



National Audit Office

Employers' perspectives on improving skills for employment

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EXECUTIVE SUMMARY



Skills are essential to a successful and sustainable economy and society

1 A strong skills base, though not sufficient on its own, is an important element in a productive and sustainable economy (**Figure 1 overleaf**). And skills for public sector employees are essential to providing better public services. In the 2003 Skills Strategy¹, the government set out its commitment to improving skills for employment as one of the building blocks towards enhancing the UK's success as an economically competitive nation. Skills make an important contribution to increasing social inclusion, because better skilled people are generally more able to fulfil their potential, earn more and use their skills for the benefit of their families and communities.²

2 The Department for Education and Skills (the Department) spends around £6.7 billion, through the Learning and Skills Council, on employment-related education and skills training in England (**Figure 2 overleaf**). In addition, 1.9 million employers in the public and private sector spend an estimated £23.7 billion on education and training, including around £10.3 billion on

trainee labour costs and about £10.8 billion on training provided within the organisation.³ The total also includes an estimated £2.6 billion spent on external training, either in England's 397 colleges of further education or with providers from the private, community or voluntary sectors. Despite this expenditure, six per cent of employers have skill shortage vacancies and 20 per cent have skills gaps, costing in total some £10 billion a year in lost revenue, equivalent to £165,000 a year in a typical business with 50 employees.⁴

The delivery chain for providing education and training for employment is complex

3 A wide range of government and private sector organisations in addition to the Department for Education and Skills are involved in the planning and delivery of education and training for employees (**Figure 3 on page 6**). Appendix 1 provides more detail on key policies, initiatives and organisations.

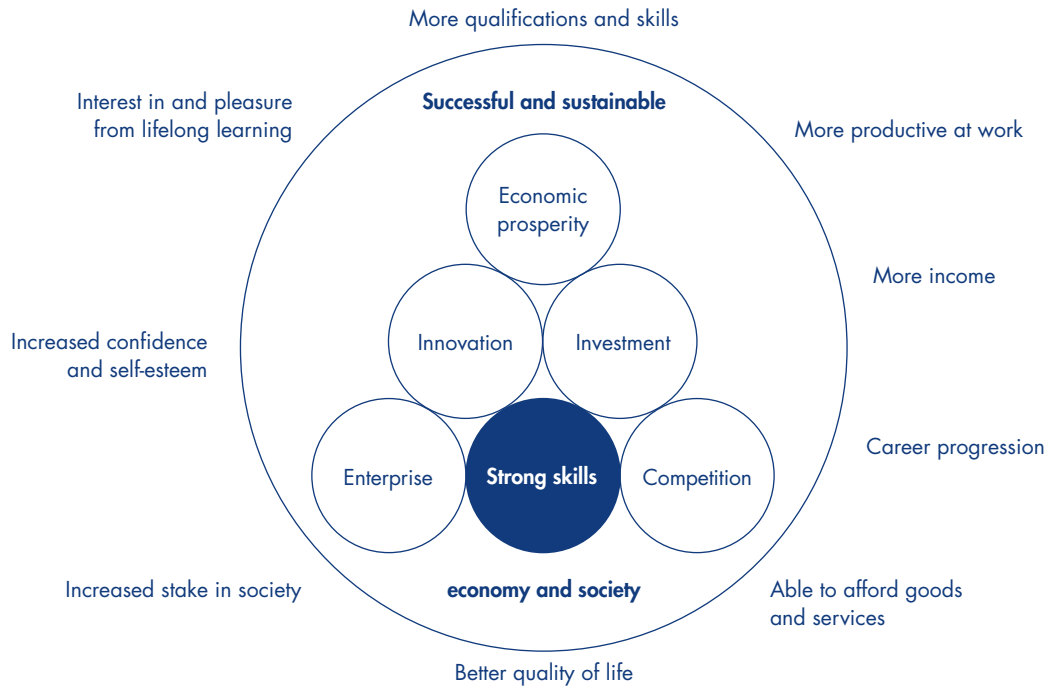
¹ *The Skills Strategy White Paper: 21st Century Skills: Realising Our Potential: Individuals, Employers, Nation*, Department for Education and Skills, July 2003.

² *Skills White Paper 2005: Getting on in business, getting on at work*, Department for Education and Skills, March 2005.

³ *Learning & Training at Work 2000*, Department for Education and Skills, December 2000; figures based on employers with 10 or more employees.

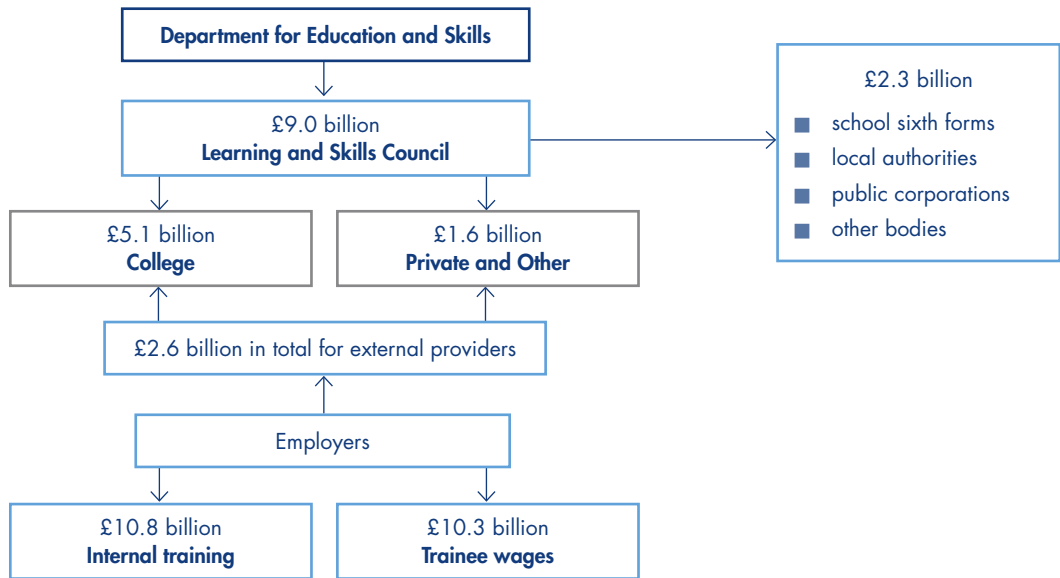
⁴ *National Employers Skills Survey 2003*, Learning and Skills Council (research by Ernst & Young), and 2004.

1 Strong skills are essential to a successful and sustainable economy and society, and benefit individuals



Source: National Audit Office

2 Expenditure on learning and skills in England



Source: Department for Education and Skills, and Learning and Skills Council financial statements 2004-05

NOTES

Expenditure figures have been rounded.

The Learning and Skills Council also receives £0.3 billion from other sources.

Tackling the skills challenge

4 Improving skills for employment – and ensuring employers get what they want – requires employers' co-operation and involvement. Employers are a very diverse group, covering a very wide range of industries, voluntary groups and charities, and public sector organisations ranging from the very small to the huge sectors like the National Health Service. Some employers are multinationals with hundreds or thousands of employees and supported by human resources and training departments, but the vast majority of companies are small, many with only a few employees or acting as sole traders (**Figure 4 on page 8**). While smaller businesses are less likely to train than larger businesses⁵, training also varies widely by sector.⁶

5 The UK has historically had low productivity relative to its main international competitors.⁷ Work done by HM Treasury and the Department of Trade and Industry has also shown that there are significant and sustained differences in economic performance between and within the UK's regions.⁸ Variations in skills composition is the major factor in explaining those differences⁹, but investment in skills training is also important among other key drivers including innovation, enterprise and competition.

6 **Figure 5 on page 9** illustrates regional data in England on productivity, skills gaps, training days, and Learning and Skills Council expenditure per head of the working population. The data is presented for illustrative purposes only, because possible connections between the four sets of data, and the reasons for similarities and differences between regions, are likely to be complex. The fact of such complex interrelationships reinforces the need for relevant public sector organisations to engage effectively with employers to define requirements for improving skills for employment, and to help secure provision that meets the identified needs.

Why and how we did this study

7 Two of our recent reports prompted this study:

- in *Skills for Life: Improving adult literacy and numeracy*¹⁰ we highlighted barriers to employers investing in training for employees with low literacy and numeracy, and the importance of structures and funding that support the flexible provision that encourages adults to take up learning; and
- in *Securing strategic leadership in the learning and skills sector in England*¹¹ we explored the tension between some of the Learning and Skills Council's national targets and regional priorities for skills development.

8 Much is known about the extent, causes and implications of skills gaps¹², and we found a wealth of data collected through intermediaries such as local Learning and Skills Councils, Business Link organisations, Sector Skills Councils, colleges and training providers. But there was relatively limited up-to-date information based on direct research with employers on how they want publicly funded training to be improved and whether it represents value for money from their perspective. Though we drew on a range of sources, we focused our research on direct views from private and public sector employers and employers' organisations in England. We have also taken account of a recent major review¹³ on the key challenges and opportunities facing further education colleges which recommends that colleges should sharpen their focus and direct their major efforts towards improving employability and supplying economically valuable skills.

⁵ *National Employer Skills Survey 2004*, Learning and Skills Council.

⁶ *Skills for Business Network: Phase 2 Evaluation Main Report*, Research Report 10, Policy Research Institute, Leeds Metropolitan University for the Sector Skills Development Agency, September 2005. The proportion of all employers providing training in 2004 varied from 91 to 43 per cent by sector.

⁷ For example, UK productivity in 2003, measured by Gross Domestic Product per worker, was 11 per cent below that of the combined average for other G7 countries, which includes Canada, France, Germany, Italy, Japan and the U.S. Source: *International Comparisons of Productivity*, Office for National Statistics, February 2005.

⁸ *Productivity in the UK – 3 – The Regional Dimension*, HM Treasury and Office of the Deputy Prime Minister, November 2001.

⁹ *ibid.*

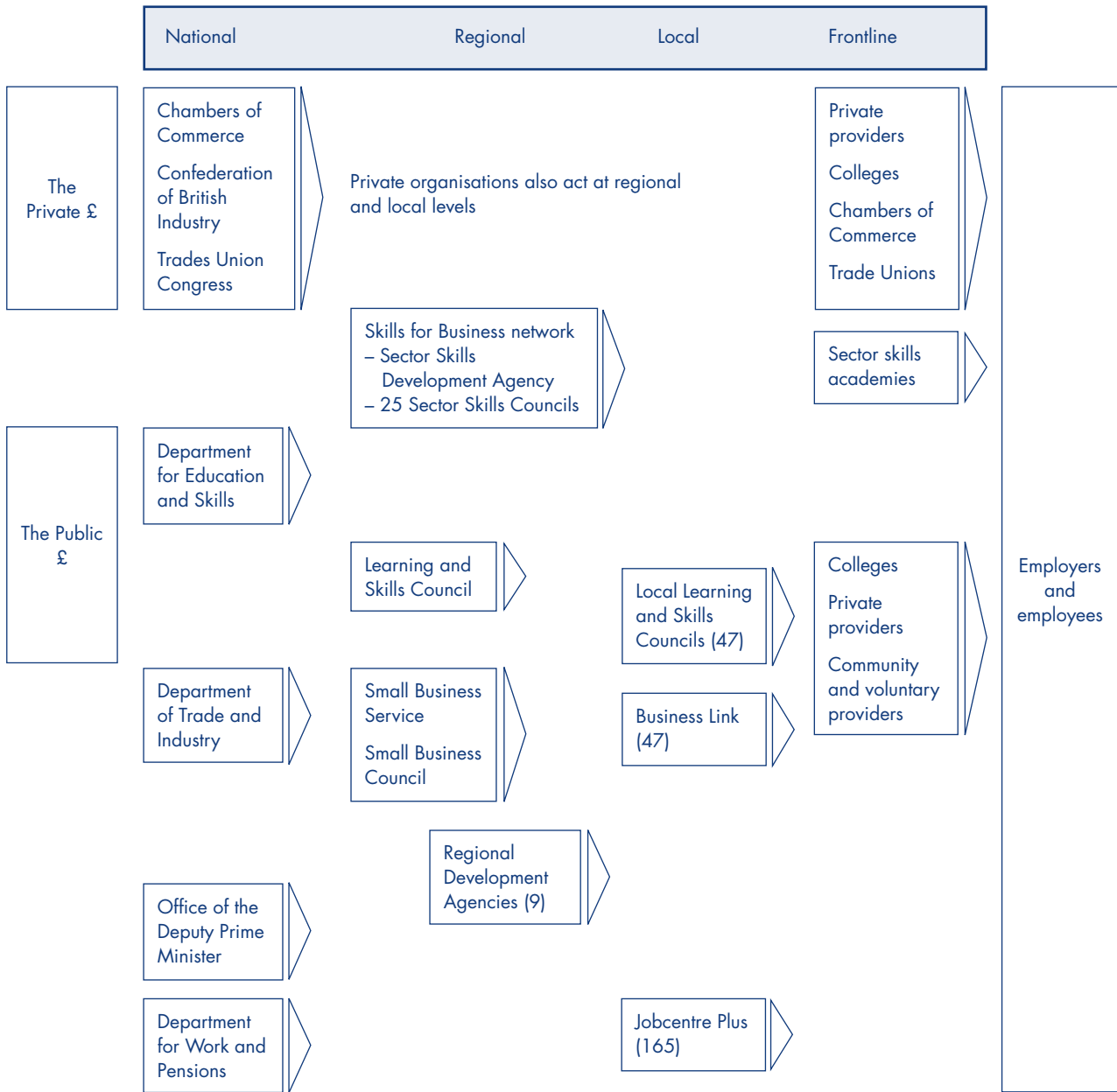
¹⁰ C&AG's report, HC20 Session 2004-05, December 2004.

¹¹ C&AG's report HC29 Session 2005-06, May 2005.

¹² For example, through the National Employer Skills Survey 2003 and 2004.

¹³ *Realising the Potential: A review of the future role of the further education colleges*, Sir Andrew Foster, November 2005 (details in Appendix 3 on page 49).

3 Delivery chain for education and training for employment



Source: National Audit Office

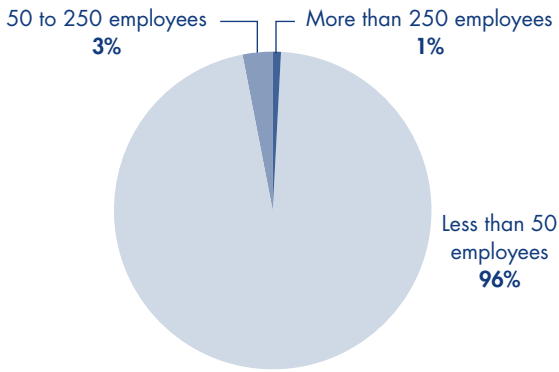
Key

Business Link	47 Business Link organisations, supported by local Learning and Skills Councils, provide business information and access to a wide network of business support. The Department of Trade and Industry provided £140 million in 2004-05 to the Regional Development Agencies for delivery of services locally.
Confederation of British Industry	The Confederation of British Industry is one of the UK's leading independent employers' organisations, representing over 250,000 public and private sector organisations.
Chambers of Commerce	The British Chambers of Commerce is a national network of Chambers of Commerce and one of the largest training providers in the UK, providing skills and workforce development training to tens of thousands of employees each year.
Jobcentre Plus	National network with 165 offices in England, receiving £2.9billion from the Department for Work and Pensions to give help and advice on jobs and training for people who can work and the right financial help for those who cannot.
Learning and Skills Council	A non-departmental public body responsible for planning and funding education and training (excluding higher education) for over 16-year olds in England. Functions through 47 local Learning and Skills Councils. Received £9.0 billion from Department for Education and Skills in 2004-05.
Regional Development Agencies	Nine Regional Development Agencies, receiving total of £1.8billion from 6 government departments, including the Office of the Deputy Prime Minister (£1.5billion), Trade and Industry and Education and Skills. They develop regional economic strategies and lead Regional Skills Partnerships to integrate action on skills, training, business support and labour market services at regional level.
Skills for Business network	Consists of Sector Skills Development Agency (a non-departmental public body receiving £67.5 million grant from the Department for Education and Skills) and 25 UK-wide independent employer-led Sector Skills Councils . The Agency provides support and funding for the Councils, which are expected to increase their funding contribution from employers over time.
Small Business Council	A non-departmental public body reporting on needs of existing and potential small businesses. Advises the Chief Executive of the Small Business Service. Received £260,000 in payments in 2004-05 from the Department of Trade and Industry.
Small Business Service	An agency of Department of Trade and Industry, receiving £14.2 million annually, which helps businesses start and develop.
Trades Union Congress	Represents over six and a half million working people from all walks of life. Consists of 66 affiliated unions. Each year over 40,000 trade union representatives enrol in education courses organised by the Congress and nearly 70,000 employees are helped to access learning opportunities by Union Learning Representatives from affiliated unions.

4 Who people work for

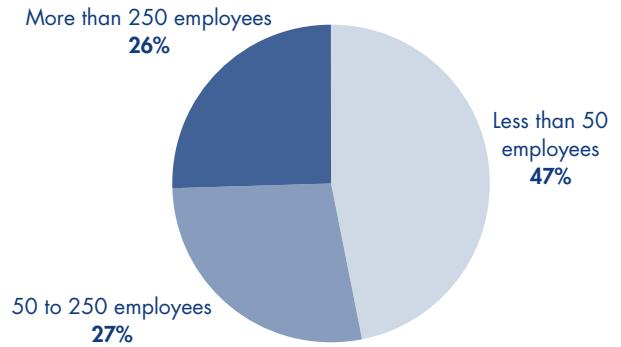
Employers by size

96 per cent of all companies employ less than 50 employees



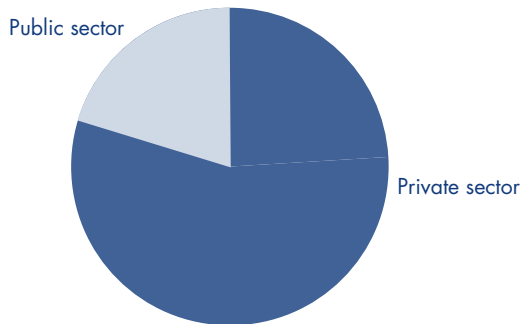
Employees by size of company

Nearly half of all employees work for companies employing less than 50 people



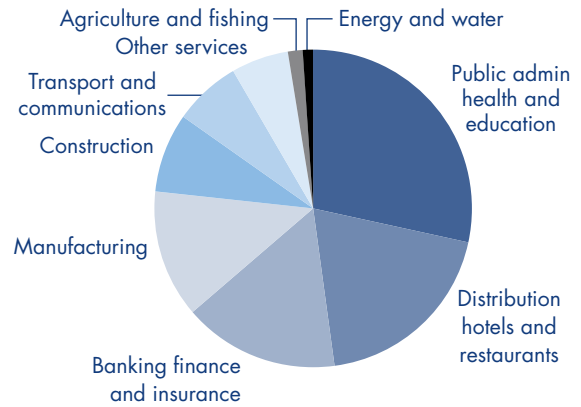
Private and public sector workforce proportions

Just over three-quarters of employees work in the private sector



All employment by industry

Employees work in a wide variety of industries



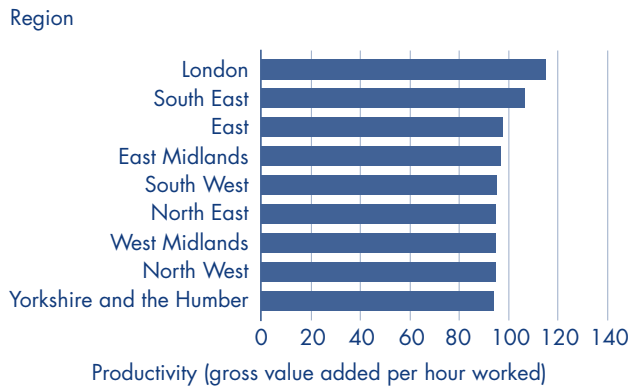
Source: National Audit Office, based on data from Department of Trade and Industry and Office for National Statistics
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NOTE

Single person establishments are not included in the data relating to employers by size and employees by size of company.

5 Regional data on productivity, skill gaps, training days and expenditure per head of working population

Productivity in England in 2003 was similar in most regions.



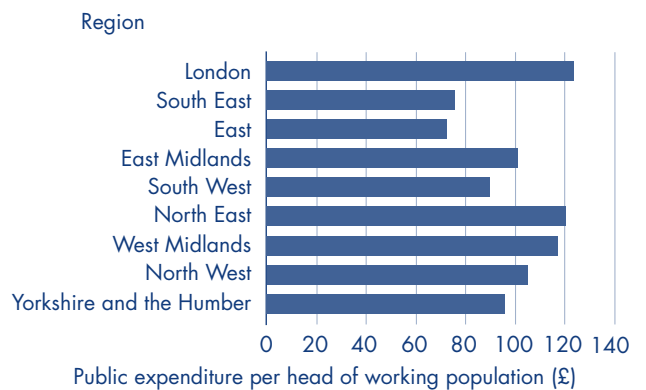
Skill gaps in England in 2003 varied by region.



The number of days on average that employers in England trained their employees in 2003 varied by region.



Public expenditure for 2004-05 varied by region (based on total programme expenditure less spend on school sixth forms and sixth-form colleges).



Explaining possible links between these four sets of data would require extensive analysis, well beyond the scope of this report, taking account of the following kinds of issues.

- Cause and effect are not readily explained. For example, the very high numbers of training days in the North East could suggest that the investment is not proving worthwhile because productivity is similar to other regions. However, it might equally indicate that employers in the North East have recognised the need to improve productivity and are at the start of a cycle to achieve improvements.
- The data provides only rough proxy indicators. For example, average days that employers in England trained their employees do not necessarily measure the amount of training done to improve the employer's productivity. The hours will also include training in basic skills and other qualifications up to level 2 which are a priority for public funding but focus on employees' effectiveness or employability, rather than specific business needs that will impact on productivity.
- The data is highly estimated. For example, because of the way in which colleges collect information on learners, it is not possible to provide a wholly accurate picture of Learning and Skills Council expenditure relevant to the working population. The data used represents total spending by region, subtracting the expenditure that comprises mainly academic education of 16-19 year olds, namely sixth-form colleges and school sixth forms. This data is adequate for the relative analysis shown, but should not be taken to be accurate in absolute terms.
- Regional population data is based on numbers of individuals of working age from the English Local Labour Force Survey 2004-05. Public expenditure data for 2004-05 is extracted from audited accounts relevant to adult spending. The data has not been adjusted geographically for different rates that apply on different programmes.

Source: Office for National Statistics, National Employer Skills Survey, Learning and Skills Council

9 Our report distils our findings into the following four themes that emerged from our research:

- 1 employers want a simple way of getting advice on the best skills training for their staff;
- 2 employers want training that meets their business needs;
- 3 employers want incentives to train their staff more; and
- 4 employers want to influence skills training without getting weighed down by bureaucracy.

10 The report is divided into these four sections with key findings in a single box at the beginning of each section. We have then highlighted some of the most important findings and illustrated them with case studies of actual practices we found.

11 Our methodology (Appendix 2) included a representative telephone survey of 508 private sector employers in England, discussions with relevant people and organisations, visits to seven further education colleges and twenty-five private and public sector employers, and a literature review. A panel of people with experience in skills development advised on our methodology, commented on our emerging findings and provided advice on our draft report.

Conclusions

12 Up-to-date skills are essential if employers in England are to maximise their productivity. **Figure 6** sets out the rationale for the government's strategy for improving skills. Recent research has estimated that on average an eight per cent increase in the proportion of trained workers can lead to a 0.6 per cent increase in UK productivity, as measured by the value added per hour worked.¹⁴ But training is expensive, and employers will only invest if they perceive there to be economic benefits and the training meets their needs. The needs of the economy and of different industries and business sectors do not always coincide with the interests of individual employers. For example, individual employers may not see benefit to their businesses from basic skills or a first full level 2 qualification (equivalent to 5 GCSEs grades A*-C), and some are therefore sceptical about the value for money of this expenditure from their business perspective. Nonetheless, many will wish to recruit new employees with such skills or qualifications, as a basic requirement of employability.

6 Rationale for the government's strategy for improving skills

The Department for Education and Skills set out the government's agenda for improving the skills of the nation in its 2003 Skills Strategy, and the March 2005 White Paper "Skills: Getting on in business, getting on at work".

Employers want employees to be literate and numerate and to have a good platform of skills to make them employable and on which to build. Many employers are then willing to invest in training at level 3 and above, because on average there are significant direct benefits to the employer and the individual from training at that level. Employers may, however, be reluctant to invest their own resources in training at lower levels due to a range of market and other failures, such as the belief that the direct benefits to their individual businesses will be limited and that such levels of proficiency should be reached before people leave full-time education.

The Department recognises these employer perspectives, and is concerned to ensure that employers can get the skills and training they need. But government has to complement these perspectives with a wider and longer term view of what is needed to raise skill levels to improve the productivity and competitiveness of the wider economy, and to support a flexible labour market.

For that purpose, the Department sees sound literacy and numeracy skills and a full qualification at level 2 as representing the minimum requirement for sustainable, productive employment in a modern economy. There are a range of benefits associated with achievement of this level, including people with such skills being more likely to be in employment, having more positive attitudes to training, and being more likely to receive additional training from their employer.

England has a large number of adults without this minimum skill level. Unless this problem is addressed, it will continue to have a serious impact on the pool of labour on which employers are able to draw for future jobs, and on the capacity of the labour market and the economy to raise productivity and increase the rate of innovation. Projections indicate that the proportion of jobs in the labour market requiring higher level skills and qualifications will grow, and the proportion requiring no or low skills will fall. So it is in the national economic and social interest to help improve the skills of low-skilled adults.

The Department therefore considers that there is a clear rationale for focusing public subsidy on improving the literacy and numeracy skills of adults and supporting them to gain a first qualification at level 2 (rather than expecting employers to fund such training). Above these levels, the Department considers that employers should accept a shared responsibility, commensurate with the benefits they receive, for funding the higher level skills and qualifications that bring more substantial financial rewards in terms of increased productivity and profitability for employers and increased wages for individuals.

In this way, the government activities and the activities of employers in supporting training should be complementary, with each focusing on supporting different parts of the training market.

Source: Department for Education and Skills

14 *The Impact of Training on Productivity and Wages: Evidence from British Panel Data*, Dearden, Reed and Van Reenen, Institute for Fiscal Studies (2005).

13 The government’s role is to balance these needs, having regard to the wider and longer term interests of employers and the economy and the promotion of a flexible labour market, and to design appropriate policies. The Skills Strategy is designed to fill the gaps left by market failures in education and training which, if left unfilled, would lead to a sub-optimal supply of skills and qualifications. The Skills Strategy aims to address market failures, including those relating to:

- some employers’ concerns that once trained and qualified (particularly in general employability skills that are useful to many organisations) an employee will leave before the employer has gained the benefit of its investment in training; and
- lack of information about, and understanding of the potential benefits from opportunities available to enable adults and their employers to gain higher skills and qualifications.

14 Many employers and other stakeholders recognise the social benefits of much of the education and training for employment that receives priority funding from government. They also appreciate that the skill levels that receive priority form the basis for employees to progress to level 3 learning and above, where economic benefits are known to occur. Further research commissioned by the Department is expected to provide a stronger business case to employers of the benefits of training. A strong synergy between government and business priorities, effort and investment is worth striving for. Our detailed conclusions are set out below. In our recommendations, we set out a way forward that we would expect, from our research, most employers will support.

Employers want a simple way of getting advice on the best skills training for their staff

In the last twelve months employers engaging in external training most frequently used the following sources of advice on finding the right training:



Source: National Audit Office survey of 508 private sector employers; some employers made frequent use of more than one source

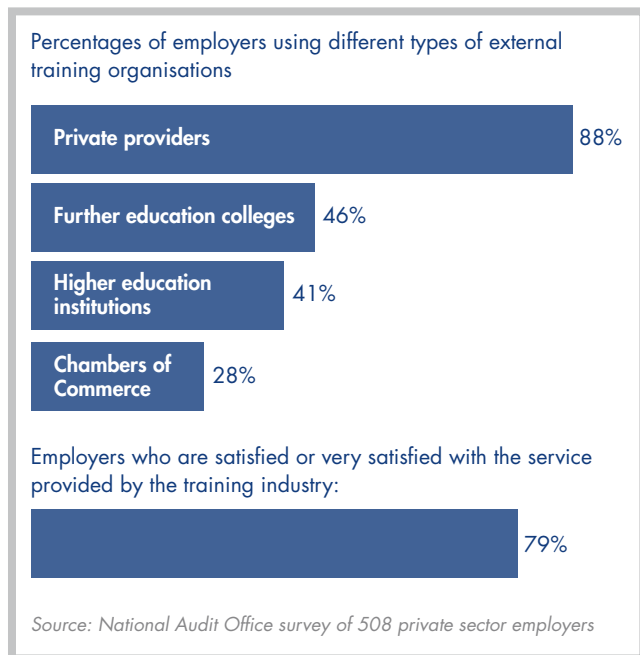
15 Generally, employers place more reliance on experience and the word-of-mouth recommendations of other employers in deciding which training to invest in, and who can best provide it. Any system for providing advice to employers on training, training providers and the quality of provision therefore needs to facilitate employers talking to each other about their experiences.

16 Organisations involved in funding, planning and providing skills development – public and private – have been working towards a “no wrong door” approach enabling employers to get advice, or to help influence provision, whichever public organisation they approach. Employers, particularly smaller ones, who want a quick and obvious route to obtain good advice and clear jargon-free information, require clear signposting because they can be deterred by having many options.

17 The challenge is to ensure that all employers, particularly small ones, have confidence to access the information and advice they need. “No wrong door” was developed on the basis that different employers may wish to take a variety of routes in different circumstances; for example, some are very clear about their needs and would prefer to contact a training provider directly, whereas others may need support, for example from Business Link, to help assess their requirements. Skills brokers working in the Employer Training Pilot areas (Appendix 1) and in other contexts are demonstrating the value of a wide brokerage role that integrates business and skills brokerage. These brokers can add value and reduce costs by bringing together different small employers seeking the same or similar skills development, and different colleges and providers who can, together, provide the best training solution for an employer or group of employers.

18 Business advisors and skills brokers generally recommend that employers develop a training plan, however brief, linked to their business goals. ‘Investors in People’ provides a systematic means for employers to assess training needs. Where companies have Union Learning Representatives, these staff can also support employers and employees in identifying and developing ‘fit for purpose’ training.

Employers want training that meets their business needs



19 Many employers feel a duty to their employees in a number of respects, including enabling them to grow and develop as individuals. But for all employers, whether operating in the private, voluntary or public sector, the needs of the business have to be the focus of employee training and skill development if the company or organisation is to survive and develop. Most employers provide a considerable amount of training in-house. This may be informal on-the-job training, which can be appropriate and cost effective, particularly in smaller organisations where it may be difficult to provide a temporary replacement for a key member of staff. Often employers use private sector consultants and experts to help them. Business and organisational needs inevitably and appropriately drive every employer’s decisions about how much time, money and effort to put into training.

20 Private training companies’ specialisation in particular areas, together with ability to “sell” the business benefits of their products, makes them a natural choice for many employers. Further education colleges have to steer a more complex course. They are expected to support achievement of the government’s wider objectives of creating a strong economy and promoting social inclusion, as well as to respond to employers’ needs. The strategies they are required to develop to help, for example, vulnerable learners, are very different from those they need to convince employers about what the college can offer their business. Even so, many colleges are steering their course very effectively and are providing training and skill development that employers want at the time and place they want it. More could and should do the same, and the sector as a whole needs to take account of the recommendations of the recently published review of the future role of further education colleges (Appendix 3)¹⁵.

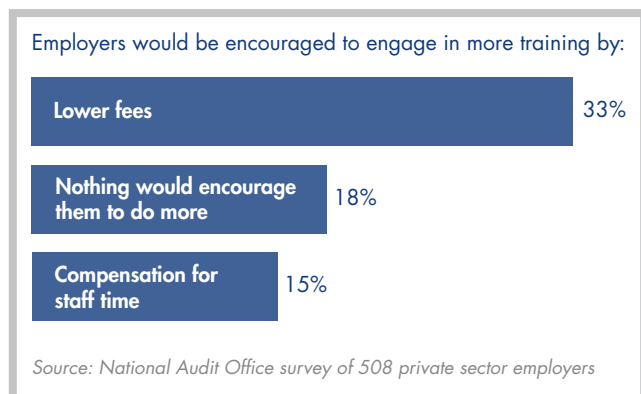
21 Through its Agenda for Change¹⁶, the Learning and Skills Council is seeking to enhance the reputation of colleges so that they are more often the partners of choice for employers looking to develop their workforce. A number of factors can, however, undermine the effectiveness of training in tackling skills shortages: for example, qualifications available may not necessarily directly meet employers’ needs; in a particular geographic area there may be shortages of skilled trainers; and there may be a need to use expensive capital equipment for training which is not available. Colleges and other providers that reach and stay at the ‘leading edge’ will be those working most closely with employers to address these barriers, and those finding innovative solutions which meet employers’ needs. Examples include sharing of skilled staff and ‘up front’ investment, and working with groups of employers within an industry and/or supply chain.

22 At present there is limited joint working between colleges and private sector training organisations. By joint working we mean partnerships, where the private sector trainer is more than just a contractor to the college; for example, college and private sector staff may collaborate to deliver training at an employer’s workplace. We consider that such joint working could potentially provide a rich stream of future skills development, drawing on the strengths of both types of organisation, to develop training that could be especially attractive to employers.

¹⁵ *Realising the Potential: A review of the future role of further education colleges*, Sir Andrew Foster, November 2005.

¹⁶ *Agenda for Change*, Learning and Skills Council, August 2005.

Employers want incentives to train their staff more



23 Employers want employees to be literate and numerate; but employers may be reluctant to fund or release employees for training in literacy, numeracy or for a level 2 qualification, especially when most people might be expected to gain such skills before they leave school. The primary focus for public funding is therefore to encourage adults to achieve the minimum level, with the expectation that employers and individuals should accept the major responsibility for funding education and training in higher level skills, which bring more substantial financial rewards in terms of increased productivity and profitability for employers and increased wages for individuals.

24 The Department considers good literacy and numeracy skills and a full level 2 qualification to be the minimum employability skills needed for productive, sustainable employment in a high-value, advanced economy. People with such skills are more likely to be in employment and receive further training, but England has large numbers of adults without these minimum skills. If this skills gap is not filled, it will continue to limit both the pool of potential employees for future jobs as the economy develops, and the capacity of the labour market and the economy to raise productivity and increase the rate of innovation. Existing evidence shows that employees without the basic level of skills are much less likely to be offered training by their employer.

25 Government cannot realistically fund all training for employment, and employers have to bear much of the cost, including fees for external providers as well as internal training costs and trainee wages (Figure 2 on page 4). The Department meets some costs, in particular for areas of learning that are government priorities. For example, the Learning and Skills Council's funding priorities include 16-19 year olds, people with low levels of literacy and numeracy, and adults lacking a full level 2 qualification (equivalent to five GCSE grades A*-C).

The Skills for Life programme is designed to help the very large numbers of adults in the working population – an estimated 26 million in 2003 – who do not meet one or both of the standards for literacy or numeracy that the Department considers necessary for school leavers in today's economy. The Department is seeking improvements in the literacy and numeracy of 2.25 million adults by 2010, with a milestone of 1.5 million adults by 2007. The Department also has a separate target to reduce by 40 per cent by 2010 the number of adults who do not have the wider skills for employability represented by a full level 2 qualification. **Figure 7** explains entitlement to tuition at level 2.

7 Level 2 entitlement

All adults aged 19 and over are entitled to free tuition for a first full level 2 or equivalent qualification (5 GCSEs at grades A*-C, an NVQ at level 2 or equivalent).

- Learners apply as individuals.
- No upper age limit.
- Providers funded through the further education funding stream are offering the entitlement. In the main, these are further education colleges but a full list of relevant providers can be obtained from local Learning and Skills Councils.
- Available for a list of eligible qualifications agreed by the Department for Education and Skills, the Learning and Skills Council and the Qualifications and Curriculum Authority. Eligible qualifications can be accessed from the Learning Aims Database www.lsc.gov.uk/National/Data/Provider/Software/LA/default.

Learners may also be entitled to further financial support from:

- Learner Support Funds – help with the additional costs, e.g. registration and exam fees.
- Adult Learning Grant – a means-tested weekly grant, only available in pilot areas. Due to be extended into two further regions from September 2006, two more from September 2007 and available nationally from September 2008.

Free tuition may also be available for level 3 qualifications for eligible adults of 19 years and over who are able to move directly onto this level of study.

Employer Training Pilot areas

Engagement is directly through employers by impartial and independent skills brokers, funded by the Learning and Skills Council. The employer has access to advice through the broker and may be entitled to a contribution towards the cost of staff time spent training. The National Employer Training Programme will extend these provisions nationally during 2006-07. It will be largely implemented by the end of 2007-08.

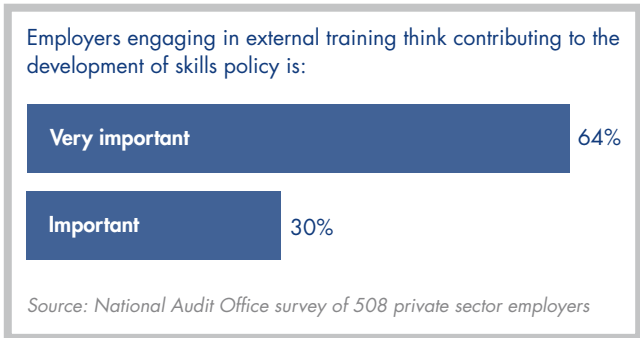
Source: National Audit Office

26 The National Employer Training Programme (Appendix 1) will seek to achieve growth in training by encouraging take up of the level 2 entitlement among employees, and by stimulating employers to contribute to training employees who already hold a full level 2 qualification. Employers generally acknowledge the economic benefits from training and skills development at level 3 and above, and expect to bear at least a proportion of the costs (alongside substantial public funding allocated through the Learning and Skills Council to subsidise a wide range of training at level 3). In contrast, only a minority of employers are prepared to engage in training low-skilled employees to a first level 2 qualification. However, there is still a risk that subsidies intended to encourage first level 2 training may be used by that minority of employers who would have provided such training anyway. An evaluation of the Employer Training Pilots is seeking to estimate the extent of this effect, and the Department intends to minimise the effect in the design and roll out of the National Employer Training Programme by seeking to target ‘hard to reach’ employers and employees.

27 In developing a demand-led National Employer Training Programme, the Learning and Skills Council’s aim – through brokers – is to assist employers to improve productivity by helping them to identify training opportunities that meet their needs cost-effectively and with minimum disruption to their businesses. Success depends on brokers:

- being responsive to the needs of employers who are seeking training opportunities;
- being able to communicate to employers the benefits of skills development; and
- creating and offering packages of training with an appropriate balance of costs shared between public funding and the employer, and that are attractive in terms of business benefits, especially for those ‘hard to reach’ employers who have traditionally not provided much training for their employees.

Employers want to influence skills training without getting weighed down by bureaucracy



28 We found that many employers and their employees want to influence skills training. The biggest barrier is time – most employers need to keep tight control on time spent out of the workplace that does not directly contribute to their business. Relatively rare but effective influencing occurs employer-to-employer across supply chains. But with 1.9 million employers in England, it is not easy for any but the largest companies to get their voice heard to influence skills training. Getting genuine input from employers without involving them in bureaucracy is a difficult challenge, but it has to be met if greater ‘employer engagement’ is to become a reality.

29 We found low awareness, especially among small employers, of the types of bodies intended to give employers a voice. The 25 Sector Skills Councils (Appendix 4) are employer-led organisations representing business, industrial and other sectors and ensure that training supply meets their needs. They are working with all sizes of employers in their sectors to identify skills needs, gaps and overlaps, and devise how best to tackle them.

30 Some Sector Skills Councils are well established, with secure funding sources and high levels of employer commitment. Others have been established only recently. Expectations of Sector Skills Councils are high. For example, Sector Skills Councils are required to develop Sector Skills Agreements (paragraph 4.7) across England, Scotland, Wales and Northern Ireland. Other responsibilities include working with partners to develop apprenticeships and qualifications reforms. Employers, through their Sector Skills Councils, are also invited to consider developing National Skills Academies that will focus on developing employer-led, national centres of excellence sector by sector. As awareness of the Sector Skills Councils increases, there is a growing risk that they will become overstretched, unwieldy or both. And if this happens they risk losing the 'buy in' of the employers they exist to help. The Department is aware of this risk and is working with the Sector Skills Development Agency to determine priorities, and to build capacity and capability, particularly in the newly established Sector Skills Councils.

31 The Sector Skills Agreements should provide information for Sector Skills Councils' work to help build the Framework for Achievement in England, led by the Qualifications and Curriculum Authority in partnership with the Learning and Skills Council and the Sector Skills Development Agency. The proposed Framework is a major reform of the current qualifications structure to provide more obvious pathways of progression to employment and/or further learning, and will incorporate a new system of credits that recognise achievement, with levels assigned to them. The Sector Skills Councils are developing Sector Qualifications Strategies in the UK, which will identify the appropriate mix of qualifications and training provision for each sector and are intended to rationalise the existing number of recognised qualifications. These Strategies will have to achieve a balance between ensuring that all vocational qualifications are flexible enough to meet the needs of employers and learners, while ensuring the consistency and validity required across the country to support a flexible and dynamic labour market. The programme of work is ambitious; preparing the Strategies involves substantial consultation with employers on proposals to incorporate the best of in-house provision as well as externally provided training.



RECOMMENDATIONS

32 Our recommendations are based around the four themes that emerged from our research: simple ways of getting advice and information; training that meets employers' business needs; incentives for training; and ways of employers influencing without getting weighed down by bureaucracy.

1 **The Learning and Skills Council, in collaboration with other organisations, should coordinate coherent information and advice for employers on improving skills.**

The large number of organisations, bodies, and information sources on skills development is confusing for many employers, who can find it difficult to decide which is the right route for them. There are opportunities for the Learning and Skills Council to coordinate public sector efforts to increase awareness among employers of how and where to get advice, and take advice from employers on how to develop information sources they will want to use. This might involve, for example, streamlining of communications with employers on improving skills through:

- as part of the National Employer Training Programme, continuing to develop brokers' capacity to build relationships with employers and provide impartial advice on the most cost-effective training and skill development to meet business needs, so that they become a preferred route for many employers seeking information;
- the UK Register of Learning Providers, which is to be developed as a single database to link together existing data sources on all providers in the UK, and make the information publicly available; and

- the Employer's Guide to Training Providers (the Employer's Guide) by which employers and brokers can access complete information on available training. In order to be valued and used by employers and brokers, the Employer's Guide, and as far as possible any linked databases, should be developed to include a facility to allow employers to obtain feedback from other employers who have used the training.

This recommendation should result in overall savings because public sector organisations should become less likely to duplicate each other's work, and should make fewer but more effective approaches to employers on improving skills. Making the Employer's Guide more 'employer friendly' may slightly increase costs, but by facilitating employers' access to other employers' experiences of training provision, there should be higher usage and user satisfaction with the type of information being made available.

The Learning and Skills Council could evaluate the implementation of this recommendation by:

- monitoring usage of the Employer's Guide;
- seeking views on user satisfaction, for example by using a method successfully operating on the learndirect website; and
- periodically seeking views, for example from Sector Skills Councils and organisations such as the Confederation of British Industry, on whether the changes are having the desired impact.



2 Brokers and training providers should focus on innovative and affordable training that employers need, and on providing the training at a time and place that is convenient to employers and employees.

Skills training must meet business needs, or else employers are unlikely to be interested. Meeting business needs includes making sure that costs in terms of employee time spent training – including time spent travelling to and from training – are minimised. There is limited value in brokers just matching required employer skills to available courses, which many employers could do equally well themselves with the right information. The real value of brokerage is in working with employers and training providers to secure cost-effective skills training, especially for those employers who are not currently providing much training. For example, a broker can identify where two employers needing the same skill might agree to share training costs; where a provider could deliver training on an employer's premises, with mutual benefits in saving employee time and less expense for the provider on premises and equipment; and where larger employers may have facilities that can be offered to neighbouring employers and/or employers in their supply chain. Brokers can also increase choice by making employers more aware of how they can use *learndirect* to provide accessible training to their employees¹⁷ and by working with colleges and private providers to encourage them to pool their skills and strengths to devise training that will demonstrably benefit employers.

This recommendation should be cost neutral, since it should be taken up in developing brokerage, as planned, under the National Employer Training Programme. Individual initiatives by training providers to make training more responsive to business needs will have to be cost-effective if employers – who will pay directly for at least some of the training and will be required to release staff for training – are to take the opportunities up.

The Learning and Skills Council could evaluate the implementation of this recommendation by:

- monitoring the outcomes of work by brokers; and
- (as for recommendation 1) periodically seeking views on whether the changes are having the desired impact, for example from Sector Skills Councils and organisations such as the Confederation of British Industry.

¹⁷ *learndirect* provides e-learning to enable learning to take place at work, home or in one of over 2,000 *learndirect* centres; our earlier examination of *learndirect* can be found in *Extending access to learning through technology: Ufi and the *learndirect* service*, report by the Comptroller and Auditor General, HC 460 Session 2005-06, November 2005.

RECOMMENDATIONS CONTINUED

3 In addition to reflecting national priorities, funding should be tailored to encourage more training to meet skills shortages and regional priorities.

First full level 2 training (equivalent to 5 GCSE grades A*-C) receives relatively high public funding precisely because many employers would not consider it in their interest to pay for training at this skill level, which is aimed primarily at improving general employability (i.e. providing the generic skills required for successful and productive employment) and at increasing social inclusion (Figure 6 on page 10). Some employers are prepared to pay for more specific skills training at level 3 (equivalent to A-level) and above, and there is evidence that training at these higher levels brings more benefits to employers as well as employees. The Department recognises the benefits of level 3 training, and the Learning and Skills Council allocates funds to subsidise the cost of some level 3 training for adults. More investment is needed in training at all levels, but because the returns are greater at level 3 and above, the government considers there should be a stronger expectation that adults and their employers should contribute more to the cost. For some employers to be persuaded to engage more in employee training and release staff for training, including publicly funded training at level 2, they need more financial incentives and/or clear demonstrable benefits, such as evidence that training will help fill local skills gaps.

The Department is undertaking research to provide a stronger business case of the benefits of training to employers. When completed, the Learning and Skills Council should disseminate the research results to inform employers, and especially to explain the advantages to those who have not historically provided much training to employees. Funds for selective subsidy of training at level 3 will be limited and, to maximise benefits, Regional Skills Partnerships will have a key role in helping to focus the funds on local and regional skills gaps in areas where employers are sufficiently committed to improvements to contribute to the costs.

This recommendation should be cost neutral, since it should be taken up in developing new funding planned to be spent under the National Employer Training Programme.

The Department will be testing the effects of an additional subsidy for level 3 in trials in the North West and the West Midlands. In addition, the Department and the Learning and Skills Council could evaluate the implementation of this recommendation by:

- monitoring the type of skills training funded at level 3, employer contributions, employer and employee feedback on the impact individual skill and business needs and, over the longer term, the effect on local skills gaps; and
- (as for recommendation 1) periodically seeking views on whether the public investment is having the desired impact, for example from Sector Skills Councils and organisations such as the Confederation of British Industry.

4 The Sector Skills Councils need sufficient time and capacity to develop as genuinely employer-led bodies providing sector expertise in developing skills training and formal qualifications.

Sector Skills Councils are the best placed organisations to take the lead on incorporating employers' perspectives into the development of skills. The Councils are at different stages of development. Some are well established organisations with secure funding sources and with high levels of employer commitment, but many have been set up only recently. While the Councils are working to develop effective engagement with employers, there is a serious risk that enthusiasm for the Councils' important role – both within the Sector Skills Councils and among public sector organisations responsible for and working with them – could result in some Councils becoming overstretched and unable to contribute effectively to key initiatives such as the Framework for Achievement.

There is a further risk that overstretched Councils may be unable to deliver their core tasks effectively and could lose the commitment of the employers they are supposed to represent. The Department and the Sector Skills Development Agency should continue to take stock of the expectations placed on the Skills for Business network and on individual Sector Skills Councils in order to identify where Sector Skills Councils are at risk of becoming overstretched, and work with them to prioritise the workload over a reasonable time frame. The Department and the Sector Skills Development Agency should continue to work with Sector Skills Councils to strengthen long term capacity and capability. Sector Skills Councils should look for ways of setting priorities for the needs of their sectors through working with the nine English regions, their key stakeholders and partner organisations.

This recommendation should either be cost neutral or cost saving by setting realistic priorities for Sector Skills Councils and avoiding possible costs of failure due to lack of capacity for Councils to achieve expectations.

The Sector Skills Development Agency could evaluate the implementation of this recommendation by:

- monitoring the organisational effectiveness and efficiency of individual Sector Skills Councils; and
- periodically seeking independent views from employers, and from organisations such as the Confederation of British Industry and the Qualifications and Curriculum Authority, on whether Sector Skills Councils are contributing effectively to improving skills for employment.

5 The Department and the Learning and Skills Council should seek to maximise value for money from the National Employer Training Programme by using public sector funds to leverage funding by employers of skills training that will benefit their businesses.

There is a risk that some of the employers engaging in the Employer Training Pilots would have undertaken the subsidised training they received anyway. In moving from

the pilots to the National Employer Training Programme, the Department and the Learning and Skills Council should minimise the risk of public subsidy displacing employers' own investment in training, for example by supporting brokers in negotiating packages of training in which employers and the public sector share the costs, and public sector funds are focused on additional training. As a major plank of the Programme, brokers also need to persuade 'hard to reach' employers to participate in employee training. It is not clear from the pilots how successful the current incentives will be at achieving this objective, but the Department and the Learning and Skills Council are designing the implementation of the National Employer Training Programme to minimise this risk. So far the pilots have proved popular with employers and employees. Should the Programme not prove attractive to employers and employees in key sectors, the Department and HM Treasury should consider alternative incentives that employers and employer groups have suggested, such as tax credits or reductions in corporation tax to cover costs of training.

This recommendation should reduce the risk of waste by developing the National Employer Training Programme based on evidence from the Employer Training Pilots.

The Department could evaluate implementation of this recommendation by:

- requiring brokers to assess the extent to which publicly funded training is genuinely 'additional', brings new funding from employers, and leads to participation by employers who have not previously provided much training to their employees; and
- using this information from brokers, and their accumulated experience of working with employers, as the basis for an early review of the value for money of the National Employer Training Programme.