Upskilling Britain for a high-wage future

Policy briefing | Alex Chapman, Chaitanya Kumar and Alfie Stirling | October 2021

1. Executive summary

Meeting the demands of rapidly decarbonising our society and levelling up held-back communities will take a revolution in education, training and upskilling. Skills capabilities are currently a binding constraint on decarbonisation initiatives, such as building retrofit, while disparities in access to training are a key driver of regional inequality. Without an ambitious plan for retraining, levelling up will tie communities to the high-carbon industries of old, leaving held-back workforces potentially stranded for another generation.

A key objective for the government should be to have a workforce that is resilient to more economic shocks, such as those caused by pandemics and climate change, while helping all sectors of the economy decarbonise rapidly. But the UK's skills policy to date is inadequate for the urgency and scale of the challenge ahead, especially after a decade of the austerity-driven dismantling of the UK's upskilling infrastructure.

Our proposal to address the skills challenge is for a new *Future Skills Scheme* with the primary objective of upskilling and reskilling those members of the UK's workforce who are in jobs that are vulnerable to disruption and economic restructuring. We argue that it is preferable to offer training support to people while they are in work rather than after they have become unemployed, as this helps to retain worker confidence and job readiness. The scheme builds on the European short-time working schemes recently advocated by the Trades Union Congress (TUC), but we propose that upskilling and reskilling are front-and-centre of such a policy.[1]

Our Future Skills Scheme programme addresses the twin challenges of upskilling and income security. It provides a cost-effective mechanism for employers, who access upskilling and revenue support during turbulent times; employees receive fully funded training while

[1] TUC. (2021). *Beyond furlough: Why the UK needs a permanent short-time working scheme*. Trades Union Congress. Retrieved from https://www.tuc.org.uk/research-analysis/reports/beyond-furlough-why-uk-needs-permanent-short-time-work-scheme

working part-time with a secure income; and the government sees progress against its objective of a high-skill, high-productivity and low-carbon economy.

We estimate our proposal could cost up to £26m a month for an illustrative 100,000 workers who are enrolled in the scheme from a range of target sectors. As we emerge from the pandemic, we argue that this is a small price to pay for a more resilient and skilled workforce.

2. UK skills challenge

In recent weeks we've seen simple quick fixes proposed for the cracks in the UK's labour market. Short-term targeted visas and even ending the furlough scheme have been touted as routes to a quick labour supply. But neither tackle the root cause of the issue – the UK workforce needs access to the skills required by well-paid, secure jobs, in the right places, for the long term, in the emerging zero-carbon economy.

Without urgent action, the UK's skills mismatch will grow. Research by McKinsey for the Confederation of British Industry (CBI) made the staggering claim that nine in ten employees across the economy will need to reskill by 2030, primarily in digital skills, information processing, and leadership and management.[2] If we are serious about building labour market resiliency in turbulent times, skilling and retraining must become a right and a political objective backed by government investment.

Unmet demand for high skills

We know that workers have an appetite for upskilling. European Union (EU) data from 2016 suggested the UK had some of the greatest unmet demand for upskilling in Europe. At the time, 45% of people not undertaking education or training reported that they wanted to do so but had encountered difficulties. This compares to an EU average of 28%.[3]

The main barrier encountered, reported by over 50% of people who wanted to study, was the prohibitive cost of doing so, due to both the price of the course and the foregone wages related to pursuing study. Changes to the UK's higher education funding system have crushed the UK's mature student education rates, with part-time student numbers in the 25+ age bracket declining by 225,000 over the past decade. The government-funded Office for Students recognised the damaging impact this has had on disadvantaged groups, such as carers, in a May 2021 report, stating:

> The decline in the availability of part-time study options means that higher education is increasingly an impossibility for groups like those with caring responsibilities, who

[2] CBI. (2020). *A radical new strategy for lifetime skilling.* London: Confederation of British Industry. Retrieved from https://www.cbi.org.uk/media-centre/articles/a-radical-new-strategy-for-lifetime-reskilling-must-be-the-bedrock-of-uk-economic-recovery-cbi/

[3] Eurostat. (2021). Education and training database. Luxembourg: Eurostat. Retrieved from https://ec.europa.eu/eurostat/web/education-and-training/data/database]

cannot attend full-time. For many, the reduction in part-time options means the loss of their chance to enter higher education at all. The lack of short courses means that people who only want or need the knowledge in a single module are less likely to turn to universities or colleges.[4]

Declining student numbers at the Open University

The decline in later-life and on-the-job retraining and upskilling at a higher education level is seen most starkly in the case of the Open University (OU). The OU was established as a first-of-its-kind, world-leading, distance-learning university, supporting groups underrepresented in work, and social mobility between jobs. Between 2001/2002 and 2010/2011, student numbers at the OU, almost exclusively part-time students, increased from 156,000 to 209,000. By 2019/2020, following coalition government changes to higher education finance and funding, student numbers had crashed by 80,000 to 129,000.

Part-time higher education has seen sharp falls in recent years, but in further education, the decline in student numbers is even starker. Between 2014/2015 and 2019/2020 participation rates declined by almost 1m people, from 2.7m to 1.7m (figures adjusted for population change). This has been driven particularly by falls in student numbers studying lower-level qualifications (level 2 and below). Falling participation is again driven by funding cuts, with adult further education down 50% on its level in 2009/2010.[5] This has put a financial strain on colleges and reduced the affordability and quality of the further education options available to workers, suppressing participation even where there is demand.

Supporting and managing skills supply, labour mobility and access to good quality employment are core functions of fiscal policy. Relatively high rates of employee turnover and job change have been normalised in the UK. Pre-pandemic, an estimated 29% of employees changed jobs from one year to the next, and 17% of employees changed the industry in which they worked.[6] A less frequent, but still relatively common occurrence, is

[4] OfS. (2021). *Improving opportunities and choice for mature students.* Bristol: Office for Students. Retrieved from https://www.officeforstudents.org.uk/publications/improving-opportunity-and-choice-for-mature-students/

[5] UK Parliament. (2021). *Further education funding in England.* London: House of Commons. Retrieved from https://commonslibrary.parliament.uk/research-briefings/cbp-9194/

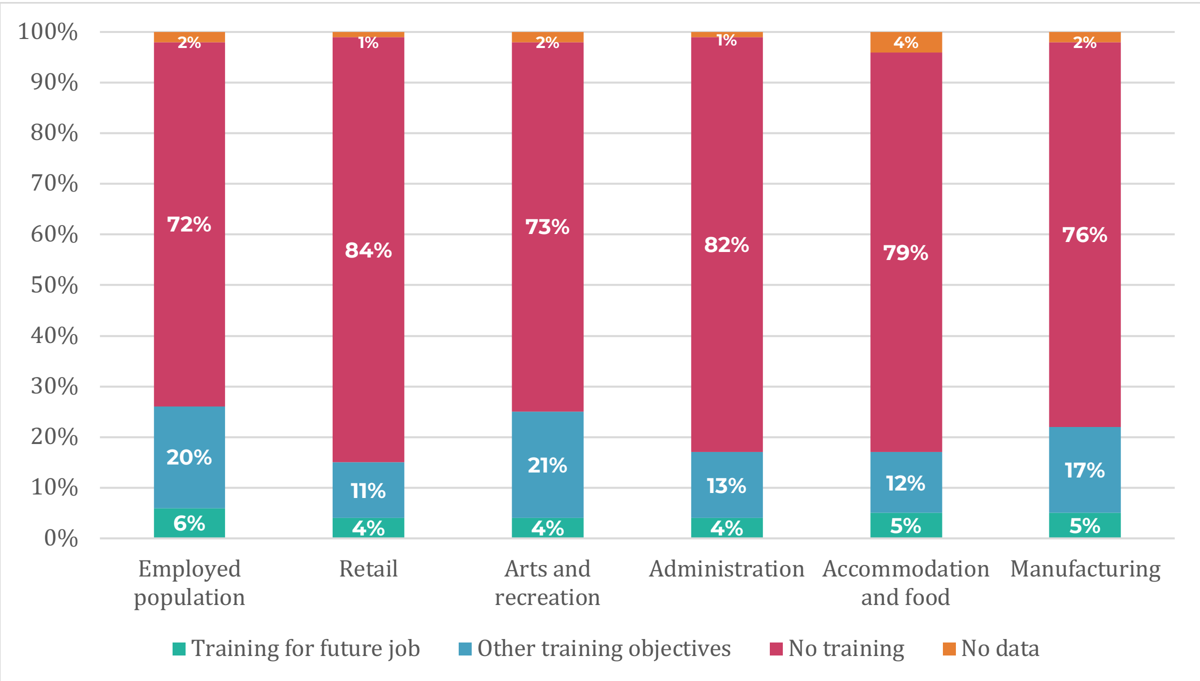
[6] ONS. (2019). *Employee turnover levels and rates by industry section.* London: Office for National Statistics. Retrieved from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/10685employeeturnoverlevelsandratesbyindustrysectionukjanuary2017todecember2018

the shifting of occupations. An estimated 6.1% of the workforce shifted occupation during the first six months of 2020, up from 5.7% in 2019.[7]

New analysis by NEF of data in the Understanding Society Survey shows how these employee turnover rates compare with the rate at which employees are upskilling in preparation for new jobs.[8] Pre-crisis, an estimated 6% of the workforce was engaging in upskilling to prepare for a new job. This figure was even lower in the most vulnerable and crisis-impacted sectors, with 5% or less of the workforce in the retail, arts and recreation, accommodation and food, manufacturing, and administration sectors engaging in upskilling in preparation for a new job.

Figure 1: Just 4%-5% of workers in key pandemic-impacted sectors were undertaking training in preparation for a new job in 2019.

Reported rates of training by workers employed in selected sectors. The chart highlights the proportion of people undertaking training to prepare for a future job, versus those undertaking training for other purposes related to personal interest and their current job.



Source: Understanding Society Survey, Wave 10

[7] ONS. (2020). *Coronavirus and occupational switching.* London: Office for National Statistics. Retrieved from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandoccupationalswitching/januarytojune2020

[8] University of Essex, Institute for Social and Economic Research. (2021). *Understanding Society: Waves 10*. Colchester: UK Data Service. SN: 6614

These low rates of skilling for future work provide new evidence to help explain trends seen in the Department for Education's Skills Needs Survey, which has indicated rapidly rising rates of so-called skills-shortage vacancies (SSVs) – vacancies that are unfilled due to a skills shortage in the labour market.[9] In 2019, there were an estimated 210,000 SSVs in the UK, up from 85,000 in 2011. The impact of significant numbers of SSVs in the labour market is to render a significant proportion of the jobs (24% as of 2019) inaccessible to those on the job hunt. The construction and manufacturing sectors felt the skills shortage most acutely with over 1 in 3 vacancies proving hard to fill.[10]

The furlough scheme also represented a huge, missed opportunity to reinvigorate the UK's skills base. A critical gap in the design of the furlough scheme was its lack of effective utilisation of unworked time. By the close of the scheme NEF estimated some 9.7bn hours were spent by workers on furlough, yet the large majority of upskilling that took place during the pandemic came on the back of workers' initiative and not through any formalised training or qualifications.[11] [12]

3. Existing UK skills policy

New skills-focused policies have been announced since the onset of the Covid-19 pandemic, notably the Lifetime Skills Guarantee and the Lifelong Loan Entitlement. The Lifetime Skills Guarantee covers free tuition fees for any level 3 qualification (A-level or equivalent) for any adult who does not already possess such a qualification. An estimated 11m adults are likely to be eligible, or around 33% of the population aged 18 to 64. A key feature of the guarantee is that individuals who study these qualifications full time and are eligible to receive universal credit, will receive payments for the time spent studying. This facilitates a degree of income support for training, but with universal credit payment at poverty levels, this does not suggest a high standard of living or a particularly attractive proposition for those looking to upskill.[13]

The Lifelong Loan Entitlement is not expected to fully launch until 2025.[14] The policy is expected to provide a flexible loan for up to four years of equivalent study and will be

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[9] UK Government. (2020). *Employee skills survey 2019.* London: Department for Education. Retrieved from https://www.gov.uk/government/publications/employer-skills-survey-2019-uk-excluding-scotland-findings

[10] Ibid.

[11] Chapman, A., Kumar, C., & Stirling, A. (2021). *Making the most of furlough.* London: New Economics Foundation. Retrieved from https://neweconomics.org/2021/04/making-the-most-of-furlough

[12] Learning and Work Institute. (2020). *Lockdown learners.* London: Learning and Work Institute. Retrieved from https://learningandwork.org.uk/news-and-policy/lockdown-learners-could-the-pandemic-lead-to-a-shift-in-adult-participation-in-learning/

[13] Arnold. S. (2020). *A safety net for all.* London: New Economics Foundation. Retrieved from https://neweconomics.org/2020/04/an-income-floor-for-all

[14] Britten, A. (2021). Donelan says Lifelong Loan entitlement trials will being in 2022. *University Business*, 21 April 2021. Retrieved from https://universitybusiness.co.uk/headlines/donelan-says-lifelong-loan-entitlement-trials-will-begin-2022/

designed to support adult learners who are balancing family, care and mortgage responsibilities. It is not completely clear how the scheme will interact with the existing student loans scheme, and whether individuals who have already accessed three years or more of loans for undergraduate and Master's level study will have their previous use deducted from their four-year entitlement. As of 2020, around 8m people, or just under a quarter of the population aged 18 to 64, had already accessed at least three years of student loans. The remaining group includes those who have not completed university level study, and those who completed their university studies before tuition fee loans were implemented in 1998. In addition to concerns about the burden tuition fee loans place on the incomes of recipients, this policy fails to address the core inhibitor to access to upskilling, that of income security. The Office for Students has acknowledged that mature students are notably more averse to taking on debt to pay for education than younger students.[15]

Alongside these skills-focused policies, the government has brought forward employment support policies in the form of Restart and Kickstart, the former targeting individuals who have experienced long-term (over 12 months) unemployment and providing some additional access to training, and the latter providing subsidised employment for young people (16 to 24 years old) on universal credit. Both schemes encapsulate the government's current philosophy of addressing skills mismatches and access to work issues after individuals have fallen out of work, rather than before, which can mean people are further from the labour market in terms of routine and soft skills at the point of engaging in training.

4. A new Future Skills Scheme

Our proposal is for a new Future Skills Scheme with the primary objective of upskilling and reskilling those members of the UK's workforce who are in jobs that are vulnerable to disruption and economic restructuring. At the heart of our proposal is the idea that it is preferable to offer training support to people while they are in work, rather than after labour attachment has been lost. This has several advantages, including retaining confidence and job readiness, which help to ensure the training opportunity converts to a job afterwards.

The scheme design we propose has similarities with the more orthodox European short-time working scheme recently advocated by the TUC, but we propose that upskilling and reskilling should be front-and-centre of such a policy.[16] This contrasts with its status as an afterthought in many European short-time working schemes. In addition, we propose

[15] OfS. (2021). *Improving opportunity and choice for mature students.* Bristol: Office for Students. Retrieved from https://www.officeforstudents.org.uk/publications/improving-opportunity-and-choice-for-mature-students/

[16] TUC. (2021). *Daughter of furlough.* London: Trades Union Congress. Retrieved from https://www.tuc.org.uk/news/daughter-furlough-tuc-calls-permanent-short-time-working-scheme-protect-jobs-times-economic

specifically tailoring the scheme to also offer support to those workers whose businesses do not believe they will ultimately return to work.

The Welsh ProAct scheme

Established in response to the 2008 recession, the Welsh government's ProAct scheme is the closest analogous policy to our proposed work resilience scheme. Here the wage subsidy for short-time work was tied to the provision of training. The training component of ProAct provided up to £2,000 per worker for training for up to one year and wage replacement up to a maximum cost of £2,000 per worker. It has been suggested that these parameters tended to limit workers to qualifications at NVQ Level 3 and below, as higher qualifications typically cost more and took longer, but the policy, which had a relatively short lifespan between 2009 and 2010, performed admirably under evaluation, protecting over 1,800 jobs at a value of nearly £75m, with positive feedback from both employers and employees, and strong financial returns.[17]

How the Future Skills Scheme works

Through the new Future Skills Scheme, every working adult facing redundancy or working in a firm threatened with a significant drop in business activity – whether temporary or permanent (see redundancy offer below) – would be offered the option to upskill or retrain. Below we set out illustrative specifications for the scheme alongside initial modelling estimating the costs to the government.

- **Eligibility** – All workers will be eligible for the scheme where an employer is willing to put workers on short-time work. Employers will make the final decision on whether to enlist workers onto the scheme, but trade unions will have the right to request this option before any other cost-saving measures are taken.
- **Hours and length of training** – Employees would need to continue working for a minimum of 40% of their former hours at full pay while enlisted on the scheme. In return, employers would need to guarantee workers access to the training through the scheme for at least three months. Special arrangements would be available to firms with a legitimate reason for keeping workers employed at levels less than 40% of usual hours (eg public health restrictions).
- **Employee pay protection and employer contribution** – Workers enlisted on the scheme would receive pay protection for hours spent training instead of working: up to 80% of full pay on the same terms as the furlough scheme (ie also capped at a maximum of £2,500 per month full-time equivalent). Employers would continue to pay pension and national insurance contributions for hours spent training rather than working.

[17] Welsh Assembly. (2011). *Impact evaluation of Proact.* Cardiff: Welsh Assembly Government. Retrieved from https://gov.wales/sites/default/files/statistics-and-research/2019-08/impactevaluationproacten.pdf

- **Training offer** – Workers would hold agency over their time in training with the freedom to choose a course or on-the-job training across a wide range of fields, qualifications and sectors, but with a particular focus (and possible financial incentives) for training opportunities that prepare them for transition into low-carbon growth sectors, such as care, home retrofit and renewable energy. We have analysed a variety of training offers across different sectors ranging from construction to accommodation and food services, accessing their cost and typical training duration. For example, training provider Envico offers a range of construction NVQs (National Vocational Qualifications) from £950 to £2,000 with a duration of anywhere between 9 and 18 months through a mix of in-person and online training.[18] Appropriate certification after the course allows workers to be enrolled in a national database of accredited skilled workers, ensuring quality assurance.
- **Redundancy offer** – For firms facing only a temporary drop in turnover, employers will be able to take workers back full time after their period on the Future Skills Scheme. Unlike furlough, the Future Skills Scheme will include the offer of a redundancy payment to employers to ensure the scheme remains a viable option even for firms facing a permanent drop in turnover. For any employee who has completed their minimum hours of training on the scheme, and where an employer is making that worker redundant, the government will also make a redundancy payment to firms at a value of 20% of average redundancy costs for that sector, in addition to ensuring that a firm’s net expenditure on the worker would not exceed the worker's redundancy costs. Our initial modelling suggests that such an offer would ensure the scheme remains cost-effective, especially for lower-skilled workers with less secure employment protection. While many workers would return to work with their existing employer, and this would be encouraged as the normal pathway following completion of training, the redundancy offer would ensure that employers who would otherwise make workers redundant upfront could instead delay for at least three months while their worker continued to receive a salary and subsidised training for their future career.
- **Costs –** We have modelled the potential costs of the Future Skills Scheme across sectors for an average of 100,000 workers at a time. Table 1 estimates the costs to the government for workers who return to normal hours with their existing employer. This modelling assumes workers enrolled on the scheme have an average salary equivalent to the 30th percentile of their respective sector (ie lower-paid workers are more likely to be enrolled), which reflects trends seen on the pandemic furlough scheme. In the absence of this scheme, workers, particularly those in lower-paid sectors, would receive universal credit. As such the net policy cost includes only that expenditure that is additional to the Universal credit payments, which would otherwise be due.[19]

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[18] Envico. (n.d.). *Construction NVQ Courses.* Envico. Retrieved from https://www.envico-online.com/accredited/construction-nvq-courses/ [accessed 19 October 2021].
[19] Universal credit costs are based on Department for Work and Pensions average per-claimant expenditure data and scaled using the current 0.63 taper rate. Workers using the scheme are assumed to hold only one job for the duration of their time in study.

Table 1: The net policy cost of the scheme, after factoring in savings on universal credit, is £26m a month.

Modelled policy cost estimates for an illustrative package of 100,000 workers split evenly across five key target sectors (ie 20,000 workers per sector). Education costs are derived from the average cost of training identified via a survey of sectoral educational courses and coming in at around £300 per month.

Sector	**Gross monthly salary cost to government**	**Monthly salary cost to government net of universal credit payments**	**Net cost to government inclusive of education costs**
Retail	£10.8m	£4m	£7m
Arts and recreation	£7.1m	£2.6m	£5.6m
Administration	£11.8m	£4.4m	£7.4m
Accommodation and food	£6.3m	£2.3m	£5.3m
Manufacturing	£18.5m	£12.9m	£15.9m
Total cost for package of 100,000 workers	**£54.5m**	**£26.2m**	**£41.2m**

Table 2 estimates the costs of the scheme for employers who make use of the redundancy offer. For illustrative purposes, we have modelled the costs of this secondary scheme using data from the Office for National Statistics (ONS) on average annual redundancies across sectors. We have assumed 45% of workers made redundant annually are interested in training with an average worker spending six months on the scheme.

Table 2: Sectors with high eligibility for redundancy and higher salaries, such as manufacturing, will incur significantly greater costs.

Illustrative modelled costs to government to extend the scheme to workers made redundant, assuming 45% of workers have an interest in retraining/upskilling and businesses are incentivised to enrol workers on the scheme through a bonus equivalent to 20% of average sector redundancy costs.

	Annual redundancies derived from Q1 2021	Number of redundant people interested in training	20% of average redundancy costs for the sector bonus	Total cost to the government for redundant workers assuming six months on the scheme (net of universal credit and education costs)	Equivalent monthly cost to the government
Retail	89,840	40,428	£390	£118m	£19.7m
Arts and recreation	25,612	11,525	£310	£23.6m	£3.9m
Administration	49,712	22,370	£440	£71.4m	£11.9m
Accommodation and food	55,564	25,004	£220	£46.1m	£7.7m
Manufacturing	95,696	43,063	£700	£289.1m	£48.2m
Total	316,424	142,391		£548.2m	£91.4m

In total, we estimate the scheme, when workers enrolling on it return to work (ie in the form of short-term working scheme), to cost around £69.5m per month per 100,000 workers, including training costs. Extending the scheme to workers made redundant is estimated to cost around £550m over six months, or £90m per month, assuming almost half of the workers made redundant make use of the scheme.

In the short term, these costs should be funded out of temporarily higher borrowing to support the recovery from Covid-19, with costs likely to be recouped by higher wages and lower unemployment (each leading to higher tax receipts) over the medium term. We believe the scheme should also remain in place over the longer term, with the specifications tweaked through time to reflect the UK's position in the economic cycle. Permanent sources of funding could come from a mixture of tax increases to ensure that income from wealth is taxed on a comparable basis to earnings from work, as well as drawing down from underspend on, or reforming, other existing funded skills programmes – such as the apprenticeship levy.

5. Conclusion

The Prime Minister's vision of a high-skilled, high-wage economy will not materialise through piecemeal skills programmes that underestimate the scale and direction of change that is necessary over the coming decade, particularly without due consideration of income security in the face of further shocks from climate change and the energy transition. Our proposed Future Skills Scheme ultimately improves the resilience of the labour market against such shocks to the economy while accelerating the pace of upskilling and retraining in the UK, setting up firms and workers to succeed in the emerging low-carbon economy.

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