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## Skills for Competitiveness: Country Report for United Kingdom

Anne E. Green



# Skills for Competitiveness

## Country Report for United Kingdom

Anne Green

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## INTRODUCTION

### Background to the research project

This report presents the findings from the United Kingdom (UK) element<sup>1</sup> of an international research project conducted by the Organisation for Economic Co-Operation and Development (OECD) Local Employment and Economic Development (LEED) Programme on *Skills for Competitiveness*. The research project builds on lessons from LEED's *Designing Local Skills Strategies* projects, which showed that balanced skills strategies are important to raising local productivity and increasing socio-economic inclusion at the local level.

It was clear that there is strong variation between local labour markets in terms of the relationship between skills supply and demand. While some sub-regions exhibit characteristics of 'high skills equilibrium', with a strong supply of skills being matched by a strong demand for skills, others experience either an imbalance in skills supply and demand (leading to 'skills shortages' or 'skills surplus') or a 'low skills equilibrium' where low skills in the workforce are matched by low demand for skills amongst employers.

The underlying rationale for the *Skills for Competitiveness* project is that by focusing on raising skills demand, communities and businesses can become more competitive and can offer more qualified and better paid jobs, thereby improving their local economic profile and stimulating innovation. The project involves a review of the tools and governance mechanisms which policy makers are putting in place to tackle this difficult policy area, with a view to sharing good practice internationally.

### Scope of the research project and structure of the report

To help formulate appropriate policies and associated tools and governance mechanisms, policy makers need to be able to accurately identify local skills contexts using information on skills supply, demand and (mis)matches at the local level.

A first step for the project was to develop a diagnostic tool<sup>2</sup> designed to provide a simple conceptual framework to help policy makers at the national and sub-national levels to better understand the overarching skills issues affecting local labour markets and the extent to which these are differentiated. The diagnostic tool was also used to set the local case study areas selected for fieldwork in a broader context. The conceptual framework on which the diagnostic tool is based is presented in Part 1. The detailed methodology used for populating the diagnostic tool using statistical sources disaggregated to the local level and the results derived therefrom follow.

A second step for the project was to set out the relevant policy background for the development and implementation of skills policy at national and sub-national levels in the UK. The policy background takes on particular significance in the UK context, given the timing of fieldwork in the UK in 2011: the change of UK Government (at Westminster) in May 2010 which brought in its wake considerable change in both policy mechanisms and governance structures;<sup>3</sup> cutbacks in public spending and rising worklessness in the

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<sup>1</sup> Canada and Italy are the other elements of the project.

<sup>2</sup> This part of the research was undertaken by the OECD LEED secretariat, using secondary data sources for each of the participating countries in this international project (i.e. Canada, Italy and the UK).

<sup>3</sup> There were important political changes also resulting from elections to the Scottish Parliament and Welsh Assembly in May 2011, with the Scottish National Party forming a majority Government in Scotland (the first time

light of recession in 2008/9 and the fragile nature of the ensuing recovery; and the devolution of responsibility for skills in the different nations of the UK. Part 2 outlines the policy (and economic context) for the UK study, and sets out continuities and changes in responsibilities and policy approaches of relevance to skills and economic development at the sub-national level.

A third step for the project was to study in more detail ‘the story behind the data’ through fieldwork at the local level. This is the richest part of the report, resting on a review of documentary evidence (including local economic assessments, skills strategies, policy reviews, etc) and selected interviews with policy officials, sectoral and local stakeholders. Of particular importance in this respect were sub-regional and local roundtable discussions held in Blackpool (in the North West region of England), Rhyl (in Wales) and Greater Manchester (in the North West region of England), and a national roundtable discussion (in London) as part of an OECD study tour in July 2011. The roundtable discussions were attended by national and sub-national policy makers, education and training providers, employers, local and central government officials, representatives of trade unions, sectoral bodies and welfare-to-work providers. Background information on the local case study areas and key findings from the roundtable discussions are outlined in Part 3.

Part 4 draws out emerging issues from the analysis of the case studies and discussions with national policy makers, and Part 5 identifies potential tools for improving the balance between the supply and demand for skills at local level in the UK and looks forward to the future.

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any party in the Scottish Parliament has had an outright majority), while in Wales a Labour-Plaid Cymru Coalition was replaced by a Labour administration. In the elections to the Northern Ireland Assembly in May 2011 the Democratic Unionist Party and Sinn Fein remained as the two largest parties in a power-sharing arrangement.



## 1. A CONCEPTUAL FRAMEWORK AND LOCAL DIAGNOSTIC TOOL FOR UNDERSTANDING SKILLS FOR COMPETITIVENESS

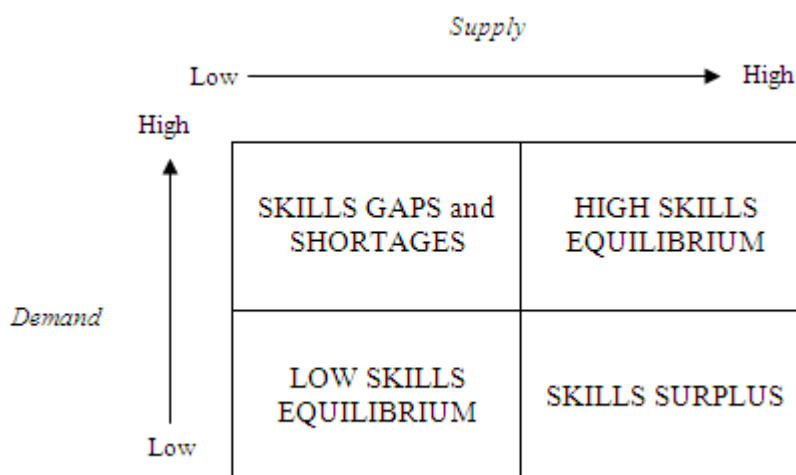
This chapter introduces a simple conceptual framework which has been designed by the OECD LEED Programme in the context of the international Skills for Competitiveness study to help policy makers at national and sub-national levels understand in broad terms the relationships between skills supply and demand.

### Conceptual framework

Figure 1 shows a simple typology designed to help understand the main different possible relationships between skills supply and demand at local (or regional) level. This shows local areas categorised as one of four types:

- a low skills equilibrium – a situation of low supply of and low demand for skills;
- skills gaps and shortages – a situation of low supply and high demand for skills;
- a skills surplus – a situation of high supply and low demand for skills; and
- a high skills equilibrium – a situation of high supply and high demand for skills.

Figure 1. Moving from a low to high skilled equilibrium



Source: OECD, 2009, (adapted from Green *et al.*, 2003)

The four quadrants may be thought of as constituting a generalisation of a reality which is more nuanced and complex. Applied to any given local area (or region), each quadrant would represent an 'average' condition, which might conceal much more varied conditions in different labour market segments or smaller spatial units. Hence an average position of 'skills surplus' (bottom right quadrant) in one local area might conceal skills gaps and shortages in one or more segments of the labour market. Therefore, although the typology provides a neat introductory conceptual framework for understanding the

interaction of skills supply and demand, targeted policy interventions require a more detailed and nuanced understanding of the local labour market conditions and dynamics.

The ‘low skills equilibrium’ (bottom left of the figure) and ‘high skills equilibrium’ (top right of figure) are indicative of ‘balance’ (i.e. market clearing) for a given skill threshold condition. However, the latter is much more desirable than the former, in both social and economic terms. In the case of a local area characterised by the ‘low skills equilibrium’ average businesses<sup>4</sup> have a niche in which they operate competitively with low skills and relatively low wages; the market is operating efficiently but employees have relatively low wages and, from a policy perspective, the businesses are of the ‘wrong’ type to drive demand for higher level skills. This is because establishments with a business model based on lower value added product market strategies, in which competition is based primarily on low cost, is less likely to be looking to be actively looking to update the skills levels of their staff than those establishments operating in higher value added markets, which are competing mainly on the basis of the quality, as opposed solely to cost, of their products and services (Mason, 2011).

Conversely, in a local area characterised by a ‘high skills equilibrium’ average businesses need, and can command and utilise, high skills to generate more sophisticated products and services. This is a desirable outcome in terms of driving demand for skills and generating higher wages and economic growth. In general, many peripheral rural areas and old industrial areas are characterised by a ‘low-skills equilibrium’, whereas core labour markets in prosperous regions are more likely to be indicative of a ‘high skills equilibrium’.

In broad terms the appropriate policy response for addressing the ‘low skills equilibrium’ is not merely to supply low level skills which are likely to ‘churn’ in the local labour market. Instead policy responses need to address both the supply and demand of skills, and support training at higher skills levels whilst also encouraging the generation of jobs that utilise those skills (either by bringing in new businesses or encouraging existing businesses to move into higher value added markets). For the ‘high skills equilibrium’ the appropriate policy objective is to maintain such a position dynamically.

By contrast, ‘skills gaps and shortages’ (top left of the figure) and ‘skills surplus’ (bottom right of the figure) are indicative of ‘imbalance’ (i.e. market failure). Such ‘imbalance’ might be expected to be more short-lived than the ‘equilibrium’ conditions described above, because of market adjustments and the activities of businesses and policy makers in addressing imbalances.

In the case of ‘skills gaps and shortages’ demand for skills outstrips the supply – both in the internal and external labour market. Some of the skills demanded might be specialist skills in short supply that may need to be filled by migration and/or upskilling the existing or potential workforce. Skills gaps and shortages may be expected to be particularly prevalent at times of relative economic buoyancy, although problems of imbalance may persist in more austere economic circumstances. In broad terms, the relevant policy response is to facilitate better information flows and market signalling to help supply the relevant skills – either through in-house skills development, education and training so that the external labour market can supply the required skills, or through in-migration of workers with the necessary skills; wage adjustments may also play a role here.

Skills surpluses arise when the supply of skills outstrips demand and so skills may be under-utilised or not utilised at all. This situation may be particularly likely to occur at a time of economic downturn, when aggregate demand for labour is relatively low and/or when the local supply of labour exceeds demand, so

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<sup>4</sup> In any one local area there are likely to be businesses in all four quadrants in Figure 1, but in the case of a local area being characterised by a ‘low skills equilibrium’ those in the lower left quadrant predominate.



resulting in a ‘bumping down’ of the higher skilled to fill low skilled jobs, in turn reducing opportunities for employment of those with low skills.

The typology outlined in Figure 1 constitutes the framework for the statistical diagnostic tool developed by the OECD secretariat to help policy makers understand the interactions between skills supply and demand, and so inform interventions. The next section outlines how variables were selected to operationalise this tool.

*Exemplar indicators of skills supply and demand for implementing the local diagnostic tool*

In order to help diagnose where sub-national labour market areas fit – in ‘average’ terms - into the typology outlined in Figure 1, it is necessary to derive indicators of skills supply and demand. Table 1 lists some exemplar variables which may be used by policy makers. While some indicators are available from National Statistical Offices, others are available directly from country-specific surveys. For international comparisons, the desire in this project was to generate comparable indicators across countries; therefore a common set of variables has been chosen for the implementation of the diagnostic tool.

**Table 1. Examples of variables of skills supply and demand**

Skills supply	Skills demand
<ul style="list-style-type: none"> <li>• Education levels in the workforce or the population (e.g. ISCED classifications, % of population with post-secondary qualification)</li> <li>• Graduation rates</li> <li>• Uptake of post-secondary and VET education</li> <li>• Percentage of people not completing school education</li> <li>• Percentage people receiving training within the last 1-5 years</li> </ul>	<ul style="list-style-type: none"> <li>• Occupations within the workforce</li> <li>• Wage levels</li> <li>• Productivity</li> <li>• Skills shortages and vacancies (in particular unmet vacancies)</li> <li>• Employee jobs in knowledge based industries/high technology firms</li> </ul>

Given that a single indicator can only tell partial story, a decision was taken by the LEED Programme to combine variables together into two composite indicators: one for supply and one for demand. For example, comparing occupational structures does not take into account the fact that skills can be utilised very differently within identified occupations. Identifying the demand for skills also requires using proxies of the intensity with which higher levels of skills are utilised in the workplace, including labour productivity and wage levels. The challenge for this project was to combine available data in such a way as to have an accurate picture as possible of the skills challenges facing local labour markets.

In classifying sub-national labour market areas it is also important to consider indicators which might illustrate the outcome, or corollaries, of the existing balance between skills supply and demand, in particular indicators of skills mismatch. Examples of indicators of skills mismatch are shown in Table 2. Figure 2 shows the conceptual model derived as a result of bringing together the indicators and proxies for the supply and demand of skills with the indicators characterising mismatch,

**Table 2. Examples of indicators of skills mismatch**

<ul style="list-style-type: none"> <li>• Flows of internal and international migration (by age)</li> <li>• Inflows of immigrants</li> <li>• Destination of school leavers</li> <li>• Number of graduates finding occupation in region of study</li> <li>• Unemployment rate (by skills level)</li> <li>• Employment rate</li> <li>• Reported skills shortages and vacancy rates (e.g. unmet vacancies)</li> </ul>
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Figure 2 shows the conceptual model derived as a result of bringing together the indicators and proxies for the supply and demand of skills with the indicators characterising mismatch.

**Figure 2. Examples of indicators of skills mismatch**

DEMAND	High	<p><b>SKILLS GAPS AND SHORTAGES</b></p> <ul style="list-style-type: none"> <li>• High wage/high productivity good job slots</li> <li>• Low local educational attainment and skills</li> <li>• High share of skilled employees needed</li> <li>• High vacancy rates for skilled jobs</li> <li>• In-migration of skilled workers</li> </ul>	<p><b>HIGH SKILLS EQUILIBRIUM</b></p> <ul style="list-style-type: none"> <li>• High wage/high productivity good job slots</li> <li>• High educational attainment and skills levels</li> <li>• High employment rate/ low unemployment rate</li> <li>• High share of skilled jobs</li> <li>• Balance of in-out migration</li> </ul>
	Low	<p><b>LOW SKILLS EQUILIBRIUM</b></p> <ul style="list-style-type: none"> <li>• Low wage/low productivity poor job slots</li> <li>• Low local educational attainment and skills</li> <li>• Cycle dependent employment</li> <li>• Low share of skilled employees needed</li> <li>• Out-migration of the more skilled</li> </ul>	<p><b>SKILLS SURPLUS</b></p> <ul style="list-style-type: none"> <li>• Low wages/low productivity poor job slots</li> <li>• High local educational attainment and skills</li> <li>• Low share of high skilled job slots</li> <li>• High unemployment rate (of skilled workers)</li> <li>• Out-migration</li> </ul>
		Low	High
		SUPPLY	

The diagnostic tool was initially trialled in British Columbia, Canada. On the basis of this pilot, the tool was refined and implemented in Italy and Canada, as well as the UK. Results from the implementation of the diagnostic tool – with special reference to the UK – are provided in Annex A.

### *Reflections and conclusions*

The four-quadrant conceptual framework is a useful tool to start discussion about skills supply and demand interactions. It provides an empirical lens through which to start looking at the broad variation in the skills situation in different local areas and their different trajectories. Importantly it emphasises the role of demand for skills alongside their supply.

The main feedback on the conceptual framework and diagnostic tool from the roundtable discussions in the UK is presented below. Comments related to the importance of understanding the spatial scale at which such constructs are implemented (i.e. whether or not they accord to functional economic areas), the timeliness and robustness of the underlying data used to operationalise the tool, and whether the selection

and precise specification of indicators was appropriate. It was considered that the utility of the conceptual framework and diagnostic tool lay in the macro view it provided, rather than in capturing micro level influences and changes.

The tool is indicative; its main value lies in offering a strategic and medium-term perspective on skills supply and demand issues. Local policy makers should use it only as a starting point alongside other data sources and intelligence available locally. Unpacking of some of the component variables would help in understanding and use of up-to-date information would enhance the tool's credibility.

Importantly, the conceptual framework raises two skills-related issues. The first relates solely to the 'efficiency' of the local labour market and is about labour market facilitation. As noted above, balanced labour markets are efficient, while those in a state of imbalance are not. If the policy imperative is solely one of ensuring an efficient labour market, the onus of policy is to try to combat imbalance and maintaining the balance inherent in the low skills and high skills equilibria. The second issue is that of strategic skills development within local economic development. Here the difference between the low skills equilibrium and the high skills equilibrium matters, and the emphasis is on raising demand for skills so as to generate better quality employment, higher productivity and economic growth. To move towards the most desirable situation – indicated by a situation of high skills equilibrium – involves addressing the second skills issue alongside the first.

## **Results from the implementation of the diagnostic tool for local areas in the UK**

### ***Implementing the diagnostic tool***

#### *Geographical areas*

The first step in implementing the diagnostic tool in the UK was to decide at what geographical scale and for which particular set of geographical units to implement the diagnostic tool. This project focuses principally on the supply and demand of skills at the local labour market level. However, usually geographical classifications are based on administrative units, rather than functional economic areas or 'travel to work' areas. A particular geographical area may have a mismatch between skills supply and demand because skilled people are commuting out and being employed elsewhere. Data collected by national statistical offices through household surveys are residence based and among the indicators needed to populate the diagnostic tool GVA per worker is the only workplace-based indicator. As explained below, a decision was taken by the OECD LEED secretariat to give more relevance to this variable in the analysis to reduce the impact of commuting effects.

For this project a decision was made to adopt TL3 (OECD Territorial Level 3) (i.e. NUTS 3 regions) for analytical purposes. In general, these are regions with a population threshold of 800,000 or less<sup>5</sup>. Overall in the UK there are 133 TL3 areas of which 128 are in Great Britain and 5 in Northern Ireland. In the UK context the TL3 areas represent groupings of local authority areas which may, or may not, constitute functional economic or local labour market areas. At finer scales of spatial disaggregation disparities between supply and demand for skills are likely to be more acute.

It should be noted that while some cities may be classified in accordance with the typology in Figure 1 as being areas of high skills equilibrium (showing concentrations of both skilled people and high skills

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<sup>5</sup>The OECD definition of a Territorial Level follows closely that of the Eurostat NUTS classification for European countries. In both cases, while population thresholds are identified for each level of the classification, there are some discrepancies which reflect the national administrative classifications applied in the different countries.

demand) they often host pockets of low skilled people, which can have an important impact on employment rates. The sub-regional classification at TL3 level can only therefore be seen as the first stage of analysis.

#### *Data collection at local level*

Data at local level is not often published by national statistics offices, in some cases due to confidentiality clauses. In most countries, the data sought to populate the diagnostic model comes from a combination of different sources (e.g. Census, the Labour Force Survey, the national accounts and country specific surveys). On the supply-side, education levels were generally measured using the ISCED classification (International Standard Classification of Education). Information about post-secondary education and vocational training at sub-regional level was not always available. On the demand-side information on occupational structure of the working population generally follows a national classification which refers to the ISCO (International Standard Classification of Occupations).

In the UK there was an additional complication of generating comparable statistics for Northern Ireland (which is not included in this analysis). Data for the UK was collected at TL3 level according to the OECD regional classification. Variables on education and occupations were derived from the LFS/Annual Population Survey (APS) and GVA per worker from the regional accounts.

#### *Deriving benchmarking groups*

Ideally, policy makers should be able to make comparisons between sub-regions with similar overall characteristics. Therefore the data analysis in each country started with an exploration of:

- the *industrial base*: this variable identifies the percentage of the population in the labour force working in three main industrial sectors: primary, secondary and tertiary (services);
- *degree of urbanisation*: a typology based on criteria of population density and size of the urban centres located, distinguishing predominantly urban, intermediate and predominantly rural areas; and
- *large cities*: in the UK the OECD's Directorate for Public Governance and Territorial Development has identified four metropolitan areas: London, Birmingham, Manchester and Leeds.

Drawing on the above classifications, four profiles were identified for purposes of classifying sub-regional areas into basic types as a contextual basis for further analysis and to identify benchmarking groups for the project. The four profiles are:

- predominant<sup>6</sup> primary sector;
- predominant secondary sector;
- predominant services sector; and
- metropolitan areas.

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<sup>6</sup> The primary sector of the economy can be classified as the "extractive" industry. The secondary sector is comprised of manufacturing industries, while the tertiary sector refers to services. In all instances 'predominant' means a relatively high percentage of employment in the relevant sector – i.e. primary, secondary, services.

The UK case study areas fit into these benchmarking groups as follows:

- *Manchester*: The ‘Greater Manchester’ sub-region is split into two TL3 areas<sup>7</sup> – Greater Manchester South and Greater Manchester North, which are classified as ‘metropolitan areas’.
- *Blackpool*: The unitary authority area of Blackpool is tightly bounded and forms one part of a larger functional economic area encompassing the neighbouring local authority areas of Fylde and Wyre. It is categorised as ‘predominantly urban’ with a ‘predominant services sector’.
- *Rhyl*: The town of Rhyl in North Wales is part of the Conwy and Denbighshire unitary authority area – much of which has a rural character beyond the urban coastal strip. It is classified as ‘intermediate’ on the degree of urbanisation, and as having a ‘predominant primary sector’.

### *Measuring skills supply and demand*

In order to approximate *skills supply* at sub-regional level the percentage of the population having post secondary education (NVQ3 and NVQ4) was used.<sup>8</sup> In order to approximate the demand for skills two variables were combined: (1) GVA per worker; and (2) percentage of the employed population in medium- and high-skilled occupations. In combining the two demand variables into a composite index a weight of 0.75 was assigned to the first variable and 0.25 to the second. It should be noted that these precise weights are arbitrary, but the rationale for the decision to ascribe these weights was that GVA per worker is a useful proxy for productivity and it can vary significantly across regions. Hence it was given a higher weight within the composite demand index as it more directly reflects the intensity with which higher levels of skills are used at the workplace, which is normally mirrored by higher output and/or remuneration. In addition, it is a workplace-based variable which precisely refers to the area where the person actually works, while the employment in medium- and high-skilled occupations variable is residence-based.

In generating indices it is necessary to bring the variables onto a common measurement scale using a standardisation method. After an international literature review and appropriate testing, it was decided to use the inter-decile range method, as being relatively robust, in accordance with the formula below:

$\frac{(X_i - X_{med})}{(X_{9th} - X_{1st})}$ <p>Where:</p> <ul style="list-style-type: none"> <li><math>X_i</math> = value for TL3 i</li> <li><math>X_{med}</math> = median</li> <li><math>X_{9th}</math> = 9<sup>th</sup> decile</li> <li><math>X_{1st}</math> = 1<sup>st</sup> decile</li> </ul>
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The relevant variables were compiled and the indices were compiled in this way for the UK for 2001, 2008 and 2009<sup>9</sup>.

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<sup>7</sup> Although in reality they comprise a single functional economic area.

<sup>8</sup> No other variable was consistently available at the sub-regional level in Canada, Italy and the UK.

<sup>9</sup> During the study visits graphs were presented for 2001 and 2008. Data for 2009 was collected in late 2011 and is included in this report.

### Exemplar results from the diagnostic tool

One general feature of the distribution of sub-regions<sup>10</sup> is that a greater than average share falls into the ‘equilibrium’ quadrants (i.e. low skills equilibrium and high skills equilibrium) than in those quadrants indicative of skills mismatch. In general, intra-regional variations in distribution are apparent, with local areas from the same region located in different quadrants. However, overall, there are relatively more local areas from southern England than from the midlands and northern parts of the UK in the high skills equilibrium quadrant, and vice versa.

A second general feature of the distribution of sub-regions is the relative lack of change in position over time. In the following charts the *x* axis (supply side) represents the percentage of the population having post secondary education (NVQ3 and over). The *y* axis (demand side) identified the demand index which combines medium- high skilled occupations with GVA per worker.

The following figures present the picture in 2009 for urban and metropolitan sub-regions (Figure 3) and for rural and intermediate areas (Figure 4). The legend for the graphs is presented in Tables 3 and 4 respectively. Case study areas for the UK study are highlighted each time (either in the legend or on the chart depending on the format).

**Table 3. Urban and metropolitan sub-regions in the United Kingdom**

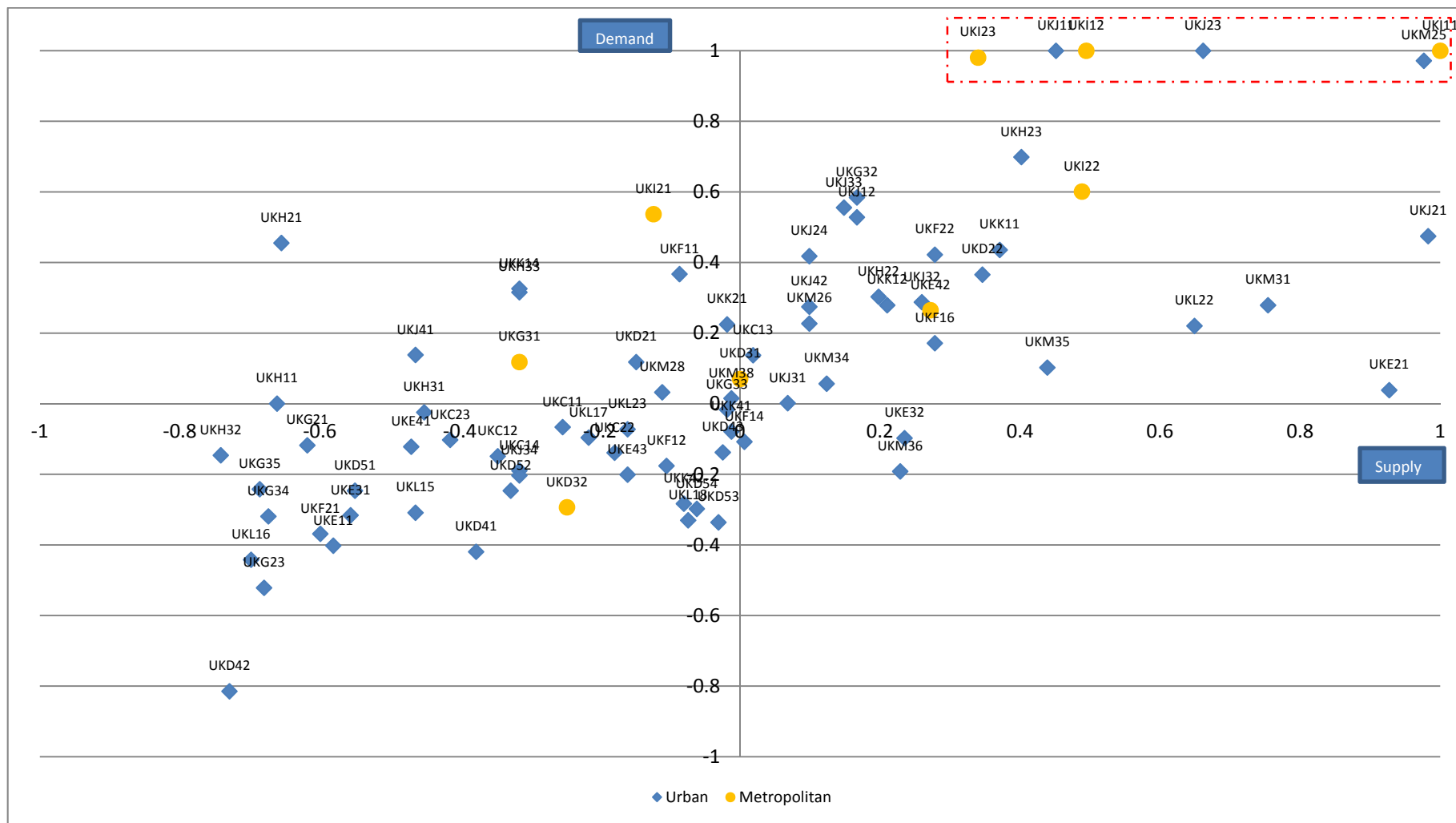
<b>UKC11</b>	Hartlepool and Stockton-on-Tees		<b>UKH23</b>	Hertfordshire
<b>UKC12</b>	South Teesside		<b>UKH31</b>	Southend-on-Sea
<b>UKC13</b>	Darlington		<b>UKH32</b>	Thurrock
<b>UKC14</b>	Durham CC		<b>UKH33</b>	Essex CC
<b>UKC22</b>	Tyneside		<b>UKI11</b>	Inner London - West
<b>UKC23</b>	Sunderland		<b>UKI12</b>	Inner London - East
<b>UKD21</b>	Halton and Warrington		<b>UKI21</b>	Outer London - East and North East
<b>UKD22</b>	Cheshire CC		<b>UKI22</b>	Outer London - South
<b>UKD31</b>	<b>Greater Manchester South</b>		<b>UKI23</b>	Outer London - West and North West
<b>UKD32</b>	<b>Greater Manchester North</b>		<b>UKJ11</b>	Berkshire
<b>UKD41</b>	Blackburn with Darwen		<b>UKJ12</b>	Milton Keynes
<b>UKD42</b>	<b>Blackpool</b>		<b>UKJ21</b>	Brighton and Hove
<b>UKD43</b>	Lancashire CC		<b>UKJ23</b>	Surrey
<b>UKD51</b>	East Merseyside		<b>UKJ24</b>	West Sussex
<b>UKD52</b>	Liverpool		<b>UKJ31</b>	Portsmouth
<b>UKD53</b>	Sefton		<b>UKJ32</b>	Southampton
<b>UKD54</b>	Wirral		<b>UKJ33</b>	Hampshire CC
<b>UKE11</b>	Kingston upon Hull, City of		<b>UKJ34</b>	Isle of Wight
<b>UKE21</b>	York		<b>UKJ41</b>	Medway
<b>UKE31</b>	Barnsley, Doncaster and Rotherham		<b>UKJ42</b>	Kent CC
<b>UKE32</b>	Sheffield		<b>UKK11</b>	Bristol, City of
<b>UKE41</b>	Bradford		<b>UKK12</b>	North and North East Somerset, South Gloucestershire
<b>UKE42</b>	Leeds		<b>UKK14</b>	Swindon
<b>UKE43</b>	Calderdale, Kirklees and Wakefield		<b>UKK21</b>	Bournemouth and Poole
<b>UKF11</b>	Derby		<b>UKK41</b>	Plymouth
<b>UKF12</b>	East Derbyshire		<b>UKK42</b>	Torbay
<b>UKF14</b>	Nottingham		<b>UKL15</b>	Central Valleys
<b>UKF16</b>	South Nottinghamshire		<b>UKL16</b>	Gwent Valleys
<b>UKF21</b>	Leicester		<b>UKL17</b>	Bridgend and Neath Port Talbot
<b>UKF22</b>	Leicestershire CC and Rutland		<b>UKL18</b>	Swansea

10. The complete set of figures is presented in the Annex of this report

<b>UKG21</b>	Telford and Wrekin		<b>UKL22</b>	Cardiff and Vale of Glamaorgan
<b>UKG23</b>	Stoke-on-Trent		<b>UKL23</b>	Flintshire and Wrexham
<b>UKG31</b>	Birmingham		<b>UKM25</b>	Edinburgh, City of
<b>UKG32</b>	Solihull		<b>UKM26</b>	Falkirk
<b>UKG33</b>	Coventry		<b>UKM28</b>	West Lothian
<b>UKG34</b>	Dudley and Sandwell		<b>UKM31</b>	East and West Dunbartonshire, Helensburgh and Lomond
<b>UKG35</b>	Walsall and Wolverhampton		<b>UKM34</b>	Glasgow City
<b>UKH11</b>	Peterborough		<b>UKM35</b>	Inverclyde, East Renfrewshire and Renfrewshire
<b>UKH21</b>	Luton		<b>UKM36</b>	North Lanarkshire
<b>UKH22</b>	Bedfordshire CC		<b>UKM38</b>	South Lanarkshire



Figure 3. Urban and metropolitan sub-regions in the UK in 2009

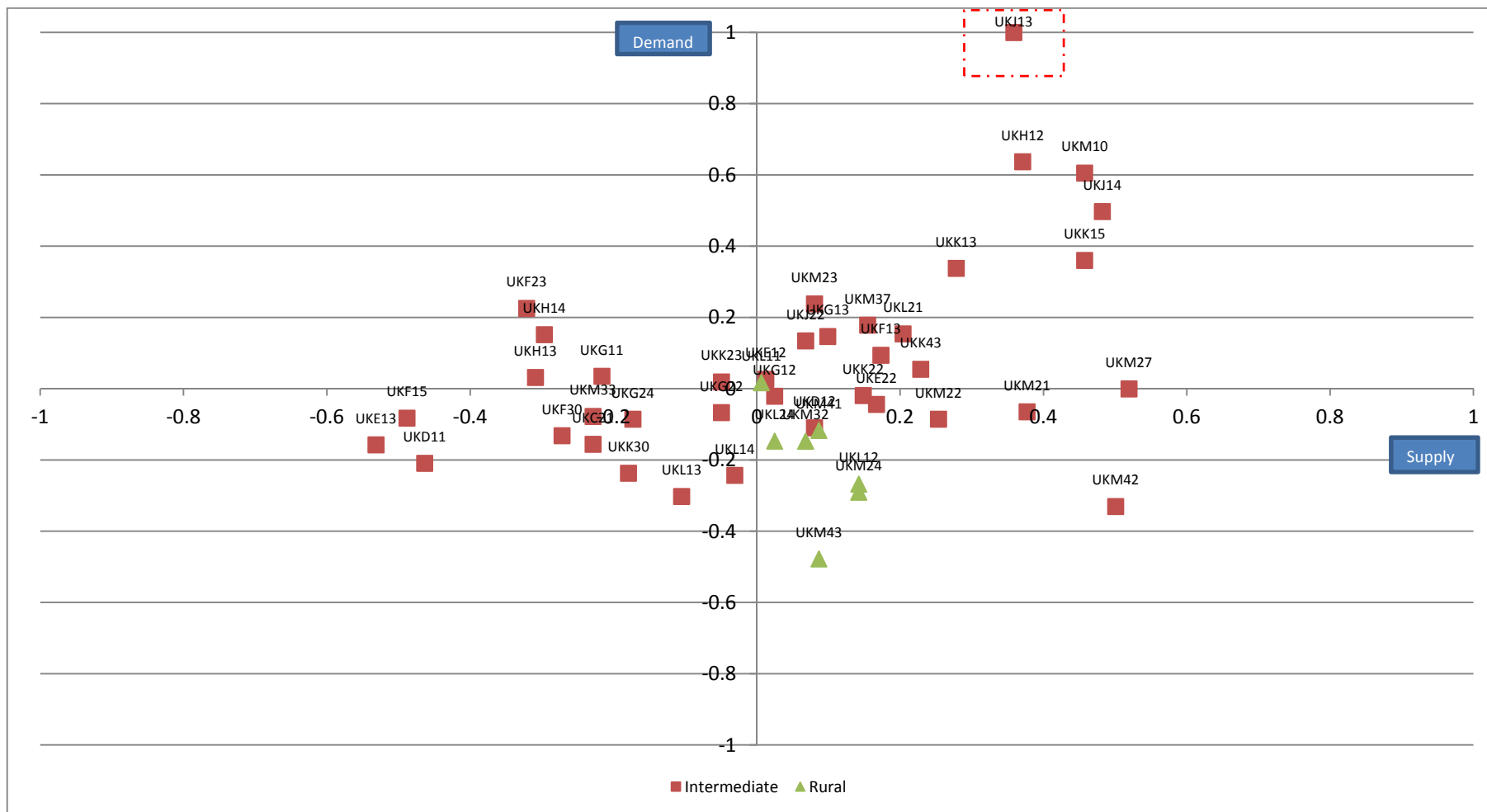


Note: The red boxes indicate that the position of the local area is outwith the confines of the chart.

**Table 4. Rural and intermediate urban sub-regions in the United Kingdom**

<b>UKC21</b>	Northumberland	<b>UKK22</b>	Dorset CC
<b>UKD11</b>	West Cumbria	<b>UKK23</b>	Somerset
<b>UKD12</b>	East Cumbria	<b>UKK30</b>	Cornwall and Isles of Scilly
<b>UKE12</b>	East Riding of Yorkshire	<b>UKK43</b>	Devon CC
<b>UKE13</b>	North and North East Lincolnshire	<b>UKL11</b>	Isle of Anglesey
<b>UKE22</b>	North Yorkshire CC	<b>UKL12</b>	Gwynedd
<b>UKF13</b>	South and West Derbyshire	<b>UKL13</b>	<b>Conwy and Denbeighshire</b>
<b>UKF15</b>	North Nottinghamshire	<b>UKL14</b>	South West Wales
<b>UKF23</b>	Northamptonshire	<b>UKL21</b>	Monmouthshire and Newport
<b>UKF30</b>	Lincolnshire	<b>UKL24</b>	Powys
<b>UKG11</b>	Herefordshire, County of	<b>UKM10</b>	Aberdeen City, Aberdeenshire and North East Moray
<b>UKG12</b>	Worcestershire	<b>UKM21</b>	Angus and Dundee City
<b>UKG13</b>	Warwickshire	<b>UKM22</b>	Clackmannanshire and Fife
<b>UKG22</b>	Shropshire CC	<b>UKM23</b>	East Lothian and Midlothian
<b>UKG24</b>	Staffordshire CC	<b>UKM24</b>	Scottish Borders, The
<b>UKH12</b>	Cambridgeshire CC	<b>UKM27</b>	Perth and Kinross and Stirling
<b>UKH13</b>	Norfolk	<b>UKM32</b>	Dumfries and Galloway
<b>UKH14</b>	Suffolk	<b>UKM33</b>	East Ayrshire and North Ayrshire Mainland
<b>UKJ13</b>	Buckinghamshire CC	<b>UKM37</b>	South Ayrshire
<b>UKJ14</b>	Oxfordshire	<b>UKM41</b>	Caithness and Sutherland and Ross and Cromarty
<b>UKJ22</b>	East Sussex CC	<b>UKM42</b>	Inverness and Nairn and Moray, Badenoch and Strathspey
<b>UKK13</b>	Gloucestershire	<b>UKM43</b>	Lochaber, Skye and Lochalsh and Argyll and the Islands
<b>UKK15</b>	Wiltshire CC		

Figure 4. Rural and intermediate urban sub-regions in the UK in 2009



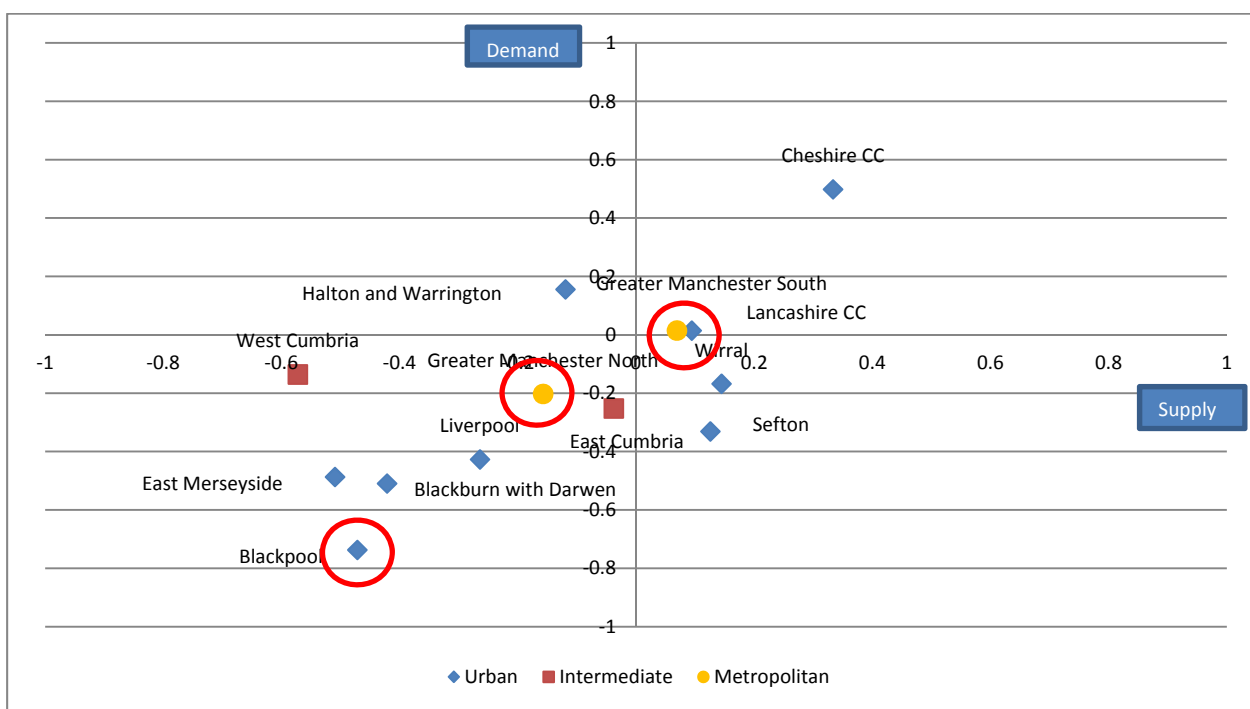
Note: The red boxes indicate that the position of the local area is outwith the confines of the chart.

Figures 5- 8 show the distribution of sub-regions in the North West (the region including Blackpool and Greater Manchester<sup>11</sup>) and Wales (the nation including Rhyl) in 2001 and 2009. It should also be noted that they show the *relative* position of sub-regions. Some may have improved (or deteriorated) in their skills position in absolute terms, but this would not be clear here if other sub-regions changed their positions in a similar way.

Greater Manchester North is in the ‘low skills equilibrium’ quadrant, whereas Greater Manchester South is in the ‘high skills equilibrium’ quadrant. This highlights that the latter geographical area occupies a more favourable position on skills supply and demand indicators than the latter. Considering the metropolitan areas in the UK, it is clear that the demand for and supply of skills is greater, in general, in London<sup>12</sup> than in other metropolitan areas. This is in accordance with the long-standing position of London and the wider ‘Greater South East’ as the powerhouse of the UK economy.

Despite some small relative change over the period from 2001 to 2009, Blackpool and Denbighshire and Conwy (in which Rhyl is located) remained firmly rooted in the ‘low skills equilibrium’ quadrant.

**Figure 5. TL3 areas in the North West, 2001**



<sup>11</sup> Subdivided into Greater Manchester North and Greater Manchester South, although part of a single functional economic area.

<sup>12</sup> Outer London – East and North East is the exception here, with a relatively low score on skills supply.

Figure 6. TL3 areas in the North West, 2009

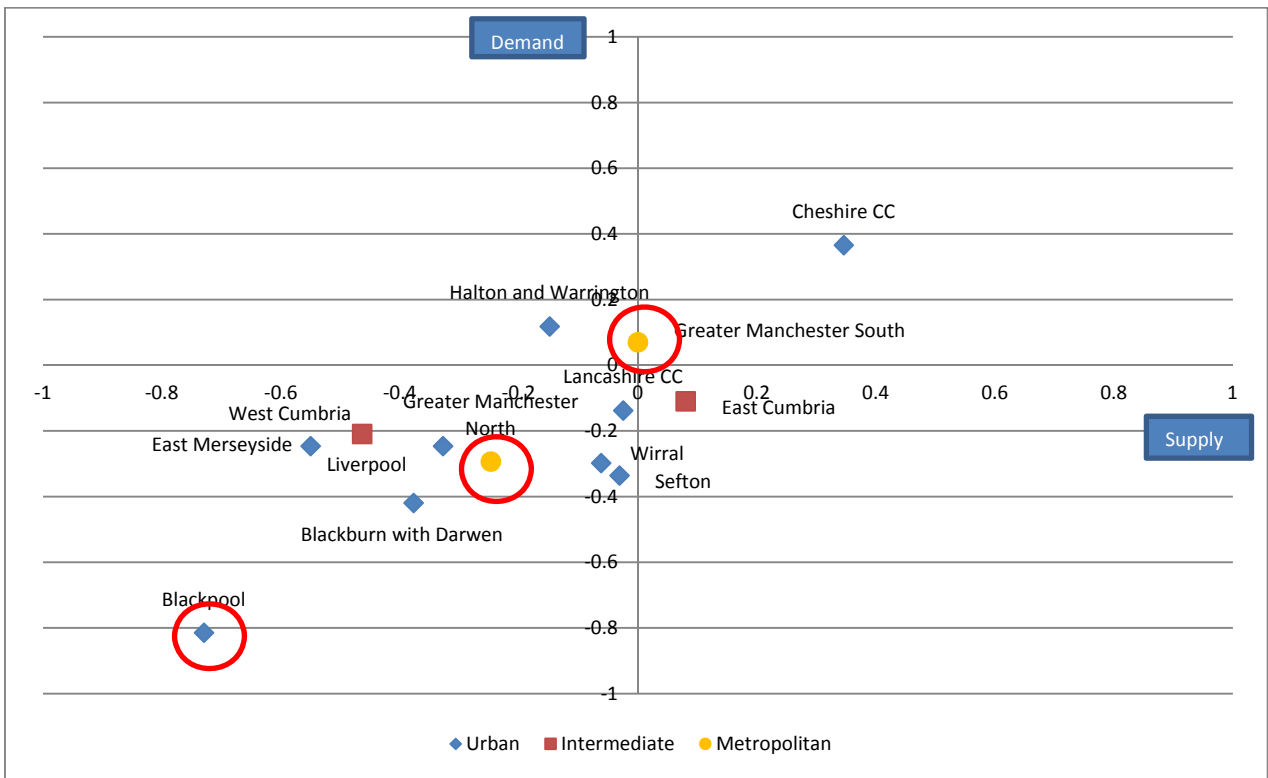


Figure 7. TL3 areas in Wales, 2001

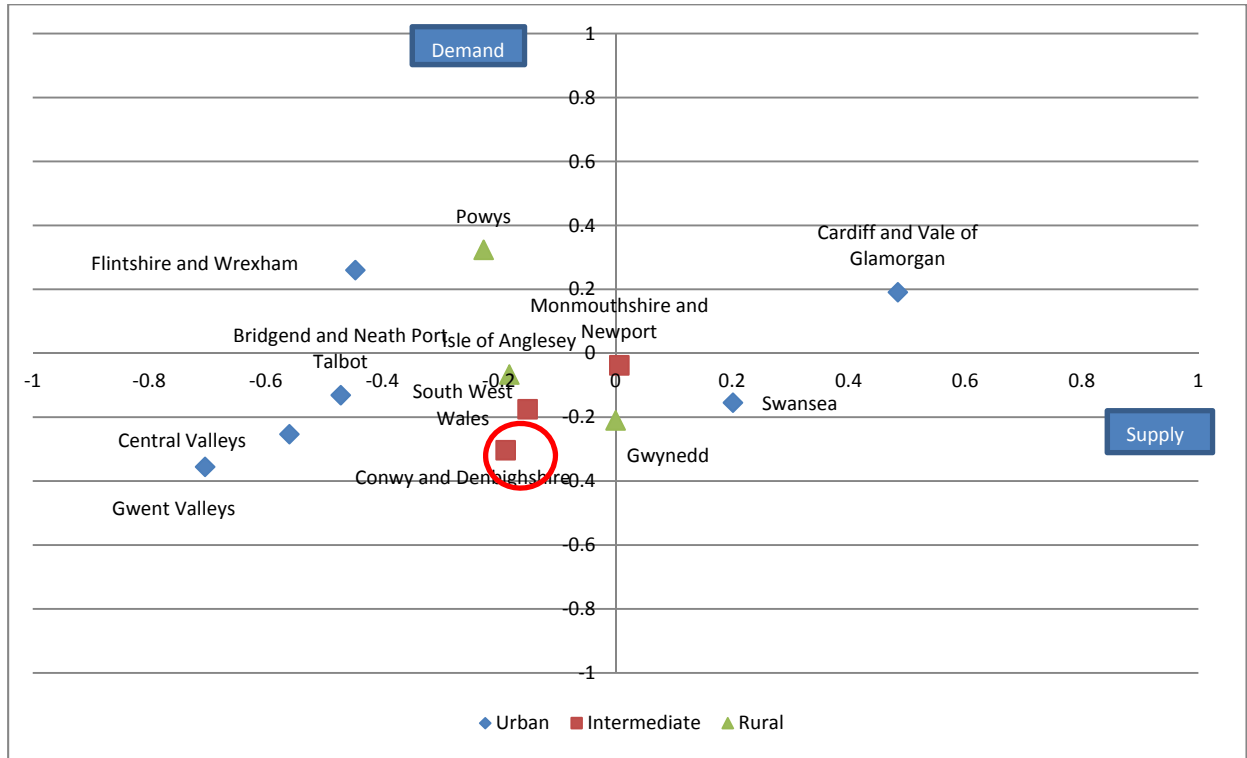
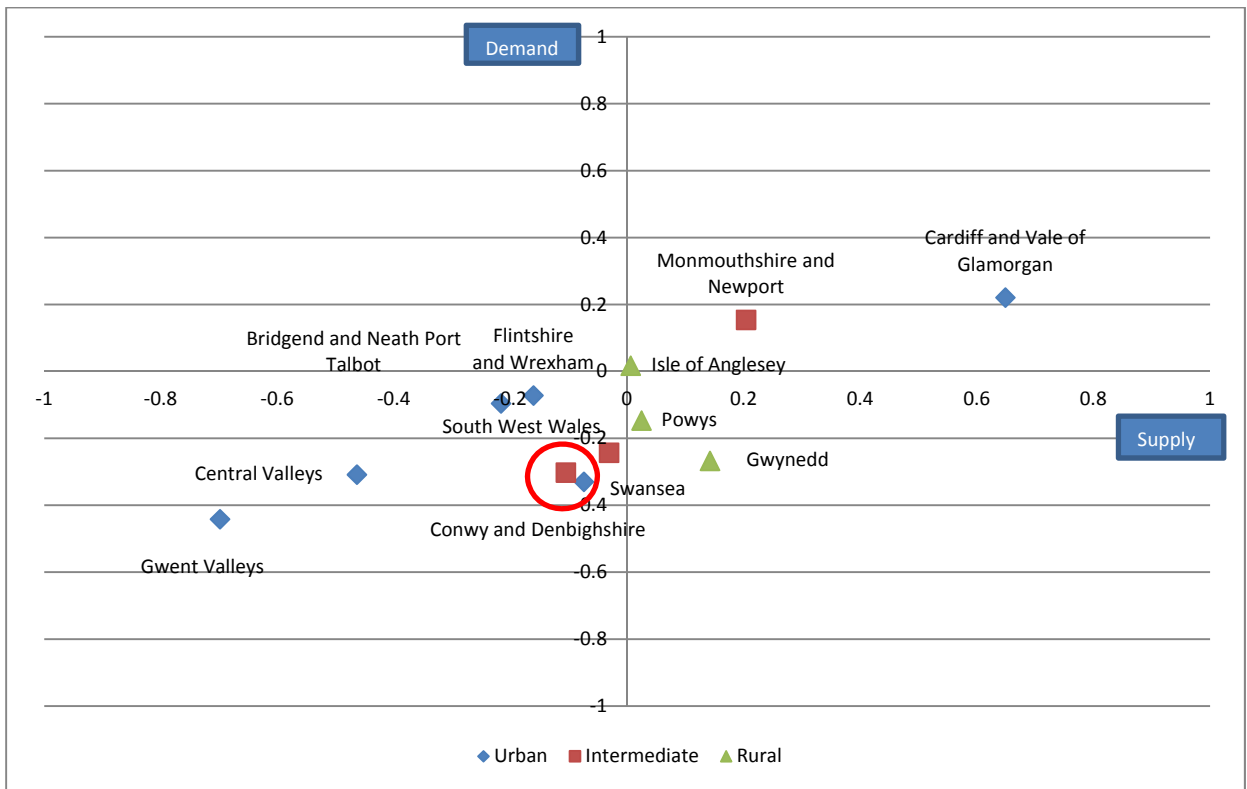


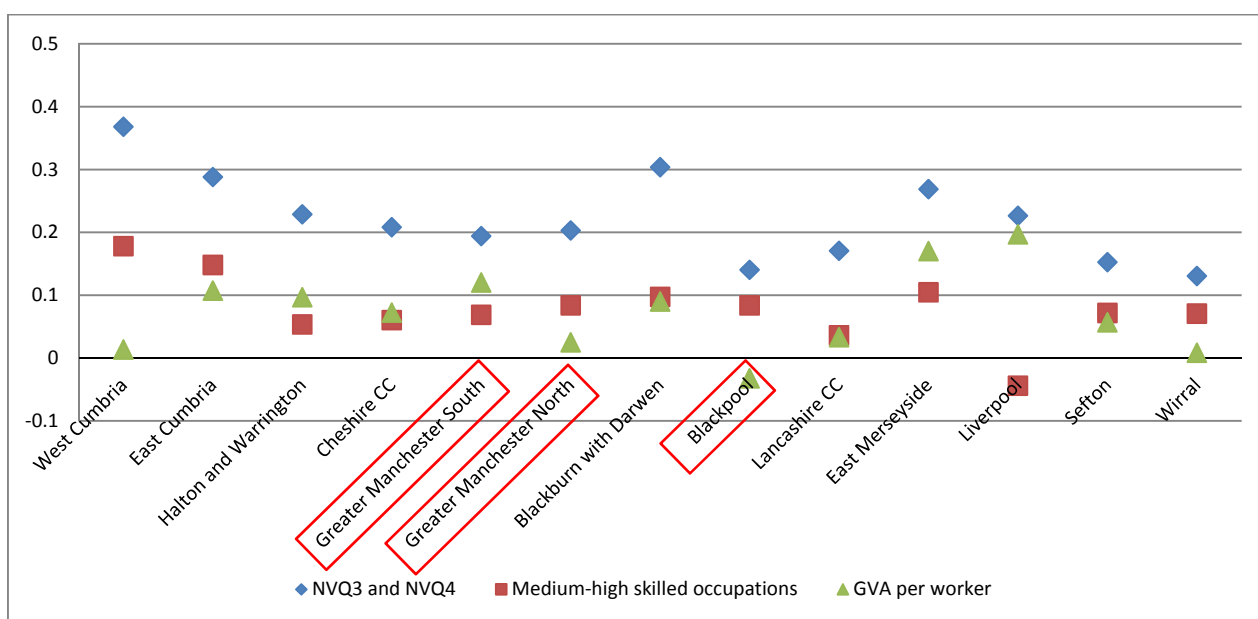
Figure 8. TL3 areas in Wales, 2009



Figures 9 and 10 show the absolute percentage change over time between 2001 and 2009 for the case study regions. In both charts it is notable that local areas within the same region can have different trajectories for the three indicators (i.e. % population having NVQ3 and NVQ4, % medium-high skilled occupation and GVA per worker).

Figure 9 shows that the supply of skills has increased in all sub-regions in the North West whereas trends regarding skills demand (employment in medium-high skilled occupations and GVA per worker) are more uneven.

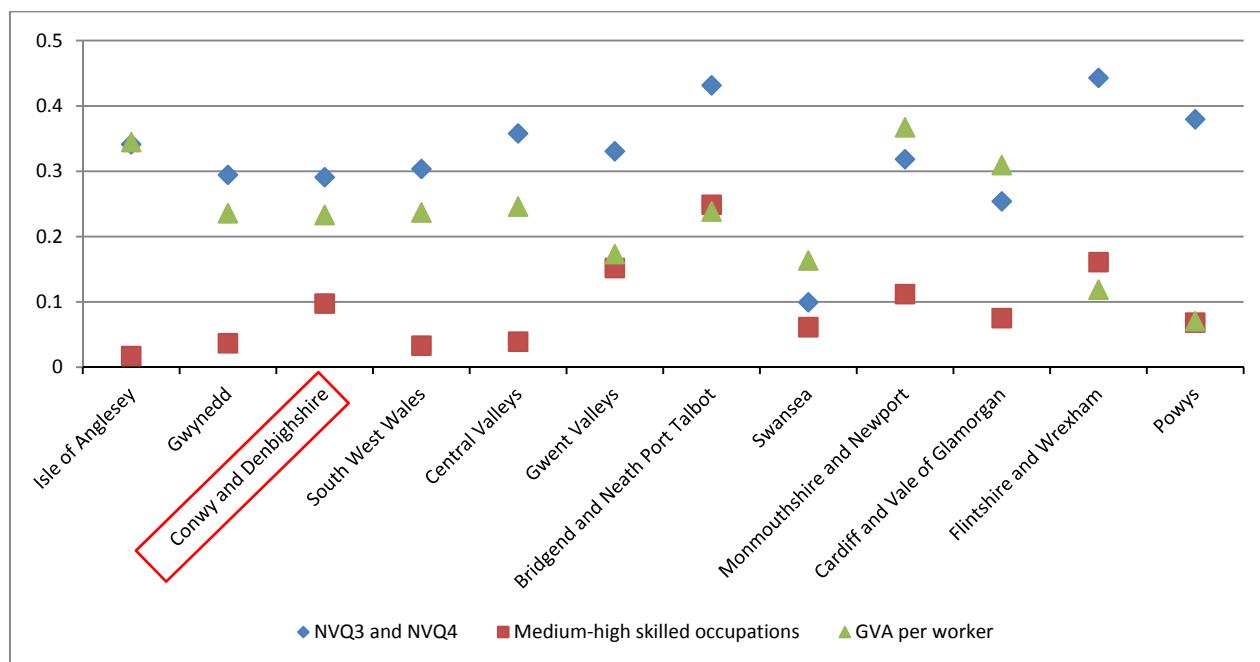
**Figure 9. Percentage changes in TL3 areas in the North West (2001- 2009)**



As shown in table 10 below, trends for Wales are less homogeneous than in the North West. Supply of skills has not increased significantly in all sub-regions. Overall GVA per workers seems to have increased more in Wales than in the North West.



Figure 10. Percentage changes in TL3 areas in Wales (2001- 2009)



### Feedback on the insights provided by the diagnostic tool

The conceptual framework and diagnostic tool were identified as having utility in helping policy makers focus on the ‘big picture’ of skills supply and demand interactions in the medium-term.

Nevertheless, some issues and concerns were raised in both conceptual and operational terms:

- The concept of considering skills supply and demand alongside each other, and of categories of ‘low skills equilibrium’, ‘high skills equilibrium’, ‘skills surplus’ and ‘skills gaps and shortages’ were of interest.
- The focus of the conceptual framework on the ‘external labour market’ and on ‘mismatch’ may disguise enduring ‘internal labour market’ challenges, and this should be borne in mind. Especially in a situation of economic fragility, under-employment or under-utilisation of skills in the internal labour market may ‘hide’, rather than ‘solve’ mismatches.
- In order to provide useful intelligence, the diagnostic tool needs to be operationalised for functional economic areas; TL3 regions do not necessarily meet this criterion. Where operationalised for a local area which is not a functional economic area the results may be misleading – e.g. a TL3 region may be characterised as being in a ‘low skills equilibrium’, whereas it forms part of a broader functional economic area with better quality jobs.
- The results need to be treated with caution due to shortcomings in the robustness of sub-national data.<sup>13</sup> There were some concerns about robustness of data at the local level used to construct the

<sup>13</sup> Note that this will be a greater concern for some sub-regions than for others, depending on their size, self-containment, etc.

variables, particularly for the GVA indicator, and whether change over time represented ‘real change’ or ‘noise in the data’ (due to sampling variation).

- To enhance credibility the tool needs to use as up-to-date data as possible – e.g. since 2008 (the latest year for which results were presented) there had been a continued expansion of HE (with an impact expected for skills supply) and the economic situation had changed markedly (with an impact expected on mismatch on the external labour market and demand for skills).<sup>14</sup>
- Some questions were raised about the indicators used, especially with regard to skills supply, and suggestions were made that in particular local areas skills initiatives might focus on more specific/different occupations and skills levels than those identified. As this data is being collected at a high level of disaggregation as part of an international project, this necessarily limits the scope of what can be measured. This highlights that at the local level policy analysts may have a greater range of country-specific or locally-specific data available to use to operationalise the diagnostic tool or to analyse alongside it.
- It was noted that the weighting of indicators could have been done differently.
- The fact that changes in position on the quadrants over time measure relative rather than absolute change vis-à-vis other areas was considered to downplay progress made in absolute terms. Moreover, the diagnostic tool records the macro picture, such that it is difficult for micro level improvements to be captured.

These points suggest that while the concept underpinning the diagnostic tool was of interest, there were queries about implementation. At the local level – especially in Manchester and Blackpool – considerable effort had been put into developing local economy/labour market information to inform policy. While not couched in terms of the conceptual model underlying the diagnostic tool, it was clear that in some instances at least, a rich range of data on skills supply and demand was being used to inform policy.

### ***Conclusion***

The diagnostic tool illustrates broad issues of variation in supply and demand at local level. The tool is indicative, rather than illustrative and its main value lies in offering a strategic and medium-term perspective on skills supply and demand issues.

For national policy makers, the tool provides a useful indication of the variations in the supply and demand for skills across the country, and the fact that local areas can find themselves in very difficult situations, and with different trends over time in the same region. At the local level it should be used alongside other data sources and intelligence available locally. Unpacking of some of the component variables would help in understanding and use of up-to-date information would enhance the tool’s credibility.

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<sup>14</sup> There is a tension here between the value of the diagnostic tool to provide a broad strategic medium-/long-term perspective on the direction of travel of a local economy and the credibility of the tool in providing a very detailed picture of the current situation.

## 2. POLICY AND ECONOMIC CONTEXT

This chapter sets out the relevant policy background for the development and implementation of skills policy at national and sub-national levels in the UK. A change in the UK Government in May 2010 brought about important changes in policy mechanisms and governance structures. In the 2010 Comprehensive Spending Review (HM Treasury, 2010) public spending cuts totalling £81 billion were announced over the period to 2014/15. At the same time expenditure was maintained or prioritised that supported economic growth, including maintaining the science budget in cash terms, increasing funding for adult apprenticeships, protecting high value investment in transport, and investing in the low carbon economy. The basis of higher education funding was also in the process of being altered with increased graduate contributions from 2012/13. At the time when this research project was conducted some policies and funding streams had been discontinued and/or were winding down and new policies, mechanisms and structures were still being established and had yet to be embedded. Hence this period of change posed something of a hiatus, and for many policy makers and stakeholders at sub-national level the short- and medium-term future was unclear.

Importantly, over the medium-term there have been important changes in the structure of the labour market. The polarisation hypothesis of Goos and Manning (2007) highlights growth in low skill and high skill jobs and the ‘hollowing out’ of the middle. If there are fewer jobs in the middle of the distribution, upward mobility becomes more difficult, and the routinisation of jobs militates against the application of greater skill. Such developments pose significant challenges for skills policy at local level, but also provide a strong rationale for tackling the low skills equilibrium.

### **The thrust of skills policy in the UK**

#### *A supply-side focus*

The underpinning rationale of skills policy in the UK has been to raise skills levels as a means to achieve higher levels of employment, productivity and prosperity. Given concerns about a ‘long tail of low skills in the UK’, traditionally, skills policies in the UK have focused primarily upon boosting the supply of skills through publicly-funded investments as a route to competitiveness and productivity growth in international terms, as well as social inclusion/mobility.

In this vein, the Leitch Review of Skills was tasked in 2004 with examining the UK’s long-term skill needs. At the end of 2006 Leitch set out a vision and ambitions for the UK to become a ‘world leader in skills’ by 2020, benchmarked in the upper quartile of the OECD (HM Treasury, 2006). This involved targets for enhancing skills attainment at various levels – including improving functional literacy and numeracy, improving the proportion of the adult workforce qualified to Level 2 (with those below Level 2 being regarded as being in ‘skills poverty’), shifting the balance of intermediate skills from Level 2 to Level 3, and accelerating the increase in the share of the adult population with high level skills at Level 4 and above.

Despite improvements in skills supply, particularly at the low and high end of the skills spectrum, the original 2020 targets came to look increasingly unattainable. Since the change in UK government, these targets have been abandoned although the ambition underlying them remains.

#### *A role for demand-side initiatives and enhancing skills utilisation*

Some academic commentators have argued that the approach of increasing skills supply is insufficient and that more attention needs to be given to addressing problems of weak employer demand for, and

utilisation of, skills (Buchanan *et al.*, 2010). The UK Commission for Employment and Skills has also argued that ‘the future employment and skills system will need to invest as much effort on raising employer ambition, on stimulating demand, as it does on enhancing skills supply’.

There has been increasing recognition of the need to raise the profile of employers’ demand for skills and ensuring that skills are used to maximum productive effect, so that issues of supply, demand and skills utilisation are looked at together. The establishment of employer-led employment and skills boards (ESBs) in some areas (advocated by Leitch) represented a step towards greater involvement of employers in helping shape strategic decisions about training and skills development initiatives to meet local needs. In some local areas the work of ESBs is continuing, alongside the establishment of Local Enterprise Partnerships (LEPs). At the sectoral level, employer-led Sector Skills Councils engage employers in skill development activity including the design of qualification frameworks and occupational standards.

Skills utilisation has been defined as being “about ensuring the most effective application of skills in the workplace to maximise performance, through the use of a number of key agents (e.g. employers, employees, learning providers and the state) and the use of a range of HR, management and working practices. Effective utilisation of skills seeks to match the use of skills to business demands/needs” (UK Commission for Employment and Skills, 2010, 125). Warhurst and Findlay (2011) define it in more simple terms as being about ‘the better use of skills’ and ‘the use of better skills’. Yet evidence from ‘Skills at Work’ research (Felstead *et al.*, 2007), which is based on perceptions of individuals of qualifications required to do their job, indicates that the supply of skills exceeds the demand for skills at all qualification levels, except at the lower end of the skills spectrum where the number of jobs requiring no qualifications exceeds the number of individuals with no qualifications. Moreover, analyses of trends over time suggest that the extent of ‘over qualification’ (or under-utilisation of skills) has risen since 1997, especially amongst individuals with degree level qualifications.

Hence, the evidence underscores the importance of raising employers’ demand for skills. Skills are a ‘derived demand’, depending on an organisation’s position in the value chain, and so in the specification of goods and services it produces - so emphasising the need for links between the business development and skills agendas.

### ***Devolution of responsibility for skills to the nations of the UK***

Education and training is a devolved policy in the in the UK, so that whereas policy for England is led by the UK Government in Westminster, the Scottish Government, the Welsh Government and the Northern Ireland Assembly are responsible for skill issues in Scotland, Wales and Northern Ireland, respectively. As a result there are variations in aspects of the focus, priorities and delivery mechanisms for skills policy across the UK. However, the overarching aims of skills policy are broadly similar across the four nations of the UK, albeit there are some important differences in emphasis, notably between Scotland and the other nations of the UK. The following paragraphs provide a summary outline of approaches to skills policy in Scotland, Wales and Northern Ireland, respectively followed by a summary of the key features of the approach and recent changes in England.

Issues around skills demand and utilisation have been taken further in *Scotland* than in the other nations of the UK. They figured prominently in Scotland’s 2007 Skills Strategy (issued by a Scottish National Party minority administration), and are now beginning to inform new forms of policy experimentation. In the 1990s skills policy interventions in Scotland focused largely on the supply side of the labour market, and were concerned with boosting education and training. It was assumed that a more highly skilled workforce would trigger employers to respond by demanding more qualified workers and providing more skilled and rewarding work (Warhurst and Findlay, 2011). Despite a highly qualified

population,<sup>15</sup> Scotland performs relatively poorly on a range of economic indicators, so highlighting the shortcomings of a policy focused solely on the supply of skills (Payne, 2008). Amongst initiatives to boost demand for, and improve utilisation of, skills a series of action research projects have been initiated aimed at exploring the potential contribution of universities and colleges to improved skills utilisation in the workplace (Payne, 2011) and the Skills Utilisation Leadership Group (SULG) (2011) have developed a 'Balanced Scorecard' to help interpret evidence gathered on effective skills use. The 'Balanced Scorecard' incorporates four perspectives:

1. *the skills that people have* – does Scotland have a highly skilled labour force? (answer: 'Yes')
2. *how skills are used* – do the skills people have match the jobs available? (answer: 'No' – supply outstrips demand)
3. *the workplace* – do employers enable effective skills use (answer: 'Partly'<sup>16</sup>)
4. *outcomes* – do outcomes (for Scotland and employees) exist that reflect effective skills use? (answer: 'No' for Scotland, 'Don't know' for individuals)

This is indicative of a situation of 'skills surplus'.<sup>17</sup> Hence a key issues in Scotland, as in other parts of the UK, is the need to generate jobs and engender organisation of work such that workers and those currently without employment have greater scope to apply their full competency range.

Whereas the qualification profile of the population is above the UK average in Scotland that for *Wales* lags behind the UK average. The Welsh economy is also characterised by levels of economic inactivity in excess of the UK average. This is the context for 'Skills that Work for Wales' - the skills strategy for Wales (Welsh Assembly Government, 2008), which sets out an ambition for a 'highly-educated, highly-skilled, high-employment Wales' and involves a more integrated approach linking skills initiatives and business support than in the other devolved administrations. The priorities set out in the strategy and accompanying action plan include improving the levels of basic literacy and numeracy skills in the workforce; ensuring everyone has skills essential to take up employment and maintain their employability within the labour market; increasing the demand for, and supply of, intermediate and high-level skills; addressing skills gaps and shortages in priority sectors and supporting economic development through our investment in post-19 skills; and establishing effective and efficient learning provision. There is a strong emphasis on sector-based policy approaches and in 2010 the Welsh Government established the Sector Priorities Fund Pilot Programme (SPFP) to take forward strategic project activity with Sector Skills Councils (SSCs),<sup>18</sup> plus employers, to address key policy issues regarding skills and employment in Wales.<sup>19</sup> There is a Wales Employment and Skills Board (WESB), which is a high level employer advisory board. With the emergence of a Labour administration in the Welsh Government in May 2011 the manifesto commitments of (1) helping people back into work; (2) raising youth engagement and employment; and (3) releasing the potential of skills as a driver for economic progress, have been given greater emphasis.

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<sup>15</sup> Scotland tends to score better on indicators of skills supply than other parts of the UK.

<sup>16</sup> There are some gaps in the evidence base for this question.

<sup>17</sup> Charts showing the position of TL3 areas in Scotland in the four quadrants identified in Figure 1.1 show a greater share of sub-regions in the 'skills surplus' quadrant than is the norm for parts of Great Britain.

<sup>18</sup> Note that SSCs have a UK-wide remit.

<sup>19</sup> The SPFP has been supplemented with support from the European Social Fund

The Skills Strategy for *Northern Ireland* ‘Success through Skills – Transforming Futures’ (Department for Employment and Learning Northern Ireland, 2011) has as its underlying rationale that the prosperity of the Northern Ireland economy is dependent on the skills of its workforce and its ability to meet the needs of the local economy, to support a strong export oriented market, and to secure the wealth necessary to create opportunities for the future. The economy is the top priority of the Northern Ireland Executive and the primary aspiration is to grow a dynamic and innovative economy to provide the wealth and resources required to build a peaceful, prosperous and fair society. In support of this aspiration, skills policy is focused on those entering the workforce for the first time, upskilling the existing workforce and ensuring that those excluded from the labour force have the skills to compete for, retain, and progress in, jobs. While there are strategic goals to improve qualifications at different levels, key challenges identified in the skills strategy are provision of higher-level skills, the need to upskill, the need to address subject imbalances, the need to increase management and leadership skills and the need to attract highly skilled labour (where there are insufficient numbers of people with higher level skills). While these objectives and challenges are focused on skills supply, there is recognition of the need to understand the demand for skills if the objectives of the skills strategy are to be achieved.

### ***Continuity and change - from New Labour to the Coalition Government***

A useful account of continuity and change in skills policy (focusing particularly on the situation in England) is provided by Payne and Keep (2011). They outline how under New Labour (from 1997 to 2010) skills were foregrounded as a key policy lever to achieve objectives of economic growth and social inclusion in a flexible (deregulated) labour market. While the role of the state was seen as primarily one of helping individuals improve their skills, it was acknowledged that there was a case for intervention where there was assumed to be market failure. Hence, government funded adult learning was focused mainly around level 2 qualifications (assumed to be the threshold level for employability in the labour market) and on a flagship Train to Gain programme providing a subsidy to employers to help employees without such qualifications to gain recognised level 2 (and later level 3) qualifications. During this period central government also took an increasing role in shaping the direction and management of the education and training system.

Payne and Keep (2011: 4) suggest that the skills strategy pursued by New Labour rested on three assumptions:

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

Payne and Keep (2011) argued that these assumptions were problematic, at least in part, because it may be rational for some employers to pursue low value added skills strategies – as indicated by the balance inherent in the low skills equilibrium position in the bottom left quadrant of the typology in Figure 1 of this report, and also because the low skilled jobs that exist need to be undertaken by someone.

The advent of a Conservative-Liberal Democrat Coalition Government in 2010 marked important changes as well as continuities in skills policy. Like the New Labour Governments, the Coalition Government regards skills as having a crucial role to play in fostering economic competitiveness and social

inclusion. But whereas New Labour's skills policy involved targets, top-down management of the skills system and important elements of public subsidy, the Coalition Government approach is characterised by a greater role for markets, for private investment and smaller government (Payne and Keep, 2011: 27).

Hence the Coalition Government's 2010 Skills Strategy, *Skills for Sustainable Growth*, abolished the Leitch targets and moved beyond "the machinery of central control" as a means to achieve the ambition for world class skills (Department for Business, Innovation and Skills, 2010a: 13). The underlying approach of the Coalition Government is voluntaristic and market-based, with an emphasis on informed learners selecting training and qualifications that are valued by business and have value in the labour market, and which are delivered by a broad range of autonomous training providers who will attract learners depending on the quality of their offer.

At the forefront of the Coalition Government's Skills Strategy, *Skills for Sustainable Growth* (Department for Business, Innovation and Skills, 2010a), is expansion and improvements in the numbers of Apprenticeship— with an emphasis on widening access and higher skills levels, i.e. at Level 3 and above. There is also a focus on rebalancing who pays for training with a greater responsibility on employers and individuals for ensuring that their own skills needs are met, although with public funding remaining available at basic/low skills levels for the most disadvantaged groups. Hence, as noted above, the emphasis is on demand-led funding, with the Skills Funding Agency "routing funding to providers in accordance with the choices of learners and employers, in what will, in effect, be a training market" (Payne and Keep, 2011, 20). As noted in the introduction to this chapter, the emphasis within higher education funding policy is also on rebalancing costs towards individuals, with students taking out loans during their studies which are paid back once they earn over a minimum threshold. From 2012/13 fees in England will increase and conditions relating to paying back loans will change.<sup>20</sup>

The skills strategy also promotes the introduction, with the agreement of industry, of professional standards to increase skills in particular sectors and occupations. It acknowledges the importance of raising the profile of employers' demand for skills and ensuring that skills are used to maximum productive effect, so that issues of supply, demand and usage of skills are looked at together. In this vein, the Coalition Government has established a new competitive Growth and Innovation Fund (GIF)<sup>21</sup> managed by the UK Commission for Employment and Skills to pump-prime and pilot new initiatives developed by businesses to increase the contribution skills make to growth - so supporting employers to be more ambitious about raising skills in their sectors and to promote workplace practices that will lead to better development and deployment of workplace knowledge and skills.

### **Changes in infrastructure and governance: the demise of the regional tier in England and the advent of Local Enterprise Partnerships**

Following the establishment of Government Offices for the Regions by the previous Conservative Government, while in office from 1997 to 2010, successive New Labour Governments strengthened the tier of regional governance in England. Eight *Regional Development Agencies (RDAs)* were launched in

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<sup>20</sup> The Government is raising the cap on tuition fees to £9,000 in 2012/13 and cut most ongoing direct public funding for tuition. It is also changing loan repayment terms by increasing the repayment threshold to £21,000, charging a real rate of interest on loans for those making repayment, extending the maximum duration of loans from 25 to 30 years and making fee loans available to part-time students. Institutions charging annual fees of over £6,000 will have to spend some of this additional income on widening participation. The average tuition fee, after discounts, is currently expected (in January 2012) to be around £8,070 in 2012/13. The system will apply to new students in England from 2012/13.

<sup>21</sup> At the outset the GIF adopted a sectoral approach, inviting bids from sector-based bodies, but the scope if being extended to include bids from LEPs and local employer clusters.



1999 covering each of the regions of England outside London, and a ninth RDA for London was established in 2000. The RDAs had five statutory purposes:

- to further economic development and regeneration;
- to promote business efficiency, investment and competitiveness;
- to promote employment;
- to enhance development and application of skills relevant to employment; and
- to contribute to sustainable development.

In practice, RDAs' responsibilities encompassed regeneration, competitiveness, inward investment, regional partnership and skills agendas, as outlined in more detail below.

The RDAs were active on the skills agenda throughout their existence – first, in relation to *Framework for Regional Employment and Skills Action (FRESA)* plans setting out what needed to happen to create a 'healthy labour market'. As over-arching skills and employment strategies, FRESAs provided a focus for the development of collaborative skills interventions by agencies at regional level. Subsequently *Regional Skills Partnerships (RSPs)* were established, offering a forum for employers, learning and skills providers and other public bodies to establish regional skills priorities and collectively influence how the delivery of skills, workforce development, business support and labour market services could best provide support for regional businesses and deliver Regional Economic Strategies. Then in late 2009 the strategic skills function of RDAs was strengthened, with RDAs being charged with responsibility for producing a *Regional Skills Strategy* as a core element of a new integrated Regional Strategy (incorporating both the previous Regional Economic Strategy and Regional Spatial Strategy). The Regional Skills Strategies involved the RDAs in working in partnership with the Sector Skills Councils (SSCs), local authority leaders and sub-regional bodies to produce strategies that articulate employer demand and more closely align skills priorities with economic development.

The brief chronology outlined above highlights a strengthening of the role of RDAs in the skills agenda over their lifetime. Many RDAs were active in formulating indicators and indices of regional skills performance (encompassing both supply and demand elements<sup>22</sup>) and in tracing progress over time. They also undertook research on drivers of demand for skills, which informed policies to raise employer demand for skills, often linked to the business support agenda and/or a sectoral focus. However, while the importance of stimulating demand for skills was recognised, both within existing businesses and through attracting new businesses, translating this into practice proved more difficult, even within RDAs themselves. In part this reflected the need to work across policy teams – notably those concerned with employment and skills, and business development.<sup>23</sup> Between separate government organisations with different types of incentive and target (for example Jobcentre Plus and the Skills Funding Agency) such cross-domain working is even more difficult. RDAs were also concerned to protect skills in the face of business closures, by offering business support to supply chains and to foster new developments.

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<sup>22</sup> Hence many RDA officials and their partners would be familiar with the concepts underlying the OECD statistical diagnostic tool and recognised the importance of stimulating the demand for skills, as well as a focus on supply.

<sup>23</sup> Within a Business Development team at a RDA a typical range of functions may include investor development, innovation, enterprise and management of Business Link (providing support to businesses).

The Coalition Government made a formal announcement of its intention to abolish RDAs shortly after taking office. Closure of RDAs is set to be finalised by March 2012, but in practice the activities of RDAs contracted immediately and staff left and the activities of RDAs were curtailed from the latter part of 2010 onwards.

The Coalition Government's proposals for *Local Enterprise Partnerships (LEPs)* in England were set out in June 2010 in a joint letter from Secretaries of State at the Department for Communities and Local Government and the Department for Business, Innovation and Skills (BIS) to local councils and business leaders. The letter invited local consortia to submit proposals for partnerships of local business and civic leaders, operating in local areas making economic sense, to provide the vision, knowledge and strategic leadership to set local economic priorities.<sup>24</sup> The LEP proposals were assessed on four criteria: (1) support from business; (2) natural economic geography; (3) local authority support; and (4) added value and ambition. The *Local Growth White Paper* published in October 2010 (BIS, 2010b) announced the first tranche of LEPs, the opening of the Regional Growth Fund (RGF)<sup>25</sup> intended to help areas and communities particularly at risk of being affected adversely by public spending cuts (for which LEPs could bid), and measures designed to provide incentives for local authorities to promote business growth. Subsequently, further LEPs were announced and by August 2011 98% of the population of England was covered by 37 LEPs. Reflecting the reality of functional economic geographies, some local authorities are included in two LEPs.

LEPs are non-statutory bodies made up jointly of business and local authorities. They are taking over only some of the responsibilities of the RDAs. Roles set out for LEPs in the Local Growth White Paper included:<sup>26</sup>

- working with Government to set out key investment priorities, including transport infrastructure and coordinating and supporting policy delivery;
- coordinating proposals or bidding directly for the RGF;
- supporting high growth businesses – e.g. through involvement in bringing together and supporting consortia to run new growth hubs;
- coordinating approaches to leveraging funding from the private sector;
- supporting the transition to the low carbon economy; and
- working with local employers, Jobcentre Plus (the public employment service in Great Britain) and learning providers to help local workless people into jobs.

The LEPs have also played a central role in bidding for Enterprise Zones,<sup>27</sup> first announced in the 2011 Budget. Businesses in Enterprise Zones have benefits of business rate discounts and simplified planning regulations. Rather than having locations at the heart of the most deprived communities, Enterprise Zones are located in areas where there is potential for growth.

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<sup>24</sup> The rationale for devolving decisions and power to local actors is that they will be more directly accountable to local people and local businesses than the unelected RDAs.

<sup>25</sup> The RGF has a total value of £1.4 billion over the period 2011/12 to 2013/14. This contrasts with an annual budget of approximately the same amount for RDAs.

<sup>26</sup> This list is not exhaustive.

<sup>27</sup> See <http://www.bis.gov.uk/policies/economic-development/leps/lep-toolbox/enterprise-zones>

Despite the Coalition Government's emphasis on 'localism', RDA responsibilities for inward investment, innovation and access to finance were centralised, rather than localised, with the abolition of the regional tier.

Although many LEP bids highlighting skills as a key priority, with some wanting a commissioning role in relation to skills, it is salient to note that *no formal skills role for LEPs* was set out in the Skills Strategy published in November 2010. Rather on skills LEPs have a consultative status only (i.e. LEPs and local authorities are to be consulted on Further Education (FE) Colleges' business plans and how public funding can be aligned so that it contributes to local economic and community demand). They have no formal powers to direct or control activities of skills providers. Hence, any co-operation and collaboration is voluntary rather than mandatory.

In contrast to the RDAs, the LEPs do not receive central funding and are expected to meet their own day-to-day running costs. In an initial assessment of the LEPs the House of Commons Business, Innovation and Skills Committee (2010) highlighted limited resources as a key challenge facing the LEPs<sup>28</sup>. Other challenges identified were finding the right balance between collaboration and competition, and successful transition to the new structures – including the retention of RDA know-how.

The *extent* and *speed* of change from RDAs to LEPs has been identified as a matter of concern, particularly in the light of the fragile state of the economy in the UK (and beyond), and there are ongoing calls for LEPs to have powers to oversee skills strategy.<sup>29</sup> To fulfil some of the functions previously undertaken by RDAs, BIS has a network of six teams set up to drive economic growth at local level. The teams are intended to support the delivery of BIS policy on the ground, including by leading BIS' relationships with LEPs and local government to help them understand BIS national policy priorities, and by assisting in coordination of economic development delivery, and helping partnerships build their capacity and capability.<sup>30</sup>

The lack of a formal skills role for LEPs means that it is unclear precisely how and where they might influence local skills policies. To some extent, reflecting the ethos of localism, the precise role that they play may vary between local areas. The role set out for LEPs in the Local Growth White Paper suggests that their contribution might be seen in the so-called 'soft spaces' of local economic development (Haughton and Allmendinger, 2008), where they might exert influence and help build partnerships, networks and institutional capacity. Several LEPs are concerned with identifying and addressing barriers (including skills deficiencies) to growth of their local economies and correct local market failures, helping drive up productivity and increasing exporting, providing business support for high growth sectors and co-ordinating and focusing funding opportunities.

### ***Institutional changes at the national level***

There have been a number of key institutional changes in skills policy at the national level meaning that 2010/11 was a period of transition. Immediately prior to the General Election of 2010 there were important Machinery of Government changes in relation to the institutional landscape for skills in England, with the creation of two new agencies to replace the Learning and Skills Council (LSC)<sup>31</sup>: the Young People's Learning Agency and the Skills Funding Agency (SFA). Both agencies became fully operational

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<sup>28</sup> Especially when compared with bodies in Scotland and Wales.

<sup>29</sup> For example, Gordon Marsden MP, Shadow Business Minister with responsibility for Skills and Regional Economic Policy.

<sup>30</sup> See <http://www.bis.gov.uk/policies/economic-development/bis-local-offices>

<sup>31</sup> The agency with responsibility in England for post-compulsory learning other than HE.

in April 2010. A National Apprenticeship Service was also been established to support, fund and co-ordinate the delivery of Apprenticeships in England.

One of the key changes was the discontinuation of Train to Gain. This programme delivered vocational training to employed individuals in the UK, primarily those aged 25 years and over, who did not already have a Level 2 qualification. The premise of Train to Gain was that employers received targeted, quality approved training to upskill their staff in line with their individual and business related needs, while employees would receive training to help them in their work role and also have the opportunity to have their skills certified.

Another key change was the abolition of Business Link regional services (the main source of publicly funded information, advice and support to SMEs in England on skills, training and business development issues). This meant a loss of some face-to-face business advice and their replacement by a national website and call centre.

Alongside these changes there has been an ongoing rationalisation of careers guidance services for individuals. The services for young people, previously provided (in England) by the Connexions service (with ultimate responsibility resting with local authorities), are moving to schools. There is also a national website and telephone help line. Concerns have been expressed that transferring responsibilities to schools will mean that young people are more isolated from a broader set of guidance support. The National Careers Service (in England) is due to be launched in April 2012, with adults as the primary target group. In Scotland, Wales and NI all age careers services have been retained.

While these changes were designed to 'streamline' and 'simplify' the skills system, along with the post General Election changes the consequence, at least in the short-term, has been increased complexity. Complexity and change has the potential to increase confusion and stifle partnership working, making it difficult for policy makers, employers and individuals to know where best or how best to engage. This is of critical importance, especially given the increasingly *voluntaristic* emphasis of skills policy.

### ***The implications of economic and policy change for local economic development***

#### *Sub-regional collaboration*

As noted by Payne and Keep (2011), efforts to promote local economic development are a key part of any skills agenda. New Labour promoted local partnership working as an essential platform for local development. In England onus was placed on local authorities to work in a 'place shaping' role with bodies involved in skills and economic development, and with other services developed locally – including health services and the police – in a Local Strategic Partnership (LSP) to meet overall local ambitions set out in a Sustainable Community Strategy and related thematic strategies. Formal agreement with other public services is set out in a Local Area Agreement (LAA).

The 2007 the *Review of sub-national economic development and regeneration* (HM Treasury, then Department for Business, Enterprise and Regulatory Reform and Department for Communities and Local Government, 2007) outlined proposals for Multi Area Agreements (MAAs) which would allow groups of local authorities or sub-regions to agree collective targets for issues of economic development. While MAAs were first set out as voluntary agreements, the government also proposed working with interested sub-regions to explore allowing groups of local authorities to establish statutory sub-regional arrangements to enable a permanent pooling of responsibilities for economic development policy areas. In some sub-regions – including Greater Manchester – pre-existing City Strategy Partnerships (which had been established to tackle worklessness) worked towards developing into the Employment and Skills arm of MAAs, alongside concerns with transport, housing, regeneration, etc. Elsewhere, neighbouring local

authorities came together in new sub-regional partnership – as in the case of Blackpool, Fylde and Wyre in the Fylde Coast MAA (signed in October 2009).

Clearly, sub-regional collaboration and partnership working was high on the local economic development agenda before the advent of LEPs, albeit the emphasis of LSPs and MAAs was on the public sector, while LEPs foreground business involvement. While some LEPs cover the same geographical footprint as MAAs (as in Greater Manchester), in other instances the LEP boundaries do not accord with the MAAs.<sup>32</sup>

### *Tackling worklessness as a priority*

While previous sections of this chapter have highlighted a considerable amount of policy and institutional change in the UK (and especially England) in recent years, the context for the case studies in Part 3 is also set by economic change – which has also had important impacts on policy priorities. The 2008/9 recession, with six quarters of decreasing output, was the longest and deepest recession in the UK since World War II. Following fifteen years of near continuous job growth, it represented a marked change in context, even though employment losses were smaller than in previous recessions (Gregg and Wadsworth, 2010). Nevertheless, unemployment in the three months to June 2009 was 2.49 million, having remained below 2 million (and for the most part below 1.5 million) from 1998 to 2008. Increases in unemployment have been uneven, with those with no qualifications, young people and disadvantaged areas being hit hardest. Unsurprisingly, tackling worklessness – particularly amongst these groups and in these areas - has risen up the policy agenda.

This enhanced policy emphasis on tackling worklessness is exemplified by the Working Neighbourhoods Fund (WNF) which became operational in April 2008 for a three-year period (2008/09 to 2010/11) to tackle worklessness in those local authorities with highest levels of worklessness. The announcement of WNF emphasised that it was ‘not just about money’, but also about ‘new ways of working’. The philosophy behind WNF was that partnership working (including local government, local employers, Jobcentre Plus, the LSC and local communities themselves) was required to reduce worklessness.

Subsequently, the Houghton Review on *Tackling Worklessness* (Houghton *et al.*, 2009) argued forcefully for the development and extension of local powers to tackle worklessness, and for worklessness to be pushed higher up the policy agenda. It reinforced the message that local authorities should work in partnership with one another and with other interest groups to deliver a more cohesive employment offer. One of the recommendations was for a ‘challenge fund’ to be put in place to create temporary employment for long-term claimants in the most vulnerable economies. This recommendation came into existence as the Future Jobs Fund (FJF), which was introduced by the Department for Work and Pensions (DWP) in October 2009 as a response to recessionary concerns about the long-term scarring effects of youth unemployment. DWP pledged 150,000 temporary paid jobs lasting six months for unemployed people and for people living in disadvantaged areas. It was implemented as a ‘challenge fund’ to councils and their sub-regional partners to create thousands of additional jobs in their region. The Coalition Government decided to end FJF shortly after taking office, citing high costs.<sup>33</sup> However, with unemployment amongst young people in the UK rising to over one million in Autumn 2011, similar schemes are being considered and a Welsh Jobs Fund has been announced to tackle youth unemployment in Wales.

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<sup>32</sup> This is the case with Fylde Coast, which is included in a larger Lancashire LEP.

<sup>33</sup> Analyses have suggested that despite high costs FJF worked for employers, boosted sustained employment, worked for employers (Fishwick *et al.*, 2011) and provided a generally positive experience for participants (Allaker and Cavill, 2011).

Furthermore, the Coalition Government has embarked on a radical reform of welfare through the Work Programme (WP). The WP went live in Summer 2011. It brings together support for jobseekers and inactive benefit claimants into one integrated programme with the aim of delivering better value for money and improved outcomes for WP customers. It involves giving providers from private and voluntary sectors increased freedom and better incentives to deliver more sustained employment outcomes for customers. Key elements include the development of a welfare market place consisting of a prime-provider model (two or three competing in each contract package area) and associated supply chains for delivery, outcome-based funding, a 'black box' approach that trusts providers to find the best solution for each client with minimum service prescription and larger, longer contracts.

The main policy changes underpinning the WP are personalised support, higher rewards for hard-to-help customers, longer to work with customers, tougher consequences for poor performance and payment for results. As such, the WP represents a key change in policy for tackling worklessness. Local authorities (some of which have been direct providers of employability services) have prioritised working with providers to ensure that local needs and priorities are recognised and taken into account in WP services provided. Since WP payments to prime providers are on the basis of sustainable employment outcomes, it is possible that providers will concentrate their efforts on some local areas where there are more jobs than on others where there are fewer jobs. However, it is also in the interests of the providers to invest in the skills of WP participants to help them better sustain employment (rather than to churn in and out of employment) and to encourage businesses to create better quality jobs so that there is employment for those entering work to move on into.

With the ongoing increase in youth unemployment in the UK, to over 1 million in autumn 2011, the Government has announced additional measures to tackle youth unemployment and the numbers of young people not in education, employment or training (NEET). The 'Youth Contract', announced in November 2011 and the 'Building Engagement, Building Futures' strategy published in December 2011, set out a number of measures to provide additional support for young people (HM Government, 2011). The measures comprise improved skills levels and education, training and employment opportunities for young people, including encouraging and incentivising employers to inspire and recruit young people by offering more high quality apprenticeships and work experience places. Specific measures include providing funding to colleges in areas with the highest proportion of NEET young people to test new approaches to work experience; an extra 250,000 work experience places over the next three years and an offer of a work experience place for every 18-24 year old who wants one, before they enter the WP; encouraging employers to take on a 18-24 year old from the WP by making available 160,000 job subsidies worth up to £2,275 for each business; ensuring at least 40,000 incentive payments for small firms to take on 18-24 year old apprentices; and launching a National Careers Service in April 2012 to provide information, advice and guidance about careers and learning covering further and higher education, apprenticeships and other forms of training.

### **Concluding comments**

The period 2010/11 in the UK has been one of enormous policy change – including shifts in underlying philosophy, and cuts in public spending at a time of economic fragility. The change created a hiatus and generated uncertainty, making for a difficult context for collaborative working – especially given the extent and speed of change. Some of the old structures (notably the RDAs in England) were removed and new structures (such as the LEPs) set up. At the time of the UK case study visit in July 2011, this hiatus was manifest, with old structures being dismantled and new ones not yet having become established and/or having found a role for themselves.

The LEPs in England share some similarities with the Training and Enterprise Councils (TECs), announced in 1988 and disbanded in 2001, which were government-funded bodies which aimed to foster

local economic growth and development and encourage investment. The clear difference is the existence and scale of government funding. There has also been considerable amount of change in local structures and governance structures of relevance to skills policy and delivery. New policies of particular relevance to raising skills demand include the RGF, the GIF and the WP.



### 3. LOCAL CASE STUDIES

In order to gain insights into the reality behind the data presented in Part 1 and how policy makers and local stakeholders are addressing economic development and skills challenges in the context of the policy, infrastructure and economic changes outlined in Part 2, it is important to focus on *activity and policy at local and sub-regional levels*.

This chapter reviews selected documentary evidence from three case study areas:

- Blackpool (in the North West region of England) – where there was a particular focus on the tourism sector;
- Rhyl (in north Wales) – where there was a particular focus on the retail sector; and
- Greater Manchester (in the North West region of England) – which is a larger and more diverse sub-regional labour market;

The first two of these case studies were selected for the project because they are characterised by a low skills equilibrium according to the local diagnostic tool. The third case study area, Greater Manchester, although a single functional economic area is divided between two geographical units in the statistical diagnostic tool, one of which is located in the low skills equilibrium quadrant and the other in the high skills equilibrium quadrant. This is indicative of variations in circumstances between different parts of the sub-region. In this case study, the focus was less on specific interventions, and more on the strategic approach to tackling skills and employment issues. In each case study area roundtable discussions were held in July 2011 as part an OECD study tour (see Box 1 below), attended by national and sub-national policy makers, education and training providers, employers, local and central government officials, representatives of trade unions, sectoral bodies and welfare-to-work providers. This chapter reports key findings from these roundtable discussions and selected supplementary interviews.

### **Box 1. The OECD study tour**

The roundtable discussions followed similar formats in each case study area (the precise agenda was agreed with each the host organisation in each area prior to the case study visit), with:

- an introduction to the OECD Skills for Competitiveness project;
- presentation of the conceptual model underlying the project (as outlined in Figure 1.1 and of the statistical diagnostic tool);
- a discussion focusing on:
  - the local provision of training and its appropriateness in meeting local skills demands;
  - the utilisation of skills – are they being used appropriately? What is the impact of current skills utilisation practices on productivity and the quality of local employment?
  - what is the role of local and/or sectoral skills strategies in addressing skills and associated issues?
  - what are your reflections on policies/approaches to date?
  - looking forward, could be done differently?

The discussions built on previous desk research and interviews conducted to inform the roundtable discussions, and some follow-up interviews to explore in more detail some of the points raised in the discussions and in the desk-based evidence review. They followed the example of roundtable discussions in other countries participating in the Skills for Competitiveness project.

At a final roundtable discussion in London key emerging findings from the study tour were presented, and discussion focused on the degree of variation in the balance between the supply and demand for skills in the UK at sub-national level and how this is changing over time, and more particularly on the existence (or otherwise) of associated policy responses to raise the supply and demand for skills at local level, the effectiveness of such policies and the challenges faced by such policies.

## **Blackpool**

### ***Contextual information***

The *Greater Blackpool conurbation* (including Lytham St Annes and Fleetwood – with a population of around 265,000) has the largest single concentration of seaside tourism jobs in England and Wales – more than 19,000 (Beatty *et al.*, 2010). The UK tourism market has diversified with cheaper overseas travel and the market has diversified, but Blackpool is still a strong draw for visitors. Key economic issues are low levels of productivity and pockets of severe disadvantage, which in part reflect the functioning of the local housing market.

There is a strong evidence base on employment and skills in Blackpool and the Fylde. *The Fylde Coast Employment and Skills Strategy* was prepared by the consultancy SQW in early 2010, based on research from 2009 onwards. The context for this was the Fylde Coast Multi Area Agreement (MAA): the strategy was commissioned to support the employment and skills element of the MAA. This involved desk research on the local economic context and an employer survey (conducted in October 2009, with responses from around 200 employers) to ascertain employers' workforce current and future skills needs.

The Fylde Coast MAA aimed to:

- establish a uniquely 'Fylde Coast' cultural identity for the area including by promoting the Olympiad, Fleetwood Waterfront, Blackpool's promenade and Royal Lytham and St Anne's Golf Club;
- ensure a better match of skills by training over 7,000 people to meet the needs of local employers, particularly in areas like customer service and the aerospace sector; and reduce the number of people receiving out of work benefits;
- tackle the large number of houses in multiple occupation and increase the overall quality of privately rented accommodation, and increasing overall housing by a thousand homes a year; and
- reduce carbon emissions by increasing the number of people who use public transport to get to and from work.

The Employment and Skills Strategy had three central themes (see Box 2). This illustrates a key concern with skills supply, but also recognition of the need to raise demand for skills in order to generate more high quality jobs, so as to move from a position of low skills equilibrium in the direction of a high skills equilibrium (as highlighted in Figure 1). Practically this also involves raising the supply of skills and either countering out-migration of higher-skilled people or attracting people with such skills into the area. Of particular note given the sectoral focus on tourism at the Blackpool roundtable, the Fylde Coast Employment and Skills Strategy advocates a sectoral approach too with tourism (i.e. hospitality) identified as a key sector. This reflects the importance of the sector not only in its own right, but also that it makes a significant indirect contribution to other sectors which purchase from the visitor economy.

**Box 2. Three central themes of the Fylde Coast Employment and Skills Strategy**

***Work with the economy, the partners will:***

- Prioritise key sectors and opportunities – including existing and emerging sectors (hospitality and retail, advanced manufacturing, energy)
- Align skills and employment activity to the development of these sectors
- Promote activities that will add further economic value to the area through high quality jobs.
- *Raise the employment and skills base, partners will:*
- Ensure young people are able to make the best start to their careers
- Target activities on adults not currently in jobs but wishing to work – including people of prime working age on incapacity benefit
- Provide all age information, advice and guidance to create the 'right type' of economically valuable individual, matched to employer needs. Include promotional awareness of progression routes, training opportunities and the value of upskilling.

***To get the supply side right, partners will:***

- Come together in one formal work and skills structure, clearly linked to the Economic Development Company (EDC) , to oversee delivery of the strategy
- Monitor and influence the resources coming into the area and programme performance across the area
- Co-ordinate the offer to employers and individuals.

Amongst key *strengths* identified in a *SWOT analysis* were growth in tourism-related employment (in the period up to 2007) and expansion of Blackpool & Fylde College to include higher education (HE) courses. Amongst key *weaknesses* identified were that the workforce is engaged in relatively low value-added activities - and so is particularly vulnerable to competition on cost, the concentration of Blackpool employment in low paid and low skill occupations – a situation reinforced by the transient nature of much of the tourism related workforce (in part reflecting the seasonal nature of some employment opportunities), where staff turnover acts as a disincentive to employer investment; and pockets of worklessness and high levels of deprivation. *Opportunities* for growth in tourism were identified as a result of the impact of recession, exchange rate issues, and the ‘staycation’ effect. Yet associated with these opportunities there was also the *threat* that tourism and retail growth may not help productivity, and in fact employment growth could depress GVA.

As highlighted above, Blackpool<sup>34</sup> is firmly rooted in a ‘low skills equilibrium’ according to the statistical diagnostic tool, and the features outlined above represent some of the challenges facing such areas. They were also reflected in key questions and responses from a stakeholder meeting held as part of development of the Employment and Skills Strategy (see Table 5).

**Table 5. Key questions for the Fylde Coast Employment and Skills Strategy and stakeholder responses (from SQW, 2010)**

Question	Response
Support jobs or GVA growth?	Focus on jobs and lower-level opportunities in the short-term
Support existing key sectors or support diversification of the economy?	Ongoing commitment to tourism
Focus on economic inclusion or wealth creation?	Need to strengthen and diversify tourism - hence need to focus on what skills are needed; while at the same time recognising that new developments will create a series of often modestly skilled service jobs, which may offer attainable routes in to employment
How to deliver a higher skills base in a demand led, resource constrained environment?	Need for employers and individuals to aspire to move up the value chain; desire for skills development to be better aligned with business development

These questions and responses illustrate the tension between tackling worklessness on the one hand, while at the same time addressing issues of wealth creation. Blackpool contains some neighbourhoods ranked within the 1% most deprived in England and Blackpool Council has played an active role in initiatives to address worklessness and deprivation. In order to gain greater insights into worklessness and challenges for economic inclusion, the Council commissioned research on Incapacity Benefit (IB) claimants in 2007. The research showed that with 13% of all adults of working age on IB, Blackpool had the 14<sup>th</sup> highest IB rate out of 400 local authorities in Great Britain. Of IB claimants surveyed, half had been out of work for over 5 years and more than half had no qualifications. This highlights the scale of the skills supply challenge for this group of residents. The study also raised the issue of the absorption capacity of the local labour market (given low wages) and the role of migrant workers (notably EU migrants from Eastern Europe after 2004). Yet it is clear from the third and fourth responses in Table 3.1 that supply side responses will be insufficient and that the position of skills as a derived demand is recognised. The Fylde Coast Employment and Skills Strategy recognised the need for a sectoral approach with skills and tourism.

Working with groups of employers could provide an opportunity to establish career ladders: upskilling of some staff generates opportunities for backfilling with people with a lower skills base. In this

<sup>34</sup> Defined here as the Blackpool unitary authority TL3 area, rather than the wider functional economic region of which it is a part.

way some upskilling and upscaling of the current model may be achieved. However, to shift the demand for skills in a more far-reaching, as opposed to this incremental, way would demand a more radical approach; developing some scenarios might provide some possible insights into different alternative futures.

As noted above, the Fylde Coast Employment and Skills Strategy recognised the need for a sectoral approach with skills and tourism (see Box 2). This highlights the role of capital investment in new attractions and in supporting infrastructure as part of a strategy of raising the quality of the Blackpool ‘offer’ and so raising demand for skills.

### **Box 3. Key components of a sectoral approach to tourism (from Fylde Coast LEP bid)**

Maintaining the momentum within the Fylde Coast’s lucrative visitor economy, building on potential sites in Blackpool (such as the Central Station development site adjacent to Blackpool Tower), capitalising on major events such as the 2012 British Open Golf championship at Royal Lytham & St Annes (including the creation of a resort setting that befits the hosting of such events) and building on confirmed investment in The Tower, Pleasure Beach and Winter Gardens, to attract new leisure and business tourists, and additional private sector investment that will drive up the quality of the Fylde Coast visitor offer.

That investment sees the arrival on the Fylde Coast of Merlin, the world’s second largest entertainment company and Nickelodeon, broadcaster of some of the most profitable TV programmes in the world. The Merlin investment will give Blackpool the largest cluster of branded visitor attractions outside London, and the arrival of Nickelodeon will create the TV company’s first theme park attraction in the UK. The impact and growth of visitor numbers will play a leading role in developing the expansion of the visitor economy.

This investment is complemented by a new tramway connecting the coast from Fleetwood to the boundary of Fylde and with a future option to connect through to Blackpool International Airport, St Annes and Lytham.

It is further enhanced by the acquisition of key leisure assets such as The Tower and parts of the Golden Mile; dramatic improvements to the seafront and promenade; a bid for World Heritage status (which seeks recognition for Blackpool’s iconic status as the birthplace of popular tourism) and the development of the famous Winter Gardens into a boutique conference centre and events venue - all of which provide a further stimulus to drive leisure and business tourism for the benefit of the whole coast.

### ***A vision for Blackpool***

In the roundtable discussion the key components of the tourism strategy outlined in Box 3 were endorsed. It was noted that the Blackpool tourist market was focused on ‘high volume, low income’ ‘C2DE’ (i.e. a market research term used to describe the visitors from lower socio-economic groups. The investments in branded attractions (such as Nickolodeon and Merlin) and in infrastructure (including trams, cycles, refurbishment of the front, the purchase of Blackpool Tower, development of a new concert hall, etc) were being undertaken in order to retain such visitors and attract more ‘ABC1’ (i.e. a market research terms to describe the lower to upper middle class) visitors, and so increase income generated from tourism.

It was recognised that these capital and infrastructure investments alone would be insufficient to realise the vision, and that alongside them there was a need for investment in skills, particularly in the area of customer service. An excellent example of such an initiative is the *Welcome to Blackpool initiative* funded initially by the Local Enterprise Growth Initiative (LEGI)<sup>35</sup> to train local people (especially those

<sup>35</sup> LEGI was announced in 2005 and aimed to release the economic and productivity potential of the most deprived areas in England through enterprise and investment thereby boosting local incomes and employment opportunities and building sustainable communities.

working in hospitality, leisure, tourism, transport and retail sectors, but also local residents) in appreciating the history of Blackpool, current developments and future plans. Through course attendance participants learned more about **Blackpool's attractions and services**. The knowledge gained could then be used to enhance visitor and local residents' experience of Blackpool. Employers have reported that the short course equips staff to deliver a high standard of customer service, which in turn impresses customers and encourages word of mouth recommendations and repeat visits to Blackpool. The initiative has shown that taxi drivers, those involved in tourism and local residents can be excellent ambassadors for Blackpool. It was reported that over 3,000 people (of all ages) have attended the course in two years and that more than 250 organisations have benefited.

### ***Work by and with employers***

Some of the major employers in Blackpool who have made major capital investments to improve attractions/facilities are also raising their demand for skills (specifically in terms of requirements for improved levels of service) and have changed their recruitment and staff development practices accordingly. For example, *Sandcastle Waterpark* is working with Fylde College (the local FE college) on generic skills training for (potential) employees and has instituted personal development plans with staff to encourage career progression with staff. Waterpark Staff have participated in the 'Welcome to Blackpool' alongside similar training in the aspirations of the Waterpark – so building aspirations of individuals by building aspirations of the company and of the local area. It was reported that over the last four years service levels have improved. In a seasonal industry characterised by transience, new staff development practices (in conjunction with more difficult economic circumstances in which there is greater competition for jobs) have helped improve staff loyalty, and so retention, and visitor numbers have increased year on year. It was reported that the number of applicants for posts had increased (in part reflecting economic circumstances) and that pre-recruitment employability courses run by Fylde College had produced excellent applicants. Reflecting the nature of the tourism industry in Blackpool, contracts remain seasonal, but attempts are being made to allow employees to bank hours for the winter.

A study by People 1<sup>st</sup> (the Sector Skills Council for hospitality and tourism) to investigate the practicalities of introducing a labour market pool scheme to Blackpool which seasonal workers could join and which could be accessed by employers when recruiting, to ensure that they took on experienced staff, concluded that such a scheme, while a good idea in principle, would be fraught with difficulties in practice. Employers felt individuals employed on a casual basis would not necessarily be attractive as longer-term employees and/or suitable to be recommended to other employers, and casual workers often had limited enthusiasm for longer-term employment. Wage levels remain at around the level of the National Minimum Wage and little scope is seen to move away from this, especially given prevailing pressures on wage levels. This reflects the fact that in a low skills equilibrium the labour market is in balance and with an ample supply of labour in current economic circumstances there is no need or incentive for employers to increase wages.

Likewise, the *Pleasure Beach* is also seeking higher calibre people. It was reported that capital investment in attractions meant that it was possible to attract better quality applicants because Nickelodeon, for example, is regarded as an exciting place to work. Training (internal and external) provided encompasses health and safety, food hygiene, train the trainer, employability programmes and basic literacy. Use was being made of European Social Fund (ESF) funding and of services provided by Jobcentre Plus.

Some of the large hotel chains represented in Blackpool place great emphasis on personal and skills development of their staff, through continuing professional development for various job roles. Business

benefits can include greater staff motivation and satisfaction, a more stable workforce<sup>36</sup> and better business performance. Often particular onus is placed on skills development and mentoring of managers. This is in contrast to smaller hotels where typically training programmes are less well developed.

### *Training provision and funding*

Blackpool has a strong FE college (Fylde College) and active private sector training provider. Fylde College services the local population and has expanded provision to cover higher education, with a view to offering graduate level education and training opportunities, so that people are not obliged to leave the local area to access degree level provision. It was reported that training provision (on a part-time basis) for people in work in Blackpool had expanded in recent times. The College also provides specialist customised training (e.g. for casinos) which serves both Blackpool and the wider market beyond. It was considered that there was scope to develop training courses to support economic development and skills in Blackpool across sectors. One example suggested was *customer care* courses extending across sectors (e.g. the tourism and care sectors), especially given that some seasonal workers in tourism also work in the care sector.<sup>37</sup> As regards training for SMEs, there was a feeling that this would be best targeted at companies with growth ambitions. It was felt that many SMEs did not understand the value of shifting way from a low value type of service (characterised as ‘kiss me quick’ and ‘stags and hens’), but it should be appreciated that this may be a satisfactory niche for some SMEs within a situation of ‘low skills equilibrium’. Again, these developments represent important incremental, rather than radical, changes.

It was reported that changes in training policy presented particular challenges in the Blackpool context. Train to Gain (a flagship policy for New Labour) and apprenticeships (a flagship policy for the Coalition Government) were both considered ‘blunt instruments’. It was felt that Train to Gain was better suited to a local labour market characterised by transience, such as Blackpool, because it could be delivered more quickly and did not involve so many components – although several stakeholders indicated that they were encouraging employers to take on school leavers, including as apprentices. It was also noted that there was unmet demand for upskilling in Blackpool at Level 2, whereas apprenticeships were concentrated at Level 3.

Demand for training was rising for short, bite-sized, customised courses of direct relevance for employers’ needs. There were also reports of increasing demand for ‘training of trainers’, so that larger organisations could undertake more in-house accreditation of skills.

More general concerns were expressed about changes in *funding* for training – with more of the costs of training being passed to individuals and employers. There were particular concerns about the impact of this shift on demand for education and training,<sup>38</sup> particularly as it was felt that in deprived areas individuals would be unwilling to take out any loans to fund education/training (at higher levels). Each of the two scenarios of local people being unwilling to access training (because of the funding implications) or of getting into debt (if they did take out a loan) was viewed by local stakeholders with some trepidation. With a reduction in SFA budgets it was reported that small specialist providers were considering/adopting partnership arrangements in order to survive.

It was noted that training and development had “gone from free to very expensive” very quickly, with little chance for acclimatisation. It was considered that there was a national reticence in the UK for

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<sup>36</sup> The hospitality, leisure, travel and tourism sector has the highest labour turnover rates of any sector of the UK economy (People 1<sup>st</sup>, 2011).

<sup>37</sup> Working night shifts in the tourism sector (?) in the summer and full-time in the care sector in the winter.

<sup>38</sup> Especially for the 2011/12 academic year when there will be increased fees for HE in England.

employers to take on more of the costs of training, and that in a fragile economic context few could afford to do so in any case.

Moreover, some stakeholders considered that the current situation of a 'free for all' (in which different training providers, welfare-to-work providers, other local stakeholders, etc) contacted employers separately was counterproductive in that it 'turned off' employers. It was reported that previously some tentative positive steps towards a more collective approach to employer engagement had been taken in Blackpool, in which all interested stakeholders met together to discuss their needs. However, no agreement could be reached as to how best to divide up approaches to employers,<sup>39</sup> and the result was fragmentation. Some direction and co-ordination that had previously been provided by Business Link had gone. It was considered that Chambers could take up some of this role, and are beginning to do so.

Local networking amongst employers was variable, and was generally better in the care sector (where there are legislative requirements with which employers have to conform) than in the tourism (albeit with the exception of some very informal networking between local landlords) and retail sectors.

### ***Tackling worklessness***

The issue of worklessness is high on the agenda for Blackpool. As well as the fragile economic situation nationally, the role played by Blackpool in the urban and regional system of population and skills mobility reinforces this because:

- lower skilled people come to Blackpool to take up seasonal jobs (in tourism and related industries);
- the seaside location and nature of the housing stock (with a high proportion of houses in multiple occupation [HMOs]) is attractive to 'benefits tourists' (i.e. Blackpool is a relatively attractive location in which to live on benefits) and to immigrants (notably from eastern Europe) seeking short-term work;
- those people who have been able to upskill are able to move away.<sup>40</sup>

Given the timing of the roundtable discussion, and the local authority's knowledge of the local labour market and track record in delivering employability services, it was unsurprising that much of the discussion with regard to worklessness focused on the WP. The drive of the WP towards sustainable employment was considered a key challenge, especially given the transient nature of much employment in Blackpool and the fact that the welfare to work system has previously not addressed (to any great extent) 'churn' in the labour market. It was considered that this shift from 'churn' to 'sustainability' would necessitate a cultural change for both people and providers.

Given the high levels of ill health and lack of qualifications amongst the likely WP client base, the need to engage with health<sup>41</sup> and skills agendas was pertinent. In relation to the skills agenda the WP offers some important opportunities for local activity on skills supply and demand, since:

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<sup>39</sup> This is not a Blackpool-specific issue but rather is a common issue in many local areas across the UK.

<sup>40</sup> Although it is possible that in depressed economic circumstances a greater share of those who have upskilled will stay in Blackpool than was formerly the case.

<sup>41</sup> Including mental health, drugs and alcohol addiction.



- in order to have a chance of achieving sustainable employment, it may be necessary to address poor skills amongst a substantial proportion of long-term workless individuals; and
- the ‘payment by results’ model means that there is a financial incentive for WP providers to work with businesses on their business plans in order to maximise chances for sustainable employment.

### *Summary reflections*

At the roundtable discussion in Blackpool there was general agreement that the local area was characterised by many features indicative of ‘low skills equilibrium’, with problems of low skills supply and demand. However, unemployment, and worklessness more broadly, is a very pressing local issue, particularly in a situation of economic fragility following the recession.

The local authority and its partners have been active in addressing employment, skills and worklessness issues, taking advantage of LEGI, WNF, FJF and other funding streams to address local needs. Under the last New Labour Government there was a move from a local focus (with LAAs) to collaboration over a broader functional economic area with MAAs. Employment and skills was a key focus of the Fylde Coast MAA. The Employment and Skills Strategy was developed to undertake these activities. However, the bid for a Fylde Coast LEP was unsuccessful and the area is subsumed within the Lancashire LEP (which comprises a number of contrasting local labour market areas). There are plans to continue with the Employment and Skills Board for the Fylde Coast as a sub-group within the LEP. But the lack of funding for LEPs and for economic development more generally poses a big challenge for continuation of such activities.<sup>42</sup>

In summary, economic and policy changes, along with reductions in public funding, together have the potential to stifle progress. However, local stakeholders are keen to take forward and build on good practice in repositioning Blackpool around a higher customer service model, complementing capital investments in the physical infrastructure by the local authority and its partners, and in the quality of visitor attractions by employers. The employers have played an important role here in engaging with wider developments, changing recruitment and training practices and working with local colleges to raise their demand for skills. This highlights the need to look at human capital and physical capital alongside each other, with the former afforded as much attention as the latter.

However, there remains a fundamental disconnect in Blackpool between the drive for sustainability and the transient nature of the economy. The transient nature of the local economy is a legacy of the success of the seaside tourist industry which is the foundation of the local economy. While the tourist industry can, and is likely to, play a key role in Blackpool’s future economic success, on its own it is very unlikely to deliver the sustainability that is sought, since ultimately there is a limit to the value that can be added to it. Hence there is a need to consider how other sectors with good quality jobs can be developed and how local residents can be best linked to jobs in the wider labour market extending beyond Blackpool.

## **Rhyl**

### *Contextual information*

Rhyl is a seaside town in North Wales. It is part of the North Wales Coast Regeneration Area. It experiences high levels of unemployment compared with the UK and Wales average, and West Rhyl contains the most deprived neighbourhood in the whole of Wales. A substantial number of local residents have low or no qualifications or skills needed to take up work opportunities, or have other problems that

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<sup>42</sup> Blackpool is the only local authority now funding the Economic Development Company (EDC).

impact on their ability to work. As a City Strategy Pathfinder, there has been a strong emphasis on *local partnership* working to address problems of worklessness.

In Rhyl there is a strong emphasis on *links between employment, skills and regeneration*, and the *retail sector* has been identified as playing an important role in regeneration. *Skillsmart Retail*<sup>43</sup> *Location Model* research was undertaken in Rhyl in late 2010/early 2011, with support from the SPFP programme<sup>44</sup> (outlined in Part 2). Hence, Rhyl provides an example of Sector Skills Council involvement in the retail sector in a broader context of local partnership working.<sup>45</sup>

The *Location Model* is particularly aimed at towns and cities which have a high proportion of independent retailers and where positive intervention could secure benefits. Key potential benefits from the Location Model activities and outputs are:

- boosting business performance and the skills of the local workforce – by helping smaller retailers to identify their skills gaps and partnering them with local learning providers to help address their skills needs;
- encouraging retail diversity – the Location Model provides insights into the overall make-up of the local area as a shopping location;
- a regeneration aid – the Location Model assesses the local retail offer alongside other town centre facilities in a holistic approach; and
- developing the local economy – by suggesting ways in which the retail offer can be improved.

In Rhyl the Location Model research involved Skillsmart Retail, the Welsh Government and Denbighshire Council working together to:

- create a profile of consumers in Rhyl, using geodemographic modelling data;<sup>46</sup>
- determine the competitive position of Rhyl as a retail centre;
- analyse the findings from street interviews, mystery shopping, and a town centre assessment conducted as part of the Location Model research; and
- benchmark mystery shopping results against the other locations in Great Britain as a whole where Skillsmart Retail has already worked with communities of small retailers and other partners.

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<sup>43</sup> This is the SSC for the retail sector.

<sup>44</sup> In North Wales, the SPFP programme has seen Sector Skill Councils, in liaison with local and national employers working with colleges such as Coleg Llandrillo (which has a campus in Rhyl), Coleg Menai, Deeside College, West Cheshire College and Glyndwr University plus a number of local independent providers.

<sup>45</sup> There are examples of local strategies focused on the retail sector elsewhere in the OECD. For example, in Breda in the Netherlands the municipality has combined investment in training with a collaborative approach to raising the quality of the local retail offer. This involves training, better management of transitions within the sector by improving matches of supply and demand through investments in skills, and improving the image of the sector (Dorenbos and Froy, 2011).

<sup>46</sup> While major retail chains conduct their own market research and often have access to such data, it is not generally accessible to small/independent retailers.

Rhyl scored well in the results emerging from the Location Model research vis-à-vis other towns and cities.<sup>47</sup> Amongst areas identified with room for improvement was further scope for ‘upselling’ (Skillsmart Retail Research Department, 2011).

Further to this, Skillsmart Retail has established Coleg Llandrillo Cymru as the first *National Retail Skills Academy in Wales*, providing businesses with a unique opportunity to access a range of specialised retail training packages - including the highly rated series of Mary Portas Masterclasses ‘Your Guide to successful retailing’.<sup>48</sup> Coleg Llandrillo Rhyl has the first retail skills shop in Wales. The Retail Skills Shop offers free advice and information on courses and learning opportunities to businesses, their employees and learners, designed specifically for the retail industry, as part of its role to support local business to increase productivity through training and development. The idea is to review provision on a regular basis to reflect the needs of business. Coleg Llandrillo Rhyl is also active in apprenticeships and in a range of other education and training at various skills levels – right through from pre-employment to higher education. (An example of the impact that taking advantage of such provision can have on the lives and aspirations of local residents is illustrated by the example in Box 4).

#### **Box 4. Skillsmart Retail Works, Coleg Llandrillo Rhyl**

After raising a family and claiming benefits for 19 years, Paula Evans was understandably nervous about returning to work. But after expressing an interest in retail, she was enrolled on a Skillsmart Retail Works course, the industry standard scheme for returners to work. At the beginning of her Skillsmart Retail Works course in 2008, Paula’s confidence and self-esteem were very low. Because she had not studied for more than 20 years, she felt she had no up-to-date skills and was terrified of working in a group and not being able to participate in discussions. She said: “I had no confidence in myself. I felt I would not fit into any work place, and I was so worried what other people would think of me.”

Skillsmart Retail Works is a pre-employment course aimed at people of all ages to give them a step-up into the retail sector. The programme is flexible to meet the needs of many learner groups including lone parents, the long term unemployed, young people not in education or employment and career changers. It gives participants knowledge of the sector including areas such as product knowledge, effective selling skills, customer service techniques and health and safety. It also helps people prepare for job interviews. Paula said: “I wanted a job in retail and had applied for a number of retail related jobs but always fell short at the interview. I thought this course would give me the knowledge I needed which in turn would give me extra confidence. It was also an opportunity to mix with other people in the same position.”

As part of her training, Paula worked in the college shop for one morning each week and was assigned to a number of roles such as cashier, manager, security officer and sales assistant. She also received extensive training in the college’s virtual shop, using chip and pin terminals, hand-held scanners and label printing electronic scales. Not only did the course give Paula the skills needed to return to work, but also the confidence. She said: “I got the opportunity to do a variety of different roles. I was nervous at first but I found I could do it and do it well so this was a huge boost to my confidence. “I had not been involved with groups of people for so long, but in the end this was one of the most enjoyable aspects of the courses. The best part of the whole course and experience was realising I could do things.”

The course gave Paula the confidence to apply for retail jobs and towards the end of the course she applied for a job at Sainsbury’s. That was now more than 18 months ago and she has been working there ever since. Paula firmly attributes this success to the help she received from Coleg Llandrillo and the Skillsmart Retail Works course. “I went to the interview feeling confident and positive and this came across to the interviewer”, she said. “Since completing the course and gaining employment my whole life has changed. I have so much more confidence in myself and in my abilities. It has given me my independence and has also set a really positive example to my son, who can now see a more positive mum and can see the benefits that being in work can bring; both in attitude and material goods.” “My goal is to be a branch manager. This is where I would like to be in five years time - running my own store.”

<sup>47</sup> It was ranked 16<sup>th</sup> out of almost 90 towns across the UK which have so far been assessed.

<sup>48</sup> Mary Portas is a high profile celebrity leader in fashion and retail. The Mary Portas Masterclasses aim to provide shop owners / managers and their teams with core retail skills that are simple and easy to access, are directly applicable to their business and which are proven to have impact, and allow them to access a complete programme or sections of the programme as their individual needs dictate.

There is a relatively long history of attempts to establish *local partnership working* in Rhyl. For example, *Rhyl Going Forward* in 2004, supported by a pact bringing together key public sector players, outlined a vision for the regeneration of the area. Physical regeneration continues to move forward under this banner, a Town Centre Manager is being appointed, and the pact has been reconvened with representatives from the third sector alongside the public sector. A more recent example is *Rhyl City Strategy*. In 2006, Rhyl was successful in its bid to be included as one of fifteen areas in the Department for Work and Pensions City Strategy programme (which ran from 2007 to 2011 and is set to continue) which aims to tackle unemployment and economic inactivity in the most disadvantaged areas of the UK. The strategy is testing:

- how best to combine the work of government agencies, local government and the private and voluntary sectors in a concerted local partnership (consortium) – to provide the support jobless people need to find and progress in work; and
- whether local partners can deliver more if they combine and align their efforts behind shared priorities, and are given more freedom to try out new ideas and to tailor services in response to local need.

Rhyl City Strategy brings together key stakeholders from the business, statutory and voluntary sectors<sup>49</sup> in an active local partnership to tackle the issue of local unemployment through the more effective coordination of services, the pooling of resources, and through innovation and fresh thinking. The Strategy seeks to put employability high on the local agenda, ensuring that resources are focused on Rhyl, that any planned developments take local employment issues into account, and brokering new opportunities (key objectives set out in the 2009-11 Business Plan are presented in Box 5).

**Box 5. Rhyl City Strategy Business Plan 2009-11: Key objectives**

**People and Jobs**

- Linking workless people and employers
- Tackling barriers to work
- Improving the health of the current and potential workforce – particularly focusing on reducing the number of incapacity benefit claimants.

**Skills**

- Tackle the lack of basic skills and qualifications to improve employability and reduce worklessness
- Meet the skills needs of sectors and growth opportunities – essential to support expansion

**Stimulating Growth & Opportunity**

- Developing new enterprise and growing existing companies.
- Effective use of social clauses in procurement
- Transforming sole traders into employers
- Supporting Social Enterprises
- Continued support for test trading
- Master planning – for niche economic growth opportunities

<sup>49</sup> Coleg Llandrillo Rhyl and Denbighshire Council are amongst the key partners in Rhyl City Strategy.

There are many local employment and skills initiatives in Rhyl – notably focusing on improving skills supply at the lower end of the skills spectrum, and designed to tackle worklessness. These include *Careers Ladder*<sup>50</sup> – designed to deliver a broad programme of learning opportunities to complement local provision for improving people’s skills and employment prospects (See Box 6 below).

**Box 6. Aims of the Careers Ladder Programme**

- To identify gaps in provision for helping unemployed people into work
- To engage with individuals who are at the greatest distance from the labour market
- To build confidence, aspiration and self-esteem, and support the development of life skills including communication, team-work, time-keeping and resilience
- To deliver a range of vocational skills and industry recognised qualifications
- To identify and tackle barriers to engagement and participation, including childcare and transport
- To develop employability programmes linked to local labour market and recruitment need
- To provide participants with advice & support to move on to employment or mainstream learning provision
- To test and evaluate approaches

***A sectoral approach to economic development and skills policy***

As noted above, the Welsh Government takes a sector based approach to skills policy, in conjunction with the UK Commission for Employment and Skills. At Welsh Government level, the focus is on both skills supply and demand issues, with a focus on improving productivity by addressing skill shortages, reducing skills gaps, and improving the supply of skills - through a mix of national occupational standards, apprenticeships, FE and HE. While a sectoral approach can help focus attention, enhance coordination and achieve critical mass at the national level, it was noted that problems can arise at the local level in accessing funding if local sectoral priorities do not accord with national ones. This is a salient point in the case of Rhyl as retail is a priority sector locally, but not nationally..

The sectoral approach is complemented by an area-based regeneration focus, given that Rhyl is part of the North Wales Coast regeneration area. The area regeneration approach involves investing in areas to improve prosperity and wellbeing in Wales. The Skillsmart Retail Location Model research exemplifies the importance of considering sector-based skills approaches to development in a broader regeneration context in order to achieve the most positive outcomes.

*Focus on the retail sector*

Part of the value of research from the Skillsmart Retail Location Model is that it can bring together independent retailers who might otherwise feel alone and provide impetus to consider improvements, whether to the retail offer of the town, to opportunities for skills development or to the physical environment. In Rhyl the positive results were showcased in the local media and Coleg Llandrillo Rhyl showcased opportunities for retail skills development at the event where the results were launched.

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<sup>50</sup> Funded by the Welsh Government’s Department of Children, Education, Lifelong Learning and Skills.

In Rhyl there is a certain amount of pride in the relatively high proportion of independent retailers. The research highlighted scope for up-selling and cross-selling to the benefit of individual businesses and the community of retailers in Rhyl as a whole – with the town as a ‘virtual department store’. A recurring theme in the discussion at Rhyl, exemplified by the focus on the retail sector, was that at the current time opportunities were not being maximised. For example:

- self-perception tends to be low, with Rhyl being seen as the ‘value offer’ in retail and tourism – yet this limited market is not fixed, and there may be scope to capture some of the spending of those local residents who currently travel to Chester (for at least some of their shopping);
- it was reported that several retailers closed in the early evening and on Sundays – yet these could be amongst the busiest times;
- some of the people working in retail who knew the ‘theory of marketing’ from formal marketing courses, were not necessarily applying relevant principles in practice; and
- while recruitment onto Mary Portas retailing masterclasses at Coleg Llandrillo was good, to date most recruitment had been from outside Rhyl town centre, even with the incentive of subsidies and free vouchers – suggesting that at least some local retail managers do not see the need to improve their skills/move their business up the value chain..

These sentiments are indicative of a low skills equilibrium, in which businesses appear to be satisfied to serve a low value market. Yet if there is to be a move to improve the quality of jobs and raise productivity there is a need for a focus on raising demand for skills and on skills utilisation.

Importantly, not all of the issues highlighted by the Location Model research related directly to employment and skills. Rather some of the key issues mentioned as holding back economic development were the high level of business rates and the number of empty shops. This shows that employment and skills policy cannot be regarded in isolation from other factors.

### ***The role of the local college***

Coleg Llandrillo Cymru (of which the college at Rhyl is a part) has a dedicated centre for employer engagement and is active in the local community. It sees itself as having an important role in supporting regeneration through development of skills, offering opportunities at all levels from pre-employment to degree level courses, such that it would be possible for a local resident to work their way through all level of provision. This indicates that skills comprise only one element in a wider economic development package.

Coleg Llandrillo Rhyl is particularly proud of its work in support of the retail sector, with the nomination of both trainers and learners for national awards underlining the quality profile of provision. The presence of the National Retail Skills Academy provides further endorsement and impetus to support activity in the retail sector. There are three strands to the applied work in retail at Rhyl: work with the employer base – in retail management courses and masterclasses; working with learners on work-based learning courses (from the age of 14 years) and apprenticeships – as the first stage in training and skills development for retail as a preferred career path; and additionally, as highlighted above, retail is used as a context for the development of basic and work-related skills for workless people with poor skills and confidence looking to move from worklessness towards employment.

More generally, Coleg Llandrillo Cymru is leading the Education and Skills theme in the North Wales Coastal Area Regeneration Area Action Plan. The College is making links with the Confederation of

British Industry (CBI) and Federation of Small Businesses (FSB) to take activity forward. The concept of shared apprenticeships and training is being examined as one way of enhancing workforce and skill development. These models are viewed as appropriate to an area dependent on a plethora of small businesses and a number of larger anchor companies. In relation to apprenticeships, it would address the issue that while apprenticeships are seen as a key route to new, younger entrants to companies' workforces, some SMEs find it difficult to provide the range of experiences required for an apprenticeship. One idea is that a group of SMEs from a given cluster or local area working in collaboration could provide a range of experiences and skills required for an apprenticeship. A related idea is that of anchor-networked apprenticeships, organised in a hub and spoke arrangement, in which a larger 'anchor' company would lead on an apprenticeship, but would locate the trainee in a number of SMEs during the course of the apprenticeship. If the hub and spoke arrangement comprised a supply chain, such an arrangement would allow the larger company to enhance links with its suppliers and help promote quality standards. The idea of shared or networked training is that when organising training a larger company would make extra training places available to staff from SMEs, with information about training opportunities being shared through a web-based alert system. At the time of writing, these ideas are being explored, rather than enacted, but they illustrate the direction of thinking of the College on taking forward part of the skills agenda.

### ***Tackling worklessness***

Some contextual background on Rhyl City Strategy was presented in 3.2.1. Rhyl City Strategy is the main focus for local partnership working to tackle worklessness in Rhyl. One of the City Strategy cornerstone initiatives that was identified at the roundtable discussion as best exemplifying an attempt to address worklessness by raising skills supply and demand, as well as meeting broader economic development and regeneration objectives, is the *Taste.academy* (see Box 7). Features that were considered as exemplifying good practice were engagement of the non-employed; partnership working between the local authority, government and voluntary sector; investment in high quality training and skills development, and linkages between the worklessness, skills and physical regeneration agenda.

#### **Box 7. Taste Academy, Rhyl**

Taste.academy is a restaurant and café which opened in 2011 on the seafront in Rhyl. It has been designed by an award-winning designer, and offers a 'quality dining and café experience', with a menu created by a Michelin-trained restaurant manager, to local residents and visitors. The project was developed in partnership with Rathbone Cymru and other key players, including CJIW, North Wales Women's Centre and Llandrillo College, and received funding support from the Welsh Government, the Department for Work and Pensions and the Conwy/Denbighshire Substance Misuse Action Team. It provides the long-term unemployed with quality skills training and supported work opportunities in a real working environment. The project has created an initial six jobs with the appointment of a core staff team, and will create 75 supported employment placements in the first three years of operation. Trainee staff will be supported to move on to mainstream training options or to find permanent work in other catering establishments. Hence, it is hoped that Taste.academy will help to upskill local people to meet labour demand and skills shortages in the hospitality and catering industry, as well as creating a showcase facility that will support local plans to revitalise Rhyl's tourism economy.

### ***Summary reflections***

Like Blackpool, Rhyl has a Victorian infrastructure, has a transient population in part of the town (West Rhyl) and has suffered from the demise of the traditional seaside tourism. Yet Rhyl retains a tourism market, for day trips in particular. However, it was noted that the retail sector did not support the tourism sector as well as it could, and that interventions in the physical environment, as well as in current behaviour, would be needed to support greater mixing of the two sectors, with developments in one helping to lever up the other. It was felt that a post of town centre manager would be helpful in acting as an

ambassador for the town, bring businesses together (as in neighbouring Prestatyn) and in creating a more positive ‘sense of place’.

There is interest in stimulating enterprise in Rhyl, but it was reported that in current economic circumstances new start ups were often people who have lost their jobs and decided to invest. Some new businesses were experimental and had no real drive to succeed or lacked experience in running a business. The need for entrepreneurship training and ongoing support was highlighted. Rhyl illustrates the importance of flows between ‘bad jobs’ and ‘good jobs’. In an expanding economy there are ladders to opportunity from economic inactivity to unemployment to ‘bad’<sup>51</sup> jobs to ‘good’ jobs, but in difficult economic conditions the ladders tend to be reversed, as some workers lose ‘good’ jobs ‘bump down’ to take ‘bad’ jobs, and so on (Lloyd, 2011).

In summary, the Rhyl case study provides some good examples of attempts to enhance the supply of and demand for skills – through sectoral initiatives, the work of the local college and the activities of Rhyl City Strategy. All of these can point to successes in their own right. Yet lack of ambition in much of the private sector, and seeming satisfaction with providing a ‘value offer’ is stopping the local area breaking out of a ‘low skills equilibrium’. Although some employers and some individuals are or may be willing and able to invest in skills development to raise their service offer, a seemingly more widespread lack of ambition of a critical mass of related employers can stifle progress. It is clear that Rhyl City Strategy has helped galvanise activity to address worklessness and the local MP plays a key role in helping to stimulate local partnership working, yet there remains a clear need for leadership to galvanise local businesses. This should be helped by the appointment of a Town Centre Manager. The experience of the Skillsmart Retail Location Model in other local areas has pointed to the catalytic effect of a Town Centre Manager in bringing businesses together to act on the results of the Location Model.

Considerable progress is being made in Rhyl, through the City Strategy and related initiatives, in enhancing employability and raising the profile of skills – especially on the supply side. This is a rational approach given the scale of worklessness in the local area, and in general, output targets for recruitment onto employability programmes have been met or been exceeded. While a key focus has been on social inclusion aspects of employability, the development of intermediate and higher level courses by the College has set out routeways for advancement through acquisition of further skills. However, going forward, greater attention needs to be focused on stimulating the demand for skills if Rhyl is to break out of the low skills equilibrium.

## **Greater Manchester**

### ***The sub-regional economy***

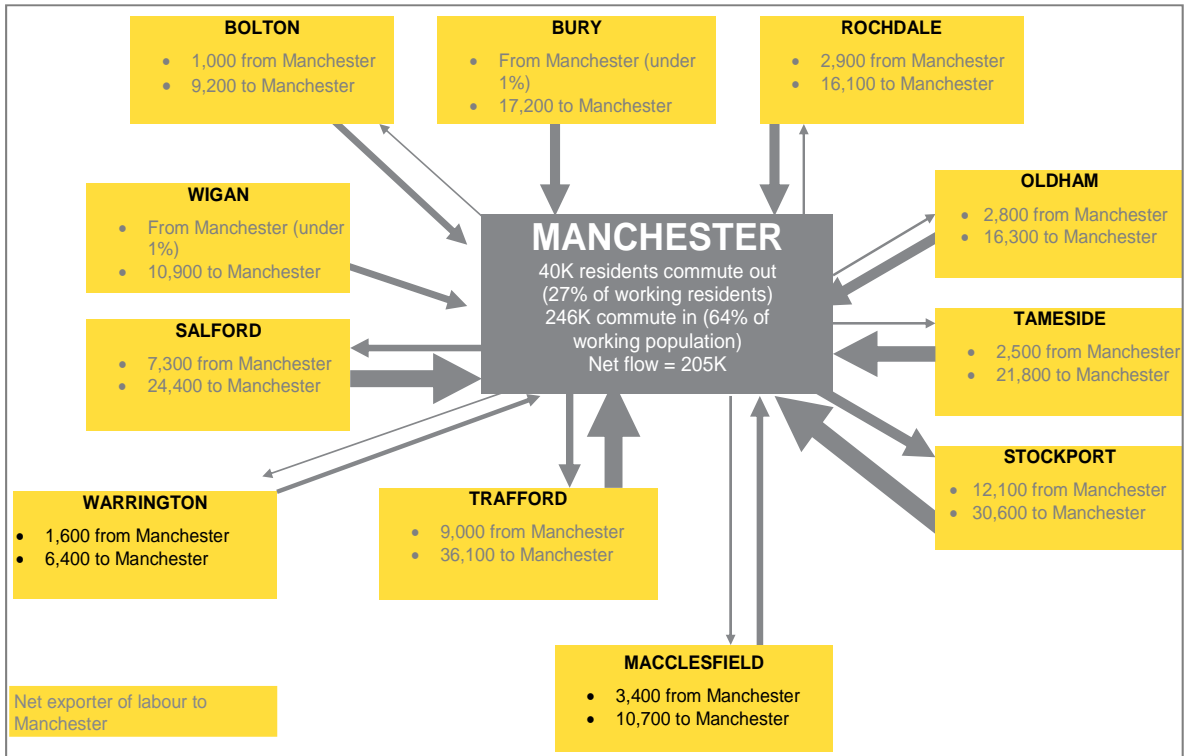
Greater Manchester comprises ten local authority areas: Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan. The sub-region is home to a population of 2.6 million residents. It generates 50% of the North West’s economic output and 5% of total national economic output. As outlined in Figure 3.1, Manchester city centre is the dominant economic centre of the sub-region, and Manchester’s area of economic influence extends into the neighbouring local authorities of Warrington, Vale Royal, Macclesfield, Congleton, High Peak and Rossendale.

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<sup>51</sup> Sometimes known as secondary or dependent jobs, these are low quality jobs characterised by low wages, poor working conditions and relatively low skills.



Figure 11. Commuting flows to Manchester



Source: New economy

A rich shared *evidence base* on the state of the Manchester economy, and on the challenges and opportunities it faces, is provided by the *Manchester Independent Economic Review (MIER)*, a 12-month programme of research led by prominent economists and business leaders, supported by a Policy Advisory Group and Secretariat, was published in 2009.<sup>52</sup> MIER was intended to inform and raise the level of debate regarding the economic future of the Manchester City Region and to underpin policy choices regarding future priorities for strategic investment. In summary, it showed that Manchester had a high concentration of knowledge sector workers (see Box 8 for the vision for taking forward exploitation of these higher level skills).

<sup>52</sup> Papers were published on ‘The case for agglomeration economies’, ‘Innovation, trade and connectivity’, ‘Inward and indigenous investment’, ‘Labour markets, skills and talent’ and ‘Sustainable communities’.

#### **Box 8. The Corridor - the heart of Greater Manchester's Knowledge Economy**

The Corridor covers a site of 243 hectares and has a workforce of 55,000, with the University of Manchester, Manchester Metropolitan University, the Central Manchester University Hospitals NHS Foundation and a Science Park at its heart. As such it represents the centre of Greater Manchester's knowledge economy. It represents a huge centre of academic and clinical learning – in UK and European terms. The businesses and institutions on the Corridor generate £2.8 billion (22.5% of the city's GVA), while over 40% of activity. Together the main partners are investing in their campuses and are engaging collaboratively in face-to-face and online interaction with each other and other businesses in the area and beyond to facilitate cross-sector collaboration to stimulate innovation. The Vision is that the Corridor will be nationally and internationally renowned for the strength of key knowledge sectors – including life sciences, healthcare, creative and digital industries, and medical devices, and will be a place of quality employment, skills training and education at all levels. An example of how one of the Universities has been working with employers and professional institutes to develop new courses to meet emerging needs is outlined on Box 9.

#### **Box 9. University, employer and professional institute engagement in designing courses to meet individual and employer needs (from UK Commission for Employment and Skills, 2011a: 17)**

The Professional Accounting Course at Manchester Metropolitan University, starting in 2012, was developed by the University in conjunction with relevant professional institutes, who surveyed their membership to make sure that it would meet employer needs and incorporate professional qualifications with first and higher degree options. The course has been designed for people working in a finance or accountancy role with local employers. The course is attractive to employers as it incorporates professional qualifications, so saving on costs of staff time associated with additional training. The modular format of the course is attractive to individuals because of the flexibility it allows them in selecting modules to meet their career and academic goals.

However, in aggregate across Greater Manchester the supply of skills was not reflected to the extent that might be expected in productivity performance, due to the concentration of low skilled labour in the northern part of Greater Manchester, while more highly skilled workers and jobs are concentrated in the south of the city region<sup>53</sup>; (this north-south distinction was evident in the analysis carried out with the OECD statistical diagnostic tool – where Greater Manchester North occupies a more disadvantageous position than Greater Manchester South<sup>54</sup>). In terms of high level skills, the key problem facing Greater Manchester was identified as one of demand (i.e. a lack of jobs demanding high level skills).

The MIER findings suggest that Manchester needs to continue to create jobs in which high level skills can be utilised. The main driver of demand was identified as getting Manchester firms and organisations to increase their level of skills requirements, and the need to incentivise them to do so was acknowledged. In general, it was considered that policies to boost demand and supply for skills should operate in tandem. In terms of skills supply, it was noted that barriers to upward educational mobility needed to be removed (starting with early years provision), and ladders of opportunity to gain and utilise skills put in place, in order to release talent. While qualification attainment at school age is rising, it was noted this was not the case for adult skills, suggesting a need to address adult skills and utilisation thereof.

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<sup>53</sup> The jobs in the southern part of the Greater Manchester city region theoretically are available to all residents of the city region, although more poorly skilled residents in the north would have to compete for such jobs with better skilled residents in the south, as well as in-commuters from elsewhere.

<sup>54</sup> Albeit it should be noted that these two parts of Greater Manchester form a single functional economic area. This illustrates the importance of awareness of the geographical scale / units for which the statistical diagnostic tool is implemented for interpreting the results.

Rather than attempt to alter the location of jobs within Greater Manchester, it was considered appropriate to accept the coalescence of highly skilled workers and jobs in the southern part of the city region,<sup>55</sup> on the basis that this is broadly beneficial to the city region, but to improve transport access to key employment centres, and notably Manchester city centre, from other parts of the city region. So, the importance of mobility in accessing employment has been recognised, but the emphasis is on enhancing mobility of ‘people to jobs’, rather than ‘jobs to people’.

### ***Governance arrangements and skills policy in Greater Manchester***

In December 2006 Greater Manchester was designated as a City Strategy Pathfinder. This brought the ten local authority areas, as well as skills, Jobcentre Plus and health colleagues together in partnership for the first time to design and deliver services to enable more people to move off benefit and into work. Subsequently the Greater Manchester MAA was one of the first to be signed in 2008. In 2009 Greater Manchester was designated a Statutory City Region with new devolved powers (known as ‘Section 4’ powers). New Economy<sup>56</sup> is the coordinating body for employment and skills-related partnership working across Greater Manchester, and the Commission for the New Economy’s Board<sup>57</sup> assumed the responsibility of a statutory Skills and Employment Board with the power to set the city region’s strategy for adult skills.<sup>58</sup> In 2011 a Greater Manchester Combined Authority was established as the accountable city region body for housing transport and economic development.

Employment and skills strategic priorities are derived from the ‘Better Life Chances in the Most Deprived Areas’, ‘Increasing Higher Level Skills’ and ‘Attracting and Retaining Talent’ priorities within the Greater Manchester Strategy. There is a particular focus on supporting:

- Young people to make the transition from education to employment;
- Residents, particularly in the most deprived areas, move off benefits and into work ;
- Greater progression into Higher Education; and
- Businesses to increase their productivity by helping them recruit and develop a skilled workforce.

The Greater Manchester Strategy therefore encompasses both the development of skills supply and demand. These support associated Greater Manchester Strategy goals of a better integrated employment and skills system, building an innovative and sustainable economy, having world class colleges and universities driving economic and social ambitions, and research and scientific excellence in universities and business.

With the advent of the Coalition Government aspects of the governance arrangements set out above altered; notably the Section 4 skills strategy setting powers were removed. The role of local authorities and other stakeholders changed from commissioning and strategy setting to ‘shaping’ and ‘influencing’. Building on existing infrastructure and partnership arrangements across Greater Manchester, the Greater

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<sup>55</sup> This is where the new Enterprise Zone is located too (at Manchester Airport).

<sup>56</sup> New Economy is one of a series of Association of Manchester Authorities (AGMA) commissions. It works with the wider AGMA family of public sector organisations on strategic issues of economic development, employment and skills.

<sup>57</sup> The New Economy Board is led by Manchester employers and also includes representation from the majority of Manchester’s local authorities’ political leadership.

<sup>58</sup> Manchester was the first city region after London to be granted such powers.

Manchester LEP has been established to support business and local authorities to grow the local private sector, tackle major barriers to growth and develop shared strategies for the local economy to increase job creation. The Enterprise Zone at Manchester Airport<sup>59</sup> is set to play an important role here. The LEP sits at the heart of existing partnerships and works closely alongside the Greater Manchester Combined Authority and is overseeing the development and delivery of the Greater Manchester Strategy.

Work was underway in 2011 in Greater Manchester to establish a *Greater Manchester Skills and Employment Partnership*, to maximise the contribution employment and skills can make to the growth of the Greater Manchester economy. The Partnership is intended to enable the Combined Authorities to discharge its statutory duties and support the LEP to maximise economic growth, by:

- building a robust and inclusive partnership that brings together providers and learners to improve market function;
- agreeing how LMI can be better used to inform decisions;
- working to stimulate and strengthen skills in key industries; and
- producing an agreed needs assessment/strategy against which progress can be measured

### ***Global competitiveness, high level skills and attracting and retaining talent***

In contrast with Rhyl and Blackpool, in Greater Manchester there had been a move away from a sector approach to economic development. Instead the focus was on ‘broad diversity’, reflecting the strength of Greater Manchester in a range of sectors, rather than pursuing a narrower approach foregrounding key sectors as drivers of global competitiveness.

While such a ‘broad diversity’ approach could constrain the visibility of strengths in Greater Manchester’s economy in international terms, Manchester is an important destination for international students. However, concerns were expressed about the local impact of a reduction in student visas and the imposition of an immigration cap,<sup>60</sup> given Greater Manchester objectives around attracting and retaining talent. In relation to retention of graduate talent more generally, it was noted that the student profile, student catchment areas and retention rates varied from university to university within Greater Manchester. Graduate retention is one of the more difficult indicators to get a handle on, since monitoring statistics relate to six months after graduation, while there is a trend towards elongated transitions of students to employment (especially what might be viewed as ‘graduate employment’).

### ***Employer engagement***

As noted in the cases of Blackpool and Rhyl, work with employers is challenging, partly because of the number of organisations and agencies with an interest in this agenda (including Jobcentre Plus, WP providers,<sup>61</sup> local authorities, training providers, etc). It was reported that Business Link was regarded as an ‘honest broker’ in employment engagement and the delivery arm of the Chamber of Commerce,

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<sup>59</sup> The Enterprise Zone centres on the development of an ‘Airport City’ project, designed to full use of its location at a major transport interchange with access to rail, Metrolink, bus and road networks as well as national and international air travel.

<sup>60</sup> As part of a ‘managed migration’ policy instituted by the previous Labour Government, the Coalition Government has instituted a ‘cap’ on immigration and aims to cut net migration to the UK.

<sup>61</sup> In the WP contract package area covering Greater Manchester there are three prime providers and associated WP supply chains.

Manchester Solutions, represents a significant resource here, delivering services to 5,300 employer members and 8,100 non-member employers.

There are group training associations (GTAs) covering sectors such as construction, automotive (see Box 10), banking, retail, engineering and manufacturing. GTAs help employers in these sectors in the recruitment process and in addressing skill shortages, and have played a role in brokering collaborative apprenticeships. Sectors where large employers dominate (e.g. the retail sector in Manchester) have not been a priority for policy makers in terms of publicly-funded employer engagement.

#### **Box 10. Automotive Group Training Association (GTA) , Manchester**

This is an initiative created by the Greater Manchester Chamber of Commerce. The Automotive GTA brings together employers to identify their training requirements – for new and existing staff. The idea is for employers in the sector to collaborate by pooling resources and sharing experiences, so as to create a network that will help to grow businesses, by developing existing staff and new recruits. The GTA is controlled by employers and they work together to ensure that apprenticeship and other training meets their needs. Members of the Automotive GTA receive regular updates on funding available and a GTA business advisor conducts and Annual Skills Review.

#### ***Public procurement***

The power of public procurement to enhance skills development (e.g. through apprenticeships) and access to employment for disadvantaged groups has been recognised in Greater Manchester and a sustainable procurement policy taking account of these principles has been adopted. SMEs and third sector organisations have been encouraged to bid to become contractors. A sustainable procurement policy has been adopted, in which SMEs and third sector organisations have been encouraged to apply as contractors.

However, while public procurement remains an important lever for raising skills demand, the reduction in public sector spending and the emergence of a central focus on efficiency, together with greater possibilities for outsourcing, has reduced its scope.<sup>62</sup>

#### ***Lessons and reflections from the Greater Manchester experience***

The Greater Manchester experience illustrates the development of a strong and detailed shared evidence base providing the context for and informing policy development. Through the development of such an evidence base, and an emphasis on ongoing monitoring of trends to inform policy and joint target setting, Greater Manchester is well placed to consider interactions between skills supply and demand. The sophistication of the evidence base, involving detailed statistics coupled with higher level strategic think-pieces on key issues, may be regarded as ‘good practice’<sup>63</sup> going beyond the simple conceptual framework and OECD diagnostic tool.

The importance for the Greater Manchester economy of looking at the supply and demand for skills in tandem is recognised, but given the prevailing economic situation particular emphasis is being placed on supporting the disadvantaged into work, including through working with local authorities and employers to take on long-term unemployed residents into jobs, while at the same time developing wraparound services to help them sustain employment. Experience from Greater Manchester suggests that employers place

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<sup>62</sup> It was noted that in the public sector there was a trade-off between saving money through outsourcing (and therefore creating better quality internal jobs) or prioritising quality jobs through outsourcing.

<sup>63</sup> It should be noted that small sub-regions/local areas would not have the resources to maintain and develop such a detailed evidence base as Greater Manchester.

particular onus on ‘attitudes’ (as opposed to skills) at the lower end of the labour market – hence facilitating the entry of people into employment through developing employability skills and allowing them to prove their worth in the workplace is seen as important.<sup>64</sup> Schemes such as Investors in People<sup>65</sup> are viewed as playing an important role in embedding good practice in skills development and utilisation within employment. Learning from the Greater Manchester experience also suggests that skills training should be tied to the nature of demand, and not led by a desire for qualifications for their own sake. This suggests a need for flexibility to provide training in niche areas quickly – in a unit-based approach.

While there is a relatively long experience of working at the scale of the Greater Manchester functional economic geography, and the Greater Manchester LEP covers this same area, policy makers at the city region level have little flexibility to have real traction on the situation through policy delivery. They felt that this was symptomatic of insufficient recognition of ‘the importance of place’ in government policy. Given the complexity of the situation and the scale of change, concerns were raised about the relative lack of focus on how new initiatives and policies (from BIS and DWP) will link together on the ground. At the time of the roundtable discussion it was difficult to separate out challenges associated with ‘newness’ of policies and governance structures, as opposed to those that represented real difficulties. However, policy makers in Greater Manchester are better placed than those in most other areas to deal with such challenges.

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<sup>64</sup> This was identified as a key learning point from the experience of FJF in Greater Manchester.

<sup>65</sup> The Investors in People is a flexible business improvement tool introduced in the 1990s, and currently administered by the UK Commission for Employment and Skills, which involves businesses developing strategies to improve the performance of their organisation, implementing these strategies, and evaluating and adjusting them on the basis of review.

## 4. EMERGING ISSUES

A number of issues for consideration arise from an analysis of the case studies at local level, which were discussed with national level policy makers and other stakeholders during the OECD study tour (see Box 1). These issues are presented thematically below.

### **A sense of place – and building aspirations for place**

The value of *'place-based' activities* and the need for flexibility in place-based policies was a recurring theme from the local case studies. Local policy makers expressed a need for greater flexibility in policy to enable them to design and implement activities taking account of the particular issues facing their local areas.

The 'Welcome to Blackpool' initiative was cited and discussed as a good example of how branding can play a key role in *building aspirations in and for a place* (i.e. a local economy), for *employers*, for *workers* and local *residents* are *inter-linked*. *Investment in place* (i.e. in infrastructure and visitor attractions), coupled with training in the history of Blackpool and in ambitions for its future had helped instil *pride in place*, which in turn had helped raise employer and employee ambition, with potential benefits for all. The 'visitor offer' of Blackpool was improved, employers reported greater take up of services and enhanced retention of employees, workers felt a greater stake in their work and involvement in personal development opportunities, and residents gained from an improved physical environment and a greater pride in the area.

With the establishment of LEPs in (in most of England), discussions at the national level raised the question of whether the geography of LEPs is helpful for place-based policy. In Greater Manchester joint working at the city-region scale was well established before the Greater Manchester LEP was set up covering the same footprint. In the case of Blackpool prior working at the functional economic area scale (i.e. the Fylde Coast area) was not formalised in the geography of the LEP, although there were plans to continue working at this scale within the LEP structure, albeit the focus on issues of special relevance to the Fylde Coast might be diluted within broader Lancashire LEP concerns.

The Blackpool experience highlighted how leadership at a unitary authority scale could play an important role in galvanizing activity around place-based concerns. This contrasted with Rhyl, which is a smaller part of a wider local authority (covering a more prosperous, predominantly rural, area). Although the appointment of a Town Centre Manager should play a similar galvanizing role in Rhyl, it is important also to look beyond Rhyl in skills development policies by linking with economic opportunities elsewhere.

### ***Place-based and/or sectoral approaches? – including implications for (im)mobility***

A key focus of discussion at the national roundtable of the OECD study tour (see Box 1), was on the efficacy of place and/or sectoral approaches to skills policy. The evidence from the local case studies indicated that sectors could be a useful 'hook' for developments in skills policy, for example the Location Model in Rhyl. But a sectoral approach does not seem to have a strong role everywhere as indicated by the Manchester approach of eschewing sectors for economic diversity.

Traditionally BIS (and predecessor departments) have not seen a strong role for a place-based approach in skills policy, instead advocating that policy should focus on the individual business or person<sup>66</sup>

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<sup>66</sup> By concentrating on people as individuals, a disproportionate amount of funding goes to relatively more deprived areas, but this is a consequence rather than an intent of policy.

and what they need. The rationale for this is that businesses tend to see themselves more in the context of the sector, than in the place, in which they operate. Hence a sectoral rather than a place-based approach to policy is considered most appropriate<sup>67</sup> as reflected for example in the initial sectoral approach of the Growth and Innovation Fund. The rationale for policy focusing on the individual is that where people live is not fixed<sup>68</sup> and their skills are not fixed. On this basis, a focus on people- rather than place-based policy is appropriate.

More generally, while a local skills policy may be conceptually attractive, some concerns were raised that place-based policies may serve to ‘trap’ local residents into the local economy, rather than act as a ‘springboard’ encouraging them to take advantage of more favourable opportunities to utilize or expand their skills in other areas and sectors. While provision of all levels of training from pre-employment to HE at a local FE college<sup>69</sup> can expand local opportunity for skills development, this could be “dangerously local” if it is not coupled with fostering cognisance of opportunities to utilize and develop skills beyond the local area. It was noted that traditionally higher education in the UK has promoted geographical mobility, with graduates moving to take up non-local employment opportunities in areas and sectors demanding high level skills. Fostering of the notion of geographical mobility to facilitate more appropriate utilisation of skills is one element of a local skills policy aimed at enhancing the life chances for local residents; local skills policies need to be about more than settling for what local employers say they want.

It may be that a combination of place-based and sectoral approaches is most appropriate. For example, scope exists for building transferable skills and providing training<sup>70</sup> *across sectors*. A key example identified in Blackpool was ‘customer care’ – which is of relevance to a range of sectors such as social care, tourism and retailing which often have a strong presence in the same local labour markets.

### **Ongoing policy change: “battered by the ‘tsunami of change’”<sup>71</sup>**

A recurring theme across the UK case study is the *extent and speed of policy change*. The 2010/11 period has witnessed the announcement (and in many cases the implementation) of major policy changes leaving some local policy makers feeling overwhelmed by the scale and pace of change. The period since the announcement of the Coalition Agreement in May 2010 to July 2011 (when the UK study visit took place) saw the publication of White Papers on ‘Skills’ and ‘Local Growth’, a Review of Vocational Education and Government response, new flexibilities for Jobcentre Plus and the implementation of the Work Programme, and announcements of important changes in funding for HE and FE (see Part 2). Aside from the specific details of these policies, they mark an important change in approach, with *common themes* being the removal of strategic planning and replacement with a non-interventionist approach, funding reductions and reduced reliance on public funds, and an emphasis on customer needs and local flexibility in delivery.

Other changes have included:

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<sup>67</sup> In any case, firms can move geographically yet remain in the same sector. (Note that firms can also change the sectors in which they operate, albeit this is most likely to be at the margin.)

<sup>68</sup> It is salient to note here that, in practice, some people are ‘more fixed’ than others; for example, highly skilled people tend to be more mobile than those with poor skills; (indeed, there may be a certain rationale for immobility amongst the latter since they are more tied to their immediate local area in looking for work, and because they may only command relatively low wages may be more reliant on their local support networks when in work). The housing and benefits system play an important role in shaping (im)mobility.

<sup>69</sup> As in the case of Coleg Llandrillo Rhyl in Rhyl and Fylde College in Blackpool.

<sup>70</sup> Including apprenticeships.

<sup>71</sup> This heading quotes one of the most memorable comments made at a local roundtable discussion.



- the removal of the regional tier of government and governance in England and the development of new business-led LEPs at sub-regional level;
- more emphasis on the role of business (as exemplified by the LEPs);
- outsourcing to the private sector – notably in the WP which aims to support the longer-term workless into sustainable employment;
- the disappearance of Business Link; and
- reforms to careers advice and guidance (with the demise of the Connexions service).

A possible consequence of such change is that knowledge and expertise in understanding and implementation of local economic development and skills policies is lost, and concerns have been raised in this respect with regard to the demise of the RDAs. Institutional and policy changes can also frustrate *collaborative working*, particularly as evidence suggests that collaboration is challenging and it takes time for local partnership to become established and effective. There is general agreement that tackling skills demand issues requires such collaboration *within and across policy domains*, since skills are only part of the ‘mix’ and not the ‘fix’.

In the face of these changes local policy makers have, at least to some extent, found themselves treading water in the face of institutional change. The round table discussions for this study with local case studies (and experience from other local areas<sup>72</sup>) have underscored the value of structures such as Employment and Skills Boards, and in some areas these are being retained. However, to retain credibility and the enthusiasm of participants these structures need ‘real’ work to do, and it is not altogether clear what, if any, policy levers are available to work with. Changes in policies and in sources of funding also pose problems for the sustainability of initiatives.

Frequent changes in policies, institutions and funding arrangements can engender *short-termism*. Within the UK, at national and sub-national levels, while there is a relatively strong *appreciation of the need to address the demand for skills* (this is especially so in Scotland where there is an overt strategic emphasis on skills utilisation), as well as issues of skills supply – which have been the predominant focus of skills policies to date, it is difficult to translate this into practice. In part this could be because raising demand for skills tends to be a long-term rather than a short-term undertaking. This is brought into stark relief in a policy, institutional and funding context which has tended to generate reactive rather than proactive responses to skills and economic development issues.

This is not to discount some of the excellent work that has been undertaken at local level utilising resources from time-limited national and/or competitive funding streams. Rather the key point is that where *short-termism* predominates, it tends to be the ‘urgent’ issues, as opposed to the ‘important’ ones, that are focused on first. The priority afforded to tackling worklessness is a recurring theme across the UK case study is pertinent here. This can be conceived of as an ‘urgent’ issue, whereas ‘raising demand for skills’ is an ‘important’ one. The danger is that in pursuit of the ‘urgent’ issues the ‘important’ ones are neglected. While a focus on tackling worklessness is important and understandable in the short-term, building prosperity and productivity locally is important in the medium- and longer-term.

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<sup>72</sup> For example, in Nottingham.

## Weak employer ambition

How best to tackle an absence of employer ambition in weak labour markets is an ongoing challenge in local areas characterised by a ‘low skills equilibrium’. This was evident in Rhyl where a culture of contentment with a ‘low value offer’ led to low local take up<sup>73</sup> of policy initiatives designed to help movement towards higher value products and services and so raise demand for skills. Such a culture can derail attempts to build employer networks founded on a realisation of understanding the collective benefits of working together to tackle skills deficiencies and/or raise the demand for skills. An issue here, as in many other relatively small towns and rural areas, is the relative lack of large employers, who might take a leading role in stimulating employer-based activities, to provide a kick-start to development of sector-based initiatives, supply chain collaboration in skills development and/or locally-based employer-led activity. It is likely that more assistance, and demonstrator projects, are needed here to show what could be achieved. Both local stakeholders and sectoral bodies have a role here.

The local case studies revealed examples of good practice public-private sector networking, for example in Blackpool – where the local authority and large employers had worked together to invest in physical infrastructure and skills, and in public and third sector networks, for example in Rhyl – with the promotion of social enterprises and use of new instruments such as Community Interest Companies<sup>74</sup>. However, how reorganise employers engagement and stimulate employers networking remained a challenge. Town Centre Managers can help stimulate such activity locally, and it in some local areas and some sectors informal networking takes place.

### ‘A bridging institution’ - the role of Further Education colleges

Despite concerns that FE colleges may be overly ‘local’ in their focus, the very fact that they are embedded in local economies means that they are well placed to fulfil at least four functions of relevance to local skills strategies and developing skills for competitiveness:

- they provide *bridges between employers and individuals* – in all of the local case study areas the FE colleges fulfilled this role, and were active in developing provision for employees, working with employers to equip students with the skills employers said they needed, and providing work placements for students;
- they can play an important role in fostering bottom-up *innovation* which focuses on the capacity of workers and companies to innovate and move up the value chain – in the UK context this approach is furthest advanced in Scotland where it is being adopted in pilot projects designed to enhance skills utilization;
- by providing *courses from pre-employment training, through FE to HE* they showcase (and provide) routes to skills development necessary for progressing in a particular occupation/sector and so help raise ambition; and
- they can help provide the *life skills* that provide generic competencies for navigating not only the labour market but life in general.

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<sup>73</sup> Despite good take-up in neighbouring areas.

<sup>74</sup> Rhyl City Strategy is a Community Interest Company.

## Concluding comments

The case study visits and national roundtable provided valuable ‘real world’ insights and commentaries on the challenges facing local areas and the context for the development of skills policies, as well as the types of initiatives that have been taken. In Parts 4 and 5, which provide an overview of key themes and possible policy recommendations, the speed of policy change is highlighted. However, it is important also not to overlook the *dynamism* of the labour market, with *flows* not only between economic inactivity, unemployment and employment, but also between sectors, occupations and geographical areas (i.e. to foster mobility). As noted above in the case of Rhyl, of particular interest for local skills strategies are the flows between ‘bad jobs’ and ‘good jobs’. In an expanding economy there are ladders to opportunity from economic inactivity to unemployment to ‘bad’<sup>75</sup> jobs to ‘good’ jobs, but in difficult economic conditions the ladders tend to be reversed, as some workers lose ‘good’ jobs ‘bump down’ to take ‘bad’ jobs, and so on (Lloyd, 2011). The task for local skills strategies therefore is to *aspire* to grow ‘good’ jobs, make ‘bad’ jobs better and to facilitate ‘positive’ flows within and between local labour markets.

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<sup>75</sup> Sometimes known as secondary or dependent jobs, these are low quality jobs characterised by low wages, poor working conditions and relatively low skills.

## 5. LOOKING FORWARD – IDENTIFYING APPROPRIATE LEVERS TO DRIVE SECTORAL AND LOCAL SKILLS DEVELOPMENT

This concluding section of the report identifies potential levers which could work in the UK to drive greater sectoral and local skills development in the future, drawing on broader OECD research as part of the Skills for Competitiveness study.

### Building employer ambition

In considering the relative merits of different demand side levers to drive skills development it is appropriate to return to some key conceptual issues. The work of Sung et al. (2009) and Ashton and Sung (2011) is of relevance here. They make important conceptual distinctions between:

- a company's *product market strategy* – which determines in what markets the company competes; and
- a company's *competitive strategy* – which outlines how it will gain competitive advantage in the markets in which it is operating.

In order to increase the demand for skills, government policies and programmes can influence both competitiveness strategies (how a company organises its work to gain competitive advantage in the markets in which it is operating) and product-market strategies, which determine in what markets the company competes. Whereas a company's competitiveness strategy may or may not be affected by how available skills are used, as companies move into higher value-added product and service markets, the levels of skills that they require, and the extent to which they use these skills, tend to increase. In policy terms, this means that an effective way of influencing the skills levels within the labour force is to target a company's product market strategy, whereas an effective way of altering skills utilisation (e.g. to encourage high performance working) is to target the competitiveness strategy (OECD, 2012).

Recent work by the UK Commission for Employment and Skills highlights the strong link between product-market strategies and skills use in the private sector. An analysis of data from the 2001 and 2009 National Employers Surveys shows that UK firms varied greatly in the extent to which they sought to engage in 'high-end' or high value-added production, and that this variation persisted throughout the period from 2001 to 2009. The research shows that product-market strategies and the level of workforce skills in an establishment are strongly and positively correlated. This means that those with high product-market strategy scores were also likely to register higher levels of workforce skills, whereas those with lower product-market strategy scores were more likely to register lower workforce skills.

However, many companies, continue to compete by producing low-cost products. When companies deliver standardised products to markets and attract customers mainly on the basis of cost, they are likely to use technical means of production that are task- and routine-based. They therefore have limited incentive to attract skilled staff or to train new staff. However, as firms move into higher-quality product markets, they are more likely to require both technical and generic skills across the workforce in order to innovate and to develop products that are unique and differentiated to meet customer needs (see Box 11 below). Adopting new technologies is important for developing new product-market strategies. For example, in the province of Ontario in Canada, the Canadian Manufacturers and Exporters created the SMART Programme to help manufacturers improve their productivity by transferring technology and training people in how to use this technology (Froy, Giguere and Meghangi, 2011 and Verma 2012, OECD 2012).

### **Box 11. Moving towards new product-market strategies in the food-processing sector, Niagara in Canada**

Research among small firms in the food-processing sector in the region of Niagara, Ontario, Canada, found that these firms were pursuing a variety of strategies to improve quality and innovation, each of which had an impact on skills use. The four main ways through which they added value to their products were:

- **Being local:** Using local products, local personnel, and selling locally (as a primary market) enabled the firms to develop customer loyalty despite having higher prices for similar products available from 'non-local' providers.
- **Maintaining consistently high quality:** An insistence on quality also generated customer loyalty and long-term profitability.
- **Producing unique goods:** The majority of the companies produce unique items that allow them to capture a particular segment of the market since there is no direct competition. Although they require specialised production processes, each of these lines of items generates profits by providing something that cannot be found elsewhere.
- **Responsiveness/Flexibility:** The ability to respond quickly to consumer demands enables the companies to provide a value-added product. For these smaller firms, adapting the production line or changing an aspect of their products involves changes that can be implemented relatively quickly as they have one shift of workers, direct communication lines, and hands-on owners who can train and oversee the new process directly.

*How does this translate into skills needs?*

The firms surveyed all sought employees with a food-science background or education, which is supplied in local, specialised training colleges, such as Niagara College and Brock University. One firm, for example, is using an apprenticeship approach to develop its skilled labour force, as there are no educational institutions that provide the requisite courses specific to its particular product line. Such firms also use premium wages to retain personnel once they have been trained. Having an adaptable workforce is a necessity for those firms that want to remain responsive to their customers. This means that employees remain open to learning about new products and processes.

Source: Froy, Giguere and Meghagi, 2011, Verma, 2012, OECD 2012,

Experience has shown that it can be beneficial to work with clusters of enterprises and supply chains, in addition to individual firms. This reflects the fact that enterprises often share knowledge, innovation and skilled workers at the local level. In the Rivera del Brenta region of Italy, for example, local co-operation among firms, unions and the public sector has helped to raise both the demand for and the supply of skills (Box 12).

**Box 12. A joined-up strategy to move to higher value-added production in the Riviera del Brenta, Italy**

In the Riviera del Brenta industrial district in northern Italy, firms in the footwear sector have pooled their investment in training while also collectively upgrading product-market strategies in order to compete in high-quality international markets. Not far from Venice, the region traditionally hosted cottage-based industries that mainly employed low-skilled, blue-collar workers. However, the area has now become a global centre for the production of high-quality ladies' footwear (supplying to Giorgio Armani, Louis Vuitton, Chanel, Prada, and Christian Dior) by developing an international brand through the local employers association, ACRIB.

The population of high-skilled workers in design, R&D, management and marketing has been steadily growing in the region over the past two decades. Before the 1993-1994 repositioning, almost all workers in shoe manufacturing were blue-collar workers; today, some 40% of workers are blue-collar, while 50% are designers and 10% are commercial staff. Close co-operation with local unions ensured that improvements in productivity were accompanied by wage increases and improved working conditions, particularly in health and safety.

The privately-run local polytechnic, Politecnico Calzaturiero, employs firm managers to train local workers and job-seekers after hours, while also offering management training, and investing in research, innovation and technology transfer. The polytechnic thus invests in skills supply while also optimising skills use by developing new products and improving human-resource management. The fact that firms are members of ACRIB means that they are less concerned about pooling training, technology and new innovations, and more aware that investment in local human capital will not only improve prospects for individual firms, but also for the global brand as a whole.

Source: Froy, Giguère and Meghnagi, 2011, OECD, 2012

The OECD (Froy, Giguere and Meghagi, 2011, 2012) argues that while many forms of local employer collaboration develop independently of public support, governments can help foster and maintain these kinds of arrangements by:

- helping to generate regional brands, which enables firms to collaborate to gain access to higher value and foreign markets;
- supporting the development of employers' associations and sector networks, which bring employers together to share training resources and co-operate on the development of new product innovations;
- providing management training and technical assistance to firms, particularly SMEs; and
- supporting R&D and new product testing while supporting technology transfer.

It is not necessarily easy to move from one product market strategy or competitive strategy to another. For instance, there may be financial barriers, workforce and managerial<sup>76</sup> skills barriers involved in moving to a higher value product market strategy (Ashton and Sung, 2011). This might help explain lower take up of retail skills development courses in Rhyl, for example, vis-à-vis in some other parts of North Wales. Given that companies operating in a low value added product or service markets (as is the case for many in Blackpool and Rhyl), tend to have a low stock of skills on which to build, there is a large skill gap to bridge to move up-market. Clearly policies to increase the supply of skills are important in such instances, to help but they are insufficient on their own.

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<sup>76</sup> Managerial skills barriers could include shortcomings in the ability to assess market opportunities, or, if recognised, to understand what plans need to be implemented to get take advantage of them.

Sung et al. (2009) argue that a sectoral focus for policy is helpful on the grounds that the scope for, and appropriateness of, using different policy levers varies between sectors. Some policy levers influencing product market strategies, and their applicability to the sectors focused on in this report, are outlined in Box 11. The challenge here for LEPs, other local and sectoral partnerships is to identify the most appropriate bundle of policy levers to affect desired change in the local economy.

**Table 6. Selected policy levers to influence product market strategies and skills utilisation strategies (based on Ashton and Sung, 2011)**

<b>Levers</b>	<b>Description</b>	<b>Application in case studies/ comments</b>
<b><i>Product market strategy</i></b>		
Direct action	Where the government can control appointments to leadership positions in public services and the quasi-public sectors and directly influence organisational business strategies	While not at ‘government’ level, the appointment of a Town Centre Manager in Rhyl exemplifies the way in which an individual in a leadership position may exert some influence (albeit not in a mandatory fashion) on business strategies
Efficiency regulation	Imposed by regulators in sectors such as construction and the utilities	This lever has no or limited relevance in sectors such as tourism and retail which were the focus of attention in Blackpool and Rhyl, respectively
Criteria regulation	Provides guidance for employers who wish to move to delivery of higher levels of service and provision	This is of relevance to the tourism and hospitality sector (the sectoral focus of attention in Blackpool) where some employers may wish to move up the value chain and supply higher levels of service, as depicted by higher star ratings
Branding	Where local / sectoral stakeholders and employers together market or ‘brand’ a place or sector of activity, in order to provide recognisable identities for goods and services in competition	This has applicability across a number of different sectors and has potential for most local areas – the ‘Welcome to Blackpool’ initiative provides one example of branding. Blackpool provides an example of the ways in which services and goods brands with strong geographical associations can provide assets capable of anchoring economic activities in a particular place and promote local economic and skills development around them
<b><i>Skills utilisation</i></b>		
Promoting benefits of High Performance Working (HPW)	Bringing together in a holistic fashion a number of practices (such as reorganising work to improve skills utilisation), and so enhancing firm performance and facilitating movement up the value chain	This is applicable across all sectors and local areas; the UK Commission for Employment and Skills has played a strong role here in making the case for better skills utilisation
Working with industry based organisations and professional institutes to influence their members	This is about working with employer organisations and utilising employer networks to improve management practices using credible, sector-relevant actors (e.g. through consultants, accreditation, masterclasses, etc)	The Automotive Group Training Association in Manchester provides an example of this type of initiative
Tools to help make skills the central component of organisations’	There are tools and initiatives available to help make skills play a more effective role in skills organisational strategies; for example, the Investors in People (IiP) programme in	This is applicable across all sectors and local areas

competitive strategies	the UK plays an important role in fostering systematic and strategic thinking about skills development. Human Capital Reporting can also encourage greater skill utilisation as employees are seen as an intangible asset to their organisation not just a cost,	
Regulation	Regulation can be used to enforce training and relatively high skill use among the labour force and operate directly on the use employers make of their employees' skills. - the most obvious example here is health and safety. Voluntary regulation such as occupational licensing and registration schemes can also help drive up skill utilisation within sectors.	This is especially applicable in hospitality (the focus of the Blackpool case study), but is of wider relevance
Improving the health of the current and potential workforce	Particularly focusing on helping people with health problems stay in work so as to utilise their skills and take advantage of in-work opportunities for skills development, and reducing the number of claimants on inactive benefits	Exemplified by the work of the Rhyl City Strategy and the associated Fit for Work Service <sup>77</sup>

Policies to support an increase in levels of skills demand and enhanced skills utilisation at the local level in the UK are rarer than those focusing on improving the supply of skills, but the local case studies provided examples of some interesting *initiatives*. These include the focus on improving the quality of the retail offer, and the quality of jobs in the retail sector, in Rhyl as part of a 'Skillsmart Location Model' in collaboration with a national SSC, the local authority and council and the local college. Activities have included carrying out 'blind shopping tests' to understand more about the current level of service in local retail, and how both job quality and service quality can be improved through investment in better management, so raising incomes and productivity. More generally the local college plays a valuable role working not only on the supply of skills, but also raising the demand and utilisation of skills with local employers. This exemplifies the way in which sectoral and local actors are coming together to try to enhance the potential of the retail sector in both value and employment terms.

Blackpool is working hard to raise its game and attract higher spending customers through a higher quality tourism 'offer'. This has involved growing its branded attractions, investing significantly in infrastructure, and investment in skills, particularly in customer service through the 'Welcome to Blackpool' initiative. The Blackpool experience shows that building aspirations in a place can have a knock on affect in building the aspirations of companies and hence their job quality, which in turn can impact on individual career ambitions. It also demonstrates the value of incremental innovation through developing a more skilled and engaged workforce in sectors characterised by a relatively low skilled workforce.

In Greater Manchester, the diverse range of sectors, the presence of key large employers alongside smaller ones, and the stature and variety of universities, colleges and training organisations, means that there is scope to make use of several levers in different combinations to develop skills for competitiveness for the Greater Manchester economy.

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<sup>77</sup> The Fit for Work Service provides free and confidential support to help people with health problems get back to work. It also provides help and advice for employers who may have staff on sickness absence, or who are looking to develop their workplace health practices.



### *New ways of working with employers and local stakeholders*

Looking ahead, at the national level, the UK Commission for Employment and Skills has been moving towards competitive investment funds as a way of supporting employers to be more ambitious about raising skills in their sectors and to promote workplace practices that will lead to better development and deployment of workplace knowledge and skills. The Growth and Innovation Fund (GIF) provides an opportunity for employer bodies to bid for public money to support projects that will improve the capacity of businesses in sectors, supply chains or local areas to upgrade and better use skills in the workplace, for example developing new professional standards, establishing industry levies or setting up employer training networks or group training associations. GIF is open to bids from LEPs, providing a potential opportunity for LEPs to build skills development projects.

The UK Commission has also been looking at ways to enable employers to take more ownership of the design and delivery of workforce development programmes and have recommended changes to public funding, including: (UK Commission for Employment and Skills, 2011b):

- competitive investments and loans based on outcomes to employers/groups of employers working in partnership with colleges, training providers and trade unions<sup>78</sup>; and
- routing grant funding through employers for employer-facing programmes (such as apprenticeships), rather than through training providers to increase the purchasing power of employers and ensure a more responsive provider network.

In November 2011 the Government announced a fund of up to £250 million over two years to test out new approaches to employer ownership that give employers the power to take control of training so that it best meets the skills they need. As part of the Employer Ownership Pilots (in England) employers will be asked to set out how public investment would be used alongside business investment to deliver improved training outcomes, such as apprenticeships, and pre-employment activities. It is envisaged that employer ownership could take several forms, for example:

- strategic relationships with government where large employers deliver a wide package of outcomes, including apprenticeships, careers advice, work placement and support for schools and unemployed people, in return for direct funding and greater freedoms in the system;
- groups of leading employers in regional clusters investing in their sector by providing ‘up front funding’ to support training opportunities in small and medium sized employers through initial investment loans;
- large and small employers in a supply chain developing a single apprenticeship programme alongside work experience, job trials and internships, backed by flexible public and private investment; and
- businesses working together to create more apprenticeship and employment opportunities by looking across their sector for flexible opportunities rather than just within a single business.

While it is possible to envisage businesses in Greater Manchester getting involved in any one of the four exemplar forms set out above. In Blackpool, there could be scope for leading tourism employers to

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<sup>78</sup> Trade unions have a role to play in raising ambitions at the workplace, both in terms of encouraging employers to look at work quality and in encouraging employee engagement in the workplace, albeit in the sectors focused on in the local case study areas trade unions were not that strong.

develop pilots in ways akin to the second, third and fourth examples set out above, but high levels of staff turnover in the sector and a large labour pool on which to draw present a challenge here. In Rhyl and more rural areas, the fourth and possibly the third examples, are likely to present a more fruitful way forward.

### **Supporting place-based policies while preserving mobility**

While the prevailing ethos in the UK at the time of the case study visit in July 2011 was one of ‘change’, there is evidence of local stakeholders seeking to retain some of the structures introduced by the previous government in order to liaise with employers on both skills supply and demand issues - for example the *Employment and Skills Boards* – on the grounds that they work and have a continuing role to play in the new policy environment, albeit that their precise remit may be altered somewhat.

The new *Local Enterprise Partnerships (LEPs)*, the *Regional Growth Fund*, the *Growth and Innovation Fund* (all in England) and the *Work Programme* (across Great Britain) offer opportunities for progress to be made in raising the demand for skills. With the emphasis of the latter on sustainability of employment, there will be a need to focus on the absorption capacity of local labour markets, so providing an impetus to promote both up-skilling and enhanced utilisation of skills in order to provide more openings for workless people to move into employment.

There were concerns that the new *Local Enterprise Partnerships (LEPs)*, which are of variable size and often cover big sub-regions, do not always create collaboration around homogenous local labour markets, mitigating against ‘place based actions’. Here again there was an appetite for continuing positive aspects of the work of MAAs (and similar local partnerships) within the framework of new policy arrangements. However, despite the focus on skills in LEP bids, there is some frustration that LEPs lack a formal skills role (at least as currently constituted) and that about the *limited flexibility and responsibility* amongst local stakeholders in the domain of employment and skills policies, and removal of commissioning powers regarding skills where they existed formerly.

The case for a local focus in policy is not accepted universally. There is a *tension between mobility and place-based policies* – should the emphasis be on ‘educating people into the local economy’ by focusing on skills needed to support the local economy? Or should it be on ‘educating them out of it’ by developing skills and building aspirations to enable them to take up better opportunities elsewhere?

In order to promote place-based approaches on skills supply and demand, and create skills policies which are more adaptive to the situation in which local economies find themselves (i.e. low-skills equilibrium, skills gaps, skills surplus or high skills equilibrium), the government could consider:

- ***Encouraging the development of local skills strategies emphasising demand and supply and ‘the local in the global’:*** This involves establishing area-based skills and economic development partnerships (with a focus on human capital alongside physical capital) at the scale of functional economic areas, concerned with embedding skills in broader economic development policies. As well as meeting local skills demands, including ‘bite size chunks’ of training to address immediate employer needs, it is particularly important in those local areas characterised by a low skills equilibrium that the emphasis is not confined to a focus on skills for limited local demand, but on developing skills of local residents such that they can look beyond the local area for employment opportunities, with the support of good quality information, advice and guidance.
- ***Supporting adaptive local skills strategies:*** This involves producing flexible national strategies that are adaptable to specific local labour market contexts and needs. Allowing the greatest number of players locally (from the public sector, training organisations and colleges, the third sector, businesses and local workers and residents) to come together in ‘soft spaces’ and at

geographical levels that make sense to them is likely to be helpful in exerting influence building partnerships, networks and institutional capacity that are beneficial for the development and implementation of such strategies and for the development of a positive ethos of place.

- ***Supporting local experimentation:*** This is a relatively untested area for public policy, but local experimentation – under carefully agreed conditions and with an emphasis on looking forwards and outwards - could be useful in understanding what works and what does not in particular local areas and governance contexts. Learning networks are a useful mechanism for promoting learning and sharing experience (both between local and national levels, and between local areas).

However, mechanisms also need to be retained for encouraging mobility and ensuring that young people have the option to build their career wherever they would like in the U.K (and beyond). A comprehensive ***information, advice and guidance*** service should be able individuals to do both, so enabling individuals to make an informed choice, but in the context of budget cuts there are concerns about whether this will be realised – particularly for young people.

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