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The UK skills system: how aligned are public policy and employer views of training provision?

Future of Skills & Lifelong Learning
Evidence Review

Foresight, Government Office for Science

The UK skills system: how aligned are public policy and employer views of training provision?

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August 2016

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Executive Summary

The overriding emphases in current skills policy are on:

- A move away from a centrally-driven system to one of employer ownership of skills, with greater employer and learner input into the design and delivery of the system;
- Creating a local market for skills where providers are incentivised to meet employer and learner demand – alongside a degree of local planning and co-ordination; and
- Giving employers and learners more responsibility for ensuring that their skill needs are met.

These moves are occurring in a context of frequent and on-going institutional change. Employers invest in training for a range of reasons but the primary motivation is to meet their current and future skills needs. Decisions over choice of training tend to be made primarily on the relevance of the provision. This underscores the fact that training providers need to concentrate on their offer if they are to meet employer needs. Currently employers are more likely to invest in training delivered by commercial organisations than by publicly funded ones. Key challenges in implementing an employer-led skills system include:

- Understanding employer needs;
- Provider constraints;
- Complexity of the national and local skills system; and
- Appropriate geographical scales for intervention.

An ideal well-functioning skills ecosystem which delivers the skills needs of employers and of the local and national economy would include the following key elements:

- Sustained and sufficient national government and other funding to provide continual nourishment ;
- Strong local partnerships with characterised by a high degree of interdependence;
- Flexibility and balance in aligning the needs and aspirations of different stakeholders in the skills system;
- Use of intermediaries to draw out employer demand and reshape training provision;
- Responsive training providers; and
- Utilisation of skills to best effect by employers.

This requires deliberate encouragement and activity on an on-going basis to decide who does what, when, how and why.

I. Public policy: skills system developments

I.1 The role of public policy in skills development

Assessing the extent to which public policy is aligned with employers' views of their demand for training, in the first instance, needs boundaries to be set. Public policy serves a number of functions in the sphere of training including:

- Provision of funding, typically for:
 - Initial training in the further education (FE) sector for those aged 16-24 years;¹
 - Specific aspects of higher education (HE); and
 - Active labour market policy programmes to assist adults out of the labour markets to return to work;
- An infrastructure for qualifications and accreditation;
- An information service (e.g. the data and analysis that can be used in careers guidance); and
- Quality assurance (e.g. via the examination system and Ofsted).

In order to keep the discourse presented below within manageable boundaries, it is limited to initial vocational education and training (VET) delivered in FE. While this inevitably means that the discussion is partial, it does encompass perhaps the most active area of policy development in relation to skills development. The role of public policy is essentially that of intervening where market mechanisms might result in market failure of one kind or another. Such failures have been well documented and relate, amongst other things, to allocative efficiency (e.g. providing a qualifications framework, setting training standards, etc.), capital market failures (e.g. paying for the training of young people), and information failures (e.g. indicating the returns to various qualifications) (Hogarth et al., 2009). In essence public policy has been oriented towards creating market based solutions that will efficiently match the supply of skills to both current and future demand at a level and volume that compares favourably with relatively high productivity countries such as Germany, France, the Netherlands, etc.

How, then, can the employer position be summarised? An economically rational, profit maximising employer will want to secure, in a perfectly competitive labour market, the skills it requires at the lowest price possible. It will be willing to fund, in conjunction with the learner, organisation- or industry-specific skills, but not generic, wholly transferable ones as these are skills where another (non-training) employer could appropriate the return on the training employer's investment (Becker, 1964; Stevens, 1994). This is recognised in the design of public policy. For example, the State meets a substantial share of the total cost of training

¹ Albeit there is a different funding regime for those aged 16-18 years (and here it should be noted that the relatively recent Raising of the Participation Age first to 17 in 2013 and then to 18 in 2015 requires all young people to engage in some form of education and training, albeit not necessarily full-time) and those aged 19 years and over which can complicate matters for employers and providers.

apprentices (including all wages and training costs) to completion of their apprenticeships (Hogarth, et al., 2012).²

In essence then there is little scope for misalignment between the two sides but for one exception: the equilibrium level of skills demand appears to have settled at a level lower than considered desirable by policy makers. In particular it has settled at a level lower than in key competitor countries (Mason, 2011; Wilson and Hogarth, 2003). Moreover, public expenditure cuts have reduced the size of the FE budget such that Government has sought to rebalance the extent to which the State and employers share the costs of supplying initial VET; employers may be required to a higher share of the overall cost of, for instance, delivering apprenticeships in the future. A key question is how this might play out over the medium-term: will there be more or less employer demand, and for what type of training (accredited / unaccredited, by level, etc.)? The introduction of the Apprenticeship Levy³ suggests that government recognises the need to ensure that employers do not underinvest in skills (Wolf, 2015). And how will training providers be affected given that they are the 'piggy-in-the-middle' required to meet both the demands of the State and employers? Under the localism agenda, whereby more control over skills will be ceded to the local area, there is the expectation that employers, providers, and various public agencies (organised under the auspices of Local Enterprise Partnerships (LEPs) in England) will be to better able to match skills supply to its demand (Green et al., 2016).

1.2 The direction of travel in skills policy: from a supply-side to a demand-side focus

Back in the 1960s and 1970s, VET, delivered through apprenticeships, was principally the responsibility of employers / industry. At this time, participation levels were at a relatively low level. Arguably public funding of various training programmes aimed at the vocational preparation of young people – including the establishment of publicly funded apprenticeships in 1994 – were aimed initially at increasing the number of VET participants in post-compulsory education. As time has passed, the emphasis has moved towards:

1. A change in focus from supply to demand; and
2. A move from a complex centrally driven system to employer ownership of skills to meet industrial and local priorities in a market-based system

These two trends shape the context for assessment of the alignment (or otherwise) of public policy and employer views of, and requirements from, training provision.

At the outset it should be noted that skills policy is devolved to the nations of the UK and each of the nations has its own skills strategy, but there are common themes across the nations of the UK (CIPD, 2016), including up-skilling of the workforce, improved careers advice, simplified and responsive FE and Vocational Education and Training (VET), increased demand for skills through increased employer ambition, better skills utilisation in the workplace, and a particular emphasis on targeted support for skills development in small and medium-sized enterprises (SMEs). Hence the emphasis here is mainly on broad generic trends rather than detailed

² The State only meets the costs of the training provider, but this can be substantial especially at Level 3.

³ See <https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

national differences. In order to illustrate particular points in detail though, examples are drawn from England.

1.3 From a supply-side to a demand-side focus

Historically, skills policy in the UK has had a supply-side focus, with the underpinning rationale being to raise skills levels as a means to achieve higher levels of employment, productivity and prosperity (HM Treasury, 2015). Given concerns about a long tail of low skills in the UK, traditionally, skills policies have focused primarily upon boosting the supply of skills through publicly-funded investments as a route to competitiveness and productivity growth in international terms, as well as social inclusion/mobility. In this vein, the Leitch Review of Skills addressed the UK's long-term skill needs. Leitch set out a vision and ambition for the UK to become a 'world leader in skills' by 2020, benchmarked in the upper quartile of the OECD (HM Treasury, 2006). This involved targets for enhancing skills attainment at various levels, with the overall aim of shifting upwards the skills profile of the population. The associated skills strategy rested on three assumptions (Payne and Keep, 2011):

- that a 'supply-push' effect would operate – i.e. the belief was that increasing the publicly-funded supply of qualified labour would, of itself, enable employers to shift 'up-market' and adopt higher value-added, higher productivity, higher skill production strategies;
- that increasing the qualifications of low skilled individuals would allow them to move off welfare, enter employment and progress in the labour market;
- that public subsidy could be used to leverage the additional employer 'buy-in' and investment necessary to meet the targets for developing a 'world-class' skills base.

The ambition underlying them has remained but increasingly skills policy has been informed by recognition that because skills are a derived demand a supply-side focus is insufficient. After all, it may be rational for some employers to pursue low value added strategies associated with low-skilled jobs in a situation of low-skills equilibrium (Wilson, Hogarth et al., 2013). Hence there need to be greater links between business development and skills.

Increasingly the direction of travel in skills policy has been towards a demand-led system, with the aspiration to create a strong external training market in which employers have greater influence in shaping training provision and together with learners have some choice in making their training investments. In England, there has been a move to the make apprenticeships more demand-side oriented with the shift from frameworks to occupational standards where employers have an important role in the design of those standards.

1.4 From a complex centrally-driven system to employer ownership of skills in a market-based system

1.4.1 From Government and provider leadership to employer ownership of skills

In moving away from Government and provider prescription of training provision various attempts have been made to strengthen employer leadership, co-investment and co-creation in the skills arena. For instance, as part of the broad employer ownership of skills agenda the UK Commission for Employment and Skills proposed that there should be moves:

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- From government leadership to employer ownership of vocational training for young people aged 16-24; and
- From provider led to employer owned adult workforce development.

In late 2011, the Coalition Government announced Employer Ownership Pilots, in which businesses were invited to develop new and innovative proposals for tackling the current and future skills needs of their sector, supply chain or local area, in order to test the potential for employer ownership to deliver a competitive skills base (OECD, 2015). In this instance public investment was provided directly to businesses, alongside businesses' own private investment, rather than following the mainstream public funding model where funding is channelled through FE colleges and training providers. The overall aim was to find more effective ways to improve skills in the workforce and to use these improved skills to create jobs, drive enterprise and economic growth. However, initial evaluation findings of the Employer Ownership Pilots highlighted considerable problems in recruitment of learners to training and other activities being only just over one-third of what was envisaged when the projects were planned, and limited evidence of innovation (Diamond et al., 2015).

1.4.2 Development of an external market for training – and the pace of change

A key feature of the skills system is the fast pace of change. The Coalition Government's 2010 Skills Strategy abolished the Leitch targets and moved beyond "the machinery of central control" as a means to achieve the ambition for world class skills (BIS, 2010). Rather the emphasis was to be on making the supply side even more responsive through the removal of centralised control so allowing training providers to be flexible to meet the demands of employers and learners (BIS / DfE, 2013). The underlying approach remained voluntaristic and market-based, with an emphasis on learners selecting training and qualifications that are valued by business and which are delivered by a broad range of autonomous training providers attracting learners depending on the quality of their offer. This puts the onus on training providers to meet employer and learner needs, given that as beneficiaries of a demand-led approach, employers and learners will bear an increasing of the overall costs of training. Policy developments related to employer-routed funding (Hogarth et al., 2014), the Apprenticeship Levy, and provision of training loans to some learners reinforce the principle of beneficiaries taking responsibility for the costs of training in a demand-led approach, in the context of reduced government funding for skills development. In some respects the Apprenticeship Levy marks a break with the recent past in terms of government imposing specific requirements on employers investing in training.

Evidence from the CIPD shows that employers' attitudes to the Levy are mixed; in the CIPD's survey about a third of organisations supported the principle of the levy, with just over a quarter of employers opposing it (CIPD, 2016). In many respects the Leitch targets put in place a floor below which the supply of training could (or should) not fall. The Levy might be seen in a similar vein. Assuming that employers choose to recoup their Levy payment then this guarantees a certain quantum of training takes place, but it does so in way that guides employers towards a system that has been re-structured to deliver training that meets their needs (i.e. reflecting the introduction of apprenticeship standards that are designed to better meet employer demand, and the employer routed funding that provides employers a degree of negotiating influence when discussing with training providers the price, structure and content of the training to be delivered).

1.4.3 Devolution to the local level

Most employers and nearly all learners make choices about training within local labour markets (however defined): they are looking for local providers to meet their needs. Government has sought to make adult skills provision more responsive to local needs by ceding some aspects of responsibility and skills funding (in some areas) to Combined Authorities, LEPs (in England) or some other institution at local level via City Deals, Growth Deals, etc. Initiation in England of Area Reviews of post-16 educational and training provision in local areas to assess the economic, educational and training needs of an area (BIS, 2015), are also indicative of a desire for greater local planning and co-ordination at local level. Yet alongside co-ordination and planning at the local level providers are incentivised to meet employer and learner demand for skills (e.g. through employer-routed funding). It should also be noted that localism is occurring in the context of austerity, with lower levels of government funding than was previously available.

1.4.4 A continuing role for the state

There is a continuing role for the state in:

- Maintaining a regulatory role in providing a recognised qualifications framework and ensuring that certain quality standards (set by Ofsted and Ofqual) are met by providers in their deliver of training;
- Creating a local market for skills where providers are incentivised to meet employer and learner demand – albeit ideally in a context of a degree of local co-ordination and planning;
- Improving the supply of labour market information so that consumers of training are better informed about likely returns from investment decisions and so can behave as rational economic actors; and
- Intervening to anticipate and correct market failures in the demand for and supply of skills.

1.4.5 The training provider's role

In order for the skills system to work effectively requires there to be training providers in place that can deliver the apprenticeships – and other initial VET – that employers and, in aggregate, local areas demand. It is clear that training providers have some anxieties about how demand for their services will play out in the future and there is evidence that the financial position of some FE colleges is less than robust (as indicated in the ongoing Area Review process). It is apparent that training providers' main concerns relate to:

- Reduced levels of public expenditure on further education (AOC, 2015);
- The fact that students in further education not having the same level of student support available to them as higher education students that affects participation levels (AOC, 2015);
- Worries over the level of demand for apprenticeships from employers under employer routed funding (AELP, 2016).

1.5 Conclusion

The overriding emphases in current skills policy are on:

- An increasing move away from a centrally-driven system to one of employer ownership of skills, with greater employer and learner input into the design and delivery of the system;
- Creating a local market for skills where providers are incentivised to meet employer and learner demand; and
- Giving employers and learners more responsibility for ensuring that their skill needs are met.

While these would be important changes on their own, it is worth noting that alongside them all key players in the skills system – providers, employers and learners – have witnessed considerable institutional (and funding changes) in skills and wider employment and economic development policies in recent years this period, which in turn tends to foster confusion regarding the skills system (OECD, 2015).

2. Employer decision-making on training and views on provision

2.1 Introduction

Understanding why employers invest in training is an important precursor to considering the scale of demand for training and their views on training provision. This section considers these questions, drawing primarily on case study and survey research.

2.2 Why do employers invest in training?

2.2.1 Theoretical and empirical perspectives

From a theoretical perspective, human capital theory indicates that employers would be willing to fund training to meet their specific business needs but would be unwilling to fund activities that contribute to strengthening the position of their employees in the external labour market (i.e. by upgrading and accrediting the general skills) without funding to compensate for this potential loss. In practice, employers' decisions to invest in skills indicate that they see a range of qualitative benefits that derive from investing in initial vocational education and skills (IVET). Evidence from case study research in selected sectors from the Fifth Net Benefits to Employers of Training Study (Hogarth et al., 2012) suggests that employers use programmes such as apprenticeships as a means of bring a supply of new skills into the organisation via young people, who can be trained to 'fit' with organisational and business needs, though other motivations are apparent too (Table 1). But in essence, the employer's primary motivation is to obtain skills that the organisation needs over the medium-term and to attain a good fit between the work-values held by the organisation and by the trainee, respectively.

In relation to continuing vocational education and training (CVET) enhancing recruitment and retention, as well as meeting current and future skills needs, are reasons for investing in training (see lower panel of Table 1). Hence the emphasis is on meeting wider human resource management goals within organisations rather than just the supply of skills.

In the case of both IVET and CVET regulatory requirements might motivate some investments in training. Having invested in training, inertia and occupational / sectoral norms may be reasons for employers continuing to do so.

Table 1: Why employers invest in training

Type of training	Reasons for investment
Initial VET	<ul style="list-style-type: none"> • A desire for an ongoing supply of occupationally- or sectorally-specific new skills for the organisation – via recruitment of young people (e.g. through apprenticeships or other formal qualifications) whose skills can be cascaded through the workforce. • Lack of experienced skilled workers in local labour market who could be readily recruited. • Limited scope for up-skilling members of the existing workforce to meet skills requirements. • A preference for training individuals brought into the workforce who could be 'moulded' to the organisation's requirements and so meet business needs. • Corporate social responsibility motivations beyond specific business needs involving provision of training of young people to help them in accessing the labour market. • Legal or regulatory requirements requiring employers to ensure that their employees have the necessary qualifications.
Continuing VET	<ul style="list-style-type: none"> • Giving confidence to employees by accrediting skills they already have • upskilling the workforce to take on new higher level tasks – so ensuring that they have the training required to meet current and future skills needs • enhancing their attractiveness as an 'employer of choice' – via recruitment offers to accredit existing skills and through provision of training opportunities to develop new skills • as a retention tool – with training being a means of reducing labour turnover by being seen to invest in the employee, with the employee gaining motivation by interpreting investment in training as a signal that his / her future lies with the company • legal or regulatory requirements requiring employers to ensure that their employees have the necessary qualifications

Source: based on Hogarth et al. (2012)

2.2.2 Who makes training decisions?

Another important consideration is who makes the decision to train. This is important to know in terms of where influence needs to be brought to bear from a policy perspective. This varies by variables such sector, size, whether an organisation is multi-site or single site, and ownership. In general evidence suggests that in large, multi-site employers in sectors such retailing, financial services, construction decisions are generally taken by the training department at head office but establishments within the group have responsibility for implementing them – with varying degrees of discretion. In large single-site establishments the Training or Personnel Manager tends to make the lead and has responsibility for setting a training budget, but decisions about who to train, and in what, are left to individual department heads. In other single site workplaces training decisions tend to be based around human resource requirements in the

context of the prevailing recruitment and retention situation, and the smaller the workplace the more ad hoc decision-making is likely to be (Hogarth et al., 2012).

2.3 Evidence on employer investment in training

2.3.1 How many employers invest in training of different types?

A key source of evidence on employer investment in training in the UK is the Employer Perspectives Survey (EPS). The most recent EPS results at the time of writing relate to 2014. The 2014 EPS provides information on decisions about training volumes and engagement with training providers for just over 18,000 establishments across the UK (Shury et al., 2014).

According to the 2014 EPS around seven in ten employers (69 per cent) had provided internal or external training for their staff in the previous 12 months. The EPS distinguishes between:

- **Internal training** - which they deliver themselves via their own staff; and
- **External training** - which is sourced from external organisations, such as commercial training providers, colleges, universities and not-for-profit providers.

It is the latter (i.e. external training) which is of greatest relevance here. Yet of the establishments that engaged in training 58 per cent had provided internal training to their staff compared to 45 per cent that had provided external training.

When employers offered external training, it was more frequently through private providers (defined as suppliers, customers, and commercial organisations such as private training providers, regulatory bodies and employer associations) than through public provision (FE colleges and higher education institutions (HEIs)). Around two-fifths (41 per cent) of all employers (60 per cent of all who provided training) had used private (i.e. commercial) providers to deliver some or all of their training, compared to 11 per cent (15 per cent of all who provided training) who had used any public provision.

These aggregate figures disguise important differences in training activity by size (large employers are more likely to engage in training than small employers) and sector.

2.3.2 What motivates choice of training provider?

Relevance of course provision is the key factor motivating choice of training provider: 57 per cent of training establishments using private providers and 65 per cent of those using public provision indicated this as a reason for doing so. Likewise, lack of relevance of courses was the main reason for not using private provision, and this was more marked for HEIs and FE colleges (with around half of training establishments indicating courses were not relevant) than for private providers (18 per cent of training establishments indicated that courses were not relevant).

Tailoring of courses to meet employer needs was valued highly by employers, with 13 per cent among those who chose private providers identifying this as a key reason, compared with 9 per cent of those who chose public providers). The general quality of the course was also identified as a key reason (identified by 11 per cent of employers using each type of training). 12 per cent of employers reported using private providers as a result of receiving equipment or services from that provider for which they needed tuition or training (12 per cent) (Shury et al., 2014).

2.3.3 Why do some employers decide not to engage in training using external providers?

As well as investigating the reasons behind employers choosing particular types of external providers, the 2014 EPS also explored why other employers did not offer external training at all. Here, demand side issues were most frequently cited, being mentioned by 61 per cent of employers who had not used external providers – with the most common responses being that staff already had completed the training and qualifications that they need (32 per cent), staff did not require training for their job role (16 per cent) and a preference for in-house training (12 per cent). Supply side issues were mentioned by 17 per cent of employers who had not used external training providers – with the most often mentioned reason being lack of relevance of courses provided. Resourcing issues (i.e. expense and time constraints) and a lack of information about courses were mentioned as inhibiting factors by 12 per cent and 5 per cent, respectively of employers not using external training providers.

2.3.3 Where do employers seek advice on training-related issues?

A wide range of organisations provide support, information and advice to employers on training-related issues in the UK. The 2014 EPS distinguishes four broad categories of such organisations:

- Training providers – e.g. FE colleges, universities and other training providers;
- Collectives and representatives – e.g. professional bodies, other employers and trade unions;
- Public sector organisations - Local Authorities and country-specific organisations (including devolved Governments); and
- Private sector bodies – e.g. consultants.

According to the EPS 28 per cent of employers had sought external information, advice or other practical help on skills and training-related issues in the last 12 months. 16 per cent and 14 per cent, respectively, used training providers and representatives. Public sector organisations and other private business sources were less popular, used by 10 per cent and 6 per cent, respectively.

2.3.4 What challenges do employers face in engaging with educational institutions?

As well as engaging in training activities, some employers have long sought to work with educational institutions to help interest and prepare young people for the world of work (Huddleston, 2012). Recently, the Government's 'Inspiration Agenda' (HM Government, 2013) placed renewed emphasis on such work inspiration activities, designed to expose young people to the world of work, through activities such as work experience, careers activities, projects with employers, mentoring and enterprise activities (Bimrose et al., 2014; Mann and Virk, 2013; Mann et al., 2014). Only a minority of employers faced difficulties in such engagement, but the most commonly reported difficulties were:

- Lack of interest from educational institutions (mentioned by 36 per cent of employers engaging schools and universities and 22 per cent of those engaging colleges);

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- Poor quality of candidates (mentioned by 21 per cent of employers engaging with schools and 23 per cent of those engaging with colleges);
- Communication difficulties – either at the time of initial engagement or subsequently (mentioned by 28 per cent of those engaging with universities and 15 per cent of those engaging with schools and colleges); and
- High levels of bureaucracy / red tape (mentioned by 16 per cent of employers engaging with universities and 13 per cent and 7 per cent, respectively, of those engaging with schools).

2.4 Conclusion

Employers invest in training for a range of reasons but the primary motivation is to meet their current and future skills needs. Engaging with educational institutions in inspiration and awareness raising activities has a role to play here. However, the evidence suggests that in England many employers are passive recipients of IVET, rather than taking an active role in articulating demand, so creating a problem for policy makers in ensuring that provision is demand-led. By contrast in countries such as Germany and Sweden employers' organisations play a more active role in shaping the content of training provision.

Decisions over choice of training provider tend to be made primarily on the relevance of the provision, and evidence from the 2014 EPS indicates that employers are more likely to invest in training delivered by commercial organisations than by publicly funded ones. This underscores the fact that training providers need to concentrate on their offer if they are to align with employers' requirements.

3. Challenges in implementing an employer-led skills system

3.1 Introduction

Section 1 outlined the shift from a supply-led to a demand-led skills system, with an increasing role for employers, while Section 2 set out evidence on employer investment in training. Before considering key features of an 'ideal' well-functioning skills ecosystem, this section addresses challenges in implementing an employer-led skills system, with a particular focus on:

- Understanding employer needs;
- Provider constraints;
- System complexity; and
- Appropriate geographical scale

This section draws in particular on evidence from a recent local skills study in the Black Country in the West Midlands (Green et al., 2016) and the work of the Wolverhampton Skills and Employment Commission (2015), but the generic issues raised in this sub-regional and local context are of more general applicability and so discussion of this local case is of wider relevance.

3.2 Understanding and addressing the details of employer needs

Ideally, since employers often want provision which is heavily tailored to their own, specific needs (e.g. down to the types of equipment being used, not just the tasks being completed), evidence on employer demand needs to be understood at a very granular level of detail. It is resource intensive to develop this level of detail. Even if such detailed information is available, larger training providers (including some FE colleges) may view such requests as not economic if the number of learners is small, and the employer wants delivery in terms of bite-sized chunks at a specific time to suit their operations. This can create a particular barrier to small businesses obtaining what they want from providers. In general it is easier for larger firms to define their needs and source appropriate training provision: these firms are also more likely to be engaged with local stakeholders. Hence there is a challenge to develop mechanisms to draw out, articulate and service training and workforce development needs from smaller firms, whose requirements may otherwise go unnoticed. Where such requirements remain unsatisfied employers may find 'work arounds' and/or fail to take advantage of new market opportunities, so stifling growth.

But as well as specific occupational- and sector-specific skills, employers consulted in evidence gathering to inform the deliberations of the Wolverhampton Employment and Skills Commission highlighted a desire for 'well rounded' individuals – possessing a threshold level of academic and technical skills, but importantly also employability skills relating to punctuality, attendance, working with others, etc. It was noted that some individuals with adequate/ good levels of formal qualifications lacked employability skills. Employers' demand for so-called 'employability' or 'soft' skills is a common theme in other studies. Evidence from the 2015 Employers Skills

Survey suggests that skills lacking amongst applicants for vacancies spanned both people and personal skills. The most common deficiency was time management skills, with shortcomings in management and leadership and in sales and customer handling skills amongst the next most frequently cited (Vivian et al., 2016). This suggests that personal attributes are an essential component of employability, not a 'nice to have' extra.

3.3 Provider constraints

Reference has already been made to the economic constraints faced by providers in delivering training geared to the specifics of employers' requirements. Despite moves to a demand-led market-based system, and some devolution to local level, strong national influences on local skills policy remain; training providers face the challenge of being responsive to local demand while having to consider what is fundable (via public funding sources, e.g. the Skills Funding Agency (SFA)) – and here the key focus is on full externally accredited qualifications. Here it is salient to note that the FE system in England is characterised by numerous (indeed 'far too many' (Musset and Field, 2013)) qualifications (some with limited value), which has been recognised as sub-optimal for learners and employers (Wolf, 2014), and unusually (in international comparative terms) with qualifications being provided by independent awarding organisations. The competition between awarding organisations is weak or counterproductive, such that, in the assessment of Musset and Field (*ibid.*) the system effectively inhibits employer engagement. The issue of numerous qualifications, coupled with the traditional dominance of academic over vocational qualifications in the minds of the public and employers, and their location of between compulsory education and the labour market, leads Hodgson and Spours (2015) to see FE colleges as located on a 'negative nexus' subject to powerful factors trapping them in a 'low recognition/low status/unclear identity' syndrome.

It is clear that funding is the primary driver of behaviour of training providers. There is potential for training providers to make training more attractive to employers if they have some discretion in the offer they can make to employers; in a centralised system with a national funding regime providers can 'hit their targets' (i.e. in accordance with the strictures of public funding) but 'miss the point' in terms of providing education and training that meets the needs of employers and learners. Findings from the Local Skills Study conducted in the Black Country (Green et al., 2016) suggest that currently some training providers view their key priorities as short term survival, delivering what in their contract from the Education Funding Agency (EFA) / SFA which is renewed annually, and maintaining a high Ofsted rating – this mitigates against pursuing change in a context of limited time and money devoted to market development exacerbated by uncertainty over future government funding.

The nature of the national funding system means that education providers both compete and collaborate with each other. For example, FE colleges and commercial training providers are independent businesses and so it is not necessarily in their own organisational interests to direct employers and learners to their competitors where alternative options (which might be more suitable for the learner/ employer) are available. A logical outcome of reduced public funding is specialisation by FE colleges and other providers, but in a free market all would want to specialise in the most profitable types of provision. One way to obviate this challenge is to introduce common performance indicators relating to employment outcomes.

The overriding challenge is one of finding a balance between local providers being able to flex national policy to meet local demand, without sacrificing the longer-term goal of national policy to equip employers and individuals with the skills that they need to be productive in the future labour market.

3.4 Dealing with complexity

The range and changing volumes of funding streams for skills provision and the regulations surrounding them, coupled with frequent institutional reforms mean that the national skills system is complex. At local level the disjointed and short-term nature of much public funding means that there is a plethora of providers and services yielding overlapping provision alongside gaps in provision. This suggests that there is a need for brokers at local level to help link employers with training providers and with schools.

One example of such a broker from the Black Country is the Skills Factory - an employer-led education and training collaboration coordinated by the Black Country Consortium Ltd with initial funding via the UK Commission for Employment and Skills which focused on the sub-region's high value manufacturing sector. In one key element of its work it focused on up-skilling the existing workforce by providing a bottom-up signposting and brokering role in identifying and arranging suitable training in employer-led bite-sized chunks, covering a range of specialisms. Training was delivered in conjunction with existing specialist training providers and local FE colleges in the Black Country. Although attractive to employers, activity was sector-specific and small scale. There are challenges in extending and up-scaling such work.

3.5 Appropriate geographical scale for action

In the context of devolution to the local level there is also a challenge of the appropriate geographical scale at which to act. In terms of overarching skills policy, engaging with employers and meeting aggregate demand for skills the sub-regional (e.g. Combined Authority) level seems appropriate for leveraging employer investment, investing in skills developments to meet opportunities and provision of business support services. This sub-regional scale is also the one at which area reviews are taking place, so implying a degree of planning at this geographical level. By contrast, supply-side support for individuals at the lower end of, or outside, the labour market may be better delivered at a more local / neighbourhood scale.

3.6 Moving towards a well-functioning skills ecosystem

A 'skills ecosystem' is akin to a biological system, with all separate parts connected, interdependent and working together dynamically in order to function well as a whole. The term was coined by Finegold (1999), who used it to describe the actors and institutions, and the complex relationships between them that seemed to successfully deliver local skill needs for employers and for the local and national economy. It does not relate to the actual case of England / the UK but rather provides a model of what could be achieved if all elements were in place.

Key elements of such an ecosystem include:

- Sustained and sufficient national government and other funding to provide continual nourishment – currently in the UK shrinking funding undermines established capacity, while limited duration / short-term / uncertain funding arrangements weaken continuity of effort and commitment of training providers at local level to meet employers' / local economies' needs;
- Strong local partnerships with characterised by a high degree of interdependence - involving a broad range of stakeholders including the public sector, education and training providers and employers (i.e. employer engagement is a necessity) – with good local leadership / co-ordinators and a range of opportunities for formal and informal networking - to identify and respond to those needs;
- Flexibility and balance - in aligning individual, employer, local/ regional/ national skills needs and aspirations;
- Use of intermediaries with strong sectoral knowledge to draw out employer demand and reshape some supply to better meet needs;
- Responsiveness of training providers; and
- Utilisation of skills to best effect by employers.

The functioning of skill ecosystems is not neutral or self-evident but rests on various and often differing interests (Buchanan et al., 2016). Alignment of interests is unlikely to happen spontaneously; rather it requires deliberate encouragement to decide who does what, when, how and why. This suggests a role for the public sector, employers, training providers and other stakeholders at local level to foster and participate in, and continually encourage, such developments. This is what policy in the UK needs to take into account.

4. Conclusion

From a theoretical perspective, the respective roles of employers and the State are clear. The major tension in the system in the UK is being able to shift to a demand led system that is able to generate a relatively high level of demand for skills from employers. In the future, it is likely that less public funding will be available with which policy makers at either the national or local levels can use to ratchet-up the supply of skills to employers. The Apprenticeship Levy may well fulfil this role in the future, but only time will tell whether this will be the case (CIPD, 2016). The skills system has been amended in an endeavour to make it more attractive to employers so this may well have the impact of ensuring that employer demand for initial VET will continue to grow. But this does place pressure on local players – via the LEPs in England and combined authorities – to both stimulate the demand for initial VET from employers and then ensuring that there is appropriate and relevant supply of training in place – notably via FE colleges and private providers - to meet that demand.

Economic theory is clear about what the state and employers should pay for. This has guided policy and, by and large, the skills system has been able to satisfy employer demand, but at a level that is considered too in comparison with high productivity countries. Accordingly, government has invested heavily in the supply-side, but because this tends not to produce particularly good matching of skills supply to demand (c.f. the Wolf Report 2011), the State has sought to wean employers off supply-side incentives such that they will use the skills system to invest in skills that will confer benefit on their organisations. Arguably the financial crisis has accelerated the move towards a more employer led / funded system. It is nevertheless apparent that measures are in place to ensure that this brings about the desired goal of ratcheting up skills demand (both its volume and the level at which it is delivered). But essentially the problem remains the same: how to persuade, incentivise, and dragoon employers to invest more in those skills that are likely to confer benefits on their organisation. The infrastructure is in place for employers to use, but as the old adage goes – ‘you can lead a horse to water, but you can’t make it drink’.

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