

Fixing the foundations

Skills growth & replacement in a post-Brexit
economy

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Abstract:

The current cycle of technical education reform predates the referendum on European Union membership.

Indeed, the introduction to the Sainsbury review states that the group *'was tasked with advising ministers on actions to improve the quality of technical education in England and, in particular, to simplify the currently over-complex system and ensure the new system provides the skills most needed for the 21st century.'*

This firmly placed the cycle of skills reform in the context of skills needed for the 21st century economy.

However, 2 months after its publication, the UK voted to leave the European Union.

Needless to say, this changed the game. The invocation of Article 50 shortly after set a 2 year timescale, adding haste to the proceedings.

With the lack of clarity around the nature of the Brexit deal to be negotiated, businesses in the UK face an uncertain future in many areas of operation, but especially in terms of their upskilling and recruitment strategies. This is particularly acute in the context of industries reliant on migrant workers.

Bearing this in mind, we need to reframe the conversation of skills reform – it is a matter of skills replacement vs skills growth. We need to ensure our skills base is secure on these foundations we can build a truly 21st century economy.

This paper attempts to start this conversation.

The basis of current technical education reform

The Post-16 Skills Plan reforms for the technical education system is premised with the following:

'As a result we have today a serious shortage of technicians in industry at a time when over 400,000 16-24 year olds are unemployed. It is hard to believe that none of these young people have the ability and motivation to train as technicians if given good opportunities to do so'

'This imbalance in the skills produced by our education and training system – a long tail of people with low or basic skills, insufficient numbers with intermediate-level qualifications and technical skills, but a substantial pool of adults qualified at tertiary level – highlights the importance of technical education reform. It is an urgent priority to help low-skilled workers to progress and develop their skills, and minimise the number of people entering the labour market without skills and qualifications after compulsory education.

The planned reforms will redress the balance by increasing the number of young people with advanced intermediate technical and specialist skills, helping meet the needs of employers and improving the quality of the country's skills base.^{2'}

This premise places the onus on domestic skills growth as a driver of UK economic growth.

However, with the lack of clarity around the nature of the Brexit deal to be negotiated, businesses in the UK face an uncertain future in many areas of operation – but especially in terms of their upskilling and recruitment strategies – this is particularly acute in the context of industries reliant on a migrant workforce.

If, as is currently being proposed by the Government, restrictions are placed on the movement of European Union nationals into the UK (and therefore the workforce), I would argue that the focus would need to be placed on domestic skills replacement.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536046/Report_of_the_Independent_Panel_on_Technical_Education.pdf

²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536048/Technical_Education_Reform_-_Case_For_Change.pdf

Skills Replacement

The CBI and Pertemps³ analysis has highlighted the reliance of UK industry on migrant labour;

'The great majority of organisations (87%) taking part in our survey have workers from elsewhere in the EU as part of their workforce. Among these businesses, nearly nine in ten report that continued access to skills and labour from the EU is important (49%) or vital (38%) for their operations'.

The same reports highlights that;

'The main current threats to the UK labour market are skills gaps (79%), access to labour supply (49%) and access to highly skilled migrants (43%), and businesses are not optimistic that these threats will be tackled effectively in the years ahead'

So where will these skills gaps be?

This reliance is particularly acute in certain sectors. IPPR analysis⁵ highlights the following share of EU nationals in the following occupations:

Occupation	Share of EU nationals(%)
Packers, bottlers, canners and fillers	41.6
Food, drink and tobacco process operatives	39.6
Weighers, graders and sorters	34.2
Vehicle valeters and cleaners	26.7
Cleaning and housekeeping managers and supervisors	26.0
Launderers, dry cleaners and pressers	24.6
Industrial cleaning process occupations	23.5
Fork-lift truck drivers	21.9
Other elementary services occupations not elsewhere classified	20.5
Routine inspectors and testers	20.2

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Unless we can receive certainty of the status of EU migrants to move and work freely in the European Union, the above sectors will need to be filled with domestic based workforce. It is my recommendation that the government clearly sets out the status of EU migrants and their access to the UK labour market as soon as possible.

The IPPR has highlighted the 2 proposed conditions that would radically restrict migrants to fill roles in the UK economy:

³ WORKING TOGETHER CBI/PERTEMPS EMPLOYMENT TRENDS SURVEY 2017 December 2017

⁴ ibid

⁵ <http://uk.businessinsider.com/ippr-stats-brexit-impact-on-eu-workers-sectors-industries-2017-3>

⁶ ibid

‘Low-skilled jobs, those that do not require a degree or equivalent, would be closed to EU nationals in line with [rules restricting applications from non-EU migrants](#).

[...] jobs that EU nationals could apply for would have to pay a minimum of £30,000⁷

This presents a problem in attracting the domestic skills base into these roles.

The wage threshold will not just make this an issue for low skill vacancies and sectors either. A crude analysis of ONS longitudinal data⁸ finds that approximately 58% of the occupations they list have a median wage below £30k.

Below is an extract from author’s analysis of top 10 occupations (by number of jobs) that have median salary below £30k:

Description	Number of jobs (thousand)	Median salary (£)
Health professionals	1,276	29,420
Nursing and midwifery professionals	835	27,415
Nurses	788	27,316
Other managers and proprietors	372	28,545
Managers and directors in retail and wholesale	279	26,000
Managers and directors in retail and wholesale	279	26,000
Managers and directors in storage and warehousing	123	28,733
Managers and proprietors in hospitality and leisure services	105	24,000
Therapy professionals	97	27,391
Teaching and other educational professionals	82	16,626

It is critical to note that even in the sample presented above in this rough and ready analysis, job roles include ‘skilled’ jobs which entail significant training.

For example; to take a sector reliant on migrant labour, The Creative Industries Federation set out in its 2017 Global Talent Report⁹

⁷ <https://www.theguardian.com/politics/2017/sep/23/new-brexit-rules-could-lead-to-unskilled-workforce-crisis>

⁸ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours>

⁹ https://www.creativeindustriesfederation.com/sites/default/files/2017-11/GlobalTalent_v16.pdf

'A workforce survey conducted by the Federation found that 75% of 250 business respondents employed EU nationals. Two thirds said they could not fill those jobs with British workers. The statistics also fail to demonstrate the value of international workers to the sector.'

They recommend; *'Freedom of movement has been crucial to the success of the creative industries and we cannot support government's plan to end it. Should government fulfil its plans, any replacement system must allow the best possible access to EU talent and the skills our sector needs.'*

Critically they highlight the need to; *'Allow employers to bring in EU workers without meeting the current non-EU minimum salary requirement'*.

To take another example, according to the British Hospitality Association (BHA), skills replacement in the hospitality sector could take up to 10 years¹⁰.

If there is to be a skills replacement strategy, then the BHA ask that the government *'bolsters its newly announced technical qualifications with better promotion within schools of non-academic careers, including hospitality'*. Although progress has been in this regard with the introduction of the 'Baker Clause', placing a duty on schools to promote vocational training and Further Education routes to their pupils, recent Schools Week analysis has shown that;

*'only two of the 10 largest multi-academy trusts in England have fully complied with their new legal duty to allow training organisations the chance to speak to pupils about technical qualifications and apprenticeships'*¹¹.

The recent publication by the Greater London Authority *'Preparing for Brexit'* sets out that;

*'The skills level of the UK labour force is likely to be affected by a change in migration patterns, and in turn is likely to impact the country's productivity'*¹²

In turn, their analysis of Science and Technology sector, they emphasise that ; *'Depending on the agreements made after Brexit, the UK could experience less benefits from access to research groups and the skills and collaboration opportunities provided by the rest of the EU'*

Similarly the report sets out that for the Creative and cultural sector (which alone is worth almost £10 million an hour to the UK economy¹³);

'the UK tech sector relies heavily on a foreign workforce, and sectors such as Artificial Intelligence (AI), data science and robotics, which the government has identified as potentially high-growth, already demand skills (such as software development, advanced science, technology, engineering and mathematics skills (STEM), and basic skills in literacy and numeracy) that are in short supply. In London, 9% of employees (18,000 jobs) in the arts, entertainment and recreation sectors were born in the EEA26. One important question that faces the creative and cultural industries is whether the UK will be able to continue to attract and retain a labour force with relevant high calibre skills from the rest of the world, in order to maintain its reputation in these industries once the UK leaves the Single Market.'

¹⁰ <https://www.theguardian.com/business/2017/mar/11/eu-hospitality-workers-brexit-pret-a-manger-hotels-restaurants>

¹¹ 'Baker Clause off to a stumbling start' Alix Robertson, Schools Week Edition 127, January 26 2018

¹² https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf

¹³ <https://www.gov.uk/government/news/creative-industries-worth-almost-10-million-an-hour-to-economy>

This highlights 2 further points;

- firstly the acknowledgement that in some sectors the government is already progressing to fulfil skills replacement demand,
- Secondly that the key issue around the (harder to measure or quantify) *reputational* impact on industry from Brexit.

Recommendation: This ‘backfilling and securing’ job roles in these areas of the economy –where skills replacement is a significant issue - should therefore be a priority if restrictions on free movement are enforced as planned.

Skills Growth

‘The reforms will help Britain make a success of leaving the European Union. They will support young people and adults to secure a lifetime of sustained skilled employment and meet the needs of our growing and rapidly changing economy, contributing to improving individual’s social mobility and economic productivity.’¹⁴

The recent cycle of skills reform is caveated on the basis of upskilling learners to higher level qualifications. This in and of itself is a noble ambition, in terms of assumed return on investment of government spending.

However, even the government has identified that;

‘investment in apprenticeships provide a great return for the country’s economy – the latest research indicates that for every pound invested in adult apprenticeships at Level 2 and Level 3, the country benefits £26 and £28 respectively’¹⁵

Indicating that, in the apprenticeship space at least, study at levels 2 & 3 offers significant returns for the UK economy.

This is reinforced by research undertaken by Peter Urwin, professor of applied economics at the University of Westminster, whose research stated that;

‘among the most disadvantaged third of learners, those who completed a level 2 course went on to earn 12 per cent more than their peers from a similar socio-economic background. The equivalent figure for level 2 apprenticeships was 10 per cent’^{16,17}

The government’s own research has set out a similar picture, in which *‘there continues to be large and significant wage gain for most vocational qualifications [...] All vocational qualifications are associated with increased likelihood of being in employment. Those with an NVQ at Level 3 are 15 percentage points more*

¹⁴https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650969/T_level_Action_Plan.pdf

¹⁵ <https://www.gov.uk/government/news/pm-unveils-plans-to-boost-apprenticeships-and-transform-training>

¹⁶ <https://www.tes.com/news/further-education/breaking-news/exclusive-level-2-qualification-can-add-12-students'-earnings>

¹⁷ Technical Education in England: Investigating Seven Key Assumptions, Work commissioned by the Federation of Awarding Bodies, Professor Peter Urwin, February 2017.

likely to be in employment and for Level 2 the figure is 13 percentage points, compared to those with lower qualification levels¹⁸.

These directly challenges the orthodox perception, established since the publication of Review of Vocational Education – The Wolf Report, by Professor Baroness Wolf, which argues the view that ‘low level vocational qualifications (level 1 and 2 in the National Qualifications Framework) to have no significant effects on wages in either direction¹⁹.

Therefore, my recommendation would be to ensure the continued availability for funding for learners of all ages to undertake qualifications at levels 2 and 3 (as well as progression onto these courses at lower levels), to ensure the wage growth and increased employability outlined above.

Further to this, government needs to ensure that the Education and Skills Funding Agency has the capital to invest in the qualifications outlined above.

Recent research of EU-funded public sector awards by Tussell²⁰ has highlighted that;

‘The Education & Skills Funding Agency (ESFA) is particularly dependent on the EU, with 76% of the ESFA’s total award value since 2015 at least partly backed by EU programmes.

£433M worth of EU-backed awards are due to expire before Britain departs from the EU in March 2019. It is not clear what will happen to these projects when the current awards expire

Since January 2015, £1.6B of awards (excluding frameworks) have been issued with funding from EU programmes. £1.3B of this was awarded after the Brexit referendum, mostly in Q4 2016.’

It is therefore of vital importance that the government outlines how the funding outlined above will be replaced once we leave the European Union.

I believe the returns on investment set out in the previous paragraphs highlight the importance of this money being guaranteed for the sector.

¹⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32354/11-1282-returns-intermediate-and-low-level-vocational-qualifications.pdf

¹⁹ Review of Vocational Education – The Wolf Report, Alison Wolf March 2011
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/180504/DFE-00031-2011.pdf

²⁰ <https://www.fenews.co.uk/press-releases/16319-tussell-reveals-extent-of-eu-funding-in-esfa-contracts>

Conclusions and recommendations

In leaving the European Union, care must be taken to ensure that domestic skills needs are met. This becomes particularly acute if restrictions are placed on migrant labour.

- The government should clearly set out the status of EU migrants and their access to the UK labour market as soon as possible.
- The 'backfilling and securing' job roles in the key areas of the economy - skills replacement - should therefore be a priority if restrictions on free movement are enforced as planned.
- Government skills policy is focused at higher level skills growth, but as we have seen, there continues to be significant wage and employability return on investment of qualifications at lower levels.

Government should therefore secure and enable funding for learners of all ages to undertake qualifications from entry level to 3 (as well as progression onto these courses at lower levels), to ensure the wage growth and the increased employability returns outlined above.