5. CONCLUSIONS AND KEY ISSUES

Summary

Challenges for the South West Skills Market

The following issues have been identified by the review as weaknesses in the skills market which will require action by the strategic partners:

- *Relative lower productivity and the low-skills equilibrium within the region, by improving the demand for skills, particularly at higher levels;*
- *A diversity of performance across the region, with a relatively high performing North and East and lower performing South and West, at the strategic level;*
- *The mismatch between demand and supply of skills, with an underdeveloped demand for higher skills and a lack of skills supply at intermediate and lower skills levels;*
- *Replacement demand will outstrip employment growth, much of which will be at lower level and intermediate level skills;*
- *The nature of the business base and industrial structure impacts on the incidence of training;*
- *There is unequal access to education and learning opportunities, based on employment status, existing skill levels, age, gender and nature of employment;*
- *Significant skills for life problems exist within the region;*
- *Action is needed to stem the net loss of graduates from the region;*
- *Non-formal learning is becoming an increasingly important feature of the skills market and needs to be acknowledged and supported by strategic agencies.*

Strategic response

The analysis of the strategic overview indicates that the following changes are required to improve the region's strategic response to the skills market:

- *A new strategic vision is needed which is owned by partners and is broadened to reflect the contribution of the private sector and non-formal learning;*
- *Strategic co-ordination is needed to produce better coherence of response and to reduce confusion;*
- *National targets are driving policy to the exclusion of local needs. Targets need to be reviewed to reduce the barriers to joint action;*
- *More effective mechanisms are needed for joint planning to deal with skills issues;*
- *LMI needs to be more effectively co-ordinated and interpreted, with capacity building to improve skills in utilising LMI for planning provision;*
- *Partnership working needs to be streamlined and more meaningful;*
- *Competition between providers of education and learning needs to be effectively managed to encourage providers to play to their strengths.*

In this section, we draw together the conclusions of the skills market review and the analysis of the strategic overview. In doing so, we highlight the key issues for the region.

As the new SWESA establishes its priorities, it will need to build upon the current range of FRESA priorities. In section 5.3, we present our review of the FRESA priorities which, it is hoped, will provide a focus for discussion by the Alliance partners.

5.1 Challenges of the South West skills market

The region's skills market is one with clear strengths. It is a high skills region, experiencing good employment growth, with high levels of economic activity and low unemployment. The region also scores well on the incidence of external skills shortages and internal skills gaps and there is strong performance in the North and East. However, these strengths should not be taken as grounds for complacency. On the contrary, the region will need to work hard to maintain this position and there are a number of immediate and future challenges which will need to be addressed if the FRESA ambition of a high skills, high wage, high productivity and equitable region is to be realised.

5.1.1 Relative low productivity and the low-skills equilibrium

An overriding challenge for the region is to address its relatively poor productivity performance. Despite possessing one of the more highly qualified workforces of the UK regions, the South West's productivity performance is amongst the lowest. This implies that employers are not utilising the good availability of skills in the region to improve their performance and, ultimately, the performance of the region.

This relatively low productivity, coupled with other evidence such as low output per head, employers reporting few skills gaps within their workforces, and little difficulty recruiting the skills they need, suggests that businesses in the region are operating in a low-skills equilibrium. At the same time, the region has the least specialized industrial base which can lack the basis to form clusters which in turn form the basis for high value added sectors.

In section 4.1, we have highlighted the need for a demand-pull strategy to drive up the demand for skills within businesses within the region, particularly the demand for higher-level skills. The SWESA proposals signal a move in this direction and should ensure that this important shift in the operation of the skills market takes place.

We know from the analysis of the data that the South West performs less well in terms of productivity. Yet, in terms of the many factors influencing productivity, the region performs either well or near the average when compared to other regions in the UK. The most obvious explanation to emerge from our analysis is that the region's relatively low productivity is a function of the nature of its industrial and business base and the resultant low demand for higher-level skills. However, we need to know more. The *Devolving Decision Making* review of regional diversity suggests that there needs to be a strong evidence base to inform any strategy to improve productivity, given the diversity and complex mix of factors at play. We therefore need a more specific understanding of the causes of lower relative productivity at the level of each sector.

The South West REF has recently endorsed the findings of the *South West Healthy Labour Market Review* and, in doing so, has approved further work which will look in more detail at benchmarking sector performance across the regions. This is to be welcomed and will provide a more effective evidence base for targeted solutions.

The South West RDA has already completed an initial study reviewing the region's productivity[1]. Future RDA research plans also aim to strengthen the evidence base in relation to regional productivity in order to ensure that the issue can be appropriately addressed in the review of the Regional Economic Strategy. Planned research will aim to: investigate whether existing analysis of the underlying causes of the region's relatively low productivity is robust and to assess whether it sufficiently takes account of the intra regional disparities in current and potential performance; to identify specific South West issues relating to each of the five drivers of productivity; to provide analysis of whether improvements in the South West's regional productivity can be delivered primarily through key sector interventions; to identify best practice interventions for improving regional productivity/prosperity; to establish what the spatial dimension to improving regional productivity is and what the implications of this are on future public intervention.

5.1.2 Diversity of performance across the region

There are significant differences in labour market characteristics between the North and East of the region, and the South and West. Lower skilled, elementary and personal service occupations tend to be more concentrated in areas located towards the West of the region, whereas higher skilled professional and associate professional employment is somewhat more concentrated towards the north. Again, this is a function of the location of particular industries and therefore occupations within the region.

The *Devolving Decision Making Review* states that:[2]

> *The Government's central economic objective is to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.*

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[1] *Productivity in the South West: Research Summary. Eric McVittie, South West Economy Centre, University of Plymouth Business School.*

[2] HMT, *Devolving decision making: 2 - Meeting the regional economic challenge: Increasing regional and local flexibility*. HM Treasury and Cabinet Office, March 2004, p 7.

An essential element of that objective is to improve the economic performance of every part of the UK because the unfulfilled economic potential of each region and locality will need to be released to increase the long-term growth rate of the UK. Within the South West, it will be important to raise the performance of those areas of the region that are lagging behind.

5.1.3 Mismatch between demand and supply of skills

Whilst overall there appears to be a balance between demand and supply of skills, more detailed analysis shows that there are three significant areas of skills mismatch within the region as a whole. It is important to note that the exact nature of these varies across the region.

- *Supply exceeds demand at higher skills levels:* Whilst studies of individual sectors[3] have identified specific high level skills shortages, this study found that overall the percentage of high skills vacancies in the region was below the UK average, whilst the percentage of high skilled people in the workforce was above average. This does not mean that there are no significant high skills shortages. It may imply that there is an opportunity to make more productive use of some of the high skilled people in the workforce. Demand for higher-level skills is concentrated in mainly public sector employers, such as education and health, and is further constrained by the lack of knowledge-intensive businesses.
- *Shortages of craft and skilled trade:* There is a prevalence of skill shortage vacancies related to skilled trades within the region. Figures stand at 23 per cent for the South West compared to only 18 per cent for England as a whole.
- *Demand exceeds supply of lower level skills:* Figures show that, as a proportion of all vacancies in the South West, there are greater numbers for lower skilled occupations such as elementary staff than for managers and senior officials, professional and associate professionals. Although these differences are also noted nationally, the figures for the South West suggest a greater level of difference. The South West has 21 per cent of all vacancies in elementary occupations compared with 16 per cent nationally. In the case of skills shortage vacancies, 16 per cent are within elementary occupations as opposed to only 3 per cent for managers and senior officials. The demand for elementary occupations is also more apparent in the South West than is seen nationally for two of the major employment industries in the region: distribution, hotels and restaurants; and banking and finance. Similarly, although forecasts show a decline in the number of employees for skilled trades; process, plant and machine operatives; and, elementary occupations, the decline is less so for the region. The replacement demand for these occupations will also outstrip the decline.

This analysis presents two challenges for the region:

[3] *For example, South West RDA Select Committee on Advanced Engineering - Report on skills shortages in advanced engineering in the South West*

- How to raise the demand for higher-level skills in order to raise productivity?
- How to raise the supply of lower level and intermediate level skills to meet employer demand?

5.1.3.1 Raising the demand for skills

An overarching issue, then, and one which is highlighted in *A Regional Skills Partnership for the South West of England: Strategic Option Report*[4] is that in relation to the region's demand for higher level skills, "the problem is demand-related, rather than a weakness of skills supply"[5]. In this context, achieving the FRESA vision of "a high productivity, high wage economy, with high employment sustained over the course of the economic cycle" presents a significant challenge.

We have argued, in this report, that the demand for skills is a derived demand. Addressing the problem of under developed demand for high level skills will not simply be a matter of intervention in the skills market, but requires an holistic approach which supports the drive for the demand for skills. This implies a wider set of responses than simply skills interventions. Stimulating employer demand requires an integrated approach to business development and innovation as well as strategies to encourage employers to engage in training.

5.1.3.2 Business brokerage

The SWESA proposals have recognised the need to raise the demand for skills, particularly for higher-level skills. Central to this strategy will be the development of a business brokerage model. In section 4.4.3, we highlighted the fact that employers are confused by the range of initiatives, plans, providers and provision available in the region. This argues strongly for the development of more accessible, coherent and appropriate services which meet the needs of business. This review would very much endorse the priority given to the development of the business brokerage model.

With responsibility for Business Links now positioned with the RDA, there is greater scope to ensure integration between business support activities and the skills agenda. Business Link and other such support agencies provide a unique opportunity to link the business development and skills agendas at the level of individual, particularly smaller, business. But knowledge, understanding and appreciation of the role of Business Link by providers and other agencies are not high, and vice versa.

Whilst Business Link will form the basis of the business brokerage model, it is important to recognise that trade unions, through the Union Learning Representatives, are providing business brokerage service by albeit targeting middle and lower level management and by driving the demand for skills from the

[4] G James, *A Regional Skills Partnership for the South West of England: Strategic Options Report*. Otter KLI, Feb 2004.
[5] Ibid, p19.

employees. There are excellent examples of Trade Union Learning Centre Initiatives where skills and business services are combining to ensure that learning is integral to the business. These initiatives need to be built upon and extended to new areas.

5.1.3.3 Management and leadership

Management and leadership have been shown to be an important factor in raising productivity and therefore the demand for skills. However, as the SWESA proposal document points out, a high proportion of employers within the region note a weakness in management skills. Improving management and leadership skills has therefore been proposed as a priority for action for the SWESA. This review, again, very much endorses this approach as a means of raising demand for higher-level skills. A range of initiatives is currently being supported by the FRESA to boost management and leadership skills within the region and these are to be welcomed.

5.1.3.4 Entrepreneurship

Stimulating entrepreneurship in turn leads to the possibility of stimulating the demand for skills. The entrepreneurship agenda in the region needs to be integrated with the skills agenda.

5.1.3.5 .Improve University/Business collaboration

Better university/business collaboration is needed to stimulate innovation and research and development activities that in turn will stimulate the demand for skills. Whilst again there are many examples of effective industry links with Universities, more could be done to build upon this effective practice.

5.1.3.6 Building supply of skills at the lower end

This review shows that there is a significant unmet demand for skills at the lower levels and significant numbers of people who are unable to participate fully in the labour market because they lack skills for life and basic employability skills. A concerted effort to improve the skills of those at the lower end is critical, particularly in the context of the social inclusion agenda, but also to ensure that businesses are able to recruit staff into lower skilled jobs and meet replacement demand (see 5.1.4). It is also important to upskill those already in employment and encourage greater participation in learning in the workplace. We consider this further below.

5.1.3.7 Improve IAG services in the region

Access to IAG services is essential for effectively aligning demand and supply and is currently a recognised FRESA priority for action. However, recent funding cuts to services in the region, combined with new requirements to target provision to sub level 2, threaten to reduce the level and quality of service available to adults in the region. Action is needed to support and improve services in the region.

5.1.4 Replacement demand will outstrip employment growth

Replacement demand is a far more significant factor in the demand for skills than employment growth. Forecasts anticipate that replacement demand will be around 10 times larger than the net changes in employment that are projected for 2002 to 2012[6]. Replacement demand, to a lesser or greater extent, affects all occupations. Primarily for occupations such as managers and proprietors in agriculture, administration and clerical occupations, skilled metal and electrical trades, process, plant and machine operatives, and elementary clerical work, the positive level of replacement demand outweighs the overall decline in employment levels. For occupations such as corporate managers, teaching and research professionals, health and social welfare, business and public service associate professionals, caring personal services and sales occupations, retirements will add to an already positive level of expansion demand.

5.1.4.1 Projections for the future

Our analysis of replacement demand and employment growth projections across key occupational groups, sectors and sub regions should provide a useful guide to agencies on possible future priorities for action if the employers' needs for skills are to be met in the future.

Many of the occupational groups, where demand may outstrip supply, are likely to be self-employed or working within small businesses, and some are amongst the lowest skilled. Many of these employment groups are least likely to undergo formal training. This undoubtedly presents a challenge for the region in supporting the training needs of those who might potentially fill this gap. Flexible training solutions will be needed to meet the needs of these individuals and employers.

As we have stated in our earlier analysis, such projections must be treated with caution, and are not, alone, sufficient to provide the basis for more demand-led planning. They are, however, our best guesstimate of the demand for skills in different occupational areas, their prevalence within sectors, and their relative importance to the sub-regions. It is hoped that this analysis will provide the basis for a more informed discussion with the SWESA and its sub-regional partners on priorities for action now and in the future. These trends will need to be regularly reviewed and partners invited to interpret the impact of them for their areas. Processes will need to be established to monitor these trends and agree joint action.

5.1.5 The impact of the industrial structure on the incidence of training

The proportions of the workforce engaged in self-employment or employed by micro- and small businesses is significant for the South West. Yet, these employees are least likely to be involved in formal learning or training. Self-employment and small

[6] Wilson, R, Homenidou, K, and Dikerson, A, *Working Futures: New Projections of Occupational Employment by Sector and Region, 2002-2012Volume 1, NATIONAL REPORT*. IER, University of Warwick, Jan 2004.

businesses are also increasing and are possibly becoming more important to non-traditional self-employment industries.

- *Self-employment:* The South West has the highest level of self-employment amongst the English regions[7], some 2.4 per cent higher than the national average. Within the South West, the highest levels of all those in self-employment are seen within the local authority areas of Devon, Cornwall and the Isles of Scilly, Torbay and Dorset, with Somerset, Bournemouth and North Somerset above the regional average. At the same time, there is significantly lower take up of learning and training amongst those who are self-employed.
- *Small businesses:* At the start of 2001, small businesses in the South West, those from 0-49 employees (so including those without employees or unregistered businesses), accounted for 99 per cent of enterprises. They also accounted for 53 per cent of employment and 43 per cent of turnover in the region. Although a similar figure is seen nationally in terms of the proportion of business that are small, those in the South West region account for a greater proportion of both employment and turnover, with national figures at 42 and 36 per cent respectively.
- *Structure of the business sector:* The industrial and occupational structure of business in the South West has a further impact on the take up of training. Industries such as public administration, education and health are most likely to be involved in job-related training. Industries such as construction, distribution, hotels and catering, manufacturing, and some transport and communication industries which are important employers in the region are least likely to train. Again, there is a wide diversity of performance in relation to the incidence of training based on industrial sector.

The business base of the region presents particular challenges for those seeking to encourage business to increase the demand for skills and therefore the demand for learning. There is also a wide range of examples of initiatives targeting employers with low levels of training. Jobcentre Plus, for example, has reported a range of initiatives, including job rotation initiatives aimed at particular sectors with low training levels, e.g. the Tourism Task Force.

5.1.5.1 Flexible training solutions

We need also to recognise that many employers feel that training providers are not responsive to their needs. Whilst there are numerous examples of providers being responsive to employer needs, overall there is a perceived lack of flexible solutions that act as a barrier to the take up of training. The flexible training solutions Learning Theme, conducted by SLIM, highlighted a range of good practice but emphasised that this needed to be better understood and replicated more widely if it is to impact on employer engagement in learning[8]. The proposed research and development project which emerged from this work, and which now forms part of the FRESA

[7] Labour Force Survey 2001.
[8] *Skills Issues in the South West,* SLIM, 2002.

actions, should provide further guidance to providers on improving their responsiveness to employers.

5.1.5.2 Targeted action on poor performing sectors

At a strategic level, action is needed to address low levels of training within certain types of business and certain industries. To target resources effectively, it may be necessary to agree criteria to identify sectors which under perform in terms of productivity and participation in learning, but where skill shortages (due to employment growth, and/or replacement demand) are forecasted, as a means of anticipating and taking action to prevent future skill shortages. Presently, the sectors identified as facing the greatest challenges in terms of a need for skills combined with low levels of training are not, in many cases, the same sectors that the RDA has identified as being the economic priority for the region. The priority sectors for skills may differ from the economic priority sectors. SWESA partners need to agree the criteria that will drive future action in this arena. The analysis undertaken for this review can begin to provide the evidence to underpin this discussion.

5.1.5.3 Employer training pilots

Employer training pilots are being extended in the region. Experience to date suggests that these have a valuable contribution to make to driving the demand for skills and ensuring a more responsive supply side. However, for these to be effective in addressing the region's skills shortages, there needs to be more flexibility so that local areas can target level 3 provision in particular sectors.

5.1.5.4 New Apprenticeships

The record of the Modern Apprenticeship (MA) scheme in the region has been poor in relation to its impact across all key employment sectors. There is enormous potential to use the new Apprenticeship programme to improve participation in learning and improve level 3 attainment. It will, therefore, be important to ensure that the new apprenticeship scheme is effectively marketed and that a good supply of recruits is available to meet the demand that may be stimulated.

5.1.6 Skills Inequity

Problems persist in relation to inequitable access to learning and skills. This leads to problems with employability and social exclusion. It also impacts on the quality of the available workforce, the flexibility of the labour market and ultimately acts as a check on business growth and productivity.

Whilst this review shows the region to be a highly skilled region, there are no grounds for complacency. The analysis has shown the importance of employment as a factor influencing the likelihood of the take up of learning. Yet at the same time, there are great swathes of our industrial base where participation in training is low.

A range of factors will influence participation in learning:

- *Employment status:* The *South West Regional Household Survey* suggests that 78 per cent of learning is related to employment. This link between employment and learning is an important one as the survey also identified that people who are in part-time and full-time employment are most likely to be involved in learning or training. Those people who are self-employed, claimant/ILO unemployed or not in work (inactive) are least likely to take up learning opportunities. The region also faces the prospect of an ageing workforce. We know that participation in the labour market falls once people reach 50 years and onwards to retirement. This highlights ‘leakage’ from the labour market, which may increase as the age profile of the region get older.
- *Existing skills levels:* Those who are already well-qualified and/or work within industries or occupations that have greater concentrations of higher-level skills are more likely to take up training than those with lower level qualifications and/or those who work within industries or occupations where skills levels are generally lower. 23 per cent of those employees qualified to degree level, and around 22 per cent of those employees with a higher *education* qualification (below degree level), had participated in job-related training in the last year, compared to just 15 per cent for those with GCSE grades A* to C.
- *Gender imbalance in skills acquisition:* Looking at adult formal learning and training in its widest definition, men are the main learners, which is probably associated with men having a greater level of participation in the labour market and employment as the primary driver to learning. However, women actually account for a greater proportion of job-related training. This trend has been a relatively recent one and is likely to be the result of the occupational and industrial structure of women in the labour market.
- *Young people not in education and training:* Although the majority of young people (16-18 year olds) remain in education and training, there is still an estimated 16 per cent in the South West who are in neither full nor part-time education or training.

These factors need to be taken into account in the design, delivery and marketing of training provision in the region.

5.1.7 Skills for life problems

Despite the overall picture of a well-qualified workforce, evidence suggests that a significant proportion of the adult population in the region lacks skills for life. Whilst the performance of the region is above that of many other regions, there remain significant numbers, some 22.5% of the population of the region, with below level 2 numeracy or literacy.

Since the publication of *Skills for Life,* greater emphasis has been placed on this issue and LSCs have in place skills for life plans to drive action at the sub-regional level. The establishment in the South West of the Skills for Life Unit has further underpinned the region’s effort in this respect. Yet data on skills for life remains poor (as acknowledged by many of the local skills for life plans) and we have inadequate knowledge of the nature and scale of the problem at the local level, thereby inhibiting targeted policy solutions. A lack of good research on the nature of the problem is also hampering efforts to address it.

At the same time, efforts to improve skills for life have been hampered at the delivery level by a lack of skills for life staff. Literacy, numeracy and language have been proposed as one of the four priority areas for action by the SWESA. Again, we wholeheartedly endorse this approach, as it will be essential to meet the region's needs for replacement demand and to overcome a shortage of supply at lower skill levels.

5.1.8 Net loss of graduates from the region

The South West tends to 'export' its graduates and the reasons for this are many and complex. They include issues such as the business structure of the region and the greater level of small business and self-employment. There are also real issues around earnings levels. However, much of this may be a by-product of demand-side issues and the lack of demand by employers for graduate-level skills.

Through the FRESA process, the region is currently developing a graduate utilization strategy which will aim to develop initiatives to stem the outward flow of graduates and to make the South West a more attractive place to work. This will include opportunities of continued professional development.

5.1.9 Non-formal learning becoming increasingly critical

Evidence suggests that non-formal learning is becoming an increasingly important route for skills acquisition and is often seen by employers as more effective in meeting their needs. The recent CIPD *Survey of Training* shows that the employers responding to their survey reported the proportions of formal and informal training as being 60% informal and 40% formal. A third of those interviewed rely heavily on non-formal training to provide their majority training methods ie 75–100% of their training activity. This pattern illustrates the continuing importance of informal training within contemporary British workplaces.

In this research, the employers surveyed also said that the most effective form of training was on-the-job, followed closely by coaching and mentoring. Only 16% of respondents said that formal courses were the most effective means of training. Yet there is little support or recognition of this by the skills agencies and within strategies and plans. Improving access to, and the quality of, non-formal opportunities is a key area for development and one largely ignored by existing skills interventions.

In short, despite the problems associated with measuring the extent and nature of non-formal learning, there is increasing evidence to suggest that a broad range of non-formal learning activities are being embraced by learners and employers alike.

This will be particularly important for self-employed and micro-business where non-formal learning may be the preferred form of skills acquisition, where it is difficult to release staff for formal learning.

Non-formal learning takes many forms, and innovative approaches to non-formal learning need to be extended and supported by skills development agencies in the region. Measures such as coaching and mentoring, which are increasingly proving effective but which are more common at senior management levels, may be extended to support those in self-employment and micro-business, for instance.

5.2 Strategic response

Overall, our review concluded that policies and strategies are coming together now to address the skills issues at a regional level and there are few complaints among the key agencies in terms of overall strategic direction. However, a range of barriers exists to achieving greater coherence and co-ordination of effort and therefore the ability of the agencies in the region to respond to the skills agenda. It is at the local level (closest to delivery of action), however, where most tensions are still perceived to exist.

5.2.1 Strategic vision - broadening the skills agenda

Currently, the strategic response of the region is hampered by a lack of understanding of, and commitment to, the broad strategic agenda. The conclusions of the review are that the following issues currently impede progress:

- *Lack of understanding of strategic priorities*: Interviews with stakeholders in the region revealed that understanding and commitment to the FRESA is weak amongst many stakeholders, particularly amongst employers and providers. This in turn impacts on the commitment of these stakeholders to the FRESA and other key strategies;
- *Lack of shared ownership over skills priorities:* Stakeholders expressed the view that there is a problem of a lack of shared ownership of the issues that need to be addressed and therefore agreement on the solutions:
- *Lack of effective integration between the skills and business development agenda:* At present there is a lack of integration between the skills and the business support and enterprise agendas, which will be required to drive up the demand for skills.

In response to these issues, stakeholders have made a strong plea for greater clarity and focus of strategy and priorities for action. The range of strategies, including the FRESA, that abound within the region leaves a perception of overlap, and, ultimately, of a lack of focus. The result is confusion and unrealistic expectations of what strategy can deliver within the region.

We have also shown throughout the review that a range of factors influences the skills market, and that, in turn, our skills performance impacts on a range of other policy areas. This implies an approach to the skills agenda which is broad-based and which takes into account the interplay between publicly-funded formal learning, formal learning which takes place within the private sector, and a strong role for non-formal learning.

Whilst this does not indicate a change of roles for existing agencies, it does imply greater efforts on the part of those agencies to relate to this broader agenda and ensure that there is synergy with the wider market for skills. Recognition of the important role of non-formal learning in skills formation in the region is also important, but is poorly recognised within the strategies and plans for the region. Greater emphasis may be needed on new, innovative approaches that extend beyond the 'formal' learning which is currently the primary focus of publicly-funded provision.

We also very much support the SWESA proposal for a strategic vision which aims to link the skills agenda with enterprise and business support activity to: create a joined up strategy between enterprise and skills where appropriate; insert far more demand-drive into the skills strategy and action plan; and create a mechanism for joint and joined-up activity, where appropriate.

Finally, there is a need for more effective communication of the forthcoming SWESA vision, objectives and activities. Greater clarity of vision should support this task but it needs to go further. The challenge for the SWESA will be to implement processes which actively engage and secure commitment to its work. Again, we welcome the fact that this challenge has been acknowledged in the SWESA proposals and clear actions to support engagement identified.

5.2.2 Strategic co-ordination

Stakeholders concluded strongly that there are too many agencies, strategies, plans, targets and partnerships attempting to influence the skills market. In particular:

- *Co-ordination of skills agencies and planning:* An array of agencies and plans intervene directly or indirectly in the skills market. Effective co-ordination between the wide range of agencies and partnerships undoubtedly presents a challenge. Whilst many of these agencies are committed to their part in the FRESA process, the extent and nature of engagement varies and it is not clear to what extent the FRESA has permeated, to any significant degree, the workings of individual agencies. Different planning horizons, targets and objectives add to this challenge;
- *Joint planning of budgets*: Funding for skills comes from four different agencies and is channelled through more. The targets, funding mechanisms and processes vary according to the agency and are sometimes in direct contradiction with each other. Stakeholders expressed the view that there should be more

pooling of budgets and better coherence between the funding mechanisms to promote joint working;

- *Lack of local and regional flexibility to respond to needs:* Funding for LSCs and Jobcentre Plus is driven by nationally set targets. Their scope to meet locally determined needs is therefore much reduced. Providers, in particular, complained that their perceptions of local employer need did not concur with those of the funding agencies as expressed by their targets;
- *Cross LSC working difficulties:* Providers attempting to work across LSC boundaries face undue burdens of administration and inconsistencies of approach. These act as a disincentive to cross border and regional working.

Recognising these difficulties, the SWESA has made a priority the development of joint planning arrangements, to improve coherence and co-ordination across the region. At the strategic level, there is a strong case for merging or aligning funding streams and targets to help improve delivery and outcomes as current arrangements provide a barrier to joint working. The range of funding sources, combined with a variety of audit, procurement and MI requirements, also presents a challenge for those agencies delivering training and for employers. Yet, a range of barriers is likely to be encountered in streamlining and improving the synergy between funding systems, let alone the actual pooling of resources.

This review provides information on how the range of key plans and strategies within the region link together to meet broad policy objectives. This information will be useful to SWESA partners in identifying how, and on what basis, greater alignment and coherence can be reached.

5.2.3 Targets

The *Devolving Decision Making* process has also highlighted the fact that the range of targets and plans (many of which are not in alignment) provide a barrier to joint working between partner agencies.

Whilst the RDA enjoys a fair degree of financial flexibility, this is not mirrored across all partners. Overall, there still remains a multiplicity of funding streams across the agencies in the region involved in skills development.

- *Predominance of nationally driven targets:* The key skills targets for the region are derived and set nationally and there is little scope in reality to amend these to reflect local needs. For instance, local LSC targets, which are born out of national need, sometimes over or under cover local needs. Providers reported that there is often a significant mismatch between the targets that drive funding and providers' perceptions of local employer/learner demand;
- *Tension between targets:* Some key targets are in direct contradiction, such as those of the LSC and Jobcentre Plus, and there are few processes in place to

manage and co-ordinate these approaches at the local level. Stakeholders argued strongly for greater coherence between targets at the local level.

The *National Employer Panel Report* draws particular attention to the lack of integration between the targets and activities of two lead agencies, the LSCs and Jobcentre Plus. The interviews with stakeholders reported that the greatest degree of tension exists between the target-driven provision and what is needed on the ground at the local level and particular difficulties in working across LSC borders. At the same time, little emphasis was placed on the role of the Local Learning Partnerships.

LSC and Jobcentre Plus representatives in the region have recently met[9] to agree a series of actions including: the production of a local delivery plan in line with the national requirement; exploring a more effective approach to contracting; developing a more integrated approach to employer communications; and a commitment to working with other agencies to deliver the skills agenda.

5.2.4 Planning

In addition to the lack of arrangements for joint planning between agencies in the region (see Strategic Co-ordination 5.2.2), the review has shown that the current range of plans are not as effective as they might be in driving provision and ensuring that the supply of skills meets demand.

- *Quality of plans:* Stakeholders have drawn attention to the lack of depth and therefore sufficient precision of many of the plans. A strong view emerged that the content of strategies is weak and lacking in the detail required for effective targeting of interventions.
- *Rigidity of planning process:* The perception of strategic agencies' planning processes is that they are rigid and lack the flexibility to adapt to local needs.
- *Complexity of partnerships, plans and initiatives:* From the point of view of those within the agencies and providers, the sheer number of organisations, forums, sub-groups and partnership engaged in the skills agenda was bewildering and placed an unnecessary burden on organisations' staff and resources. For some key agencies, this is a very real problem because it means they can miss out on important decisions;
- *Consultation overload:* Many stakeholders, particularly employers, complained about the volume of consultation that they were being asked to respond to. This is also coupled with a general cynicism about the extent to which views are taken into account, given that key targets have already been determined nationally. Streamlining requests for input was seen as necessary to improving the quality of responses.

[9] Note of meeting from Diana Ross, Field Director, Jobcentre Plus on Welfare To Workforce Development – Strengthening LSC and Jobcentre Plus Collaboration – 16 June

This argues for a streamlining of the number of plans, which may be addressed through a joint planning process, but also action to improve the quality of plans so that they are fit for purpose and able to target provision to meet needs. The analysis of supply and demand for skills presented in Section 3, combined with the analysis of the strategic overview, should go some way to provide evidence in support of more effective planning at regional level.

5.2.5 Use of Labour Market Intelligence (LMI)

Key to effective planning is a sound evidence base. Yet confusion reigns when it comes to understanding the variety of LMI available within the region. In addition to the variety of sources, there is a problem with the relevance of the data for decision-making at very local levels.

The review found:

- *Inadequacy of LMI:* The large volume of LMI generated by agencies in the region causes confusion to those trying to use it to inform decisions about provision. At the same time, that LMI which is available is historic and not sufficiently local or sectoral in detail to be of use in planning future provision. In reality, providers use other, less formal sources of intelligence to gain understanding of the skills needs;
- *LMI under-utilised in provider level planning:* Problems of the perceived adequacy and relevance of LMI mean that it is relatively under-utilised for planning purposes. Accessibility and knowledge of using LMI further limits its use. There is a degree of scepticism amongst providers interviewed about the 'objective' interpretation of data;
- *Focus on using qualifications as a means to measure skills does not reflect wider skills requirements of employers:* The focus on measuring outcomes in terms of qualifications drives provision into the realm of the formal when often what is needed is less formal, more flexible provision. Current targets and funding regimes mitigate against provision which is more customised to employers needs;
- *Labour market research inaccessible or not relevant:* Many stakeholders complained that skills research is often not relevant or accessible to those making decisions about provision;
- *Lack of research and strategic planning capacity amongst staff and organisations:* Agencies complained of a lack of capacity and capability to carry out research and analysis in support of the skills agenda. Research capacity within LSCs is much reduced and budgets for local and regional LSC research have virtually ceased.

The review concludes that there needs to be greater co-ordination of LMI within the region, with greater efforts made jointly to interpret and agree a shared understanding of the data. Underpinning joint planning arrangements will need to be an agreed process for sourcing and interpreting data. Again, there may be some argument to streamline this activity and at the same time lend greater credibility and independence to the data.

Stakeholders also have high expectations that the LMI generated through the SSDA and SSCs will be more relevant to the needs of those working with employers in different sectors. Whilst the processes for engaging SSCs are being considered, the early stage of development of many SSCs means that as yet sector analysis and intelligence on the needs of employers is lacking. This will clearly improve over time as the SSCs and SSDA become embedded in the system.

5.2.5.1 Regional research

The South West Employment and Skills Research Forum brings together key research staff from across the region to co-ordinate activities and commission research to underpin the evidence base of the FRESA. This group will continue to support the work of the SWESA once in place. At the same time, resources available to support research in the region have become less certain. The LSCs' budget for regional research is diminishing and Jobcentre Plus has no specific regional budget for research (although requests can be made for support from national funds). This has resulted in increasing difficulties in funding research that has been identified as a priority at the regional level.

In terms of supporting the basis for future planning, forecasting may provide some answers but is also fraught with difficulties.

5.2.5.2 Improving capacity

Evidence from the stakeholder interviews within the region indicated strongly the lack of capacity of those working in skills development agencies to understand and interpret data, and to build this into planning processes. It is also particularly important to have resources available to new staff working in this area. This will be an area where action is needed.

5.2.6 Partnerships

The greatest sense of tension for those interviewed was not between strategies and plans but between organisations trying to work in partnership. Partnership working by strategic partners is seen often as lip service rather than a genuine attempt to work in partnership.

Stakeholders described turf wars between public agencies and a lack of co-operation between LSCs working cross border to deal with skills shortages. Partnership quality appeared variable across the region.

It was also surprising, given the role of these partnerships, that Local Learning Partnerships were rarely mentioned by stakeholders, with several LSCs questioning their future role.

5.2.7 Competition

Interviews revealed a degree of rivalry between both public and private sector providers. Private sector providers see themselves as businesses in a competitive market but feel aggrieved that the public sector funding agencies 'interfere' with the free market by favouring the FE sector and public providers. FE providers, on the other hand, perceive private providers as sometimes interfering and causing unnecessary duplication in the market place. Private sector providers perceived that they are being squeezed out of the market place by LSC bureaucracy and regulations. This also creates a barrier to entry into the market for new entrants, further conditioning the supply side in the market to meet LSC administration needs rather than market needs.

A key issue for the region is whether its provider base is being appropriately managed to ensure that those providers best able to meet the needs of employers and individuals, are indeed given a level playing field in the provision of public resources. It was not within the scope of this review to assess the level and nature of competition on the supply-side, but if the perceptions of some private sector providers are correct, agencies may need to examine their role in establishing a level playing field which allows providers to play to their strengths, provides a framework for effective collaboration and ensure maximum impact for public resources.

5.3 Review of the FRESA

In this section, we review aspects of the operation of the FRESA. Our focus here has not been to comment on the effectiveness of the workings of the FRESA to date (the *Strategic Options* report is useful in highlighting some of these issues), but rather to comment upon the relevance of the strategic objectives and actions that have been identified through the FRESA process.

5.3.1 FRESA Strategic vision

The South West FRESA, unlike many of the other regions, draws its vision from the Regional Economic Strategy (2.3). As the *Strategic Options* report concludes, this may have led to lack of a distinctive vision, as opposed to the more focused statements of many of the other regions. It may be further speculated that the confusion and lack of understanding by some stakeholders is to be a function of this lack of distinctive vision. This is borne out by the interviews with skills market planners and providers in the region, who remain sceptical, confused and poorly informed about the FRESA.

As a general comment, it would be easy, given the complexity of the issues to be addressed, to develop a vision and actions that are all-encompassing and wide ranging. However, the call from planners, providers and employers would appear to be for greater focus and clarity. Greater confidence is required in strategic bodies' ability to deliver change and bring on board the commitment of those engaged in delivering skills. This calls for greater focus in the vision and greater simplicity in relation to actions.

There is an understandable degree of cynicism about new strategies and structures. The move to the SWESA offers the potential for a greater emphasis on effective communication, more active engagement with the broader 'skills' community and effective communication of outcomes of SWESA activities.

5.3.2 FRESA review of strategic objectives and priorities

The *Strategic Options r*eport concludes that there is a good fit between the key criteria (below) and the current FRESA structure:

- Demand side integration;
- Promotion of learning;
- Supply side integration.

The report also suggests that there is scope for greater clarity and re-definition of responsibilities, and cites a main gap relating to local engagement with sub-regional partners and district councils.

This review accords with these broad conclusions. Below, we look in more detail at the continued relevance and possibility for additional focus in the current objectives and activities.

FRESA Objectives and activities	**Continued relevance**	**Possibilities for additional focus**
FSO1: engaging employers: To increase participation in skills development in the South West	Given the issue of poor employer demand emerging from the analysis, this area remains central	Driving up the demand for higher skills needs to improve the emphasis on an integrated approach between skills development and business development and innovation.
Develop employers' commitment to skills development	This continues to be relevant.	The need to focus on smaller employers and sectors where participation is lowest is of importance. Building the business brokerage model to link business development with the demand for skills is critical and should review prominence.
Co-ordinate workforce development	The analysis shows the need for greater co-ordination and coherence of planning.	More emphasis perhaps on raising capability in strategic planning and understanding LMI. Better analysis of under-utilisation of graduates in the region.
Promote management skills	The link to raising productivity and demand for skills is critical.	Ensure that the importance of effective skills development and skills utilisation strategies are integrated into management and leadership training.
Integrate sector skills activities within the region	Integration of work of sectors skills councils into the regions skills agenda is critical.	Perhaps some prioritisation of actions around sectors with low training participation.
FSO2: Inspiring individuals: To raise individual' aspirations and skills for working in the South West	Although a high skills region, there is no room for complacency.	Despite being a well-qualified region, there remain inequities in participation in training. Perhaps the focus should rest firmly with improving participation to address these inequities.
Stimulate individual's commitment to training	Participation rate in learning are good compared to other	Perhaps some measures to address the issues around

FRESA Objectives and activities	**Continued relevance**	**Possibilities for additional focus**
	regions, but participation is highly related to employment.	gender performance and employment inequality in access to learning.
Raise the standards of skills for life	Skills for life deficiencies a crucial problem, with particular links to the social inclusion agenda.	Potential for greater emphasis on raising the scale and capability of the skills for life workforce, a current barrier to improving provision.
To develop generic skills for employment	Employers continue to demand generic skills, and there is a continued need to improve IAG within the market.	Improve linkages between agencies responding to the employability agenda. Improve scale and quality of IAG.
FSO 3: Working for a natural balance: To develop the efficient and inclusive working of the South West Labour Market	The overall operation of the labour market in the region is of critical importance, ensuring effective and co-ordinated action across key agencies.	The challenge of co-ordination remains. Reviewing best practice from other regions/countries may provide further ideas for improvement.
Provide a coherent skills development infrastructure	This remains an important issue and one where more action is needed.	The emphasis needs to be on simplification of current structures and partnership arrangements and more effective communication of priorities. Provision of intelligence for use at local levels and greater accessibility and understanding of existing sources.
Maximise access to jobs and skills development	The linked issue of jobs growth, an ageing population and inward migration are important.	Labour mobility is an issue for further investigation given the diversity in fortunes of the region. Better knowledge and understanding of causes of economic inactivity.
Encourage effective recruitment practices	Employers are experiencing recruitment problems whilst there are people seeking	Explore proposed New Deal flexibilities and links to skills agenda

FRESA Objectives and activities	**Continued relevance**	**Possibilities for additional focus**
	work – this continues to be a priority activity	Explore effectiveness of job broking in the region.
Stimulate and support investment	The need to improve the extent of knowledge intensive industries is crucial.	Greater emphasis on attracting high value added business and R and D into the region. Better links with HE in the region. Stimulating innovation and support for cluster activity.
Respond to labour market emergencies	Remains a priority.	
Research Forum	Continued need to understand the workings and dynamics of the skills market	Greater emphasis on practical application and dissemination of research to practitioners.

Overall, the key objectives and activities of the FRESA remain relevant. This review suggests that what may be needed in some cases is a shift of emphasis to provide greater focus and more precision in terms of actions.