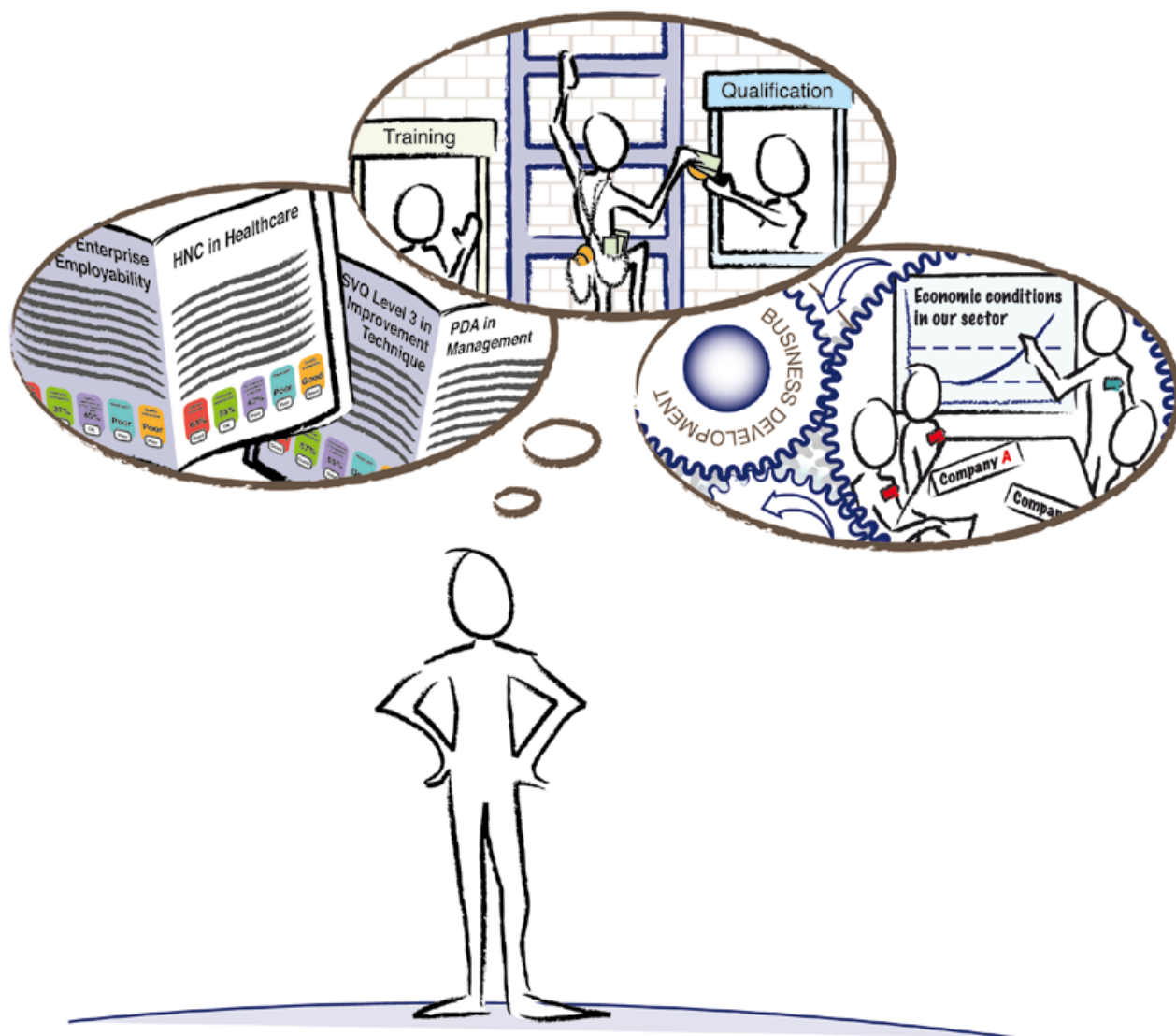


Towards Ambition 2020: skills, jobs, growth for Scotland

Expert advice from the UK Commission
for Employment and Skills

January 2010



Lead advisor to UK governments for skills and jobs

The UK Commission for Employment and Skills

was established in 2008 to advise UK governments on the policies and strategies needed to achieve our ambition of being amongst the top eight countries in the world for skills, jobs and productivity.

We are specifically tasked to:

- Assess annually UK progress towards becoming one of the best countries in the world for jobs and skills;
- Advise the highest levels of Government on policies and delivery that will contribute to increased jobs, skills and productivity; and
- Monitor the contribution and challenge the performance of each part of the UK employment and skills systems in meeting the needs of employers and individuals, and recommend improvements in policy, delivery and innovation.

Earlier this year the UK Commission published *Ambition 2020*, our first annual assessment of the UK's progress towards becoming a world class leader in employment and skills. We found that there has been significant progress over recent years. The number of high skilled people has increased by a third, or more than 3 million people, in the last 10 years, while the number without qualifications has fallen by more than 1.5 million people.

Yet, on the basis of the latest international data available we have made little progress by international comparisons on skills. Our projections suggest that, without urgent action, the UK is unlikely to be in the top eight.

This is the UK Commission's expert advice to UK governments setting out proposals which we believe lay the foundations for transforming the trajectory of skills progression in the UK. Our aim is to establish cross-party, four nation consensus for these proposals, which will require ten years of consistent policy and determined implementation if we are to become world class by 2020.

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Foreword

In the grip of the 2008 global financial crisis, the advertising slogan of the Financial Times ‘we live in financial times’ had a degree of poignancy that no doubt far exceeded the expectations of those who coined it in 2007. The financial crisis gave way to global recession and, as we reflect upon its impact and the outlook for the future, I believe that our aspiration for the next decade should be to ‘live in human capital times’.

Scotland’s wealth as a nation, and its ability to achieve a more inclusive society, are ultimately dependent upon employment and productivity: how many people are in work and how productive they are when they are working. Skills are essential to both. For individuals, skills increase the likelihood of being in employment and the wages they can earn. For businesses, they increase chances of survival and contribute to growth and productivity. In short, a strong skills base is pivotal for jobs and growth.

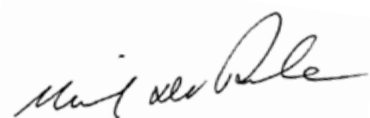
Research the UK Commission published as *Ambition 2020: World Class Skills and Jobs* in May 2009 highlighted that maximising the beneficial impact of skills on the UK’s, and Scotland’s, economic success depends not just on the supply of skills from our education and training provision, but also the extent to which those skills are effectively captured and utilised by our employers for maximum economic and social impact. Despite having what is acknowledged as a high quality education and training system, and achieving higher levels of qualifications than other UK nations, Scotland has not achieved the economic impact it was hoping for in terms of improvements in productivity and competitiveness.

Greater business ambition, better innovation, leadership and management, and more effective skills utilisation within employers – private, voluntary and public – are essential if Scotland and the other UK nations are going to achieve a quantum improvement in the return on our investments in skills.

Moreover, with the inevitable downward pressures on public expenditure over the next economic cycle, the focus for this transformation must be to achieve more and better for less public investment. Going forward, it is essential that the UK and Scottish Governments create a fiscal and social environment in which people are incentivised to work, and companies encouraged to innovate and invest, so we have a skills base which ensures our future success.

We have set out here our proposals to government for achieving a further step change in the impact of Scotland’s employment and skills systems. Deriving in part from Commission thinking first published in association with recommendations for improving and simplifying the skills system in England, these proposals have been developed in response to an invitation from Keith Brown, Minister for Schools and Skills in the Scottish Government, that the Commission prepare a more tailored piece of advice for Scottish Ministers, suggesting which areas could be most usefully be pursued in Scotland.

We look forward to working with you on the achievement of this vision.



Sir Mike Rake,
Chairman, UK Commission for Employment and Skills

Preface

What is the UK Commission for Employment and Skills?

The UK Commission for Employment and Skills (referred to as ‘the UK Commission’) was established in April 2008 by the UK Government, and the governments of the Devolved Administrations in Northern Ireland, Scotland and Wales. Our principal purpose is to advise Ministers on how to maximise our four nations’ productivity, competitiveness and social cohesion by developing and sustaining world-class employment and skills.

In particular, the Commission has been tasked to:

- develop an independent view of how employment and skills services can be improved to achieve increased employment retention and progression, skills and productivity;
- assess the UK’s progress towards being a world-class leader in employment and skills by 2020, in the context of the aims and priorities of each UK nation
- provide advice to inform strategic policy development, analysis and exchange of good practice to drive and shape the skills and employment system to meet the needs of employers and individuals;
- express its advice and recommendations at the highest level to Ministers in the four nations;
- fund and manage the performance of the Sector Skills Councils and advise Ministers on their re-licensing.

At the time of writing this report, there are currently 21 Commissioners, appointed by the four governments of the UK:

- Sir Michael Rake, Chairman, BT Group – Chairman of the UK Commission
- Lord Victor Adebawale, Chief Executive, Turning Point
- Jeremy Anderson CBE, Head of Financial Services, KPMG Europe LLP
- Brendan Barber, General Secretary, Trades Union Congress
- David Brennan, Chief Executive Officer, AstraZeneca PLC
- Professor Alan Gilbert, President and Vice-Chancellor, University of Manchester
- Philip N Green, Chief Executive, United Utilities PLC
- Larry Hirst CBE, Chairman, IBM EMEA
- Chris Hyman, Chief Executive, Serco Group plc
- Julie A Kenny, Managing Director, Pyronix Limited
- Richard Lambert, Director-General, Confederation of British Industry
- Charlie Mayfield, Chairman, John Lewis Partnership
- Bill McGinnis, Northern Ireland Adviser on Employment and Skills – Commissioner for Northern Ireland
- Dave Prentis, General Secretary, UNISON
- Willy Roe, Chair, Skills Development Scotland – Commissioner for Scotland

- Liz Sayce OBE, Chief Executive, RADAR
- Grahame Smith, General Secretary, Scottish Trades Union Congress
- Valerie Todd, Director of Talent & Resources, Crossrail Ltd
- James Wates, Deputy Chairman, Wates Group
- Sir Adrian Webb, Chair, Wales Employment & Skills Board – Commissioner for Wales
- Nigel Whitehead, Group Managing Director, Programmes and Support, BAe Systems

This report is one of a series of research and advisory reports published by the Commission in fulfilment of its remit, and as agreed with the UK Governments through our five year Strategic Plan, and our annual Business Plans.

Full details of the Commission's work, and copies of all key documents, can be found on the UK Commission's website at <http://www.ukces.org.uk>

Executive summary

Scotland's future prospects – its route out of recession, its chances of a successful recovery, and sustainable economic progress thereafter – depend on the industries, businesses and jobs it is able to create, and on having the skilled workforce it needs to do those jobs well.

As the UK seeks to recover from recession, we need more people in work and more people in productive work. We need more businesses, and more successful businesses, offering more and better jobs. And we need more and better skilled people to get us there and keep us there. There is little that is more important than equipping ourselves with the skills we need, for the jobs we need, for the successful businesses of tomorrow. The recession also provides an unparalleled opportunity to reform our employment and skills systems – to ensure they are equipped to deliver the calibre of services that will make us world class.

What are the challenges to be addressed?

In Ambition 2020, the UK Commission for Employment and Skills set out a compelling analysis of the evidence relating to the UK's international position on productivity, employment and skills. Despite significant progress in skills over the last decade, neither the UK as a whole, nor Scotland, is world class in skills, and not yet on a trajectory to be so at all levels by 2020. We identified three root causes of this:

- Relative to other industrialised nations, Scotland has too few businesses in high skill, high value added industries, too few high performance workplaces and is creating too few high skilled jobs. Comparative to our ambition, we don't have enough employer demand for skills, and employers do not utilise the available skills effectively to capture productivity and competitiveness gains;
- Despite strong skills performance relative to the rest of the UK, too many young people in Scotland fail to gain the essential and lower level skills needed to progress in work. As a result, too few adults possess the skills to succeed in tomorrow's labour market, or the motivation, confidence and opportunity to gain them;
- Current employment and skills systems in Scotland are neither fully integrated and consistent, nor always sufficiently aligned to labour market needs. In a period in which individual and employer demand for skills should be increasing, these systems do not empower consumers (employers and learners) to drive demand, performance or quality improvement.

The Commission believes these to be long standing issues which will be compounded by considerable pressures on, if not real reductions in, public expenditure over the next few years, creating two challenges:

- We need to strengthen – not diminish – the quality of our frontline services; we must, therefore find innovative approaches to delivering more with less and maximising the public resources reaching the frontline by eliminating any structures and processes that do not add real value;

- We must leverage, over the medium term, significantly more co-investment in skills and workforce development from employers and individuals if we are to improve services in order to meet our world class ambitions – this will require those customers to be able to make more informed choices about the learning opportunities available to them.

Our vision for the future employment and skills system

The UK is currently the sixth largest world economy, the sixth largest manufacturing nation, the sixth best place in the world for doing business. The shared aim of the four nations in the UK is to ensure that our employment and skills systems maintain and further strengthen our global competitiveness in all industries, and particularly in the emerging high-technology manufacturing, creative and knowledge-intensive services of the coming decades. We believe this requires the creation of what we describe as a ‘strategic, agile and labour market led’ employment and skills system in each nation, in which for Scotland:

- There is an active industrial strategy designed to ensure that Scotland improves its competitiveness in today’s and tomorrow’s key industry sectors, particularly the Creative Industries, Energy, Financial and Business Services, Food and Drink, Life Sciences and Tourism, as well as in Education and Healthcare;
- More Scottish businesses are ambitious to be world-leading in their industries, built upon excellent leadership and management, making better use of high performance working practices, and utilising the skills of their workforces more effectively;
- UK employers work collaboratively through sectors to identify future skills requirements and priorities, and ensure that Scottish employment and skills providers understand and rapidly respond to those needs;
- Individuals are inspired and motivated by the enhanced work and life opportunities that lifelong learning provides, have the confidence and skills to participate and succeed, and therefore commit more to their own learning and development;
- The content of learning and qualifications is shaped by the relevant sector, and up-to-date with emerging industry needs; whilst choice in provision is aligned to local labour market needs and informed customers drive supply, performance and quality;
- The Scottish Government’s principal role is to empower individuals, employers and providers to make the right decisions, ‘nudging’ the system to work better by providing information, pricing signals, incentives and strategic leadership to encourage a more skills intensive economy;
- Public funding is prioritised towards (i) essential and lower level skills and those furthest from the labour market; and (ii) stimulating greater participation and greater co-investment with employers and individuals at higher levels, particularly for Intermediate skill levels and for Modern Apprenticeships;

- The success of Scottish universities, colleges and learning providers is defined and measured in terms of the outcomes from their provision (progression in learning or work, wage gain, learning achievement, customer satisfaction and quality) and their responsiveness to their community's labour market needs;
- Colleges, universities and learning providers give individuals and employers, as customers, more opportunity for informed choice and to drive quality and performance by displaying clear information on courses and evidence of their impact on learners and communities.

How can this be achieved?

Our advice to the Scottish Government takes the form of nine strategic proposals brigaded under the UK Commission's three priorities set out in our 2009-14 Strategic Plan – increasing individual commitment to learning and development, raising employer ambition and investment in skills, and improving the responsiveness of the employment and skills system.

We need to maximise individual motivation and opportunity for skills and sustainable employment by:

1. Raising individual aspiration, confidence and commitment to lifelong learning and skills through promotion, evidence, high quality provision and progression
2. Transforming the quality and availability of information, advice and guidance on career and learning opportunities, through high quality labour market intelligence and modern consumer technologies
3. Empowering learners with real customer choice, support to access skills and learning when they need them, through a system of full Personal Learning Accounts

We need to raise employer ambition and innovation, and their engagement and investment in skills by:

4. Enhancing the capacity of more Scottish firms to be high growth, high skill, high value added businesses through the stimulation of new industries, greater innovation and better leadership and management
5. Developing and deploying high quality labour market intelligence, enhanced by foresight on emerging strategic skills requirements, to inform industrial investment priorities, anticipate and better match the supply of skills to emerging employment demand
6. Stimulating greater employer networking, collaboration and collective action on skills, within sectors, labour markets, and/or supply chains, to improve skills utilisation and create more high skill, high performance workplaces

We need to build a more strategic, agile and labour-market led employment and skills system by:

7. Empowering customers and communities to drive provider responsiveness, quality and continuous improvement through the use of outcome-based public course labelling and institutional scorecards
8. Creating an integrated workforce development strategy through the Scottish Funding Council, Skills Development Scotland, Scottish and Highlands and Islands Enterprise and other organisations, to support better leadership and management, raise skill levels where employer need dictates and improve skills utilisation in the workplace
9. Maximising the potential of Scotland's flexible, unit-based qualification system for publicly-funded workforce development so that employers can access the skills they need when they need them, and individuals receive formal recognition for their skills as well as credit they can build on for the future

Finally, the Commission offers advice to the Scottish Government on a small number of simplification activities that the Commission has been asked to undertake by the UK Government, but which will impact on the Devolved Administrations:

- On the 2010 Review of the Integration of Employment and Skills, where Scottish and Welsh inputs will be essential in the context of the 'Great Britain' remit of the Department of Work and Pensions, and Jobcentre Plus;
- On the charge by the UK Government to the Commission "to come forward [by 2012] with proposals for consolidating the 25 Sector Skills Councils (SSCs) into a substantially reduced number" – to ensure that Scotland's key sector requirements are supported in the Commission's proposals;
- On proposals to accelerate the development process by SSCs and Awarding Bodies of new vocational qualifications and Modern Apprenticeship frameworks – ensuring this work does not unfairly impact on work required for Scottish provision.

UK Commission for Employment and Skills

January 2010

Towards Ambition 2020: Skills, jobs, growth for Scotland

1. Introduction

We are living and working in unprecedented and unpredictable times. The current recession is likely to have a lasting impact on the economic and social fabric of the UK and Scotland. Scotland's future prospects – its route out of recession, its chances of a successful recovery, and sustainable economic progress thereafter – depend on the volume and quality of the businesses and jobs it is able to protect and create, and on having the entrepreneurs and skilled workforce it needs to do those jobs well.

If good times are to replace tough times, Scotland needs more people in work and more people in productive work. It needs more businesses, and more successful businesses, offering more and better jobs. And it needs more and better skilled people to make Scotland successful, and keep it successful. There is little that is more important than equipping the nation with the skills it needs, for the jobs it needs, for its successful businesses of tomorrow. The recession provides an unparalleled opportunity to reform Scotland's employment and skills systems – to ensure they are equipped to deliver the calibre of services that will make and keep Scotland world class.

This is not the undertaking of one industrial sector or one government agency. It will require a serious and sustained effort that brings together the resources and expertise of all employers in the public, private and voluntary sectors, working in partnership with the Scottish Government and communities across Scotland. It will require joint investment and development by organisations responsible for economic and industrial strategy, for jobs and employment services, for education and skills provision. And it will require active engagement with education and training providers, committed to ensuring success for employers and individuals in their local communities.

2. The state of employment and skills in the UK and Scotland

In May 2009, the UK Commission published its report *Ambition 2020: World Class Skills and Jobs*, which was its first analysis of the progress the UK is making to becoming a world leading nation in productivity, employment and skills by 2020.

On both jobs and productivity – the two key drivers of prosperity – we are within touching distance of being world class, if we take that to mean in the top 8 countries in the world. The UK as a whole rated 10th on our employment rate and 11th on productivity levels. Scotland's employment rate is almost 2% points higher than the UK average, though even before the recent recession, had been declining in relative terms during the current decade. Scotland's employment is also expected to grow more slowly than other UK nations and regions over the next decade¹.

¹ All data referred to in this section is sourced from the UK Commission's report *Ambition 2020: World Class Skills and Jobs*, published in May 2009, which can be found at www.ukces.org.uk

Figure 1: Productivity and employment in the nations and regions of the UK

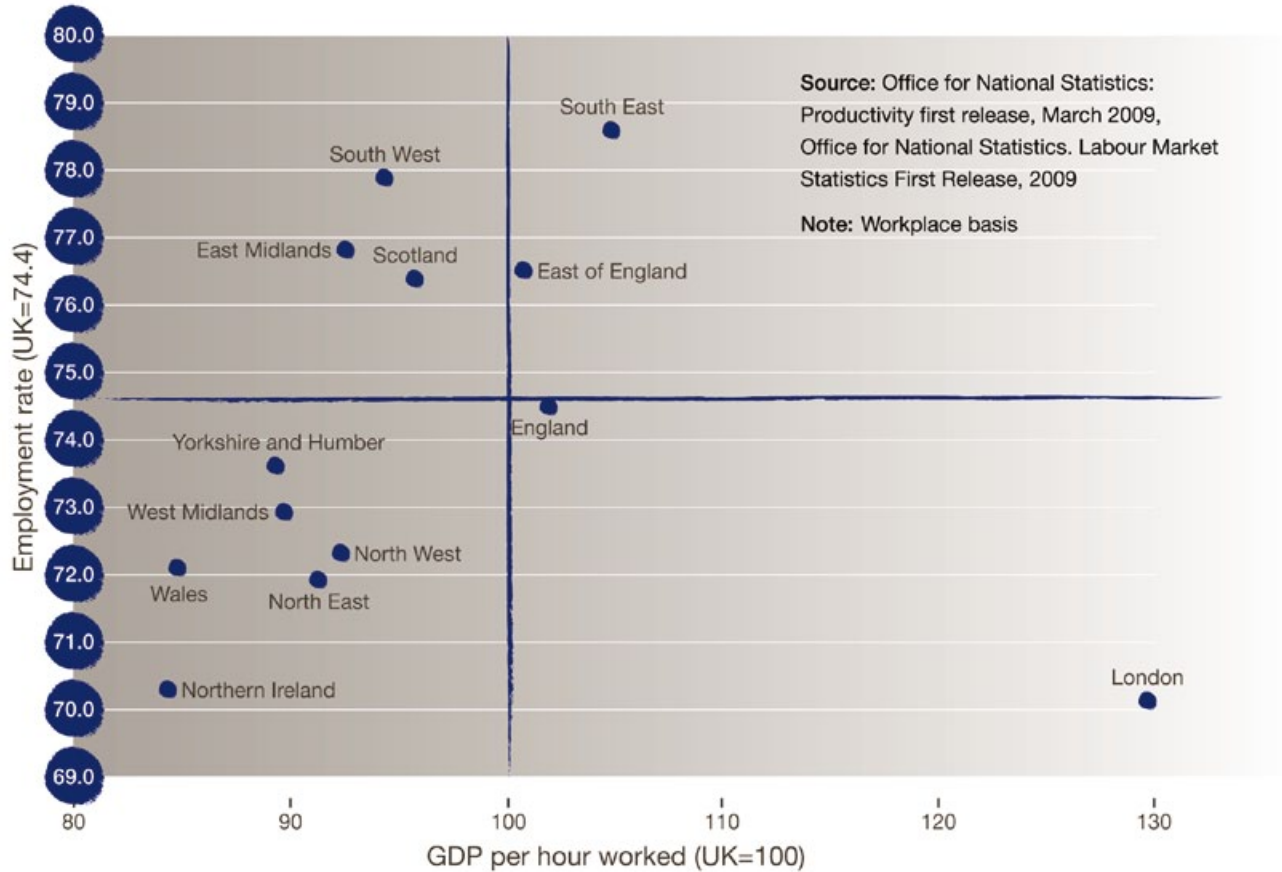
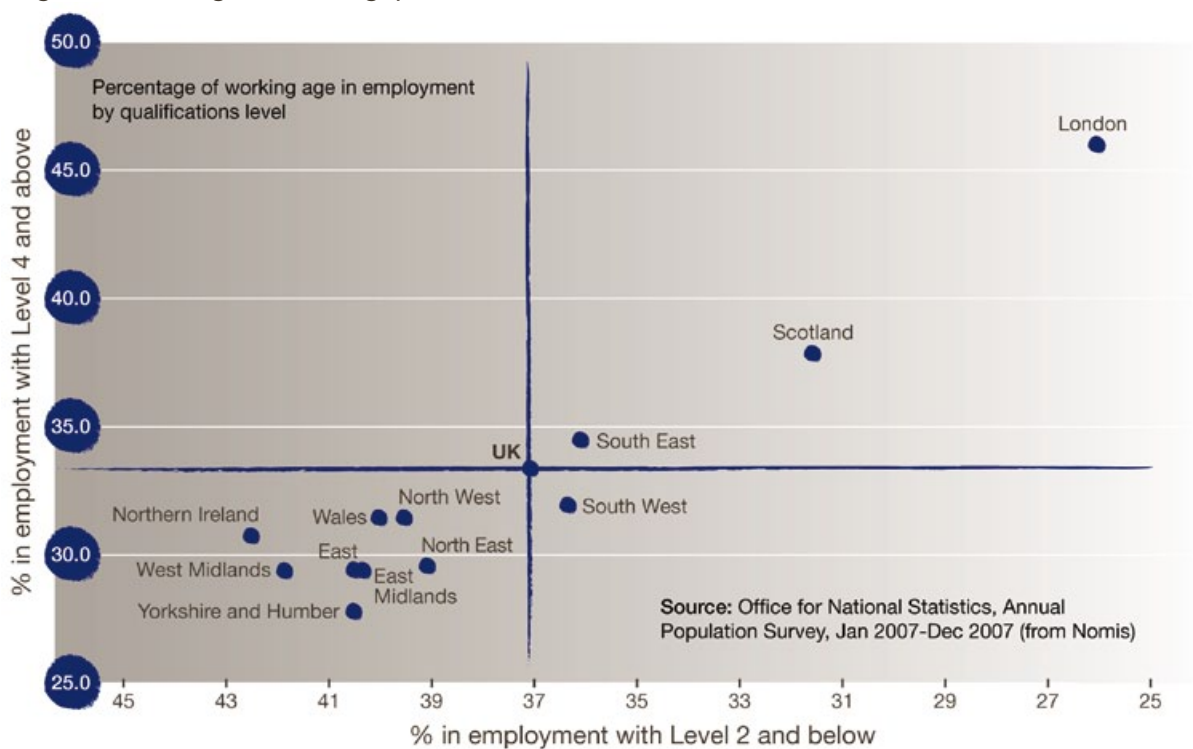


Figure 2: The regional skills gap across the UK, 2007



Scottish productivity, measured as gross value added per hour worked, is almost five percentage points lower than the UK average, and has declined, relative to the UK average, by almost the same amount over the preceding decade (see Figures 1 and 2). Over the period from 2007-17, productivity in Scotland is forecast to show the second slowest rate of growth of all the UK nations and regions, trailed only by the North East of England. Spatial differences in productivity across the UK do, on the whole, reinforce pre-existing differences in both productivity levels and growth rates – those areas already performing less well are forecast to improve more slowly, thus widening spatial equity gaps. Moreover, evidence exists to suggest that these differences are **not** due primarily to differences in spatial economic structure, but to differences in the performance of sectors across the different nations and regions. Scotland must effectively combine a sectoral approach with local action if it is to reverse this trend.

To attain an equivalent top 8 position on employment and productivity, Scotland needs to increase its employment rate by close to 2% points and its productivity levels by nearly 13% points. Every 1% point increase in each is worth almost £1 billion a year to the Scottish economy², in perpetuity – so the prize for success is enormous!

A better skilled workforce is more employable and more productive. The employment rate among those with SCQF Level 5 qualifications is half as much again (75% compared to 50%) as those without qualifications. And a 1% point increase in the proportion of employees trained is associated with an increase in productivity of 0.6% points. Indeed, the improvements in workforce skills already achieved account for a fifth of Scottish economic growth since the 1970s.

Scotland has made much progress in skills, over the last two decades in particular. Relative to the rest of the UK, Scotland has more of its working population qualified to SCQF Levels 6 or higher (upper secondary or better) than any other UK nation, and to Level 7 (Higher National, degree of better) than any other UK region except London.

Yet international comparisons raise very real concerns about the extent to which the UK, and Scotland, are keeping pace with our key OECD competitors. While UK skill levels have been improving overall, particularly in Scotland, so have the skills of other countries – in too many cases, significantly faster than ours. If aspiring to be ‘world class’ means, as the Commission has recommended, being one of the Top 8 countries in the world, then on skills we are simply not close enough.

² Each 1% point increase in productivity is worth £970 million per annum to Scotland; each 1% point increase in employment is valued at between £640 and 970 million p.a., depending on the actual distribution of jobs across occupations and skill levels.

Figure 3: Current International Skills Position (2006 latest comparable data)

Below upper secondary (low skills)			Upper secondary (intermediate skills)			Tertiary (high skills)		
Country	% Qualified	Rank	Country	% Qualified	Rank	Country	% Qualified	Rank
Czech Republic	9.6	1	Czech Republic	76.9	1	Canada	47.0	1
USA	12.2	2	Slovak Republic	72.5	2	Japan	40.5	2
Slovak Republic	13.5	3	Austria	62.7	3	USA	39.5	3
Canada	14.4	4	Hungary	60.7	4	Finland	35.3	4
Switzerland	15.0	5	Germany	59.3	5	Scotland	34.9	n/a
Japan	15.3	6	Switzerland	55.1	6	Denmark	34.7	5
Sweden	15.9	7	Sweden	53.6	7	Norway	33.0	6
Germany	16.8	8	New Zealand	50.8	8	Australia	33.0	6
Denmark	18.4	9	USA	48.3	9	Korea	32.9	8
Austria	19.7	10	Denmark	46.9	10	Belgium	31.8	9
New Zealand	20.2	11	Norway	46.1	11	England	30.7	n/a
Finland	20.5	12	Finland	44.3	12	Ireland	30.5	10
Norway	20.9	13	Japan	44.2	13	Sweden	30.5	10
Hungary	22.0	14	Korea	43.7	14	UK	30.2	12
Korea	23.3	15	Netherlands	42.2	15	Netherlands	30.2	12
Netherlands	27.6	16	Luxembourg	41.5	16	Switzerland	29.9	14
Scotland	29.5	n/a	France	41.2	17	Iceland	29.5	15
UK	31.0	17	UK	38.8	18	New Zealand	29.0	16
England	32.4	n/a	Wales	38.8	n/a	Spain	28.5	17
France	32.6	18	Canada	38.7	19	Northern Ireland	27.8	n/a
Belgium	33.1	19	Italy	38.5	20	Wales	26.3	n/a
Australia	33.3	20	England	37.0	n/a	France	26.2	18
Ireland	33.9	21	Greece	36.7	21	Luxembourg	24.0	19
Luxembourg	34.5	22	Northern Ireland	36.2	n/a	Germany	23.9	20
Wales	34.9	n/a	Scotland	35.6	n/a	Greece	21.9	21
Northern Ireland	36.0	n/a	Ireland	35.5	22	Poland	17.9	22
Iceland	36.7	23	Belgium	35.2	23	Austria	17.6	23
Greece	41.4	24	Poland	34.8	24	Hungary	17.2	24
Poland	47.3	25	Iceland	33.8	25	Mexico	15.4	25
Italy	48.8	26	Australia	33.7	26	Slovak Republic	14.0	26
Spain	50.3	27	Spain	21.2	27	Czech Republic	13.5	27
Turkey	71.7	28	Turkey	17.9	28	Portugal	13.5	27
Portugal	72.4	29	Portugal	14.1	29	Italy	12.8	29
Mexico	78.1	30	Mexico	6.5	30	Turkey	10.4	30

Source: OECD, Education at a Glance 2008, <http://dx.doi.org/10.1787/401474646362>, and Labour Force Survey, ONS. Data relates to 2006.

Note: Distribution of the 25–64 year old population by highest level of education attained.

Figure 4: International skills projections to 2020, 25–64 year old population

Below upper secondary			Upper secondary			Tertiary		
Country	% Qualified	Rank	Country	% Qualified	Rank	Country	% Qualified	Rank
Czech Republic	5.0	1	Czech Republic	77.2	1	Canada	60.2	1
Sweden	5.0	1	Slovak Republic	75.4	2	Japan	59.9	2
Hungary	5.0	1	Hungary	72.3	3	Scotland	53.8	n/a
Slovak Republic	5.0	1	Austria	63.3	4	Korea	51.8	3
Korea	5.0	1	New Zealand	61.9	5	Denmark	51.6	4
Norway	5.0	1	Sweden	58.8	6	USA	48.0	5
Canada	5.0	1	Germany	57.8	7	Iceland	46.7	6
Netherlands	5.0	1	Ireland	55.0	8	Norway	45.8	7
Finland	5.0	1	Finland	52.3	9	Australia	45.7	8
Austria	6.1	10	Netherlands	51.6	10	Northern Ireland	44.9	n/a
Japan	6.3	11	Italy	49.7	11	Spain	44.2	9
Ireland	7.7	12	Norway	49.2	12	UK	43.5	10
New Zealand	8.3	13	Luxembourg	48.3	13	Netherlands	43.4	11
USA	9.9	14	France	46.6	14	England	42.8	n/a
Switzerland	13.7	15	Greece	44.9	15	Finland	42.7	12
Denmark	13.9	16	Switzerland	44.4	16	Belgium	42.2	13
Belgium	14.3	17	Belgium	43.5	17	Switzerland	41.9	14
Germany	14.4	18	Korea	43.2	18	Ireland	37.3	15
Australia	14.6	19	USA	42.2	19	Wales	37.3	n/a
Luxembourg	15.8	20	Wales	41.6	n/a	Sweden	36.2	16
Scotland	16.0	n/a	Australia	39.7	20	Luxembourg	35.9	17
Northern Ireland	19.8	n/a	England	35.9	n/a	France	32.7	18
France	20.7	21	UK	35.7	21	Austria	30.5	19
Spain	20.8	22	Northern Ireland	35.3	n/a	Poland	30.3	20
UK	20.9	23	Spain	35.0	22	New Zealand	29.8	21
Wales	21.1	n/a	Canada	34.8	23	Greece	28.4	22
England	21.3	n/a	Denmark	34.4	24	Germany	27.7	23
Iceland	22.2	23	Japan	33.8	25	Hungary	22.7	24
Greece	26.7	25	Iceland	31.1	26	Portugal	21.2	25
Italy	31.4	26	Scotland	30.2	n/a	Mexico	20.4	26
Poland	50.5	27	Turkey	28.1	27	Slovak Republic	19.6	27
Turkey	55.9	28	Poland	19.2	28	Italy	19.0	28
Portugal	60.0	29	Portugal	18.8	29	Czech Republic	17.8	29
Mexico	74.6	30	Mexico	5.0	30	Turkey	16.0	30

Note: 25–64 year old population, by highest level of education attained, UK figures will differ slightly to qualification forecasts below; the forecasts are consistent: however the age range for these forecasts has been adjusted to be internationally comparable.
Source: UKCES (2009, in press), Ambition 2020 Technical Report.

In 2006, the latest date for internationally comparative data, the UK was ranked 12th on high level skills, 18th on intermediate and 17th on low level skills – and the latter two were declining over time (see Figure 3). Scotland performs significantly better than the rest of the United Kingdom on higher level skills – with Scotland's performance placing it equivalent to 5th in the world, just above Denmark and below Finland. However, on Intermediate skills levels (such as technicians and similar occupations at SCQF Levels 6-7), Scotland has the lowest achievement levels of the four UK nations; whilst on low skills, Scotland's performance is only marginally better than the overall UK average.

One in eight adults in Scotland still has no qualifications; almost a quarter have not achieved lower secondary education (SCQF Level 5); and almost 30% are not qualified at upper secondary education or higher. Literacy skills, and (more particularly) our numeracy skills, are often severely wanting.

Our detailed analysis of the supply of skills across the UK suggests that each nation presents an 'hour-glass' skills profile. By global standards, Scotland has too large a group of low skilled and unskilled people, alongside a relatively strong proportion of people with high level skills, with a very narrow 'waist' of Intermediate Skills.

Poor levels of intermediate level skills – craft, technician and associate professional skills – have been a challenge for Scotland for many decades, and have too often led to the loss of high end science and technology based businesses to other nations where intermediate skills are better matched to the supply of graduates and post-graduates.

Disturbingly, the good progress Scotland has made over the last 15 years in increasing the proportion of people who have completed university or higher level further education has not been accompanied by an associated increase in the number of high skilled jobs. Although this could imply a degree of over-skilling and over-qualification, our research suggests that the principal problem lies in the fact that too few UK employers are innovating or pursuing high skill, high growth strategies and, consequently, we are failing to effectively utilise the skills we are creating.

If recent trends continue at their existing rates, then by 2020, our projections suggest that Scotland could actually attain 3rd place in the world for higher level skills, but will decline to the equivalent of 27th place amongst the 30 OECD nations for intermediate skills, and not reach the top 20 nations for low skills (see Figure 4). The rate of improvements in too many other OECD nations will continue to outpace our own. Incremental improvements will simply not be enough. If we keep on doing what we've always done, we'll keep on getting what we've always got! We can, and must, do better.

In summary, despite significant progress in skills over the last decade, neither the UK nor Scotland is yet world class in skills at all levels, and not yet on a trajectory to be world class by 2020. The Commission has identified three underlying causes of this:

- **Individual aspiration:** Despite strong skills performance relative to the rest of the UK, too many young people in Scotland fail to gain the essential and lower level skills needed to progress in work. As a result, too few adults possess the skills to succeed in tomorrow's labour market, or the motivation, confidence and opportunity to gain them;
- **Employer demand:** Relative to other industrialised nations, Scotland has too few businesses in high skill, high value added industries, too few high performance workplaces and is creating too few high skilled jobs. Comparative to our ambition, we don't have enough employer demand for skills, and employers do not utilise the available skills effectively to capture potential productivity and competitiveness gains;
- **Responsive provision:** Current employment and skills systems in the Scotland are neither fully integrated and consistent, nor always sufficiently aligned to labour market needs. In a period in which individual and employer demand for skills should be increasing, these systems do not empower consumers (employers and learners) to drive demand, performance or quality improvement.

In addition, Ambition 2020 highlighted a number of other factors which need to be taken into account in developing proposals to improve our employment and skills performance across the UK:

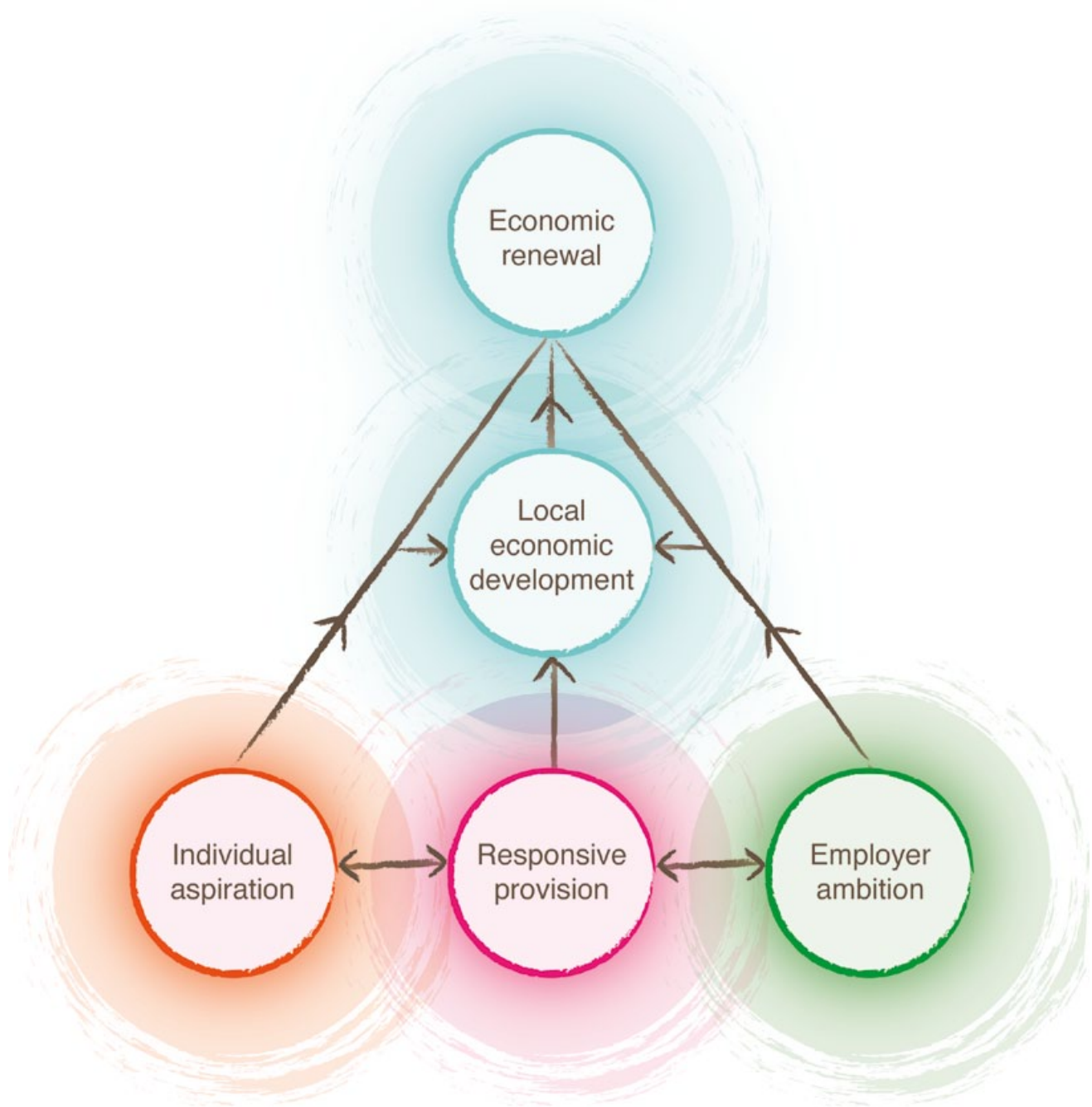
- **Geographic inequality.** There are substantial differences between and within the nations and regions of the UK, relating to productivity, employment and skills. Productivity in Scotland is significantly behind the UK average, and over 30 percentage points lower than that in the London region. Employment in Scotland, whilst higher than the UK average, is still over 2% points lower than the South East of England. Whilst the prevalence of low level skills across Scotland (and indeed Wales, Northern Ireland and the regions of England) varies significantly at a regional level; the gaps at the individual parliamentary constituencies can be dramatic. Most labour markets are local, and this needs to be recognised in both policy and practice;
- **Joined-up policies:** The UK faces the complex challenges of raising productivity, employment and skills to unprecedented levels, whilst simultaneously narrowing the opportunity gaps between individuals, and between the nations and regions of the UK. This requires a strong alignment of national industrial, skills and economic development policies at the UK level; as well as more effective integration of Scottish national policy with sub-national/local strategies and action.

We believe these to be long standing issues which could be compounded by the considerable pressures on, and likely reductions in, public expenditure going forward, creating two further challenges:

- **Limited public funding:** It seems inevitable that, in the coming years, we will have less public resource available to invest in the skills of our people and our businesses, as the fiscal deficit puts pressure on public education and training expenditure. We must find innovative approaches to achieving more with less and eliminating processes, structures and costs that do not add real value;

- **Co-investment:** Public funding will be more restricted over a period in which we need to increase both the volume and level of workforce skills. We must therefore leverage significantly more co-investment from individuals and employers, alongside public expenditure, if we are to achieve our world class ambitions.

Figure 5: The UK Commission's Strategic Model



3. Our vision for the future employment and skills system

The UK is currently the sixth largest world economy, the sixth largest manufacturing nation, the sixth best place in the world for doing business. Within the overall UK economy, Scotland has many strengths on which the Scottish Government is seeking to build higher sustainable economic growth to unlock Scotland's full potential and create benefits for all its people.

Our collective aim must be to ensure that the UK's employment and skills systems maintain and further strengthen the global competitiveness of all industries within each nation, and particularly in those existing and emerging sectors which offer the greatest opportunity for each nation. The UK Commission believe this requires the creation of what we describe as 'strategic, agile and labour market led' employment and skills systems in each nation, which display the following features:

- There is an active economic strategy designed to ensure that Scotland improves its competitiveness in today's and tomorrow's key industry sectors, particularly the Creative Industries, Energy, Financial and Business Services, Food and Drink, Life Sciences and Tourism, as well as in Education and Healthcare;
- More Scottish businesses are ambitious to be world-leading in their industries, built upon excellent leadership and management, making better use of high performance working practices, and utilising the skills of their workforces more effectively;
- UK employers work collaboratively through sectors to identify future skills requirements and priorities, and ensure that Scottish employment and skills providers understand and rapidly respond to those needs;
- Individuals are inspired and motivated by the enhanced work and life opportunities that lifelong learning provides, have the confidence and skills to participate and succeed, and therefore commit more to their own learning and development;
- The content of learning and qualifications is shaped by the relevant sector, and up-to-date with emerging industry needs; whilst choice in provision is aligned to local labour market needs and informed customers drive supply, performance and quality;
- The Scottish Government's principal role is to empower individuals, employers and providers to make the right decisions, 'nudging' the system to work better by providing information, pricing signals, incentives and strategic leadership to encourage a more skills intensive economy;
- Public funding is prioritised towards (i) essential and lower level skills and those furthest from the labour market; and (ii) stimulating greater participation and greater co-investment with employers and individuals at higher levels, particularly for Intermediate skill levels and for Modern Apprenticeships;
- The success of Scottish universities, colleges and learning providers is defined and measured in terms of the outcomes from their provision (progression in learning or work, wage gain, learning achievement, customer satisfaction and quality) and their responsiveness to their community's labour market needs;

- Colleges, universities and learning providers give individuals and employers, as customers, more opportunity for informed choice and to drive quality and performance by displaying clear information on courses and evidence of their impact on learners and communities.

In summary, our ambition is to build a more innovative, responsive, and yet simpler and effective system, in which:

- success is measured in terms of outcomes, and impact at the community level;
- individual and employer customers are informed and empowered to shape quality, supply and performance; and
- providers have the authority and autonomy to work in collaboration to better serve the needs of their community's labour market.

In a time of dramatically increasing pressure to reduce public expenditure, the Scottish Government's policy intent for funding must be to maximise the proportion of public investment that actually reaches front-line teaching and learning, whilst also achieving more with less.

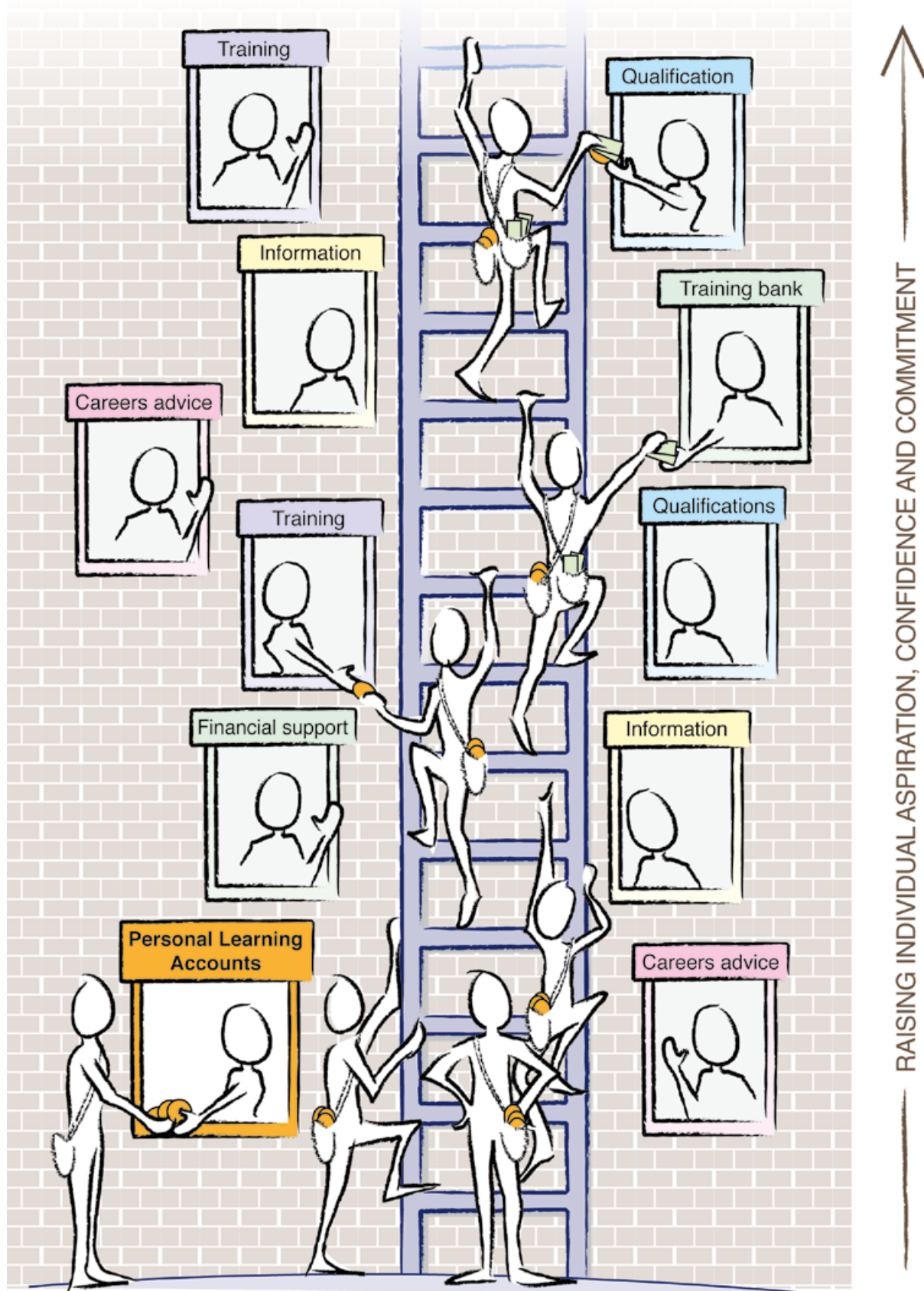
As public funding pressures increase, the Scottish Government will inevitably need to look at ways to increase the level of employer and individual co-investment in skills at intermediate and higher levels. If such co-investment is to increase, then Scotland is likely to face the same growth in demand for consumer choice and consumer influence on learning provision as has been seen in England and other OECD nations, where co-investment is already on the increase.

The UK Commission's strategic recommendations are presented below under the three key strategic priorities which also drive our own 2009-14 Strategic Plan:

- 1. Maximising individual motivation and opportunity for skills and sustainable employment**
- 2. Increasing employer ambition, engagement and investment in skills**
- 3. Building a more strategic, agile and labour market responsive employment and skills system**

We believe it is essential that government acts across the full range of proposals relating to these three priorities in our report. There is no value in creating an employment and skills system which is better able to respond to customer needs if employers and individuals are not sufficiently motivated and ambitious to make full use of available skills and training. Equally, there is no value in raising employer ambition and individual aspiration if providers are not sufficiently aligned, engaged and resourced to meet these needs. Whilst individual propositions in this paper may clearly not pass appraisal and thus not be selected for implementation, we believe government must take action across the full range of the priorities and challenges set out here.

Figure 6: Maximising individual motivation and opportunity for skills and sustainable employment



4. Maximising individual motivation and opportunity for skills and sustainable employment

To develop a world class workforce and enhance social equity and cohesion, a nation must transform individual aspiration, confidence and capability for learning – maximising the opportunity for all people to develop their talents for personal and professional success. Low levels of literacy, numeracy and English language skills and/or the lack of any work-related qualifications can provide a substantial barrier to individual engagement and success, as such individuals too often lack both the confidence and competence to even consider education or training. There is an urgent imperative in Scotland to help reach and convince those people of the value of skills to them, and raise their confidence to participate and succeed.

For all young people and adults, if they are to make the most appropriate career and learning decisions, and be effective customers driving a more responsive skills system, it is essential that they have the information and understanding to make informed choices about their future. Effective markets need informed customers. Careers information advice and guidance in Scotland is more accessible and all-age in its coverage than in England, and is generally viewed by employers more favourably than provision in England (see below).

However, compared to many other countries, both the UK and Scotland have yet failed sufficiently to exploit the fundamentally transformational role that new technologies are having on decision making, particularly amongst young people, in the context of informed choice in careers and learning.

All individuals should have the confidence, desire, the necessary intelligence and the resources to better navigate the labour market, and access the skills and qualifications they require to get and progress in work as and when they need to. To facilitate this, the UK Commission believes a future skills strategy should include the following elements:

a. Raising individual aspiration, confidence and commitment to lifelong learning and skills through promotion, evidence, high quality provision and progression

There is significant research evidence to show high levels of reluctance, and even resistance, to participation in further education or training by adults who have low level skills and are disengaged from the labour market. But no nation in the 21st century can afford to have a significant cohort of adults whose low skills increasingly exclude them from the labour market. There is real evidence of successful outreach programmes addressing the needs of low skilled individuals over the last decade through adult literacy and numeracy campaigns, ESOL, community and family learning programmes, and a variety of trade union activities and interventions.

But this is not just an issue for those with low skills. In a global economy, where industries, occupations and skills are in constant evolution, every adult needs to re-skill or up-skill regularly. The UK Commission believes Scotland should:

- Investigate, document and widely disseminate the benefits to individuals of investing in skills, and the contribution that skills and other personal and professional development activities can make to individual opportunity and career progression;

- Build on *The Big Plus*³ and continue to publicly promote literacy and numeracy skills for all adults, and make public investment in essential skills a key priority until such time as the number of low skilled adults in Scotland (at SCQF Level 4 or below) is reduced to less than 10%;
- Build on the high level of public and employer support for Modern Apprenticeships, by ensuring the wider availability of high quality and multi-level Modern Apprenticeship Frameworks for all occupations and in all sectors for which they have value, and delivering increased provision for both young people and adults at SVQ Level 2 (SCQF Level 5) but particularly at the higher SVQ Levels 3 and 4 (SCQF Levels 6-9);
- Work with employers, SQA, further education providers and universities to maximise opportunities for progression from school through all forms of technical and professional education to higher education using the SCQF as the common language to describe the learner journey. Awarding organisations and SSCs should collaborate to produce progression pathways for each sector mapped onto the SCQF. These sector maps should be made available in accessible format to employers, careers advisors and individuals to help them plan training and career progression.

b. Transforming the quality and availability of information, advice and guidance on career and learning opportunities, through high quality labour market intelligence and modern consumer technologies

There is strong support for the development of a much more learner/employer responsive provider system in the UK, but effective customer choice requires well informed customers, and that is not what the UK offers generally today in learning, skills and careers. Every employer organisation and every trade union in the UK is now calling for a fundamental transformation of careers information advice and support. The quality, organisation and breadth of careers information advice and guidance provision varies significantly across the UK, and employer groups are most critical of current provision in England.

Scottish careers provision through Careers Scotland was independently reviewed by Professor Tony Watts, Life President of the National Institute for Careers Education and Counselling, in 2005⁴. Prof. Watts found that, in relation to the OECD benchmarks on careers provision, the practices being adopted by Careers Scotland “are comparable to leading good practice across the world”. The recent integration of Careers Scotland into Skills Development Scotland is helping to address one of the key challenges made in the Watts Report, that the previously separate parts of Careers Scotland, within the two Enterprise Networks, were working together less effectively than was ideal.

Ufi/Learndirect has also made a significant contribution across the UK over the last decade, and *Learndirect Scotland* has had a similar impact in Scotland, helping to make more effective use of technology in support of learning choice and provision. However, there is no universal, high quality on-line careers information and advice service available either to young people or adults anywhere in the UK today. The Careers Scotland ‘Find an Occupation’ service aligns to the Jobs4U service in England, though is not as detailed, in providing basic occupational

³ The Big Plus is Scotland’s campaign to promote the free help that’s available across the country for people who have difficulty with reading, writing or using numbers. See www.thebigplus.com.

⁴ Watts, A G, *Progress and Potential: A review benchmarked against the OECD Career Guidance Policy Review*, Careers Scotland, January 2005

information from role descriptions, through capabilities and skills required, to learning programmes and salaries.

Most young people today, and an increasing proportion of adults, take modern online technology – such as eBay, Amazon, Facebook, MySpace, Twitter, Tripadvisor, Horseshmouth and other social networks and portals – for granted in shaping their views and decisions on a wide variety of issues. Such social networking systems bring dry factual information to life by enriching it through personal experience, peer group advice, mentoring and support groups.

Yet there is a disappointing dearth of innovative, high quality and 21st century on-line support for career and learning choice across the UK – where is any UK version of the comprehensive O*NET⁵ service in the USA? More interestingly, where is today's equivalent of 'MyWork' or 'JobAdvisor' – some form of social networking approach which could be underpinned by high quality information such as that offered through O*NET?

The UK Commission applauds the intent behind the Skills Development Scotland plans for *My Learning Space* in Scotland and believes it is important to support and extend those plans by:

- Supporting SSCs and the UK Commission to continually improve the quality, reliability and understanding of sectoral labour market intelligence and occupational standards and requirements – and commission the translation and dissemination of such intelligence so that it can be easily understood, accessed and appreciated by young people, parents, education and training providers, and employers;
- Creating a leading edge 21st century integrated Careers and Learning Information, Advice and Guidance system for young people and adults, incorporating options for web, telephone or face-to-face support. Such a system should utilise high quality, up-to-date and forward-looking labour market intelligence, setting out clearly the labour market and skills requirements of sectors and occupations (at a quality equivalent to that provided by O*NET), providing both information and inspiration on job opportunities and career progression, and incorporate full social networking, on-line coaching and mentoring, linking directly to job and learning opportunities at the community or wider level. Skills Development Scotland's strategy and ambitions in this area provide a solid base for development, and should be encouraged and widened;
- Maintaining effective links between external careers support and guidance teachers in schools, and require schools to ensure that every young person in primary and secondary schools has full access to the on-line service, and every young person in secondary education has genuine opportunities to receive impartial and comprehensive careers advice as required;
- Continuing to create a more integrated employment and skills provision in Scotland, building on the successful Partnership Action for Continuing Employment (PACE) programme since 2000, and the progress of the current collaborative work between Jobcentre Plus and Skills Development Scotland in sites across Scotland;

⁵ See the O*NET Online system at <http://online.onetcenter.org>

- Continuing to support and encourage the expansion of trade union learning-related activities with Scottish TUC, in order to increase adult confidence and participation in learning, especially in relatively low skilled sectors.

c. Empowering learners with real customer choice, support to access skills and learning when they need them, through a system of full Personal Learning Accounts

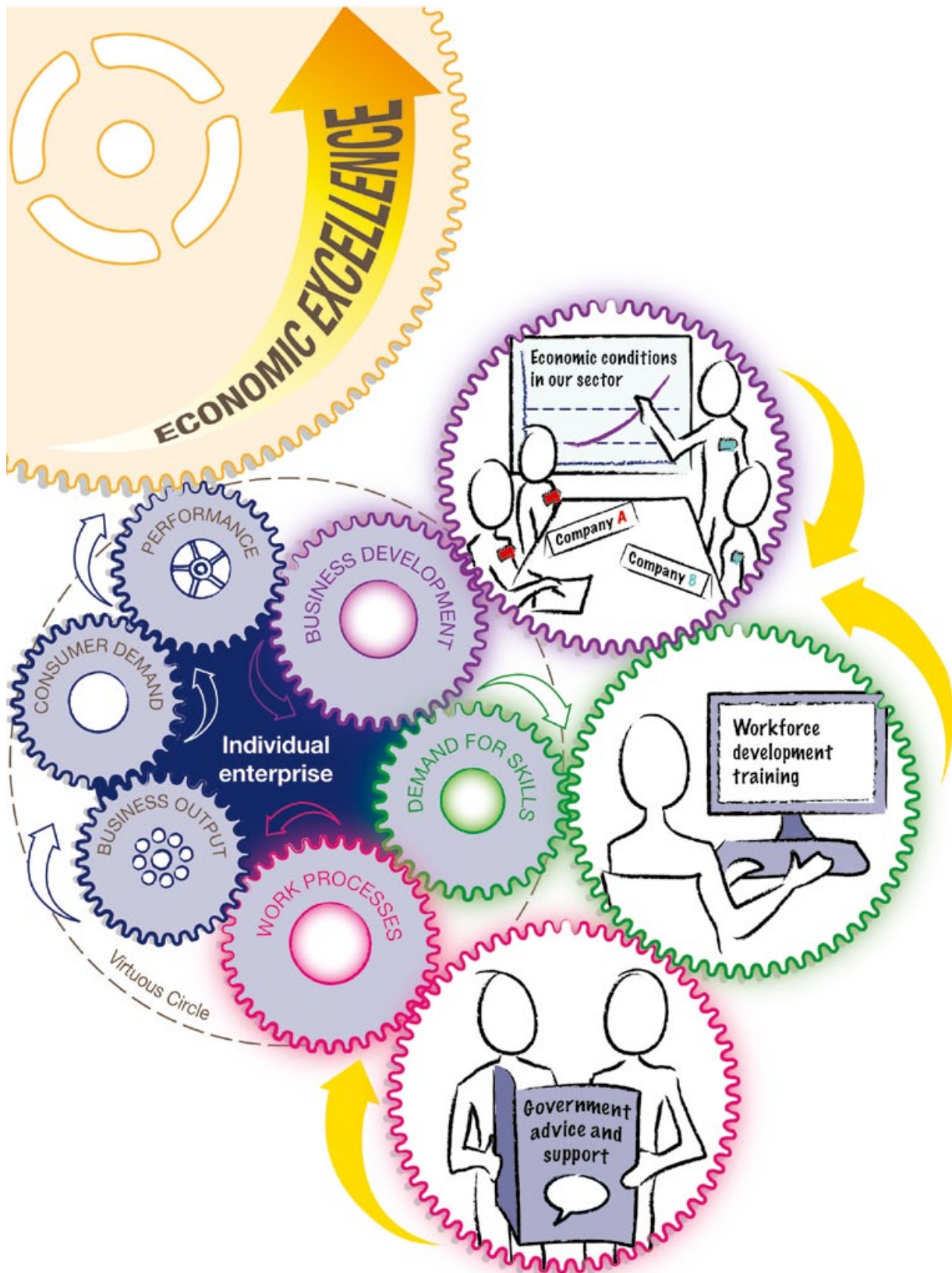
One of the most lasting impacts of this recession, like others before it, will be a legacy of permanent change in the industrial and occupational structure of Scotland. The jobs of the future will be different from the jobs of the past. Some occupations will decline or disappear, whilst others appear in their place. Skill-sets will evolve and change. Economic recovery will offer transformation and renewal, but with 80% of Scotland's 2020 workforce already in work, it will be essential that both new and existing workers have the opportunity to understand these changes, and improve their own prospects for future success.

Further, the coming decade is likely to see increasing and significant restrictions on the availability of public funding to cover the full costs of learning for young people and adults necessary to secure a world class workforce in Scotland. Levels of co-investment of individuals and employers in the provision of post-compulsory learning are likely to have to increase over the next few years, yet it would economically disadvantageous for the nation if significant groups of the workforce were prevented from accessing up-skilling and re-skilling when they needed it because of insufficient access to the necessary financial resources.

In addition to having access to high quality information and advice, individuals should also feel able to up-skill or retrain as and when needed, in order to find their new place in the economy and workplaces of tomorrow. To support this, we believe government should:

- Expand the current successful but limited Individual Learning Accounts programme in Scotland to become a new system of full 'Personal Learning Accounts' – which includes the following features:
 - access to high quality careers information, advice and guidance (see above), including counselling support where the need is greatest;
 - such entitlements to full cost or partly subsidised learning as Scottish Government policy and funding permits, expressed as a 'credit' for learning in cash terms – e.g. for those most disengaged from the labour market, this could include essential skills, ESOL and full learning support to achieve their first SCQF Level 5 qualification;
 - the opportunity for individuals to 'Save to Learn', net of tax, to create a fund to contribute to the cost of any learning that is not fully subsidised by the state – employers and others should be able to contribute to an individual's account, subject to sensible limits;
 - the opportunity, where needed, to 'Borrow to Learn' through arrangements which offer similar opportunities to current student loans or career development loans, and which allow for repayment from future earnings;
 - the ability to redeem the full value of their Personal Learning Account at any college or training provider that is approved to receive public funding.

Figure 7: Increasing employer ambition, engagement and investment in skills



- Investigate the potential for extending the principles and the use of the Personal Learning Account to the full range of higher education programmes if, in the future, student fees become a requirement for undergraduate education in Scotland

5. Increasing employer ambition, engagement and investment in skills

As the *Scottish Government's Economic Strategy*⁶ reminds us: "Scotland's economic growth has underperformed relative to both the UK, and other small European countries, in recent decades. Over the last thirty years (1975 to 2005), Scotland's annual average growth in Gross Domestic Product (GDP) was 1.8 per cent, well below that of comparable small European countries, and significantly below the UK average of 2.3 per cent. Scotland's growth has lagged that of the UK, in nine out of the past ten years. Growth in Ireland has been three times higher over the same period and, in Norway, nearly twice as high as in Scotland."

Scotland's key business challenge is to raise employer ambition and capacity to be world class. To recover from recession and thrive in the new global economy, we need employers to become more productive and effective in their field, capable of competing globally in the high skills, knowledge driven economy, and optimising the talent and skills of their people. More businesses will need to build their future on innovation, quality, high value added and efficiency. Public and voluntary employers will have to do more with less in the next decade, when public expenditure will come under unprecedented pressure. The commitment, creativity, productivity and skills of their people will be crucial to every employer's success.

The Government's Economic Strategy established a challenging set of high level purpose targets, including a long-term ambition "to match the GDP growth rate of the small independent EU countries by 2017", and an immediate target "to raise Scotland's GDP growth rate to the UK level by 2011". The current recession may well have impacted on the potential to achieve these targets in the timeframes originally set out in the Economic Strategy, but uniting the ambitions of Scotland's businesses behind these targets will be essential for long-term success.

There is a clear link between business ambition and strategy and an employer's commitment to investing more in raising and using the skills of their existing workforce. For employers, skills are a means to an end, not an end in themselves. Where an organisation's long-term strategy calls for higher performance, new products and services, moving up the value chain, business expansion and/or more exports, corporate management inevitably appreciate the need to, and the value of, investing in up-skilling or re-skilling to deliver such outcomes.

The Commission believes that developing more ambitious, world-beating businesses in all key sectors, and securing a stronger Scottish industry presence in Scotland's key sectors, including biosciences, the creative industries and knowledge based services, requires stronger inter-linkages between programmes to support workforce development and skills utilisation and the wider areas of enterprise development, business support and innovation. And with 80% of Scotland's 2020 workforce already in work, action on those already in work will be essential if Scotland is to achieve its ambitious goals for the next decade.

⁶ Scottish Government, *The Government Economic Strategy*, 2007, p.10

The UK Commission therefore believes the Scottish Government should prioritise on:

a. Enhancing the capacity of more Scottish firms to be high growth, high skill, high value added businesses through the stimulation of new industries, greater innovation and better leadership and management

Research published in October 2009 by Nesta⁷ identified that a mere 11,500 high growth firms with more than 10 employees in the UK (only 6% of all such businesses, and 0.3% of all businesses) produced more than half the new jobs created by existing businesses between 2002 and 2008. The majority of such firms are over five years old, are widely spread across the UK and across sectors, and generate significant ‘spillover’ effects in their city regions. Nesta reports that Scotland was in the top half of the UK nations and regions for high growth businesses for both 2002-05 and 2005-08. Whilst not offering any clear explanation for this strength of performance, the Nesta Report notes that, aside from London, the strongest performances tended to be in those UK regions most distant from London, including Scotland.

As well as capturing a strong Scottish presence in new and emerging key sectors, industry policy in Scotland should therefore also seek to stimulate the development of more high growth firms in existing industries, and explore with Nesta the potential for clearer identification of any causal factors which may be subject to Government policy influence.

However, in recent consultations held by the Commission in Scotland, many businesses and Scottish business organisations have commented on how complex it can be to access appropriate business support relating to workforce development in Scotland. The responsibility for workforce development is highly fragmented, and can require businesses, dependent upon their particular need, to try to engage through Business Gateway, with Learndirect Scotland, Skills Development Scotland, the Scottish Funding Council, together with Scottish Enterprise, Highlands and Islands Enterprise and/or one or more of 32 Scottish Local Authorities. Workforce development is no longer a coherent element within business support in Scotland, and no agency has overall responsibility for workforce development. Yet with over 80% of Scotland’s workforce in 2020 already in work, unless we succeed in optimising their skills and talent, Scottish employers will not achieve the improvements the economy requires.

Separate research by the UK Commission and others highlights that UK employers are producing too few high skilled jobs, show less use of high performance working practices⁸ and have weaker leadership and management than too many OECD competitors, all characteristics which are correlated with low innovation and business performance. In a study comparing management performance across 10 OECD nations, the UK had the lowest proportion of graduate managers of any compared country, at 43% compared with 60% in the USA and 70% in Japan.

⁷ The National Endowment for Science, Technology and the Arts (Nesta), *The Vital 6 per cent*, October 2009, drawing on two reports of research findings high growth firms in the UK.

⁸ See also the McLeod Review: *Engaging for success: enhancing performance through employee engagement*, BIS, September 2009

We therefore propose:

- The Scottish Government should examine whether there is sufficient interworking and collaboration between its enterprise and business development activities on the one hand and its skills and training programmes on the other, and consider creating a more joined-up and integrated approach to workforce development to ensure high quality skills underpin business growth and development initiatives;
- A strong focus of business support programmes should be to stimulate increased innovation and investment towards the creation of more high growth businesses and high value added production/service strategies in SMEs across Scotland, including the promotion and encouragement of near-graduate level (SVQ4/SCQF Level 8 and above) leadership and management programmes for more Scottish managers;
- Building on recent work in Scotland by the Skills Utilisation Leadership Group⁹, there should be greater promotion of high performance working practices in employers, and support for more employee engagement and more effective skills utilisation to achieve higher value added strategies – (the UK Commission has issued a separate report on this topic¹⁰);
- The Scottish Government should also work with Sector Skills Councils to identify, prioritise and promote a stronger UK business presence in those key emerging and strategic industries/sectors with the greatest potential for future growth at both national and regional level;
- Support for the development of effective leadership and management in SMEs should be a stronger priority for government business support programmes – with an enhanced focus on effective human capital development, to improve their capability to develop the skills of their workforce in support of business goals.

b. Developing and deploying high quality labour market intelligence, enhanced by foresight on emerging strategic skills requirements, to inform industrial investment priorities, anticipate and better match the supply of skills to emerging employment demand

In preparing for recovery from a deep and challenging recession, it is critical that Scotland strengthens and grows those industries on which the bulk of its present and future economy is likely to be based, whilst also seeking to secure a strong presence in those new and emerging industries where current Scottish strengths create real competitive advantage. The Scottish Government's Economic Strategy identifies those sectors to be the Creative Industries, Energy, Financial and Business Services, Food and Drink, Life Sciences and Tourism, as well as in Education and Healthcare.

⁹ See the 'Making a Better Use of Skills' website, and associated publications and work programmes, at <http://www.scotland.gov.uk/Topics/Education/skills-strategy/making-skills-work/utilisation>

¹⁰ UKCES, *High Performance Working: a synthesis of the literature*. Evidence Report 4, October 2009

In support of this approach, the UK Commission is working with Sector Skills Councils to identify strategic skills needs for those key existing and emerging growth areas of the economy, and where significant skills challenges in existing industries could reduce future competitiveness. The UK Commission is also working to improve the quality of existing labour market intelligence and foresight to better match the best international practice, and will integrate this with our strategic skills findings to help shape industrial and skills policy, inform improved careers information and advice for young people and adults, and enhance the relevance of work-related learning programmes and qualifications.

This can be achieved by:

- Charging the UK Commission, as part of its Strategic Skills Audit being prepared for the UK Government, to ensure that work identifies, specifies and disseminates sectoral labour market requirements, with a strong focus on effective foresight of emerging strategic skills opportunities and requirements relating to Scotland's strategic sectors;
- Ensuring industry related qualifications continue to reflect current industry needs and emerging strategic skills requirements, and provide economically valuable skills, by:
 - supporting re-licensed SSCs to work with their employers to regularly review and revise National Occupational Standards and Modern Apprenticeship frameworks to keep pace with industry and occupational change;
 - require that all Modern Apprenticeship frameworks and other vocational qualifications that receive public funding incorporate both the necessary job-specific competencies alongside relevant essential skills, in a modular, credit based format widely supported by employers in their sectors;
- Acknowledging that, for some years to come, Scotland's most critical skill shortage areas are likely to be at skilled technician and associate professional level ('Intermediate Level' skills – at SVQ Levels 3-4, SCQF Levels 6-8 equivalent) across many sectors, together with essential skills, and building that recognition in to national and sub-national skills priorities and funding provision as required;
- Expanding the volume of Modern Apprenticeships for young people and adults overall, and particularly seeking to grow the number of Modern Apprenticeships and other SVQ Level 3 equivalent and higher provision over time through developing new joint investment approaches with employers through the auspices of the Sector Skills Councils in the key Scottish sectors, working in partnership with Skills Development Scotland;
- Supporting re-licensed SSCs to further develop and promote 'sector compact' approaches, based on joint investment agreements with Skills Development Scotland and the Scottish Funding Council, whereby employers co-invest with the state to significantly expand the volume of other work based vocational learning, including Modern Apprenticeships, at skilled technician and associate professional levels (at SCQF Levels 6-8) in response to specific industry needs;

- Adopting, championing and integrating the ‘*Talentmap*’ framework with other business support, online advice and information approaches across the UK (e.g. Business Gateway in Scotland) to shape the provision of information on skills and employment to employers, and utilise it to present, as far as devolution permits, UK-wide government information on policies, priorities and funding through the mechanism of the framework.

c. Stimulating greater employer networking, collaboration and collective action on skills, within sectors, labour markets, and/or supply chains, to increase workforce development, improve skills utilisation, and create more high skill, high performance workplaces

In any typical year, around two thirds of Scottish employers provide training for their staff. Internationally, these levels of training are high relative to our key competitors. However, almost a quarter of UK employers have never funded or arranged training. Further, when compared to other EU nations, less of our training is certified, and training investment still accounts for a lower proportion of labour costs compared to the EU average, even though it has been increasing in recent years. Those employers least likely to train consistently include those who employ fewer staff, those less likely to innovate and those operating in certain sectors such as parts of manufacturing and construction.

High performance working describes an approach to managing organisations that aims to stimulate more active effective employee involvement and commitment to achieve high levels of performance – working smarter, not harder. Despite the significant body of evidence that exists on the benefits of adopting high performance working practices, take-up has never been widespread in the UK generally, nor Scotland in particular, due either to a lack of understanding or awareness, and/or managerial and leadership barriers to adoption and successful implementation.

The UK Commission has been working closely with the Scottish Government on a wide range of research and actions to stimulate better skills utilisation in employers and to promote the better use of high performance working practices. Both the Commission and the Scottish Government have published a number of documents relating to these key topics, exploring the evidence as to how higher business ambition, more high performance working and better skills utilisation can be stimulated¹¹.

In addition, in October 2009, the UK Commission published¹² the results of year long research into how, and what types of, employer collective actions can raise skill levels, and increase high performance working and skills utilisation in organisations. The report explored the evidence on the extent to which a range of ‘collective actions’, including voluntary and statutory levies, licence to practise, best practice networks arrangements etc. can contribute successfully to improving business performance and raising skill levels.

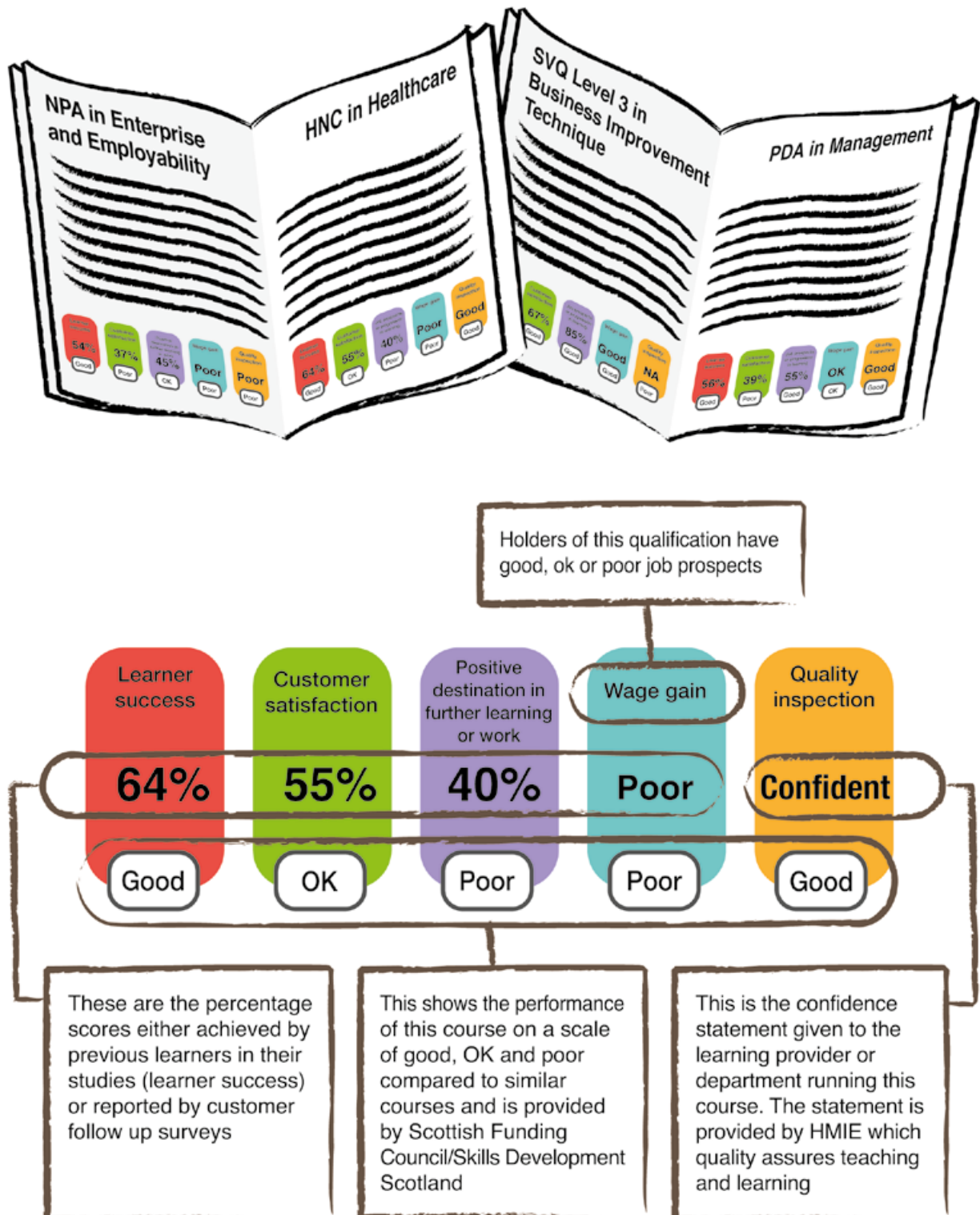
¹¹ The full set of documents can be found on the Scottish Government website at <http://www.scotland.gov.uk/Topics/Education/skills-strategy/making-skills-work/utilisation>

¹² *UKCES, Review of Collective Measures: Final Report*, October 2009. This report summarises the findings of a number of different reviews, copies of all of which will be available through www.ukces.org.uk

This wide range of reports, evidence and analyses creates a strong case for stimulating employers to network and collaborate with each other and with government, in skills development and investment, by:

- Identifying, documenting and widely disseminating the economic and competitive benefits to employers of investing in skills, confirming – particularly on a sectoral basis – the contribution that skills and other workforce development initiatives make to employer productivity and business performance;
- Benchmarking high performance working practices, demonstrating their value and their take-up through existing and new employer networks, and exploring with the UK Government the potential for increasing the voluntary reporting of human capital in company reports;
- Championing the take-up of the ‘new-look’ Investors in People, and remitting the UK Commission, as the strategic owners of the Investors in People standard from April 2010, to explore the potential for developing new benchmarking tools on people practices that can stimulate greater employer commitment and investment;
- Piloting the development of new employer networks (spatial, sectoral and/or supply chain) to support collaborative skills development, joint investment approaches, enhanced leadership and management, improved skills utilisation, and other business needs. This could include supporting SSCs and other employer bodies to create Group Training Associations, High Performance Working collectives, Best Practice Clubs, Leadership and Management groups and other mutual support and investment networks, linking with Skills Development Scotland’s plans for Skills Gateways as appropriate;
- Increasing Scottish public procurement requirements to support more Modern Apprenticeships, particularly at SVQ Level 3, and other employee development and skills provision, relevant to the outputs and value of the contract, and in line with the priority skills needs of the sector or sectors involved;
- Recognising the experience of the sectors in Scotland who have seen value in introducing a training levy (construction, engineering construction and theatrical and film production) and occupational licensing linked to skills standards (social care, rail). Where there is strong support from a significant majority of employers in the sector or sub-sector, and clear evidence of the potential to raise business performance through such schemes, other employer groups, working with their Sector Skills Councils if appropriate, should be given practical support and advice to introduce similar schemes, tailored to the specific needs of their industry. Any such scheme should, as existing schemes already do, provide transparent mechanisms to regularly gauge and demonstrate ongoing employer support. The introduction of any scheme should be on a wholly voluntary basis – UK Commissioners do not support government mandated or statutory measures.

Figure 8: Rating the course



6. Building a more strategic, agile and labour market led employment and skills system

Sustained economic growth, increased productivity and high employment require world class employment and skills providers, alongside ambitious businesses and motivated individuals. A competitive economy needs an employment and skills system that not only responds quickly and effectively to today's diverse and evolving labour market needs, but also one that, through foresight and a proactive approach, anticipates and then delivers the skills needed for the strategic challenges and opportunities of tomorrow. Universities, colleges and other providers of employment and skills services are the linchpins of this system.

In addition, as public funding comes under increasing pressure over the next few years, and the need for higher levels of co-investment by individuals and employers increases, it will be important for those 'customers' of the system to have public performance information available to support them making more informed choices as to the learning that will deliver the economic and social progression they are seeking.

If we are to develop such a system, and providers are to be truly effective in helping individuals maximise their talent and employers to secure the skills they need to compete and grow, the Commission believes that Scotland's approach to skills should include the following elements:

a. Empowering customers and communities to drive provider responsiveness, quality and continuous improvement through the use of outcome-based public course labelling and institutional scorecards

One of the key principles set out at the beginning of this paper was that the content of learning and qualifications should be shaped by the relevant sector; whilst informed customers – employers and learners – should drive supply, performance and quality. We also argued the need to assess the performance of our providers and the overall system on the outcomes of provision, and the longer term impact that provision has on the employers, learners and community it serves.

For the UK Commission, 'outcomes' include those benefits that accrue to both learners and employers as a consequence of the learning and development they undertake – the ends to which skills are the means. For example, such would include learner success rates, employment destinations, wage gains over time, employer and learner satisfaction levels, external quality assessments by HMIE, etc.

Through its national performance framework, 'Scotland Performs', the Scottish Government has already introduced an outcomes-based approach to driving progress towards its vision of success for Scotland. In public systems outside education, such as local government and health, there has over recent years been a systematic and successful transfer of trust and increased autonomy to organisations through the introduction of public performance frameworks built around outcomes, impact and quality.

By focusing performance monitoring more towards outcomes, and making such information publicly available through a balanced scorecard approach, citizens and communities (the customers of those systems), and governing bodies of organisations (councillors and Boards) have been empowered to become far more directly involved in shaping outcomes and improving performance. Scotland's colleges and other learning providers are used to operating with autonomy, and being trusted to deliver services in alignment with the national outcomes and supporting indicators. Scottish learning providers are therefore well placed to adopt a performance framework which expresses institutional success to customers in terms of outcomes.

By providing more public performance information, and increasing the accountability of providers to their community, we believe that benefits similar to those gained in local government and health can be achieved in the further education and training system in Scotland. Such information would also contribute to measures for assessing progress towards national and sub-national outcomes in the wider 'Scotland Performs' framework.

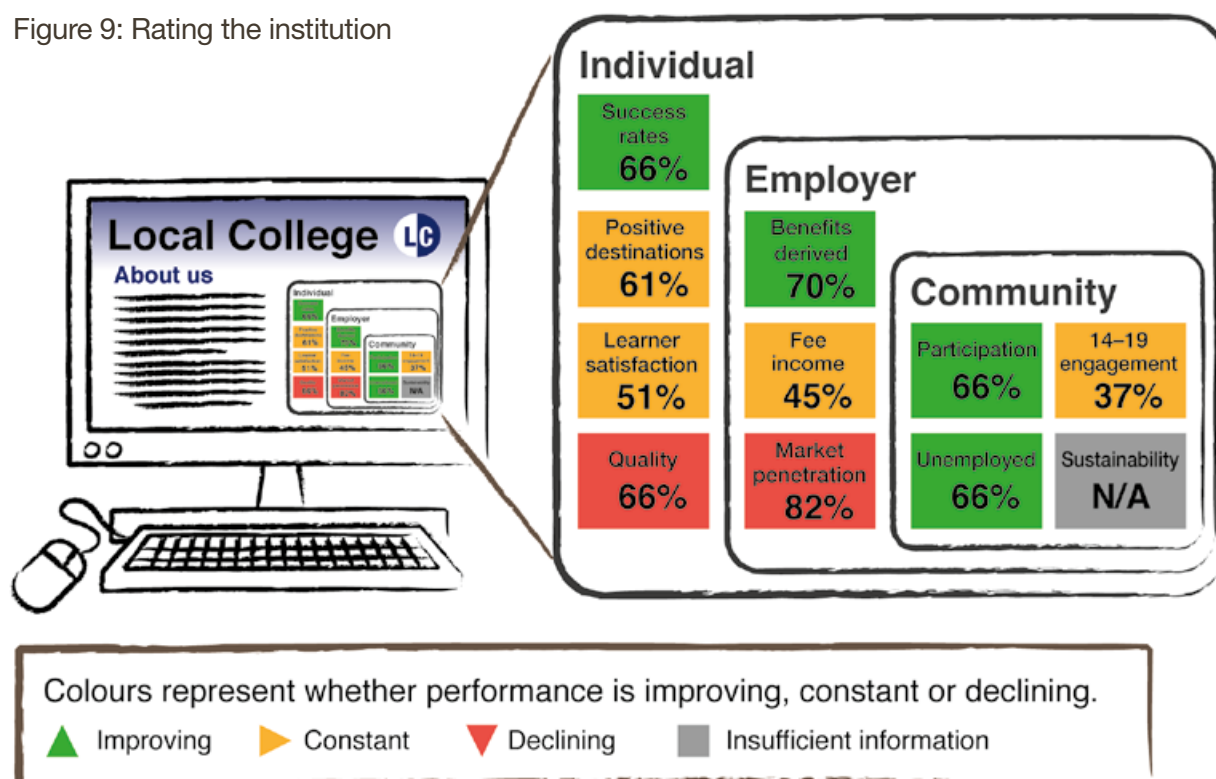
The Commission believes this can be achieved through:

- Expecting all publicly funded learning institutions in a local labour market consult widely and collaboratively with employers and other stakeholders in their community, and utilise available national and spatial labour market information to annually shape their mix of provision to best meet the needs of that labour market;
- Requiring all publicly funded learning programmes (full or part time) at 'the point of purchase' to provide public quality labelling on key outputs and especially outcomes such as learner success rates, destination, wage gain, quality and the satisfaction levels customers of each programme, both employers and individuals (see indicative model at Figure 8);
- Creating a new and public institutional performance framework for learning providers, a balanced scorecard based on their profile of aggregate outcomes/destinations, customer satisfaction levels and quality, balanced against evidence of the economic, social and labour market characteristics of their local catchment area (see indicative model at Figure 9).

If the pressure on public expenditure is to increase as is widely expected, and if it becomes important for Scotland to increase the levels of co-investment from employers and individuals in skills and learning in future years, then such course and institutional performance information is likely to be demanded by those customers in order to help them make informed choices, and understand better the return on their investments. Indeed, it is difficult to see how more co-investment will be generated from individuals and employers without some such system of transparent and trusted information.

It must be stressed at this point that the Commission has not undertaken any detailed testing of these models, nor prepared detailed specifications for the particular measures that may make up the final models. These are developmental ideas at this stage, not fully worked out systems, though work has now commenced to develop such systems with English colleges and providers. We are also aware that whilst some of the information proposed to be presented through these models is currently available, other data is not yet collected and would require new measurement tools and approaches. We have, however, discussed these models and diagrams with a number of organisations and individuals from further education colleges, providers and representative bodies, employer organisations and trade unions, and have had broadly welcoming responses.

Figure 9: Rating the institution



The institutional scorecard has been designed to specifically mitigate the risk that course labelling encourages creaming, and thus reduces access for less able learners. Equally, by balancing course performance data with information on the nature of the local community and the learner cohort, and on the mix of and engagement with the employers in the community, the framework allows for the recognition of 'post-code' effects and 'distance travelled'.

The Commission would strongly recommend that the course labelling model and the institutional scorecard should be developed through a true partnership approach between the Scottish Government, Scotland's colleges and other learning providers, and employer organisations, with the support of performance management and measurement specialists. We believe that this new public, outcome-focused, quality and performance framework should be introduced no later than 2012, but ideally earlier.

We believe that the use of such a framework would provide an effective incentive for provider continuous improvement, stronger governance, and enhanced outcomes. To support and encourage this, the UK Commission believes the Scottish Government should:

- Encourage and recognise providers who build direct business relationships with employers for full-cost or co-invested provision of work-related training, and incorporate that expectation into institutional performance frameworks;
- Encourage and support more active collaboration between providers in their local communities to ensure that the mix of education and training offered in local labour markets is best matched to economic and employment needs and opportunities;

- Support the ‘trading’ or ‘transfer’ of expertise and provision between providers at community level to achieve a better match between supply and labour market needs.

b. Creating an integrated workforce development strategy through the Scottish Funding Council, Skills Development Scotland, Scottish and Highlands and Islands Enterprise, and other organisations, to support better leadership and management, raise skill levels where employer need dictates and improve skills utilisation in the workplace

The Commission highlighted above how significant the skills of the existing workforce are to Scotland’s future economic success – 80% of the 2020 Scottish workforce is already in work, and it is primarily on their skills and capabilities that Scotland’s economic success over the next ten years will be built.

In no way does this statistic argue for a lessening of the quality and range of education support for Scottish youth, as it is essential to provide a sound foundation of learning on which all young people can build a successful work and adult life. But it does argue strongly for a radical rethink on the role of the publicly funded education and training system in supporting the continuing development, up-skilling and/or re-skilling of the existing workforce.

What is the offer to employers struggling to raise the skills of existing adult workers with significant deficiencies in literacy and numeracy? What forms of entitlements might or should exist for adults with low level skills whose occupations or future work are restricted by technological redundancy or industrial process changes? Is the funding support available to colleges and providers for part-time learners equitable relative to that provided for full-time learners? Are Scotland’s colleges and training providers encouraged and recognised for building co-investment relationships with employers or sectors in their community?

In Section 5 above, we highlight the feedback the Commission has received on the lack of clarity for, and the lack of a coherent offer to, employers in relation to the whole area of workforce development in the context of business support. Equally, we believe it is important for the supply side of education and training to have a coherent approach to employers on workforce development, and believe that Scotland’s universities, colleges and other training providers have a still under-explored potential to be a key economic development network for raising Scotland’s productivity and competitiveness. This is an area in which the Commission believes Scotland is less advanced than other UK nations.

The recent Scottish Funding Council projects exploring approaches to Skills Utilisation are one example through which universities and colleges are being encouraged to work more closely with businesses, but most employer organisations report that they don’t really see government coordinating an integrated approach to workforce development. The Commission therefore recommends that:

- The Scottish Government ensure that the current work by the Scottish Funding Council, Skills Development Scotland, the Enterprise Companies and other agencies and providers as appropriate, on the creation of a Workforce Development Strategy for Scotland sets out clearly for employers the support available for workforce development, the Government's 'ask' of Scottish employers in post-compulsory education and training, the linkages with leadership and management, skills utilisation and high performance working, and roles and contributions expected of colleges and providers;
- One key element of the college and provider Institutional Scorecard described in Section a. above should record and reflect the engagement of each institution with employers in their community in relationship to the Workforce Development Strategy;
- Consideration be given to the creation of a National Indicator in the 'Scotland Performs' framework that tracks Scotland's progress on workforce development and skills utilisation.

c. Maximising the potential of Scotland's flexible, unit-based qualification system for publicly-funded workforce development so that employers can access the skills they need when they need them, and individuals receive formal recognition for their skills as well as credit they can build on for the future

Scotland is renowned for its comprehensive Scottish Credit and Qualifications Framework (SCQF), which encompasses general, vocational and higher level qualifications. The SCQF can also include informal programmes and employer training. Most of the qualifications in the SCQF (SQA's qualifications) are flexible – based on small units, which can be combined to suit different purposes or certificated separately as qualifications in their own right. Vocational qualifications are industry-led through being based on, or linked to, National Occupational Standards and employers can have their own training programmes recognised through SCQF credit rating.

In short, Scotland has the kind of system that England is striving to partially emulate through its Qualifications and Credit Framework, because of the benefits it is believed to bring for employers and individuals. Despite this, much employer-based training in Scotland is still not certificated provision within the SCQF, nor is a significant amount of the publicly-funded learning undertaken in Scotland's colleges and learning providers.

Employers who fund their own training can of course choose whether or not they wish any external recognition for employees, although there is now much public evidence available that demonstrates a genuine bottom line return to businesses who offer certificated provision. Trade unions and other organisations working with adult learners confirm regularly that the benefits to individuals from certificated provision, in terms of employment mobility and progression, are significant. Where possible, therefore, publicly funded training should attract formal recognition for learners' achievements and the associated assurance that such provision meets external quality standards. We believe that a number of actions can support this aim:

- Adapting the public funding for workforce development so that it mirrors the flexibility of the qualifications system, by funding the bite-sized chunks of certificated learning that many employers say they want, as well as larger qualifications;

- Creating an expectation that publicly-funded training should attract formal recognition, so that learners get the maximum opportunity to accredit all formal learning towards qualifications that will enhance both their mobility and their opportunities for progression;
- Ensuring that advisors engaged in promoting business support services to employers have a thorough knowledge of the options for employers for having their training funded (where it fits with the workforce development strategy) and formally recognised;
- Incentivising providers to offer the flexibility in delivery that the qualifications system allows and employers want.

7. Simplifying the skills system in Scotland

During 2008 and 2009, the UK Commission has published a number of reports offering advice and recommendations to the UK government on simplifying the skills system in England for employers, through two distinct approaches – firstly, by ‘hiding the wiring’ (insulating employers from having to handle much of the complexity and bureaucracy now present in the English system), and secondly, by ‘changing the wiring’ (a key focus in the version of this document submitted to the UK Government in October 2009).

During this work, we also took soundings from employer and other groups in Scotland, Wales and Northern Ireland, where the general findings were that overall levels of complexity and confusion were less for employers in Scotland than in England, though by private sector standards, still more confusing than was considered necessary.

In particular, during Commission consultations with Scottish employers in 2009 over simplification (also referred to in Section 5 above), businesses expressed strong concerns about the high levels of complexity, bureaucracy and paperwork associated with participation in the Modern Apprenticeship programme in Scotland. Employers expressed concern at the overall levels of monitoring and audit, the absence of a risk and performance based approach to oversight (offering less burdensome oversight for employers with a sound track record of efficiency and performance), too much paperwork and too little use of IT systems to reduce the overall burden.

The introduction by Alliance Scotland of the MA Online system for Sector Skills Councils and Training Providers in 2009, together with the switch to output-related funding for employer contracts, should begin to reduce the level of complaints about excessive administration and bureaucracy for employers in the registration and certification of Modern Apprentices. However, the Commission would recommend that the Scottish Government support Skills Development Scotland and the Scottish Qualifications Authority (SQA) to:

- Regularly review the ‘end-to-end customer journey’ experience of employers (both SMEs and larger employers) involved in Modern Apprenticeships, including the requirements for recording and administration of qualification attainment, in order to explore the potential for further simplification whilst protecting quality of provision;
- In particular, continue to improve IT based record-keeping and administrative systems for employers across the whole of the ‘customer journey’ and seek to eliminate all paper record keeping within two years.

Simplifying structures is already an important element of the *Skills for Scotland* strategy. The establishment of Skills Development Scotland in 2008 has helped to reduce the organisational complexity of the skills landscape in Scotland, by bringing four distinct organisations into a new and more integrated structure.

In addition, there is already greater trust and collaborative working between the Scottish Government, funding agencies like Skills Development Scotland and the Scottish Funding Council, and Scotland's colleges and other training providers, than there is in England, and therefore most of the Simplification recommendations made by the Commission for England are not appropriate for Scotland.

However, a number of the recommendations made to the UK government do have the potential to impact on Scotland (and Northern Ireland and Wales). These are set out below with advice on how the Scottish Government should ensure that their voice and influence is heard as these policies and/or practices are developed over the next one to three years:

- The UK Commission is charged with reviewing in 2010 the progress being made in England, Scotland and Wales towards creating more integrated employment and skills services. The Commission is already undertaking preparatory work on this review, and is holding five workshops across Great Britain to understand the wide range of views and opinions on this subject. The Scottish workshop was held in Glasgow on 10th December and will be feeding in to the creation of a baseline to inform the final review report due to be submitted to the UK, Scottish and Welsh Governments in the first quarter of 2010;
- The Commission has been charged by the UK Government “to come forward [by 2012] with proposals for consolidating the 25 Sector Skills Councils (SSCs) into a substantially reduced number of bodies that achieve a better fit with the likely sector boundaries of the future”¹³. As SSCs are UK-wide bodies, and the priority sectors for each nation of the UK do vary due to economic, environmental, skills and market access reasons, the Scottish Government must become actively involved with the Commission throughout that process so that the resultant configuration serves all the UK nations equally well;
- The UK Government has committed to working with the UK Commission, Sector Skills Councils, awarding bodies and Qualification Regulators to reduce development time for new qualifications or (Modern) Apprenticeship frameworks to an average of six months and a maximum of twelve months; and to ensure that development timeframes are made public so the performance of the system can properly be held to account. It will be important for SQA Accreditation to work with SSCs to ensure that timescales for the development of priority Scottish Vocational Qualifications and related Modern Apprenticeship frameworks in Scotland do not slip as a result of SSCs developing units for the Qualifications and Credit Framework in the rest of the UK.

UK Commission for Employment and Skills

January 2010

¹³ Department for Business Innovation and Skills, *Skills for Growth*, November 2009, page 65

The UK Commission aims to raise UK prosperity and opportunity by improving employment and skills. Our ambition is to benefit employers, individuals and government by advising how improved employment and skills systems can help the UK become a world-class leader in productivity, in employment and in having a fair and inclusive society: all this in the context of a fast-changing global economy.

Because employers, whether in private business or the public sector, have prime responsibility for the achievement of greater productivity, the UK Commission will strengthen the employer voice and provide greater employer influence over the employment and skills systems.

Having developed a view of what's needed, the UK Commission will provide independent advice to the highest levels in government to help achieve those improvements through strategic policy development, evidence-based analysis and the exchange of good practice.

UKCES

3 Callflex Business Park
Golden Smithies Lane
Wath-Upon-Dearne
South Yorkshire
S63 7ER

T +44 (0)1709 774 800

F +44 (0)1709 774 801

UKCES

28-30 Grosvenor Gardens
London
SW1W 0TT

T +44 (0)20 7881 8900

F +44 (0)20 7881 8999

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