

# Employer Ownership of Skills

Building the  
Momentum

March 2013



# Executive Summary

At the UK Commission for Employment and Skills we have a driving ambition to encourage more and better investment in the skills and employment opportunities for people in the UK. This goal is key to developing our global competitiveness and to providing good jobs. To achieve it employers must be in the driving seat with government creating the right incentives both for businesses and for agile and responsive providers of training and development.

In December 2011, the Commission outlined its vision for employer ownership of skills and four bold propositions that would set us on the right path. Over the past year we have seen good progress. In particular we have been struck by the level of ambition that has emerged where businesses have been freed up to rethink how investing in people can better support growth.

Forward thinking employers have stepped up, taking the opportunity to lead new activities to improve skills and employment in their sectors, supply chains and localities. Through the first round of the Employer Ownership of Skills Pilot the Government will invest up to £90 million alongside £115 million of private investment in employer led skills solutions that meet industry requirements and provide people with opportunities to develop successful careers. In addition, since 2011, employers and government have co-invested £215 million into employer-led solutions through the Growth and Innovation Fund (GIF) and Employer Investment Fund (EIF). In doing so employers have come together with employees and colleges to test new models for providing their industry with the talents needed for sustainable jobs and growth.

However, employer ownership was piloted for a reason. A large part of the purpose was to inform the next steps and we now want to accelerate and

extend the potential we have seen exists. This is all the more important in an economy where, despite near term challenges, the imperative must be to create the conditions for sustained recovery based on the talents and skills of the UK workforce.

We want to scale up the initial pilots so that skills investment becomes part of the heartbeat of business. That requires direct incentives that are simpler for even the smallest businesses to access, but place on that business the responsibility for making the investment successful. It requires industrial partnerships that rise to the challenge of setting out what they need to improve global competitiveness. It requires encouragement for employers to collaborate with colleges and training providers.

The progress made since December 2011 has convinced us that these steps are entirely possible. They will certainly be challenging for us all; employers, government, colleges and unions. But anything less will fail to engage businesses in achieving the level of change we need to see. On the other hand the opportunity is worth it. More than that, it's essential to creating the pipeline of talented people that we need to achieve the potential of our economy in a fast-changing global market.



Charlie Mayfield,  
Chairman of the John Lewis Partnership and  
Chairman of the UK Commission for Employment and Skills

# Guiding Principles

The UK Commission for Employment and Skills believes that through employer ownership the UK can transform the way that we invest in the skills and talents of people as indivisible from wider ambitions for growth and prosperity.

In our original employer ownership strategy we set out the principles that underpinned our vision. Here we build on these original principles based on the developing evidence base and through our engagement with businesses, trade unions and key stakeholders.

## **Employer ownership and responsibility**

**drives jobs and growth.** Creating the conditions that encourage the best employers to step up and work with their employees, trade unions, colleges and training providers to take end to end responsibility for workforce development in their industry will drive ambition, quality and better utilisation of skills.

## **Customer focused and outcome driven ensures that businesses and people are at the heart of how the skills system operates.**

Designing services with a relentless focus on customers will create a responsive system that uses outcomes as the measure of success - more and better jobs for people and jobs better done for business.

## **Alignment of strategy and investment leverages more and better outcomes.**

Routing the public contribution through the employer will create a single market for skills where supply responds to genuine demand and public investment leverages greater private investment.

## **Simple and transparent systems engage customers.**

Developing accessible and simple structures will give customers confidence to engage with the skills system and transparent public investment enables employers and employees to value government's contribution to developing people.

## **Collaboration delivers relevant skills**

**for jobs and growth.** Incentivising greater collaboration between employers, unions, colleges/training providers and business networks will deliver higher quality vocational learning. Through such collaboration we are better able to reach and engage with small and medium enterprises. Colleges become key stakeholders within local economies, and teaching and learning is a core driver of local growth and prosperity.

# Further Action

In December 2011, the UK Commission launched the employer ownership of skills, a long term agenda to change the way that we invest in skills. The vision challenges employers, government, unions and providers to invest in talent as a key component of business growth and individual prosperity. It seeks to align investment in people with industry requirements and local economic need.

One year on and we have reviewed our original four proposals and there is no doubt that we have made progress. We have been particularly encouraged by the renewed interest in rethinking how we incentivise opportunities for young people, by the desire to consider skills as part of a wider industrial strategy, by the new freedoms for colleges to respond to their local economies, and by the investments that government has made into high calibre skills solutions through the Employer Ownership of Skills Pilot.

However, if we are to realise the ambition more needs to be done. Against each of our original proposals we have identified the areas where we believe further action is needed, where we need to direct our collective energies and where clear steps can be taken to make progress.

# Proposals

## 1 Incentivise opportunities for young people

**Step:** Change the flow of funding for apprenticeships from provider grants to transparent direct payments to employers, via the tax system ( for example National Insurance / PAYE).

- Incentivising employers directly will result in more and better opportunities for young people
- A transparent public incentive that is visible to the employer means that it is more likely to be valued
- Using the tax system positions skills alongside other human capital investments and hardwires vocational pathways into general employment practice
- Employers are empowered customers with whom colleges can build long term relationships
- Moving from a provider grant to an employer incentive is a demand led solution

**Step:** Bring together trusted data to provide access to information which can inform career and skills investment decisions.

- Trusted information helps make learning provision relevant to the world of work, helps employers to recruit the right people and helps people to make informed career decisions

## 2 Move from grants and qualifications to sustainable investment in outcomes

**Step:** Encourage colleges to broaden the measures used to assess their performance by placing greater emphasis on labour market outcomes.

- Vocational education becomes more relevant as skills and training programmes are focused on labour market outcomes and are aligned to local economic need
- Success is defined by meaningful outcomes for customers - individuals and business

**Step:** Through partners and Investors in People businesses will be encouraged to measure the impact that investment in people has on business performance.

- Businesses understand the returns to investing in and deploying the talents of people within their business
- Investing in people becomes a strategic decision that can be aligned to business performance
- Ensures that skills are being put to good use

# 3

## Continue to create the conditions for greater employer ownership

**Step:** With the right conditions and competitive investment employers step up and form industrial partnerships to take end-to-end responsibility for ensuring the pipeline of talent sectors need to be successful.

- By designing skills solutions and standards the partnership ensures they meet industry need
- Collaborative approaches better support the attainment of relevant skills
- Skills are part of a broader growth agenda
- Helps raise demand for skills

**Step:** Review adult vocational qualifications and develop a strategy for ensuring that they are of value to employers and employees.

- Vocational provision for adults offers clear vocational signalling to employers and individuals
- Employers (and partners such as unions) will have a clear role in the design of qualifications
- Better returns for employers and employees

# 4

## Unlock the potential of employer and college collaboration

**Step:** Work experience becomes a core feature of all vocational learning.

- Vocational education better prepares young people for successful careers
- Colleges develop sustainable relationships with employers able to provide opportunities for young people
- Work experience provides employers with routes to new pools of talent

**Step:** Use competitive investment to incentivise employers to invest in colleges and become part of the local education and training infrastructure, not just consumers of it.

- Employers 'co-own' vocational provision and have a greater stake in its success
- Collaboration results in provision and delivery meeting industry need
- Private investment in skills increases

# Long Term Success

The support from government, unions and business leaders for the employer ownership vision has been substantial. In particular we welcome support for the Employer Ownership of Skills Pilot for which government will invest up to £340 million in employer led proposals for tackling current and future skills needs in sectors, supply chains and localities. In Round 2 of the pilot we want employers to raise their game further. We are asking leading employers who have real authority and recognition across industries and localities to develop partnership models with businesses of all sizes, colleges and unions to deliver skills that are aligned to economic growth and prosperity.

To embed employer ownership over the longer term we need to learn from and look beyond the pilot towards a sustainable system that relies less on government setting and managing the agenda. The long term goal is to embed a new set of relationships within the skills landscape that will not only stand the test of time but will give all stakeholders the clarity and confidence they need to interact in an outcome focused / demand led way to meet the future requirements of industry. Industrial partnerships inspired by a new leadership mindset is the next bold step that encourages employers to work together in their sectors and supply chains, bringing in unions and colleges to take greater responsibility for the way that we design, deliver and invest in our workforce.

Primarily we need the mainstream skills system to empower employers and employees as customers through the setting of standards, broadening the measures of success and by direct funding for work based training. It is also important that more targeted strategic investment remains and we build on the positive aspects emerging from the pilot. The pilot has demonstrated that competitive investment can drive collaboration and innovation, respond to strategic employment and skills issues that restrict growth in specific industries and localities, and it can test new models for partnerships between colleges and business.

We welcome the opportunity to work with partners to take forward the actions in this paper and build on the momentum that we have already generated. The prize is substantial, employers in key sectors of the economy developing and fully utilising people with the skills and capabilities needed to improve the global competitiveness of those sectors. We have a labour market that incentivises and offers young people improved career opportunities. We invest in training and qualifications that have currency in the labour market. We have a skills system where employers and individuals have purchasing power and information to drive quality. Finally, colleges are rewarded and valued for delivering meaningful outcomes for employers and employees.

# Impacts and Outcomes

From	To	Difference
Centrally driven system where the employer/employee voice has been crowded out.	Effective employer led industrial partnerships (including leading employers and unions) in key sectors have end to end responsibility for securing, developing and fully utilising 'talent pipelines' of people with the breadth of skills and capabilities needed to improve the competitiveness of those sectors.	The skills people develop are aligned to industry need and have traction in the labour market. Employer collaboration increases the number and quality of opportunities. Investment in skills is part of an industry's broader growth strategy.
Colleges are incentivised to respond to central funding approaches.	For apprenticeships, a simple and transparent direct payment structure enables the employer to become the customer.	Making the employer the customer drives investment in economically valuable skills leading to better employment and earning outcomes for apprentices.
A system that is in constant flux, complex and initiative heavy.	A stable environment underpinned by industrial partnerships and funding through the tax system for work based training.	A stable commitment to skills investment allows employers to set long-term strategies. Government and employers have clear points for engaging with the skills system.
Vocational education provides a confusing set of career pathways to employment and progression, and credibility within the labour market is variable.	Better information, industrial partnerships and qualification reform encourage coherent career pathways and informed customers.	Vocational provision offers clear signals to employers and individuals. Employers are able to engage appropriately in the design and development processes for vocational qualifications. Individuals are confident that the learning will give them the skills they need to develop careers.
Too few employers understand the value of investing in people.	The impact of human capital investment is captured, understood and measured.	More employers understand the impact of investing in and using the skills of their workforce. Workforce development is taken more seriously as a business performance issue and is aligned to overall business strategy.
The relationship between colleges and employers is defined by government based on funding and performance measures.	Genuine employer / college collaboration is incentivised through new models of co-investment and accountability.	More employers are in mutual partnerships with colleges to co-create the skills they need to grow. Colleges are recognised as key players in local economic growth.

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# The UK Commission for Employment and Skills

We are a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, to create more and better jobs and to secure economic growth.

## Chairman

Charlie Mayfield,  
Chairman of the  
John Lewis Partnership



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# Introduction

In February 2011 the UK Commission for Employment and Skills was set a new remit to work through our Commissioners and with government to raise skill levels to help drive enterprise, economic growth and create more and better jobs. Over the last two years we have responded to this new remit by increasing our focus on achieving outcomes for employers and employees. We moved from a 'grant funding' model for Sector Skills Councils to a competitive investment approach which is available to a wider number of organisations, for example Local Enterprise Partnerships. This approach has co-invested in genuine employer led activities that deliver outcomes in both sectors and localities. The benefits from such changes have been clear: increased employer leadership; alignment between investment in skills and wider growth strategies; and leading Sector Skills Councils reaching out more confidently into their industries and developing solutions that have impact.

In December 2011 and building on the changes that the Commission had instigated we launched a new vision for how we invest in our current and future workforce – employer ownership of skills. At its core is the need for investment in the skills and talent of people to be an intrinsic part of wider ambitions for securing growth and prosperity for the UK.

We have been encouraged by the progress that has been made. Ministers asked the UK Commission to work with government and test the vision through a competitive co-investment fund – the Employer Ownership Pilot. The pilot asked employers in England to work in partnership to design and deliver skills solutions in their industry and locality, aligned to a broader industrial strategy.

The challenge resonated with employers and over 260 submitted proposals for investment with 37 projects approved to receive funding. More importantly, the pilot started to move us towards a new model for making public and private investment

in people work harder and achieve more. It has enabled investment in people to align more closely to broader business decisions and helped people to develop skills that are required and valued. The pilot however is not the end point and will not lead to the scale of sustainable change we need.

One year on and we find ourselves still facing significant challenges. Like many other countries our economy is struggling to recover from one of the worst economic crises in generations. However, we must not lose sight of the assets that the UK undoubtedly has. We remain one of the most competitive nations within which to do business and contain some of the world's leading employers and industries. We cannot accurately predict the technologies and trends that will drive our economy forward but what we do know is that it will be the skills and competencies of our people that will help determine, design and use them.

We now need to move faster and go further. The economic situation has affected us all but has presented particular difficulties for young people who are seeking to take their first steps into a career. Those leaving school today are facing career uncertainty with limited opportunities and career pathways that are neither straight nor well trodden.

There is no doubting the commitment of this and previous governments to provide people with the skills to forge great careers. The truth, however, is that over many decades a government led approach has left us with a skills system that is too complicated and overly focused on delivering high volumes of qualifications. We now need to take steps to reconnect it to its customers – employers and current and future employees.

By reflecting on the proposals that we set out in December 2011, we capture progress that has been made and more importantly highlight the areas where we can go further.

# Guiding Principles

The employer ownership vision is for investment in the skills and talent of people to be an intrinsic part of growth and prosperity. In our original employer ownership strategy we set out the principles that underpinned our vision. Here we present a refreshed set of principles based on what we have learnt through engaging with businesses, trade unions, and key stakeholders. The principles below provide a reference point from which ideas to achieve this vision can be assessed and when put together provide a powerful set of guidelines for developing a skills system for the future.

## **Employer ownership and responsibility drives jobs and growth**

For too long employers have been asked, with limited success, to engage in government led skills initiatives underpinned by unsustainable levels of public funding. The 'skills agenda' became separated from jobs and growth. We need to better connect skills with the world of work by creating the conditions that encourage the best employers to step up and work with their employees, trade unions, colleges and training providers to take end to end responsibility for workforce development in their industry. By giving each representative in the partnership a stake in creating quality skills solutions for people and businesses we can increase the relevance and use of the skills system.

## **Customer focused and outcome driven ensures that businesses and people are at the heart of how the skills system operates**

Over recent decades the skills system has become driven by government frameworks and incentives; a production line where success is principally measured on the quantity of outputs. Designing services with a relentless focus on customers will create a responsive system that uses outcomes as the measure of success - more and better jobs for people and jobs better done for business.

## **Alignment of strategy and investment leverages more and better outcomes**

Currently we have two training markets, a publicly funded market providing qualifications built around government priorities and a private training market delivering skills in response to business need. By giving employers direct purchasing power for work-based training we will increase the responsiveness of the system. Routing the public contribution through the employer will create a single market for skills where public money leverages more and better private investment and supply responds to increased genuine demand. Employers are better able to align skills investment and deployment with business strategy.

## **Simple and transparent systems engage customers**

Successive governments have repeatedly intervened in the skills system. Consequently there is a weariness of change as each intervention introduces new funding requirements, new intermediary organisations and additional complexity. Employers are often unaware of the public contribution to their training and therefore do not value it. Developing accessible and simple structures will give customers confidence to engage with the skills system and transparent public investment enables employers and employees to value government's contribution to developing people.

## **Collaboration delivers relevant skills for jobs and growth**

In the current system colleges are incentivised to face upwards to funding agencies and government rather than outwards to industry and communities. The desire to drive the system from the centre has shaped the way in which employers and colleges work together and has undermined genuine relationships. Greater collaboration at the local level between employers, unions, colleges / training providers and business networks that are focused on outcomes will deliver higher quality vocational learning. Through such collaboration we are better able to reach and engage with small and medium sized businesses. Colleges become key stakeholders within local economies, and teaching and learning is a core driver of local growth and prosperity.

# Proposals

In our original employer ownership vision (December 2011) we identified four proposals that would start the journey towards an employer owned skills system - one which invests in people as an intrinsic part of growth and prosperity.

Since launching the employer ownership vision we have learnt a great deal. Below we reflect on each of the original proposals, highlighting what we have learnt and most importantly identifying steps where we can go further to improve the way that we invest in people.

# 1. Incentivise opportunities for young people

## Summary

Changing the flow of money for apprenticeships from provider funding to direct payments to employers will incentivise them to offer more and better opportunities for young people. It will also empower employers as customers and encourage colleges to respond to their requirements and deliver training that has real currency in the labour market. Fundamentally it will move 'management' of apprenticeships from supply to demand.

Using the tax system to deliver this change will hardwire opportunities for young people into mainstream employment practice. It is an efficient mechanism that positions skills alongside other human capital investments.

Changing the flow of funding for apprenticeships is not the whole story. To make public and private investment work harder we need customers to be empowered financially and through trusted information. To help people get the information they need the Commission's project 'LMI for All' will bring together and open up national datasets so they can be used in products that inform career decisions.

## Proposal

Structural changes to our economy have removed many of the traditional career opportunities for young people, a situation that has been compounded by the lack of recent growth. In response we need to incentivise employers to make more high quality opportunities available to young people, develop a system that gives young people the skills that employers value and support the decisions that young people make through access to information.

In December 2011, we proposed inviting employers to step up to the challenge of bringing more young people into the productive workforce by funding employers directly for apprenticeships. Our thinking has not changed. We continue to believe that one of the most powerful ways to make this happen is to directly route the public funds for apprenticeships through employers. Of course, changing the flow of funding for apprenticeships is not a silver bullet to a significant youth employment challenge, but when set alongside more rigorous standards it is an important step that reconnects training to the workplace and encourages more opportunities for young people to develop careers with prospects.

**While just 15% of employers currently have or offer apprenticeships, a third plan to offer them in the future. If these ambitions were realised we could double the number of employers involved<sup>1</sup>.**

By incentivising employers directly they become the true customer with purchasing power. Colleges and providers will be required to respond to industry need rather than government and public funding. It would enable a transparent public subsidy to go directly where it is intended and encourage employers to seek the full value of the government support and thus the best quality provision. A shift to direct payments through the tax system would also demonstrate government commitment to long-term stability which in turn will allow employers to set long-term strategies for investing in people.

Shifting the flow of public finance from colleges / providers to employers for apprenticeships, though powerful, is not enough. Customers (employers and employees) also rely on information as well purchasing control to be truly empowered. To support investment and career decisions we believe that a step change is required to ensure greater access to and use of trusted information that reflect key trends, including employers' workforce requirements.

### **The progress we have made**

The Employer Ownership Pilot has moved us towards a new model for making public and private investment work harder. The emerging story from the pilot about investing directly in business is a good one. Through the pilot employers stepped up and developed skills solutions that aligned to business performance, public money leveraged significant commitment for private investment and the successful projects will create a range of opportunities for young people. But the pilot is not scalable and remains a small part of a system where inertia restricts the ability for young people to forge careers.

Over the past 12 months Commissioners have reflected on the principles we believe underpin a powerful skills funding process that promotes opportunities for young people: simplicity, transparency, empowered customers, 100 per cent coverage of employers, and alignment between public and private investment. Using these underpinning criteria we have developed a payment proposition that could enable sustainable and scalable change and we look forward to testing this proposition.

### **The steps to take us forward**

1.1 Change the flow of funding for apprenticeships from provider grants to direct payments to employers via the tax system (NI / PAYE). The Commission will work with government and wider stakeholders to continue to develop this and other models for directly incentivising opportunities for young people.

Led by Scott Johnson (Commissioner and entrepreneur) we have undertaken detailed thinking to identify a mechanism that could be used to deliver a transparent payment to the employer for apprenticeships which are defined by more rigorous standards. Although we are still developing our thinking and open to new ideas we remain convinced that National Insurance and PAYE offers the greatest potential. It covers the whole economy (public, private and third sector employers), aligns to other business functions, is transparent and will have the flexibility of real time administration to cope with recruitment throughout the year.

The government contribution towards apprenticeship training could be claimed on a monthly basis by the employer in the same way that statutory maternity pay is paid and recovered currently. Employer led partnerships (see proposition 3 regarding industrial partnerships for more information) would develop high quality and rigorous training standards which stipulate the period of time that training would be delivered for and its quality. These would form the basis of the apprenticeship agreement upon which funding is provided. The employer would agree the price and other arrangements for training with an approved college or provider and then enrol apprentices onto contracts that meet the defined standards.

*“As a small business owner a direct incentive would encourage me to give an opportunity to a young person and at the same time would give me the buying power to get what my business needs from the skills system”.*

*Scott Johnson, Commissioner and entrepreneur*

From the point that the contract starts reimbursement of funds through “tax not taken” could begin and, because of the forthcoming Real Time Information (RTI) system<sup>2</sup>, would not be tied to financial years. In order to work through the tax system and to aid simplicity there would be a small number of claiming rates (i.e. the amount per apprentice per month that the employer could claim) and a one off final payment would be made contingent on completion. The National Audit Office recently noted that the funding tariffs for apprenticeships were too complex and dated<sup>3</sup>. Moving to a small number of claiming rates would represent a considerable simplification of the current funding model<sup>4</sup>.

In rare instances where the employer incentive is above the tax owed by the business a positive payment is made at the end of the tax year.

Engagement with employer bodies and unions during the last year has been positive but we understand that any change to the tax system should not be taken lightly. We hope to continue working with stakeholders and government to develop a funding mechanism that means we leverage more and higher quality opportunities for young people by aligning public funding with private investment.

### **Worked example for how the model could operate**

A small accountancy firm decides to take on an apprentice. The business negotiates a price for training with a college and recruits a 19 year old apprentice onto a 1.5 year apprenticeship (at level 3).

- The employer identifies their new employee as an apprentice on their payroll via a simple tax code.
- The employer is entitled to a £4,000 incentive spread over the course of the apprenticeship. In return they deliver a quality experience as defined by their industry.
- £1000 (25% of the total incentive) is paid as an outcome payment upon recognised completion of the apprenticeship.
- The remainder is deducted from the employer’s tax bill on a monthly basis from the start of the apprenticeship (£166 per month). This amount may be more than the individual’s monthly employer national insurance (NI) contribution so the monthly payments would be deducted from the employer’s aggregate NI and PAYE bill.

### **1.2 Bring together trusted data to provide access to information which can inform career and skills investment decisions.**

Empowered customers need information and leverage. Trusted information is a powerful tool that can be used to drive up the responsiveness and the quality of education, training and employment for the benefit of individuals, employers, learning and training providers and the wider economy. The use of labour market information (LMI) can help make learning provision more relevant to the world of work, support people to make well-informed and realistic career decisions, and ultimately, help employers to recruit the right people to their industry.

Through an LMI portal called LMI for All<sup>5</sup> the Commission will develop a single point of access that will support analysis across various sets of data to provide simpler and easier access to trusted information which informs decisions. Trusted data will be opened up and can be used more easily by creators of websites and software applications to develop and expand individuals’ career horizons. The end user interfaces will be created by developers and organisations that are closer to the market and understand what information different groups of people need to support good career decisions and how this is best provided.

## **LMI for All**

LMI for All will bring together national data sets including the Labour Force Survey, the Annual Survey of Hours and Earnings and the Commission's own survey data to answer the questions that people ask when making career decisions. We won't be creating the end user interface but will open up the data so that the most creative and dynamic developers can use it to create websites and applications (apps) that young people can use.

In the first stage of the pilot we will include the following data:

- Employment levels by occupation
- Earnings by occupation
- Unemployment by occupation
- Profile of qualifications by occupation
- Vacancies by occupation

This will support development of products that will help people to answer questions including 'how many jobs are there?', 'how many jobs will there be in the future?', 'how much do people doing that job get paid?' and 'what qualifications do people doing that job have?'.

## **From data to impact**

The opening up of public data is creating a 'living library' of information allowing citizens to make better choices about public services. Data specialists are increasingly using it to provide services in demand, including tools and applications (apps) to help make decisions about where to send children to school, or how to manage journeys to work.

A recent example is "Lines", a popular app that provides clear and streamlined London travel information to people at their fingertips. The application uses Transport for London data, allowing passengers to see both current London Underground lines delays and planned works, at the swipe of a smart phone. Simplicity and understanding of the needs of passengers was key in developer Alasdair Monk's design. He described it as "the app that TfL should have made", but arguably dynamic developers are best placed to bring creativity to the use of data and the design process<sup>6</sup>.

# 2. Move from grants and qualifications to sustainable investment in outcomes

## Summary

For too long both public and private investment in skills development has fallen back to activity based measures rather than rigorously focusing on measuring outcomes for businesses, individuals and government. To make skills investment sustainable we need to understand the value of the investment and the returns we can expect. Over the coming year the UK Commission would welcome the opportunity to work with colleges and policy makers to develop funding and performance outcome measures for the skills system. This might include using destination measures to encourage college accountability to Local Enterprise Partnerships and their wider community. Secondly, we will work with partners and through Investors in People to encourage businesses to measure the impact that investment in people has on employees and business performance.

## Proposal

Human capital is widely recognised as a key driver of growth and prosperity. The productivity of a trained worker is on average 23 per cent higher than an untrained worker<sup>7</sup>, non-training businesses are almost twice as likely to close as those that do provide training<sup>8</sup> and when foreign companies are considering investing in the UK the most important consideration is the availability and skills of the local workforce<sup>9</sup>. However, for something that matters so much we often appear to view and measure investment in people as a cost rather than developing our workforce as a key asset.

Businesses frequently report that it is the skills and talent of their current and future workforce that will determine and drive business performance. But limited understanding about the return on investing in human capital can result in it being a marginal issue within the running of a business.

To increase the value of skills in the workplace, their deployment and subsequent investment we need to better understand the impact that they have on business performance when deployed effectively. We need to encourage employers to measure the outcomes of human capital and move it from a cost to an asset.

Likewise, whilst government appreciates that skills will support economic growth, social mobility and social inclusion there is limited understanding about how to measure the outcomes of publicly funded training. By developing and using outcome based performance measures we can build greater labour market accountability in the skills system. Success should be measured by learner's progression towards career and employment goals not just qualification attainment.

## What progress has been made?

Over the last decade there has been considerable investment and progress in raising skill levels. However, even against narrow measures of success such as qualifications we are treading water by international standards. Fiscal constraints mean that we need to reassess how we fund skills investment over the long term and work towards meaningful outcomes for government, employers and employees.

In our original document we advocated a co-investment model that invested in outcomes rather than qualifications as an end in themselves. To implement such a shift has been challenging but we have been encouraged by the growing recognition that using qualifications as the primary measure of success has driven quantity at the expense of quality and longer term outcomes. Ofsted recently asked for college leaders to focus more on the usefulness of qualifications rather than quantity<sup>9</sup>.

Starting with our own investments we have been keen to develop measures that enable us to tell a story about the impact that we are having beyond simply the numbers of outputs. We have asked organisations that we have invested in to tell us how they will measure the return, for example the impact on an individual business, on employees, and within wider industries and localities. Through direct payments for work-based learning, employers will have a greater stake in learning outcomes but we need better alignment between these success metrics and those of the skills system.

The best colleges and the most forward thinking businesses are already trying to assess the true impact of investment and provision. However, to deliver the step change required we want to work with partners to identify the right incentives and measures, and systematically embed an outcome-based approach.

#### **The steps to take us forward**

2.1 Encourage colleges to broaden the measures used to assess their performance by placing greater emphasis on labour market outcomes.

This can be done in two ways. Firstly, colleges should promote the outcomes that they have achieved for learners and employers at the point of purchase and build it into the core elements of any inspection processes that take place. Ofsted is already focusing on learner destinations and learning experiences; and we would welcome the opportunity to look at how this process could be made as robust as possible to ensure responsiveness and to monitor and redesign provision to meet need<sup>10</sup>.

Broadening the success measures used to encompass indicators such as a learner's progression towards a career and employment goals not just qualification attainment will increase labour market accountability in the skills system.

Secondly, outcomes should be linked to funding to encourage greater accountability to local communities. The practicalities of implementing an outcome-based funding model are particularly challenging in further education and government attempts to do so have been limited to date<sup>11</sup>. There is scope to go further, for example introducing a

larger proportion of funding that is dependent on employment and progression outcomes for key programmes of work. However, robust learner destination data is required to do this, which is not currently captured in a consistent and comparable way. A first step in moving to outcome-based funding is to develop robust data on learner outcomes, for example this can build on existing work to match data sets as well as exploring the option of collecting different data.

Measuring outcomes particularly progression in work or movement towards the labour market is complicated, more so than measuring numbers of qualifications. We would welcome and support working with partners to develop the proposition further.

**The knowledge and skills of workers in the UK were worth an estimated £17.12 trillion in 2010. This was more than two-and-a-half times the estimated value of the UK's tangible assets – such as buildings, vehicles, plant and machinery<sup>12</sup>.**

2.2 We will work with partners and through Investors in People to encourage businesses to measure the impact that investment in people has on business.

To increase the value that we place on human capital and increase business ambition for investing strategically in people we need to change employer behaviour. The role of Human Resource (HR) professionals will be essential in encouraging businesses to increase their ambition and invest more strategically in workforce development but it is not enough, we need a demand pull as well as an HR push. We need the response to the challenge to be owned by business leaders and employees, with relevant information requested by boards of directors and investors.

We want to support businesses to invest in skills as a business priority with metrics to measure the impact. By encouraging businesses to think about the outcomes of their investment employers will consider human capital as an asset and wider stakeholders will value the information as an indicator of an organisation's health, for investment decisions and for determining corporate accountability.

Businesses need a broad basket of meaningful measures which are as simple and transparent as possible, and correlate with performance. Over the coming year the UK Commission will work with key partners (the Chartered Institute of Personnel and Development, the Chartered Institute of Management Accountants and the Chartered Management Institute) to develop such measures which will encourage businesses to align investment in people with a broader business strategy.

The Commission's assets also have a key role to play. Through the Employer Ownership Pilot we have the opportunity for business leaders to encourage employers in their sector to not only invest in but also measure the impact of investing in and deploying the talents of people.

Finally, Investors in People (IiP) reaches 16 per cent of all establishments in the UK and is growing internationally. It is therefore an extremely effective route to deploy return on investment metrics and encourage businesses to measure the impact of investment in people on their organisation.

**The number of employers whose approach to people management is an integrated part of their business strategy fell from 29% in 2007 to 19% in 2011<sup>13</sup>.**

*“Counting expenditure or qualifications can only take us so far. We need more organisations to know and understand the impact that investment in people has on business performance and people’s careers”.*

*Nigel Whitehead, Commissioner and Group Managing Director BAE Systems*

# 3. Continue to create the conditions for greater employer ownership of skills

## Summary

We have been encouraged by the commitment of all stakeholders to rethink the way we invest in skills over the long term and building on this momentum propose the following steps.

Firstly, through the Employer Ownership Pilot we create the conditions for employers to step up and take responsibility for developing the pipelines of talent required by particular industries.

Secondly, Nigel Whitehead (Commissioner and BAE Systems) is leading a review of vocational qualifications for adult learners. The review will develop a vision and strategy to ensure that adult vocational qualifications are rigorous and high quality, meet the skills needs of employers and support progression for individuals.

## Proposal

To develop a more sustainable skills system that aligns investment in people with growth and prosperity, we need to identify where the current system can be refined to enable employers to take greater ownership of skills and be more responsive to need.

Creating the conditions for leading employers to work in partnership and take responsibility for skills solutions within their industry will deliver a skills system that responds to the requirements of an industry and those seeking to develop a career within it. It also offers the opportunity to bring together a set of functions that are currently undertaken by multiple organisations and by doing so reduces complexity and duplication.

In response to recommendations previously made to government, for example through the Wolf and Richard Reviews, we also propose work to encourage a healthy qualifications market that meets employer requirements and gives adults the skills to progress in work.

## What progress has been made?

Over the last year we have been encouraged by the willingness of government and stakeholders to rethink the way that investing in people can support growth and prosperity. Doug Richard and Jason Holt provided insight into the potential future of apprenticeships in England. Both emphasised the importance of the employer and employee in determining the apprenticeship offer, in particular rebalancing the purchasing power and providing intelligence in a way that encouraged employers to be informed customers.

The Heseltine Review and the government's industrial strategy have illustrated the importance of place and sector as key determinants of economic success. Both have stressed the vital role that skills need to play in this boarder growth agenda.

Within the Commission we have moved from a grant model to an investment based approach which has sharpened the focus of intermediaries, specifically Sector Skills Councils (SSCs), on industry skills issues. The vision of employer ownership however requires us to go further.

Through Round 2 of the Employer Ownership Pilot we have set the conditions for employers to come forward in partnership with other employers, trade unions, training providers and industry bodies to develop skills solutions. Whilst we recognise collaboration at this level is not always easy, the value of partnerships cannot be overlooked and we have been encouraged by the role that leading SSCs are playing in convening these partnerships. Encouragingly, the pilot has already demonstrated that employers, training providers and unions are willing to collaborate in order to make skills solutions more effective; approximately 80 per cent of the successful Round 1 bids are collaborative.

## The steps to go further

3.1 With the right conditions and competitive investment employers step up and form industrial partnerships to take end-to-end responsibility for ensuring the pipeline of talent sectors need to be successful.

Industrial partnerships are industry-wide collaborative arrangements that extend the scale and impact of employer ownership in key sectors of the economy. They ensure skills and workforce development are intrinsic parts of an industry's wider growth strategy and address the most pressing skills challenges the industry faces. The partnerships will be established from the strongest employer leadership available at local and industry level, resonating with the social partnerships that we see in countries such as Germany. The best Sector Skills Councils (SSCs), Local Enterprise Partnerships (LEPs), unions and other trade and professional bodies are likely to be active in their creation.

Over the coming months we will test employers' appetite for taking this opportunity. Through the second round of the Employer Ownership Pilot we will invest in partnerships of employers in key industries and localities who come forward with game changing propositions in which they work with partners to take end-to-end responsibility for investing in the talents and capabilities of the workforce. Approaches and functions will vary depending on the needs of the industry, but roles are likely to include:

- Encourage collaborative approaches to develop and deliver skills in the context of broader industry requirements
- Set the standards and accountability structures to ensure public and private investment goes further (particularly important if we move to a model of direct employer investment)
- Attract and manage private and public investment through sustainable co-investment training propositions

- Recognition of excellence in individuals, employers and learning providers
- Industrial partnerships would work closely with geographies of importance to their sectors, and ensure that the skills solutions, quality assurance arrangements and funding arrangements are fit for purpose.

Businesses will only create new partnerships of this kind if they have confidence that they will have impact in the short term through improved quality, relevance and value, while providing a stable platform for building the pipeline of talent over the longer term backed where appropriate by strategic co-investment by government. The partnership will also provide employers and government with a clear point of contact for advice about investing in and utilising the skills of people. Whilst we would recognise that industrial partnerships are likely to establish more formal structures and constitutions over time, we would be cautious about encouraging the formation of a new set of institutions which risk losing their energy, focus and leadership edge or which attempt to cover the whole industrial landscape.

We would welcome employers coming forward to test and develop this thinking through the Employer Ownership Pilot and we are particularly encouraged by the supporting role that leading Sector Skills Councils are playing in convening these partnerships.

*"If we create the right conditions forward thinking business leaders can take more responsibility for ensuring that we deliver the skills that business and people need to succeed".*

*Toby Peyton-Jones, Commissioner and Director Siemens plc*

## **Employers step up to define skills solutions: Case Study 1**

Through the Employer Ownership Pilot, Whitbread Hotels and Restaurants has joined with other major employers in the hospitality sector to create a wide-ranging skills initiative that will make a significant difference to the skills and knowledge of prospective employees, existing workers who want to progress, and the company's high potential employees. An employer-led skills initiative enables Whitbread and its partners to combine the rigour of national standards and qualifications with design and delivery which really works for the sector. The programme is also designed to support the hardest to reach people, who are unemployed and potentially disengaged from opportunities in their community, and to create a pipeline of talent from schools through apprenticeships into management roles.

## **Employers step up to define skills solutions: Case Study 2**

AJ Woods Ltd are based in Harwich Port, in the east of England and provide shore-based facilities for the construction of the UK's largest wind farms. Through the Employer Ownership Pilot they are working together with local employers to energise both businesses and the potential workforce in Harwich and to tackle the skills issues holding them back. They plan to help local small and medium-sized businesses (SMEs) to develop their ability to compete for contracts, and to get local people into work using apprenticeships, work placements and a new skills passport.

3.2 Review adult vocational qualifications and develop a strategy for ensuring that they are of value to employers and employees.

By reviewing and developing our vocational qualifications we have a real opportunity to tackle some long standing issues that have inhibited the development, use and value of vocational qualifications. By knowing which vocational qualifications have true value in the market place and offer the breadth of learning to respond to local variation, we will increase the number of employers (currently 28 per cent<sup>14</sup>) that offer training leading to vocational qualifications and the number of employees willing to take them up.

The review, led by Nigel Whitehead (Commissioner and BAE Systems) and supported by government, will develop a vision and strategy to ensure that vocational qualifications for adults offers clear vocational signalling to employers and individuals. It will consider how we measure the usefulness of vocational qualifications. It will also explore how employers and partners (such as unions) engage in the design, development, delivery and awareness of vocational qualifications to deliver outcomes for individuals, employers, sectors and local markets. The review will run from March, and plans to report in September 2013. This review is for England only but we will be sensitive to approaches in other UK nations and internationally.

*“Britain urgently needs a long-term industrial strategy for growth and a social partnership of employers and unions, working together to boost skills investment is the best guarantee of success.”*

*Frances O'Grady, Commissioner and General Secretary Trades Union Congress*

# 4. Unlock the potential of employer and college collaboration

## Summary

Incentivising greater collaboration between employers and colleges encourages colleges to look out to their local labour market rather than upwards to funding structures. Employers would be partners and not just consumers of the skills system.

Such collaborative action already takes place and through the Employer Ownership Pilot government is investing in and testing new types of collaboration between employers and colleges. But there is more we can do to build on this good practice.

Firstly, by building work experience into vocational provision and qualifications we encourage colleges to build sustainable relationships with employers.

Secondly, employers should be incentivised to invest in colleges and to become part of the local education and training infrastructure, not just consumers of it.

## Proposition

In our original vision document we highlighted the importance of incentivising collective action; in particular using our investment funds to incentivise employers to work together to develop innovative skills solutions. We maintain that it is through collaboration that we effect the greatest change: building resilience in localities and industries, developing more and better employment opportunities and helping our resources go further.

Through our investments we have stimulated new forms of relationship between employers but over the last year it has become apparent that we also need to widen our thinking to incorporate a greater focus on a dynamic delivery system – integrated and delivered alongside the employer.

We have therefore broadened the scope of our original proposal by looking at a range of levers that can stimulate collaboration between employers and colleges. Incentivising greater partnership working

will change the relationship from one that operates within the confines of a centrally planned system to one which is genuinely collaborative.

Colleges play an essential role in delivering better outcomes for learners and employers. The steps outlined in the earlier proposals within this paper will see colleges facing outwards to employers and responding to their requirements as customers. However, more can be done to align skills provision to the labour market and take it out of the ‘skills bubble’.

Employers and colleges must work in partnership, moving beyond the transactional relationships required to draw down public funding, and towards a mutual relationship that is focused on outcomes.

There are many examples of college and employer collaborations across the country that do just this and new models of delivery in partnership with employers such as University Technical Colleges and Studio Schools<sup>15</sup>. But this has to become the norm; we need to unlock the potential of employer-college collaborations to build capacity at the local level to improve transitions into work, reach out to more employers and to create learning experiences that are fit for the twenty-first century.

## What progress has been made?

We welcome the recent steps that government has made to free colleges up and we are frequently reminded of the exciting ways in which forward thinking colleges are delivering quality outcomes for business and individuals. The vast majority of businesses that have been successful through the Employer Ownership Pilot are investing in and working with colleges. For many colleges employer ownership investment is an opportunity to build long term relationships with businesses in their community.

We have also been encouraged by steps to establish a closer relationship between colleges and local labour markets. For example the Heseltine Review recently recommended that colleges align their strategies with local priorities such as those developed through Local Enterprise Partnerships.

Our observation about what enables such innovative collaboration is visionary leadership and drive at the local level; and this applies to both colleges and employers. Below are two further steps that can be taken to incentivise such innovation.

### **The steps to go further**

#### **4.1 Work experience needs to become a core feature of all vocational learning for young people**

To re-establish the line of sight to work and prepare young people for successful careers, all students on vocational pathways should gain experience of real work that is wherever possible related to the subject. This means moving beyond the concept of training kitchens and training salons into real work environments with commercial rewards and sanctions and with a sense of pace and urgency, financial rigour, professional standards and expectations.

In apprenticeships and traineeships this will be a core requirement but for the majority of full time vocational courses a period of time in a relevant workplace should be a minimum expectation. This means that colleges and employers have to work together in order to run courses, ensuring that provision is relevant and valued. Regular feedback from employers about the quality of students can be fed back into curriculum design and over the long term will reorient colleges towards the local labour market.

For their part, employers need to step up and offer high quality work placements and we look forward to exploring how this can happen as part of traineeships or through vocational qualifications.

### **Key features of colleges with strong employer partnerships:**

- Recognition that the future of the college is dependent on employers and as a contributor to economic growth. This vision is shared by the senior team and translated into reality through strategic plans with simple measurable targets.
- Focused on outcomes for learners. Preparing students for sustainable, relevant and appropriate employment is a key success measure and important as qualification success. Provision is based on an understanding of the needs of local employers and the local economy.
- Business-business relationships are based on mutuality. Moving beyond transactional, customer-supplier relationships with employers to relationships based on mutual understanding of each other's businesses, operating environments and potential to add value.
- 'Employer-facing' organisational structure throughout. Moving beyond separate business units, to tracking employer responsiveness in all delivery parts of the college. Leaders and managers are 'out and about' with employers and business networks.
- Governing body is active in local business networks, understands the world of business and prepared to take managed risks. Governors drive the direction of the college and demonstrate how the college's provision has been influenced by relationships with employers and an understanding of the local labour market.
- College runs as a business with performance managed systems that include customer service standards, income generation targets, marketing/PR, events and corporate functions.

4.2 Use competitive investment to incentivise employers to invest in colleges and to become part of the local education and training infrastructure, not just consumers of it.

Employers need to 'co-own' vocational provision to ensure it meets industry standards, and public investment needs to leverage private investment. This can be done in a number of ways, for example:

- Joint employer-college learning companies, such as the Gazelle Learning Company Model encourage employers and entrepreneurs to have real ownership stakes in the 'their' entrepreneurial college
- Building on the University Technical College (UTC) model where employers sponsor institutions and influence curriculum directly to ensure it meets the needs of the local economy
- Co-locating college departments within business premises to share facilities, equipment and encourage teacher-industry exchanges
- Building on the Enterprise Academy model which provides real paid work for students' projects, working with local business leaders and entrepreneurs
- Enabling and incentivising private investment into colleges (for example bonds, tax breaks)
- Employers sponsoring or endorsing parts of the college's curriculum. For example, local engineering firms might sponsor the engineering provision in the college.

We look forward to the opportunity to test a number of examples through the Employer Ownership Pilot.

*"Employer ownership can support innovative college leaders to develop mutually beneficial relationships with employers"*

*Tony Lau-Walker, Commissioner and CEO of Eastleigh College*

### **Example: The Learning Company model**

An alternative model of work experience is the learning company model developed by the Gazelle group of colleges. Students are employed by the college as partners in a business and they work in real commercial environments, as part of their learning experience. For example, there is a partnership between New College Nottingham and a printing company which is moving all its commercial operations to the college. Similar partnerships in recruitment, design and social medial marketing have also been established. Students are employed on a mixture of apprenticeships and on placements to learn and work in design, print and administrative sections of the various companies. Through these partnership models, students gain real commercial experience and the rewards and responsibilities that go with it.

## **Catch 22**

**When asking employers that only recruited adults in the past year why they didn't take young people on, 29% cited lack of experience. But only 1 in 4 (27%) of businesses currently offer young people work experience<sup>16</sup>.**

# Endnotes

1. UK Commission for Employment and Skills (2012) Employer Perspectives Survey 2012
2. As part of the move to Universal Credit by October 2013 all businesses will be required to provide information to HMRC on a monthly or weekly basis (this will depend on the employers payroll arrangements).
3. National Audit Office (2012) Adult Apprenticeships: [http://www.nao.org.uk/publications/1012/adult\\_apprenticeships.aspx](http://www.nao.org.uk/publications/1012/adult_apprenticeships.aspx)
4. An equivalent model of simplification currently exists for VAT whereby employers have the option of calculating their total VAT bill based on a simple flat rate that depends on what industry they operate in.
5. Further information is available from the website <http://www.ukces.org.uk/ourwork/research/lmi/lmi-4-all>
6. <http://www.ukbusinessforum.com/london-underground-app-lines-is-hit-with-iphone-users/>
7. Konings, J. and Vanormelingen, S. (2010) The Impact of Training on Productivity and Wages: Firm Level Evidence. IZA Discussion Paper No. 4731. Institute for the Study of Labour (IZA), Bonn
8. Collier, W., Green, F. and Young-Bae, K (2007) Training and Establishment Survival. SSDA Research Report 20. Sector Skills Development Agency, Wath-Upon-Dearne
9. Ernst & Young's (2012) UK Attractiveness Survey
10. Ofsted (2012) The report of Her Majesty's Chief Inspector of Education, Children's Services and Skills. Learning and Skills Report [www.ofsted.gov.uk/resources/120350](http://www.ofsted.gov.uk/resources/120350)
11. SMF, Britain's got talent: Unlocking the demand for skills (2012).Government introduced job outcome payments in September 2012
12. Office for National Statistics (2011), Human Capital Estimates, 2010 Available: [http://www.ons.gov.uk/ons/dcp171766\\_248886.pdf](http://www.ons.gov.uk/ons/dcp171766_248886.pdf)
13. UK Commission for Employment and Skills (2012) Employer Skills Survey 2011
14. UK Commission for Employment and Skills (2012) Employer Perspectives Survey 2012
15. 'Colleges in their Communities' see <http://www.niace.org.uk/current-work/colleges-inquiry> for further detail
16. UK Commission for Employment and Skills (2012) Employer Perspectives Survey 2012



