A4. A Potted Guide to the Leitch Review of Skills in the UK
I. The Background and Purpose of the Review:
A Potted Guide to the Leitch Review of Skills in the UK

• Lord Leitch was tasked by the Westminster Government to consider what the UK’s long-term ambition should be for developing skills, in order to maximise economic prosperity and productivity and to improve social justice.

• There is consensus that we need to be much more ambitious in the UK and a clear message that the UK must ‘raise its game’, urgently.

• In the UK skills are not world class. We run the risk that this will undermine the UK’s long-term prosperity, because productivity continues to trail many of our main international competitors.

• The UK has many important strengths – an excellent higher education system where more people than ever are studying for degrees; good reforms on vocational training; an increasingly effective school system; and a strong record of improvement over the past decade.

• But, the UK also has considerable weaknesses: more than one third of adults do not hold the equivalent of a basic school-leaving qualification. Almost half of adults are not functionally numerate and one sixth are not functionally literate. This is worse than our principal comparator nations.

• Improving our schools will not solve these problems. Today over 70 per cent of our 2020 workforce has already completed their compulsory education. Our intermediate and technical skills lag countries such as Germany and France.

• We have made progress expanding Higher Education – and this is critical to becoming a high-skill economy. Over one quarter of adults hold a degree, but this is less than many other countries who also invest more. Our skills base compares poorly and, critically, other countries are improving.
2. Overview of Key Findings

• The UK has a strong economy and world-leading employment levels, but its productivity trails many key comparator nations; poor skills are a key contributor to this problem as well as having wider impacts on social welfare.

• Over the last decade, the skills profile of working age people in UK has improved. For example, the proportion with a degree has increased from one fifth to over one quarter of the population.

• Despite these improvements, the UK still does not have a world-class skills base:
  – over one third of adults in the UK do not have a basic school-leaving qualification – double the proportion of Canada and Germany;
  – five million people have no qualifications at all
  – one in six do not have the literacy skills expected of an 11 year old and half do not have these levels of functional numeracy.

• Looking ahead to 2020, global, demographic and technological change will place an even greater premium on the UK’s skills profile.

• If the Government meets its current targets for improving the UK’s skills, by 2020, the proportion of working age people without any qualifications will fall to 4 per cent and the proportion holding a degree will increase from 27 per cent to 38 per cent. This will have significant benefits for the economy – increasing annual productivity growth by 0.2 per cent with a net benefit to the economy of £3 billion a year, equivalent to 0.3 per cent of GDP.

• However, even if the UK can meet these targets, the nation’s human capital will still fail to be world-class. Considerable problems will remain; at least 4 million adults will still not have the literacy skills expected of an 11 year old and 12 million would not have numeracy skills at this level.

• The Review has analysed more ambitious scenarios for 2020:
  – tackling the stock of low skilled adults without qualifications, basic literacy and numeracy;
  – investing more in intermediate skills; and
  – further increasing the proportion of adults holding a degree.

• significant economic and social benefits that would result from higher productivity and employment gained through improving skills.
3. The Increasing Importance of Skills to the Economy and Society

**UK has a strong economy but relatively poor productivity**

- The UK starts from a strong economic position:
  - It is the fourth largest economy in the world
  - It has the highest employment rate in the G7 group of industrialised nations.
- Despite this strong performance, the UK today faces important economic challenges:
  - the UK continues to have relatively poor productivity performance which still trails some of the UK’s main comparator nations
  - Output per hour worked is almost 30 per cent higher in France and more than 10 per cent higher in Germany and the USA than it is in the UK.
- Evidence shows that a significant contributory factor to the UK’s relatively poor productivity performance is its low overall level of skills.
  - One fifth of the gap with France and Germany is a result of the UK’s comparatively poor skills. Low levels of skills in the UK constrain growth and innovation in firms.
  - Those with low levels of skills are far less likely to be in employment and, when they are, earn less than their more skilled contemporaries.

---

**Chart 6: Projected change in age groups 2005-2020**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per worker</th>
<th>GDP per hour worked</th>
<th>GDP per person of working age</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G7</td>
<td>110</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ONS, HM Treasury.
Global, demographic and technological change put a greater emphasis on skills

• Improving the nation’s skills base is already a key economic challenge for the UK. Looking forward to 2020, developments in the global economy will make this challenge even more pressing.

• By 2015, China is likely to have become the third largest economy in the world – after the USA and Japan – contributing 19 per cent of global output. The shifting balance of economic activity provides significant opportunities and also serious risks for UK businesses; creating new markets and cheaper inputs for production, but also a more competitive environment.

• These global changes will mean that the UK is likely to have a decreasing share of output in the industries where other countries achieve comparative advantage. In order to maintain and improve its growth, the UK must manage the resulting domestic structural change effectively, allowing workers to shift to more productive and profitable sectors. These changes put an increasing premium on the UK’s skills profile.

The nature of jobs will continue to change

• The nature of employment will continue to change. Most occupations already require greater levels of skills than in the past. Skills that were once seen as specialist and technical, such as in ICT, have increasingly become core requirements for most jobs.

• There will be increased demand for more highly skilled occupations, such as managers and professional occupations, whilst lower and some intermediate-skilled occupations will account for a falling share of employment.

• Demographic factors are also important. In some intermediate jobs, such as skilled trades, demand will be significant over the next 15 years (as older workers retire), even if those jobs account for a decreasing share of employment.

• New analysis suggests that, by 2014, two-thirds of jobs will be filled by those with at least intermediate level skills. By 2020, more than 40 per cent of jobs could be filled by graduates, up from 30 percent in 2004.
The UK needs a world-class skills base

- The UK must develop a world-class skills base to drive innovation and growth as well as basic and generic skills to take advantage of technological change and the changing needs of employers as they respond to their competitive environment.

- The UK’s workers must be able to develop their skills to support the necessary changes in the structure of employment.

- Employers need the managerial capability to harness the skills of their workforce. Failure to adapt means that growth will suffer and certain groups in society risk being left behind. Key comparator countries foresee similar needs and are investing in their skills base.

Chart 3: International comparisons of qualification profiles

Base: Adult population aged 25-64.
Source: OECD Education at a glance, 2005
The UK has a comparatively low skills profile

The UK has a Today, the UK’s human capital is poor in relation to key comparator nations:

– the proportion of adults in the UK without a basic school-leaving qualification is double that of Canada and Germany;

– over 5 million people of working age in the UK have no qualification at all; and

– one in six adults do not have the literacy skills expected of an 11 year old. Almost half do not have these levels of functional numeracy; only half of adults who lack these functional skills are in work.

– although the position in higher-level skills is better, with over one quarter of adults in the UK holding a degree-level qualification, other countries such as USA, Japan and Canada are still in a superior position.

• Skill deficiencies are reflected in employers’ experiences. In survey evidence from across the UK, employers report significant skills shortages within their own workforce and in the pool of labour from which they recruit.

• Recent evidence shows persistent recruitment difficulties across the skills spectrum, in low skilled service jobs as well as in skilled craft jobs. This affects the ability of firms to grow and become more productive and profitable.

• Almost one third of firms who report skills gaps in their workforce say that these gaps prevent them from modernising their business to move into higher value added – and more productive – economic activity.

Chart 2: Total demand by occupation, 2004-2020

Source: CEAER employment projections
Skills are Unequally Distributed

- Skill levels have an important impact on employment and social welfare.
  - only half of those people with no qualifications are in work compared to 90 per cent of adults qualified to at least degree level.
  - low skills levels are particularly pronounced in certain groups. For example, over 40 per cent of people with a disability have no qualifications at all.
  - the unequal distribution of skills has adverse affects on income equality and constrains social mobility, which has deteriorated in the UK over the past two decades.
  - evidence suggests that skills gaps exacerbate social deprivation including poverty, poor health and crime.
- The skills profile of the workforce also varies widely between areas of the UK.

Chart 4: Skills profiles across the UK

Base: UK working age population.
The UK has started to make good progress

• Over the last decade, the UK has made real improvements to its skills profile. The proportion of the working age population with a degree has increased from one fifth to over one quarter. The proportion of adults who hold no qualifications has fallen by one third, from one fifth of the working age population to 14 per cent.

• Today, adults with a degree are paid around 20 per cent more than those without.

Growing numbers of graduates in the UK

• Over the past 10 years, the proportion of adults in the UK holding a degree or equivalent level qualification has increased from 19 to 26 per cent in 2004. Over this period, the wage returns acquired by people with a degree have remained relatively stable.

• However, despite the substantial increase in the number of people participating in higher education, the UK is still only just above the OECD average with approximately a quarter of adults holding a degree level qualification.

• In Canada and the USA, around 40 per cent of adults are qualified to this level and China and India together produce four million graduates annually, compared to 250,000 in the UK.

• Changes are primarily due to younger, better-qualified people flowing into the workforce, while older and less well-qualified people retire. One in ten 25-34 year olds has no qualifications compared to one in four 55-64 year olds.

• Over the last decade, there has been a significant decrease in the proportion of people who lack a qualification at the equivalent level to five good GCSEs, falling by almost one half from 43 per cent to 23 per cent.
Current ambitions will make further improvements, but targets are challenging

• The Government has set ambitious targets to further improve the skills profile of the UK. These include:
  • addressing the stock of adults who lack basic literacy and numeracy skills;
  • reducing the stock of adults without the equivalent of a good school-leaving qualification;
  • increasing the numbers of young people with a degree.
• Meeting these targets will bring significant improvements to the stock of skills in the UK.

Chart 5: Economically active adults qualified to level 2 and above

Note: Level 2 is equivalent to 5 GCSEs at grade A* – C.
Source: LFS autumn quarters.
As stated, improvements in the skills of young people over recent years have contributed positively to the overall picture in the UK. However, even if further improvements are successful, the skills of young people alone will not improve the UK’s overall skills profile significantly enough by 2020 because:

– 70 per cent of the working age population in 2020 have already completed their compulsory school education; and
– half of the working age population in 2020 is already over 25 years old. This is beyond the age when people are likely to participate in the traditional education route from school through to university.

By 2020, there will be about 3.5 million more people in the working age population and the population will have aged significantly.

– Adults aged 50 – 65 years will account for 60 per cent of the growth in the working age population.
– The contribution of older people to the labour market will become increasingly important.

– By 2020, 30 per cent of the working age population will be over 50, compared with 25 per cent today.
– These demographic changes make it essential to improve the skills of older groups in the workforce.

5. Looking Forward to 2020

Further improvements must be made to the skills of adults

- By 2020, there will be about 3.5 million more people in the working age population and the population will have aged significantly.
- Adults aged 50 – 65 years will account for 60 per cent of the growth in the working age population.
- The contribution of older people to the labour market will become increasingly important.
- By 2020, 30 per cent of the working age population will be over 50, compared with 25 per cent today.
- These demographic changes make it essential to improve the skills of older groups in the workforce.
If current ambitions are met, skills will improve significantly by 2020

- The Review has undertaken new analysis to assess the UK’s trajectory in developing its skills profile and the likely stock of skills in 2020 if all current targets are met. The most marked changes over the next 15 years will occur at each end of the skills spectrum:
  - by 2020, the proportion of working age adults without any qualifications will fall to 4 per cent;
  - the proportion without qualifications at the equivalent level to five good GCSEs will halve from 31 per cent today to 16 per cent in 2020; and
  - the proportion holding a degree or better would increase from 27 per cent to 38 per cent of the working age population.

Chart 6: Projected change in age groups 2005-2020

Source: GAD population forecast 2004
Current ambitions do not go far enough

- The Review’s analysis suggests that the economic benefits from meeting these current ambitions would be substantial:
  - Productivity could be 3 per cent higher compared to what it would otherwise be.
  - The employment rate could increase by 0.75 per cent.
  - This is a net benefit to the economy of an average £3 billion each year, equivalent to 0.3 per cent of gross domestic product (GDP).
  - One fifth of this benefit is due to increased employment; the rest is due to adults who are already in work improving their skills further and becoming more productive.

- Even if the Government’s current targets were met, significant problems would remain with the UK’s skills base in 2020:
  - At least 4 million adults will still not have literacy skills expected of an 11 year old.
  - At least 12 million will be without numeracy skills at this level (equivalent to three in ten adults).
  - 6.5 million adults will not have qualifications at the equivalent level to five good GCSEs.

- In comparative terms, the UK will continue to be an ‘average performer’ – positioned at best, in the middle of the OECD ranking and it will continue to have smaller proportions of intermediate and higher-level skills than key comparator countries such as France and the USA.
The benefits of even greater change by 2020

- There is significant benefit in enabling:
  - an additional 3.5 million adults to gain a qualification at the equivalent level of five GCSEs at grades A*-C;
  - up-skilling the same number of adults to an intermediate level (equivalent to two A levels);
  - and increasing the number of adults with at least degree level qualifications by 3.5 million (the equivalent of increasing the attainment rate of 19 – 30 year olds to 65 per cent).

![Chart 7: Projections of qualifications in UK working age population, 2005-2020](chart.png)

Note: Level 2: equivalent to five GCSEs at grade A* – C; Level 3: equivalent to 2 A levels; and Level 4: equivalent to a degree. Columns may not sum to 100 due to rounding.
Source: Leitch Review qualifications projections model.
Building on joint responsibility

• Tackling low skills, through upskilling an additional 3.5 million adults from the lower end of the skills spectrum, could deliver an average annual net benefit – on top of current ambitions – of 0.3 per cent of GDP. Most of this benefit comes from an increase in employment of 375,000-425,000.

• Improving intermediate and higher end skills deliver average annual net benefits of 0.4 per cent and 0.45 per cent of GDP respectively. These benefits largely result from improved productivity.

• However, as policies to improve higher level skills are more expensive, the Review’s analysis suggests that overall the three scenarios each give similar ‘value for money’.

• There is already substantial effort and investment by employers, individuals and the Government, but it is clearly not enough to deliver the skills improvements that the country needs.

• The Government has already established a Skills Strategy and has an extensive framework in place to improve the UK’s skills. Estimates suggest that employers currently invest around £23.5 billion annually in training activity. It will be essential to build on this joint responsibility in order to achieve an even greater ambition for 2020.

Chart 8: Source of additional economic benefits from alternative scenarios

<table>
<thead>
<tr>
<th>Proportion of additional benefits (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tackling low skills</td>
</tr>
<tr>
<td>Productivity</td>
</tr>
</tbody>
</table>
6. The Next Steps for the Review

- The analysis presented in the interim report by Sandy Leitch shows that the UK needs to be far more ambitious.
- Current targets will be difficult to achieve but can bring significant improvement.
- Current ambition will not go far enough to improve the UK’s comparative skills base or ensure that the economy is well positioned to operate in increasingly competitive global markets. It will not go far enough to improve social justice.
- The UK must confront the challenges identified and set a much higher ambition for skills if it is to become world class. The next phase of the Review will consider:
  - the skills profile that the UK should aim to achieve in 2020 in order to drive growth, productivity and support social justice over the longer-term;
  - the appropriate balance of responsibility between Government, employers and individuals for the action required to meet this level of change; and
  - the policy framework required to support this.