



# SKILLS POLICY IN THE NORTH

Recommendations  
for 'levelling up'

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# Skills policy in the North: recommendations for ‘levelling up’

## Contents

<b>1 Introduction .....</b>	<b>2</b>
<b>2 Levelling up: skills policy and local economic growth .....</b>	<b>2</b>
The Levelling Up White Paper .....	3
The Skills for Jobs White Paper .....	3
Nothing new under the sun.....	4
<b>3 Skills and productivity challenges in the North .....</b>	<b>5</b>
Low productivity .....	5
Low-skilled labour markets .....	6
Skills gaps and poor use of workforce skills .....	7
Substantial variations within regions .....	8
<b>4 Employer engagement in the skills system .....</b>	<b>9</b>
Perceptions of the UK skills system in meeting current and future needs .....	10
Use of external training providers .....	11
Engagement with local FE providers .....	11
Employers’ strategic approach to skills .....	13
<b>5 Stakeholder views on skills challenges and changes needed .....</b>	<b>14</b>
Key challenges .....	14
Policy recommendations .....	16
Driving skills demand through integrated and holistic business support .....	17
How to ‘pump-prime’ HR support for small firms .....	18
<b>6 Conclusion .....</b>	<b>20</b>

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# 1 Introduction

The UK Government has set out the ambition to [build back better](#) after the pandemic and address regional inequalities through 'levelling up' economic growth and opportunity. Prime Minister Boris Johnson has also [highlighted the need for the UK to transition](#) to a high-wage, high-skill economy that relies less on immigration to address skill and labour shortages.

These are bold aims with a strong consensus of support behind them. However, they are very similar to ones that have been made by previous governments<sup>1</sup> which have failed to deliver the economic transformation required.

This suggests that a change in approach is required if this time things are to be different and that rhetoric is to be matched by an actual shift in business behaviour, investment and productivity, particularly in economically disadvantaged areas.

This paper focuses in particular on skills policy in the North of England and considers what changes are needed regionally to deliver on the Government promise to 'level up'.

Drawing on both quantitative evidence as well as the views of local stakeholders, it explores what needs to happen if employers really are to be at the heart of the further education (FE) and training system – a key aim of the recent Skills for Jobs White Paper.

Northern England suffers from persistent gaps in both productivity and skill levels, and this paper suggests that a fundamental rethink is needed about skills policy, how to boost employer investment in skills and how to improve workers' skills in the workplace.

This discussion paper is structured as follows:

- Section 2: an overview of recent changes to skills policy and the proposed measures to tackle regional inequalities
- Section 3: a brief summary of the evidence on skills and productivity challenges in the North
- Section 4: a summary of the evidence from two CIPD surveys on the pattern of employers' engagement with the skills systems
- Section 5: an overview of stakeholder views of key challenges and changes needed to tackle skills and productivity challenges in Northern England
- Section 6: conclusions and recommendations

## 2 Levelling up: skills policy and local economic growth

The Government's Levelling Up White Paper identifies skills as a crucial driver of economic disparities between people and places and highlights its plans to increase the level of '*high-quality skills training, raise educational standards, and put employers at the heart of the further education and training system*'. The latter was previously set out in more detail in the White Paper on the future of further and technical education 'Skills for Jobs: Lifelong

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<sup>1</sup> See for instance: <http://www.britishpoliticalspeech.org/speech-archive.htm?speech=204> and <https://conservative-speeches.sayit.mysociety.org/speech/601467>

Learning for Opportunities and Growth'. The following section provides a brief summary and discussion of the proposed reforms.

### **The Levelling Up White Paper**

Skills are at the heart of the UK Government's plans to address regional inequalities through 'levelling up' economic growth and opportunity. Its ambitions were set out in the long-awaited [Levelling Up White Paper](#), and its recognition of the scale of the challenge is to be welcomed, as well as its focus on tackling long-standing disparities in educational outcomes, skills, pay, productivity and wellbeing.

The White Paper itself sets out 12 key 'missions', one of which is the target to get an additional 200,000 people in England to complete high-quality skills training by 2030. The UK stands out internationally with relatively low levels of adult participation in training, and ensuring enhanced access to skills training across the life course is crucial if we are to see a shift to a 'high wage and high skill economy'. Yet, this faces considerable headwinds and needs to be seen in the context of the continued reduction in employer investment in training, alongside a decline in the number of adult learners undertaking skills training, which [fell by 42% over the last decade](#).

### **The Skills for Jobs White Paper**

Much of what the Levelling Up White Paper says about skills policy was already in the [Skills for Jobs White Paper](#), which set out the Government's vision of a revitalised vocational education and training system with employers at its heart. The paper recognises the critical role that the FE sector can, and should, play in boosting productivity, strengthening local communities and supporting individuals to develop the skills they need to succeed at all ages. The ambition is to:

- increase the availability of skills to the economy and the alignment of education with the needs of business
- provide a mechanism for 'levelling up' and increasing opportunity for all citizens by improving access to learning
- rebalance the education system away from universities and towards vocational and technical education.

The Government seeks to achieve this by:

- developing a lifetime skills guarantee for all citizens
- reforming the funding of post-18 learning provision and integrating FE into the higher education loan system
- aligning education and training provision with employers' needs and funding colleges to connect their offer more strongly to employers
- by providing colleges with £1.3 billion in capital funding.

Particularly relevant for local areas was the announcement of Local Skills Improvement Plans (LSIPs), which will be [initially trailblazed in eight areas](#) across England. In [application guidance published](#) in April, the Department for Education said the LSIPs will '*set out the key changes needed to make technical skills training more responsive to employers' skills needs within a local area*'. They should be created in collaboration with colleges and training providers, with employers '*setting out a credible and evidence-based assessment of their skills needs, to which providers will be empowered to respond*'.

Alongside increased engagement at a local level, the plans also include:

- national oversight on skills gaps through a new Future Skills Unit
- ensuring that all post-16 qualifications are underpinned by employer-led standards
- additional funding for FE establishments to facilitate changes to provision that have been endorsed by local employers
- support for colleges to become accredited as College Business Centres, to aid business development and innovation.

### **Nothing new under the sun...**

While it makes sense to have employers playing a leading role in a vocational training system, we need to accept that this has been an aim for some considerable time and the last few decades of public policy are littered with attempts to bring providers and employers together in the leadership, design and development of skills provision, and to align employer demand with skills provision.

Successive governments have tried to do this for sectors and they have tried to do it by place. Box 1 highlights some of the policy statements made by successive governments since the early 1990s about better engagement of employers in the skills system and alignment of provision to better meet employer demand.

#### **Box 1: Policy statements**

*'Employer involvement in education and training is being secured through local Training and Enterprise Councils (TECs). We have now, for the first time, given leadership of training to top business people and other key local people and the power and resources to apply local solutions to local needs.'* (Education and Training for the 21st Century: Volume 1, 1991)

*'Employers will have new powers to shape the design, content and delivery of training to meet their needs.'* (Skills: Getting on in business, getting on at work, March 2005)

*'This report recommends a radically different strategy for skills. It proposes a much more demand-led system, in which the demands of employers and employees determine the provision of development.'* (In Demand: Adult Skills for the 21st century, 2001)

*'We must ensure that public funding for qualifications and training deliver economically valuable skills. And to do this, we must ensure that when employers and individuals go to colleges and training providers for solutions, what they get is the skills they really need, delivered in the way they need and to the highest standard.'* (Raising expectations: enabling the system to deliver, 2008)

Employer engagement in vocational education and training is critical, but we need to better understand their challenges and recognise that employers are focused on running their organisations, not leading and running the technical education system. We need to find ways to engage them and use their time efficiently, but we also need an approach, for smaller employers in particular, which also builds their demand for skills, and therefore their capacity and capability to engage at a more strategic level.

Questions also remain about how FE colleges can meaningfully engage with employers in the way envisaged by the role of College Business Centres. While College Business Centres are undoubtedly a positive step, to be effective they require a stronger relationship with the existing business support infrastructure to enable local employers to innovate and grow. Analysis carried out by Think Consultancy for the Gatsby Foundation, for example, found typically poor links between Growth Hubs and local FE colleges, and limited evidence that Growth Hubs prioritise skills and workforce development (with some exceptions, such as the Greater Manchester Skills brokerage).<sup>2</sup> This suggests that most FE engagement with employers is transactional, involving tasks like placing apprentices, and does not involve dialogue about their business model or strategic growth ambitions.

### 3 Skills and productivity challenges in the North

[The Levelling Up White Paper](#) contains a comprehensive analysis of the history and pattern of geographic economic disparities in the UK, finding that:

- geographic disparities are greater in the UK compared to many other developed countries
- differences *within* places are generally greater than differences *between* places, with pockets of affluence existing beside deprived areas
- geographic disparities are long-lasting and have persisted for much of the last century.

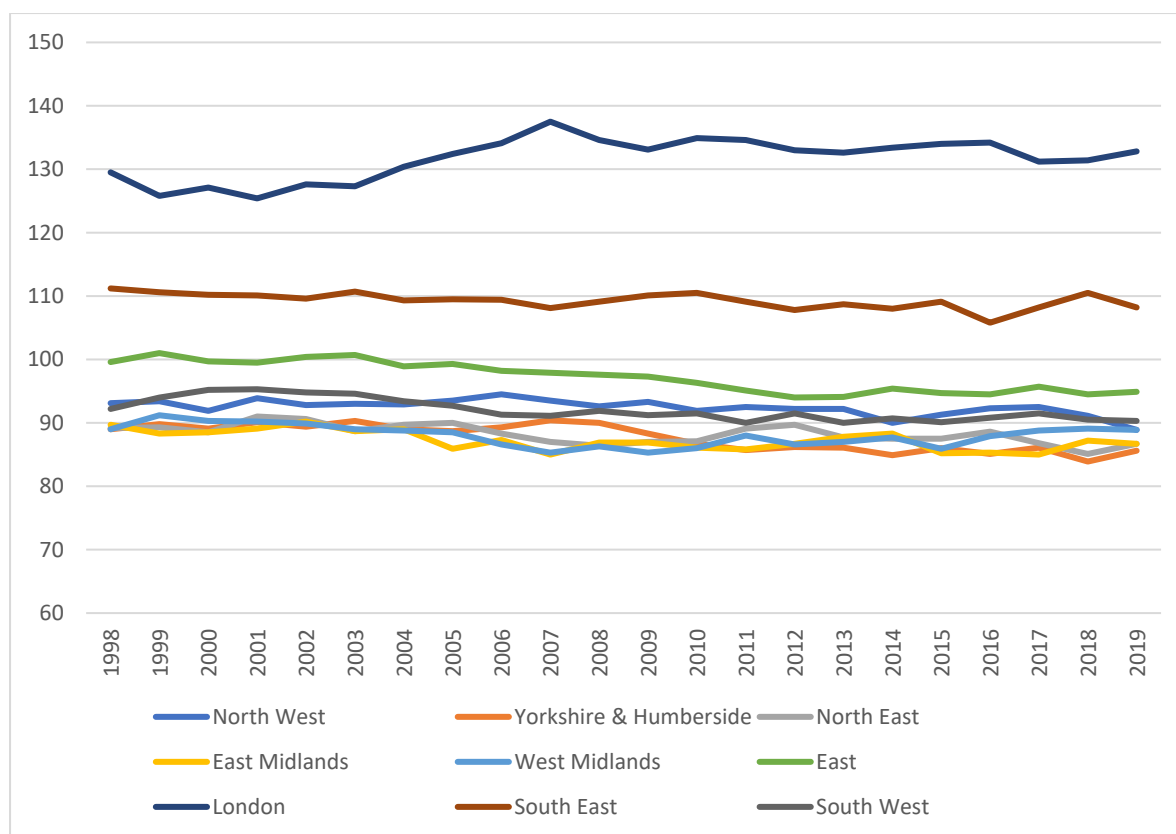
#### Low productivity

Productivity, measured as Gross Value Added (GVA) per hour worked, is lower than average in northern regions, as demonstrated by Figure 1. In 2019, GVA per hour worked stood at 11% below the UK average in the North West and 13% and 14% below the UK average in the North East, and Yorkshire and Humberside respectively. The productivity gap has widened over the last two decades, previously standing at 7% lower than the UK average in 1998 in the North West, and 11% lower in both the North East, and Yorkshire and Humberside.

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<sup>2</sup> <https://www.gatsby.org.uk/uploads/education/reports/pdf/think-report-business-support-and-fe-2021.pdf>

**Figure 1: Regional GVA per hour worked (UK=100)**



Source: UK regional gross value added, ONS

## Low-skilled labour markets

The skills of the population are an important component of labour productivity and improvements in skills are estimated to account for 20% of the UK's productivity growth before the financial crisis.<sup>3</sup> Compared to the UK average, Northern England has a higher concentration of low-skilled adults (NVQ 2 and below) and a lower concentration of adults educated to degree level or above (NVQ 4+), as demonstrated by Figure 2.

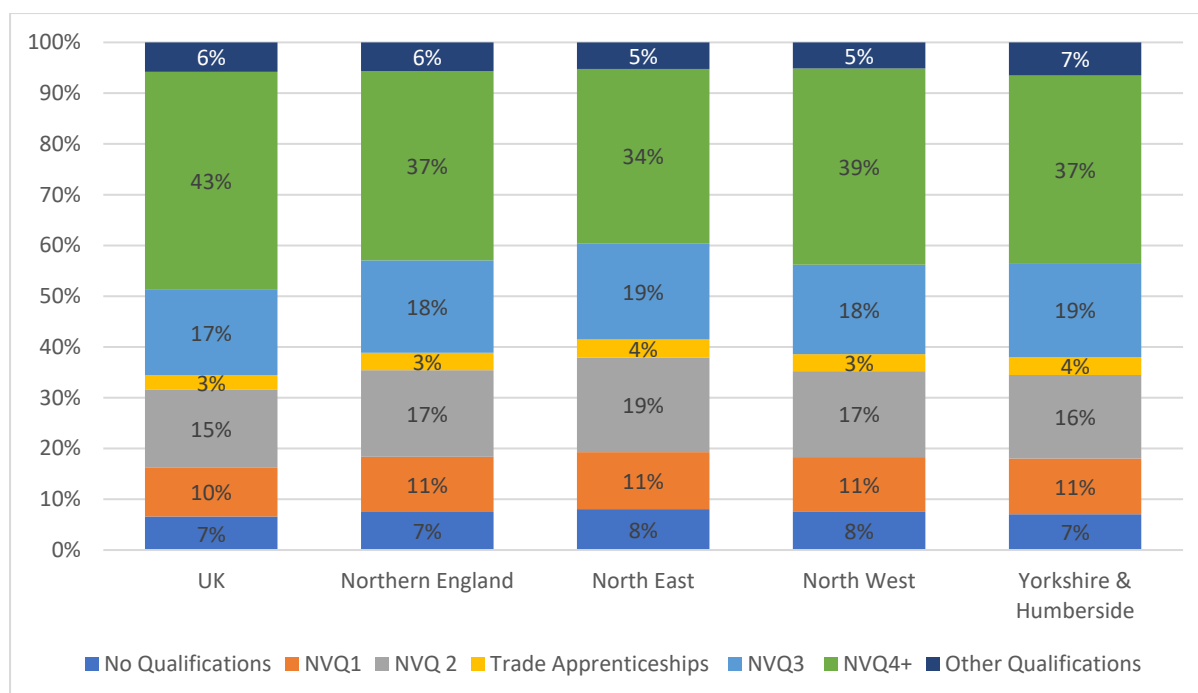
There have been improvements over the last decade, with a substantial reduction in the proportion with no educational qualifications. However, while there has been growth in higher-level qualifications, this has not kept pace with the UK average:

- The proportion of working-age residents with no qualifications has fallen from 13% in 2010 to 7% in 2020, a 5 percentage point decline in line with the UK.
- The proportion of adults educated to NVQ Level 4 and above has increased from 27% in 2010 to 37% in 2020, a 10% increase. However, this was below the UK-wide figure of a 12% increase.

<sup>3</sup> BIS (2015) *UK skills and productivity in an international context* ([https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/486500/BIS-15-704-UK-skills-and-productivity-in-an-international\\_context.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486500/BIS-15-704-UK-skills-and-productivity-in-an-international_context.pdf))



**Figure 2: Qualifications of the working age population (16–64 years old)**



Source: ONS/Annual Population Survey Jan – Dec 2020

## Skills gaps and poor use of workforce skills

The supply of skills is only one part of the picture. A significant part of the UK's low productivity levels, compared with some other major Organisation for Economic Co-operation and Development (OECD) economies such as Germany, is attributed to poor workforce skills development,<sup>4</sup> in addition to how well an individual's skills are matched to their jobs and whether they are used effectively in the workplace. For example, OECD research finds that the UK could benefit from a 5% productivity gain if the level of skills mismatch was reduced to OECD best practice levels.<sup>5</sup>

Employer demand for skills, and the ways skills are used in the workplace, has seen increased focus in local economic development in recent years. The OECD Local Economic and Employment Development programme has been particularly influential, arguing that policies to tackle skills mismatch include improved job design, human resource management and businesses' product market strategies. Further, they have called for a focus at the local level, as *'it is often at the local level where the interface of these factors can be best addressed. Policies which aim to improve skills use in the workplace can address the multifaceted challenges many local economies are facing and contribute to national productivity and inclusive growth objectives.'*<sup>6</sup>

The importance of the local dimension is particularly relevant in the case of SMEs, which are more likely to serve local markets and draw from a local supply of skills. Smaller firms find it particularly difficult to make the best use of their employees' skills because of poor

<sup>4</sup> [www.publications.parliament.uk/pa/cm201516/cmselect/cmbis/565/565.pdf](http://www.publications.parliament.uk/pa/cm201516/cmselect/cmbis/565/565.pdf)

<sup>5</sup> OECD (2015) *Skill mismatch and public policy in OECD countries*. Paris: OECD.

<sup>6</sup> OECD (2017) *Better use of skills in the workplace: why it matters for productivity and local jobs*. Paris: OECD, ILO.

management or a lack of a specialised HR function.<sup>7</sup> The Government's 2019 [Business Productivity Review](#) noted that '*UK SMEs compare particularly unfavourably internationally on people management, which is the factor most correlated to productivity. Leadership and management practices therefore represent one of the greatest opportunities for firm-level productivity growth in the UK.*'

The demand for, and use of, skills demonstrates that, while skills shortages and gaps present challenges for employers in Northern England, it is the poor use of existing skills in the workplace that is a more pervasive problem.

According to the latest Employers Skills Survey<sup>8</sup> (2019), employers in Northern England reported that a quarter of vacancies were proving hard to fill due to applicants lacking the relevant skills, qualifications or experience the role required. These skills shortage vacancies totalled almost 50,000 and affected 5.5% of organisations in Northern England, slightly below the UK average of 6%.

However, the number of skills shortages vacancies in Northern England was dwarfed by the number of skills gaps reported. These affect 14% of organisations in Northern England and represent 5.2% of all workers, slightly above the national average of 4.6%. Skills gaps affect the bottom line, and impact organisations' ability to introduce new working practices, products, processes or services.

While skills gaps are undoubtedly a challenge, underutilisation of existing workforce skills is a more prevalent problem. Over a third (35%) of organisations in Northern England report that they had at least one employee with both qualifications and skills more advanced than required for their current job role. This figure is in line with the rest of England (34%). Over-skilling or overqualification can have a negative impact on organisations and individuals alike, resulting in lower pay and poorer career progression, as well as increased stress and decreased life and job satisfaction for individuals and higher turnover and inefficiency for employers.<sup>9</sup>

### **Substantial variations within regions**

There are substantial variations within regions, with geographic disparities clearly visible between, as well as within, Local Enterprise Partnership (LEP) areas in the North of England. To provide an overview of some of the challenges facing local areas within the North of England, we compare subnational data on:

- the proportion of the population with qualifications at NVQ Level 4 and above (labour supply)
- the proportion of jobs in the top three occupational groups (demand)
- GVA per hour worked (productivity).

It is outside of the scope of this paper to carry out a detailed analysis of the challenges facing LEP areas, but this data gives us a broad analysis of the differences between areas, and provides an indication of the scale of the challenges.

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<sup>7</sup> Warhurst, C. and Findlay, P. (2012) *More effective skills utilisation: shifting the terrain of skills policy in Scotland*. SKOPE Research Paper No 107. Cardiff: SKOPE.

<sup>8</sup> Employers Skills Survey 2019.

<sup>9</sup> [https://www.cipd.co.uk/Images/over-skilled-and-underused-investigating-the-untapped-potential-of-uk-skills\\_tcm18-48001.pdf](https://www.cipd.co.uk/Images/over-skilled-and-underused-investigating-the-untapped-potential-of-uk-skills_tcm18-48001.pdf)

Table 1 shows that a large number of LEP areas in Northern England face considerable challenges, exhibiting below-average GVA per worker, a smaller proportion of high-skill occupations than the national average, and a lower proportion of residents with degree-level qualifications. We find that:

- productivity is lower than the UK average across all LEP areas in Northern England apart from Cheshire and Warrington
- all LEP areas, with the exception of Cheshire and Warrington, and York and North Yorkshire have below-average proportions of the workforce in jobs in the top three occupational classifications
- York and North Yorkshire had the highest proportion of the population with degree-level qualifications, with the vast majority of other areas behind the national average.

**Table 1: Labour supply, demand and productivity in LEP areas in Northern England**

LEP areas ranked by productivity	GVA per hour worked (2019)	Top 3 occupations % (2021)	NVQ Level 4+ % (2021)
Sheffield City Region	£28.32	42%	37%
Cumbria	£29.31	40%	34%
North East	£30.01	41%	35%
Hull and East Riding	£30.12	41%	33%
Liverpool City Region	£30.29	46%	39%
Leeds City Region	£30.36	48%	38%
York and North Yorkshire	£30.40	54%	48%
Lancashire	£30.80	43%	35%
Tees Valley	£31.02	39%	33%
Greater Manchester	£31.51	48%	39%
Cheshire and Warrington	£36.71	54%	44%
<b>UK</b>	<b>£35.15</b>	<b>50%</b>	<b>44%</b>

Source: Labour Productivity by Enterprise Regions, Annual population survey, Jan – Dec 2021, ONS

## 4 Employer engagement in the skills system

Given the focus of policy reforms on putting employers at the heart of the vocational education and training system and the role of skills in levelling up, this section provides an overview of employer engagement and perceptions of the skills system, drawing on the results of two recent CIPD surveys.

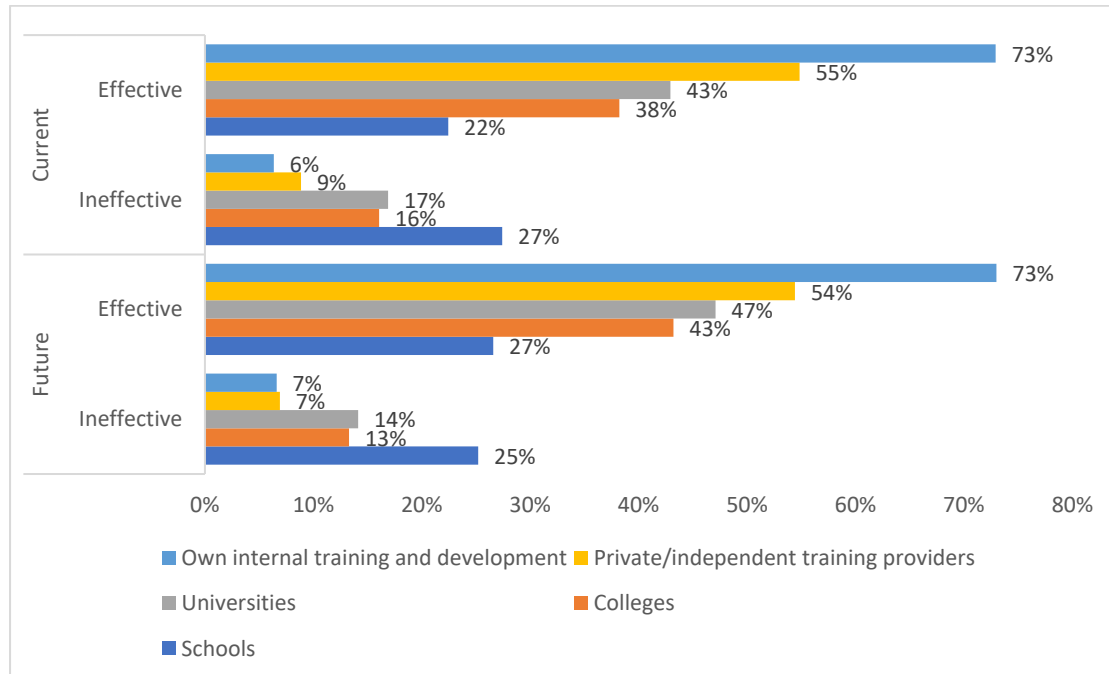
## Perceptions of the UK skills system in meeting current and future needs

To understand the skills system more broadly, we asked employers for their perceptions of the current and future effectiveness of schools, universities, FE colleges, private training providers and internal training in developing the skills needed.

Unsurprisingly, employers in Northern England are the most confident in their own internal learning and development methods to meet current and future skills requirements, and over half viewed private training providers as effective in meeting future skills needs (Figure 3). The survey also shows that employers' perceptions of schools are the least positive, with this being the only institution with a current negative effectiveness balance (more employers rate them ineffective than effective). Concerns about how well the education system prepares young people for work have been raised by employers for decades.

However, while more employers rated the FE system as more effective than ineffective overall, it should be noted that only 38% rated it as effective at meeting current skills needs. This implies that the proposed reforms to put employers at the heart of the FE sector are certainly needed but are likely to face considerable challenges around employer confidence, especially among those who currently don't engage with the sector. More detailed analysis of these survey results, contained in a forthcoming report, shows that employers who *do* engage with colleges, either through recruitment of college leavers or by sourcing external training from FE colleges, are much more likely to rate their ability to meet current and future skills needs as effective.

Figure 3: Effectiveness of the skills system in meeting current and future skills requirements (%)

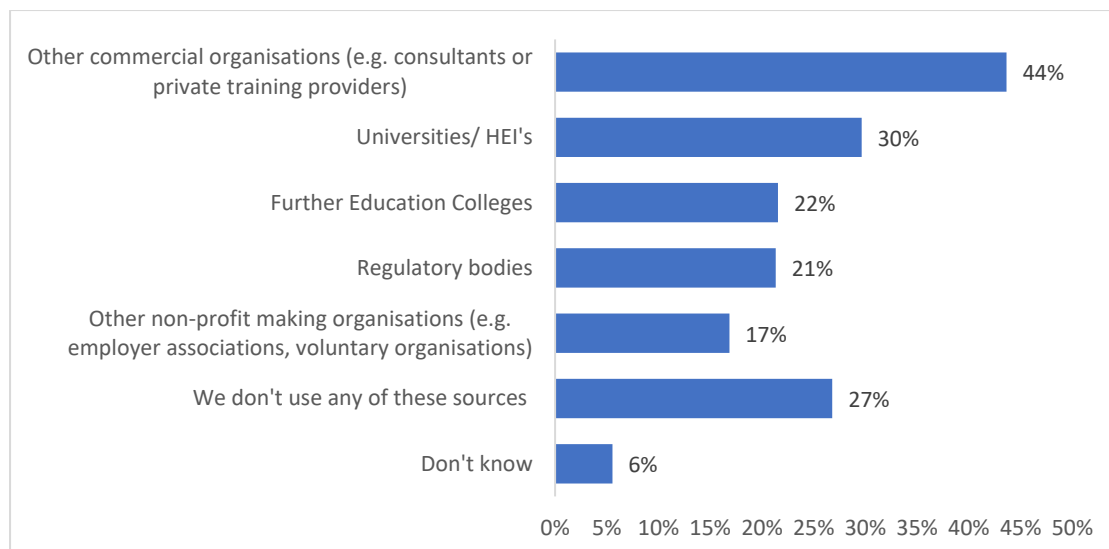


Source: 361 respondents (Northern England), You Gov/CIPD, March 2022

## Use of external training providers

Organisations can provide in-house training through formal or informal channels to develop employee skills, or they can access skills development through external training providers. Use of these external channels is set out in Figure 4. Overall, commercial organisations, such as consultants and private training providers, are the most popular, followed by universities/higher education (HE) institutes, regulatory bodies and FE colleges. Over a quarter don't use any external sources – this proportion is much higher amongst SMEs (44%) compared to large firms (15%).

Figure 4: Use of external training providers in Northern England (%)



Source: 361 respondents (Northern England), You Gov/CIPD, March 2022

## Engagement with local FE providers

Given the focus of skills reforms on technical education and training and a revitalised college system with employers at its heart, we look at how employers in Northern England currently engage with local FE colleges.

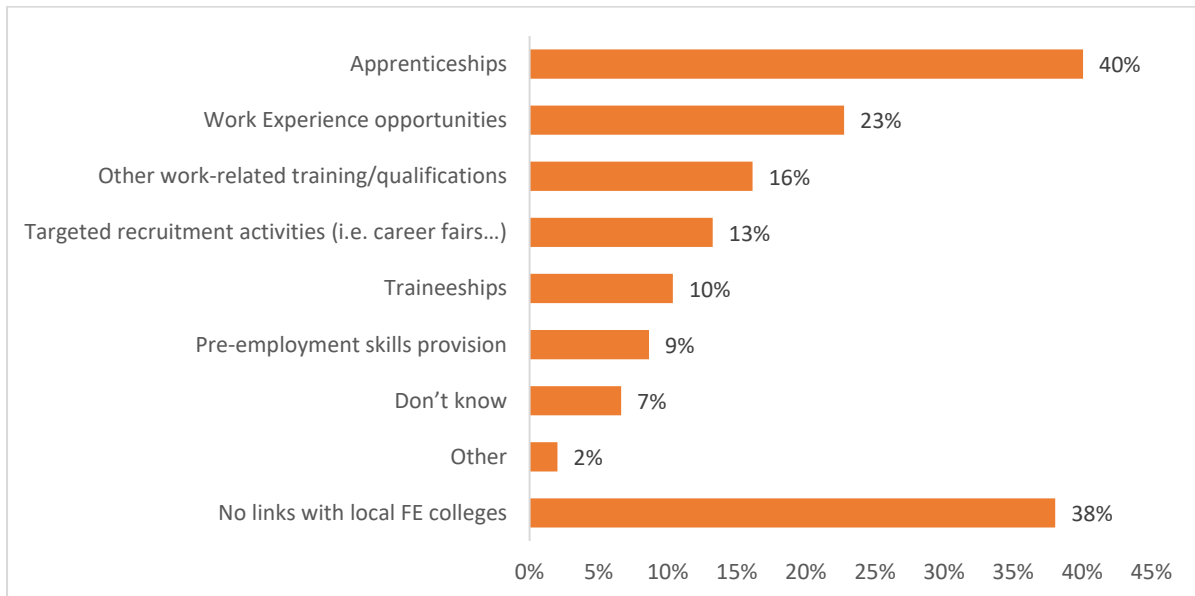
Figures 5 and 6 present the results from CIPD's [Labour Market Outlook](#), which represents the views of 1,500 employers across the UK and almost 350 in Northern England in July 2021. Figure 5 shows that employers mainly engage with local FE colleges through apprenticeships (40%) with just 16% engaging with FE colleges on other forms of training or qualifications. Almost one quarter also offer work experience placements to students from FE colleges.

However, almost 40% do not have any links with local colleges. Unfortunately, sample sizes are too small to break down the regional data further, but data for the UK as a whole shows that SMEs (2–249 employees) are much more likely to have no links with local colleges compared to large organisations (59% compared to 23% of large organisations). The main reason employers give for not engaging with local colleges is that they have no or limited skills gaps: yet, as is shown later, the majority of organisations have not conducted a strategic workforce planning exercise recently and so are unlikely to have sufficient

intelligence to make this assumption. Other reasons include being able to source sufficiently skilled candidates from other channels, a perception that the training is not suitable or a lack of capacity to engage. Concerningly, 18% don't know why they don't engage.

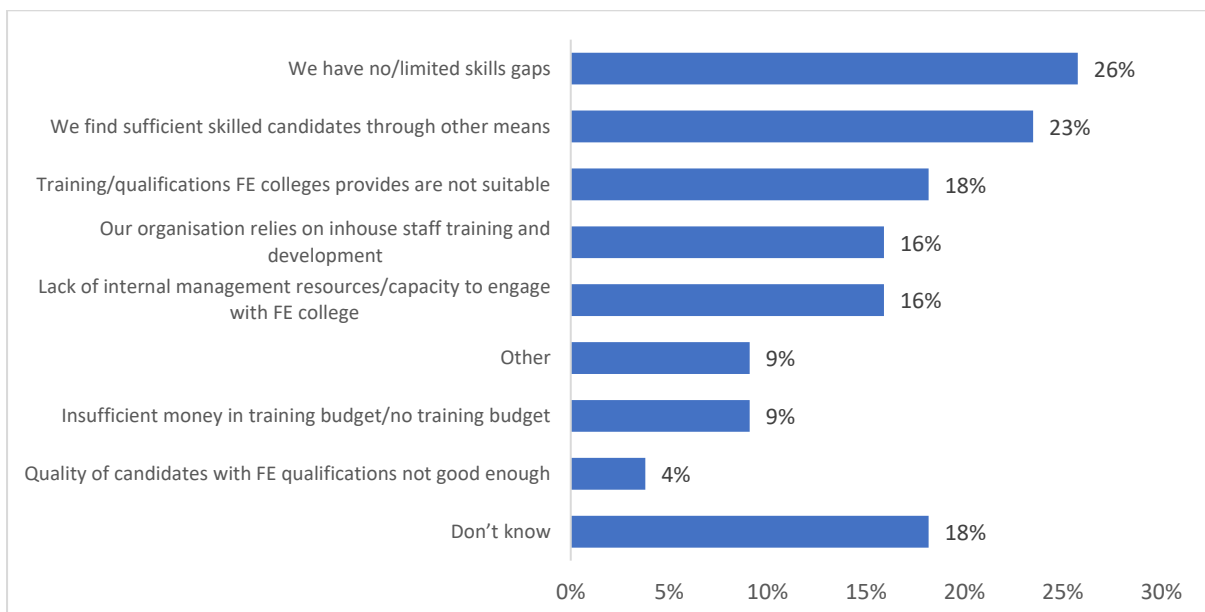
All of these factors present considerable obstacles to the Government's vision of a revitalised college sector. If the reforms are to be a success, there needs to be more awareness and shared examples of the positive impact that FE institutions can play in building organisations' talent pipelines and developing workforce skills.

**Figure 5: Ways that employers engage with local FE colleges (select all that apply)**



Sample size: 347 respondents (Northern England), You Gov/CIPD June–July 2021

**Figure 6: Reasons for not engaging with local FE colleges (%)**



Sample size: 132 respondents (Northern England), You Gov/CIPD June–July 2021

## Employers' strategic approach to skills

It is hoped that employers, working alongside colleges and training providers, will be able to make technical skills training more responsive to local need, via the development of LSIPs. Given the role envisaged for employers in shaping local skills provision, it is also important to understand that employers understand, and have a plan in place to address, the current and emerging skills needs of their organisations.

To help us understand the extent to which organisations were taking a strategic approach to skills in their organisations, respondents were asked whether they had:

- conducted a strategic workforce planning exercise in the past 12 months
- a training budget and/or a training plan in place.

Strategic workforce planning is particularly important during periods of uncertainty; for instance, employers who take a more strategic approach to skills would have used the challenges of the pandemic to re-evaluate their future skills needs. Having a training plan and budget in place suggests that learning and development is valued by an organisation, and that interventions are underpinned by tangible investment.

Overall, 37% of employers in Northern England report that they have conducted a strategic workforce planning exercise in the past 12 months, slightly above the UK average (32%). The majority of employers have a training plan (60%) and a training budget (66%). Larger organisations are more likely to have both a training plan and a training budget compared with smaller employers.

To assess whether a more strategic approach to skills has an effect on organisational behaviour, we combined the three variables. In Northern England, 28% had all three in place, 50% had at least one, and 22% did not have any in place. As summarised in our forthcoming report *Employer views on skills policy in the UK*, we found that organisations who had a strategic approach to skills were much more likely:

- to have increased investment in learning and development activity and expect it to increase over the next 12 months, compared with organisations which don't
- to engage with FE and HE institutions and training providers to prepare for future skills needs, and they are also more likely to be aware of, and engage in, skills-based policy initiatives
- to invest in upskilling existing staff, take actions to build their talent pipeline via the provision of work placements and hiring apprentices and more likely to look beyond recruitment activity to investment in labour-saving technology.

This data underlines the critical need to build organisational capability to understand, plan and address skills challenges. This is a particular challenge for SMEs, which are more likely to lack the people management and leadership skills needed to take a strategic approach to skills in their organisations.

## 5 Stakeholder views on skills challenges and changes needed

To understand the views of key stakeholders in the North of England, we held a roundtable to explore the skills and productivity challenges and identify what needs to happen to achieve the Government's ambition to 'level up'. Participants included local and regional policy-makers, employer representative bodies, FE providers, business support providers and local employers.

### Key challenges

Attendees identified a number of key challenges and barriers to the success of the reform agenda, which can be broadly grouped into the following themes:

- Decades of employer underinvestment in adult training and development
- No joined-up approach at national and local level
- A weak demand for skills, particularly amongst SMEs
- Lack of employer capacity and capability to engage strategically in the skills system
- Policy silos and fragmentation resulting in duplication alongside gaps in provision
- No long-term vision or sustained policy programme
- Lack of long-term and flexible funding to support local priorities

Local stakeholders challenged the prevailing narrative that increasing the supply of skills would boost productivity. There was wide agreement that a key barrier to the success of the Government's levelling-up ambition was weak demand for skills, as highlighted by selected quotes in Box 2. This challenge was perceived to be particularly acute amongst smaller businesses, with one participant stating that small businesses often lack a clear vision and strategy and do not understand the value of people management/HR, viewing it as transactional and operational rather than as a way to develop the skills needed to drive a business strategy. A further issue was that it holds back small firms from investing in developing staff because *'too often their business leaders lack the management skills needed to develop and train their people'*.

#### Box 2: Employer demand for skills

*'The idea is that if we just increase the skills education levels, everything will be alright. You know it won't be. We've got one of the lowest education levels in the country and we're still over educating people for the quality of jobs.'* (FE college)

*'We have relatively lower skills levels and one of our objectives is always to increase that... but what people, policy-makers and government tend to overlook continually is business strategy. People talk about productivity and high level skills, but ultimately, that is driven to a greater extent by the business.'* (LEP)

*'There is this huge focus on everybody becoming skilled to level 4-5 and 6 and that will solve the productivity gap, when the root cause of the productivity gap is the lack of jobs available at those levels.'* (Local authority)



Participants also questioned the capability, capacity and willingness of local employers to engage strategically in the skills system. It was noted that too many businesses don't take a strategic approach to skills themselves and are therefore unlikely to have a grasp on the current and future skills needs of their own organisations. This problem was also highlighted in CIPD survey data in Section 4. This presents a considerable obstacle to the Government's ambition of a revitalised technical and FE system with employers at its heart, as well as to the effective operation of LSIPs in particular.

**Box 3: Employers' understanding of current and future skills needs**

*'One of the big challenges in trying to get employers, particularly small firms, engaged more with the further education system is that they often don't know what the skills needs of the business are.'* (Employer representative body)

*'Sometimes businesses don't actually know what they need going forward, and in fact do any of us know what they're going to need, what skills we're going to need in 5-10 years' time? So it's very, very difficult.'* (Employer representative body)

Alongside a weak demand for skills, the fragmented and siloed nature of public policy prevents local skills issues being tackled in a joined-up way, resulting in duplication as well as gaps in services (Box 4). Participants highlighted the wide range of bodies with responsibility for funding, governance and regulation of skills at national level, which is mirrored by multiple stakeholders and delivery partners at a local level, often with competing priorities. This creates a confusing landscape for employers to navigate alongside competition between stakeholders, with multiple organisations often attempting to target the same group of employers.

As well as this fragmented approach, progress is hampered by constant skills policy change and a lack of flexibility in long-term funding. This has led to employer fatigue, a lack of awareness about current government-led skills interventions, as well as initiatives not being sustained or sufficiently tailored to local need.

**Box 4: Policy silos and fragmentation**

*'What we have is policy and funding which often competes against one another... when you get down to a local level, what that leads to is multiple initiatives, multiple organisations, all competing for attention of the same employers.'* (FE college)

*'A lack of a joined-up approach starts with policy at a national level and funding at a national level, which then leads us to a situation where it feels like, from an employer's perspective, organisations are trying to compete for attention. But ultimately where that leads to is confusion: they don't then know where to start, and that isn't a healthy position.'* (FE college)

*'It's very fragmented and it makes it very difficult to navigate the system and to deliver something that suits everybody.'* (Local authority)

## Policy recommendations

Stakeholders also discussed potential policy solutions to address the challenges identified above, which can be grouped as follows:

- Promotion and sharing of 'best' practice
- Building strength and stability in the system
- Better co-ordination and collaboration at local level
- Driving the demand for skills through integrated and holistic business support

### Promoting best practice

Participants noted that there was a need to recognise and share examples of where things were working well, so that good practice could be learned from, scaled and spread across areas:

*'There are some areas and places... where it is actually working on the ground. And I think we need to capture some of those lessons.'* (LEP)

### Building stability

The need for stability in policy, governance, funding and institutions was also identified (Box 5). Skills policy, as well as policy aimed at supporting local economic growth, has been [in a constant state of flux for decades](#). This creates a confusing landscape for learners and employers to navigate, but also hampers the ability of institutions and providers to engage meaningfully with employers to develop relationships and longer-term approaches at a sectoral and local level. Participants also recommended a shift away from centralised, designed pots of competitive funding – which was both bureaucratic and time-consuming – to sustainable and flexible long-term funding to address local challenges.

#### Box 5: The need for stability in the system

*'We've had 50 skills Ministers... in 30 years. We've had ten different funding agencies. Everybody comes in, wants to change things, so that's the first thing. Constant change in skills because everybody is trying to solve the problem.'* (FE college)

*'There have been so many iterations and so many different ways of looking at this and nothing ever seems to change. It drives you mad.'* (Business owner)

*'I think for me it's about stability. So whatever we decide to do, we need stability for a period of time. Therefore we need to think longer term.'* (Local authority)

### Co-ordination and collaboration on a local level

As previously noted, there is a challenge around policy silos and fragmentation which results in a lack of a joined-up approach. To tackle this, participants emphasised the importance of strengthening partnerships and better co-ordination between institutions at a local level, which would allow for the creation of referral networks and reduced duplication. This type of

'no wrong door' approach to engaging employers was seen to be already working well in some areas:

*'That's something that we've actually been able to see work really... we've got really close links with the local providers and business development advisors, and it's collaborative approach that if they go to one place that they can get signposted to the support that's relevant to them and it's just then trying to replicate that across other areas... it's about building those partnerships and relationships between the different networks. I think that's absolutely crucial.'* (LEP)

Finally, stakeholders highlighted the need for holistic business support to help raise demand for skills, particularly amongst SMEs. This final recommendation is considered in more detail below.

*'Much better business support is required to help build small firms' people management, development capability and understanding so they have the knowledge and capacity to engage meaningfully with further education colleges and other training providers.'* (Employer Representative Body)

### **Driving skills demand through integrated and holistic business support**

As previously noted, the skills of the population are an important component of labour productivity,<sup>10</sup> yet, a narrow focus on improving the skills supply alone is unlikely to achieve the Government's ambition to level up economic growth. Despite the productivity benefits of skill development/matching,<sup>11</sup> many firms (particularly smaller or family-owned firms) continue to take a 'low-road' approach to labour and see it as a cost to be minimised, rather than an asset to be invested in.

As noted by the Cabinet Office<sup>12</sup> back in 2001, skills are derived from business need – so unless there are mechanisms in place to influence employer need, upskilling policy interventions are unlikely to have the desired impact. As highlighted by the quote below, in order to raise employer demand as well as better use of existing workforce skills it is first necessary to change an organisation's competitive and product market strategies, then how the organisation is designed to deliver these strategies, and then change how work is organised and jobs designed to fit, and then finally to put in place the training and development offer that supports all of this.

*'In order to transform economic performance in many firms, policy needs to influence businesses' product market strategies, product or service specification, and management practices such as work organisation and job design.'* (Skills and Productivity Board 2022)

To achieve this, the OECD<sup>13</sup> suggests that direct intervention is needed to support employers to reshape workplace practices or move to higher-value-added production to drive the demand for skills as well as better use of existing workforce skills.

Evidence from Finland highlights the value in supporting firms directly to improve their people-management skills and redesign work to drive training investment and harness the

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<sup>10</sup> BIS (2015) *UK skills and productivity in an international context* ([https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/486500/BIS-15-704-UK-skills-and-productivity-in-an-international\\_context.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486500/BIS-15-704-UK-skills-and-productivity-in-an-international_context.pdf))

<sup>11</sup> <https://www.oecd.org/economy/growth/Skill-mismatch-and-public-policy-in-OECD-countries.pdf>

<sup>12</sup> Cabinet Office PIU. 2001a. Workforce Development Project Analysis Paper. London: Cabinet Office.

<sup>13</sup> OECD (2017) *Better use of skills in the workplace: why it matters for productivity and local jobs*. Paris: OECD, ILO,

existing competencies of employees. Since the early 1990s, Finland has funded more than 1,800 projects to improve workforce innovation, which involved nearly 350,000 employees. The typical focus included work processes, organisation of work, supervisory tasks, work community, working methods and business-to-business networks. The aim was to improve both productivity and the quality of work.<sup>14</sup> The programme's evaluation emphasised that narrowly designed interventions are unlikely to have much impact; instead, interventions need to target bundles of practices '*that consist of several interrelated work, organisational and human resource management practices on the whole, rather than individual practices as such*'.<sup>15</sup> The findings also highlighted the critical role of external experts in supporting firms to upgrade workplace organisation.

While direct intervention with individual businesses is important, international evidence also highlights the benefits of local approaches that target multiple employers through sectors and employer networks. In the Riviera del Brenta in Italy, for example, collaboration between local employers in the footwear sector, as well as trade unions and the public sector, has helped to raise the demand for, and supply of, skills. Pooled investment in training and collective upgrading of product market strategies allowed firms to compete in high-quality international markets, while close involvement of the unions ensured that the benefits gained from improved productivity were shared between workers and employers.<sup>16</sup>

### **Aligning business support through LEPs and Growth Hubs**

Currently, the pattern of business support is weak, fragmented and underfunded, with [a recent review](#) into the provision and quality of business support services provided through LEPs via the Growth Hubs finding '*extreme variability in both the scope and scale of business support services... [and] no clear pattern in the nature of the business support offer in an area relative to local economic need*'.

The Gatsby report also highlighted a lack of co-ordination across the LEP network of:

- 'demand-side' business support (designed to improve management capability and business innovation)
- 'supply-side' skills policy (designed to ensure workers have the skills businesses require).

It found poor links between Growth Hubs and local FE colleges, and limited evidence that Growth Hubs prioritise skills and workforce development (with some exceptions, such as the Greater Manchester Skills brokerage). The analysis suggests that most FE engagement with employers is transactional, involving tasks like placing apprentices, and does not involve dialogue about their business model or strategic growth ambitions. In a similar vein, [CIPD research](#) evaluating the strategic economic plans and the skills and employment plans of 15 LEPs found that there was, overall, very little focus on raising management capability at a regional level, and limited available help for firms to improve their practices.

### **How to 'pump-prime' HR support for small firms**

The [CIPD has run a number of pilots](#) in different parts of the UK, providing up to two days of free, high-quality HR consultancy support for small firms, which have demonstrated the potential value of such a service where it is properly integrated within the local business

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<sup>14</sup> Alasoini, T. (2015) *Two decades of programme-based promotion of workplace innovation in Finland: past experiences and future challenges*. European Journal of Workplace Innovation. Norway.

<sup>15</sup> Ibid.

<sup>16</sup> Froy, F., Giguere, S. and Meghnagi, M. (2012) *Skills for competitiveness: a synthesis report*. Paris: OECD.

support infrastructure. The evaluation of these pilots suggests that the bespoke and flexible business consultancy support provided was associated with improvements in workplace relations, labour productivity and financial outcomes and could help prompt further investment in business improvement among participating firms.

**Box 6: Building core people-management capability and firms' 'absorptive capacity' necessary first step to business improvement**

The evaluation of the [People Skills pilots](#) found that the overall level of HR and people management in most small firms is typically poor, with many struggling with areas of employment law compliance. Consequently, this meant the greatest demand was for transactional support; for example, ensuring there were written employment contracts, terms and conditions of employment and job descriptions or putting in place consistent processes for recruiting new staff.

The evaluation suggested that, until employers have the necessary basic foundations of effective HR/people management in place, they will lack the capability or appetite to invest meaningfully in apprenticeships and other skills development initiatives.

A similar point is made in a new report by the Skills and Productivity Board, cited above, which finds that, in order for skills to improve productivity, firms need to have the 'absorptive capacity' to be able to mobilise and deploy new and better workforce skills to productive effect.

The CIPD's People Skills pilots found evidence that owner-managers were more likely to consider investing in skills or people-management capability after having accessed the HR consultancy support provided by the pilots.

This is because any immediate, more fundamental people-management issues had been addressed and/or because they had increased knowledge or confidence and a better understanding of why it was important to their business.

This type of HR support service could help SMEs understand their skills gaps and enable them to adopt a more strategic approach to workplace skills development, meaning they would be more likely to engage with FE providers in a meaningful way. As we have [previously argued](#), a system that puts employers at the heart of the FE provision should include 'pump-priming' business support to help firms:

- upgrade their business growth strategies
- improve their people-management and development capability
- adopt and optimise the benefits of new technology.

This type of improved business support would:

- help firms establish the type of workforce skills development they need to boost growth and productivity
- enable employers to engage more strategically with education providers on their skills requirements as they evolve
- dovetail with the work of any new College Business Centres as they emerge
- help firms engage far more meaningfully with the FE system

- support the development of functioning local skills ecosystems, which can help create higher-skilled and better-quality jobs by better matching the supply of skills and the demand for skills.

Overall, the evidence suggests that high-quality business support on HR and people management to build employer capability and appetite to invest in skills and improve how skills are managed and developed in the workplace is a critical element of a functioning local skills system.

Such a service could be established, based on the CIPD flexible People Skills delivery model, to provide up to two days of free bespoke HR business support a year to 40,000 firms across the Growth Hub network at an annual cost of about £50–60 million.

#### **Box 7: Why the consultancy model of business support works so well**

The CIPD's People Skills pilots highlighted that a flexible, consultancy model of business support is particularly valued by owner–managers of small firms because:

- it's easy to access
- it provides a bespoke diagnosis of the particular business and people challenges they face
- it develops targeted, context-specific support or training spanning both transactional and transformational support depending on what is required and adds most value for an individual firm.

## **6 Conclusion**

The Levelling Up White Paper identifies skills as a crucial driver of economic disparities between people and places. To help address these inequalities, it highlights plans to increase the level of '*high-quality skills training, raise educational standards, and put employers at the heart of the further education and training system*'.

Yet, the continued primary focus on the supply side of skills policy is unlikely to achieve the desired outcomes. This is because a significant part of the region's low productivity levels is due to inadequate leadership and people-management capability in too many firms, and a consequently weak demand for investment in skills, coupled with poor utilisation of people's skills in the workplace.

The Government's FE reform plans are likely to be fatally undermined unless greater attention is placed on:

- how to build employers' people-management and development capability
- how to build employer awareness of their skills gaps and shortages
- how to increase employer awareness and recognition of the value of investing more in skills and workers' development.

In order to make real progress towards closing the productivity gap and improving workforce development and capability, it is essential that policy-makers, at a regional and at a national level, tackle challenges related to both the supply and the demand for skills.

From a policy perspective, addressing these issues is particularly challenging, as many of the levers lie outside the remit of traditional skills policy and instead sit within the broader context of economic development, innovation and industrial strategy.

However, the UK's entrenched productivity deficit and failure to shift to a high-skill, high-wage economy, despite the best efforts of successive governments over two decades, suggests a change in thinking and innovation in public policy is required.

This paper highlights the need for a step change in the quality of regional business support on HR and people management and development, to build employer capability, capacity and appetite to invest in skills and create more high-quality and productive jobs.

More broadly, other changes are needed across other interdependent areas of public policy, including economic development, supply-side skills policy, innovation, employment relations, employment regulation, enforcement and compliance.

Together, these connected policy areas will create the business environment needed to ensure that business leaders regard their workforce not as a cost to be managed but as a key value driver to be invested in. The necessary changes to policy needed won't happen by accident and require a renewed industrial strategy designed to underpin inclusive growth across all sectors and regions of the economy.



# CIPD

Chartered Institute of Personnel and Development  
151 The Broadway London SW19 1JQ United Kingdom  
**T** +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201  
**E** [cipd@cipd.co.uk](mailto:cipd@cipd.co.uk) **W** [cipd.co.uk](http://cipd.co.uk)

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