

## **Annex A to the Invitation to Tender for the Regional Skills Project**

### **Summary of consultation and research findings in developing the Regional Skills Project**



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## Introduction

This summary sets out the process South West Food & Drink (SWFD) have been through in developing our Regional Skills Project (RSP).

## Background

SWFD are a strategic body originally set up by SWRDA to support food and drink sector development. We are governed by a private sector-led Board drawn from the sector and covering all components of the industry from primary production through to food and drink retailing.

SWFD manage and deliver strategic sector development activity. One aspect of that is the development of skills and that is the subject of this SWRDA single pot-funded project. However, in delivering activity of this nature it was clearly necessary to ensure it complemented mainstream skills funding and addressed need and demand that remained or that existing provision could not / was failing to reach. There was a need to ensure that whatever was identified, was able [or had the potential] to deliver genuine productivity benefits at the business level. SWRDA has an overarching objective – improving regional productivity – and SWFD needed to ensure that it used these resources to deliver against that.

## Development parameters

In developing the project, SWFD did so within a set of parameters. These have created relative freedoms of action in some cases, and constrained our proposals in others. The main parameters are set out below to help you understand what, beyond the analysis of need, demand and opportunity within the sector itself, have had a bearing on the project's development:

- **Modest resources** – the project has a delivery budget of c.£400k. Although significant, ranged against the larger Skills Funding Agency, European and other Central Government-derived resources, it is relatively modest. In order to maximise impact it was important to identify specific skills gaps or shortages, but also to lever match funding to increase the overall value of the RSP;
- **Timescales** – the project is approved to run till 31<sup>st</sup> March 2012. Given a necessity to procure high quality delivery (and the lag associated with tendering), the likelihood is that the project will have a delivery phase of approximately 15 - 18 months. Consequently, an important consideration in procuring delivery services will be the ability of provider organisations to credibly explain how they would be able to develop the training content with the right set of target beneficiaries and deliver a full programme of high quality training in the time available;
- **Regional** – provider organisations must have the ability to credibly cover the full region;

- **Adding value** – the project must add value to, and complement, existing mainstream provision and that funded through the large European programmes (eg, RDPE, ESF) currently operating;
- **Business benefit** – the focus of the funding is to deliver business benefit. This would target aspects of business where skills have a real chance of making a substantial impact on productivity. Capturing and measuring this impact is also important, as this aspect is poorly understood by the majority of SMEs in anything other than an ‘academic’ sense.

What struck us in developing the project was that there is an opportunity to do those things that less flexible resources cannot support, due to their relative novelty or complexity (and implied higher unit cost).

The aim of the project then is:

***To deliver very high quality training that addresses demonstrable gaps in provision and demand from business, and that has the potential to generate substantial productivity gains at the business level within the food and drink sector.***

## Process

SWFD were keen to ensure that this project is demand-led. The project has been developed following consultation with industry-led groups and training providers who are sufficiently close to the target beneficiary audience to offer a useful perspective on demand, what works in terms of delivery and what to avoid<sup>1</sup>. We have also drawn extensively on the Stage 1 and 2 work of the *LANTRA*, *Improve* and *Skillsmart Retail* Sector Skills Agreements (SSAs)<sup>2</sup>, national and regional policy and strategy documents, as well as commissioned research where relevant<sup>3</sup>.

The sections below set out the main findings of the research and consultation phase of the RSP’s development examining at a high level need and demand in the sector, current and planned provision and resultant gaps, and broad proposals for what activity the project should deliver.

<sup>1</sup> A full list of organisations SWFD have undertaken face-to-face discussions on the RSP with is at Appendix 1

<sup>2</sup> Respectively the Sector Skills Councils (SSC) for the Environmental & Land-Based, Food & Drink Manufacturing and Retail sectors. In developing SSAs, each SSC was directed to run through a 5 stage process that would culminate in an Action Plan for the sector. Stages 1 and 2 involved the assessment of current and future skills need and demand and an assessment of current and future supply of training provision. SSAs are developed with the explicit involvement of industry – thereby addressing in part our desire to see the project develop as industry-led. Whilst Stage 3 brings these 2 earlier stages together to provide an analysis of gaps and weaknesses in provision, it does so in an often quite general and conceptual way, without reference to the finer detail of regionally and sub-regionally funded skills training. Whilst this is deliberate, encouraging the development of flexible ‘solutions’, it will be essential in making the case for any intervention to *prove* the fact that what is proposed addresses a gap / does not duplicate *actual current or planned* provision.

<sup>3</sup> And in particular *Improve Labour Market Intelligence*; *Food & Drink Manufacturing Skills Needs in the English Regions*, BMG Research Ltd for *Improve* (September 2007); *The Business Benefits of Training in the Food & Drink Manufacturing Sector*, University of Leicester Centre for Labour Market Studies for *Improve* (June 2008); *High Performance Working: A Synthesis of Key Literature*. UK Commission for Employment & Skills Policy & Research Directorate (August 2009); and *Maximising Employee Potential and Business Performance: The Role of High Performance Working*, EEF and CIPD (November 2003).

## Need and demand

Before reviewing the needs and demands by sector, it is worth saying at this point that there are two broad groups of skills that consistently emerged as in need of attention, but which we have decided to exclude from the RSP:

- **Basic skills** – literacy, numeracy, ESOL and, in some cases ICT; and
- **Employability skills** – those ‘soft’ skills that have an impact on someone’s ability to work in teams, to perform in customer-facing roles and, more generally, to function in the world of work such as personal discipline and self-respect, communication skills, motivation, team-working.

**Basic skills** – Need and demand for basic skills are currently well-served, in theory, by statutory entitlements to basic skills training (primarily through Skills for Life provision under both Adult Learner Responsive and Employer Responsive training programmes) – the 2010/11 FY allocation to this broad area is in the region of £600M nationally (excluding a further £190M to fund Foundation Learning)<sup>4</sup>. In addition, a large proportion of ESF-funded activity targets this area. That employers consistently remark on poor basic skills<sup>5</sup> is possibly an indication that awareness of the training provision and persuasion as to its benefit to the individual beneficiary is an area that needs further attention, but also that, there is a lag in respect of when increased funding was deployed against this target group, how quality delivery capacity has then evolved and following that the out-turn of individuals with improved basic skills.

Against the financial resources allocated to improving these skills, that allocated to SWFD is very small, and so if we are to conserve our effort to address gaps in provision, we would argue that we should, at this stage, discount basic skills from consideration.

**Employability skills** – Anecdotally, much of the blame for a perceived decline in employability skills is laid at the door of a culture which has increasingly prized individual rights over collective good. This has given rise to what some call a post-deferential generation, who question authority and who are un-checked by an education system perceived to be working with one hand tied behind its back. Whether or not this is an accurate perception (and some would argue it owes something to ‘grumpy old man and woman’ syndrome), is actually a moot point, as industry are to all intents and purposes of one voice in this regard and believe it hinders team working, the development of good quality team-leading / supervisory management skills, of customer service and so on. There is thus a large issue to address – whether it be one of re-aligning perceptions and expectations or addressing social and cultural attitudes at a gross level.

This is beyond the scope of a relatively modest project when ranged against other, arguably more appropriately positioned and substantially greater resources (such as those of ESF or, more widely, DWP and DCSF). Whilst it is

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<sup>4</sup> *Skills Investment Strategy 2010-11*. BIS (November 2009).

<sup>5</sup> *The Food & Grocery Industry Skills & Employment Summit 2010*. IGD (March 2010). Basic skills were prioritised as an area of particular need in both key note addresses and in open forum / plenary.

clear that a link between productivity and basic skills and employability skills is there, the relationship is likely to be modest at the individual beneficiary / business level and, in some cases, indirect, rather than transformational and direct.

It is worth then reflecting back on, ultimately what we are trying to achieve: *To deliver high quality training that addresses demonstrable gaps in provision and demand from business, and that has the potential to generate substantial productivity gains at the business level within the food and drink sector.*

In the next sections we review current understanding of need and demand in the food and drink chain, paying particular attention to those areas likely to generate the greatest benefit in productivity terms at the business level.

## The land-based sector

Analysis of current and future skills requirements in the regional land-based sector indicates greatest need for **basic skills** at intermediate level (literacy, numeracy, communication skills) and for skills related to **planning and organising**, where a progressively higher level of skill is assessed as being required<sup>6</sup>. Although LANTRA's SSA Stage 1 quantitative surveying revealed no requirement for **leadership and management** training, analysis of qualitative research also undertaken at this stage suggests this need is there. Whether this is latent or masked by the nature / language of the quantitative research techniques is not clear.

This need for leadership and management skills provision is reinforced by the output of extensive consultation with stakeholders and businesses in creating a skills investment framework for RDPE<sup>7</sup>, where leadership and management emerged as a clear priority and for intervention in terms of regional skills programming: a *must have*.

Although the need for more basic skills was acknowledged, consultation responses identified that, where funding was limited and targeting therefore of paramount importance, addressing this need was more appropriately the role of ESF-funded activity and / or mainstream provision (eg, Train 2 Gain).

LANTRA's analysis also indicated a substantial current requirement for **technical (trade / vocational)** skills and that, over time, the skills levels required would rise from *high* to *high / advanced*. Again, the RDPE skills investment framework echoes this finding, marking out sector-specific technical skills as the only 'must have' within the Operational Efficiency and Technical Skills priority. Notwithstanding a likely tight skills funding budget settlement, the new Government is seemingly very committed to the development and delivery of training for a *technician* class and apprenticeships / advanced apprenticeships will likely survive relatively well as a funding priority, complementing any shorter, sharper delivery supported by RDPE funding.

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<sup>6</sup> *The Environmental and Land-Based Sector: Sector Skills Agreement. Analysis of Current and Future Skills Needs*. LANTRA (September 2005). It is understood that the LANTRA SSA is due to be refreshed soon, and this working paper, as a living document, will be revised to reflect any changed assessment of need and demand.

<sup>7</sup> *Skills Development in the South West: A Framework for Investment*. South West Regional Employment & Skills Partnership (June 2009). The Framework sets out 3 Strategic Priorities: Business Development & Strategic Change Management, *Operational Efficiency & Technical Skills*, and *Adding Value & Diversification*. Within each priority area, the Framework then sets out a small number of *Must Have* skills areas that emerged as the key priorities – in the wider realm of integrated rural development – that skills provision should systematically address.

## The food and drink manufacturing sector

Improve<sup>8</sup> identify particular skills requirements in the management / supervisory management cohort of the workforce, with clear needs relating to productivity / efficiency-based skills<sup>9</sup>, operational people management and softer skills such as leadership, motivation and confidence building<sup>10</sup>. In addition, and exacerbated by increasing automation, skills shortages and gaps amongst skilled / technical workers are increasingly evident. Whilst this has implications for recruitment (with high levels of replacement demand in these cohorts), it forms the basis of a sound case for training development within the workforce.

Although the relative importance of individual sub-sectors in the South West differs from that nationally<sup>11</sup>, the broad patterns in terms of skills gaps and shortages and therefore the headline skills requirements is consistent with that at the national level.

Around 17% of employers report skills gaps<sup>12</sup> in the current workforce, with the dairy and bakery sub-sectors recording the highest level of skills shortages (21% and 20% respectively) – and of particular relevance to the region given that together they account for over a third of all sector employment. Across the sector, an estimated 7% (in the region of 300 based on a sector of 36,500 employees of which 12% are managers) of managers are felt not to be fully proficient in their role, 43% (over 3,000) of process, plant and machine operatives (critical in an industry increasingly reliant on automation), and 43% (approaching 2,500) of those in elementary occupations.

Improve go on to estimate that of those cohorts of the workforce most frequently exhibiting skills gaps<sup>13</sup>, the following skills were those most often identified as requiring improvement:

### Amongst managers (note the Improve work further segments this data by 10 different managerial roles)

- Leadership and strategic management skills (62% of those with skills gaps felt this was a skills area in need of improvement);
- Supervisory / operational management (57%);
- Team working skills (41%); and
- Training / coaching skills (38%)<sup>14</sup>.

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<sup>8</sup> *The Food and Drink Manufacturing Industry in the South west of England: Labour Market Information Profile 2009/10*. Improve (August 2009).

<sup>9</sup> Such as Lean Manufacturing and Continuous Improvement.

<sup>10</sup> These and others could broadly be grouped within the High Performance Working paradigm or relate directly to it. HPW, in its broadest sense, uses the systematic application of targeted HR practices to improve business performance.

<sup>11</sup> *Food and Drink Manufacturing: Skills Needs in the English Regions*. BMG Research Ltd for Improve (September 2007). The dairy sub-sector employs nearly 3 times as many, proportionally, compared to national employment rates, with food and drink wholesaling also considerably better represented. Conversely, the bakery and fruit and vegetables sub-sectors are substantially less well-represented in the region. It should be noted however that, although less well-represented, the bakery sub-sector still accounts for 17% of regional food and drink manufacturing employment.

<sup>12</sup> Skills gaps relate to the lack of proficiency of a standing member of a workforce. This is distinct to skills shortage which describes a lack of appropriately skilled individuals within the labour market.

<sup>13</sup> Skills gaps amongst professional occupations, associate professional and technical occupations, administrative and secretarial occupations, skilled trades, personal service occupations and sales and customer services occupations were assessed as negligible (all occupational groups recording 97% of staff or greater as being fully proficient in their roles).

### **Amongst process, plant, and machine operatives (note the Improve work further segments this data by 4 different operative roles)**

- Technical or job-specific skills (81%);
- Team working skills (44%); and
- Literacy and Numeracy (17% and 15% respectively).

With high absolute numbers of this workforce cohort lacking full proficiency (43% of employees across all sectors), it is likely that technical / job-specific skills in particular represent a clear target for skills intervention.

It is interesting to note that ICT skills and those possibly associated with a more holistic approach to professional development such as supervisory / operational management skills, training and coaching, and problem solving (amongst others) were typically rarely seen as in need of improvement (with between only 2% and 5% of employers viewing these as in need of improvement).

### **Amongst employees in elementary occupations (note the Improve work further segments this data by 6 different elementary roles)**

- Technical or job-specific skills (59%);
- Team working skills (53%);
- Oral communication (29%);
- Literacy and written communication skills (23% and 21% respectively);
- Problem solving skills (21%);
- Language skills (20%); and
- Numeracy skills (18%).

It is notable that, given the high frequencies associated with a range of skill areas where employees are felt not to be fully proficient, it would appear that a substantial number of those in elementary occupations have multiple skills deficiencies. Add to this the fact that the absolute numbers of those with skills gaps (43% of this occupational group across the sector) are indicatively high and this represents a substantial area for skills intervention.

Despite clear evidence of skills gaps across the sector, Improve's own conclusions in relation to the South West (and consistent with the national picture) are that there remains a need for training and skills development to be understood as an investment rather than a cost and, beyond this cultural shift within the upper levels of management, a need to increase understanding of what provision actually is already out there, how it can be accessed, and that focus should shift to intermediate and higher level skills if productivity gains are to be

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<sup>14</sup> Amongst all of the occupational groups analysed where skills gaps were evident, it was only within the management group that it was felt there was a substantial need to improve skills in relation to training and coaching. Given that, in many businesses training will not be the specific responsibility of owners / managers, it is felt this perhaps signals a need for this cohort to improve their awareness of what and how to train, and that this responsibility actually naturally will shift further down a given organisational structure.

maximised<sup>15</sup>. On a purely practical level, targeting the management cohort of the workforce not only is likely to deliver greater productivity gains at the business level (as it is this cohort that can and will fundamentally shape how and what business is done), but the sheer volumes of those with skills gaps in elementary and process, plant and machine operative roles would swamp the available resources of the RSP.

## The food and drink retailing sector

Food and drink is the largest component of the retailing sector. Of the ~260,000 employed in the retail sector in the region, around 111,000 are employed in the sale of food and drink (43%). Of these, the great majority (89%) are employed in non-specialised stores (ranging from supermarkets to village shops)<sup>16</sup>. Despite the relative significance of food and drink retailing, little standalone evidence of skills needs within that component of the wider retail sector is available and, for the purposes of this summary, we use the Skillsmart SSA work as a proxy to understand trends in terms of need and demand for skills in the sector<sup>17</sup>.

It is probable that the main reason why little coherent evidence of skills in the food and drink retail sector is available is because, as Skillsmart Retail's research revealed, training is typically delivered in-house and employer engagement with publicly-funded / driven skills training programmes is weak across the board, with little evident appetite for collective working on skills programming.

Within the aggregate retail sector, the SSC identified a number of themes as the focus for future skills provision<sup>18</sup>. Of these, two in particular are felt to fall within the ambit of a regional food and drink skills project:

- **Skills of owners / managers of independent stores:** As a group, owners and managers of independent stores are less likely to either hold qualifications or engage in business / skills development activities. At the same time, in increasingly complex and competitive business environments, the skill sets demanded of this workforce cohort are extremely broad and deep – ranging from practical skills around visual merchandising to business planning, to negotiating with local stakeholders in relation to local planning and development proposals. As such, Skillsmart Retail is advocating a mentoring type solution for these owners and managers rather than more structured / formalised provision; and
- **Sales occupations in [multiple and] independent stores:** The SSA research suggests that sales staff are increasingly being required to develop multiple skills, and that the routine work will become increasingly sophisticated as staff take on direct selling and merchandising roles, handle disparate payment methods and use ICTs in all aspects of the role. The SSA identifies the following broad areas of skills as of importance

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<sup>15</sup> Adapted from the *Sector Skills Agreement for the Food & Drink Manufacturing Sector – South West of England*. Improve (July 2007).

<sup>16</sup> *Annual Business Inquiry Employee Data*. Office of National Statistics (December 2008 release).

<sup>17</sup> *Sector Skills Agreement for the Retail Sector. Stage 3 Report for England: Analysis of gaps and weaknesses in current workforce development activity*. Skillsmart Retail (October 2007) and *Skillsmart Sector Skills Agreement – South West Regional Summary*. Skillsmart Retail (2008).

<sup>18</sup> *Ibid*, pp20. *Store management in multiple retailers* (discounted from this working paper as this group arguably have the resources to address this issue that smaller retailers [may] not), *Skills of owners and managers of independent stores*, *Skills of sales staff in both multiple and independent stores*, and *Ensuring sufficient number people of the right calibre are attracted to the sector* (discounted from the RSP as labour supply issues are not a focus of the skills funding).

to employers: customer handling, oral communication, team working, and technical skills including knowledge of consumer rights, product knowledge, selling, and merchandising.

Whilst the skills areas set out above relate to the retail sector in general, intuitively it seems likely that these relate just as well to the food and drink component alone.

## **Business benefit – the impact of training**

As we have touched on, take up of training is constrained, at least in part, by a lack of awareness of the business benefits of deliberate and programmed skills development, with many businesses throughout the food chain still training through informal mechanisms and / or ‘experience’. It is a fact that some, perhaps many, businesses view training as a cost rather than an investment and something typically associated with regulatory requirements rather than a proactive means of achieving a competitive edge through improved productivity. This was borne out at the recent IGD Skills Summit where, in open forum, this issue was prioritised as one that needed to specifically be addressed if training take up, quality and the application of new skills in the workplace gained through existing skills programmes was to be improved<sup>19</sup>.

It will be essential in delivering a regional project within a tight timeframe to ensure healthy take up of any provision. Part of this will be in persuading businesses that there are genuine commercial benefits to be gained from their participation (and beyond those associated with the personal and professional development of individual employees).

The most comprehensive regional research on productivity drivers (and it is interesting to note that a wider body of research suggests there are no fundamental differences in terms of *what* drives productivity in rural vs urban areas<sup>20</sup>) and that used by SWRDA to inform its own Regional Economic Strategy, was conducted by the Universities of Bath and West of England<sup>21</sup> and it concluded that there is a direct link between skills and productivity and, further, that greater productivity gains were associated with higher level skills<sup>22</sup>. Whilst this may be intuitively understood by many, the difficulty in persuading businesses perhaps results from the fact that there is limited

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<sup>19</sup> *The Food & Grocery Industry Skills & Employment Summit 2010*. IGD (March 2010). The summit included a workshop session on skills gaps, where there was widespread acknowledgement of the fact that, especially within the rump of smaller SMEs, the productivity and competitiveness benefits of training were poorly understood and businesses lacked internal advocates for training beyond that addressing regulatory requirements.

<sup>20</sup> *Productivity in Rural England: Analysis of the Drivers of Economic Performance in Rural Areas*. SQW Ltd for Defra (November 2005). The report notes that there is no observable difference between *what* factors generate increased business output in rural and urban areas, rather, it is the relative distribution of things like available skills, access to capital, infrastructure, etc.

<sup>21</sup> *Meeting the Productivity Challenge, Final Report on a Study carried out for the South West of England Regional Development Agency*. Boddy *et. al.*, University of West of England and University of Bath for SWRDA (April 2005). The work sets out the relative contribution of a range of drivers and other factors that determine the level of productivity at the business level and in local economies. It looks at the commonly understood productivity drivers of skills, investment, innovation, enterprise and competition and then augments the analysis by considering drivers such as distance & peripherality, agglomeration & scale effects and also factors that, whilst not ‘drivers’ of productivity, could serve to limit or constrain productivity: sectoral composition, nature of industrial ownership and demographics.

<sup>22</sup> *Skills in the UK: The Long Term Challenge*. Interim Report, The Leitch Review of Skills (December 2005). The review develops a Cost-Benefit model to compare and contrast different scenarios for skills investment. Whilst value for money remains broadly consistent whether investing in lower, intermediate or higher level skills. Lower level skills tend to support employment-led growth, where higher level skills generate productivity-led growth.

quantitative evidence of what the 'scale' of any productivity benefits are and thus it is difficult to make informed judgements as to relative cost and benefit.

However, there is an emerging body of research (primarily in the academic domain) and the Department for Business, Innovation and Skills (BIS) has recently ascribed an uplift to productivity of some 0.6% for every 1% increase in the number of employees trained. Of this uplift it is estimated about half is diverted to an increased wage that more skilled individuals are able to claim<sup>23</sup> (and research suggests a wage premium of something like 15%-20% for those with a Level 2 or 3 qualification versus those (in similar roles and sectors) without and 20%-25% for those with Level 4+<sup>24</sup>).

The productivity benefits are therefore seemingly twofold at the business level – a proportion is visible as net profit and a proportion as increased remuneration – itself associated with other business benefit such as improved morale and retention<sup>25</sup>.

As noted above, clearly the relative productivity gains will vary depending on the level and intensity of training provided. But they will also vary depending on the subject of the training. Again, there is very limited quantitative research in this area (with the bulk of the literature focusing on the level rather than subject of the training), but it is instructive that one in ten of CEOs country-wide rated improving leadership and management throughout their business as their top priority for the coming three years. Drilling down deeper, the CBI found that CEOs only rated 20% of supervisors and team leaders as good in terms of their leadership and management skills, and 28% of middle managers. This echoes evidence from comparative studies with competitor economies around the world used to inform the Leitch Report and, subsequently, the National Skills Strategy, which identified a relative weakness and skills shortages and gaps within this cohort of the workforce.

This view has been reinforced in discussions with regional SMEs, was a consistent theme identified by members of the IGD in open forum at the recent sector Skills Summit, and also by a range of training and business support providers, suggesting that the justification for leadership and management training remains powerful<sup>26</sup>, but that there is likely to be a particularly productive target group at team leader / supervisor level and at middle management.

Further support for these conclusions comes from a building body of research around management practices, collectively grouped as High Performance Working (HPW). HPW is broadly defined as *a general approach to*

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<sup>23</sup> *Skills for Growth: The National Skills Strategy*. BIS (November 2009). The Strategy draws on analysis contained within, *The Impact of Training on Productivity and Wages: Evidence from British Panel Data*. J. Van Reenen *et. al.*, for the Institute of Fiscal Studies (2005).

<sup>24</sup> *A Study on Rates of Return to Level 3 and Higher Level Qualifications*. DTI (2005).

<sup>25</sup> This summary deliberately approaches the question of *what skills training to deliver?* from the perspective of *that which delivers demonstrable increases in productivity* (in tune with the RDA's overarching aim of stimulating increased GVA). There are, of course, a raft of other sound reasons to invest in skills that are focused on the individual, rather than the business: that learning is good in and of itself, increasing social and economic mobility, self esteem and creating knock on effects including improved civic responsibility; that improved skills, from the individual learner's perspective, are linked to their personal wealth and quality of life. However, it is felt that the *spirit* of these justifications for investment are better aligned with policy, strategy and funding emanating from departments / organisations with a greater social-equity focus, eg, DWP/Job Centre+, ESF funding, etc.

<sup>26</sup> The leadership and management provision through Train 2 Gain has witnessed good take up and feedback has been that it has real business benefit.

*managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance* [and therefore business productivity]<sup>27</sup>. It is also something which the UKCES note is rapidly coming to the centre of the debate on skills policy and so of particular interest to SWFD in discussing the scope and nature of a strategic skills project.

Whilst covering across human resource management (HRM) activity (incentives, appraisal, etc), through line management, to strategic management and leadership and organisational development, the cross-cutting focus of HPW is to increase the amount of *discretionary effort* employees put into their work and the *fullest possible utilisation of existing and newly acquired skills*, and the outcome of which is, not only the human resource pay-off of better morale, improved retention, etc, but greater business productivity. Recent research commissioned by Improve concluded that the adoption of HPW practices is significantly and positively associated with improved overall competence, improved technical skills, improved quality of products / service, improved productivity, improved retention, and improved growth capability<sup>28</sup>.

There is no one 'off the shelf' HPW package that can be transplanted into a business, rather, individual businesses, in different sectors, at different stages of their lifecycles, of different sizes, etc, will best be served by adopting and implementing discrete 'bundles' of HPW activities. Despite its potentially transformational effect on businesses and employees, the UKCES's research concludes that take up in the UK (unlike, for instance, the US and Japan) is not widespread.

Leaving aside the employee benefits (estimated to be substantial), the UKCES research summarises the conclusions in terms of commercial benefits of a number of studies. Examples amongst these include<sup>29</sup>:

- In a longitudinal study of 308 UK manufacturing companies focusing on the effects of three specific HPW practices, Birdi *et. al.* (2008) found statistically significant positive performance effects for the practices of empowerment and extensive training in particular. They found that empowerment represented a gain of nearly 7 per cent in value added (productivity) per employee, and that there was a gain of over 6 per cent for extensive training. Together, empowerment and extensive training accounted for a 9 per cent increase in value added per employee. They also found that the practice of team working seems to enhance the effect of all other practices.
- Research by Tamkin *et. al.* (2008) found that a 10 per cent increase in business investment in HRM, training and management practices equated on average to:
  - A 12.7% increase in gross profits per employee;

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<sup>27</sup> *High Performance Working: A Synthesis of Key Literature*. UK Commission for Employment and Skills (August 2009).

<sup>28</sup> *The Business Benefits of Training in the Food and Drink Manufacturing Industry*. J. Sung *et. al.* Centre for Labour Market Studies, University of Leicester for Improve (June 2008).

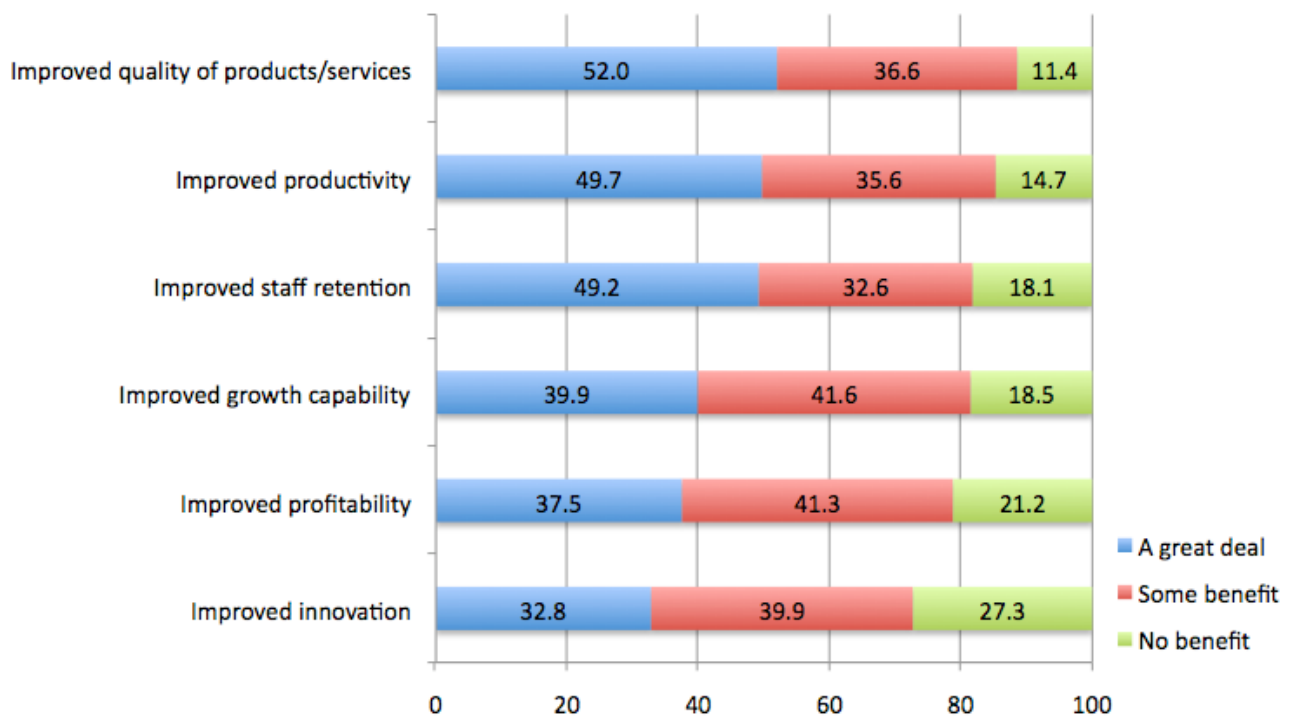
<sup>29</sup> *High Performance Working: A Synthesis of Key Literature*. UK Commission for Employment and Skills (August 2009). pp.17 (Section 4 – Why does HPW matter?).

- An increase in profit margins per employee of between 1.19% and 3.66% (i.e. the ratio of profit over sales);
- A 0.09% increase in sales growth per employee; and
- A 3.1% increase in the probability of achieving sales from new technology.

As the Commission note however, *HPW is not an instant fix and depends very much on the quality of the implementation, which is in turn contingent on management practice* [throughout the organisation]: pointing up a clear skills training target.

Whilst much of the business benefit research looks across sectors, the recent research by the Centre for Labour Market Studies referred to above in relation to HPW, recorded the following views of 380 owners / managers of food and drink manufacturing SMEs<sup>30</sup>:

**Chart 1: Extent of business benefit from training in relation to aspects of company performance**



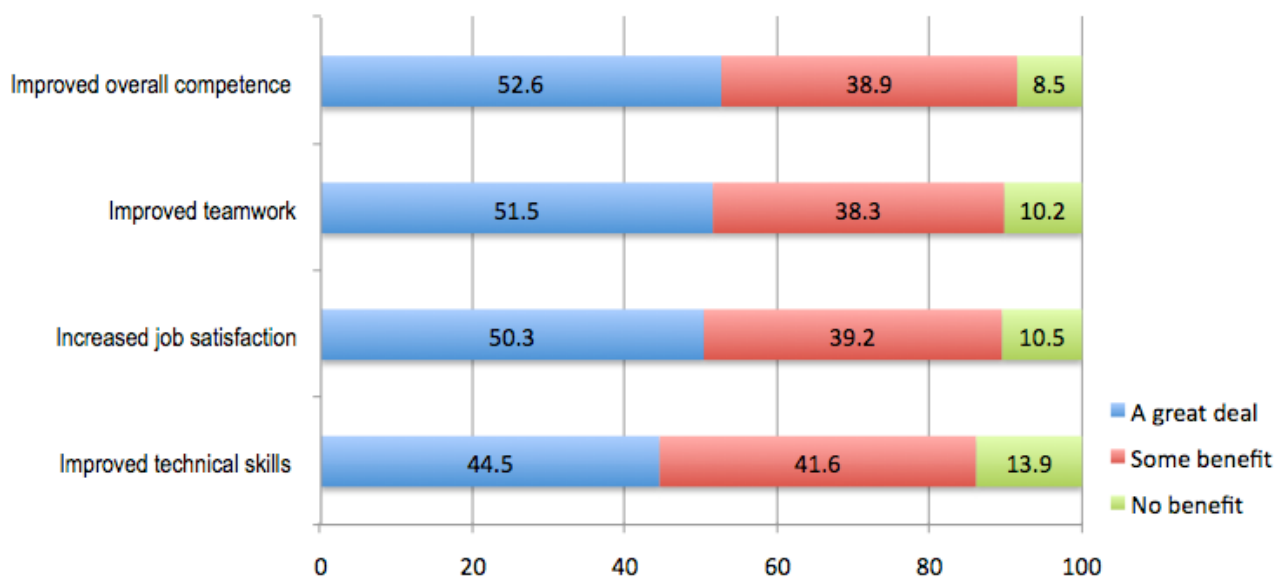
Interestingly, the businesses benefiting most from training tended to be either micro businesses (<10 employees) or medium-sized businesses (50+ employees). This increased benefit to the larger end of the SME scale may be explained by the fact that larger companies are more likely to have the dedicated capacity (eg, a training manager) to develop and programme new training, and because, as the research also uncovered, there is more often a formally allocated training budget.

<sup>30</sup> *The Business Benefits of Training in the Food and Drink Manufacturing Industry*. J. Sung et. al. Centre for Labour Market Studies, University of Leicester for Improve (June 2008). The research draws in part on a national survey of food and drink manufacturing businesses and describes impact / benefit of training using qualitative measures only.

Amongst micro businesses, the increased benefit may reasonably be linked to the fact that the business is starting from a lower base (take up of training amongst very small businesses is typically constrained by capacity issues: having to cope with ‘business as usual’) and so the relative benefit is great.

As with HPW, training in general was also associated with benefits at the workforce, rather than business level (although, clearly, the former may well be what ‘creates’ the latter, eg, improved technical skills result in improved quality of products and services):

**Chart 2: Extent of workforce benefit from training in relation to aspects of performance**



## Current provision and that planned for the near term<sup>31</sup>

This section sets out what food and drink sector training is currently being provided and what is expected to be provided in the near term in terms of funding and the roles of training providers within the arena. Only the major funding streams bearing on the food and drink sector are considered.

### Funders

#### RDPE

RDPE is currently funding skills development across the land-based sector primarily through the VTS. The Scheme delivers training events, courses and group extension activities aimed at developing expertise and skills in technical and business related activities relevant to land based businesses. Broadly covering the following areas:

- Technical and husbandry issues across all sectors;
- Financial management;

<sup>31</sup> With a new Government formed only days ago, it is of course understood that some of the statements as to where and how much money individual funding streams will deploy will be subject to change as the provisions of an Emergency Budget and Spending Review take effect. They are included here as the best available indications of intent.

- Business management and planning;
- Personnel and staff development;
- Marketing;
- Diversification and tourism; and
- Computer training and its use on farms and in rural business.

As at December 2009, VTS had exceeded all but one of its output targets and had trained approaching 10,000 individuals (against a target of 8,000), amounting to around 8,000 training days in terms of delivery<sup>32</sup> (against a target of 3,000). The sense therefore is that the model of delivery is effective and that demand is considerable for vocational, competence-based training of this nature, delivered in 'bite-size' chunks and across the region (although in original form an ERDF Objective 1-funded scheme available only in Cornwall and the Isles of Scilly, the RDPE variant covers the whole of the region with the current take-up split approximately 1/3 : 2/3, Cornwall and the Isles of Scilly : Rest of Region).

The programme is demand-led in that a very extensive course listing is available and providers are able to tailor delivery to group requirements. VTS operates regionally and delivers non-accredited training<sup>33</sup>. In many ways its strength is probably grounded in its breadth, which has given providers the scope to develop flexible, tailored provision, addressing one of the persistent criticisms of the skills system, that prescription and an undue focus on qualifications rather than competence is one of the major factors that limit take up of training and a business culture where training is valued.

The current round of VTS activity is due to complete by the end of July 2010. The process of contracting with providers to deliver a VTS successor programme is currently underway and, although the specific contract requirements are not yet known, SWRDA state that delivery will be firmly focused on the 'must haves' outlined in Skills Investment Framework produced by SWRESP. Activity will therefore be focused on:

- **Business development & strategic change management** – covering **leadership and management development** for enterprises (with less than five employees who would not otherwise qualify under mainstream support); skills in **influencing, negotiation and collaboration**; and **succession planning and developing exit strategies** (a) within families and (b) for tenanted farms;
- **Operational efficiency & technical skills** – covering **sector specific technical skills**, such as animal welfare, stockmanship, herd management, livestock movement, fertility, nutrition, breeding, stock selection, cell counts and mastitis, nutrient management, milking, disease control, silviculture, timber harvesting and integrated crop management, etc (addressing the LANTRA SSA Stage 1 and 2 analysis pointing to a need for specific trade and vocational skills); and

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<sup>32</sup> Presentation by Rural Business School, Duchy College, to Cornwall Rural Skills Forum, 25 Feb 10.

<sup>33</sup> Providers are however developing innovative methods for learners to accrue credits that, without disrupting the content and nature of delivery will contribute toward the achievement of a recognised Level 2 or 3 Continuing Professional Development qualification.

- **Adding value & diversification** – covering skills in **new product development** to encourage and support efficient and effective techniques and production; and **developing knowledge and expertise to enhance supply chain** opportunities and ensure development and marketing of value-added products is achieved.

Outside of VTS and successor delivery, RDPE funds little of substantial scale in terms of skills, although on an individual basis many of the 15 South West Local Action Groups (LAGs) have variously identified workforce skills within the land-based sector in particular, as well as hospitality broadly (and therefore food and drink retailing) as priorities for investment. Given the nature of Local Action, with its explicit emphasis on locally-determined solutions to local needs, it is felt that whilst the LAGs will be fully informed of the content of the project, there is no obvious way to integrate delivery systematically with a regional project.

On a final note, whilst VTS provides a wide range of vocational training for the land-based sector, there is no analogous provision for the fishing industry.

### **ESF Convergence and ESF Competitiveness & Employment**

In tune with the fundamental rationale of ESF, the individual project focus is often on the position of the *individual* within the labour market and the aim to improve this relative position, hence the bulk of activity is on employability / ready for work skills (and then focused on different groups, NEET, long term unemployed, those recently made redundant), responding to redundancies (threatened and actual) and career progression / continuing personal, professional development and generally the investment in improving human capital as an end in itself (as opposed to for instance ERDF, Single Pot, or RDPE Axis 1-funded activity which has a deliberate focus on productivity outcomes, where skills are viewed, more mechanically, as simply a route to achieving these).

ESF-funded provision is split as follows based on the fact that Cornwall and the Isles of Scilly are deemed an area of greater need, suffering from more extensive economic and social deprivation and depressed productivity:

- **ESF Convergence (Cornwall and the Isles of Scilly)** - Although Co-financing plans are currently being drafted for the period up to 2013, extant provision is included here to provide an indication of what activity has already been / is currently being funded up to Dec 2010 (and therefore has / will have at least partially served market need / demand); the ESF projects of direct relevance to the food & drink sector are:
  - **Key Sectors** - within which c.£600,000 is allocated to food & drink (secondary and tertiary production and processing activities); with, in terms of the food and drink sector's wider footprint, funding also available to the fishing, and hospitality & tourism sectors, and the Retail sector in general. The indications are that the Key Sectors project will be continued in the next round with further funding allocated to it<sup>34</sup>;

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<sup>34</sup> Mark Williams, Skills Funding Agency, at the Cornwall Rural Skills Forum 11<sup>th</sup> May 2010. Mark is responsible for procuring all ESF Convergence-funded skills provision.

- **Rural Land-Based** - £1.14M allocated to widening participation in certified leadership and management and vocational training in the land-based sector. The innovative *Business Forward* project draws on this funding stream, with LANTRA providing a specialist skills broker to ensure training content matches closely to employer demands. The indications are that *Business Forward* will continue in the next round, with further resources allocated to it<sup>35</sup>;
  - **Skills for Work** - £4.4M of funding for basic skills, sector-blind, and matching LSC (and from April 2010 Skills Funding Agency) funding; and
  - **Workforce-led** - £4.2M of funding across all sectors, gathered up under a more generic workforce skills development programme, aimed at raising the aspirations of individuals within the workforce to take charge of their own personal and professional development, participate more in training and, as a by-product, contribute to business performance.
- **ESF Competitiveness & Employment (Rest of Region)** - ESF delivery in the rest of the region is far more fragmented with a larger number of lower value and spatially more focused provision (reflecting both different co-financing arrangements and the diversity of an area which, unlike Cornwall and the Isles of Scilly, includes large urban populations and very wide variations in terms of deprivation, multiple or otherwise). There are no food and drink-specific projects currently being delivered.

### **Train 2 Gain and other mainstream activity**

Train 2 Gain is the national employer skills service and is the largest component of what is termed Employer Responsive training. Funded through the LSC and now Skills Funding Agency, Train 2 Gain allocations for Foundation Learning, Level 2 and Level 4 provision will remain stable or reduce slightly in the near term. At the same time, funding for Skills for Life and full Level 3 qualifications will increase in line with the priorities within the National Skills Strategy (as will that for the other major component of Employer Responsive training: apprenticeships), which, in particular, recognises that progress toward improving intermediate skills - and their critical role in driving productivity – is lagging behind that at Levels 2 and 4<sup>36</sup>.

Alongside accredited qualifications, Train 2 Gain also funds leadership and management training through the Leadership & Management Advisory Service (LMAS). However, this is only available to businesses of between 5 and 249 employees (albeit, in parts of the region funding has been allocated to work with the ‘under-5s’; and whether this additional funding will continue is unclear). Given the nature of the land-based (and here we would include on-farm processors) and food and drink retailing (and here we would include in-shop processing such as butchery) sectors in particular, a large number of the South West’s food and drink sector businesses are not eligible for such support, employing fewer than 5 people.

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<sup>35</sup> *Ibid.*

<sup>36</sup> *Skills Investment Strategy 2010-11*. BIS (November 2009).

In addition, the leadership and management funding is only available to improve the skills of 'strategic' managers. Whilst the supervisory / team-leading management cohort can access Train 2 Gain funding for Level 2 or 3 qualifications, there is no provision for non-accredited training at this level.

Train 2 Gain is a full-service offer in that businesses have their training needs analysed, are provided advice and guidance on the most appropriate training provision and are given access to grant funding to offset the costs of the training to the business. Grant intervention rates vary dependent on the size of business, level of qualification and qualifications already held. It is demand-led by its nature and, conceptually, regarded as a success. However, a major criticism of the service is that it, primarily, supports businesses through enabling their workforce to gain *accredited qualifications* and, despite efforts to improve the fit of qualifications to industry demand, many employers feel qualification is not the same as competence, and that generic content does not address their specific needs sufficiently well to justify either their investment in cash terms and / or employee time away from their jobs.

This is a well-rehearsed argument and one that the evolution of the Qualifications and Credit Framework and the Sector Qualification Strategies led by industry through their SSCs is designed to address. Nevertheless, the feeling persists.

## Summary

### Areas of activity discounted

Mainstream Train 2 Gain resources and those delivered through RDPE and ESF-funded programmes and projects appear to be providing **sufficient vocational / trade training** (whether accredited or not) and that related to **basic skills** (albeit current delivery arrangements may, in some cases need to be adjusted to raise take up and participation rates). Less in specific instances within the fish sector, where clear gaps in provision lie as there is no analogous provision to VTS, the relatively modest SWFD resources would be able to add little additional value to this area of skills provision.

Similarly, the need and demand for 'softer' **employability skills**, whilst evident, is arguably the domain of other and larger [funding] agencies. There is also good provision of training for **the strategic leadership and management** level of business offered through Train 2 Gain and, in addition, it is felt that provision of **generic business skills** training is reasonable<sup>37</sup>.

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<sup>37</sup> Recent work profiling the sector and its development needs in Somerset concluded that, "Existing business support systems already serve some of these needs well [development related to all of the key areas of business development], the issue however is that one level of support does not suit all stages and that much of the support available is not *sector specific*. Generally the skills development support for start up and small business is satisfactory although there are still a significant number of businesses that have not made use of what is available. At the higher level of skills needs the businesses needing advanced help can often source and fund it themselves whilst the provision of leadership and management training via Train 2 Gain is achieving part of what is needed. The gap in support for skills development appears to be at the intermediate level where the businesses are growing fast, are in need of *sector specific* help, but lack the time to track down workable solutions or are so busy they are not aware of the need: *Somerset Food & Drink – Research into the Somerset food and drink sector and an action plan to encourage growth*. The Langdon Partnership for Somerset County Council and Somerset Rural Renaissance (March 2009).

## Proposed areas of project activity

What then remains are clear targets for project activity:

- Addressing the enduring need and demand for **strategic sales and marketing skills** – an area particularly identified by sector food groups and of particular urgency for the smaller end of the SME spectrum;
- Improving **skills for the supervisory / team leading cohort of managers**;
- Targeted training to improve **customer service in higher value retail operations**;
- Improving the **understanding, adoption and exploitation of HPW**;
- Highly targeted, non-accredited **vocational training within the fish sector**<sup>38</sup>; and
- Bridging over all of this is a need to address an apparent weakness in the **understanding of the role of training as a means of generating competitive advantage** (rather than simply being a necessary cost to a business driven by regulatory compliance issues).

It is also worth noting in summarising need and demand that businesses very clearly perceive greater value in **training that is focused on competence, as opposed to qualification**.

In terms of training that is likely to generate the greatest productivity gains then, two principles emerge as instructive in developing the regional skills project:

- Higher productivity is associated with training that encourages innovation in the workplace; and
- Higher productivity is associated with higher level training.

Whilst seemingly obvious, it is also true that training of this nature is not always the 'common currency' of publicly-funded training programmes due to its novelty, complexity and high unit cost. The proposed revised regional skills project seeks to make most effective use of available delivery resources, delivering maximum impact.

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<sup>38</sup> SWFD intend to procure this delivery separately and so it is not to be included in the main Invitation to Tender to be issued.

## Appendix 1 – Organisations consulted with on the development of the Regional Skills Project

Organisation	
Apetito Ltd	Kingston Maurward College
Business Link / Train 2 Gain	Langage Farm Ltd
Bicton College	Maritime & Coastguards Agency
Campden BRI	North Devon Food & Drink
Cornwall Agri-Food Council	Proper Cornish Ltd / Furniss Ltd
Cornwall Food Production Unit	Royal Agricultural College Cirencester
Devon County Council	Seafood Cornwall / Seafood Cornwall Training
Devon Renaissance	Seafood Devon & Dorset
Dorset Agricultural Advisory Service	Somerset College of Art & Technology
Dorset Chalk & Cheese	Somerset County Council
Duchy College	SWRDA (Food & Rural Enterprise and Skills Strategy representatives)
Food & Drink Devon	Taste of the West
Gloucestershire First / Gloucestershire Food Vision	Thatcher's Cider Ltd
Guild of Fine Foods	Venus Company Ltd
Hartpury College	West Devon AgriBIP
Improve (National Skills Academy)	Wiltshire County Council
Improve (Sector Skills Council for Food & Drink Manufacturing)	