

Council for Economic Renewal

Skills, the recovery and growth

Purpose

1. To provide the Council with an update on skills and future growth, supported by the Welsh Government's Skills Implementation Plan and responding to challenges highlighted by the Policy Statement on Skills

Delivering the Policy Statement on Skills

2. By 2022, over half of all jobs in Wales are forecast to require skills at level 4 and above with a decrease in those requiring no or low skills upon entry¹. A concerted effort is therefore needed to work with employers in developing a more productive and skilled workforce which can capitalise upon future opportunities for jobs and growth.
3. With limited public resources to invest in skills development, action is also needed to rebalance the responsibility for skills investment in Wales. This will place a greater emphasis on the employer to invest in the skills of their workforce with government-led investments being targeted where they generate the maximum impact.
4. Support will continue to be required in moving people into work and in facilitating their transition into higher paid and higher skilled employment. A focus is also needed on those interventions required to reduce skills gaps due to deficiencies in literacy, numeracy and basic IT skills where Wales is continuing to lag behind the UK.
5. In responding to the above challenges, the Welsh Government published the Policy Statement on Skills in January 2014 which provided the momentum for taking forward the necessary reforms to future employment and skills policy. A Skills Implementation Plan (SIP) was produced in July detailing the key delivery actions to be taken forward up to 2016. The content of the plan was informed by a public consultation on the need to rebalance the responsibility for skills investment across government, employers and individuals.

Responding to the demand for jobs and growth

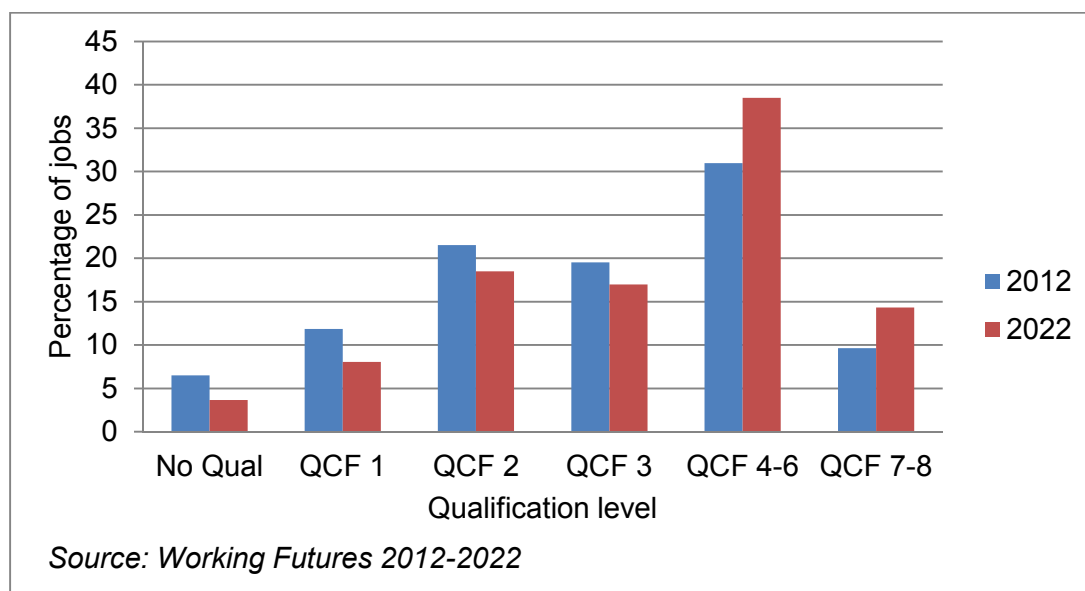
6. Over the next decade the demand for skills is forecast to change. The trend is for a substantial increase in the proportion of jobs requiring higher qualifications and a decrease in those requiring low or no qualifications. By 2022, 14.3% of jobs in Wales are projected to require postgraduate qualifications (equivalent to QCF² 7-8) and a further 38.5%

¹ UK Commission for Employment and Skills (UKCES) Working Futures 2012-2022

² Qualifications and Credit Framework (QCF) is the national credit transfer system for education qualification in England, Northern Ireland and Wales.

are projected to require degree level qualifications (QCF 4-6). This represents a substantial increase in demand for higher qualifications over 2012, where 9.6% of jobs required QCF 7-8 and 31% required QCF 4-6. Figure 1, below, provides the projections of qualification levels of employment between 2012 and 2022.

Figure 1: Projections of qualification levels of employment 2012-2022 (Workplace Jobs)



7. The scale and impact of changes to Wales' future skills profile is expected to vary across key sectors and the type of occupations involved. In reviewing the projected employment demand across 22 sectors in Wales between 2012 and 2022, there are marked differences in the percentage change in employment. Amongst those with the highest percentage change- both positive and negative- are:

▲ +25.2% Real estate	▼ -16.0% Mining and quarrying
▲ +24.9% Finance and insurance	▼ -11.7% Food, drink and tobacco
▲ +22.1% Information technology	▼ -10.1% Engineering
▲ +18% Energy and gas	▼ -9.4% Agriculture
▲ +13.7% Professional services	▼ -9.1% Public administration and defence

Note: Annex A highlights further information on Wales' current and future skills profile, including skills gaps and shortages currently being experienced by employers.

8. In addition to responding to future employment demand in Wales, our focus is to reduce the incidence of skills gaps and shortages being experienced by employers. The aim is to halt the steady rise since 2005 in vacancies proving difficult to fill due to skills shortages. Current figures

indicate that the density of skills shortage vacancies³ is currently highest among those employers in manufacturing, transport and communications and business services. In addition, skills gaps⁴ are most dense for those employers involved in manufacturing, hotels and restaurants and health and social work. Annex A provides further information on skills gaps and shortages in Wales.

9. It is important that Wales can continue to track its employment and skills position relative to the UK and beyond to ensure that we remain competitive as a nation and that interventions are delivering the right outcomes linked to future jobs and growth opportunities. This work will be underpinned by the Skills Performance Measures, published by the Welsh Government in September 2014, which will focus on:
 - **Jobs and growth** – Monitoring improvements in employment and productivity levels.
 - **Financial sustainability** – Ensuring an appropriate and sustainable balance of funding is available to support the skills system sourced from government, employers, individuals and European funding.
 - **Equality and equity** – Providing equality of opportunity for individuals in accessing post-19 employment and skills support.
 - **International skills benchmarking** – Improving the skills profile of Wales to ensure that we remain competitive as a nation.
10. Work is ongoing to integrate the measures by April 2015 within performance accountability for specific employment and skills policies and programmes. This is aligned with other complementary actions within the Skills Implementation Plan focused on:
 - **Responding to regional skills priorities** – developing the infrastructure for Regional Skills Partnerships (RSPs) to work collaboratively in responding to local labour market conditions and capitalising on the opportunities for jobs, skills development and growth.
 - **Rebalancing skills investment** – actions to influence the level of employment investment in skills to ensure Wales develops a financial sustainable skills system.
 - **Delivering skills that employers value** – taking action alongside employers in responding to their skills needs and, in doing so, reform the current skills system in Wales to ensure it remains competitive, for example by making improvements to the apprenticeship offer in Wales.

³ Skill Shortage Vacancies (SSVs) are vacancies which are proving difficult to fill due to the establishment not being able to find applicants with the appropriate skills, qualifications or experience.

⁴ Skills gaps occur where an employee is not fully proficient, i.e. is not able to do their job to the required level.

- **Skills for employment** – taking action to support individuals into work and onward into higher paid, and higher skilled, employment.

Responding to regional skills priorities

11. Our ambition is to stimulate demand for employment and skills support by providing the flexibility to develop responses based upon local and regional need. This will enable the Welsh Government to better align regional learning provision to wider strategic investments and growth opportunities, including the priorities identified by Enterprise Zones and City Regions.
12. In response, work is now being to develop the long-term infrastructure required to support a model for regional skills delivery in Wales via three Regional Skills Partnerships (RSPs):
 - **North Wales Economic Ambition Board**
 - **South West and Central Wales Regional Learning Partnership**
 - **South East Wales Learning, Skills and Innovation Partnership**
13. All three Partnerships are closely linked with their respective Enterprise Zones and City Regions with work now progressing to identify potential employer demand for skills associated with key infrastructure projects. This is being supported by strong joint working across the Education and Skills and Economy, Science and Transport Departments.
14. Each Partnership will produce a Regional Employment and Skills Plan by April 2015. The Plans will be refreshed annually in order to ensure timely national and regional interventions to address identified skills needs. This will be supported by the Welsh Government's European Social Fund (ESF) footprint document which will map national, regional and local employment and skills provision over the next European funding round. **Annex B outlines the work of one of the Partnerships- the North Wales Economic Ambition Board.**

Rebalancing skills investment

15. The Welsh Government is continuing to invest in the skills infrastructure of Wales. However, given the context of reducing public finances, it is clear that resources will need to be prioritised where they can have most impact. In tandem we are also seeing increased levels of investment by employers in the skills of their workforce- from £1.5bn in 2011 to £1.6bn in 2013- as well as a larger percentage of the employees in Wales receiving training⁵.

⁵ Comparing the results of the UK Commission for Employment and Skills (UKCES) Employer Skills Survey from 2011 and 2013.

16. Despite this, there remains more we can do to influence the level of skills investment taking place by employers and to reduce the dependency on government funding for training. This is a long-term challenge which requires cultural change amongst employers, training providers, and government, but is something which must be tackled if Wales is to develop a financially sustainable skills system over the next decade.
17. A concerted effort is needed to rebalance the responsibility for skills investment and for employers to accept their role in supporting the skills needs of their employees. In order for Wales to close the gap with the UK average the investment made by employers will need to increase by 16% per employee (or 18% per trainee), based on 2013 levels. Table 1 below illustrates the extent of the challenge.

Table 1: total training expenditure and spend per person trained and per employee, by size (2011 vs 2013)

	2011			2013		
	Total	Spend per person trained	Spend per employee	Total	Spend per person trained	Spend per employee
UK	£45.3bn	£3,080	£1,680	£42.9bn	£2,550	£1,590
Wales	£1.5bn	£2,280	£1,280	£1.6bn	£2,180	£1,350
Gap (Wales vs UK, £)	£800	£400			£370	£240
Size						
2-4	£220m	£4,570	£1,890	£320m	£7,800	£2,790
5-24	£495m	£3,010	£1,680	£568m	£3,540	£1,950
25-49	£235m	£2,540	£1,650	£226m	£2,300	£1,530
50-99	£210m	£2,240	£1,500	£181m	£1,720	£1,290
100+	£331m	£1,300	£700	£281m**	£880m**	£590**

Source: Employer Skills Survey 2013

Base: Establishments completing the Investment in Training study.

Note: figures for spend per person trained and per employee have been rounded to the nearest £10, and that 2011 figures may differ from the 2011 report due to reweighting.

**figures should be treated with caution due to the low base size.

18. The Welsh Government published its Framework for Co-investment in Skills in November 2014 which describes the approach to be taken in pooling the resources of government and employers in mobilising a productive and skilled workforce. The framework builds on the consultation on co-investment in skills during 2014 and outlines our three key priorities:
 - **Influence** –influencing employers to invest in the skills that they need, e.g. ensuring vocational qualifications hold currency with employers.
 - **Investment** – setting out the balance of co-investment between government and employers and the prioritisation of public resources to support apprenticeships for those under 25 years of age and provision to deliver Essential Skills to adults.

- **Impact** – focusing on the impact of our investments and ensuring that there is appropriate accountability for the investments being made via the Skills Performance Measures published in September.
19. The framework aims to provide a strong foundation for shifting the emphasis from a government-led approach to skills investment to a system influenced and led by employers. The framework will start to be implemented from April 2015 and will impact upon programmes led by the Welsh Government, such as the Work Based Learning programme, the new Flexible Skills Programme and the Skills Priorities Programme. The intention is for all elements of the framework to be fully implemented by 2017, with significant progress being made towards that goal in each of the intervening years. **Annex C sets out the key responsibilities for skills investment as outlined in the Framework for Co-investment in Skills.**

Delivering skills that employers value

20. We are taking action to ensure that the vocational skills offer available in Wales continues to hold currency with employers. Legislation is under way to establish the future role for Qualifications Wales from September 2015 which will have a key role in facilitating the development of vocational qualifications, including via new Sector Qualification Advisory Panels. In addition, investment has been made to support Higher Apprenticeship delivery and this will be supplemented by a consultation on the future of apprenticeships in Wales due to be issued in January 2014. Links have been made to the role of the higher education sector in widening the vocational offer available to employers, particularly in relation to higher level skills, including via evidence to the review of higher education funding and student finance arrangements chaired by Sir Ian Diamond.
21. In order for employers to benefit from a widening vocational skills offer it is important that they are supported to deploy the skills of their workforce more effectively. In 2013, 21% of the workforce were classed as over-skilled and over-qualified compared to the UK average of 16%, an increase from the 13% observed in 2011⁶. Over a longer period there has also been an increase in the percentage of workers being underemployed, with 9.8% of workers defined as underemployed in 2013 versus 7.8% in 2008⁷. A recent report by the Wales TUC suggests that underemployment in Wales has risen by 21 per cent since 2010 with figures being higher for those who are self-employed at (33 per cent)⁸. In response to this, Welsh Government is piloting the use of skills within the workforce within two sectors- the construction and creative industries. The pilots will explore the potential benefits of more effective skills utilisation in Wales in terms of employers having a better motivated, more confident and more productive workforce.

⁶ UKCES Employer Skills Survey 2013

⁷ ONS report on over-employment

⁸ Wales TUC Report

22. From January 2015, employers and their employees will also benefit from access to the Welsh Government's Skills Gateway which will allow them easy access to relevant employment and skills support at a national, regional or local level, including the Skills Priorities Programme, the pilot of which is currently testing responsiveness to employer need working with further education colleges, and the proposed Flexible Skills Programme which will provide targeted skills interventions which cannot be met via existing provision.

Supporting skills for employment

23. If Wales is to benefit from an improving skills profile it must address the current skills gaps being experienced due to deficiencies in literacy, numeracy and basic IT skills. Compared to the picture at a UK level, Wales is continuing to lag in these areas (35%, 33% and 36% respectively compared to 25%, 23% and 26% for the UK as a whole). In response to these challenges, the intention is to extend the Essential Skills in the Workplace programme from April 2015. The programme will be supported by a new standardised Essential Skills Assessment Tool which is currently being piloted. Individuals will have access to the new programme via the new Skills Gateway where they will be directed to employment and skills support relevant to their needs.
24. Reforms to employment support at a UK level via the Department for Work and Pensions (DWP) are also continuing to impact upon Wales' aim of developing a clear employment offer for individuals. A joint Welsh Government, DWP and Wales Office Access to Employment Working Group has the aim of reviewing and addressing the key issues arising, for example the application of skills conditionality in accessing employment support. The intention is that a new adult employability programme will run from September 2015 once current approaches have been fully considered and evaluated.

Conclusion

25. The Welsh Government, working with employers, trade unions and delivery partners, remains committed to improving the skills profile of Wales and responding to the demand for skills in the future. This will require a continued commitment from employers to invest in the skills of their workforce, working alongside Welsh Government. Welsh Government will also continue to work with employers to ensure that those skills developed are fully utilised and contribute to increased productivity.

Recommendation

26. The council is asked to note the content of this paper.

Annex A

Wales' future skills profile (UK Commission for Employment and Skills Working Futures series (2012-22) and 2013 Employer Skills Survey)

Projected demand across 22 sectors between 2012 and 2022 (Working Futures, 2012-22)

Working Futures 2012-2022 provides projections for output and the demand and supply of skills between 2012 and 2022. As this is projections data the information must be used with caution: *As with all projections and forecasts, the results presented in Working Futures should be regarded as indicative of likely trends and orders of magnitude given a continuation of past patterns of behaviour and performance, rather than precise forecasts of the future.* The focus should be on the general trends projected to occur, not on specific figures. Outputs have been rounded to the nearest thousand and percentages are based on unrounded figures.

The tables make reference to expansion demand, replacement demand and the total requirement. These can be summarised as:

- Expansion demand – the net change in the number of jobs;
- Replacement demand – the need for employers to replace workers due to mortality, retirement or other reasons.⁹ This is given between 2012 and 2022; and
- Total requirement – the sum of expansion and replacement demand. This is given between 2012 and 2022.

Projections of employment by 22 sectors in Wales 2012-2022 (000s)

	2012	2022	2012-2022	% change 2012-2022	Replacement demand	Total requirement
Agriculture	35	32	-3	-9.4	16	13
Mining and quarrying	3	3	0	-16.0	1	0
Food drink and tobacco	21	19	-3	-11.7	7	5
Engineering	20	18	-2	-10.1	7	5
Rest of manufacturing	107	98	-8	-7.7	35	27
Electricity and gas	10	11	2	18.0	4	5
Water and sewerage	11	12	1	7.4	4	5
Construction	87	97	10	11.0	31	40
Wholesale and retail trade	192	196	3	1.8	74	77

⁹ Due to a lack of reliable data on occupational and geographical mobility, Working Futures focusses on retirements and other reasons for leaving the workforce semi permanently. *Replacement demand projections are based on the assumption that the general patterns of age structure and rates of flow are common across all sectors and regions. This will not be true in practice. For this reason replacement demand results at the sector level should be considered as merely indicative.*

Accommodation and food	95	102	7	7.9	39	46
Transport and storage	47	52	5	9.9	19	23
Media	8	8	0	3.1	3	3
Information technology	19	23	4	22.1	7	11
Finance and insurance	32	40	8	24.9	13	21
Real estate	16	20	4	25.2	7	11
Professional services	58	66	8	13.7	23	31
Support services	88	96	8	8.5	35	42
Public admin. and defence	85	77	-8	-9.1	30	22
Education	146	142	-5	-3.2	60	55
Health and social work	207	231	23	11.3	86	109
Arts and entertainment	34	35	1	3.4	14	15
Other services	40	43	2	6.1	17	19
All industries	1,362	1,420	57	4.2	531	588

Note: figures have been rounded to the nearest thousand, although percentages are based on unrounded figures.

Other points to note in terms of employment changes specific to sectors and/or occupations include:

- Increases in employment are projected for high skill occupations (managers, professionals, and associate professional and technical occupations) and also for caring, leisure and other service occupations;
- Conversely, decreases are projected for process, plant and machine operatives, administrative and secretarial occupations, skilled trades, sales and customer service and elementary occupations.
- Employment growth in Wales is projected to be in line with the UK average between 2012 and 2022 in business and other services and trade, accommodation and transport.
- Employment growth below the UK average is expected in construction and non-market services.
- Declines in employment are projected in manufacturing and the primary sector and utilities.

Skill shortages, gaps and the need for upskilling, by sector (Employer Skills Survey 2013)

The UK Commission's Employer Skills Survey 2013 is the definitive source of data on employer investment in skills in the UK. The survey comprises interviews with over 91,000 employers across the UK, just fewer than 6,000 of which were with employers in Wales. It explores the skills challenges that employers face both within their existing workforces and in terms of bringing in new skilled labour, the levels, and nature of training investment, recruitment of young people and education leavers, and the relationship between skills challenges, training activity and business strategy.

The figures below cover skill shortage vacancies (SSVs), skills gaps and the need to upskill. These are defined below, along with an explanation of each specific measure:

Skill shortage vacancies - vacancies which are proving difficult to fill due to the establishment not being able to find applicants with the appropriate skills, qualifications or experience

Incidence – the proportion of employers who have skill shortage vacancies

Density – the proportion of vacancies which are skill shortage vacancies

Skills gaps - where an employee is not fully proficient, i.e. is not able to do their job to the required level

Incidence – the proportion of employers who have skills gaps

Density – the proportion of staff that have skills gaps

Upskilling - a need for employees to gain new skills or knowledge

Incidence – the proportion of employers who expect that at least some of their staff will need to acquire new skills or knowledge over the next twelve months

Skill shortages vacancies, skills gaps and the need for upskilling in Wales, by sector

	Skill shortage vacancies		Skills gaps		Upskilling
	Incidence	Density	Incidence	Density	Incidence
Agriculture	2	**	6	2.9	60
Mining and Quarrying	**	**	**	**	**
Manufacturing	6	25	21	10.3	69
Electricity, Gas and Water	4	**	15	1.8	69
Construction	3	21	15	4.6	67
Wholesale and Retail	3	17	18	5.2	74
Hotels and Restaurants	6	21	19	10.2	63
Transport and Comms.	4	29	16	3.9	79
Financial Services	5	**	20	5.2	81
Business Services	4	30	15	4.4	79
Public Administration	8	**	25	1.8	78
Education	6	13	21	5.3	87
Health and Social Work	2	14	20	6.6	78
Other Community, Social and Personal Services	3	11	12	4.0	73
All industries	4	20	16	5.8	72

Notes: '**' denotes figure not shown because of a low base (fewer than 25).

Explanations of the measures used in this table can be found on the previous page.

Additional points in relation to Skills Shortage Vacancies (SSVs) include:

- 4% of establishments in Wales are experiencing skill shortage vacancies (SSVs), namely vacancies which are hard to fill because of a lack of skills, experience or qualifications among applicants. This is the same proportion as found UK-wide.

- The percentage of all vacancies proving difficult to fill due to SSVs has increased compared with 2011, from 18% to 20% (it increased across the UK from 16% to 22%).
- SSVs are a particular issue for establishments in south east Wales (where 23% of vacancies are SSVs), the Business Services, Transport and Communications, and Manufacturing sectors (30%, 29% and 25%), small establishments (27% with fewer than five staff and 30% with 5-24 staff) and when recruiting for Skilled Trades occupations (44%);
- There has been a marked increase in the proportion of Caring, Leisure and Other Services vacancies hard to fill because of skill shortages (28%, up from 12% in 2011).
- The most prevalent skills shortages when recruiting were technical, practical or job-specific skills, lacking in 69% of SSVs in Wales (vs. 63% in the UK); the most common impact of SSVs was an increased workload for other staff.

Additional points in relation to skills gaps include:

- 16% of establishments in Wales had staff with skills gaps (i.e. lacking full proficiency), the same proportion as in 2011, but the number of staff with skill gaps has risen from 53,900 in 2011 to 67,400 in 2013 (and from 5% of the workforce to 6%) – these results are similar to the UK as a whole in 2013, where 15% of employers had staff with skills gaps, and 5% of the workforce was considered not fully proficient.
- Skills gaps were more prevalent in north Wales (where 8% of staff were identified as lacking proficiency) and among Elementary occupations (9%);
- There has been a marked increase in skills gaps among Caring, Leisure and Other services staff compared to 2011 (from 5% of the workforce to 9% in 2013).
- The main cause of skills gaps was staff being new to the role - the proportion mentioning this factor has increased compared with 2011, suggesting much of the increase in the number of skills gaps may relate to increased recruitment activity.
- The most common specific skills lacking were planning and organisation skills (57% of skills gaps) and team working skills (56%). Lack of oral and written Welsh language skills were at least contributory causes of 28% and 27% of Welsh skills gaps.
- 15% of those with skills gaps said they have a major impact on performance and 50% a minor impact (similar to 2011) – the 2013 results equate to 10% of all employers having skills gaps at the time of the interview which were negatively affecting their business performance.
- 21% of the workforce had both skills and qualifications higher than required for their current role (higher than the 16% UK-wide).
- 72% of establishments expected that at least some of their staff will need to acquire new skills or knowledge over the next year (vs. 71% in the UK).

Annex B

Case Study - North Wales Economic Ambition Board

One of the three Regional Skills Partnerships established in Wales is the North Wales Economic Ambition Board which is guided by the private sector but with the support and full co-operation of the public sector.

It aims to work collectively to achieve a positive and successful change in the performance of the regional economy by providing strong leadership on economic development and skills and employment issues for North Wales. There is a focused, collaborative approach through public and private co-operation and strategic engagement with key stakeholders including Welsh Government and the Mersey Dee Alliance. The aim of the Board is to set out a clear strategy for change to redirect resources to meet agreed priorities.

Priority programme areas have been set, building on the region's strengths and capitalising on growth sectors, namely:

- Energy & Environment
- Advanced Manufacturing
- Destination North Wales (Infrastructure and Tourism)

Their regional employment and skills plan is closely aligned with the sectoral priorities of the Board, and includes the strategic interventions required to address employment and skills needs of the region.

The plan aims to complement current Welsh Government Policy and proposals, including working with and supporting the three Enterprise Zones (Ynys Môn, Snowdonia and Deeside) and seeking to maximise the impact of further European funding opportunities with a coordinated suite of regional projects and interventions.

Key economic drivers for the area include:

- Wylfa Newydd – an initial forecast of 8,500 jobs;
- Northern Gateway Deeside Enterprise Zone – an initial forecast of 1,000 jobs; and,
- North Wales Prison – an initial forecast of 1,000 jobs.

Annex C

Taken from the Framework for Co-investment in Skills (November 2014)

Responsibilities	Investment
<p>Government-led¹⁰ – where the primary focus is on areas of economic and social return where government can take a lead role and support the focus on jobs, growth and tackling poverty.</p>	<p>Subject to the availability of government resources the focus of investments will be to support:</p> <ul style="list-style-type: none"> • Apprenticeship provision at level 3 and below for under 25s • Higher level apprenticeships (excluding higher education prioritised qualifications) • Support for up to Level 2 in essential skills of numeracy, literacy and ICT • Welsh for Adults <p>Preparation for life and work (includes provision for learners with learning difficulties and/ or disabilities)¹¹.</p>
<p>Joint action – activities where the combined effort of government and employer resources can interact to add value to the investments being made by both parties. Potentially win-win scenarios where government and employer priorities align and yet do not displace investment decisions employers are already making. In general, time-limited investments by government likely to diminish in the long term.</p>	<p>Where additional resources from government are available the focus of investments will be to:</p> <ul style="list-style-type: none"> • Develop the supply of skills provision (for example by working with employers to establish new training programmes relevant to their needs). • Expand the demand for skills provision (for example by establishing incentives which seek to widen the level of employer investment). • Improve the quality of skills investment (for example by supporting employers to develop apprenticeship provision).
<p>Employer-led – where employers take the lead role for the skills investment associated with their workforce.</p>	<p>To complement the resources being made available from government, employers will be expected to support:</p> <ul style="list-style-type: none"> • Apprenticeships up to level 3 for those aged 25 and over (excluding essential skills up to level 2 and support for higher apprenticeships) • Accredited and non-accredited training for employees 19 and over

¹⁰ Government-led funding covers the period up to 2015-16. Commitments beyond 2015-16 are contingent upon future budget settlements with resources prioritised accordingly.

¹¹ Also known as Sector Subject Area 14 incorporating studies and skills that are key and essential in preparing for learning and life and that enable personal development; and studies and skills in preparing for working life.

