst there are examples of good practice, too often colleges are responding to state funding incentives rather than genuine demand. There is a risk that publicly designed initiatives and qualifications are not delivering economically valuable skills and could be crowding out those that do.

Part of the problem is the nature of employer involvement in what is developed and delivered. A 2006 review of effective international skills systems concluded that the UK suffers from the fact that **employers are not at the centre of the system**, driving strategies and bringing together different parts of the vocational offer to meet business needs<sup>21</sup>. A 2009 OECD Review of Vocational Education and Training also identified the specific challenge of employer engagement in England noting that ‘few countries have achieved strong employer engagement without an equally strong apprenticeship system which remains elusive in England and Wales’. It recommended that future ‘attempts to foster employer engagement should be closely linked to the development of the apprenticeship system’<sup>22</sup>. In other words employers in England need more ownership of the skills system and, in particular, of Apprenticeships.

## 2.2 There are not enough high value training opportunities

It is important that training is high quality and valued in the labour market so individuals, particularly young people, can develop and progress.

- **Despite recent growth, Apprenticeships remain a limited option for young people in England.** There has been much recent growth in Apprenticeship places since 2009 but starting from a low base. In 2009, only 8% of employers in England offered Apprenticeship places, far lower than

our international counterparts; Austria, Australia, Germany and Switzerland had between three and four times as many apprentices as England<sup>23</sup>. Apprenticeships still remain a limited option for 16-18 year olds, only providing opportunities for approximately 6%<sup>24</sup>. In recent years, growth among this cohort has been slowest compared to other age groups<sup>25</sup>.

- **Variability in Apprenticeships risks threatening the quality of the brand**

Much recent growth in Apprenticeships has been at Level 2 and in service sectors, where programmes tend to be shorter with less off the job training. Apprenticeships in retail, for example, have in some cases been completed in as little as three months. In contrast an engineering Apprenticeship can last up to four years and include up to a year's off the job training. In other countries, Apprenticeships average 3-4 years to complete, compared to 1-2 years in England. There are clearly benefits to shorter training, not least for employers who want bite-sized courses. But it is questionable whether these should be promoted as Apprenticeships - in Australia, for example, shorter programmes are known as ‘traineeships’.

**8%** Of employers in England offer Apprenticeships

## 2.3 Current employer investment is not ambitious enough for sustainable future growth

The majority of employers invest in training, whether informal or leading to a qualification. But this is not the whole story. There are substantial variations between different types of employers and evidence of a weakness in demand for skills in some areas.

- **Employer investment in training is a mixed picture.** Whilst the proportion of training is high in the UK, the levels of employer investment actually declined by about five

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# 1/3 of employers offer no training at all

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per cent in real terms between 2007-09 and the proportion of employees who received training also declined in that time<sup>26</sup>. Training in the UK also tends to be shorter in duration than that in other EU countries. Around one third of employers still offer no training at all and there are substantial variations by sector. Training tends to be targeted at the most skilled employees<sup>27</sup>.

- **Workforce development is not integrated with business strategy and organisational performance.** To drive growth, workforce development needs to be part of a wider approach to business development with skills seen as a long term investment. This is not often the case in England. Over a quarter of training is driven by statutory obligations rather than to meet business development needs. This accounts for as much as half of all training investment in some sectors<sup>28</sup>. Less than a third of UK businesses adopt high performance working practices, a general approach to managing organisations that stimulates more effective employee involvement and integrates workforce development with improved organisational performance<sup>29</sup>.
- **The UK has a relatively poor record on leadership and management.** Companies that apply accepted leadership and management practices enjoy stronger organisational performance, higher productivity and innovation. Recent research comparing management practices between the UK and 19 other countries, found that the UK was at best in the second division<sup>30</sup>. We have the lowest share of managers with a degree of any country and spend less per head on management development than our European competitors<sup>31</sup>. The majority of SME owner-managers undertook no formal training prior to starting their businesses<sup>32</sup>.

There are clearly challenges which are preventing us from developing an internationally competitive skills base. This government has taken significant steps to address these challenges, most recently in the FE reform

plan, 'New Challenges, New Chances' and announcements in the Autumn Statement. In particular we welcome the employer-led review into quality and standards of Apprenticeships. We look forward to working with government to create a more customer focussed skills system, with employers taking centre stage and driving the system.

It is vital we create a **single, sustainable market for skills development** which is **responsive** to employer need and intrinsically linked to growth. A market that produces high **quality**, highly valued training, that creates more **opportunities** for people and into which businesses and people are prepared to **invest** for their future.

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**" It is critical that employers invest in skills to boost economic growth "**

**Chris Hyman, Chief Executive, Serco Group PLC**

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# 3. Principles for reform

In response to the challenges identified in the previous chapter, we have developed five design principles that outline how employer ownership is different and has the potential to transform skills in England.

## 3.1 Employers should have the space to own the skills agenda

Much of our skills system has its foundations, often forgotten, in the innovation and leadership of employers concerned with developing skills needed for growth. In the late nineteenth century, responding to fears about the UK's international competitiveness, 16 Livery Companies came together to form the City and Guilds of London Institute to educate young artisans in their trades, one of numerous examples of successful employer-led collaborations.

Yet the past 30 years of vocational education and training in England have been characterised by the growing role of central government in skills strategy and policy. As a result, policy has too often sought to engage employers on government's terms rather than employers'. In many countries with successful vocational training systems, it is the central partnership between employers, training institutions and employee bodies that takes centre stage<sup>33</sup>. Such partnerships take a longer-term view of skills needs, unconstrained by government timescales.

It is time for government to step back and create the space for employers working with employees, colleges and training providers to take real ownership of skills for the growth strategy of their sectors. Ownership is powerful. It creates a dynamic culture of responsibility and action. We need a culture of employer ownership where employers commit to workforce development as a key part of business strategy. In return for greater freedom and control, the best employers will step up to the challenge of creating quality training opportunities, jobs and work experience.

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**" Industry can take a lead in providing solutions to the skills needs of both businesses and individuals "**

David Fairhurst, Chief Peoples Officer,  
McDonald's Europe

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## 3.2 There should be a single market for skills

There are currently two training markets; a publicly funded market providing qualifications built around government priorities; and a private training market delivering skills in response to business need. Patterns of spending show that many employers are disengaged from the publicly funded system. This risks getting in the way of supplying the economically valuable skills we need for growth and may not be generating best value for public money.

We need a single market for skills development where further education colleges and private training providers respond to genuine demand rather than state funding incentives, and into which employers and employees are prepared to contribute more for higher quality training. In a single market, qualifications would be genuine vehicles for skills development and recognised as such by employers and individuals. Further education colleges and training providers would become more responsive to employer demand, valued for their expertise in delivering training solutions.



## The Vincent Rooms

*In 1908, London's leading hoteliers came together to create the Vincent Rooms, now part of Westminster Kingsway College, to improve the calibre of cookery skills in the city. To this day, the training restaurant remains a launch pad for leading talent in hotels and restaurants around the world.*



### 3.3 Skills solutions should be designed by employer-led partnerships to reach more people and businesses

The current skills system is not reaching enough people and businesses and there is evidence of weakness on the demand side. This is linked to an unusually high level of central control over the design and delivery of vocational training in England. In other countries there are typically only two key players: the training establishment and employer, with direct relationships between employers and trainees driving decisions at the local level. These are supported by representative industry and employee bodies. There are multiple players in the English vocational system, involved at all stages of the training journey, and too often a low level of trust between government, employers and training providers.

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**“ The future is created by people close to the ground, people and businesses need to be empowered to drive skills ”**

**Lord Victor Adebowale**  
Chief Executive, Turning Point

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The current government's commitment to devolve control and give greater freedom to colleges is welcome. We would like to build on this and see more innovative partnerships with employers on the ground.

Employers and employees know what training is best for them. Direct conversations between employers and employees should drive



decision-making based on strategies for career development and business growth. Working in partnership with trade unions, colleges, training providers and employers should have the control and influence needed to innovate in the design and delivery of training solutions that meet their needs. There are no doubt lessons to learn from the experience of social partnership arrangements in other countries. Moving decision-making closer to the ground would reach more employers and employees. Collaborations between employers in local areas would help create more opportunities such as Apprenticeship places and work experience placements. Supply chain relationships would be strengthened through greater collaboration around skills development. Developing solutions through these long term partnerships would also help ensure quality and transferability.

### **3.4 Public contributions for vocational training should move to employer incentives and investments**

Funding should follow ownership. Currently, funding and ownership sit with government. For employers collectively to own the skills agenda, public contributions need to shift from provider grants to employer incentives and investments which flow through a single market for skills development. This transfers ownership and puts purchasing power in the hands of employers, making for a more responsive training provider network. Employers and employees would also contribute more to a system they own, for training which brings real benefits and value, increasing the overall size of the market for skills development.

Relative to other areas of public services reform, skills funding remains complicated in its administration and lacks innovation in how

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## **“ A social partnership approach must take centre stage to meet the skills needs of employers and the workforce ”**

**Brendan Barber, General Secretary, Trade Union Congress**

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it is deployed. Public money should be working harder, seeking a better return for the taxpayer and wider economy. Investment models need to be designed to reach a wider range of large and small employers, to leverage more co-investment and to secure additional outcomes. Employer investments and loans would also mean that accountability lies with employers; they would have an increased stake in training and would seek better returns.

### **3.5 Transactions should be transparent**

In a single competitive market for skills development, public contributions need to be transparent. The current publicly funded skills system is built around a complex funding model. There are two separate transactions; between government and training provider and training provider and customer. This often leaves the customer unaware of the original contribution from government which means it is difficult for them to make a considered decision about their own investment.

Public contributions should be transparent and simple, designed to facilitate employer and employee choice. Public contributions need to be visible in the market and empower employers and employees as customers to drive quality, innovation and value for money. Accountability for public investment should be based on the achievement of outcomes that impact on jobs and growth.





## New College Nottingham

*An exciting collaboration between 157 Group of colleges member New College Nottingham (**ncn**) and local entrepreneurs (Eco Modular Housing Ltd) has placed **ncn** at the core of sustainable development in the East Midlands through a concept in low carbon, energy efficient housing. With employers in the lead, a prototype show house built from recycled shipping containers has been erected at the College's Basford Hall campus, with Eco Modular Housing donating a second unfinished unit as a training facility for **ncn** students*





# 4. Proposals

Employer ownership of skills is a **long term proposal** requiring a fundamental shift in responsibility for skills strategy and development in England. These proposals are concerned with ‘seeing around the next corner’. They are intended to build on the commitment of this government, and the last, to increase participation, and ensure sustainability and high quality vocational training for the long term. To set us in the right direction, we believe that there needs to be two radical shifts in the leadership and ownership of our skills strategy:

- Firstly, from **government leadership to employer ownership of vocational training for young people aged 16-24**
- Secondly, from **provider-led to employer-owned adult workforce development**

To do this, we need to take bold steps to change the way the system operates and grab the attention of forward thinking employers. To get started we have developed **four proposals**.

## 4.1 Invite employers to step up to the challenge of bringing more young people into the productive workforce by funding employers directly for Apprenticeships, for example through the tax system, and incentivising work experience

Ownership and funding go hand in hand. The tradition in England is one where government funding and government ownership sit together. If employers are to gain greater ownership of the skills system and generate the benefits to industry and people that we anticipate, we have to change the way funding flows.

For employer-facing programmes for young people aged 16-24, we propose that employers be funded directly in order to achieve a clear transfer of ownership. To illustrate the proposition, we have focused initially on

how it might apply to Apprenticeships, a key vocational pathway for young people. Under the present system government funding for Apprenticeships is distributed to training providers via the Skills Funding Agency with the exception of employers with more than 5,000 employees. We propose that this grant funding be routed directly through employers.

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**“ These proposals support employers to play their part, be that offering work experience or taking on an apprentice ”**

**Valerie Todd, Director, Talent and Resources, Crossrail**

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Putting purchasing power in employers’ hands would drive up quality and responsiveness among the training provider network. Many colleges and training providers already have excellent partnerships with employers, providing high quality Apprenticeships. **By routing funding through employers this would create a sense of ownership** that, over time, would further strengthen overall employer commitment to the Apprenticeship programme. Public contributions to training would also be more transparent to employers and accountability would be based on the achievement of agreed outcomes. Quality and transferability for the individual apprentice would of course need to be assured, ideally through partnerships between industry and employee bodies as is often achieved via social partnership at the sector level in other countries. General education and training would remain a core part of employer-owned Apprenticeships, ensuring that the young person is appropriately equipped for his or her own future.

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# Netherlands



*In the Netherlands, employers receive a 15% tax rebate for taking on trainees, for which they have to be accredited to ensure the quality of provision. Tax rebates are also available to employers taking on apprentices in France, alongside a training levy which helps fund initial training. In Australia employers receive a one-off payment of around £800 for every apprentice they take on, plus a possible completion bonus of around £1,400.*

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The use of incentives and collaborations to reduce the risks involved in taking on young people into work-based training programmes, particularly for small employers, would also boost participation. Incentives would encourage more innovative collaborations in supply chains, employer clusters and with colleges and training providers to create more opportunities for young people. This is critical given the raising of the education participation leaving age from 2013 and at a time when young people not in education, employment or training (NEET) are at record levels. We welcome the recent government announcements to incentivise additional Apprenticeships and work experience placements for young people, particularly incentives for SMEs to take on apprentices. We feel that our proposals can support these goals.

In the long term, one of the most direct ways to route funding through employers would be through the tax system, for example through National Insurance rebates. This would cut bureaucracy and distribute funding directly through employers, small and large, with co-payments and incentives easily built in. Current grant funding for Apprenticeships is 100% for 16-18 year olds and 50% for those aged 19-24. Funding Apprenticeships through National Insurance rebates, for example, would hardwire the 50% co-payments for those 19+ into the funding system.

## 4.2 Incentivise greater investment in adult workforce development from employers and employees by moving from qualification-based provider funding to employer investments and loans to leverage additional outcomes and work experience opportunities

To secure the future sustainability of adult workforce development, a co-investment approach must be established and public contributions should be channelled through employers to ensure employer ownership. Our proposition is to shift public contributions on adult workforce development from provider grant funding, currently based on qualifications, to employer investments and loans based on outcomes.

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**“ SMEs need to work together on skills as a key driver of business performance – supply chains and local clusters are key ”**

**Sean Taggart, Owner and Chief Executive, The Albatross Group**

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Public funding for post-24 adult training is already moving from a grant model to a loan model, in line with that adopted in other areas of government policy such as Higher Education. Taking the example of adult Apprenticeships, current policy is to introduce individual income-contingent loans for Apprenticeships at Level 3 and above for those aged over 24 from 2013/14. This accounts for just under £135 million of public investment. We propose that these loans should flow through employers to ensure greater employer ownership. Over the medium term employer loans and investment mechanisms could be extended to other levels, for example from Level 2, to ensure employer ownership at all levels of adult up-skilling.

Loans could be sector-based through structured investments managed by sectors, industry groups or supply chains. For example, large employers or groups of employers could support SMEs

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## Singapore



*In Singapore public funding is used to develop a 'Blueprint' of best practice in off-the-job training in a leading organisation. Companies who design and develop training programmes in accordance with the 'Blueprint' can receive a percentage of the costs of training delivery.*

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to access funds for Apprenticeships and other work based training activity through loans, bonds or investments. Incentives could also be built in to investment models to leverage additional outcomes such as work experience opportunities for those struggling to get into work. There is room for far more innovation in employer investment models, which can free up innovation in skills delivery from employers who best understand their needs and those of their sector.

This proposition would ensure that finance is not a barrier to employer-led up-skilling. It would also ensure the long term quality and sustainability of adult workforce development. If public contributions were in the form of employer loans or investments it would place the accountability and reward for how money is spent more directly with employers, guaranteeing the quality and value of training purchased. The employer would have an increased stake in the training and so seek a good return. In the current provider-led model, employers are frequently not aware of government's contribution to their training as it flows through providers.

We recognise that this proposal is challenging but we know that employers are prepared to pay for quality and we believe that this is the necessary shift to secure a sustainable future for adult workforce development, owned as it should be by employers and employees.

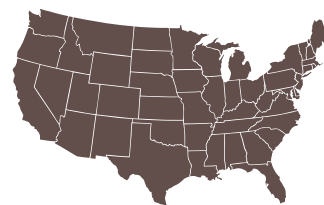
### 4.3 Review where current policy and infrastructure are enabling employer ownership and where they are getting in the way, as a means of creating the conditions for employers to step up and take ownership of skills

The first two proposals have focused on how we can create greater employer ownership in skills by changing the way funding flows. Equally important is the need to achieve employer ownership of the design, development and delivery of training. Numerous best practice examples exist of excellent partnerships between employers, trade unions and colleges. We need to scale up activity and see where government might be getting in the way.

One example is to make funding available to employers to set out skills solutions, working within their supply chains, group training networks, industry 'hotspots' and business clusters free from current restrictions in the system. Solutions should be driven by employers working closely with employees and trade unions, co-designed with training providers and other key partners to ensure transferability and sector-wide benefits. In return for greater flexibility, employers would deliver a bigger package of workforce development improvements, including high quality work experience opportunities.

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## United States of America



*In the High Job Growth Training Initiative in the USA, federal funds are used to leverage other public and private resources to address workforce challenges. Grants last between six months and five years and grantees are required to submit quarterly reports to Department of Labor Employment and Training Administration (ETA) summarising the activities carried out, the number of participants trained, and progress towards stated goals.*

For colleges and training providers, this means recognising and using their expertise to compete on the basis of how training can add value to employer goals, rather than compliance with policy and funding rules.

For government, this proposal means examining each part of the skills infrastructure and processes to see where employers and training providers could be given greater freedom to meet needs. It is about securing a 'deal' between government and employers, moving towards a strategic investment-based relationship where accountability lies with employers based on outcomes rather than process. This means government stepping back and giving up control where needed.

#### **4.4 Nurture employers' ambition and capacity in skills development by extending the scope and reach of competitive investment funds to support more collective action by employers**

We need to encourage greater ambition among employers if we are to remain internationally competitive. This means enhancing the capacity and capability of employers to be more innovative in skills development. Commissioners have a key role working with business leaders and trade unions to ensure that future investment is as ambitious as it can be.

Over the last six months, Commissioners have launched two investment funds: the Growth and Innovation Fund (GIF) and the Employer Investment Fund (EIF). These Funds support solutions that are genuinely linked to skills needs, make a positive impact on growth and have a sustainable future without further public investment.

In investment rounds so far, Commissioners have been encouraged by the level of interest from employer bodies. For example, GIF is already supporting 15 projects to deliver new training to boost innovation and productivity, enable industries to set new professional standards, or support new or extended National Skills Academies. These Funds have made good first steps in building capacity and encouraging a new culture of leadership among sector and employer bodies.

We are pleased that the scope of the Growth and Innovation Fund has been extended to invite proposals covering **local clusters and supply chains**. Commissioners are keen to encourage bids from Local Enterprise Partnerships and groups of employers in sector consortia or within supply chains to bring forward innovative solutions. This means that the Growth and Innovation Fund can do more to bring together local and sectoral ambitions for growth through skills.

In addition, Commissioners welcome the focus in the Growth and Innovation Fund on supporting **Leadership and Management training for SMEs** and social enterprises. Ultimately, good leaders and managers drive business strategy and ambition, but we know the UK has relatively low performance on management practices. Leveraging greater capability and ambition among leaders and managers in small and medium-sized businesses would have a direct impact on driving forward growth through skills.

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**" I think that getting employers to take ownership of skills is an extraordinarily powerful proposition "**

**Trevor Matthews, Chief Executive Officer, Aviva UK**

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# 5. Benefits

The benefit of employer ownership is that it will help secure an internationally competitive skills base by creating the conditions for **employers to step up and take greater responsibility for skills**, working in partnership with employees and trade unions, working closely with colleges and training providers.



## 5.1 Benefits to employers

Under our proposals, **employers** would have the opportunity to lead the agenda and develop training that really meets their needs. Skills would be more

widely seen as a long term investment, integrated into business strategy, rather than as a government backed 'add-on'. Shifting the way funding flows would give employers greater purchasing power in the training market, driving up responsiveness and quality. Moving to strategic investment-based relationships with government would free employers to develop their own training solutions, stripping out bureaucracy and delivering the skills needed for future growth. It would give greater scope for the best employers to be more ambitious without being pressurised to channel these ambitions according to the constraints of public initiatives. Our proposals are designed to encourage employers to collaborate to get more value, with training solutions driven by partnerships on the ground. This should reach more small businesses, many of whom do not even consider drawing on current schemes. Clarity and transparency over government contributions to skills training will enable better investment decisions.

**Small businesses** in particular would benefit from incentives to take on young people and to work together in groups and business clusters to draw down funding directly. Expanding competitive investment funds to focus on leadership and management in small firms would help to boost the capacity and ambition for business growth through skills.



## 5.2 Benefits to young people and adults

For **individuals**, the primary benefit of greater employer ownership would be higher quality training

opportunities that are valued by employers in the labour market, increasing the economic value and status of practical skills. For example, routing funding through employers to secure more employer ownership would strengthen the Apprenticeships brand. Employer incentives and collaborations would create more employment opportunities for young people to make the transition into work and further development opportunities through work experience and internships.

Stronger employer and employee partnerships would generate real up-skilling for adults in the workplace and encourage closer collaboration between employees and employers on training decisions. In the longer term, creating a culture of employer ownership would secure a greater commitment from employers to work-based training opportunities for new and existing employees.



## 5.3 Benefits to colleges and training providers

**Colleges and training providers** would benefit from an overall increase in commitment from employers and individuals to training.

Longer term partnerships with employers could be built to develop skills solutions with real employer engagement and investment. Training providers would be able to use their expertise in how training can benefit companies

and contribute to business strategy. The whole training provider network would be empowered to compete on the basis of innovation and quality rather than government-set volumes and priorities.



#### 5.4 Benefits to government and the economy

For **government**, greater employer ownership would deliver a long term strategy for skills development that is

genuinely sustainable, and not dependent on public grants. Moving to investments and loans for adult workforce development would make public money work harder. Moving to strategic investment relationships with employers would leverage additional outcomes, meaning better value for money and more opportunities for people and businesses. Whilst being less involved in the design and delivery of skills solutions, government would still be able to influence employer behaviour through incentives and investment decisions. But fundamentally the system would be built around employer and individual need.

Greater employer ownership would mean that vocational skills would be more **economically valuable**. Businesses would have the space to develop skills that are linked to their needs rather than those driven by government. Over the long term employer ownership of skills would ensure that the workforce has the right skills to drive future growth.

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**“ This is an opportunity  
for colleges to work in real  
partnership with employers”**

Tony Lau-Walker, Chief Executive  
Officer, Eastleigh College

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# 6. Opportunity to act now

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**“ This has the potential to transform the skills agenda in the UK - we will seek bold ideas from ambitious employers”**

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

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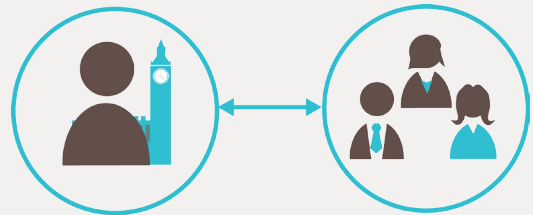
The potential of employer ownership of skills is powerful. We know the ideas presented here are challenging and represent a radical shift from the status quo. We know that there are a number of risks to work through. Employer ownership is not an answer to all of the skills challenges we face. But it would set us in the right direction.

As a reformed and refocused UK Commission we are already taking action to instil greater employer ownership by moving from core funding of Sector Skills Councils (SSCs) to a competitive investment model. Through the Growth and Innovation Fund we have invested in employer-led solutions aligning skills to growth, including proposals for new professional standards, new employer training networks and group training associations.

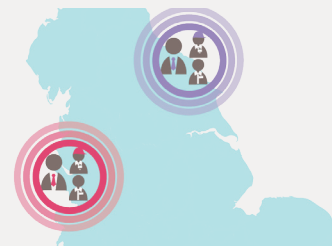
There is a gathering momentum behind our proposals. Over the last few weeks we have been talking to employers and employer networks about what employer ownership of skills would look like in their industries or sectors. These are early conversations, but we have been encouraged by the willingness of employers to engage, and have confidence that if we can create and promote the right opportunities through the competitive funds. employers will step forward.

## Early ideas on Employer Ownership

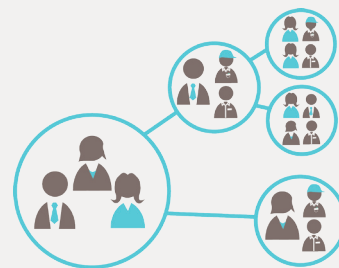
1. Strategic relationships with government where large employers deliver a wider package of outcomes including Apprenticeships, careers advice, work placements and support for schools and unemployed people, in return for greater freedoms in the system.



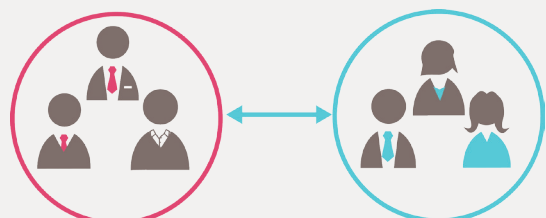
2. Groups of leading employers in regional clusters investing in their sector by providing 'up front funding' to support training opportunities in small and medium sized employers (SMEs) through initial investment loans.



3. Large and small employers in a supply-chain developing a single Apprenticeship programme alongside work experience, job trials and internships, backed by flexible public and private investment



4. Businesses working together to create more Apprenticeship and employment opportunities by looking across their sector for flexible opportunities rather than just within business.



## 6.1 Employer Ownership Pilot

We are pleased that government has responded so positively to our vision. On 17th November 2011, the Prime Minister announced a new pilot initiative, committing up to £250 million over the next two years to test this new approach. BIS and DfE have asked us to work closely with them in taking this forward.

The central aim of the employer ownership pilot is to give businesses the space to step up and develop new and innovative proposals for tackling the current and future skills needs of their sector, supply chain or local area along the lines outlined in this paper. It will seek to test the potential for employer ownership to deliver the kind of change we know is needed in order to secure a competitive skills base.

The pilot will be open and flexible in its approach, encouraging businesses to work together in coming up with radical proposals to train and develop the workforce and support their productivity and growth ambitions. Businesses will be invited to set out the public investment they need to support their own investment in skills, training and Apprenticeship opportunities.

Public investment will be provided directly to businesses, sitting alongside businesses' own private investment, rather than following the mainstream public funding model.

It will be open to proposals from businesses of all sizes and from all sectors of the economy. As part of the pilot, employers will be asked to demonstrate how public investment would be used to leverage business investment and commitment to raising skills levels in their sector, supply chain or local area and how they will support Apprenticeships.

Bidding for the pilot will be formally launched in the New Year with a prospectus jointly issued by the UK Commission and government. We urge forward thinking employers to come forward with bold new approaches that test our principles and proposals to deliver more than the current system.

We know that securing employer ownership is an ambitious agenda. But it is one that is potentially game changing and could transform the long term effectiveness and sustainability of vocational skills in England.

**Let's start that transformation.**

# Endnotes

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15. Estimates from HM Treasury PESA (Public Expenditure Statistical Analyses) from 2009, 2005, 2001/02 and 1999/2000: In Further Education public spending was £4.9 billion in 1997/98. This rose to £8.8 billion in 2008/09. In real terms this represents a 36% increase (adjusting for inflation).
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# Notes

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The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and economic growth.

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