

Response to the Industrial Strategy Green Paper

The Skills Federation

The Skills Federation brings together the shared perspective of different industries on how the UK can build a workforce able to meet our skills needs. Our members are 18 employer led sector skills bodies who work across more than 20 sectors of the economy and represent over 150,000 employers, both large and small, across the UK. They are funded by their industries to provide sectoral voices and vital support on skills issues. This includes workforce planning and intelligence, professional standards, tailor made skills solutions, qualifications, kitemarking, accreditation and quality assurance.

Our vision is for a skills system that supports industrial investment and growth by providing a pipeline of talent into each sector of the economy, giving the opportunity for everyone to get in and get on at work through pathways that turn jobs into great careers.

The Skills Federation also offers a wide range of apprenticeship support solutions including the industry-standard End Point Assessment tool, ACE360, to support delivery of Apprenticeship Standards in England. We are the designated Certifying Authority for Apprenticeship Frameworks in England and Wales and provide both an apprentice registration and certification function for Modern Apprenticeships in Scotland.

Given the priority of the Skills Federation and our members we have focused more on the questions related to people and skills, and answered other questions from a skills perspective.

Sector Methodology

1. How should the UK government identify the most important subsectors for delivering our objectives?

As the Industrial Strategy Green Paper identifies, there is no single agreed analytical methodology to identify highest growth potential sectors. There are also varying definitions of what industries and occupations are included in each sector. It is important that the Sector Plans that will be published alongside the final Industrial Strategy include sector definitions. This will also ensure that sector skills bodies, who have a wealth of labour market intelligence and insights, can effectively support development of the plans.

There is, however, considerable duplication and inter-connectedness between sectors, for example, advanced manufacturing and life sciences. Whilst definitions are important, the complexity of the economy also needs to be reflected.

SMEs don't always fit neatly into sectors or sub-sectors. According to the [Federation for Small Businesses](#) there are over 5 million private SMEs in the UK accounting for over 99% of private businesses and three-fifths of employment. SMEs play a key role in supply chains, and it is crucial to consider them when developing policy, especially since they are less likely to invest in staff development.

2. How should the UK government account for emerging sectors and technologies for which conventional data sources are less appropriate?

It is essential for development and growth of the UK economy that the government accounts for emerging sectors including those that reflect evolving technology and the move to net zero. Training courses need to be developed which support workers to develop the skills required for new occupations, and educators need to be trained to deliver them. If this doesn't happen in good time, employer demand won't be met.

Sector skills bodies have rich labour market intelligence, including in emerging sub sectors, which is already being used by government to better understand labour market and skills needs. For example, sector skills bodies including Energy and Utility Skills and CITB provided the data for the Green Jobs Delivery Group. Cogent Skills, as part of the [Hydrogen Skills Alliance](#), are developing a Hydrogen Skills Framework which will articulate specific hydrogen training needs. This will be an open-source resource to support standard setting and the development of training and qualifications across the UK.

3. How should the UK government incorporate foundational sectors and value chains into this analysis?

As the Green Paper identifies, 'sectors' are interconnected in terms of supply and value chains. For example, 'green energy' relies on constructing the facilities for new clean energy production and life sciences companies rely on a strong domestic chemical supply industry.

It is important therefore that the focus on high growth sectors should not come at the expense of key foundational sectors where there are also identified skills needs. For example, the CITB has identified that over 250,000 extra construction workers are required by 2028 to meet demand.

We welcome Skills England's intention to include the construction and health and social care sectors in the consultation about what training should be available through the Growth and Skills Levy. Taken together these two sectors account for nearly 20% of jobs across the economy and are integral to achieving the Government's missions.

Business Environment

7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

As the Skills England [report](#) indicates, around one third of average annual UK productivity growth between 2001 and 2019 is attributable to an expansion of skills available in the workforce. However, investment in skills development, from employers, but also from government, has declined over the past 10 years.

The DfE funded Employer Skills Survey 2022 found that the total investment in skills was £53.6 billion (including trainee labour costs), a real terms decrease of 7.7% from £58.1 billion in 2017. There hasn't, however, been a blanket reduction in investment; in some sectors spend has increased, and within sectors where spend has decreased, some employers invest heavily. It's also worth noting that the Employer Skills Survey reports that among establishments that would have liked to provide more training, the main barriers to doing so were staff time (45%) and lacking funds for training (40%), factors both influenced by economic uncertainty.

Some of the reduction in employer spend may also reflect positive trends, such as additional recruitment, greater use of AI, and use of more cost effective training. Nonetheless, deep-

rooted barriers to employers investing in skills exist which can be grouped into the following categories:

- Barriers caused by the complexity and fragmentation of the skills system.
- Insufficient culture of investment in skills within employers.
- Lack of clear progression routes.

Barriers caused by the complexity and fragmentation of the skills system

The lack of an industrial strategy combined with economic uncertainty has caused employers to make short term decisions and/or prioritise spend in areas other than skills. The absence of an overarching strategy has also contributed to evolution of a fragmented skills system that is difficult to navigate, and this is compounded by the differences between the four nations.

Policy making doesn't take a holistic view of the skills system as the starting point. Elements of the system have been changed and new programmes and initiatives added, without consideration of the impact on the system overall. This has caused fragmentation, unintended consequences, and a focus on supply rather than aggregated employer demand. The latter means that in some sectors employers may be willing to invest but struggle to find providers to offer specialist training.

Insufficient culture of investment in skills within employers

The overall aim would be to have workplaces with a positive learning culture where both employers and workers are aware of the benefits of upskilling and reskilling and are keen to invest and participate. However, this isn't always the case. Some employers are reluctant to invest in their staff because they are concerned that upskilling may lead to staff looking for new opportunities. In addition, employers will often site staff already being proficient as a reason not to invest in training. In many cases this will be accurate but in other cases, particularly in smaller businesses, this may indicate a lack of management capacity and capability to carry out workforce planning.

Lack of clear progression routes

The insufficient culture of investing in skills is also exacerbated by a lack of clear progression routes into and through work, which means that individuals and employers are not always clear what training is required. Some qualifications are also not fit for purpose to meet employer need which increases the reluctance to invest.

Business Environment – People and Skills

8. Where you identified barriers in response to Question 7 which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?

Our response here covers both question 8 which asks for solutions to the specific barriers identified in question 7, and question 9, which asks for other suggestions. A lot of solutions are inter-connected and so it makes sense to provide one answer rather than artificially separate them out.

Our response uses the three categories introduced in our response to question 7:

- Barriers caused by the complexity and fragmentation of the skills system.
- Insufficient culture of investment in skills within employers.
- Lack of clear progression routes.

Barriers caused by the complexity and fragmentation of the skills system

We propose the following to overcome the challenges of complexity and fragmentation in the skills system:

- A comprehensive post 16 skills strategy aligned to the Industrial Strategy should set the priorities and direction for skills investment for both young people and adults. The strategy should explain where and how government will invest, and how government will work with social partners including providers, sector skills bodies, employers and unions to create a coherent skills system that is easier to navigate.
- Relatedly, policy stability is essential. There have been numerous policy changes to the further education and skills landscape over decades which has created a culture of short-term decision making and lack of confidence from employers. New policy, initiatives and programmes should be given sufficient time to embed before making changes.
- Devolution of skills across the UK, whilst better meeting the skills needs of places, causes challenges for employers, particularly those that work across borders. Government could helpfully consider how to get parity and greater coordination across the UK within a devolved skills landscape. Agreeing the same competency standards to be used across the UK would be a starting point to achieving this.
- Skills England needs to be a strategic, social partnership body. It should have the explicit purpose of advising and making recommendations to the Secretary of State for Education, and other departments as appropriate, on skills strategy and policy that will enable England to develop the skills needed to achieve the five government missions over the next decade.
- There is an important role for intermediaries, including the Skills Federation's 18 members, to play. Sector skills bodies who work to align the skills and training provided with the needs of specific sectors, ensuring that the workforce is well-equipped to meet industry demands, are better placed and resourced to offer timely perspectives on strategic and operational issues than individual employers. This includes by developing occupational standards, sharing rich intelligence about their sectors, and helping to shape curriculum content and assessment plans.
- Comprehensive analysis of where the skills gaps are in the labour market is required which should provide the basis for decisions about structure and content of skills programmes. Government should review and utilise the rich intelligence and insights that are available from sector skills bodies.
- To make this work individuals need to have good information about the opportunities open to them and access to effective advice and guidance. A new careers strategy to set the direction and purpose of career development for young people and adults is needed to support an improved skills system.

Insufficient culture of investment in skills within employers

If employers have greater confidence in the ability of the skills system to deliver the solutions they need, they are more likely to invest, in skills, and also more widely. Creating a skills system which is aligned to the Industrial Strategy, which responds to employer led demand, and which isn't continually reviewed and changed, should help to increase employer

investment. However, this will take time and won't lead a step change in employer investment in the short term.

Employer investment in skills is less than the EU average and this may point to a cultural issue where employers see upskilling as a cost rather than an investment, and moreover, a cost which may lead to their newly trained staff leaving for jobs elsewhere. Overall, we think this indicates that incentives should focus on building capacity to change behaviour and embed new ways of working. We would support exploration of government introducing financial incentives such as a skills tax credit, as proposed by the [House of Lords Industry and Regulators Committee](#) and the [Learning and Work Institute](#).

An approach which responds better to employer demand may also encourage employers to invest. This approach is about aggregating employer demand and getting the right parties, including Sectors Skills Bodies, employers and government round the table to develop jointly owned solutions.

An example of where this approach is working well is the [National Nuclear Strategic Plan for Skills](#). The work started with analysis of labour market intelligence which identified the significant challenges. The next stage was to identify what government would pay for and where employers would contribute. [The Nuclear Skills Delivery Board](#) which includes a range of partners from industry and government will oversee the delivery of the plan. This approach is working because it started with articulating the demand and solutions were developed in partnership, recognising that employers working individually wouldn't have sufficient impact. The involvement of [Cogent Skills](#) has been integral because they are able to provide the view of the whole sector, and to convene employers.

Providing advice and guidance for employers about how to assess upskilling needs and create a plan for training should also be considered as this may support smaller employers with less capacity.

Finally, it is essential that the starting point is not a blank sheet of paper. There is effective practice internationally that could be learnt from. Employers, via sector skills bodies, should be consulted and listened to about what will work.

Lack of clear progression routes

Currently there are barriers to investment because employers aren't clear what skills particular qualifications provide or how to best upskill their staff. We believe that two factors are important to support this. The first is more flexible provision which targets the skills that people need and the second is an apprenticeship system which works well.

It is essential that training supports people to develop the skills they need for work, both technical skills and more cross-cutting skills. As Skills England analysis shows, over 70% of jobs in 2035 are expected to be filled by people already in the labour market. However, the nature of work is evolving quickly and the growing use of AI, technology and automation, the increasingly aged workforce, and the need to achieve net zero targets means that some roles will disappear, and others will be created. This means that upskilling and reskilling will become increasingly important, and need to be done efficiently in terms of both time and cost. This requires the following:

- Identification of transferable skills. This would identify the core skills for competence for an occupation, and the more specific skills required in each sector. Initiatives

including [Connected Competence](#) led by the Engineering Construction Industry Training Board (ECITB) can be learned from and rolled out more widely.

- More flexible training options which support people to achieve the competencies are developed and funded. Often what is needed to transfer between roles or sectors is not a year long qualification, but a shorter sharper piece of learning which focusses more specifically on the skills that an individual needs to develop to transfer successfully.

The benefits of high-quality apprenticeships for both apprentices and employers, in addition to the wider economy, are well documented. However, at 54% the national achievement rate for apprenticeships in England is too low and considerably lower than the achievement rate in Scotland for Modern Apprenticeships of [76%](#). Work funded by the [Gatsby Foundation](#) focusses on the reasons why apprentices drop out close to the point where they would complete their EPA. The work found the reasons why include that a mandatory qualification is often seen by employers to be more valuable than the EPA, the functional skills requirements, and that apprenticeships being used as professional development lowers the stakes.

We propose the following changes to bring about improvements to apprenticeships:

- Review whether the number of apprenticeships standards needs to be reduced while allowing a modular approach to apprenticeship delivery. This would provide more options within one apprenticeship standard for people to work in different industries. For example, a lab technician apprenticeship with flexible modules could enable people to work in labs in different sectors like chemical, biotech etc.
- Shift the current policy focus on level 3 and above and ensure that sufficient opportunities are also available at level 2 to provide progression routes, reduce the dropout rate at level 3 and provide immediate access to the level 2 jobs across many industries.
- Uplift on rates for some apprenticeships where they are currently too low for providers to be able to deliver them. An example is in the fashion and textiles industry where training providers deliver apprenticeships that attract the higher funding rates. These are not the ones most needed, so the fashion industry is unable to meet its key skill needs.
- Take the opportunity with the transfer of functions from IFATE to Skills England to review the process for developing apprenticeship standards and assessment plans. There is the potential for trusted intermediaries, including sector skills bodies, to play a greater role in this. Whilst some streamlining of end point assessments is needed, the independence of end point assessment should be retained.
- We welcome the proposal to introduce foundation apprenticeships in England. Foundation apprenticeships need to be developed with industry to ensure that they provide a clear progression route. It is important that there is sufficient flexibility across sectors as foundation apprenticeships will work less well for sectors where there are fewer lower-level jobs.

We welcome the Government's intention to reform the Apprenticeship levy into a Growth and Skills Levy. We propose the Growth and Skills Levy should:

- Operate on a sectoral or clustered sectoral approach where sector workforce development plans are created and form the basis for agreements, by sector, about what government will pay for and what employers should fund. This could potentially help to create the culture change needed as employers would have more visibility about the buy-in from government, alongside their own contributions.

- As part of these sector agreements, fund modules of training where there is evidence that this is what will have the greatest impact in terms of meeting skills needs and supporting growth, not just full qualifications.
- Start with a relatively modest amount of flexibility and evaluate the impact, making decisions that build on what has gone before and allowing sufficient time to embed before changing the policy.

Government should also plan to increase the funds available for training to reflect the income raised through the levy.

9. What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?

Please see the response to question 8, which is also a response to question 9.

Partnerships and Institutions

30. How can the Industrial Strategy Council best support the UK government to deliver and monitor the Industrial Strategy?

We suggest that the Industrial Strategy Council needs to:

- Recognise the critical role of skills in driving growth across the economy and ensure that policy supports this.
- Work collaboratively across relevant government departments, identifying shared goals and holding departments to account where needed. There are currently siloes between government departments which are stopping progress on policy areas including skills, and the Industrial Strategy Council can help break these down.
- Skills is essential to all five missions, and it is important that Skills England is an integral part of the Mission Boards and works closely with the Industrial Strategy Council.

31. How should the Industrial Strategy Council interact with key non-government institutions and organisations?

It is critical that Government engages on a sector basis. The Skills Federation, as the organisation which represents sector skills bodies, can provide the overarching view from our members. Individual sector skills bodies are well-placed to provide intelligence and insights, informed advice on government policy, and support to develop standards and programmes.

32. How can the UK government improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?

Sector skills bodies are well placed and resourced to offer timely perspectives on strategic and operational issues at national level. These insights can also support regional working. In an increasingly devolved landscape combined authorities will rightly focus on place, and working with sector skills bodies can help gain a better understanding of the skills needed to deliver sector priorities within regional economic plans.

Sector skills bodies can add value because they:

- Understand the needs of whole sectors from big business to the SMEs.
- Bring the breadth of knowledge about skill needs in the subsectors within their overall sector membership.
- Have the capacity, capability and experience to be able to act fast and to work with government that individual employers don't.

They use this knowledge, understanding and resource to carry out a wide range of functions including:

- Curating a wealth of rich labour market intelligence which provides the underpinning evidence base for their work.
- Setting standards and defining competence which are invaluable to underpin skills interventions: supporting IfATE trailblazer groups, developing and updating national occupational standards used in the devolved administrations, creating industry specific modular training standards.
- Facilitating channels to individual and groups of employers.