



National Audit Office



Developing workforce skills for a strong economy

Department for Education

REPORT

**by the Comptroller
and Auditor General**

SESSION 2022-23

13 JULY 2022

HC 570

Key facts

£3.9bn

amount that the Department for Education spent on adult education, apprenticeships and other skills programmes in 2021-22

24%

proportion of vacancies in 2019 that employers reported were due to a lack of the required skills, qualifications or experience among applicants

46%

fall in the Further Education Skills Index (government's proxy measure for the impact of the further education system on productivity) from 2012/13 to 2020/21

- 11%** real-terms fall in employers' spending on workforce training per employee from 2011 to 2019
- 4%** proportion of people whose highest qualification by the age of 25 is level 4 or 5 (the level of qualification that usually involves acquiring higher technical skills)
- 1.6 million** number of adults participating in government-funded further education and skills training in 2020/21, compared with 3.2 million in 2010/11
- 280,100** fall in the number of adults participating in government-funded further education and skills training in the most disadvantaged areas of England, from 2015/16 to 2020/21
- 18,700** number of people who enrolled on a free course under the Lifetime Skills Guarantee from April 2021 to April 2022, which was 28% above the Department for Education's planned number
- Five** number of priority sectors to which government appointed a 'sector delivery lead' in autumn 2021 – construction, digital and technology, haulage and logistics, health and social care, and manufacturing
- 7%** rise in the Further Education Skills Index from 2019/20 to 2020/21, which the Department for Education considers was due to learners shifting towards more economically valuable training

Throughout this report, government financial years are written as, for example, '2021-22' and run from 1 April to 31 March; further education sector academic years are written as '2021/22' and run from 1 August to 31 July.

Summary

- 1** In early 2022, the UK workforce comprised around 32.6 million people. Workers require a range of skills to be productive. Technical skills – practical or vocational skills that allow people to complete specific mechanical, information technology, scientific or other job-related tasks – are particularly important in the workplace because they help workers operate more efficiently and effectively.
- 2** The skills system involves government, employers, training providers, local bodies and individuals. Employers play a crucial role in developing workforce skills and stimulating the skills system. They can encourage and support their staff to take up government-funded training opportunities. They also invest in their own training activities, create high-skilled jobs, and offer career progression and other opportunities for those with the appropriate skills.
- 3** Within government, the Department for Education (DfE) leads on skills policy in England and is accountable for securing value for money from much of the funding government provides for skills initiatives. DfE has a priority outcome to “drive economic growth through improving the skills pipeline, levelling up productivity and supporting people to work”. To achieve this outcome, DfE needs the support of other parts of government, specifically the Department for Business, Energy & Industrial Strategy (BEIS), the Department for Digital, Culture, Media & Sport (DCMS), the Department for Levelling Up, Housing & Communities (DLUHC) and the Department for Work & Pensions (DWP).
- 4** In January 2021, DfE published the *Skills for Jobs* white paper. This explained how government would carry out reforms so that the further education system would support people to get the skills that the economy needs throughout their lives, wherever they live in the country. The Skills and Post-16 Education Act 2022 made provisions to implement proposals from the white paper. These include a framework to facilitate stronger employer and provider engagement in local skills systems, and measures to support lifelong learning.
- 5** Government does not have an estimate for its total spending on activities designed to develop workforce skills. DfE’s data indicate that spending on adult education, apprenticeships and other skills programmes has been rising and totalled £3.9 billion in 2021-22. This amount does not include any element of the £6.2 billion spent on learning for 16- to 19-year-olds, which covers both academic learning and skills training, because DfE does not disaggregate the figures.

Focus of our report

6 Government has had an enduring role in supporting workforce skills development, understanding that the market does not supply all the skills the country needs to provide goods and services and enhance productivity and competitive advantage. The funding and attention government gives to this area is continuing to grow.

7 We examined whether government has an effective approach to enhancing workforce skills. Given its responsibilities for leading government's approach to skills, much of our examination focused on DfE's activities, but our work also took us into other departments which play a role in supporting skills development.

8 This report covers:

- the workforce skills system (Part One);
- the scale of the skills challenge that government faces (Part Two);
- government's understanding of workforce skills needs (Part Three); and
- how well government is supporting the development of workforce skills (Part Four).

We set out our audit approach in Appendix One and our evidence base in Appendix Two.

9 Our work covered skills rather than broader issues about the supply of labour. We focused particularly, but not exclusively, on technical skills that people deploy in the workplace, rather than basic skills or skills that are designed to help individuals become more employable. Our work did not cover formal academic education. Our report focuses on workforce skills in England, in line with DfE's responsibilities. However, some of the analysis that we carried out covered the whole of the UK, or combined parts of it, because the data could not be disaggregated between England and the other nations.

Key findings

Scale of the workforce skills challenge

10 Since 2012, the UK has experienced slightly lower workforce productivity growth than comparable nations. The Organisation for Economic Co-operation and Development has highlighted the need for the UK to encourage lifelong learning and promote better skills utilisation, in order to boost growth, productivity and earnings (paragraph 2.3 and Figure 3).

11 Wider economic and societal changes are creating skills shortages and making the skills challenge more acute. A variety of factors bring about changes in the workforce and the skills needed in the labour market. At present, these factors include the following:

- The UK's exit from the European Union has reduced the supply of workers from member states and potentially increased the need for the country to train its own workers, particularly in sectors such as hospitality, transport and storage, manufacturing and construction.
- The requirement to achieve 'net zero' greenhouse gas emissions by 2050 will significantly affect the workforce. For example, the increased production and use of electric vehicles and improving the energy efficiency of heating systems will create new skilled jobs. Research in 2019 estimated that around one in five jobs across the UK (approximately 6.3 million jobs) is likely to be affected by the transition to net zero.
- People aged over 50 made up around one-third of the UK workforce in 2021, compared with one-fifth in the early 1990s, although there are also indications that many older people left the workforce after the end of the COVID-19 furlough scheme. Research suggests that employers are less likely to train older employees than younger employees (paragraphs 2.4 to 2.6, 2.8, 2.9 and 2.11 to 2.13).

12 Employers' spending on workforce training per employee has fallen.

Surveys carried out by DfE indicate that the amount employers in England spent on training per employee dropped in real terms from £1,710 in 2011 to £1,530 in 2019, a fall of 11%. The 2019 survey found that 39% of employers had provided no training in the previous 12 months. Overall, 45% of employers who had provided some training reported that they would have liked to offer more, with the main barriers being an inability to spare more staff time and a lack of funds (paragraphs 2.14 to 2.15, and Figure 5).

13 Adult participation in government-funded further education and skills training has declined significantly, particularly in disadvantaged areas. The number of adult learners fell from 3.2 million in 2010/11 to 1.6 million in 2020/21, a decrease of 48%. Over a shorter timeframe for which consistent data are available, from 2015/16 to 2020/21, the number of participants aged 19 and over in the 20% most disadvantaged areas of England dropped by 39% (280,100 participants). This compared with a 29% decrease in overall adult participation over this shorter period. The largest decline within these disadvantaged areas was for learners aged 50 and over, whose numbers fell by more than half (paragraphs 2.17 and 2.21, and Figures 6 and 8).

14 Largely because of the drop in learner numbers, the government's measure of the impact of the further education system on productivity fell by 46% from 2012/13 to 2020/21. The 'Further Education Skills Index' is government's proxy measure for the impact of the further education system on productivity. Its value is affected by three factors: changes in the number of learners and in achievement rates, and shifts in the 'economic value' of the training carried out. Overall, the Index fell by 46% from 2012/13 to 2020/21. The fall was mainly due to a decrease in the number of learners, which led to a drop in the number of achievers. The largest annual fall in the Index (21%) was in 2019/20, linked to restrictions during the COVID-19 pandemic, but the downward trend was established before then. In 2020/21, the annual change in the Index was a rise of 7%. DfE's analysis has indicated that this increase resulted from learners shifting towards more economically valuable training, with achiever numbers remaining broadly flat (paragraphs 2.22 to 2.24, and Figure 9).

Government's understanding of workforce skills needs

15 DfE has diagnosed that, in order to improve the skills system's contribution to economic performance, more people should undertake higher-quality learning in subjects with the greatest economic value. The workforce is more highly qualified in formal terms than it was in the early 2000s. However, on the basis of analysis, DfE has found that:

- only 4% of people had a level 4 or 5 qualification as their highest level of attainment by the age of 25 (the typical level for acquiring higher technical skills), with a much higher proportion opting to study at degree level (level 6); and
- for all age groups, too much learning is done in subjects that tend to lead to relatively low salary levels.

DfE has concluded that, for the skills system to be more effective, there should be increases in: the number of learners; the number of learners achieving qualifications at higher levels; the proportion of learners doing more economically valuable subjects; and the rigour and quality of learning (paragraphs 3.2 to 3.6, and Figure 11).

16 Government has a reasonably good understanding of current skills needs, based mainly on DfE's regular surveys of employers. Every two years since 2011, DfE has undertaken a survey to collect information on the skills issues that employers face. The most recent full survey was in 2019 and covered employers across England, Northern Ireland and Wales. It found that the sectors with the highest rate of skill-shortage vacancies (vacancies that are hard to fill because of a lack of the required skills, qualifications or experience among applicants) were construction and manufacturing, at 36% of all vacancies for both sectors. Across all sectors, the proportion of skill-shortage vacancies was 24% in 2019. Government also has access to information on occupations with shortages of skilled workers, based on national labour market datasets and evidence from stakeholders (paragraphs 3.7, 3.8 and 3.11, and Figure 12).

17 Government is relying on a number of new arrangements to strengthen its understanding of future skills needs and its plans to address them. In late 2020, government established the Skills and Productivity Board, a committee of academics and business experts, to provide independent evidence-based advice to DfE ministers. In February 2022, DfE announced the creation of a Unit for Future Skills, which supersedes the Skills and Productivity Board. The Unit is a division within DfE, but is intended to work across government and meet the information needs of other departments as well as DfE. The Institute for Apprenticeships and Technical Education plans to draw on the Unit's insights to help its employer-led groups devise new apprenticeships and technical qualifications, and revise existing apprenticeships to reflect future skills needs in their sectors. In 2017, DfE set up skills advisory panels to better understand and address regional and local skills needs, and strengthen the link between employers and skills providers. DfE has decided to replace skills advisory panels with local skills improvement plans (LSIPs), and provision was included in the Skills and Post-16 Education Act 2022. LSIPs are intended to provide a framework to help colleges and other providers reshape what they offer in order to tackle skills mismatches and respond effectively to labour market skills needs. A designated employer representative body will lead the development of the LSIP in each local area. Training providers will have a duty to cooperate in developing the plans and to have regard to these plans when considering their technical education and training offer (paragraphs 3.13 to 3.18).

Government's approach to workforce skills development

18 DfE considers that the skills system will be most effective if it is led by employers, but there is limited assurance that the conditions are in place for this approach to be implemented successfully. DfE's overarching philosophy is to give employers a central role in identifying local and national skills needs, and in developing and designing qualifications and training. In this way, DfE is extending the approach it adopted on apprenticeships, which it believes has transformed the quality and status of these qualifications. Our 2019 report on the apprenticeships programme highlighted there had been improvements in terms of a greater focus on quality and meeting employers' needs, although we also noted concerns about take-up, financial sustainability and impact on productivity. In the *Skills for Jobs* white paper, DfE highlighted the experience of countries it regards as having strong employer-led skills systems, such as Germany and the Netherlands. Extending the employer-led approach beyond apprenticeships to the skills system more widely will rely on employers having the capacity and willingness to become much more involved in developing local plans, designing training content and engaging their employees in that training. From the evidence DfE shared with us, it is unclear what assurance it has that the conditions are in place for the broader employer-led approach to be implemented successfully (paragraphs 4.2 to 4.4).

19 Employers and training providers told us it was hard to navigate government's growing, and sometimes disjointed, set of skills programmes. DfE's programmes include well-established initiatives such as apprenticeships, along with newer interventions such as Skills Bootcamps. Other government departments also run or fund programmes with a skills element. Examples are DWP's Train & Progress initiative for Universal Credit claimants and the new Multiply numeracy programme, which is a priority of DLUHC's UK Shared Prosperity Fund and is led by DfE in England. DfE considers that the range of programmes reflects the diverse needs of employers and learners, but it recognises that there is some duplication between programmes and scope for simplification. Several stakeholders who responded to our consultation told us it is not always clear to employers how the different skills programmes fit together, and the system can seem complicated and difficult to navigate. The three training providers and representative bodies we consulted told us that government's skills interventions can appear disjointed (paragraphs 4.6 to 4.8, 4.10 and 4.17, and Figure 15).

20 DfE is taking steps to encourage and incentivise individuals to develop their skills. The *Skills for Jobs* white paper provided details of a £2.5 billion National Skills Fund, designed to help adults develop their skills. It includes the Lifetime Skills Guarantee, under which adults who do not already have a level 3 qualification may take a free course. From April 2021 to April 2022, 18,700 people enrolled on a course, which was 28% above DfE's planned number. DfE is also working to improve how it communicates with individuals about the skills programmes on offer. In January 2022, it launched two campaigns, one aimed at supporting adults to gain new skills, and the other providing information on the education and training options available for 16- to 18-year-olds (paragraphs 4.15 and 4.16).

21 The *Levelling Up the United Kingdom* white paper includes a 'skills mission', but its aims go only some way towards addressing the decline in participation in skills training. The February 2022 white paper set out the government's plans to address regional and local inequalities. It highlighted that the North East was the lowest performing region in terms of the proportion of the working-age population qualified to at least level 3, with London the highest performing region. In England, the government's aim is that, by 2030, 200,000 more people will successfully complete high-quality skills training annually, including 80,000 more people in the lowest skilled areas. While the definition of 'lowest skilled areas' and 'most disadvantaged areas' is not the same, in terms of numbers, this mission is likely to go only some way to reversing the fall of around 280,000 in learner numbers in the 20% most disadvantaged areas since 2015/16. DfE told us that the skills mission is challenging, and that it is adjusting its delivery plans to make progress by the end of the current Parliament (paragraphs 4.21 to 4.25, and Figure 17).

22 Different parts of government are working together more effectively to coordinate activity on skills, but cross-government arrangements are complex. Since 2020, the Prime Minister has chaired a quarterly jobs and skills stocktake, a Cabinet sub-committee which monitors progress and holds departments to account. In response to the challenges identified in the stocktake, in autumn 2021 government identified five priority sectors: construction, digital and technology, haulage and logistics, health and social care, and manufacturing. For each sector, a senior official in one or more departments acts as the 'sector delivery lead' to coordinate activity. The Green Jobs Delivery Group, which first met in May 2022, is tasked with supporting the delivery of skilled jobs that will support the transition to net zero. There are multiple other ministerial and official groups, including the Labour Market Steering Group, which supports the coordination of labour market and skills policy development. Departments acknowledge that there is scope for cross-government working arrangements to be consolidated (paragraphs 4.26 to 4.30).

23 DfE is managing its own skills activities more strongly as a coherent portfolio, but its metrics do not indicate what level of performance would constitute success for the portfolio as a whole. In late 2020, DfE established a team to enhance the oversight of its portfolio of skills-related activities. It now has a clear purpose for the portfolio, with stronger governance and more rigorous risk management. DfE's approach does not extend to interventions which are led by other departments, so the portfolio does not provide a view of all government activity on skills. DfE has a framework of performance metrics, at both system and programme level. It has defined what success looks like for individual programmes, but at the time of our examination was still working on success measures at system level (paragraphs 4.32 and 4.33).

Conclusion on value for money

24 Having a sufficiently skilled workforce is critical to the country's economic success and to achieving wider government aims such as greater equality of opportunity. Government, led by DfE, has strengthened its approach in recent years. It has taken sensible steps to deepen its understanding, improve its oversight and work more coherently to address this priority.

25 At the same time, the skills challenge that government is facing has grown significantly, with key indicators going in the wrong direction. Employers' investment in workforce training has declined, as have participation in government-funded skills programmes and the programmes' impact on productivity. In addition, wider changes in the labour market are intensifying the challenge. Government therefore needs to be much more effective than it has been in the past at helping to provide the skills the country needs. DfE is staking its success on a more employer-led system but, from the evidence we have seen, it is unclear whether the conditions are in place for this to be implemented successfully, in particular whether employers are ready to engage to the extent that will be needed to achieve a step-change in performance. As a result, there is a risk that, despite government's greater activity and good intent, its approach may be no more successful than previous interventions in supporting workforce skills development.

Recommendations

26 We recommend that government, led by DfE and with support from relevant departments, should take the following actions:

- a** Develop a strategy and supporting implementation plan for achieving its objectives on workforce skills, building on the approach set out in the *Skills for Jobs* white paper. This should set out:
 - how different parts of the system, and different programmes, will interact with each other to make a coherent whole;
 - how central and local government will work together to support skills development in local places;
 - different ‘user journeys’, and how employers and individuals will be incentivised to develop skills and engage with the skills system;
 - the risks and opportunities that could affect government’s ambitions; and
 - the full set of metrics that government will use to monitor progress.
- b** Strengthen oversight of government’s portfolio of skills initiatives by regular reporting against performance metrics from across departments to the Labour Market Steering Group; and clarifying how different cross-government forums fit together. DfE should work with the Cabinet Office in particular on this area.
- c** Consider specific issues relating to older workers who form a growing proportion of the workforce, including current and future skills gaps, barriers to participation in skills training and how these barriers could be addressed. DfE should work with DWP in particular on this area.
- d** Work with mayoral combined authorities and other local bodies to establish how it can achieve the 2030 Levelling Up skills mission most effectively, and report regularly on whether it is on track. DfE should work with DLUHC in particular on this area.
- e** Support the Unit for Future Skills to focus on the most important areas of forecasting and assess whether the Unit is effectively influencing stakeholders to use the intelligence and insights it generates.