

Level 3 Skills - Challenge for the South West

As you read this, the summer holidays are almost a dim and distant memory. As part of my holiday reading this year, I thought I'd take a crack at one of the current best sellers, a book called *Freakonomics*.

The sub title of the book is *Assume Nothing, Question Everything*. The premise of the book is that economics is a science with excellent tools for gaining answers but a serious shortage of interesting questions. It is also based on a few fundamental ideas: incentives form the cornerstone of modern life; conventional wisdom is often wrong; dramatic effects often have distant, subtle causes; experts use their informational advantage to serve their own agenda (beware!); knowing what to measure and how to measure it makes a complicated world much less so!

So it is with these thoughts (or should I say challenges) in mind that we here at SLIM have embarked on a 'Review of Level 3 skills' in the region. The Government has identified Level 3 skills as an important issue for the economy. The ongoing Leitch Review which is looking at the future skills needs for the UK has also, in its initial report, highlighted the importance of Level 3 skills. So its importance in government thinking is not in question. It is also an issue of importance to regional partners as the most recent Skills Strategy also asks Regional Skills Partnerships to tell government how they and their partners will identify and meet Level 3 needs in their region.

Conventional wisdom suggests that there is a gap between the UK and its main economic competitors when it comes to Level 3 skills, and that the solution is to improve the supply of Level 3 skills. But we also have a problem with basic skills and Level 2 skills, the current focus of attention of the LSC, and we have targets to get

more people into Higher Education. What balance is the right balance, in terms of the focus of government policy? And if we have too few people with Level 3 skills, is the answer simply to supply more? What should be the responsibility of employers and is enough being done to get employers to invest in their workforces? Is enough being done to ensure that employment in Level 3 occupations is seen as attractive to young people entering the labour market?

These questions and more will form the basis of what we hope will be a stimulating and at times challenging debate, which is why we are linking the review with a Learning Theme. As part of the Review, SLIM will bring together leading academics, policy makers and practitioners in the region to review the evidence that is emerging and gain a better understanding of the issues. The Learning Theme will produce up-to-date research reviews, a review of data, undertake interviews with key stakeholders, and it will host an academic panel, support an online debate and a workshop. Through this you'll be able to share ideas, develop recommendations, and of course indulge in a good dose of networking.

So if you have any conventional wisdoms that you'd like to turn upside down, some interesting questions that you'd like to raise or indeed if you have answers you'd like to share, then this is the place to do it. I hope you'll get involved, have your say and hopefully influence policy in the region. All you have to do is complete the attached form and send it back to us. Do join us for what promises to be a stimulating and timely discussion.

**Skills & Learning Intelligence Module
The Marchmont Observatory, University of Exeter,
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Level 3 Skills: Issues for the South West

Written by Chris Evans, Director, SLIM

In this article I'll be taking a look at the issues that SLIM will be addressing in the forthcoming review of Level 3 skills in the region. Level 3 skills¹ are seen as critical in terms of future prosperity, yet it is also an area where the UK lags behind its economic competitors and where our employers report skills gaps. Not surprising, then, that the demand and supply of Level 3 skills in the economy has become a pre-occupation of government and regional agencies alike.

The importance of skills

The stated aim of government policy is to create a highly skilled workforce. There is broad agreement amongst policy makers and governments that skills, knowledge, and learning have a critical role to play in securing national economic prosperity. Underlying this is a belief that in a world of intensifying competition with rapidly changing technologies, entry to high value added markets is dependent upon a highly skilled and educated workforce².

This belief is reinforced strongly by the ongoing Leitch Review. The Government commissioned the Leitch Review to identify the UK's optimal skills mix in 2020 to maximise economic growth, productivity and social justice, and to consider the policy implications of achieving the Level of change required.

The Leitch Review of Skills published its interim report, *Skills in the UK: The long-term challenge*, on 5 December 2005. In its opening chapter, it states that:

The UK is in a strong economic position. It is the fourth largest economy in the world and has the highest employment rate in the G7. However, its prosperity has been constrained by its relatively poor skills base. Poor skills have constrained productivity, innovation and investment. They have prevented the employment rate from rising further.

Most recent government documents on skills draw attention to the fact that the UK's skills profile is unimpressive in comparison with other countries. A significantly larger proportion of the adult population in the UK has low level qualifications. A significantly smaller proportion holds intermediate level qualifications than many comparator countries³ with the UK ranked 20th across the 30 countries of the OECD.

Level 3 Skills

The Government has stated that one of its priorities is to put a stronger emphasis on progression to, and investment in, skills at Level 3 and above because that is where many of the national skills gaps lie.

The 2005 Skills Strategy stated:

*We must substantially raise our ambition for the number of people who gain **Level 3 skills and qualifications**. By 2012, some two thirds of all jobs (both new and existing) are expected to require qualifications at Level 3 or higher. Some of our most pronounced skills gaps relative to France and Germany are in the crucial category of technician, advanced craft, skilled trade and associate professional skills requiring Level 3 qualifications. That is constraining growth in productivity. For many people, qualifications at Level 3 represent the way to a better standard of living through gaining highly marketable occupational skills. We will determine, in the light of the review by Lord Leitch, what ambition we should set for the future proportion of young people and adults achieving Level 3 qualifications⁴.*

The Skills Strategy also invited Regional Skills Partnerships to assess how best to use existing public funding to meet Level 3 priorities in colleges and training providers and in the workplace, taking account of both regional and sectoral needs.

Within the South West, the *South West Skills Market: A Review of Demand and Supply* (2004) concluded that:

There is a prevalence of skills shortage vacancies related to skilled trades within the region. The demand for these skills is projected to continue to meet replacement demand.⁵

Estimates suggest that replacement demand will outstrip employment growth 10 fold, indicating a significant need to infill low to intermediate level employment.⁶

So Level 3 skills are seen by government as important and a key to achieving longer-term economic success. But what do we really know about the demand for Level 3 skills?

Demand for Level 3 Skills

Current demand for Level 3 skills

One source of information on employer skills needs is the National Employer Skills Survey, which is conducted annually and asks employers about their skills needs. One way of assessing the demand for skills is to look at current skills gaps as reported by employers.

An analysis of the 2005 survey, carried out for the South West region (the report of which has yet to be published), reveals that skill shortages most strongly affect technical, craft and operative recruitment. There is a concentration, as a proportion of employment and vacancies, of skill shortages amongst technical, craft and operative/driver staff in production industries, manufacturing and transport.

Sectoral data also reveals that skill gaps are most numerous in: retail; hospitality; construction; engineering; and social care. The survey analysis shows that there may be a basic division between the skill gaps of employers in retail and hospitality where many may concern fairly routine, *low skilled* jobs at low wage rates (though we should not forget chefs as the key craft occupation in the hospitality sector). Skill gaps in engineering and construction may be more frequently located at *higher levels*, in the craft occupations on which these sectors depend.

The analysis also concludes that difficulties in the supply of manual craft and technical skills persist. Across a wide range of 'blue collar' sectors – land-based industries, manufacturing, construction, motor vehicle repair and maintenance – skill shortage vacancies tend to be relatively more prevalent than in service sectors and they are much more significant to technical and craft occupations than to other occupational groups. The analysis concludes that the development of practical skills in relation to production and manufacturing industries (and in some specialist areas such as chef skills in hospitality) remains the major challenge for skills policy – one that is, as yet, not fully met either in the South West or across England as a whole.

Sector Skills Councils are also an important source of information on the skills needs of employers. The Sector Skills Agreements, currently in production and to be completed in totality by 2007, should provide a useful insight into the nature and scale of employer skills needs.

According to the SSDA-sponsored study, *Sectors Matter: An International Study Of Sector Skills And Productivity*⁷, intermediate, or Level 3 skills, are more important to many sectors than high level education. These intermediate level skills were particularly important in lower technology manufacturing and service sectors involving personal service. Some of the commentators on UK productivity suggest that the problem is a relative lack of intermediate level skills compared with higher level skills.

Higher level education appears to be more important in high technology and knowledge intensive services, while intermediate level education is almost exclusively important for lower technology, or mature, manufacturing sectors.

Future Demand

The Leitch Review Interim Report also highlights a range of trends that are of interest when looking at the future demand for Level 3 skills. The interim report⁸ analyses a range of trends.

It concluded that, in terms of the degree to which the future skills projections 'match' employment trend projections, the proportions of jobs filled by those with no qualifications, qualifications below Level 2 and at Level 2 are projected to fall markedly faster than the proportions of the working age population in those groups. There is very little difference in the change at Level 4 and above. The picture in the middle is mixed, with perhaps too many at Level 2, and too few at Level 3.

At Level 3 and above, the proportion of the working age population which is being 'employed' in the economy under these projections (in 2020) is high. Projections looking at the share of employment by qualification level show a large rise in those requiring Level 3 skills and a drop in those requiring Level 2 skills. Both trends in expansion demand (employment growth) and replacement demand (replacement of workers due to retirement) show that there will be an increasing demand for Level 3 skills.

Supply of Level 3 skills⁹

Over the past ten years, the UK population's stock of skills, as measured by qualifications held, has been improving. There have been increases in the proportion of the working age population holding higher-level qualifications (Level 4 or above) and decreases in the proportion with no qualifications or very low levels of qualification (below Level 2). However, there has been relatively little movement in the proportions with qualifications at Levels 2 and 3¹⁰.

Much of the improvement over the last decade has been brought about by relatively rapid improvements in the qualifications held by young people flowing into the working age population, and older, less well-qualified, people retiring. In particular, there has been a rapid expansion in Higher Education, leading to a rise in the proportion of young people with at least a Level 4 qualification; in 1994, only 22 per cent of those aged between 25 and 34 held at least a Level 4, compared to 35 per cent in 2004. The number with no qualifications fell from 7 million in 1994 to 5 million by 2004, despite an increase in the working age population of 2.5 million over the same period which, in 2004, numbered just over 37 million people.

To be able to assess whether further action is needed to improve skills in the UK, it is important to make some assessment of what improvements are likely to occur in the skills profile over the coming years. The Leitch Review looks in detail at this issue and concludes that, even in the absence of intervention on adult skills, the profile will change for the better over time.

At the regional level, the South West fares well by comparison to its other regional counterparts with Level 3 attainment well above the England average.

Policy response

So given government's stated desire to see Level 3 skills increase, what has been government's policy response to date and has it been adequate?

Government has adopted a three-pronged approach to improving Level 3 education and training through the three white papers: *14-19 education and skills* (Feb 2005); *Skills: getting on in business, getting on in work* (March 2005); and *Further education: raising skills* (March 2006). These white papers have been underpinned respectively by the Tomlinson, Leitch and Foster reviews. All three white papers include a policy objective to increase levels of attainment at Level 3. The policy response is a mix of inducements, exhortation and capacity-building.

A range of initiatives has been launched which include: Centres of Vocational Excellence (CoVEs) and Skills Academies; Advanced Modern Apprenticeships and Train to Gain.

In terms of the focus of funding, by far the most important element of the policy is how funding for the Learning and Skills Council, and therefore colleges and training providers, is allocated.

The key government priorities for 2006-07 are set out in the grant letter from the Secretary of State to the LSC in October 2005. These can be summarised as: a big improvement in achievement at all levels for young people and adults; for training to meet the priorities of employers better; and to have more private sector funding of learning. The Government's funding approach is to be changed in order to realign resources to support the PSA targets, apprenticeships and the roll-out of Train to Gain.

Yet, although there are some specific references to Level 3 provision such as the two Train to Gain pilots, the grant letter does not suggest a shift of priorities away from basic skills, Level 2 achievement and progression to Level 4. So the main government instrument for affecting the supply of Level 3 skills currently places no priority upon their delivery.

One of the underlying problems with existing government policies is that they often promote different targets simultaneously and thus conflict with one another. For example, the 50 per cent HE participation target for 18-30 year olds has implications for Level 3 achievement, as expressed in targets for participation in the MA scheme. To reach the 50 per cent target, HE institutions need to attract a greater percentage of Level 3 achievers. Data indicates, however, that the number of 21-30 year olds achieving a Level 3 is likely to be small, and few reach HE through the apprenticeship route. This suggests that nearly every young person with Level 3 will need to opt for HE if the new target is to be met. At the same time, the new Skills Strategy proposes to expand apprenticeships. How will both targets be met?

It is true to say that current policies to increase the number of people in the workforce with Level 3 qualifications face a range of longstanding issues:

- Level 3 policy objectives are squeezed between a focus on increasing the numbers of entrants to HE and a concentration of funds for basic skills and Level 2 qualifications;
- A persistence of the higher status accorded to academic routes to higher levels of education over vocational options;
- A reliance on voluntarism to achieve policy objectives;
- Reluctance on the part of employers to pay for, and of individuals in the workforce to take up, Level 3 qualifications;
- The problem of 'deadweight' when funding training;
- Extensive sectoral variation.

As Ewart Keep has observed, the system is already headed towards providing skills around two poles: policies to raise the number of Level 2 qualifications among working and non-working adults and policies to raise attainment at Level 4. Level 3 may only remain important for the 10 per cent of the workforce in the manufacturing and craft sectors (Keep 2003).

He goes further and suggests that there is little evidence that we are currently moving to a world where all jobs demand a high level of formal skills, or which are interesting or well rewarded. He points to the fact that the UK labour market is following US trends and is polarising, with growth at the top and the bottom, and with the middle (skilled manual) level jobs being 'hollowed out'.

As the Research Report of the DfEE's Skills Task Force concluded, "between now and 2009 we expect there to be over 2.5 million job opportunities in semi-skilled personal service and sales occupations and nearly 2.75 million job opportunities in unskilled operative and elementary occupations". So as Keep puts it, "the 21st Century still demands quite a lot of people who can flip burgers, collect refuse, clean your house, mind your kids, wait table, care for the sick and elderly, clean your office, guard your buildings/cars/airports, serve behind the counter or at the checkout in stores, or pull your pint!" (Ewart Keep).

In that case, perhaps the focus on skills for life, Level 2 and HE is right!

Is the policy right?

Another potential problem that has been highlighted by commentators such as Mayhew is that there is a mismatch between the policy problem and the instrument. Policy-makers may rely on an instrument with a short time frame (eg an inducement) when capacity building (eg increasing the number and quality of vocational teachers and improving providers' teaching facilities) is needed.

Policies may provide too many carrots and too few sticks. The Advanced Modern Apprenticeship (AMA) scheme, for example, stipulates that each framework should include the commitment that apprentices would train to a minimum of NVQ Level 3 and attain key skills qualifications. However, the data¹¹ shows that for nine out of the ten numerically largest frameworks, fewer than 50 per cent of leavers attained the full framework or an NVQ Level 3.

It also needs to be remembered that there are many other factors beyond skills that contribute to high productivity, such as a firm's product strategy or capital investment. The Government's focus on the skill supply places an emphasis on the responsibilities of the individual and colleges. As a result, much less attention may be paid to conditions of work and employment that also undermine skill development, productivity and competitiveness¹².

Is it also right that government focuses so heavily in its analysis of the skills problems on qualifications gaps? As Keep has pointed out, comparisons between the UK and Germany cite the UK's lower performance at Level 3 while ignoring more impressive performance at Level 4. Similarly, comparisons to the US cite US superiority at Level 4, not the UK's advantage over the US at Level 3.

Level 3 Review

So what do we conclude from all this? Well, firstly, it is a complicated picture, with government rhetoric and government activity pulling in different directions.

How do we tackle current skills gaps, which would appear to be focused around particular sectors and occupations? Is it sufficient to increase supply, and if so who is going to pay? If Level 3 skills are important to the future of the economy, and the Leitch Review suggests that they are, how do we tackle that and plan to meet future needs, given the nature of the new demographic profile that we will face?

The Level 3 review will try and provide some clarity on these issues for the region. From this we hope to:

- Support the development of a strategy and action plan to deliver Level 3 skills in the region;
- Enable partners to agree where to target activities and how activities should be resourced;
- Agree where the role of the RSP fits with this.

But understanding Level 3 skills is not simply about reviewing the data and the policy initiatives; there needs to be a broader debate about who takes responsibility for developing and paying for these skills. Where does the role of government and its agencies begin and end? That requires a debate and a range of critical perspectives.

There are a number of schools of thought about the direction that policy on skills and training should take. As part of the review, SLIM will be calling on leading academics to give us their views and share their perspectives in order to inform and stimulate debate in the region.

¹ Two or more A-Levels or equivalent; NVQ Level 3; BTEC National; Ordinary National Diploma (OND); Ordinary National Certificate (ONC); City and Guilds Advanced Craft; and 3 or more Scottish highers.
² Geoff Hayward and Stephanie Sturdy, *Tuning up for training but who pays the piper?* SKOPE, Department of Educational Studies, University of Oxford. Issues Paper 7 December 2005.
³ *The Leitch Review of Skills - Skills in the UK: The long-term challenge*, HM Treasury, December 2005
⁴ p 18, *Skills: Getting on in Business, Getting on at Work*, March 2005, DFES
⁵ p 11, C Evans and L Smith, *South West Skills Market: A Review of Demand and Supply* (2004), SLIM
⁶ p 11, C Evans and L Smith, *South West Skills Market: A Review of Demand and Supply* (2004).
⁷ Nick Jagger (IES), Lionel Nesta (SPRU) Vania Gerova (IES), Parimal Patel (SPRU), SECTORS MATTER: *An International Study of Sector Skills and Productivity*, Institute for Employment Studies

(IES) and the Science Policy Research Unit (SPRU). 2004, on behalf of the Sector Skills Development Agency.
⁸ *The Leitch Review of Skills - Skills in the UK: The long-term challenge*, HM Treasury, December 2005.
⁹ Two or more A-Levels or equivalent; NVQ Level 3; BTEC National; Ordinary National Diploma (OND); Ordinary National Certificate (ONC); City and Guilds Advanced Craft; and 3 or more Scottish highers.
¹⁰ Leitch *ibid*
¹¹ LSC statistics collated in August 2003.
¹² C Stasz and S Wright, *Emerging Policy for Vocational Training in England: Will it lead to a better system*, LSRC Research Report 1997.

Abstracts / Reports on Level 3 Skills

Abstracts

The Leitch Review (HM Treasury) - 01 December 2005

The Government commissioned the Leitch Review to identify the UK's optimal skills mix in 2020 to maximise economic growth, productivity and social justice, and to consider the policy implications of achieving the Level of change required.

www.hm-treasury.gov.uk/independent_reviews/leitch_review/review_leitch_index.cfm

Tuning up for training but who pays the piper? (ESRC) -

01 December 2005

This paper focuses on policy for those already in the workforce who lack a Level 2 qualification. It looks at the National Employer Training Programme (NETP) and policy targets, as well as costs and who has to bear them.

www.skope.ox.ac.uk/WorkingPapers/Issues Paper 7.pdf

High Performance Work Organisation – A Driver for the High Skills Vision? (SKOPE) - 01 October 2005

Both academics and policy makers have shown increasing interest in the topic of the high performance work organisation (HPWO) as a means to achieve a 'high skills' or 'learning' economy. The idea that the HPWO can deliver mutual gains for both management and employees is a central part of the attraction, yet its ability to do so remains deeply contested. This paper provides a brief guide through some of the main areas of controversy.

<http://www.skope.ox.ac.uk/WorkingPapers/Issues%20Paper%206.pdf>

Sectors matter: An International Study of Sector Skills and Productivity (SSDA) - 08 November 2005

This report details the results of a project undertaken jointly by the Institute for Employment Studies (IES) and the Science Policy Research Unit (SPRU) for the Sector Skills Development Agency (SSDA). The project developed a range of skills indicators and calculated Total Factor Productivity (TFP) growth, which is a productivity measure that takes account of hours worked and capital input. It had four main objectives:

- To undertake international productivity and skills analyses at a level of disaggregation as close to that of the SSDA's Sector Matrix as possible;
- To provide and analyse internationally comparable productivity and skills profile data at the detailed sectoral level;
- To examine the inter-relationships between skills and productivity at the detailed sectoral level;
- To provide inputs to the sector level skills planning process led by the Sector Skills Councils.

www.ssda.org.uk/default.aspx?page=2227-1214

Raising sector skill levels - how responsive is local training supply? (SSDA) - 01 April 2005

This study seeks to shed new light on the extent and nature of any mismatches between employers' training requirements and local vocational and educational training (VET) provision. The survey covered employers in four sectors and eight regions which were chosen for diversity and included the maintenance and repair of motor vehicles in Devon and Cornwall.

<http://www.ssda.org.uk/ssda/pdf/Skills9.pdf>

Interview ...

Here we talk to Jim Neilson, the recently appointed Director of the South West's Regional Skills Partnership (RSP). Jim comes to the role from a commercial and business background together with time spent in Higher Education and GOSW and he is keen to improve the links between them. As part of that drive, Jim and the RSP have been pivotal in the selection of the Review of Level 3 Skills as the subject of this present Learning Theme.

Hi Jim, for the sake of those readers who haven't come across you yet - could you let us know a little about your role, the work you do and the work your organisation does within the Region?

Regional Skills Partnerships bring together key partners across the region – the LSC, SWRDA, Jobcentre Plus, Skills for Business Networks and Employer Groups including the CBI and the FSB. The aim is to strengthen regional structures and collaborative working to make skills provision more relevant to the needs of employers and individuals. We do this by focusing on priorities agreed by the Partnership, working through task and finish groups and through the work of the central team. My role as Director is to lead the central team and work with the Partnership to deliver on the strategy.

Can you give us some background information on where you have worked previously and what your interests are?

I spent 20 years working in the marine business, latterly as a Director of a small PLC. I then worked in Higher Education in the North East for 10 years as Dean of a Business School. Most recently I have led on Higher Education for GOSW from where I was seconded to the RSP. Probably because of my commercial background, I believe that there is still much to do to strengthen links between business and education, including Higher Education. I think there are some really good opportunities to develop vocationally orientated award-bearing educational programmes that also deliver clear benefits to business at all levels.

SLIM will be carrying out a 'Review of Level 3 Skills' in the region. This review will inform the work of the Regional Skills Partnership (RSP). Can you explain why this is such an important issue for the South West?

There is quite rightly a lot of focus on the need for Level 2 qualifications and for higher level skills. In some senses



therefore, Level 3 is the Cinderella skills level. However, anecdotal evidence and indeed information we are picking up from sector skills agreements clearly demonstrates that Level 3 skills and qualifications are increasingly important for employers.

What would you like to see the Learning Theme address? What are you most eager to see some progress in?

What we hope to see is clear information about Level 3 requirements. It would therefore be useful to have up to date information on the strength of demand for Level 3 skills. We would wish to see how this varies across sectors and perhaps most important what employers priorities are for Level 3 skills and qualifications.

Following the completion of the Learning Theme - what would be the next steps for the RSP and the region on the Level Three topic?

Given a clear understanding of Level 3 requirements, what we need to do is to sit down with the partners and agree a set of shared Level 3 priorities for the region. i.e. identify which requirements are already being met by partner policies and actions and, which need other joint actions by the partners. In short, we need to be clear what the Level 3 priorities are for the region, and how they will be met.

What else is happening in the region on this and similar skills issues? Is there anything you would like to draw attention to?

Perhaps most important is the sectors work we are doing with partners including the SSDA, SSCs, LSC, RDA and the Jobcentre Plus. The way we have collectively set this up and established a robust methodology for looking at the skills requirements of specific sectors should, we hope, result in some very positive actions over the next 12-18 months.

Contact:
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Director
Regional Skills Partnership
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Register your interest here:

Please use this form to indicate how you would like to participate in the **SLIM Learning Theme** -

Level 3 Skills - Challenge for the South West

The form can be returned to SLIM by fax or post.

Workshop details

Dillington House, Ilminster
Tuesday 17 October 2006
10am - 4pm
(lunch included)

Please Note

There is a charge of £50 per person for those attending the workshop. The research brief and report are free of charge.

We will invoice those registering to attend the Workshop.

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