

SKILLS FOR SUCCESS: THE REFORMS ESSENTIAL TO OUR ECONOMIC FUTURE

Make UK Industrial Strategy Skills Commission Report

The UK is in the midst of an economic and productivity crisis. Since the turn of the century, our economy has underperformed while over the last decade it had struggled to regain its pre-financial crisis momentum. Industry is plagued by sluggish growth, stagnant wages, and a widening productivity gap. Despite great efforts, growth has been weak, with the UK failing to reach the heights of other major economies.

Brexit added complexity, triggered uncertainty, and disrupted trade and investment. The COVID-19 pandemic caused a sharp contraction, widespread business closures, long-lasting disruptions to the labour market and the supply chains manufacturing businesses rely on. The result is an economy caught in a cycle of underperformance, where our potential is under realised, and opportunities are passing us by.

The most important asset to any economy is its people. Britain's economic and productivity crisis can only be solved if we have a highly skilled workforce in place, embedded in the latest technologies and equipped with the skills to use them effectively.

There are currently 55,000 unfilled long-term vacancies in the UK manufacturing sector.

The failure to fix this growing skills gap is costing the economy £6bn in lost output each year.

The proposals in this report would pay for themselves if we fix this skills gap.

A robust Industrial Strategy is central to the government's growth plan, however, multiple obstacles remain to deliver the UK's economic and industrial success. Foremost among these is the 'perfect storm' facing the manufacturing workforce. Increased early retirement, an ageing workforce, and elevated occupational ill-health have hit our sector hard.

This is alongside an alarming drop in the number of apprenticeship starts, down 42% since the Apprenticeship Levy was introduced seven years ago.

The result is that demand for skilled workers has increased at the very same time as the pipeline for workers, teachers, and talent, is diminishing. The sector's skills shortage is now a critical issue for many companies, not just affecting their growth, but their ability to maintain daily operations and to fulfil contracts with customers.

Added to this, technological advances are transforming our economy and society – but again British industry is lagging behind its international competitors. The Prime Minister has committed to making the UK the world leader in the adoption of Artificial Intelligence. From supporting small businesses with their record-keeping and data analytics, to automating and speeding up production processes for large multi-national corporations, this Fourth Industrial Revolution offers huge opportunities but at the moment the UK lags far behind our international competitors. The UK has the 6th largest economy in the world but we are languishing at 24th in the world industrial robot density rankings, in part, because we lack the workforce skills to adopt and apply these cutting edge technologies. The lesson from previous technological revolutions is the importance of enabling people to re-skill and upskill in order to succeed in the future economy. As these advances in technology begin to alter businesses and the world of work, adapting our education and skills system to meet our future industrial needs will be of vital importance.

This report proposes a series of immediate reforms needed fix the foundations of our apprenticeship system as well as a set of longer-term strategic objectives to build for the future and ensure we develop enough of skills for success necessary to support the industrial strategy and economic growth.

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Government and industry should agree a Skills Covenant, committing to an increased investment on both sides in training and upskilling the existing and future workforce. This should include:

Ringfence skills funding

All revenue from the Growth and Skills Levy should be ringfenced for investment in skills, including the £800 million of employer contributions currently spent by HM Treasury on other things.

Government should also ensure that revenue from the Immigration Skills Charge – which exceeded £650 million in 2022/23 – is reserved for investment in skills provision as was intended when the charge was first introduced.

Support education providers to offer high-value training

Rules should be amended to permit training providers to purchase capital equipment, making it easier to offer courses in capital-intensive subjects such as engineering and manufacturing.

Skills England should immediately revise funding band review process to ensure more regular reviews so that the system responds rapidly so that sudden changes in delivery costs are reflected in funding settlements.

The Government should introduce bursaries for training of specialist FE lecturers in priority and shortage subject areas to ensure there are enough trainers to teach the future workforce.

Regional authorities should introduce local workforce industry exchanges to help employers to second staff to providers to support the development of young people.

Boost high quality training for young people

The Government should commission its proposed new jobs and careers service to work with local government, employers and education providers to develop regional, sector-based IAG to support local industrial strategies.

The Department for Education should take a more prominent role in co-ordinating and supporting industry-led careers IAG for young people and engagement with schools.

Employers should commit to using the Careers and Enterprise Company's Employer Standards to improve their outreach and engagement with schools and young people.

The UTC Sleeve model should be supported to embed technical and employability skills across the pre-16 curriculum.

The Government should reconsider its approach in the Children's Wellbeing and Schools Bill to restricting academy freedoms and ensure that neither legislation nor the Curriculum and Assessment Review remove the ability of employers to shape pupils' access to technical options and employability skills in school.

Enabling employer investment in the skills they need to grow

Skills England, the Migration Advisory Committee and the Industrial Strategy Council should produce in-depth labour market information and forecasting of skills needs which can be used to direct investment in training to support the industrial strategy.

As a starting point for including a wider range of training in the Growth and Skills Levy that is focused on pathways for upskilling and retraining, the Government should include employer contributions to Skills Bootcamps and HTQs in the levy.

The Government should evaluate the cost, use and impact of the existing 100% corporation tax deduction for work-related training expenses.

There should be enhanced rate of tax relief for investment in accredited skills training for existing workers relevant to the sectors and occupations identified by Skills England, MAC and ISC.

Build for the future

Government must work with industry to develop a strategy for addressing the impact of generative AI and wider technological change.

Careers education, information, advice and guidance should be restructured to enable greater employer engagement with schools and improve young people's understanding of opportunities.

Government should develop a clear and consistent approach to adult skills training with simpler pathways, more modular and flexible learning, to create a culture of lifelong learning.

Providers should develop new education delivery models and new approaches to the education market, including more 'hub and spoke' college structures and the role of HE.

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