

City deals and skills:

How have City and Local Growth Deals supported the development of employment and skills policies that reflect local demand?

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About Centre for Cities

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We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

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This report is the first of an 18-month partnership between Centre for Cities and the UK Commission for Employment and Skills.

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Executive Summary

How to deliver responsive and flexible local employment and skills strategies that support job creation, local economic development and labour market inclusion is a long-standing issue. In support of this, over the last five years various aspects of employment and skills policy have formed a significant element of devolution policies. During this period the government trialled various approaches to decentralisation across the UK but predominantly in English city regions. City Deals and Growth Deals in particular focused to varying degrees on certain aspects of youth employment programmes, adult skills provision and vocational training in order to respond to the needs of specific localities.

The publication of this report coincides with the formation of a new government and a renewed emphasis on devolving responsibilities to local areas in order to promote jobs and growth. There is an opportunity over the course of the next parliament to further unlock the potential of local action on employment and skills to boost growth and improve outcomes for employers and learners through the effective implementation of existing deals and further devolution. This will require more effective collaboration between a range of partners including local authorities, Local Enterprise Partnerships (LEPs) and combined authorities where present, local businesses, business organisations, and education and training providers. By looking back over the last five years we can see how employment and skills policy has featured in the deals to date, reflect on how these have supported local partners to develop more demand-led employment and skills systems and, based on the lessons learnt, present some recommendations on how this might be supported further.

Our analysis focuses mainly on English cities, reflecting where the majority of deals have been made. However, the lessons learned apply to other localities across the UK. The report is based on an analysis of deal documentation as well as in-depth interviews and consultation with over 45 local and national stakeholders, including local authority, LEP and departmental representatives. The data gathered is reviewed against a framework that sets out six key elements of a demand-led local employment and skills system.

Features of an effective demand-led local employment and skills system

An effective demand-led employment and skills system anticipates and responds to the changing needs of the labour market. Over the past decade increasing recognition of the importance of demand-side interventions has been reflected in changes to government policy, including giving employers a greater role in shaping skills policies and introducing measures to stimulate demand. There is also a growing consensus that local partners can play an important role in delivering more demand-led employment and skills systems.

The report identifies six key elements of a demand-led local employment and skills system:

1. Partnership arrangements to facilitate coordination and cooperation across sectors and localities
2. Effective employer engagement to ensure there is a direct account of local business needs, as well as encourage their involvement in the design and delivery of initiatives
3. High quality labour market intelligence (LMI) to inform the design and delivery of employment and skills policy
4. Shared objectives based on a shared understanding of the local labour market context and priorities for the city region
5. Alignment between delivery partners which may require service reform and integration at the local level
6. Performance management and evaluation to effectively hold partners to account and highlight where further changes to the system or individual programmes are required.

These six factors are mutually reinforcing, and taken together provide the key elements of an effective demand-led employment and skills system.

Towards a demand-led system – key findings

In reviewing the feedback from respondents, the following findings and recommendations emerged:

- To varying degrees, the deals agreed as part of negotiations to localise employment and skills policy have enabled cities and LEPs to flex national policies, fill in gaps to meet local criteria and priorities, and experiment with new approaches.
- To some extent, the deals have enabled local stakeholders to take steps towards the development of more effective demand-led employment and skills systems, often through closer partnership working. Overall, the evidence suggests that the deals process:
 - Had an overall positive effect on local partnership working, acting as a catalyst for local authorities, LEPs, education providers and employers across sectors and localities to work together in new and/or more effective ways. In particular, cities and local areas stated that relationships with FE colleges had become more collaborative and productive as a result of the deals process.
 - Created an incentive for local employers to engage with the system by giving them a mandate and opportunity to shape local training provision according to local priorities and needs.
 - Created more demand for LMI as local partners have developed evidence-based strategies, although cities and LEPs can be constrained by the availability of high quality LMI and by their capacity to analyse it.

- There is still scope for improved alignment and integration of services at the local level. Shared outcome agreements or control of devolved funding streams are potential mechanisms to achieve this.
- To ensure more effective demand-led local employment and skills systems are created, local partners might usefully:
 - Ensure strong governance models are in place that reflect the scale of the functional economy and hold partners to account
 - Continue to explore effective ways to engage with local employers and directly involve them in provision
 - Develop local analytical capacity and capability, making use of LMI to its full extent
 - Implement robust evaluation plans where funding has been secured to deliver pilot programmes.
- Local partners, including local authorities, LEPs and combined authorities, should continue to build evidence and examples of where and how employment and skills systems designed and delivered by local partners have led to better outcomes for individuals, businesses and local growth.
- At national level, government could support local partners to develop more effective demand-led employment and skills systems by:
 - Greater coordination of policy and resources at the national level to support innovation and experimentation
 - Ensuring availability of LMI on programme outcomes
 - Setting frameworks for performance management and evaluation
 - Ensuring that local programmes are not duplicated by equivalent centrally-led programmes.

This is the first report produced as part of a strategic partnership between the UK Commission for Employment and Skills (UKCES) and Centre for Cities. The partnership will explore a range of issues with a focus on how to deliver more effective demand-led local employment and skills systems that equip individuals and employers with the skills needed for jobs and growth.



Introduction

The government has made a renewed commitment to devolve power to give cities greater control over local housing, transport, healthcare and skills. The Cities and Local Government Devolution Bill was introduced in May 2015 to enable the transfer of powers to combined authorities with directly elected mayors. This marks a different approach to the one taken over the course of the last parliament, but nevertheless builds on the commitment made in 2010 by the Coalition government to a “fundamental shift of powers from Westminster to people.”¹

The last government gave cities and Local Enterprise Partnerships (LEPs) a range of additional powers and resources through a series of bidding rounds and deals. This principally took place through the first and second waves of the City Deals, Local Growth Deals, and the Greater Manchester, Leeds City Region and Sheffield City Region Devolution Agreements over the last five years. These deals aimed to “end an era of top down government by giving new powers to local councils, communities, neighbourhoods and individuals.”² As a prerequisite, local partners were required to demonstrate their capacity to take on additional responsibilities, and their appetite for risk.

Employment and skills has been a central feature in these policies, particularly the City Deals and Local Growth Deals, designed with the overarching aim to drive local economic growth. Skills are integral to the economic prospects of UK cities, impacting on business competitiveness as well as the employment prospects, pay and wellbeing of individuals. The appetite for greater devolution from cities and local areas reflects their understanding of the importance of local flexibility in meeting these needs.

Cities and city regions face different employment and skills challenges, reflecting the fact that there are multiple overlapping local labour markets rather than one national labour market. Previous research has highlighted the spatial mismatches in the supply and demand of skills across cities and local areas. For example, the OECD Local Economic Employment Development (LEED) programme has highlighted that in some areas the supply of high level skills is insufficient to meet employer demand, resulting in significant skills shortages and gaps as firms are unable to find suitable workers. Mismatches in the supply and demand for specialist skills in particular, such as engineering or construction, across the country can act as a significant barrier to growth.³ In others the supply of high level skills is met by demand for low skills, resulting in a skills surplus with wasted talent and individuals potentially moving to find

1. Coalition Agreement 2010

2. Office of the Leader of the House of Commons, The Rt Hon William Hague and Cabinet Office (2014) *The Implications of Devolution for England*, gov.uk

3. Gardiner, L. & Wilson, T. (2012) *Hidden Talents: Skills mismatch analysis*, Inclusion

appropriate work.⁴ Some local areas might also be experiencing a ‘low skills equilibrium’, with both a low supply and demand for skills and are reliant on low value added, low skilled and low paid jobs. This limits opportunities for individuals to progress and earn more, and risks the competitiveness and long-term growth of local economies.

These challenges are indicative of the continued need to ensure that local employment and skills systems are flexible and responsive to individual and employer demand. A demand-led approach should effectively coordinate the current and anticipated needs of employers, with the supply of skills, by aligning training and employment organisations’ offers with local conditions. An essential part of this is closer collaboration between education providers and employers to ensure provision keeps pace with changing business needs.⁵ The challenge of upgrading demand for, as well as supply of, skills at the local level also underlines the importance of embedding and aligning employment and skills strategies within local growth strategies.⁶ These are long standing challenges and efforts to create more demand-led employment and skills systems span decades. Most recently, a number of policy initiatives at the national level have sought to introduce greater employer influence over training, including giving employers a greater role in shaping skills policies and introducing measures to stimulate demand.⁷

Consensus is building around the significant role that local partners can play in delivering a more demand-led system that supports jobs and growth.

Currently, employment and skills programmes are designed, funded and delivered by a number of different public and private sector partners at national and sub-national level. Central government departments and agencies include the Department for Business, Innovation and Skills (BIS), Department of Work and Pensions (DWP), Department for Education (DfE), Skills Funding Agency (SFA) and Jobcentre Plus (JCP). Local partners include education and training providers, employment support providers, local government, LEPs, employers, representative and membership organisations and the third sector. Historically governments have grappled with how best to enable local flexibility and there have been relatively few opportunities for localities to influence delivery to ensure that skills provision is adapted to local economic and social needs. This has meant the majority of employment and skills policy and funding decisions have been held at national level. Over the last parliament, the government’s approach to devolving power sought to address this by trialling a number of deals to enable partners to flex national policy, fill gaps in provision, and experiment with new ways of working.

This report provides an early indication of how the transfer of powers in relation to employment and skills from national to local level has supported partners to respond to local demand. It provides an overview of the key policy developments and deals that have been agreed during the course of the last parliament as part of the localism agenda, and reflects on how these may have supported local partners to develop more demand-led employment and skills systems. The research has been conducted through a series of in-depth interviews and consultation with over 45 local and national stakeholders, including local authority, LEP and departmental

4. Froy, F., Giguere, S. & Meghnagi, M. (2012) *Skills for Competitiveness: A Synthesis Report*, OECD Local Economic and Employment Development (LEED) Working Papers, No. 2012/09, OECD Publishing, Paris

5. OECD (2015) *Employment and Skills Strategies in England, United Kingdom*, OECD Reviews on Local Job Creation, OECD Publishing, Paris. UKCES (2014) *Growth through People*.

6. OECD (2015) *Employment and Skills Strategies in England, United Kingdom*, OECD Reviews on Local Job Creation, OECD Publishing, Paris

7. UKCES (2011) *Employer Ownership of Skills: Securing a sustainable partnership for the long term*, UKCES

representatives. All 68 deal documents (including wave one and two City Deals, the Glasgow City Deal, Local Growth Deals, and the Greater Manchester and Sheffield City Region Devolution Agreements)⁸ have been reviewed alongside other relevant literature. The report considers how the deals are supporting local partners to respond to the needs of local businesses and communities against a framework that sets out six key elements of a demand-led system and concludes by reflecting on the lessons learned to date, as well as highlighting where there are gaps in the evidence. This report mainly focuses on devolution to English cities, the exception being Glasgow – reflecting where most deals have been made. However, the lessons learned apply to other localities across the UK.

City Deals, Local Growth Deals and the move towards more localised control of employment and skills policy should also be seen in the context of wider reforms, both to employment and skills policy as well as other economic development policies and institutional structures over the long term. The government has opted for a mixture of local and national provision to replace regional provision. For example, the Regional Development Agencies (RDAs), which were abolished in 2010, had an annual expenditure on activities related to people and skills of around £224 million.⁹ The majority of public funding for adult skills provision is now routed through the SFA to its network of approved and quality-assured colleges and training organisations. Changes to the way policies and programmes are delivered also impact on the potential scope of the deals. For example, the Work Programme was launched in 2011, replacing New Deals, Employment Zones and the Flexible New Deal with a payment-by-results model where contracts with Prime providers now last until 2017.¹⁰ The context of recent significant public expenditure reductions at the national and local level, including to the Adult Skills Budget, is also important. Ongoing austerity measures put increased pressure on maximising the impact of spend and therefore demonstrating greater value for money. Partnership working and the alignment of resources at the local level have a role to play here.

This report is structured into four sections:

- The localism agenda from 2010 to 2015 and changes in employment and skills policy
- The key elements of a demand-led local system for employment and skills
- The extent to which the deals may have enabled local partners to respond to local demand
- Conclusions and recommendations for policy makers at national and local level, and the broader lessons learned from the negotiation and implementation of City Deals and Local Growth Deals.

8. At the time of writing the Leeds and West Yorkshire Devolution has not been officially published.

9. PricewaterhouseCoopers LLP (2009) *Impact of RDA spending - National Report - Volume 1 - Main Report*, Department for Business, Enterprise & Regulatory Reform

10. Each Prime provider agreed to take referrals for five years, until March 2016, and then to complete a further two years of service delivery. Department for Work and Pensions (2012) *The Work Programme*, DWP



How is the system changing? The localism agenda from 2010 to 2015 and changes in employment and skills policy

To varying degrees, the deals agreed over the last five years have enabled cities and LEPs to flex national policies, fill in gaps to meet local criteria and priorities, and experiment with new approaches. These flexibilities have the potential to enable cities and local partners to develop more demand-led local employment and skills systems, explored further in the third and fourth sections of this report.

This section provides an overview of the localism agenda and policies within it that relate to employment and skills. It also considers the ways and extent to which the reforms have enabled partners at local level to influence local employment and skills delivery.

The localism agenda from 2010 to 2015

The 2010-15 government’s approach to local economic growth focused on “shifting power away from central government to local communities, citizens and independent providers”¹¹ principally through the establishment of LEPs. Since 2010, several reforms and funds have been established to give local partners greater freedoms and flexibility to respond to the employment and skills needs of their local economy (Figure 1). Each of these policies are discussed in detail in this section, starting with the Regional Growth Fund.

Figure 1: Local economic development policy 2010-2015



Source: Centre for Cities, 2015

11. HM Government (2010) *Local growth: realising every place’s potential*, HM Government

The **Regional Growth Fund** was introduced in 2010 with the aim of raising private sector investment to stimulate economic growth and job creation in areas where there is a relatively high dependency on the public sector. LEPs received approximately £570 million from rounds three and four of the Fund (later rolled into the Local Growth Fund).¹² Much of this funding was routed to local businesses in the form of grants to support specific projects and business expansion. Some of the bids did have a specific focus on skills and training, however. For example, Tees Valley Unlimited submitted a bid to work with training providers and large employers to assist SMEs to take on a greater number of apprentices.¹³

Measures included in the **Localism Act 2011** gave local government and local communities some modest additional powers to promote growth and potentially employment.¹⁴ The Act also included the Core Cities¹⁵ amendment which allowed local councils to make the case for being given new powers and set their own distinct policies, and paved the way for City Deals.

The eight **Wave One City Deals** (2012) agreed with the English Core Cities gave cities greater powers to pilot and design skills-related policies:

- **Apprenticeships:** All of the Wave One City Deals included measures to increase the number of apprenticeship placements by supporting businesses, SMEs in particular, to take up and invest in apprentices. In the majority of cases, this included local and central government investment to support the establishment of Apprenticeship Hubs. Several of the deals also specified a commitment from the National Apprenticeship Service (NAS) and National Careers Service to integrate and align services. Two of the deals included notional allocations or ring-fencing for Apprenticeship Grant for Employers (AGE), while the Sheffield City Deal included ring-fenced AGE and the Leeds City Region City Deal included provision to set up Apprenticeship Training Agencies.
- **Investment:** The deals involved varying levels of investment from government and local authority partners, as well as in-kind contributions from the private sector. In Sheffield, the government agreed a three-year, tripartite investment plan with Sheffield City Region's Employment and Skills Partnership. This included £44.4 million of local public and private sector investment, and £23.8 million of devolved funding and an additional £4 million from government. Greater Birmingham and Solihull's City Deal included government investment of £500,000 matched with in-kind contributions of £500,000 from local authorities and £230,000 from private sector leads (from the Employment and Skills Board) per year.
- **Employment:** Specific agreements to align DWP commissioning or JCP services with local need were included in three deals. Liverpool agreed that a Youth Taskforce would be chaired by the JCP District Manager. Newcastle agreed to the co-location of services, sharing of data, more integrated working and co-financing between JCP and local services.

12. National Audit Office (2014) *Progress on the Regional Growth Fund*, NAO

13. Business, Innovation and Skills Committee (2013) *Local Enterprise Partnerships: Ninth Report of Session 2012-13*, House of Commons

14. Department for Communities and Local Government (2011) *A Plain English Guide to the Localism Act*, DCLG

15. The Core Cities group includes Birmingham, Bristol, Leeds, Liverpool, Manchester Newcastle, Nottingham and Sheffield, along with more recent members Cardiff and Glasgow.

- **Youth Contract:** Three cities agreed to directly deliver the 16-17 Youth Contract. Leeds (Leeds – Bradford – Wakefield), Liverpool and Newcastle (Newcastle – Gateshead) received a grant for this purpose and it was agreed they would be able to set criteria for eligibility as well as to design and shape the initiative.
- **Tax incentive:** Greater Manchester agreed to pilot a tax incentive-style approach, working with small employers in Wythenshawe, Manchester Airport and Airport City Enterprise Zone to test whether the key barrier to SME investment in workforce skills is primarily financial.

The majority of the 18 **Wave Two City Deals** (2013/14), signed with cities and surrounding local authority areas, also included employment and skills agreements, although they varied significantly in focus:

- **Youth unemployment:** There was a strong focus on youth unemployment in a number of the deals due to the labour market conditions at the time, and several included Youth Guarantee or employment schemes to widen training and employment opportunities for young people. Plymouth and the South West Peninsula's scheme included the establishment of an employability charter for businesses. In 2013, the DWP agreed to devolve £50 million of Youth Contract funding to support local schemes.
- **Apprenticeships:** Apprenticeships were also a feature of many of the Wave Two Deals, with cities committing to establishing Apprenticeship Hubs and agreeing to align local services with NAS. The deals included some ring-fencing and joint promotion of AGE rather than any devolved responsibility for the grant.
- **Payment-by-results:** Hull and the Humber, for example, agreed to work with BIS, the SFA and local skills providers to develop a payment-by-results pilot for adult skills, where an incentive is introduced to reward skills providers that support local adults into sustainable employment or education that furthers their careers.¹⁶
- **Wage progression pilot:** Plymouth and the South West Peninsula, for example, and DWP agreed to work with an existing Work Programme provider to test a range of approaches that seek to help young people to progress in their careers and increase their earnings.
- **Training Hubs/Centres of Excellence:** Hull and the Humber agreed to create a Centre of Excellence for energy skills, and Stoke-on-Trent and Staffordshire will develop an Advanced Manufacturing Training Hub.

The Core Cities were also able to bid for **18-24 Youth Contract for Cities Programme** (2013) funds that came from underspend within the National Youth Contract. In some instances, this was matched with local funds to create single points of access to employment and skills opportunities for 18 to 24 year olds. The Leeds City Region was awarded £4.6 million to deliver the 18-24 Head Start programme, of which £1.2 million will offer a supported work experience placement to 800 young people furthest from the labour market.¹⁷ The Sheffield City Region secured £5 million from this underspend to fund

16. This pilot has since been deprioritised by Hull and the Humber.

17. Leeds City Council (2014) 'Young people to be given 'head start' to gain employment', Leeds City Council

Ambition SCR, which will ensure young people are better prepared for the labour market and equipped with the skills for job survival. It is designed to meet the substantial demand for apprentices unlocked through the City Deal which are currently not being fully met and aims to progress a minimum of 950 young people into the labour market.¹⁸

The **Glasgow City Deal** followed shortly after the Wave Two City Deals in 2014. The city agreed to develop a new scheme to provide employment support to Employment Support Allowance (ESA) claimants and a single integrated Guarantee for Young People across Glasgow and Clyde Valley. Glasgow City Council has also agreed to co-invest and work with DWP to design an employer-led progression pilot to boost earnings and career progression for low paid workers.

The **Local Growth Deals** (2014/5) assigned pooled central departmental funding from the Local Growth Fund which was initially proposed in Lord Heseltine's review in 2012. Lord Heseltine argued that decisions about significant economic development issues, including employment and skills support, housing and infrastructure, and business support, are more efficient and effective if taken at a local level. His suggestion was that up to £49 billion of funding related to local economic development should be allocated to a single pot over four years. This led to the establishment of the Local Growth Fund, a £2 billion per year fund.¹⁹ The focus on skills in most of the Local Growth Deals was predominantly on capital investment, including new schools or college buildings. Nonetheless, some deals did agree programmes that went beyond capital investment:

- The London Deal included the Working Capital scheme which pilots a scheme of tailored support to help ESA claimants into employment (Box 1).
- The Sheffield City Region Growth Deal included a commitment from the government to invest £21.7 million over six years in the City Region's Skills Bank²⁰ and Greater Manchester gained control of £12 million of adult skills funding for 2015/16 and 2016/17. The government committed to investing £6 million per annum over a two-year period (in 2015/16 and subject to departmental budgets being available, 2016-17) to enhance Greater Manchester's support under the Access to Employment theme within the European Social Fund (ESF) Programme. Greater Manchester, Leeds City Region and Sheffield City Region were also given specific powers to redirect Growth Deal funds if appropriate.
- The government also committed to invest £1.4 million in 2014/15 in a Skills Brokerage for Armed Forces Service Leavers scheme in Swindon.²¹
- The SFA made a more general commitment to support the process to ensure that provision meets local priorities through procurement and accountability mechanisms.

18. Austen, T. (2014) 'Harnessing the power of young people in the SCR', Rotherham Business News and Waite, E. (2014) 'Ambition SCR – a localised approach to tackling youth unemployment', Cabinet Report, Sheffield City Council

19. Lord Heseltine (2012) *No Stone Unturned in Pursuit of Growth*, BIS

20. This agreement is subject to Departmental Budgets being available beyond 2015/16.

21. Although agreed through a Wave 2 City Deal, funding for this came through a Local Growth Deal.

Box 1: Working Capital: the London pilot to help ESA claimants into employment

As part of the London Growth Deal in 2014, Central London Forward (a sub-regional strategic organisation representing the eight central London local authorities) will pilot a new model, Working Capital, to support ESA claimants into work.

The pilot will run for five years with a budget of £11 million and aims to support nearly 4,000 central London ESA claimants who have left the national Work Programme after two years without finding long-term employment. The scheme is wholly funded by the London Enterprise Panel's European Social Fund (ESF). Central London Forward is leading the scheme, working in partnership with London Councils, the Mayor of London and central government. DWP has worked with local partners to design the scheme.

Every person supported by Working Capital will receive dedicated help from a case worker who will use existing local council, health and voluntary sector services, but also bring in specialist services, such as mental health provision or specific skills training where required, to support the claimant find work.

A rigorous independent evaluation will be run throughout the programme and government has agreed that success will unlock a series of progressive steps towards further local service integration for London.

The **Greater Manchester Agreement** (2014) set out the offer of powers and budgets from the government, and the reforms and measures that Greater Manchester will need to deliver in return. The government proposes to work with Greater Manchester to reshape and restructure FE provision (with the re-commissioning process to be led by the Greater Manchester Combined Authority (GMCA), BIS, DfE, SFA and EFA) and to devolve the AGE, enabling Greater Manchester to vary the level of financial support available to different types of learner, sizes of business and subject areas. Greater Manchester will also take control of an expanded Working Well pilot and co-commission the next phase of the Work Programme (see Box 2 for a summary of the employment and skills elements agreed through the 2010-2014 Deal process).

Box 2: Summary of employment and skills deals in Greater Manchester

Brokerage: A City Apprenticeship and Skills Hub to broker deals between groups of SMEs and skills providers, with SME employers directly funded by SFA.

Piloting: A pilot to incorporate locally determined outcome measures into the SFA national funding framework for apprenticeships, working with the Greater Manchester Skills and Employment partnership, including colleges and providers, to implement an approach to setting outcomes which address gaps and priorities identified by the LEP.

Payment-by-results: The Working Well pilot will go through a staged expansion subject to performance gateways demonstrating success. Greater Manchester will be rewarded for performance by a payment-by-results mechanism, up to a fixed Departmental Expenditure Limit (DEL) limit and funded from a combination

of the Greater Manchester budget, European Social Fund and a central government payment-by-results mechanism.

Funding control: A City Skills Fund to support the Skills and Employment Partnership to develop robust labour market analysis and respond to skills needs. Devolution of the AGE in Greater Manchester.

Co-commissioning: Power to reshape and re-structure the Further Education (FE) provision within Greater Manchester after 2017. Opportunity to be a joint commissioner with DWP for the next phase of the Work Programme.

Other funds: Measures also include the establishment of a joint life sciences fund with Cheshire and Warrington supported by £10 million of public sector investment, as well as investment in the FE estate across the city region.

The Chancellor put forward an invitation in his 2014 Autumn Statement for other local partners to come forward with city region plans. The second wave of Local Growth Deals (£1 billion allocation from £12 billion) was also announced, which to date has been focused on capital investment in colleges and training centres.

The Sheffield City Region Devolution Agreement was signed in December 2014. The deal includes an agreement for the LEP and the South Yorkshire Combined Authority to form a joint-venture partnership with the SFA to re-commission adult skills. The Skills Bank will also be enhanced and the city region will work in partnership with the National Careers Service to coordinate employer-education activity. DWP has also committed to consulting with the city region on the possibility of commissioning the next phase of the Work Programme and to entering discussions on an ESA pilot (see Box 3 for a summary of the employment and skills deals agreed with Sheffield City Region through the 2010-2015 deal process).

Box 3: Summary of employment and skills deals in Sheffield City Region

Funding control: Devolution of £28 million Adult Skills Budget funding (approximately £24 million from existing allocated funding and £4 million added investment from government to drive up employer engagement), contributing towards a tripartite funding model including employer and city region local authority contributions.

Incentives and brokerage: A 'Skills Made Easy' brokerage model to stimulate apprenticeships starts and upskilling of existing workers in SMEs based around a £1,000 per learner incentive for providers to train according to business needs. The 'Skills Bank' plans to expand the SME brokerage model to a wider range of employers in the city region. A pilot will test if this mechanism can facilitate training brokerage activities for SMEs

Co-commissioning: Agreement of a joint venture between the LEP, combined authority and SFA to co-commission skills, including shared decision-making, financial risk and delivery. The arrangement will cover the Adult Skills Budget and the AGE. There are commitments to consult on a joint commissioning approach

for the next phase of the Work Programme beginning in 2017, and for a public sector reform pilot bringing together JCP, the city region authorities and other agencies to improve outcomes for ESA claimants.

Influence: Measures also include greater influence over careers advice for young people, building on Enterprise Advisor Pilot through working with National Careers Service, as well as a Skills Capital Fund to upgrade the existing FE estate across Sheffield City Region.

Flexing national policy, filling gaps and piloting new approaches

To varying extents the City Deals, Growth Deals and Devolution Agreements have enabled cities and local partners to:

1. Flex national policy to local criteria and priorities
2. Fill in gaps in national provision to meet local needs
3. Experiment with new programmes and policies and approaches agreed as part of negotiations to localise employment and skills.

- **Flexing national policy:** The first wave of City Deals, in particular, gave major city regions the ability to shape national policy. For example, the Devolved Youth Contract for 16-17 year olds gave local partners greater flexibility in managing the application of payment-by-results, in defining programme entry criteria and in determining the measurement of sustained outcomes. The Local Growth Deals did not, on the whole, devolve or localise flexibilities over national policies, although several cities were given the flexibility to re-route funding if local priorities changed. A total of £330 million of the Skills Capital budget was devolved in 15/16 as part of the Local Growth Fund.
- **Filling gaps in national provision:** The Apprenticeship Hubs established through the first and second wave of City Deals are one example of local partners using agreements with national government to fill gaps in national provision. The Hubs aim to increase the scale, breadth and quality of apprenticeship delivery in local areas by supporting employers, and SMEs in particular, to engage with the apprenticeship process. MyGo in Ipswich is the UK's first youth employment centre, set up following Greater Ipswich's City Deal. The centre acts as the delivery vehicle for the area's Youth Guarantee and offers all 16-24 year olds in Ipswich and the surrounding area free training, career and employment support. Existing JCP support will be complemented by additional intensive caseworker support through the centre.
- **Experimentation:** A number of pilots were set up as a result of both waves of the City Deals, Growth Deals and Devolution Agreements. Two of the most significant in terms of scale and evaluation are the Manchester Working Well pilot²² and the London Working Capital pilot (see Box 1). Overall though, the focus on capital funding of projects available through the Local Growth Deals meant that there was less scope to experiment with new policy. Other examples of experimentation that took place, but outside of the deals process,

22. This Pilot was set up through the Whole Place Community Budget but extended through the Devolution Agreement

include Skills Funding Incentive pilots; the government agreed to pilot an incentive-based employment and skills model in Bristol to test whether more local influence over funding to FE colleges can improve local outcomes and deliver training that meets local priorities (see Box 4).²³

Box 4: Skills Funding Incentive pilots

The Skills Funding Incentive pilot initially agreed in the Bristol City Deal was extended to form a national pilot through an agreement with BIS and the SFA with three LEP areas involved: West of England (Bristol), Stoke and Staffordshire and the North East. The pilots seek to positively incentivise providers to align their provision to local priorities by allowing the LEPs to recommend for up to 5 per cent of the Adult Skills Budget allocations to be withheld in future if the priorities are not deemed to have been met.

In the Stoke and Staffordshire LEP, colleges and training organisations in receipt of the Adult Skills Budget will be formally recognised for qualifications delivered according to local priorities and the LEP's 'red-amber-green' priorities framework. In the West of England, the pilot is based around challenge frameworks co-designed with employers to tackle the barriers to training provision that meets locally set priorities. The five main FE colleges in the area have formed a consortium to deliver provision according to the framework designed to make the system more responsive to employer need. And in the North East, the LEP will seek to incentivise and reward Adult Skills Budget-funded providers according to their performance against three key metrics - job outcomes, achieving level 3 or above qualifications and moving people into higher level training - using a data-driven approach.

A varied landscape

The 2010-15 government's tailored approach to devolution resulted in a gradual transfer of powers down to the local level through City Deals, Growth Deals and Devolution Agreements. The deals that were agreed, as well as the process of devolution itself, has been inherently varied, with the transfer of powers based on existing local governance and accountability arrangements. This is reflected in the variation in scale and scope of the deals in relation to employment and skills. For example, the totality of the agreements made with Greater Manchester (Box 2), a city region with a strong history of partnership working accompanied by formal city region wide institutional arrangements, was more extensive than those made with other cities.

The extent to which the deals have resulted in additional powers and flexibilities in employment and skills is also varied across localities. Some cities, for example, gained greater influence over the wider employment and skills system, while others received additional funding for individual projects. This is also reflected in the variation of funding freedoms. Sheffield City Region, for example, negotiated control over a 3 per cent portion of the Adult Skills Budget (£28 million, Box 3), while respondents in other cities did not feel this option was available.

23. The pilot was later extended through the Growth Deals to include Stoke-on-Trent and Staffordshire and North East LEPs Skills funding pilot

Similarly, the deals affected the way FE colleges are funded to a greater extent in some areas than others. For example, local partners in national skills funding pilot project areas (North East, Stoke and Staffordshire and West of England LEPs) can recommend for up to 5 per cent of the Adult Skills Budget to be withheld from local FE colleges if they are not felt to deliver according to local need (see Box 4 on Skills Incentive pilots). The Manchester and Sheffield devolution deals agree for FE provision across the city region to be redesigned. In all areas, chartered status for FE colleges will be dependent on taking account of the skills priorities of local LEPs.

The Conservative government is likely to continue to take a tailored approach to devolution over the course of this parliament. The Chancellor has restated his commitment to devolving further powers, and as before these will be negotiated with individual cities and localities. He has also been explicit that devolution of any Greater Manchester-style powers will be to combined authorities with directly elected mayors, with the Cities and Local Government Devolution Bill introduced to enable this.

The next section sets out the framework used to examine the effect of City Deals and Growth Deals on enabling cities and LEPs to create a more demand-led local employment and skills system.



Key elements of a demand-led local system for employment and skills

There is long-standing and widespread agreement across the public sector and business community that an effective employment and skills system needs to be demand-led. The 2010-2015 government placed continued emphasis on creating a more demand-led employment and skills system, stating in the 2010 Skills for Sustainable Growth strategy the need to ensure that skills provision meets the “real demand demonstrated by employers and individual citizens.” The policy focus since has been on giving more freedoms to the individual learner in selecting training and qualifications, rather than centrally driven targets for adult learning and skills that were in place beforehand.²⁴ Steps have also been taken to test how the system can help raise demand for skills and be more responsive to the needs of employers by encouraging greater employer involvement in the design and delivery of provision, through initiatives such as Employer Ownership Pilots (EOPs), Industrial Partnerships and Apprenticeship Trailblazers.

There is also growing consensus about the important role that local actors can play in establishing a more demand-led system. This is evidenced by the fact that employment and skills were a central feature of the deals agreed between 2010 and 2015. More widely, the OECD has conducted a number of international studies on local skills strategies and states that “the assessment and anticipation of local skills and labour market needs is required to improve the efficiency of the local labour market; better match labour supply and demand to reduce bottlenecks; and better define the content and structure of education and training systems.”²⁵ Recent government reviews have also highlighted the importance of local actors. Two reviews in particular examined how fit for purpose aspects of vocational education were and called for significant reforms of the apprenticeship system and vocational education including the need for greater employer engagement. The Richard Review of Apprenticeships referred to the potential roles local partners could play in facilitating the relationship between employers and apprentices, with local access points to provide employers and individuals with advice and support.²⁶ The Wolf Review of Vocational Education also recommended that employers should be directly involved in quality assurance and assessment activities at local level.²⁷

24. Department for Business Innovation and Skills (2010) *Skills for Sustainable Growth*, BIS

25. OECD LEED (2010) *Measuring skills and human capital in local economies*, OECD

26. Richard, D. (2012) *The Richard Review of Apprenticeships*, BIS

27. Wolf, A. (2011) *Review of Vocational Education – The Wolf Report*, DfE and BIS

Six key elements of a demand-led local employment and skills system

Ensuring that employment and skills training provision links to local economic development priorities and the needs of individuals and local employers is challenging as it requires high levels of engagement and cooperation between partners. As discussed previously, these include education and training providers, employment support providers, local authorities, LEPs, employers and the third sector, as well as central government agencies and department. Based on the evidence in the literature and interviews conducted, we have identified six key elements of effective local demand-led employment and skills systems to act as a framework to discuss the evidence provided from interviews with cities and LEPs in Section 3. These dimensions are not mutually exclusive; they support one another and should be seen as a whole.

1. Partnership arrangements

Effective demand-led systems require local coordination and partnership working across sectors and city regions or functional economic areas: “producing better policy alignment between actors responsible for employment, economic development and skills at the local level, as well as working in partnership with private and other non-state stakeholders, will be important for both achieving better job outcomes, and also maintaining or reducing current levels of public expenditure”.²⁸ This requires coordination and partnership working across a wide range of organisations, including universities, FE colleges and training providers, JCP, Work Programme providers and employers across the functional economic area.

Partnerships can take a variety of forms, from formal LEP and combined authority arrangements that are recognised by government with funding made available, to less formal working groups. For example LEPs have been encouraged to engage directly with the FE and HE sectors and training organisations to agree how to generate local demand for agreed strategic priorities.²⁹ In turn this requires sufficient flexibility and space for partners to respond.

2. Effective employer engagement

Crucially, partnerships need to engage with local employers, including SMEs, to set priorities and inform the design and delivery of programmes and to ensure that the content and structure of provision meets local business needs as well as to stimulate increased demand for skills. This is a critical part of supporting business growth and job creation. The failure of some programmes has been associated with their inability to link training services to the needs of local employers.³⁰

Engagement with employers can take many forms, including building stronger relationships with membership bodies, such as local Chambers of Commerce or the Federation of Small Businesses (FSB), or direct engagement with local businesses. Consultation through representative bodies can be an effective way of engaging with SMEs and employers from the broad range of industries present in the local area.

28. OECD LEED (2011) *Better policies for better lives: Local and regional strategies to relaunch economic and employment development*, OECD

29. Local Growth White Paper

30. Hossain, F. and Bloom, D. (2015) *Toward a Better Future: Evidence on Improving Employment Outcomes for Disadvantaged Youth in the United States*, MDRC

3. High quality labour market intelligence

Policy design and delivery also needs to be informed by high quality labour market intelligence (LMI) to ensure that it reflects the distinct needs of learners and businesses.³¹ This requires access to up-to-date, robust data on labour supply and demand within the economic area and at national level. It should include comprehensive mapping of existing provision and future demand. Access to data should be coupled with strong analytical capability and the expertise to design appropriate policy solutions based on LMI. Those working with LMI need to be able to pull out the key messages and trends for the local area, ensuring skills policy is focused on significant and growing local industries. Ensuring data is communicated in an accurate and accessible way is also an important part of informing students about local opportunities and those available to them more widely.

4. Shared objectives

Establishing shared objectives based on a common understanding of the labour market context and local priorities, paves the way to a successful partnership and to successful delivery. It also enables more effective targeting of resources as partners are working towards common goals. It may be beneficial to formalise these objectives through a strategic plan or outcome agreement that is periodically revisited.

5. Alignment between delivery agencies

Partners need to align provision at the point of delivery of employment and skills programmes in order to deliver shared objectives, which is likely to require service reform and integration at the local level. This requires delivery partners, such as JCP, as well as colleges and private training providers, to have a level of operational flexibility, as well as strategic flexibility.

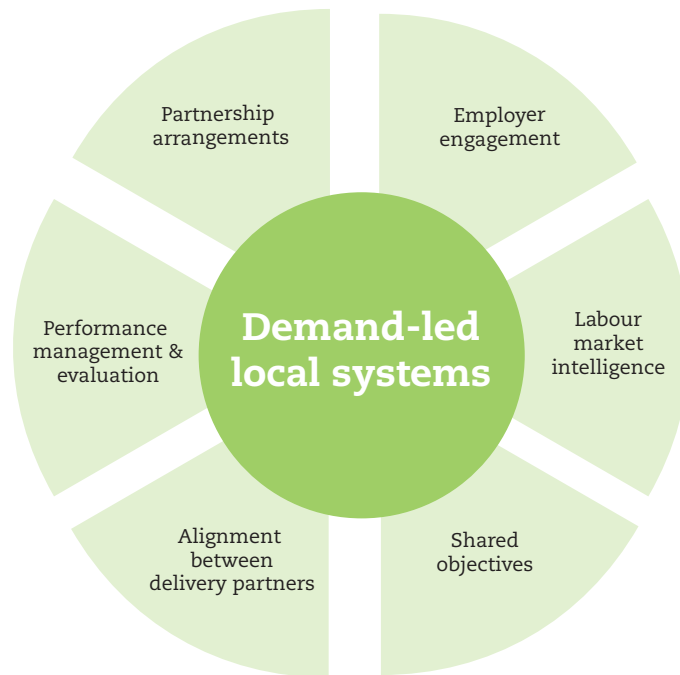
This could be supported by outcomes-based agreements, which are used in Scotland, and hold delivery partners to account collectively for the achievement of outcomes, providing an incentive to collaborate on delivery.³²

6. Performance management and evaluation

Performance management and evaluation processes should be in place both to effectively hold partners to account and highlight where further changes in the system or individual programmes are required. The performance management framework needs to reflect the outcomes agreed with partners, including employment as well as educational outcomes, and should be monitored on a frequent basis, fostering a culture of evaluation and continuous improvement. Performance management could incorporate payment-by-results models as a mechanism to focus providers' attention on local labour market demand. Methods for evaluation should also be agreed from the outset, based on what is appropriate given the scale and timing of the initiative.

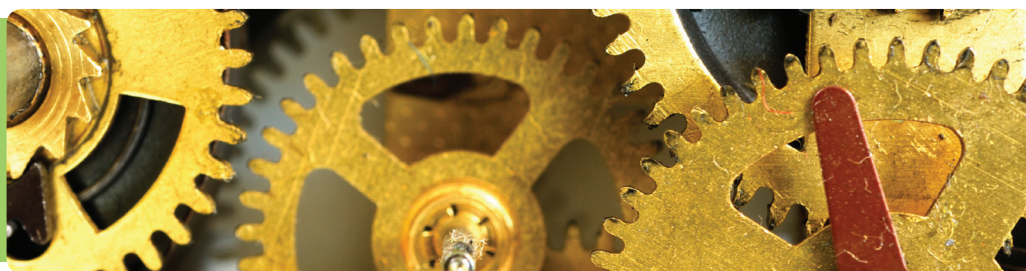
31. OECD LEED (2008) Designing Local Skills Strategies: Emerging Findings from the OECD Study, OECD

32. Reference to UKCES outcomes paper (forthcoming)

Figure 2: Six key elements of a demand-led employment and skills system

Source: Centre for Cities, 2015

These six factors are mutually self-reinforcing elements which, taken together, are key elements for making local employment and skills systems more effective and demand-led. For instance, partnership working (1) is the basis for greater employer engagement (2) and developing shared objectives (4). But performance management (6) and the ability to affect change through better alignment (5) should also provide further impetus for partnership working (1). It is not a linear process and ways of working are built up over time with new approaches tested in different local areas. These key elements provide a framework for analysing the feedback from the interviews in next section.



How have the deals enabled local partners to respond to local demand?

This section looks at how the deals have enabled local stakeholders to begin to develop more effective demand-led employment and skills systems within the framework introduced in the last section.

Towards a more demand-led system

While many cities do not yet have conclusive outcome data for the programmes agreed as part of the City Deals or Growth Deals, **the experience of most cities across the country provides early insights into how the deals process has enabled local partners to develop a more demand-led system.** Overall, it is clear from the interviews conducted that existing ways of working are varied, and that City Deals and Growth Deals have enabled partners to respond to local demand to varying extents. It can also be difficult to isolate the effects that the City Deals and Growth Deals may have on creating more demand-led employment and skills systems from the broader context of reform. This includes the implementation of austerity measures, changes to adult skills funding, the move towards public service transformation and the general increase in the influence of LEPs.

The remainder of this section analyses the feedback from respondents in cities and LEPs through the lens of the six key elements set out as part of the framework for establishing more effective demand-led local systems for employment and skills.

- Partnership arrangements
- Employer engagement
- High quality LMI
- Shared objectives
- Alignment between delivery agencies
- Performance management and evaluation.

1. Partnership arrangements

As set out in Section 2, partnership arrangements and employer engagement are crucial elements of a demand-led approach to delivering skills and training. Coordination between employers on the one hand, and colleges, training providers, HE Institutions, JCP, Work Programme providers and other supply-side partners on the other, should help reduce skills mismatches in the system by improving feedback loops. Overall, feedback from respondents suggests that the process of negotiating deals has had a positive and catalytic effect on improving partnership working and employer engagement.

Deals as catalysts for strategic partnership working

While most cities had some form of regular meetings or collaborative arrangements to bring local partners together in place prior to the deals, the majority of respondents felt that the City Deals and Growth Deals processes have acted as a catalyst to improve cross-boundary working and engagement with employers and providers.

The deals have catalysed more strategic partnership working as priorities were reviewed as part of negotiation process. The need to determine and set priorities for employment and skills provision at city region or LEP level required local partners to develop strategies between sectors and delivery partners. In Stoke, for example, partners reported that the City Deal and Local Growth Deal have increased the influence of the LEP in the area, which coupled with the formalisation of private-public and cross-authority working and local priorities in a Strategic Economic Plan, has led to a more positive and constructive relationship between providers, the council, employers and central government agencies. In addition, both employers and the SFA engage more constructively and effectively with the council – for example, while discussions about the Skills Funding Incentive pilot scheme that was agreed with BIS were independent of the Stoke City Deal, respondents felt the deal negotiation sped up the process and gave these discussions more focus.

The offer of greater control over local skills delivery and funding allocations provided a strong enough incentive to bring together partners. This included training providers, employers and local authority partners who previously had little incentive to work together. In Sheffield, respondents reported that the City Deal, Growth Deal and Devolution Deal processes enabled a scaling up of partnership activities that prompted the reformation of the Sheffield City Council Employment and Skills Board. The opportunity to shape the skills system with additional funding available made it more attractive and worthwhile for local partners – including representatives from strategic sectors such as manufacturing and engineering, large employers in hospitality, the SFA and Sheffield College – to work together at city level.

This is echoed by respondents in other cities and local areas who stated that relationships with FE colleges in particular, had become more collaborative and productive as a result of the deals process. Respondents in Birmingham reported that the City Deal had improved relationships with FE providers in particular. As part of the Skills Compact, nine colleges have agreed to work closely with employers, schools and other training providers to align careers advice, learning and preparation for work. This is regarded by respondents as a step change in partnership working. As stated by one respondent, “colleges are keen to get behind the consortium – they can now see the potential impact of the LEP”.³³ Echoing this, respondents in Stoke reported that FE colleges in the city now share their data with the council, and have also begun to use the ‘red-amber-green’ skills framework established by the council to set their priorities in relation to local demand.

33. Interview

City Deal Wave One stands out

The degree to which different deals, or waves of deals, improved partnership working is considered mixed. **Overall, it was felt that the first wave of City Deals were the most collaborative in nature.** Respondents indicated this was due to the longer negotiation timelines,³⁴ the wider scope of the deals and the existing level and quality of partnerships across local authority boundaries within cities and with central government prior to the deals taking place. In Manchester, for example, local authorities had a history of working together as the Association of Greater Manchester Authorities (AGMA) and GMCA, as did FE providers at the Manchester Association of Colleges. In addition, the Chambers of Commerce and LEP all map over the same functional economic area. With existing good relationships in place, Greater Manchester was able to use the deal process to build on existing provision and significantly increase local partners' freedoms and flexibilities.

The second wave of City Deals were negotiated with smaller cities where some respondents reported having less experience of cross-boundary working at city region level. As a result, developing and improving local partnerships and collaboration in some cities has been more challenging. There was also variation in the extent to which it was felt that the Growth Deal process enabled more effective partnership working. This in part relates to the extent to which priorities between the city and the wider LEP area align. The Growth Deal process was also conducted on a shorter time-frame and a number of partners reported a lack of resource available at city and LEP level to both negotiate the Growth Deal and ensure continuity or alignment with the City Deal before it. This may have also been affected by the focus on capital rather than revenue in the Growth Deal design.

2. Employer engagement

Reflecting the consensus from the literature and government policy that the emphasis should be placed on creating a more demand-led local employment and skills system, almost all respondents identified improved employer engagement as a high priority. This ranged from building engagement with employers as strategic partners in identifying and setting priorities, to engagement of employers in the co-design of programmes in the deals process. In most cases, respondents reported improved and more productive relationships with employers, and between employers and other partners at local level as a result.

The majority of deals established stronger incentives or mechanisms for employer engagement. Many respondents felt they now had greater incentive to engage, as they had more opportunity to influence skills programmes to their benefit. The feedback on the impact of the Growth Deal process on partnership working neatly summarises how the deals process overall provided an incentive to work together: "people have had to come to the table with something... Employers can see a local vehicle for dialogue about their skills needs".³⁵

Models of employer engagement vary between cities, with more or less formal structures in place, and relationships formed both directly with employers and

34. While the timeframe for the second wave of City Deals was longer overall, the time spent on individual deals was perceived by interviewees to be shorter than for the first wave.

35. SEMLEP interview

indirectly through membership organisations. Differences between cities and LEPs to some extent reflect pre-existing mechanisms for employer engagement. Where cities had already established more formal mechanisms for employer engagement, the deals provided a catalyst for expanding activity. In other areas, mechanisms for more formal employer engagement were created.

Several cities are working with employer representative organisations to ensure strategies reflect the needs of their wider business base rather than a select number of larger employers. Wider engagement with employers, and SMEs in particular, emerged as a priority in Southampton early on in the deal negotiation process. The council is now working more closely with the Chamber of Commerce, Future Southampton, and Business South to expand employer engagement and involve them in setting local employment and skills priorities.

Other cities have developed mechanisms to engage directly with employers. In the West of England, for example, there is a cross-cutting group designed to improve engagement with SMEs and address their particular needs and barriers to greater engagement with the skills system – SMEs are also present on sector-specific groups.

Several cities have established brokerage models to respond directly to the needs of individual businesses or have involved employers in programme design. The Five Three One campaign in the Leeds City Region, for example, brokers skills support for companies of any size or sector and is estimated to add £7 million to the economy.³⁶ In several cities, employers are also involved in the lead- or co-design of training programmes as a result of the deals (Box 5).

Box 5: Case study - Employer involvement in the design training programmes in Greater Manchester and Sheffield City Region

In Greater Manchester, the deals have been used by authorities at city region level to involve employers in the design of courses and qualifications. The City Deal created a Greater Manchester Employment and Skills Board, a voluntary partnership to bring the LEP together with providers and government agencies and create greater ownership of skills by employers. Respondents reported that this has encouraged high levels of employer engagement in the skills system more generally. Employers from relevant sectors are involved in designing apprenticeship frameworks for the legal sector, catering, hospitality and digital games programming, for example. And as part of the programme, partners in Greater Manchester will continue to consult with employers to ensure these apprenticeships are delivering the correct skills.

Sheffield City Region also negotiated a brokerage model through its City Deal, which will involve reaching out to SMEs in particular and determining their needs before seeking applications from providers to deliver apprenticeship frameworks that match these needs (including from local colleges and partnerships of colleges). To date, 15 new apprenticeship frameworks have been created that respondents feel meet local business and sector needs more effectively than the national apprenticeship frameworks.

36. Interview

The deals process has improved collaboration and coordination, with colleges and employers now also more likely to co-invest in skills provision in some areas. In Stoke, relationships between employers and colleges are reported to have improved through strategic partnership working to secure funding to develop the first phase of an Advanced Manufacturing Hub through the City Deal (later stages will be funded through the Growth Deal). This has resulted in the flagship success story of Bentley refurbishing an existing auto-training space in a college in Stoke, with benefits to both Bentley as an employer and the college, which can capitalise on this investment.

The reliance on match funding from EU sources and intensity of deal-making activity has in some areas led to delays in programmes being implemented, however, with respondents raising concerns about the potential knock-on effects for partnerships. The introduction of the Growth Deals meant that in some areas the implementation of City Deal programmes was delayed due to lack of resource. In a number of areas, delays in the European Social Fund allocations had stalled the implementation of programmes agreed as part of the Deal. This was felt by some to negatively affect existing relationships and ongoing employer engagement.

Respondents were also conscious of the need to inform learner choice by establishing more effective and in-depth careers guidance on different professional pathways. To a large extent, the ability for an individual to make informed career choices rests on having the information about different pathways and opportunities at their disposal, which in turn requires high quality local and national LMI.

3. High-quality labour market intelligence

The development of a shared understanding of the economic priorities in a functional economic area based on LMI is crucial within a demand-led skills system. LMI can be used to underpin the establishment of shared goals, which may be formalised through joint strategic plans at LEP and/or city region level.

Cities and LEPs reported having developed a stronger economic rationale for skills policy and that policies are more evidence-based. The availability of robust LMI to inform these priorities is integral to the ability for localities to set clear priorities. Of particular importance is the availability of common and consistent LMI, allowing cities and LEPs to benchmark against other localities. It is difficult to say whether or not the City Deal or Growth Deals process has radically altered the capacity of cities and LEPs to conduct labour market analysis – many had established methods of labour market analysis prior to the deals process. But in the same way that the City Deals and Growth Deals provided a catalyst for partnership working and helped to set local priorities, they seem to have provided an incentive for some partners to gather the intelligence needed to inform priorities set out within deals. Overall, however, there are high levels of variation in the extent to which LMI is formalised into working processes and continues to inform skills policy.

Cities and LEPs have taken a variety of approaches to gathering and using LMI to inform the design and delivery of programmes. Schools, FE and HE providers, councils and employers in Stoke-on-Trent and Staffordshire have come together to form the Education Trust, which is responsible for ensuring that LMI is up-to-date and aligned with key growth sectors. The Trust reviews both existing

growth sectors and new industries that are moving into the region and uses a ‘red-amber-green’ framework to rank which skills are in highest demand. In Nottingham, while there are no formal agreements or procedures through which the city gathers data from the FE sector, the city receives an overview of current activities from up to 50 training providers who have signed up to a Provider Charter. Some cities have commissioned specific pieces of research. In Cambridge, for example, the city worked with a researcher from Cambridge University to provide updated analysis, with a focus on the take-up of apprenticeships in business sectors in Greater Cambridge.

Overall, most respondents felt that access to and use of LMI, on both local supply and demand, could be improved and was regarded as a barrier to delivering more demand-led systems by most cities.

Progress has been made in providing local-level LMI and there are a range of nationally available data and tools available on, for example, employer skill needs³⁷ and learner destination data.³⁸ Nevertheless several respondents reported that they don’t have sufficient data at LEP level or the capacity to fully analyse it which suggests there are challenges around awareness and local capacity. As one respondent stated, “It is an all voluntary board and we have a slim team of people... It needs to act as a starting point but we’re not given the data that may be available.”³⁹ New Economy Manchester (funded by local partners prior to the City Deals), which as part of its remit provides economic intelligence and analysis, was regarded by a number of respondents as a useful model to learn lessons from and potentially replicate in other areas (Box 6).

Box 6: Case study - New Economy Manchester

New Economy is a wholly owned company of the Greater Manchester Combined Authority that works with all 10 Greater Manchester local authorities, the Greater Manchester LEP, and a range of employers and public sector partners to deliver policy, strategy and research for Greater Manchester. It provides strategic direction and quantitative analysis that enables the city region to set priorities.

More specifically, it provides intelligence to the Employment and Skills Partnership, a voluntary collaboration between employers, colleges and training providers, funding agencies and local authorities, which aims to maximise the contribution that skills funding can make to growing Greater Manchester’s economy. This includes providing evidence on demand from Greater Manchester’s nine economic priority sectors and the extent to which the skills supply system is likely to meet the needs of employers. New Economy also provides partners with updates on benefit claimants, NEETs and labour market trends through quarterly updates and a LMI portal.

37. For example UKCES (2013) Employer Skills Survey 2013, UKCES

38. For example SFA (2013) Learner Destination Survey.

39. Interview

4. Shared objectives

The deals required local areas to set out strategic priorities, formalised through Strategic Economic Plans, as part of the Growth Deals. Feedback from respondents across cities suggests that the extent to which these objectives are shared and aligned across partners at the functional economic area varies across cities.

Gaining information from employers and providers

A number of cities and LEPs complemented the analysis of publicly available LMI data with direct input from local employers in order to identify strategic priorities. Mechanisms for gaining intelligence from employers included large-scale local surveys and events. Leicester, for example, combined a survey of over 1,000 employers with several consultation events and an employer event attended by over 130 employers where skills was a central theme.

Yet, gaining more qualitative LMI to underpin policy making can be challenging. For example, the Newcastle City Skills Fund is designed to meet employer demand through strategic skills assessments but is highly reliant on the willingness of employers to engage with the process. It is unclear what the city can do to support this further. Many employers, SMEs in particular, also find it difficult to think strategically about future skills needs or gaps.

Setting priorities

Most respondents felt they had a clear understanding of local employment and skills priorities, with many reporting that they had a more focused set of priorities than those set at the height of the recession, where goals were broad and aimed to increase employment across the board. This is primarily due to improved economic conditions in most cities and LEP areas since the recession, with priorities shifting to harder to help groups that remain outside of the labour market.

Yet the extent to which these objectives are shared and aligned across partners at the functional economic area varies across cities. Some respondents stated that priorities set at city region or LEP level for employment and skills were fully aligned with more local or city objectives. In some places, this is due to continuity of staff working on both the development of City Deal and LEP Strategic Economic Plan, as in Cambridge. In other localities, the priorities set at LEP level were felt to be relatively distinct and separate from more local or city objectives.

5. Alignment with delivery partners

A number of respondents recognised the need to reform and integrate services, such as employment support and training, at the point of delivery. Overall, the feedback from respondents suggests the extent to which City Deals and Growth Deals resulted in greater integration at the point of delivery is mixed.

Alignment with training providers

Despite the improved relationships with local training providers and employers, many respondents expressed frustration with the structure of adult skills funding, in particular the lack of incentives for colleges to

deliver according to business needs. Some respondents felt there had been greater alignment among FE colleges as a result of cross-sector partnership working at the local level. Some of this effect could also be attributed to the result of funding cuts to the Adult Skills Budget, which have compelled colleges to be more efficient and align supply more closely to local demand through coordination with other local providers. The negotiations made as part of the deals mark a shift in FE delivery in some places but they were not designed to significantly reform the national FE funding system, which many respondents would welcome.

The devolution deals with Greater Manchester and Sheffield City Region stand out from the City Deals and Growth Deals because they do include devolved responsibilities for adult skills funding and provision. The Sheffield City Region deal, for example, includes plans for the establishment of a joint venture partnership between the city region and BIS, SFA and DWP. It will devolve responsibilities for the majority of the Adult Skills Budget, AGE, and the restructure of FE provision with the city region, potentially enabling greater alignment between delivery partners and local priorities.

Outcome agreements, where the skills priorities of a local area and the solutions to address them are collectively agreed, are potentially a way of aligning incentives and ensuring providers are held to account against locally defined priorities. There was limited focus on outcome agreements with training providers within the City Deals and Local Growth Deals. There is scope to explore this kind of model further, including the role it can play in holding local partners to account.

Alignment with employment support providers

There are several examples of cities and LEPs agreeing to coordinate provision with DWP, JCP and Work Programme providers. In Nottingham, for example, the Integrated Employer Hub negotiated as part of the City Deal will build on an existing council run service to deliver a co-ordinated, bespoke training and recruitment service. It will bring together local and national partners to improve employer engagement through brokerage, reporting to a board made up of representatives from local agencies, as well as national government departments such as DWP. In Stoke-on-Trent and Staffordshire, to ensure the Skills Plan is effectively delivered, the LEP is working closely with the National Careers Service, DWP and JCP. While these relationships may have developed without formal deal relationships, they have been formalised and given a clear direction through this process. In Sheffield, for example, partners reported improved consultation with JCP on employment and skills issues.

Many respondents highlighted the scope for improvement in relation to coordination with employment support providers at the local level.

Respondents in one city, for example, felt that the deals process had done little to improve relationships with the national Work Programme provider. There was appetite among respondents for greater flexibility within delivery of national employment policies to enable local areas to respond more effectively to locally defined priorities.⁴⁰

40. OECD (2015) *Employment and Skills Strategies in England, United Kingdom*, OECD Reviews on Local Job Creation, OECD Publishing, Paris

Similarly, many cities expressed a desire to have more influence over employment and skills policy for the hardest to help in their area,

specifically those who have not succeeded in finding employment through the Work Programme and are in receipt of ESA. The Manchester Working Well pilot (Box 7) and London Working Capital pilots are the two most significant employment support initiatives introduced as part of the Deal process. Respondents generally felt that work in this area would be significantly aided by greater coordination of national funding streams and national policy across departments, including DWP, JCP, BIS, SFA and Work Programme providers.

Box 7: The Manchester Working Well pilot

The Manchester Working Well pilot, implemented in May 2014, is built around a payment-by-results mechanism which rewards service providers for employment-related outcomes achieved. The programme provides tailored support for up to two years, with up to one year of in-work support, to individuals who have left the Work Programme to help them find sustainable employment. The programme builds on the Troubled Families initiative and integrates health, skills, education and housing providers with two service providers (The Big Life and Ingeus).

The payment-by-results system and in-built cost-benefit analysis has enabled greater coordination. DWP, Treasury and DCLG co-invest in the scheme and costs are shared in line with anticipated benefits, based on the proportions of fiscal benefits that fall to each department.

The 2014 Manchester Devolution Agreement aims to build on the pilot, if successful, through staged expansion. Fully rolled out, the programme will cover 50,000 individuals with a £100 million budget comprising investments of £36 million from Greater Manchester, £32 million from ESF and up to £32 million from central government via payment-by-results.

Duplication of employment and skills programmes between local and national partners was also raised as a challenge by many respondents.

The Sheffield City Region deal agreed a new ‘Skills Made Easy’ programme – which included a brokerage service for employers in exchange for an employer contribution. The introduction of a similar SFA funded scheme (that did not require employer contributions) in the same area provided competition and duplication of services, which was felt to be unhelpful.

Overall, respondents felt adult employment and skills funding streams remain too fragmented and project-specific to allow cities to integrate policy and delivery across sectors and between partners.

A number of barriers to further local integration of employment and skills delivery remain. There was a perception among respondents that this is in part due to the nature of the deals, which primarily provided funding for programmes and specific projects rather than creating more flexible, non-ringfenced funding sources. While there may have been more aligned thinking and an ambition for more integrated delivery among partners in cities, the majority of respondents felt that there is some way to go to achieve this.

6. Performance management and evaluation

Monitoring, evaluation and performance management were a feature of all the deals, to the extent that dedicated City Deal boards in most cities would monitor progress on delivering the outcomes set out in specific deals. Similarly, EU-funded projects included in the deals will be evaluated and monitored.

Several cities have introduced or are piloting payment-by-results methods of performance management. Examples include Skills Funding Incentive Pilots that were introduced through the Growth Deals and agreed with three LEP areas: West of England (Bristol), Stoke and Staffordshire and the North East (as detailed previously in Box 4), and the Sheffield Payment-by-Results model for apprenticeships.

Sheffield City Region is an example where a payment-by-results model was included in the City Deal. This was included to stimulate the delivery of a wider range of apprenticeships to meet local labour market and employer demands. Providers who agree to deliver an apprenticeship framework that meets employer priorities and needs receive £1,000 per learner – a service brokered by the city region. Respondents reported that in the early stages of the programme, the financial incentive had not appeared to be sufficient to encourage providers to come forward to engage. Through more active outreach on behalf of the brokers, the system has now bedded in and 15 new apprenticeship frameworks have been created that are viewed locally as meeting local business and sector needs more effectively than existing national frameworks.⁴¹

Cities and LEPs have developed different systems for monitoring and evaluation as a result of the varied nature of the programmes and projects agreed as part of the deals. Monitoring and evaluation of Sheffield City Region's devolved skills budget is managed by Sheffield Council, for example. Because the existing city region processes and structures were not suitable for the devolved skills budget that was negotiated, Sheffield City Council bears the responsibility for financial risk and quality across the region. However, this means that existing SFA tracking and records monitoring are already in place – with the advantage that Sheffield statistics and results are verified by SFA data. The City Council publishes a monthly compendium of results. In contrast, other localities have been required to develop new systems. Swindon, for example, will monitor progress of their scheme to build on personal learning credits available through the Army and support army leavers to build on their transferable skills for up to two years before they are due to leave. BIS is in the process of developing a monitoring framework to evaluate this.

Evaluations planned as part of the Manchester Working Well and London Working Capital pilots are two of the most significant of their kind. The evaluations are currently being designed by local partners working together with DWP. While the details of the evaluations associated with both employment pilots are still to be developed, the scale of the pilots and robust nature of the evaluations accompanying them offer the potential to significantly improve the evidence base around what works in getting the harder to help back into employment.

41. Interview

Several respondents highlighted the need for better access to data to allow them to monitor and evaluate programmes. This in part requires more data sharing among delivery partners and central government departments. As one respondent put it, they wanted “better data, better recording and a better idea of how providers influence outcomes” to enable them to monitor how programmes were delivering.

Summary

Many cities and LEPs interviewed felt that the policies implemented to date had enabled them to take positive steps towards establishing more demand-led employment and skills systems. Taken together, the City Deals and Growth Deals have acted as a catalyst for partners to come together and would appear to have enabled partnership working and employer engagement at the local level.

In terms of the elements that would support a more demand-led local skills system, respondents suggest there is room for improvement, reflecting both the nature and design of the policies as well as the differences at local level between the cities and LEPs that took part. Overall, the feedback from respondents suggests there is scope to:

- Build local capacity and capability to better access and use LMI
- Establish shared objectives across functional economic areas
- Better align provision at the point of delivery
- Join up and standardise performance management and evaluation processes.

The final section summarises the main findings from this report, before setting out a series of recommendations for partners and policy makers at local and national level.



Conclusions and recommendations

This report has reflected on the key policy developments and deals agreed over the last five years during a period in which government trialled various approaches to devolution. Based on the lessons learned, this final section presents a series of recommendations and points for discussion on how effective, demand-led systems might be supported further at the local level. Given publication coincides with the formation of a new government, these final observations are presented to promote a discussion on the place of employment and skills policies within the localism agenda.

Several initiatives designed to give local partners more power and resources were introduced by the 2010-2015 government – and employment and skills were a central feature throughout. City Deals waves one and two were negotiated between localities (including local government and LEPs) and central government and included the devolution of certain aspects of employment and skills programme design, delivery and funding. Growth Deals were negotiated between LEPs and central government and focused primarily on capital funding for local skills infrastructure programmes. Recent Devolution Agreements with Greater Manchester, Leeds City Region, Sheffield City Region and London agreed to devolve more significant powers and flexibilities over employment and skills to the city regions than elsewhere.

To varying degrees the deals have allowed partners to flex national policy, to fill gaps in provision and to experiment with new ways of working. Given the early stage of many of these deals, the report does not attempt to assess the impact of these policies on employment and skills outputs in local areas. However, the feedback from respondents interviewed in cities and LEPs in late 2014 and early 2015 provides an early indication of some positive effects.

Many cities and LEPs interviewed felt that the deals enabled them to take positive steps towards establishing more demand-led employment and skills systems. In particular the deals appear to have impacted most widely on partnership and employer engagement as they acted as a catalyst for partners to come together. Interviewees reported that relationships with FE colleges in particular had become more collaborative and productive as a result of the deals process.

However, the deals were tailored to specific areas and varied significantly in scale, nature and approach, making it difficult to draw comprehensive conclusions. Respondents did report a number of remaining barriers to delivering demand-led local employment and skills systems and many respondents were keen to gain further freedoms and flexibilities to address them. In particular they hoped to address the barriers that would enable greater coordination of services at the point of delivery, greater ownership of programmes, for example through devolved funding, or delivery partners being held to account against the priorities of cities and LEPs through outcome agreements.

Recommendations

The research provides several lessons for partners at the local and national level for establishing more demand-led systems. These are presented to stimulate a discussion between local and national partners.

Local level

- **Ensuring strong governance models are in place.** Good governance at the scale of the functional economy is vital to the effectiveness of local demand-led employment and skills systems. This requires effective relationships to be in place across sectors, bringing together local and national government, employers, third sector, education and training providers and FE partners to work together to set and deliver local priorities. This may mean constituting an employment and skills partnership that brings combined authorities (where they are already established) and LEPs, together with employment and skills providers, and key government agencies, as Greater Manchester has done, for example. The exact nature of partnerships will vary in different parts of the country as existing institutional infrastructure varies and localities should seek to build on existing partnerships rather than ‘reinventing the wheel’.
- **Continuing to explore effective ways to engage with local employers and directly involve them in provision.** Cities have used multiple mechanisms to engage with the local business base, from consultation to formal partnerships. Engaging with employers that represent the full range of sectors present in a local economy and with smaller businesses was reported to be particularly challenging. Localities should take a tailored approach to engaging with particular sectors and SMEs. There are a few examples in Manchester, Sheffield and the West of England LEP where localities directly involved local businesses in the co-design and delivery of programmes.
- **Developing local analytical capacity and capability to make use of LMI to its full extent.** Building on strong governance and effective partnerships, robust LMI should underpin local priorities and strategies. Localities need both the analytical expertise and the capability to design appropriate policy and delivery that builds on their analysis and reflects the needs of the local labour market. Those working with LMI need to be able pull out the key messages and trends for the local area, ensuring skills policy is focused on significant and growing local industries. The direction of travel towards increased influence for local partners in employment and skills will create greater demand for data at the local level. Improving local capacity to make best use of available LMI, as well as developing innovative methods for gathering new data and information, would benefit localities in delivering a more demand-led system.
- **Ensuring robust evaluation plans are in place where funding has been secured to deliver pilot programmes.** Gaining an understanding of exactly what types of interventions work and will deliver better outcomes can be challenging. Localities need to build up their evidence base in order to review what works and to demonstrate their capacity and capability in delivering employment and skills helping to gain greater policy design and funding flexibilities from national level. This should include being able to show how and why a locally-led,

designed or funded scheme has performed better than the national equivalent, with information gained through robust evaluation. It may be appropriate for cities or LEPs to collaborate with other areas that have introduced similar schemes to run evaluations in a more cost effective way.

- **Continuing to make the case for how and why a more effective demand-led employment skills system can best be designed and delivered by local partners, in order to obtain greater freedoms and flexibilities through devolution in the future** based on robust evaluation evidence where possible. To capitalise on the government's renewed commitment to devolve more power and resource to cities and other local areas, localities will need to continue to work together, engage with employers and make a robust case for why they are best placed to deliver a demand-led employment and skills system.

National level

- **Greater coordination of policy and resources at the national level to support innovation and experimentation.** While some functions and resources have been devolved to localities, central government departments and agencies remain important elements of the employment and skills policy design and funding system. Many respondents felt that there could be better coordination between different national agencies and departments to negotiate the integrated services, bringing together education and training with employment support programmes, for example, would improve outcomes. Central government can support a more demand-led local system by ensuring that decision-making, policy design and funding streams, dealt with by different departments at national level, work together to support innovation and experimentation at local level.
- **Ensuring availability of LMI data on programme outcomes.** The government and national partners such as UKCES have an important role to play in continuing to make data available, improving the quality of the data, being a supportive champion of localities who seek to gain additional information from providers and by encouraging better use of LMI in employment and skills policy.
- **Setting frameworks for performance management and evaluation.** The government has a role to play in supporting localities evaluate and share best practice. They can develop frameworks for performance management that enable meaningful comparisons between local and national schemes in the context of the tailored approach to devolving employment and skills. The government can support localities by working with them to develop evaluation methods and support localities to collaborate on evaluation where appropriate.
- **Ensuring that local programmes are not duplicated by equivalent centrally led programmes.** In the context of continued austerity and a gradual and tailored approach to devolving employment and skills policy, it is important that programmes delivered by local partners, and schemes that are delivered by central departments and agencies, are coordinated and aligned. High levels of duplication and competition between similar programmes creates a confusing landscape for employers and individuals alike, and risks undermining the local relationships and synergy that should underpin a more demand-led local system.

Progress has been made in enabling local partners to establish employment and skills systems that are more responsive to the needs of local economies. There is scope, however, to support cities and their surrounding areas through the devolution agenda to continue to build effective partnerships and widen their employer engagement, and enable partners to establish shared objectives and align delivery.

Broader lessons about the process of devolution also emerged from the research, and although these do not apply exclusively to skills, they could be helpful in informing the future devolution of skills policy and funding to local level.

One of the key lessons that emerged was the importance of allowing sufficient time for the negotiation process. Respondents from the first round of City Deals, which were felt to be negotiated over a longer time period,⁴² reported more positive effects than respondents from the second round of City Deals.

A second lesson to emerge from the research was the significant advantage of having dedicated resource within government to aid the negotiation process. Many cities, primarily those in the first round of deals, felt that they had benefitted hugely from the dedicated role of the Cabinet Office and the Cities Team as single points of contact within the government and champions for local plans.

Finally, clarity and certainty about the terms of negotiation and devolution policy are important. Many of the respondents interviewed felt they would have benefitted from more explicit guidance in the deals process, including what programmes were eligible and the provenance of some future funding streams. Allowing sufficient time for different places to build local collaboration, providing dedicated staff at the national level and ensuring greater clarity about the terms of negotiation, could support more effective devolution of skills policy in the future.

The report raises a number of questions – many of which local and national stakeholders are currently grappling with. For example:

- How can local partners continue to strengthen employer engagement in ways that help to raise the demand for skills and encourage co-investment from employers?
- How do both local and national government ensure that there are strong enough incentives for different stakeholders to align their resources and approach to local labour market needs?
- How can partners design and resource the performance management and evaluation of locally led employment and skills initiatives in ways that enable sharing of best practice?
- How can local capacity to effectively use LMI to inform strategy be improved?

This report suggests that the approach exemplified by the City Deals and Devolution Agreements offers an opportunity to address these issues. Continued austerity measures present significant challenges to local partners working to deliver employment and skills initiatives and programmes but makes coordination and integration all the more important.

42. While the timeframe for the second wave of City Deals was longer overall, the time spent on individual deals was perceived by interviewees to be shorter than for the first wave.

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