

# HOW CAN LOCAL SKILLS STRATEGIES HELP LOW EARNERS?

The level of employer demand for skills is important for both individuals and local economies. Weak demand is associated with a greater prevalence of low-wage work, increasing the risk of poverty. This research assesses how local skill strategies which support increasing employer demand for skills can help to improve the prospects of low-wage workers.

## Key points

- Low-wage jobs tend to have limited demand for skills and opportunities for progression. This affects wages and also the wider quality of work.
- Locally, weak demand for skills can result in a low-skills equilibrium – where the labour market is characterised by low demand for skills from employers but also limited availability of skills among the workforce. It can also result in the under-utilisation of skills, where the local population have higher skill levels than employers require.
- In England, the dominant approach has been to focus on the supply of skills. Many other countries have been more proactive in trying to influence demand for skills among employers.
- There are currently attempts to devolve some power and funding for skills to employers and to local areas. An example of this is the Sheffield City Deal which has involved the devolution of some central funding. The aim is to support a local delivery model to involve smaller firms and ensure people have skills to match employer demand.
- Policy needs to address both supply and demand for skills. The most successful local economies are those with a skilled workforce and competitive firms which make good use of these assets.

## The research

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# BACKGROUND

The UK has a relatively large proportion of low-wage jobs, often characterised by their limited demand for skills and lack of opportunities for progression. Weak demand for skills has implications for both individuals and local economies. For individuals, it affects the quality of work, wages, and their ability to develop their skills and move on to a better job. Research has shown the importance of job quality in better protecting workers from poverty. Local economies with weak demand for skills tend to have more low-skill/low-wage firms that compete primarily on cost rather than quality.

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Yet policy in England under successive governments has largely focused on the supply of skills, and been geared towards increasing and improving individuals' skills. Much less attention has been paid to employer demand for skills, and to improving how skills are used within the workplace. This research assesses evidence of how local skills strategies might help to increase demand for skills. It also examines the experience of developing a local skills approach under the Sheffield City Deal - a scheme which represents the largest devolution of skills funding to a UK city so far.

## How can local skills strategies encourage increasing demand for skills?

Where local labour markets are weak, shaping demand for skills should be an important policy aim. This is about more than simply ensuring people have the skills that businesses need. This study reviews the literature and identifies how local skills strategies can help to increase demand for skills and improve outcomes for low earners. There are a number of important findings:

- Increasing employer demand for skills in low-wage sectors is often about 'incremental innovation' – gradual improvements to processes, goods and services. Low-wage sectors are often labour intensive, and skills, management and working practices are likely to be important drivers of productivity improvements. Strategies include producing higher value, customised goods or services.
- Linking skills strategies with wider economic development and business support policies, locally or regionally, can help shape firms' demand for skills.
- Local skills strategies can support employers to develop structured progression programmes, such as career ladder schemes, for low earners. These promote career advancement by linking training for low-wage workers with structured progression within their firm, sector or local area.
- Engaging employers and other stakeholders such as trades unions and training providers is important when designing and delivering skills policy.

## Opportunities in the current policy landscape

Skills policy in England has tended to focus largely on increasing and improving the skills of individuals. However, recent changes may help develop approaches to target improvements on the demand side as well. Policy-makers are moving towards some greater devolution of responsibility for skills and budgets to local areas and employers. This is shown by Local Enterprise Partnerships (LEPs) playing a strategic role in skills policy and by the devolution of some central government skills funding to Sheffield as part of its City Deal. Businesses are also being offered a greater opportunity to shape skills through the Employer Ownership of Skills pilot schemes being run by the UK Commission for Employment and Skills.

However, significant challenges remain around increasing employer demand for skills. The resources available for skills policy have been reduced. Perhaps even more importantly, there appears to be relatively little appetite among the important local stakeholders, such as LEPs, for policy that aims to shape demand.

## Learning from the Sheffield City Deal

Sheffield City Region was one of the first to agree a City Deal, part of which was focused on skills. This secured an additional £4 million in funding, with a further £23.8 million of adult skills and apprenticeships budgets channelled from central government departments. Locally there was £6-12 million of local authority funding and a minimum of £37.5 million of employer investment.

A core aim of the City Deal's skills element is creating a 'demand-led skills system'. The skills package has two main aims, to be achieved over a three-year period:

- to create an additional 4,000 apprenticeships;
- to train 2,000 current employees with the skills needed by businesses locally.

The adult skills part of the programme is delivered through a group of intermediaries and providers. The intermediaries are responsible for making contact with employers, discussing the programme and working with them to identify skills gaps or training needs. The programme is targeted at small and medium enterprises, and tries to engage those who have not previously, or do not normally, use publicly-funded training provision.

While it is too early to assess the impact of the programme, the development and implementation raises a number of important issues. These include:

- *How to diagnose and respond to the main skills issues in the area, and in specific local sectors.* The City Deal is employer-led, with skills provision mainly targeted at skills gaps that employers might have. It does not try to influence overall demand for skills. However, it is not apparent that the main issue in some of the programme's priority sectors – in particular in care, hospitality and retail – is skill gaps. In these sectors it is more common for existing skills to be under-used, and for there to be limited opportunities for progression. Solutions to address these issues are missing from the programme. A good understanding of the main skills needs in different sectors is therefore an essential part of an effective skills strategy.
- *How to balance support for high-value versus high-employment sectors.* The programme highlights tensions between how to support high-value versus high-employment sectors, both of which are important for local economies. In Sheffield's plans, scope for incremental innovation in high-employment sectors is less evident than meeting skills gaps in high-value sectors such as advanced manufacturing.
- *How to target provision.* Offering support to all firms may not be the best way to use resources. It could be that targeting growing firms, firms with potential for growth, or firms creating 'good jobs' is a better approach.
- *How best to integrate local services and strategies.* Currently, one weakness of the programme is that it is poorly integrated with other areas of policy such as economic development, innovation and business support.
- *The best way to involve employers.* The programme works through an innovative delivery model using intermediary organisations which are responsible for involving employers. However, it also highlights the difficulties faced by trying to engage lots of smaller employers. It will be important to monitor the effectiveness of the approach.

## Conclusion

The challenge for policy-makers is not just about helping local economies increase the number of people in employment, but also ensuring that workers are in jobs where they can use their skills and have opportunities for progression. Part of the solution is developing policies to support increasing employer demand for skills. Currently, however, there is limited scope or appetite to innovate around skills policy in England.

The research identifies a number of areas where policy-makers and stakeholders should focus. Cities and LEPs in areas with weak demand for skills should seek to better integrate skills and economic development policies, and help to link firms to wider support to develop their business, management and leadership and use of workforce skills. This should include a focus on incremental innovation in sectors with large numbers of lower-wage jobs.

They should also maximise the role of larger public sector employers as examples of good practice and use their influence to cascade this good practice through their local supply chains. LEPs can also play an important role in encouraging businesses to learn from each other through peer-to-peer networks. Finally, LEPs and other local organisations should develop policies, such as career ladders, to directly link better skills to improved opportunities for progression for low-wage workers.

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## About the project

This research is by Paul Sissons and Katy Jones at The Work Foundation.

The paper reviews the international evidence on low-wage work and employer demand for skills. It also examines the current policy context around skills in England and provides a case study of Sheffield's City Deal.

## FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The main report, **How can local skills strategies help low earners?** by Paul Sissons and Katy Jones, is available as a free download at [www.jrf.org.uk](http://www.jrf.org.uk)

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