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PART A

Part A.

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PO -CH /NL/0380

PART A

Chancellor's (Lawson) Papers:

**REVIEW OF THE YOUTH
TRAINING SCHEME**

PO -CH /NL/0380
PART A

DD is : 25 Year



6/12/95.



mp

Department of Employment CHIEF SECRETARY
Caxton House, Tothill Street, London SW1H 9NE

5803

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Secretary of State

*Mr Burr, (with Report)
ex Sir P Muddell, Mr Anson,
Mr Munnick, Mr Phillips,
Mr P W J. W. Mr Case,
Mr Keble, Mr Call*

The Rt Hon John Major MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1

May 25th

Dear John.

YTS REVIEW

In my White Paper "Employment for the 1990s" I said that I intended to keep under review the scope and role of the Youth Training Scheme (YTS) in the light of the changing circumstances of the youth labour market. A team in my Department's Training Agency, assisted by an interdepartmental group on which the Treasury, the Department of Education and Science and the Scottish and Welsh Offices were represented, ... has now completed a review of the scheme. I enclose a copy of the review group's report. A parallel Efficiency Scrutiny of YTS is being produced, and will be sent to the Efficiency Unit in early June.

I believe that it is imperative, both economically and politically, that we take a major policy initiative in the field of youth training. YTS has been a major success for the Government. We have met successive guarantees of training places for young people not in jobs or full-time education, and have succeeded in progressively improving the quality of the programme and the proportion of youngsters leaving it who go into jobs or further education or training.

But labour market circumstances mean that we still need to make a major national effort to improve the quality and quantity of the training received by our young people, both to meet the challenge of the sharp decline in the number of young people coming onto the labour market, and to ensure that we have a labour force who can meet the challenges of European





Secretary of State
for Employment

and global competition in the 1990s. The task is not all, or even mainly, for Government. But we need to structure public intervention in the youth training market in such a way as to maximise the contribution which employers make, direct public money where it is really needed, and produce a significant increase in the attainment levels and qualifications of our young people. The creation of Training and Enterprise Councils (TECs) gives us a golden opportunity to tackle these problems in new and imaginative ways.

In the light of the review report I propose a major policy announcement on the following lines.

We should first announce in a high-profile way, and secure broad support for, a programme of new national objectives for youth training. These objectives should be:

- a. step increases in the attainments and qualifications gained by young people;
- b. a major drive, using both public and private resources, to increase the number of young people gaining higher level skills, particularly at craftsman and technician levels. The focus would be on private sector-led action, including partnership with others, particularly in the education sector, building on the successful initial experience of Compacts;
- c. every young person should have the opportunity by age 19 to secure both occupational skills and the adaptability which they will need to cope with changing labour market circumstances. The benchmark would be NVQ level 2 (ie. the second level of attainment in the framework of qualifications being introduced by the National Council for Vocational Qualifications);
- d. the Government's guarantee of training for young people in the labour market without a job would be maintained, in line with our Manifesto commitments, but it would be enhanced by building in additional opportunities for jobsearch and enterprise. There will be an increased focus on getting young people into jobs offering good quality training;
- e. opportunities for disadvantaged groups, including the disabled and ethnic minorities, would be maintained.



Secretary of State
for Employment

TECs, and local agencies in Scotland, will be ideally suited to use in the most effective possible way the public funds made available to support these developments. They should in particular:

- a. contractually undertake to pursue the overall national objectives for youth training within their area, including the overall aim that no under-19 year old should be in a job which does not offer the chance of education or training;
- b. be offered flexible funding arrangements which will enable them to contribute to:
 - i. direct provision of training for young people, including the guarantee group;
 - ii. the development of an infrastructure for training young people in their area, including the development of partnerships;
 - iii. support for particular individuals in, for example, drawing up individual action plans or supplying the National Record of Vocational Achievement;
 - iv. provision for information and guidance and for promoting to employers and young people the benefits of training.

Each TEC will be required to plan its budgets and set targets for its activities in these areas and their progress will be monitored carefully, with particular attention to their record on meeting the Government's guarantee and on achieving higher levels of skill.

It will be important to build on the current strengths of YTS in achieving a degree of consistency and quality in publicly funded training, while removing undesirable inflexibilities in the current design of the scheme. I therefore propose that all training supported by TECs should meet the following minimum requirements:

- a. enhance the trainee's employment prospects and meet business needs;
- b. be capable of delivering a named qualification at least at NVQ level 2 or equivalent;
- c. comply with health and safety and equal opportunities legislation and provide at least the agreed minimum level of income;



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for Employment

- d. build on the individual trainee's achievements and be assessed and recorded. It should also offer opportunities for onward progression where appropriate.

The main changes from current YTS would be:

- a. a higher overall target level of attainment for young people taking part;
- b. more flexibility in funding arrangements, to enable public assistance to youth training to be made available more cost-effectively and in a range of different ways, using a wider range of suppliers and providers (provided they meet the basic criteria) and much more responsive to market needs;
- c. a significant increase in the achievement of higher level skills;
- d. more emphasis on job search and enterprise-related opportunities.

Chapter 4 of the review report sets out in detail how these arrangements would work.

To mark the important shift from the current scheme I propose that the new programme should be called Youth Training, to fit alongside Employment Training and Business Growth Training.

A programme on these lines could be delivered within the current PES resources available to my Department. It would deliver double the current numbers of young people supported by public funds obtaining higher level qualifications and would secure a higher level of basic attainment (in the great majority of cases measured by qualifications obtained) for all participants in the programme.

I believe these proposals will be warmly welcomed by prospective TECs and local agencies, and would give them a wide range of instruments to tackle youth training in their areas. It would also enable us to make a positive and clear response to the ideas likely to be put forward by the CBI for a scheme of training vouchers for young people, which would be both more expensive and less practicable than these proposals. It would also be a positive response to the current Labour Party proposals on training. But, most importantly, we would be taking positive steps to help business tackle the crucial problem of the supply of skilled manpower, which will be key to our prospects of competitive success in the 1990s.

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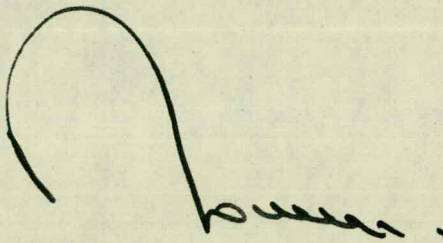


Secretary of State
for Employment

I would be grateful for colleagues' endorsement of the proposals set out in the review report and summarised in this letter, and for agreement that I should announce our proposals by the end of June. We need to move quickly to gain the political high ground on this topic, and to make it clear to the TECs what powers they will have on youth training.

I am copying this letter to the Prime Minister, and to Kenneth Baker, Malcolm Rifkind, Peter Walker, David Young, Sir Robin Butler and Sir Angus Fraser.

Yours, etc



NORMAN FOWLER

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

imp

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The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
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LONDGN
SW1H 9NF

CHIEF SECRETARY	
REC.	7 JUN 1989
ACTION	Mr Burn
COPIES TO	CX, Sir P Middleton Mr Anson, Mr Mack, Mr P. Wilson, Mr Case, Mr Kalon, Mr Call.

6 June 1989

Dear Norman,

YTS REVIEW

I was glad to see your proposals for a new initiative on Youth Training. I believe that in most parts of Scotland the employment prospects for young people are now improving and there is scope for increased emphasis on quality of training and attainment levels (while not losing sight of the need to help place young people into work, especially in areas where unemployment levels are still relatively high). There is a clear need to enhance the skills of the workforce in this country and the best returns will be obtained by training directed at young people starting out in their working life.

I very much welcome the introduction of major new flexibilities as compared with present Youth Training Scheme arrangements. My plans for Scottish Enterprise which involve the creation of private sector-led local agencies will work best in a regime in which major national training programmes can be operated and financed in a flexible fashion.

I am happy to agree the proposals in the review report and I agree that an early announcement is appropriate to meet your timescales for the setting up of Training and Enterprise Councils, and mine for the announcement of my decisions on Scottish Enterprise.

I am copying this letter to the Prime Minister and to Kenneth Baker, Peter Walker, David Young, John Major, Sir Robin Butler and Sir Angus Fraser.

Malcolm Rifkind

MALCOLM RIFKIND



ELIZABETH HOUSE
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CHIEF SECRETARY	
REC.	- 7 JUN 1989
	Mr Burr
	Mr Sir P. Middleton
	Mr Arnold, Mr Mowbray
	Mr IP Wilson, Mrs Gase
	Mr Baker, Mr Call

2

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

- 7 JUN 1989

BF 15/6

[Awaits Burr advice]

John Major

YTS REVIEW

Thank you for copying to me your letter of 25 May to John Major proposing a major announcement of a successor to the Youth Training Scheme.

The proposals you make cover some very important ground. It is essential for the future of the economy that many more young people should continue in education or training beyond the age of 16 and gain worthwhile qualifications. We need to identify the best way of achieving that with the public funds likely to be available. As you record towards the end of your letter, the CBI under Sir Bryan Nicholson's Task Force is developing some very interesting proposals for training vouchers. I do not think we should sign up for the proposals described in your letter until we have fully explored voucher-based schemes. I propose to write to colleagues shortly with some ideas which could lead to such a debate. Meanwhile, I would ask you to delay any announcement.

In developing our thinking, it would be helpful to know more about the details of the programme you propose. You describe a variety of ways in which TECs could spend their Youth Training money. Is it possible to say where the balance will lie between the different kinds of expenditure? Of the funds available, what proportion do you envisage being spent:

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- on financial support for the trainee?
- on the provision of training?
- as a subsidy to the employer?
- on developing the training infrastructure?
- on advice to the individual?

It would help to know how this compares with public spending at present on YTS.

I am sending copies of this letter to the Prime Minister, John Major, Malcolm Rifkind, Peter Walker and David Young, and to Sir Robin Butler.

Tommaso

Kenneth

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP
CHIEF SECRETARY

CT/12241/89

8 June 1989

REC.	2 11 1989
DIS.	Mr Burns
EX.	Mr P Middleton, Mr Anson, Mr Hancock, Mr P Wilson, Mrs Case Mr Kallen, Mr Call

YTS REVIEW

Thank you for copying to me your letter of 25 May to John Major.

I agree that the time has come for us to build on the success of YTS by taking an initiative that will ensure that youth training is geared to the demographic and economic developments of the 1990s. It is vitally important that all our young people receive, as a minimum, basic training in the skills that will enable them to achieve their full potential, as well as providing employers with a workforce that is skilled and capable of further training and re-training to meet changing demands.

I am particularly pleased to note that your proposals will give all young people the opportunity to attain basic qualifications and enhance the provision of higher skills training. I also agree that the advent of TECs opens the way for a more flexible approach to the funding and delivery of YTS. I note that the changes will not require any increase in your PES baseline. This must be kept under close review. We cannot afford to stint on our investment in training young people; we already lag too far behind our major competitors. This is something we can discuss further in the context of your PES bid which we are to discuss shortly.

I have no objection to change the name to "Youth Training", although frankly I doubt if it will have much impact in raising awareness of the changes.

I am copying this letter to the Prime Minister, John Major, Kenneth Baker, Malcolm Rifkind, David Young, Sir Robin Butler and Sir Angus Fraser.

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

CONFIDENTIAL

FROM: T J BURR (IAE 3)
 DATE: 9th June 1989
 EXT: 4660

CHIEF SECRETARY

cc Chancellor ✓
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Phillips
 Mrs Case
 Mrs Lomax
 Mr Spackman
 Mr I Wilson
 Mr Farthing
 Mr MacAuslan
 Mr Meyrick
 Mr Dodds
 Mr Kalen
 Mr Knight
 Mrs Chaplin

*cu/ To be aware
 Mr Fowler wants to
 relaunch YTS
 shortly but we shall
 seek a postponement
 so that we can extract
 further savings in the survey.*

215

YTS REVIEW

1. In his letter of 25 May, Mr Fowler proposes an early announcement to re-launch the Youth Training Scheme (YTS), on the basis of the proposals which have emerged from the YTS review.

2. This submission proposes that you should ask Mr Fowler to delay any statement until after the Survey, emphasising the likelihood that you will need to look for substantial savings on the employment programme. Conveniently, Mr Baker has also asked (in his letter of 7 June) that any announcement should be postponed, though for the different reason that he wants to think further about the possibility of a voucher-based scheme (which the CBI are also likely to propose).

Discussion

3. The attached annex sets out the background to the review and summarises the conclusions reached. In our view the proposed changes are likely to shift the scheme in the right general direction, and an improvement in value for money and in the economic return on the scheme should result. However there are a number of doubts:

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- (a) The overall national aim of giving everyone an opportunity to get to NVQ level 2 is not very meaningful, since it is not clear what constitutes an 'opportunity'. But a serious attempt to put it into practice could tend to dissipate resources on a modicum of competence for everyone, rather than focusing on enabling those with the necessary aptitudes to master more demanding skills which may be more relevant to international competitiveness. Indeed the Training Agency's original position in the review was that level 2 for everyone should be the aim of YTS. It was only through our efforts that this was relegated to a broader national aim, and that specific targets were set requiring a proportionally larger increase in output at levels 3 and 4 than at level 2.
- (b) YTS will still remain a rather monolithic scheme. It remains to be seen whether the full range of aptitudes and potential achievement among school leavers can in fact be handled satisfactorily within a single national scheme of this kind. While targets differentiated by skill level are helpful, there is not much other evidence of targeting or selectivity (although the allocation of funding among the TECs provides some scope for selectivity to reflect the needs of different areas and regions.)
- (c) Linked with (b) is the question of the image of YTS, which even the Training Agency agree is definitely down market at present. This problem will inevitably be inherited to some extent by the new scheme, and will be a handicap in attracting the more able young people, particularly when the tighter youth labour market will present them with financially attractive alternatives to training.
- (d) While the need to meet much tougher output targets within existing provision will represent a general source of pressure to get employers to contribute more towards the cost of youth training, the proposals are short on specific mechanisms for ensuring that employers pay more (for example lower scales of payment for low level qualifications, although it would be open to TECs to introduce these).

(e) While there should be more scope to economise on the cost of meeting the guarantee, it was obvious throughout the review that the Training Agency continue to attach a high priority to meeting the guarantee; and there is a danger that they will succeed in giving the TECs the impression that meeting the guarantee is the one target that really matters.

Underlying all these points is the tendency of the Training Agency still to think in terms of a high profile national scheme geared to the essentially social purpose of alleviating large scale unemployment among young people and giving them something useful to do. We have had some success in pushing for a more targeted approach geared to economic objectives and to a very different youth labour market in which there is a shortage of young people. But other suggestions which we made (for example for a two tier scheme or for specific restrictions on support for low skill training) have not been adopted, and it remains to be seen whether the Training Agency are right in believing that it is not necessary to go that far in order to achieve the desired shift in the focus of the scheme.

Interaction with the Survey

4. As already indicated, the review has been conducted within the constraint of existing provision for YTS. Indeed we proposed the review partly to ensure that the large reductions in YTS provision in the last Survey would actually be delivered. There is therefore no question of any increase in expenditure emerging from the review, and indeed Mr Fowler's bidding letter of 25 May actually offers a small (£10 million a year) reduction in YTS expenditure. The problem, however, is that we need to get substantial reductions on the employment programme in this Survey, and that can only be done by cutting the two major constituents of the programme, which are ET and YTS.

5. It is not too difficult to construct an argument for savings in YTS expenditure of about £100 million a year. This is not directly because of declining numbers of young people, since that factor is already reflected in the baseline (except in the final year, where it increases by the standard 2.5% factor). It is because DE are assuming that YTS will maintain its present penetration of the relevant age group when, in a tightening labour

market for young people, there is every reason to expect the share of YTS to slip (from about 60% at present to perhaps 50% by the end of the Survey period). DE will of course argue that they need to maintain the present level of penetration in order to deliver the targets recommended by the review. This can be disputed on the grounds that the specific targets are presented in terms of percentages of YTS trainees, so they adjust automatically to changes in the number of trainees. But in any case we do not need to argue about the desirability of maintaining numbers. The issue is rather one of feasibility. Here it will help that the review has arguably done little to make YTS more attractive to the kind of young people who will have plenty of other opportunities in the labour market. Mr Fowler's remark (page 4 of his letter) that he wants to rename it Youth Training so that it can sit alongside the down market Employment Training programme (page 4 of his letter) is something of an own goal here.

6. You might, of course, want to go for even larger reductions in YTS expenditure. The argument would then have to be about the lower priority of the employment programme in a situation where unemployment is still continuing to fall rapidly. DE would then become increasingly likely to retreat from the approach embodied in the report. They would argue that it was necessary to concentrate the reduced provision on meeting the guarantee, and generally on helping those young people most likely to have difficulty in making the transition from school to work. They would claim to be unable to meet the targets for higher level skills, arguing that these were relatively expensive. The answer to that would be that employers should pay more. This is already agreed policy, and is a point you can emphasise in responding to Mr Fowler's letter (though admittedly the propensity of employers to invest more in training is not high).

Mr Fowler's proposed statement

7. Mr Fowler wants to make a major statement by the end of this month announcing the new scheme. We think that you will need to resist this proposal in order to preserve your freedom of manoeuvre in the Survey. It is not yet clear that we could afford to settle for a level of YTS spending which could be reconciled with the proposals of the review. And in any case the discussion of ET in last year's Survey illustrated the difficulty of arguing

for reductions in a scheme which has just been re-launched (a fact which arguably limited last year's reductions in ET to less than they might otherwise have been). It will be difficult enough dealing with the argument that major cuts in any Training Agency programme will undermine the Training and Enterprise Council initiative.

Mr Baker's letter

8. It is convenient that Mr Baker has entered the lists, with his letter of 7 June, proposing that there should be no announcement until he has worked up ideas for "voucher-based schemes". I understand from the DES representative on the YTS review that this does not reflect any deep laid DES design to promote vouchers, which they tended to oppose when the idea arose in the review. What happened, apparently, was that a dismissive reference to vouchers in their submission to Mr Baker on Mr Fowler's letter prompted DES Ministers to feel that they wanted further work done on the voucher option. This work is apparently to be confined to vouchers for part time vocational education and training, for pupils leaving school at 16 and 17. There is evidently no present intention of reopening the whole question of vouchers to finance main stream school education. Mr Baker apparently wants to redirect the provision for YTS (and for work-related further education).

9. It remains to be seen what proposals come out of this, and with what price tag, especially as Mr Baker may envisage that a wider group would be eligible than existing participants in YTS and WRFE. Nevertheless, he does have a point of sorts, and one which is helpful to us. The CBI Task Force to which he refers does not appear to have made a great deal of progress, or to have come up with any very novel ideas. But it is about to report in a way which gives some fresh life to the idea of vouchers, which John Banham favours (though without explaining how they could be made to work). While the report will not be published immediately (but will instead go forward for consideration at the CBI Conference in the autumn), it is bound to leak and stir up some kind of debate around the time that Mr Fowler wants to make his statement. The statement could then look like a snub to the CBI and an attempt to pre-empt their conclusions. This would not fit in very well with Mr Fowler's attempts to give employers a

greater say in the running of training programmes through TECs. A statement in the autumn, on the other hand, would fit much better both with the Survey and with the CBI's timetable.

Further work

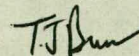
10. It did not prove possible in the review to cover some significant value for money issues about the interface between education and training. There was, however, general acceptance that these needed to be examined more closely, and the review recommends accordingly (paragraph 6 of Chapter 5). Neither Mr Fowler nor Mr Baker make any reference to this in their letters, and it would be helpful to reinforce the case for such a review (particularly as DES, who would take the lead, are showing signs of having second thoughts).

Conclusion

11. I recommend that you write to Mr Fowler making the following points:

- (a) the review has been a move in the right direction, with potential for improved value for money;
- (b) it would also seem right to pursue the proposal for a further look at the interface between training and education;
- (c) but we retain a number of doubts about the adequacy and feasibility of the proposals;
- (d) a difficult Survey is in prospect in which substantial reductions in programmes like YTS may well be necessary;
- (e) you therefore agree with Mr Baker that there should be no early announcement.

I attach a draft.



T J BURR

ANNEX

Background to the review

1. The proposal for a review of YTS was made originally in your letter to Mr Fowler of 22 November, in connection with his draft White Paper on Training and Enterprise Councils. We had two reasons for making this proposal:

- (a) to get the Department of Employment to focus on the need for changes in the scheme to ensure that the reductions made in the last Survey would actually be delivered;
- (b) to get the Department to rethink some of their received wisdom on the role of YTS, in the light of the prospective transformation in the youth labour market.

After some delay Mr Fowler accepted in his letter of 7 February that such a review should take place. It began immediately thereafter, and was completed at the end of last month. Formally it is a report to Mr Fowler by the Training Agency, although we and other Departments were represented on a Steering Committee.

2. At your meeting with us on 10 March to discuss the Survey prospects for the DE programme, we considered the Treasury's tactics for the review. We recognised that it would be difficult to refute evidence that the UK fell behind our main overseas competitors in the amount and quality of vocational training provided for young people, particularly at craft and technician level. Indeed, in economic terms, there were reasons for the Treasury to want an improvement in this area. Our view of YTS in the Survey would therefore be influenced by the extent to which the review succeeded in showing how YTS could more directly address this problem. At the same time, however, we needed to maintain our freedom to seek reductions in YTS provision if that was what the wider Survey situation required.

The review conclusions

3. The proposals which have emerged from the review are set out in Chapter 4 of the Report. The main features are:

- (a) A broad policy aim that all young people in the labour market should have the opportunity to achieve worthwhile level of vocational competence (defined in terms of qualifications at level 2 in the four point scale set by the National Council for Vocational Qualifications - NCVQ - see Annex 4 of the Report). But it is recognised that not everyone will in practice achieve that level of competence, and that even less will do so through the agency of YTS.
- (b) For YTS, there is a proposed target that that by 1992-93 30% of trainees should actually qualify at the higher NVQ levels 3 and 4, which would double the existing proportion reaching skilled craft and technician levels.
- (c) There is a further target that 40% of trainees should secure level 2 qualifications. This would be about half as many again as reach this level of competence at present.
- (d) A "more effective" version of the YTS guarantee (that a YTS place will be offered to every school leaver under 18 who is not going directly into a job), whereby trainees who have less than six months of their guarantee entitlement left to run will be offered intensified help to get them into a job. It is implicit in this that getting young people into jobs as soon as possible will be a legitimate way of delivering the guarantee, rather than simply allowing them to remain on YTS at public expense for their full YTS entitlement.

4. The overall thrust of these proposals is to shift the emphasis from training inputs and duration towards training outcomes; to improve the quality of those outcomes and the extent to which they can be quantified and measured; to shift the outcomes towards skills at a higher level than have been traditionally delivered through YTS; and to loosen somewhat the constraints of the YTS guarantee. Within this sort of framework it should be possible to get money out of the low level training

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which tends to predominate in YTS at present, much of it at level 1 or below, and switch it into higher level training where the economic return will be greater (and where deadweight is likely to be less, since employers are less likely to provide this kind of training at their own expense). This would all be done within the existing public expenditure provision for YTS.

5. Delivery of the new-style YTS would be through the Training and Enterprise Councils (TECs). They will operate within a framework of performance targets which reflect the overall targets for the scheme, and will be expected to use their discretion to economise on training that contributes little to these targets and concentrate resources where results can be achieved.

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DRAFT LETTER

FROM: CHIEF SECRETARY

TO: SECRETARY OF STATE FOR EMPLOYMENT

Copies: As indicated

YOUTH TRAINING SCHEME

1. Thank you for your letter of 25 May, in which you report the outcome of the YTS review and propose an early statement. I have also seen the comments from Kenneth Baker, and from Malcolm Rifkind and Peter Walker.

2. I agree that the review has produced some useful conclusions. As the youth labour market changes in response both to demographic factors and to the general fall in unemployment, the emphasis of the scheme will need to shift towards meeting economic objectives and labour market needs. In that context it is clearly right to set specific targets for the number and particularly the level of qualifications obtained, which leaves much to be desired at present. In monitoring such targets it will be important to ensure that the qualifications are genuinely incremental, and not just the result of bringing existing training within the scheme.

3. I think that it will also be well worth pursuing the idea of looking further at the interface between education and training, as also recommended by the review. There should be scope for further increases in value for money from getting the education and vocational training systems to work together better,

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which is important given the large sums involved in both. I was a little surprised that neither you nor Kenneth Baker mentioned this point.

4. In some respects, however, the report may not go far enough. The need is for increasingly selective arrangements which address specific gaps in the market, rather than the monolithic scheme which we have had in the past. I am not sure that it will be possible to do this effectively within the framework of a single scheme, and there is also a risk that such a scheme will fail to interest the kind of young people needed to meet the higher skill targets (particularly if, as you suggest, it is paired with ET). Similarly, we must be careful about wide ranging national aims which we may not be able to meet without spreading resources too thinly to have much effect. The review is also short on specific proposals for getting employers to contribute more to the cost of training. Not only is this agreed policy, but the increased emphasis on labour market needs, together with the role of employer-based TECs in delivering the scheme, should enable good progress to be made on this front. Finally, the need to find ways of implementing the guarantee more cheaply, so that resources can be concentrated on improving the level and the quality of training provided, is implicit rather than explicit in the report.

5. As regards your proposal for an early announcement, I have to say that I think this would be premature before we have completed the public expenditure survey which is now under way. Given the continuing fall in unemployment and current and prospective changes in the labour market, it will not surprise you if I say that we will need to consider very carefully the scope

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for savings on the employment programme, especially given the considerable pressures elsewhere on public expenditure. It would be a mistake to announce the changes before we were clear what could be afforded. I note that Kenneth Baker has also asked you to delay any announcement, in his letter of 7 June. I must obviously reserve judgement on his ideas for voucher based schemes until specific proposals are available. But I can certainly see that it could be awkward for you to make an announcement when the CBI have ideas which they may want to put forward. On all counts, therefore, it would seem much better to think in terms of a statement in the autumn.

6. I am copying this letter to the Prime Minister, and to Kenneth Baker, Malcolm Rifkind, Peter Walker, David Young, Sir Robin Butler and Sir Angus Fraser.

CONFIDENTIAL

mwp



Treasury Chambers, Parliament Street, SW1P

cc:
Chancellor
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Phillips
Mrs Case
Mrs Lomax
Mr Spackman
Mr I Wilson
Mr Farthing
Mr MacAuslan
Mr Burr
Mr Meyrick
Mr Dodds
Mr Kalen
Mrs Chaplin

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

12th June 1989

Dear Norman,

YOUTH TRAINING SCHEME

Thank you for your letter of 25 May, in which you report the outcome of the YTS review and propose an early statement. I have also seen the comments from Kenneth Baker, and from Malcolm Rifkind and Peter Walker.

I agree that the review has produced some useful conclusions. As the youth labour market changes in response both to demographic factors and to the general fall in unemployment, the emphasis of the scheme will need to shift towards meeting economic objectives and labour market needs. In that context it is clearly right to set specific targets for the number and particularly the level of qualifications obtained, which leaves much to be desired at present. In monitoring such targets it will be important to ensure that the qualifications are genuinely incremental, and not just the result of bringing existing training within the scheme.

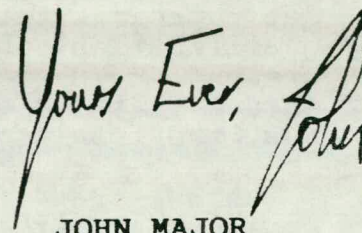
I think that it will also be well worth pursuing the idea of looking further at the interface between education and training, as also recommended by the review. There should be scope for further increases in value for money from getting the education and vocational training systems to work together better, which is important given the large sums involved in both. I was a little surprised that neither you nor Kenneth Baker mentioned this point.

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In some respects, however, the report may not go far enough. The need is for increasingly selective arrangements which address specific gaps in the market, rather than the monolithic scheme which we have had in the past. I am not sure that it will be possible to do this effectively within the framework of a single scheme, and there is also a risk that such a scheme will fail to interest the kind of young people needed to meet the higher skill targets (particularly if, as you suggest, it is paired with ET). Similarly, we must be careful about wide ranging national aims which we may not be able to meet without spreading resources too thinly to have much effect. The review is also short on specific proposals for getting employers to contribute more to the cost of training. Not only is this agreed policy, but the increased emphasis on labour market needs, together with the role of employer-based TECs in delivering the scheme, should enable good progress to be made on this front. Finally, the need to find ways of implementing the guarantee more cheaply, so that resources can be concentrated on improving the level and the quality of training provided, is implicit rather than explicit in the report.

As regards your proposal for an early announcement, I have to say that I think this would be premature before we have completed the public expenditure Survey which is now under way. Given the continuing fall in unemployment and current and prospective changes in the labour market, it will not surprise you if I say that we will need to consider very carefully the scope for savings on the employment programme, especially given the very considerable pressures elsewhere on public expenditure. It would be a mistake to announce the changes before we were clear what could be afforded. I note that Kenneth Baker has also asked you to delay any announcement, in his letter of 7 June. I must obviously reserve judgement on his ideas for voucher based schemes until specific proposals are available. But I can certainly see that it could be awkward for you to make an announcement when the CBI have ideas which they may want to put forward. On all counts, therefore, it would seem much better to think in terms of a statement in the autumn.

I am copying this letter to the Prime Minister, and to Kenneth Baker, Malcolm Rifkind, Peter Walker, David Young, Sir Robin Butler and Sir Angus Fraser.

Yours Ever, 

JOHN MAJOR

PERSONAL AND CONFIDENTIAL

1. broadly agree with Mr. T's remarks etc. no program for Mr. Palmer & Mr. F. ASAP, ostensively to have been done. Star Chapter, but a fact because No sympathy S.P.

FROM: A G TYRIE
DATE: 14 JUNE 1989

CHIEF SECRETARY

cc Chanceller
Mrs Lomax
Mr Burr
Mrs Chaplin
Mr ~~Call~~

THE SPENDING ROUND: SOME FIRST REACTIONS

I have been through the bidding letters from the major departments. This all looks awful. Health will be hard to resist; Social Security is really not that large; we never get the support we need to tackle defence.

2. Two bids are clearly absurd: education and employment.
3. Kenneth Baker's opening bids are nearly always on the farcical side, an opportunity for him to demonstrate his commitment to the department in front of senior officials by putting on a bravura performance in the first bilateral. I think he can be informed on the official net that we do not take his bids too seriously and, apart from that, await the first bilateral.
4. Norman Fowler's bids are altogether more serious.
5. The bids for increases in the baseline are clearly just negotiating chips. His aim from this round, an absurdly optimistic one, is to try and hang on to his baseline.
6. I think we should attack his bid hammer and tongs for two reasons. First, unemployment is falling as fast as ever and the key problem, which has been youth unemployment, is going to diminish even more rapidly as a result of the decline in the school leaving population.
7. Secondly, and more generally, the existence of much of this department's work conflicts with Government philosophy. This department exists to intervene. We are supposed to be against that. Part of the statement of objectives provided by the

long discussion of the way.

department to justify its existence could almost have been written by Michael Meacher to John Smith: it is supply side socialism. Indeed, parts of it are strikingly similar to the employment section of Labour's latest policy review document. (Incidentally, it is proof of the extent to which the Lord Young legacy has still not been dismantled.) It is ironic that a department whose very existence we should be questioning has enjoyed increased resources of around two thirds in real terms since we took office.

WHAT TO CUT

8. ET and YTS should be the key candidates.

9. ET is ludicrously over-funded. The take-up rate has been achieved only by scraping around and adding any conceivable person to the scheme. There are far fewer people in the "priority group" for training than was planned. Nor are we any longer trapped by the political problem of having announced a £1.4 billion programme. (That in itself was an outrageous bounce). I think there is scope for massive reductions here.

10. YTS should also be substantially wound down. Mr Fowler is no doubt hoping that he can get agreement in principle in the YTS Review to move YTS up-market and train people already in work. Thereby he hopes he can hang on to the scheme, which would otherwise be substantially eroded by the declining school leaving population.

11. I think we should tackle this head on. Mr Fowler is proposing a fundamental shift in Government policy. Of course it is dressed up in gentle language. Annex 2 of his letter says: "the quality of YTS will need to improve ... for the market at the higher level, where employers' skill needs will increase in complexity". In plain terms this means paying employers to train people in work. I think we should give this very short shrift indeed. Such training is Labour policy, not ours. The market should be left to decide. The private sector will not train while we interfere and try and do it for them.

12. No doubt Mr Fowler will argue that we cannot run down YTS while other countries are doing more. I think we should be extremely robust in sweeping these international comparisons aside: we started privatising and tax cutting before most countries. Now they are following. We must do what we think will make us most competitive, not what the Germans or anybody else thinks..

13. Mr Fowler will also argue that we cannot pull the rug from under the TECS' feet just after he has enthused the private sector about the scheme. Again, we have to be blunt. Private sector enthusiasm for a scheme which should benefit them and for which somebody else is picking up part of the tab is hardly surprising. As in wages round, so in training, the responsibility ultimately lies with employers not with us.

TACTICS

14. Last year you sent Mr Fowler a letter telling him (politely) that his bids then were not even worth considering. This years' bidding letter is in the same category. I would be tempted to write again in firm terms. Tim Burr's view is that a repeat of last year's tactics would probably not be so successful. That may be right. At the very least I think it would be worthwhile picking off the Prime Minister before we start the round to make absolutely sure that we can take a robust line.

THE ROUND OVERALL

15. As for the round in general, it is clearly going to be an uphill test achieving the ratio target. But I think it is important that we try:

- we have already attenuated our commitment to control and reduce public expenditure;
- we would send the wrong signal to the markets;

PERSONAL AND CONFIDENTIAL

- without it there would be very little to stop spending Ministers getting their claws pretty close to the fiscal surplus.

16. It seems to me that the other key point on which we need unequivocal support from the PM is on running costs. All departments are going to have to take an inflationary hit. Just as the private sector must be expected to control wages, if necessary by reducing the labour force, so must the public sector. I think that a very firm message on this is needed right on the beginning of the spending round. Our position should be that, except in the most exceptional circumstances, we will not entertain any increases in running costs to take account of unexpectedly high inflation. Of course this will cause a riot, but a riot is inevitable anyway!

SATvale

p.p. A G TYRIE

PPP

~~PPP~~
~~RF 26/6~~



Department of Employment
Caxton House, Tothill Street, London SW1H 9NF
5803
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Secretary of State

CHIEF SECRETARY
Mr. Brown
ex, Sir Peter Dutton, Mr. Anson,
Mr. Mack, Mr. Phillips, Mrs. Case,
Mrs. Lomax, Mr. Speakman,
Mr. Wilson, Mr. Forth, Mr. M. C. ...
Mr. Meggitt, Mr. Kallen,
Mrs. Chapman

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

June 16

Dear John

YTS REVIEW

Thank you for your letter of 12 June in response to mine about the outcome of the YTS Review. I was grateful for the general support which you, Malcolm Rifkind and Peter Walker gave to my proposals although I recognise, of course, that there are some specific points on which you and others want further information.

On the issue of timing, I recognise that we cannot make firm commitments about the amount of public money which will be available to support youth training until after the conclusion of this year's public expenditure round. But an announcement of the broad direction in which we intend to proceed does not depend on commitment to particular levels of public expenditure, and there are very strong reasons why I should announce now how in principle we intend to proceed.

The principal reason is the position of the emerging Training and Enterprise Councils. I intend to announce in early July the names of the first batch of proposed TECs which will receive development funding. I must very quickly thereafter be in a position to give them a clear indication of the objectives, powers and responsibilities which we will be expecting them to assume in relation to my major programmes, so that they can produce the business plans for which the development funding has been made available. We simply cannot



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Secretary of State
for Employment

tell them that they must wait until the autumn before we will tell them what it is they must plan for. As you will know, we have had a remarkable degree of support and commitment from top business leaders to the TEC development. We know that many of them regard the current YTS arrangements as too bureaucratic, and insufficiently market-oriented. I need to be able to provide them with a package of youth training measures with a clear market orientation and flexibilities on the lines outlined in my letter if we are not to run the risk of failing to retain the support of business people of the calibre we require.

We also need to give an early indication of our intentions in this area because we need to make it plain quickly that we intend to take serious steps to tackle the problem of low levels of attainment by our young people and the increasing issue of skill shortages. We run the risk of leaving it to others to make all the running if we do not come forward with early proposals.

I recognise the importance of the specific points you raise. I entirely agree about the importance of looking further at the interface between education and training and of ensuring that we get a better return for public investment. I believe that the advent of TECs gives us an important opportunity. I am already discussing with David Young ways in which the TECs can work with his Enterprise Initiative, and I intend to discuss with Kenneth Baker ways in which the TECs can contribute to improving the efficiency and effectiveness of the education sector. The review report contains a number of suggestions for further action, and I believe that officials should meet urgently to discuss how to carry them through, in the light of the emergence of TECs.

I also agree that we need increasingly selective arrangements to address specific gaps in the market, and I believe that the current proposals provide this. We are moving away from a single monolithic scheme, with block funding at fixed rates, to a situation in which TECs have a range of funding mechanisms available to them which they can deploy to meet the particular circumstances of their own labour market. Specifically, we intend to set TECs demanding targets for provision of higher level skills training. But I would see real disadvantages in distinct arrangements to tackle higher-level skills, because we need not only to improve our performance in that area, but also to ensure that the basic level of attainment of our young people is substantially improved, in order to equip them to adapt to the changes in the labour market which will undoubtedly face them. The lower level of a two-tier scheme would be less attractive to young



Secretary of State
for Employment

people than the current YTS arrangements and we would run the risk that the new arrangements would thus not have the impact we want in securing real improvements in attainment levels. I also believe that the proposal that there should be a much stronger link between these arrangements and employment will enhance the attractions of our proposals to young people.

I agree that it is important to get employers to commit more resources to youth training. Even within the current framework of the YTS scheme, the proportion of employer contributions has been increasing sharply over the last year. As the review report says, the new arrangements are designed to accelerate this trend. We will be setting TECs demanding new targets, but not making additional resources available. We shall be requiring them in their business plans to show how they intend to stimulate the commitment of extra resource by employers, and in their published annual reports to show what progress they have made. We will circulate widely among TECs good practice in this area.

These new arrangements will also work towards the objective of meeting the guarantee more cheaply. The proposal to include increased elements of job-finding, and to insist that providers make these available to young people within six months of the end of their guarantee entitlement at the latest, will bring about a real reduction in the unit cost of meeting the guarantee.

Kenneth Baker proposed a fundamental examination of the possibility of voucher-based schemes. I found this surprising, not least because his officials were fully involved in the inter-Departmental Group steering the review, and not only did they not urge the Group to conduct such an examination but they argued against the suggestion in the report that TECs should be given the ability to mount pilot local voucher-based schemes.

I agree that we need to examine this possibility further and that we should not, in our response to the CBI's report, rule out this approach. But we do not have any worked-up mechanism for creating such a system, and I do not believe that the CBI report is likely to contain such a model. There are a number of important issues of principle which would need to be ironed out before we consider even a pilot approach. In particular I have much sympathy with the point Kenneth made in his speech to the Association of Colleges of Further and Higher Education that automatic and universal financial support arrangements in this area run very serious risk of substantial deadweight and therefore higher public expenditure costs.



Secretary of State
for Employment

However, I believe we should, as my review proposes, leave the door open to pilot experiments with voucher-based schemes. I would be very happy for my people to consider jointly with Kenneth's how progress can be made in this area. My officials have done a good deal of work on these matters, on which the preparation of proposals can usefully be built. It would also be appropriate to look at the possibility of a voucher-based system for adults. Again, a good deal of work has been done in the Training Agency on this issue, and I will ask my people to work up some ideas for further consideration.

However, for the reasons set out above, I do not believe that this work, nor further work on the areas you have identified, should hold up basic decisions in principle on the shape of youth training for the 1990/91 training year. I hope you and colleagues will be able to agree that I should go ahead with a broad announcement in principle of our intentions, and that our officials should carry forward further detailed work in the areas you and others have identified.

I am copying this letter to the Prime Minister and Kenneth Baker, Malcolm Rifkind, Peter Walker, David Young, Sir Robin Butler and Sir Angus Fraser.

NORMAN FOWLER



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 June 1989

m p

YTS REVIEW

The Prime Minister has seen your Secretary of State's letter of 25 May to the Chief Secretary and the subsequent comments from the Secretaries of State for Wales, Scotland, Education and Science and the Chief Secretary.

The Prime Minister agrees with the comments of the Secretary of State for Education and Science and the Chief Secretary that an announcement should be delayed until further work has been done and the public expenditure implications sorted out in the Public Expenditure Survey. She has also commented that it might be appropriate to hold an E(A) discussion in the Autumn, in the light of the further work, to consider the extent to which the Government should fund training at a time of tighter labour market conditions.

I am copying this letter to Tom Jeffery (Department of Education and Science), David Crawley (Scottish Office), Stephen Williams (Welsh Office), Neil Thornton (Department of Trade and Industry), Don Brereton (Efficiency Unit) and to Trevor Woolley (Cabinet Office).

PAUL GRAY

CHIEF SECRETARY	
REC.	21 JUN 1989
COPIES TO	Mr Buse ex, Sir P Middleton, Mr Anson, Mr Monck, Mr Phillips, Mrs Case Mrs Lomas, Mr Spackman, Mr Pritchard, Mr Farthing, Mr MacAuliffe, Mr Kallen Mrs Cheph...

Clive Norris, Esq.,
Department of Employment.



FROM: D I SPARKES
DATE: 19 JUNE 1989

PS/CHIEF SECRETARY

cc Mrs Lomax
Mr Burr
Mrs Chaplin
Mr Tyrie

mp

THE SPENDING ROUND: SOME FIRST REACTIONS

The Chancellor has seen Mr Tyrie's minute of 14 June to the Chief Secretary and broadly agrees with his remarks about the Employment programme. He commented that it is important to try and settle with Mr Fowler as soon as possible, ostensibly to have him available for Star Chamber, but in fact because the employment situation may deteriorate if we delay.

D.S.

DUNCAN SPARKES

pwp

FROM: T J BURR (IAE 3)
 DATE: 23rd June 1989
 EXT: 4660

CHIEF SECRETARY

Told
APS/CST - cc

Chancellor
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Phillips
 Mrs Case
 Mrs Lomax
 Mr Spackman
 Mr I Wilson
 Mr Farthing
 Mr MacAuslan
 Mr Meyrick
 Mr Dodds
 Mr Kalen
 Mr N J Knight
 Mrs Chaplin
 Mr Tyrie

To note paras 4-5;
 Mr Burr on balance feels
 that an early settlement
 of Mr Fowler's programme
 would not be to our
 advantage.

D15

YTS REVIEW

1. In your letter of 12 June to Mr Fowler on this subject, you argued against a statement of the Government's conclusions on the YTS review in advance of decisions on the employment programme in the public expenditure Survey. Mr Fowler's response of 16 June recognises that no firm commitments can be given on levels of spending, but argues that he should nevertheless make a broad statement of the Government's intentions both to avoid leaving the initiative to the CBI and others, and as a basis for guidance to the first Training and Enterprise Councils.

2. We think that even a less specific statement of this kind would be unhelpful in the context of the Survey. A programme which has just been re-launched is bound to be more difficult to cut. Mr Fowler himself would find it difficult to explain why he was cutting provision for YTS only a few months after a policy statement on the future of youth training which had said nothing about cuts. Nor do we think that a public statement is necessary to prepare the ground with the TECs. They can be given an informal indication of the way in which the Government is likely to want to develop the programme. An early statement would also

look very like an attempt to pre-empt the CBI, who are on the verge of launching their own proposals based on a study which has looked at vouchers (a possibility which Mr Baker also wants to examine).

3. But Mr Fowler's letter has in any case crossed with the No.10 letter of 19 June, conveying the Prime Minister's support for delaying any announcement until after the Survey. It therefore looks as if he will have to accept that there can be no statement until a settlement of his programme has been reached.

4. That might of course make him more receptive to the idea of an early settlement, as suggested by the Chancellor (Mr Sparkes' minute of 19 June). But we think that the balance of advantage is against this idea. The forecast which has just been submitted shows no major early deterioration in employment prospects. Unemployment is unlikely to rise significantly, if at all, until after the Survey negotiations have been concluded; and there will not be another forecast until early October. Thus the employment situation provides no real reason for urgency to reach a settlement (and even if it did Mr Fowler's officials are well placed to realise that, and advise that his interests were best served by delay).

5. On the other hand, there are a number of good arguments for a later settlement:

- (a) our case is likely to be helped by having as much information as possible on the way in which the Employment Training programme is working out in practice, and it will not complete its first year of operation until September.
- (b) it will be easier to achieve substantial savings on this programme when the Survey comes to a crunch in September.
- (c) an early settlement might fail to hold because any successor to Mr Fowler might not feel committed by it.

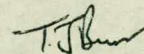
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For these reasons we do not think it would be advisable to exploit Mr Fowler's desire for an early statement to induce him to settle early. In any case this would be difficult to reconcile with the wish of both the Prime Minister and Mr Baker that further work, including on the question of vouchers, should be done first.

6. The No.10 letter also proposes an E(A) discussion in the autumn of the extent to which the Government should fund training at a time of tighter labour market conditions. It might have been helpful for such a discussion in E(A) to have taken place earlier so that it could feed into the Survey, but we know that No.10 wish to avoid having the kind of discussion in E(A) which would be more appropriate to your Survey bilaterals with Mr Fowler. Nevertheless, the fact that the Prime Minister has raised this question (which is expressed in terms of training generally and not just YTS) should prove very helpful to you in seeking reductions on Mr Fowler's programme.

7. There remains the question of how you should respond to Mr Fowler's letter of 16 June. In one sense it is hardly necessary to add anything to what the Prime Minister has said, but it would be worth confirming that even the modified statement now proposed looks undesirable. There is also a point worth raising on Mr Fowler's reference to an early announcement of the first batch of TECs, and his wish to give them clear guidance on their responsibilities. With the TECs in mind, the Training Agency have been working on possible modifications to some of their training programmes, including ET as well as YTS, but without so far consulting us. It would be worth drawing Mr Fowler's attention to the need for proper clearance of any such proposals with the Treasury before anything is said to the TECs.

8. I attach a draft reply.



T J BURR

DRAFT LETTER**FROM: CHIEF SECRETARY****TO: SECRETARY OF STATE FOR EMPLOYMENT**

Copies as indicated

YTS REVIEW

1. You wrote to me on 16 June about the need which you still saw for an early announcement on YTS.

2. Since then you will have seen the letter of 19 June from the Prime Minister's Private Secretary. I can only add that even a more general statement of the kind proposed in your letter of 16 June would in my view still tend to constrain our discussion of the level of spending in the public expenditure Survey. The natural inference would be that if the Government had announced policy decisions on youth training without saying anything about savings, it probably did not intend to make savings in the near future. Any reductions would then be that much harder to present. As regards the TECs, I would have thought that informal guidance would be sufficient, without the need for a statement.

3. What you say about the need for guidance to the TECs on YTS presumably also applies to some extent to your other training programmes, notably ET. We know that your officials have been giving some thought to the basis on which the TECs might run these programmes, but my officials have not yet seen specific proposals.

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In view of your wish to announce the first TECs early next month, perhaps I could stress the need for changes in training programmes to be properly cleared with the Treasury before anything is said to the TECs.

4. I am copying this letter to the Prime Minister and Kenneth Baker, Malcolm Rifkind, Peter Walker, and David Young, and to Sir Robin Butler and Sir Angus Fraser.

JOHN MAJOR



imp

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon Norman Fowler MP
Secretary of State for
Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

CHIEF SECRETARY	
REC.	28 JUN 1989
ACTION	<i>Mr Burr</i>
COPIES TO	<i>Cx, Sir Middleton, Mr Anson, Mr Monck, Mr Phillips, Mrs Case Mrs Lomas & Mr Spackman, Mr Wilson, Mr Farthing, Mr MacAvoy, Mr Kaler, Mrs Chaplin</i>

28 JUN 1989

Dear Norman,

YTS REVIEW

Thank you for sending me a copy of your letter of 16 June to John Major in which you comment on responses to your earlier letter on the YTS Review. I have also seen the Prime Minister's response in her private secretary's letter of 19 June.

2. In my letter of 7 June, I undertook to send colleagues some ideas on how vouchers might be used in the organisation and funding of education and training for the 16-18 age group. I now enclose a paper, which my people have produced and which would, I think, form a good starting point for the discussions between our officials which you propose.

3. Achieving the wider involvement of the 16-18 age group in education and training which we all agree is so essential depends critically on the attitudes of young people themselves and of their employers. The possession of a voucher might encourage those who do not continue in full-time education to press their employers for proper opportunities for structured training leading to qualifications. On the employers' side, it is heartening to learn of the CBI's expectations that they will be willing to take full responsibility for paying wages, so removing the income support role of the YTS. I am myself inclined to think that, in the early years at least, many employers will need rather more inducement. That is why the DES paper discusses some payment to employers to mitigate the costs they will incur. But I hold to what I said in my speech to the Association of Colleges of Further and Higher Education about the significant deadweight costs of extending income support arrangements. The proposals in the paper contemplate a significant shift of public funds away from income support for training and into the provision of education and training.

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4. A further attraction of vouchers is that they could be used for the whole range of reputable providers of education and training. The DES paper builds in this assumption. It does not discuss a voucher regime for adults. That would pose significant practical difficulties arising from the need to ration entitlement in a cash limited scheme. I judge that it is better initially to focus our attention on a scheme limited to 16-18 year olds on which early progress may be possible.

5. I agree with you that more work has to be done to explore the vouchers option further. There are certainly important issues of principle to be considered before even a pilot scheme could be contemplated. That was why my officials were reluctant to endorse TEC-based pilot projects on the Review Group. If we were collectively to decide in favour of a voucher scheme along the lines of that in the enclosed paper, the remit to TECs on youth training would be rather different from that which you have so far contemplated. In spite of what you say in your latest letter, I therefore share the Prime Minister's view that you should delay any announcement until we have taken a considered decision after further work by our officials.

6. I understand that publication of the first report of the CBI's Task Force is imminent. There is no need of course for an instant response from Government and, as John Major reminds us, there is a PES dimension to consider. On that aspect I hope we shall not, collectively, miss what seems an outstanding chance to push ahead with improving the skills of our young workforce. We need to make sure that the funding commitment which we accept is sufficient to generate the commitment from employers which the CBI promises.

7. Discussions between our officials can of course also pick up the points raised in your letter and in the review report about the interface between education and training. I hope, though, that we can limit the remit we give to our officials. Some of the proposals in the review report might suggest a return to narrow vocational specialisation before the age of 16. I hope we can rule this out at the outset, recognising that our statutory requirements for maths, science and design and technology in the National Curriculum, together with the approaches to the delivery of the curriculum already being promoted by TVEI, will provide a sound preparation for the world of work. You refer also to ways in which TECs might help improve the efficiency and effectiveness of the education sector. While I welcome the opportunity for officials to look at the relationship between TECs and the education service, I hope we can agree not to tamper with the broad remit for TECs outlined in your Employment White Paper and more recently in the TEC prospectus.

8. In order to be in a position to respond to the CBI's final report, we shall need to get our ideas clear by September. Accordingly our officials should start working straightaway with a view to preparing papers for E(A) by then. I am asking my officials to set up a meeting.

9. I am sending copies of this letter to the Prime Minister, and to Malcolm Rifkind, Peter Walker, David Young, John Major, Sir Robin Butler and Sir Angus Fraser.

John Major
Herbert

CONFIDENTIAL

VOUCHERS FOR PART-TIME FURTHER EDUCATION FOR 16-18 YEAR-OLDS¹ :
PAPER BY DES OFFICIALS

GENERAL

Introduction

1. The White Paper "Employment for the 1990s" underlined the Government's objective "to secure for every young person relevant education and training, leading where appropriate to recognised vocational qualifications and to a job." Previous White Papers have made clear the Government's commitment that all young people should enter the labour market with a qualification, either general or work-related, and that a two-year programme of high-quality training for skills should be a permanent feature of the vocational education and training system. The White Papers have also made clear that education and training must not simply be about learning specific skills for immediate tasks, but should enable all young people to acquire a broad foundation of skills and understanding so that they can adapt readily to changing demands and progress to higher levels of achievement.

Demographic and Technological Change

2. Between 1987 and 1994 the number of 16 and 17 year-old entrants to the labour market in Great Britain is expected to fall by 27%. At the same time technological change, especially in both manufacturing processes and information handling, is likely to increase the need for analytic skills generally and particularly for technician skills in engineering and for skills in computer-based work and financial analysis. Higher standards of competence in a higher proportion of the young population therefore need to be achieved, for the most part through structured off-the-job training.

¹The expression "16-18" refers throughout this paper to young people aged 16, 17 or 18.

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International Comparisons

3. The Royal Commission on Technical Instruction of 1884 contrasted the "the general intelligence and technical knowledge of the masters and managers of industrial establishments on the Continent" with attitudes in Britain. They concluded that the neglect of education and training in Britain was one of the key factors for her perceived loss of ground to foreign competitors.
4. The development of the EC internal market in the run-up to 1992 will heighten competition within the Community and put a premium on the quality of national work forces. But the international comparisons remain unfavourable for the UK.
5. Around 40% of 16 and 17 year-olds were in full-time education in the UK in 1987-88, with a further 6% in part-time FE, 6% in evening classes and 23% on YTS. Some 25% of the age-group were neither in full or part-time education nor receiving training through YTS. Evidence from the Youth Cohort Study suggests that only 20% of 16 and 17 year-olds outside YTS receive structured training, of which no more than half comprises courses lasting more than six months. Moreover, despite its achievements only 40% of YTS leavers gain a qualification, and the majority of qualifications are below NVQ Level 2.
6. While participation in higher education in the UK is comparable with most of its competitors in the EC and Japan, participation in education and training by 16 and 17 year-olds is significantly lower than in nearly all its key competitor countries. In West Germany, virtually all 16 and 17 year-olds participate by law in full or part-time education and training. In Japan the 1988 figure was over 90% for each age-group, achieved without legislation. This compares with the UK figure for 16 and 17 year-olds of 75% noted above. Precise figures for private sector FE and employer-based training are not available,

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but even if these were included the UK rates would still be significantly lower than those for West Germany and Japan.

7. Overall differences in participation rates in vocational training in other countries are matched by differences in levels of attainment. France produced in 1983 four times as many people as Britain qualified at CGLI Advanced Craft level in construction, while West Germany produced twelve times as many. Around seven times as many foremen acquire technical and organisational qualifications of a high standard in West Germany as do so in the UK. Studies of individual sectors by Professor Prais and others suggest that, even in a service activity such as hotel cleaning, higher competence by supervisory staff in Germany gives a productivity advantage of some 40%.

Aims

8. It is this deficit that we need to move fast to make up. Achieving this will involve:

- (a) pre-16 preparation, to which the implementation of the National Curriculum will contribute significantly;
- (b) maintaining and even increasing participation in high-quality 16-18 full-time education, which is important for a range of reasons, but perhaps especially because it forms the main route into higher education;
- (c) enabling all those leaving full-time education at 16 to participate in high-quality vocational education and training, whether provided in FE colleges, by private providers or in-house by employers.

This paper is concerned with the third of these elements.

CONFIDENTIAL

The Scale of Supply and the Problem of Demand

9. The comparisons above indicate that the United Kingdom is lagging behind its key international competitors in developing the skilled workforce needed for the future. The comparisons suggest that the differences are particularly marked in the extent of vocational education and training for 16-18 year-olds.

10. But the problem is not one of the availability or organisation of training. There are 375 colleges in the LEA sector in England, serving a wide a variety of needs. Around 1,500 different training qualifications are offered by FE colleges, while the NCVQ have identified over 2,000 in total. There are more than 3,000 YTS managing agents, of whom over half are in the private sector. In addition to FE colleges, there are estimated to be some 2,800 private providers of vocational education and training in Britain catering for 2.4 million students annually, covering both 16-18 year-olds and older people.

11. These figures suggest that shortage of training courses or of providers of training is not the reason for the UK's lower participation rate in 16-18 education and training. Some changes to the supply side may well be needed, but the figures imply that changes here alone are unlikely to be sufficient to enhance the UK's relative position. The real problem appears to be not inadequate supply, but lack of demand by both employers and employees.

12. The key to achieving increased training of 16-18 year-olds must therefore lie on the demand side: young people need to be brought to insist on being well-educated and trained; employers need to support them in their participation in suitable off-the-job programmes. Greater awareness of the desirability of training among young people should help to ensure that providers - both

CONFIDENTIAL

public and private - respond to increased demand by offering training courses of the right quality.

A Voucher Approach to Stimulating Demand

13. Increasing demand for education and training among young people is firmly on the public agenda. The CBI's Vocational Education and Training Task Force has been developing ideas for boosting participation in FE and increasing its market orientation. Its proposals are likely to be launched shortly. The Opposition have also sketched out targets in this area. There will be pressure for a coherent and imaginative response to the CBI's proposals when they are launched.

14. The CBI's proposals are likely to centre on:

(a) giving all young people of school-leaving age a "credit" or voucher conferring an entitlement to courses leading to qualifications at NVQ Level 3 or below. This could not be turned into cash by the recipient, but could only be exchanged for a course of education and training at an FE college or other institution;

(b) setting targets for the proportion of the 16-18 population who might by some future date achieve NVQ Level 2 or Level 3 qualifications.

It is not yet clear how ambitious the CBI's proposals will be, nor how acceptable the associated costs. But they include a key attractive feature, namely that, with a tightening youth labour market, employers can and should accept responsibility for paying income support to young people taking jobs.

15. The increase in top-up payments and employment status of YTS participants suggest that the CBI may be right in believing that there is room for a significant expansion of the private sector

CONFIDENTIAL

contribution to youth training. A greater employer contribution to the cost of income support through wages could be harnessed in two ways: first, to reduce public spending; and second, to enhance the quantity and quality of training which employers can buy.

16. There is likely to be a technical flaw in the way the CBI will aim their proposals. They want to bring all FE within eligibility for "credits", with notional credits applying only in the schools sector alone. In fact, distinctions between A-Level provision in schools and colleges are unsustainable, and it is equally unthinkable to differentiate within full-time work in colleges between the academic and the vocational. This difficulty can be ironed out by confining the reality of a voucher/credit system to part-time study, with all full-time provision treated as at present (see paragraph 39 below).

Markets v Planning

17. Vouchers would have two key benefits:

(a) they give immediate and concrete expression to the Government's guarantee of young people's right to post-16 education and training. Within the context of the family and the school, the possession of a voucher with an explicit monetary value approaching £2,000 is likely to emphasize a young person's right to choose training far more effectively than more indirect publicity (see paragraph 47 below on the total value of the voucher). Vouchers can therefore be seen as "empowering" young people in a direct way; and

(b) vouchers leave the right to choose whether or not to participate in training with the individual. It will be for young people to agree with their prospective employers the training they will be facilitated to receive, including the sustained payment of wages while on release. In doing so, young people will be assisted by the knowledge that they

CONFIDENTIAL

stand possessed of a voucher with a face value approaching £2,000, and will have been encouraged by their schools to make effective use of their entitlement. The take-up rate for vouchers will therefore be determined by labour market forces rather than subjected to an attempt at central planning.

To the extent that young people do not make use of their vouchers, public spending will fall compared to current levels. But the expectation, in the light of paragraph 15 above, will be that current levels of spending will be redeployed more cost-effectively, with a significant rise in the output of well-trained young people.

18. Vouchers should also help to counteract the image problem of YTS. Rather than being perceived by some as an alternative means of giving income support to those not staying on in full-time education, vouchers would confer an entitlement to education and training for all young people. The potential stigma of income support would be replaced for most young people by real wages paid by employers. As noted in the preceding paragraph, for vouchers to work well young people will need to be helped through careers guidance and the development of individual action plans related to what they have attained at completion of their period of compulsory schooling.

OUTLINE OF A POSSIBLE VOUCHER SCHEME

Provision within the Scope of Vouchers

19. The voucher system would relate to the main categories of part-time FE, involving some part-time day or block release element and leading to nationally recognised qualifications. A designation procedure will be needed to specify the categories of courses concerned. HE provision, which lies above NVQ Level 3

CONFIDENTIAL

and equivalent, would not come within the scope of vouchers. As indicated in paragraph 36 below, eligible courses provided by private institutions or in-house by employers would be covered by the scheme.

20. The assumption is that most of those taking the main categories of part-time courses will be in employment, and that they and their employers will have a direct interest in securing relevant and effective vocational education and training. Subject balance should not be a concern, since voucher holders will have negotiated with their employer what course they should take.

21. It would be necessary to exclude certain categories of part-time provision from the scope of vouchers, in particular:

i. Evening classes: the majority are not necessarily vocational courses, and fees are in many cases paid by individual students;

ii. Non-course provision: some colleges offer drop-in centres, outreach work, youth work etc.

The Extent of Entitlement

22. Whatever the CBI may eventually propose, it does not seem realistic to think in terms of an entitlement to undertake any relevant course leading to a qualification up to a specified standard, however long that process might take. Rather, the voucher should entitle the holder to claim a specified amount of public funding towards the cost of a designated course lasting not more than a specified period. The appropriate amount is considered in paragraph 31 below. The most appropriate period would be two years. One year would exclude all BTEC National Certificate courses, on the other hand few FE courses are designed to last more than two years. A two-year entitlement

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could be used to take one two-year course or two one-year courses.

Eligibility for Vouchers

23. As described earlier, the problem which needs tackling is particularly the better education and training of the 16-18 age-group. To include older people introduces many complications and risks unnecessary expenditure when much provision there is already made at full cost to employers.

24. Vouchers would be issued automatically to all young people on attaining school-leaving age, along with other appropriate documentation, including notably their school Record of Achievement. This would make clear to all young people their entitlement to continued education and training, and would avoid making invidious distinctions between those who proposed to stay in full-time education and those who did not. Vouchers could be cashed at any time before the nineteenth birthday by any 16-18 year-old who had received less than two years' full-time education post-16 (those who had spent a year in full-time education post-16, for example retaking GCSEs, would still be able to cash the voucher).

25. This means that a two-year entitlement to vouchers would cover a three-year age-band: those aged 16, 17 and 18. In theory, an 18 year-old cashing in his voucher for the first time would not use up his entitlement until he was 20. In practice most young people will use up their entitlement earlier. In order to keep entitlement within specified age limits, someone using the first half of his entitlement at age 18 would have to use the second half before his twentieth birthday.

26. Older people, and young people who have used up their voucher entitlement and want to take another part-time course, would be treated as at present. If they patronised, as many

CONFIDENTIAL

would, an FE college, it would then be for colleges to determine the fees to be charged and for the LEA to decide the extent to which provision was subsidised from LEA resources.

Duration of Training

27. The costings described in paragraph 47 below assume that a voucher worth an average of £620 to the trainee for each year of entitlement will buy about 10 weeks of training in an FE college per year, equivalent to around 1.5 days per teaching week. This is consistent with the existing YTS target of 20 weeks off-the-job training over two years, and should enable participants of average ability to attain the benchmark qualification of NVQ Level 2. Vouchers would however buy training for a much higher proportion of the age-group than at present: see paragraph 47. The figure of 1.5 days of training per week compares to the general minimum in West Germany of 2 (and often 2.5 to 3) days of off-the-job training per week. As noted above, the CBI appear likely to propose that the target should be NVQ Level 3 for those who can attain it - assumed to be 50% of the age group in both full-time and part-time provision - with NVQ Level 2 as the target for the remainder. 10 weeks per year will not be sufficient to deliver the CBI's higher-level target. But attainment of NVQ level 2 by most of the age-group would represent a substantial advance on current YTS outcomes (see paragraph 5 above).

Determination of Voucher Value

28. The courses to be covered by vouchers vary in cost. There are two possible approaches to dealing with this.

29. The first is to set a single annual value for all vouchers, regardless of course or subject, with the face value of the voucher the same as the redemption value for the college or other training provider with whom it was exchanged for training. The

CONFIDENTIAL

value would have to be set at the annual cost of a cheap course in a cheap subject at a cheap college. Voucher-holders and their employers could be left to top up the voucher from their own resources by whatever amount it fell below the fees charged by the college for the course. Alternatively, public funds for topping-up could be made available.

30. Privately funded top-ups would be cheaper and simpler but would skew subject choice, particularly since the subjects most needed to meet employers' skill requirements are expensive - computing, engineering, sciences. But a publicly funded topping-up system would add a significant extra layer of administration to the scheme, since demand for funds would be likely to exceed supply and explicit criteria would be required to decide allocations.

31. The second, preferable approach is therefore to use the voucher itself as the means of allowing for different course costs. This might be done in one of two ways:

(a) specifying on the face of the voucher a different value for each of (say) three cost bands. A schedule to the voucher would indicate the categories of courses in each band, the value for each band being set at the cost of the cheapest course in the band in a cheap institution. This would parallel the proposal for differential fees for full-time HE;

(b) specifying a single face value for the voucher to maximise its impact, but with the redemption value for the provider of training dependent on the band of the actual course taken as described in (a) above.

In order to preserve its direct impact, the voucher would in either case specify a monetary value on its face, rather than simply stating that an entitlement was being conferred on

CONFIDENTIAL

a young person. If the model in (b) is adopted, the most appropriate face value might be twice the annual average cost of a part-time FE course. Alternatively, the maximum value of the entitlement could be stated. If the average cost were used, the face value of the voucher might then be twice the annual figure of £620, based on a unit cost for part-time FE courses of around £670, reduced to allow for lower costs in cheap institutions as described in (a) above.

32. Since the trainee cannot at any stage turn the voucher into cash, specifying a single value on the face of the voucher while having different redemption values for the provider of training should not cause difficulty. A face value based on average course costs will by definition be closer to the actual cost of the courses taken than would a flat-rate voucher as described in paragraph 29 above, which would effectively understate the level of the young person's entitlement. Funding on this basis should not alter subject balance: what is said in paragraph 20 above still holds.

Additional needs

33. Training for those with additional needs is more expensive. Given the need to avoid creating disincentives for employers to take on such people, there will still be a requirement for some public top-up funding as in YTS. The approach most consistent with per capita funding through vouchers would be to have a fixed percentage addition to the value of the voucher for young people with specified additional training needs. These would need to be identified by training providers or employers on the basis of explicit national criteria set by a central agency (see paragraphs 49 to 53 below). The relevant costs could be met from that element of existing YTS provision which was not included in the basic voucher (paragraph 47 below). In order to avoid the risk of stigmatising young people at the start of their careers,

CONFIDENTIAL

the voucher itself should not identify the recipient as having additional needs.

Unemployed 16-18s

34. Vouchers could be cashed by unemployed 16-18 year olds taking part-time day courses. The banded voucher would meet the bulk of their costs, but they might still be faced with meeting additional costs themselves in more expensive institutions or courses. It would be for LEAs to determine whether provision should be made to allow colleges to remit fees beyond the value of the voucher for young people in these in categories.

35. Some safety net of public income support would be required for young people wishing to undertake training but unable to find a job. In order to maximise the benefit of such training, work experience placements arranged through an appropriate public agency would be necessary. The costs and administration of such an arrangement are considered in paragraphs 48 and 51 below. Unemployed 16 and 17 year-olds not choosing to participate in training and work experience under a voucher scheme would, as now, not be entitled to benefit. Unemployed 16 and 17 year-olds wishing to exercise their voucher who did not accept a work placement would not be entitled to benefit.

Coverage of Private Sector Provision

36. As noted in paragraph 10 above, there is extensive training provision in private sector colleges. There is also much in-house training by firms. Vouchers will contribute more to raising the quality and efficiency of provision if there is effective competition between providers. If vouchers are limited to public sector colleges, many colleges will have a monopoly in their area. Vouchers should therefore be cashable in the private as well as in the public sector.

CONFIDENTIAL

37. Quality assurance will be necessary for private or in-house training met by vouchers. The approach apparently favoured by the CBI is to allow vouchers to be used for any course leading to a nationally recognised qualification. "Nationally recognised" will need precise definition, but perhaps something like the following may serve:

- i. GCSE and advanced (A/AS level) qualifications;
- ii. any course validated by a public national FE validating body, such as BTEC, CGLI, RSA;
- iii. any (other) course accredited for an NVQ by the NCVQ.

Beyond that lie other courses offered by various professional and trade associations and in-house by employers: if any of these were to be brought into eligibility for vouchers, probably an appropriate inspection procedure would be necessary.

38. On the basis of the definition in (i) - (iii) above, administration should be both relatively straightforward and effective in ensuring the quality of training provided. Courses not leading to qualifications, or to qualifications not nationally recognised, would have to be funded wholly from private sources.

LEA/College Relations

39. LEAs would continue to fund colleges direct for all full-time courses and for other subsidised work, such as evening classes and provision for adults, which was not covered by vouchers. Funding would be regulated by the FE schemes of delegation being drawn up under the Education Reform Act, and LEAs would remain responsible for planning and for capital

CONFIDENTIAL

investment. Colleges would be free to offer whatever part-time day courses they believed local employers wanted, and to charge whatever fees the market could bear and retain the income. These courses would not be planned and funded through schemes, but move onto essentially the same footing as the full-cost courses which colleges already provide within their own discretion.

Impact on Full-Time Staying-On

40. Vouchers for part-time vocational courses should not affect the availability or nature of full-time courses. Nor, while making vouchers available to all young people of school leaving age will sharpen their choices, should it encourage a significantly higher proportion of young people to leave full-time education at 16 or 17 to the detriment of HE entry. Should this prediction prove wrong, further action might need to be considered.

Relationship between Trainee and Employer

41. As noted in paragraph 12, the success of the voucher approach depends in part on the young employee's willingness to insist to his employer on the opportunity to receive suitable off-the-job training. The combination of demographic decline and increased awareness of the importance of training should help to ensure that employers respond positively. Nonetheless, there is a risk that the increased wage costs resulting from the end of YTS income support will make employers reluctant to agree to incur costs for staff release and preparation of action plans for training. Some may prefer to offer prospective employees higher salaries if they do not use their voucher entitlement. Smaller companies are already relatively under-represented in YTS, and may be reluctant to incur extra costs.

42. Conversely, while vouchers will make young people's entitlement to training clear, not all may have the confidence to

CONFIDENTIAL

bargain with employers for their right to use it. Employer demand is likely to vary according to the qualifications which young people have already obtained, and those with lower attainments and/or in areas of higher unemployment are likely to come off worst.

Incentives for Employers

43. This suggests that for vouchers to work, employers will need a direct incentive to incur training costs. This could take the form of a proportion of the total value of the voucher held by the employee which could be cashed by the employer to set against his training costs. Preliminary calculations suggest that an annual subsidy of £300 per trainee could be provided within existing resources at the same time as putting into trainees' hands the £620 noted in paragraph 31.

44. A subsidy of this size might roughly match the current total of direct contributions made by employers towards managing agents' costs of running YTS schemes (although it would still be less than the average cost of releasing an employee). In order to ensure accountability for public funds, employers would have to make a return setting out the costs they had incurred in releasing the employee, the development of individual action plans and any topping-up of course fees. Should the employer not spend the full amount of the subsidy the balance would be refundable to the allocating agency.

45. In order to target the incentive effect of the employers' share of the voucher more accurately, it might be worth considering the option of varying the maximum value of the voucher according to the size of the employer. This approach could be presented as a reflection of the higher release costs which small firms are likely to incur.

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46. A subsidy for employers need not be a permanent feature of a voucher scheme. Once the culture of young people bargaining for and getting training is established, the benefits of training in terms of increased productivity should become apparent and the need for a direct subsidy diminish. This would offer scope for a significant reduction in public funding of training from current levels.

Cost

47. The key to funding via vouchers lies in the CBI's proposal that the money now spent by the Government on YTS should no longer be used to provide income support, subsidising trainees' wages, but solely to pay for the training that voucher-holders receive. Enhanced funding for additional training needs under YTS would need to be treated as an add-on to the basic voucher as described in paragraph 33 above. Nonetheless, with current expenditure on part-time day education for 16-18 year olds not in YTS included, it should be possible within 1989-90 plans to offer all those in the age-group a voucher covering two years of entitlement worth something approaching £2,000, shared between the trainee and his employer as described above. This assumes that (a) in the steady state a maximum of only two-thirds of 16-18 year-olds will be eligible for vouchers, since a two-year entitlement is covering a three-year age-group; and (b) take-up of 90%, compared to the current figure of under 50%².

48. The CBI's proposals are likely to assume that up to 25% of current YTS trainees would not be able to find jobs once income support was removed, at an estimated cost of £150 million. These costs have been allowed for in the calculation of possible voucher values, as have the potential costs of securing work experience placements for unemployed 16-18 year-olds wishing to make use of their vouchers.

²YTS and part-time FE as a proportion of 16 and 17 year-olds not in full-time education.

CONFIDENTIAL

The Administration of Vouchers

49. A key benefit of vouchers is that their operation would be automatic and direct. In particular:

- (a) vouchers would be allocated using national values to all young people on reaching school-leaving age;
- (b) under the proposal in paragraph 33, top-ups for additional training needs would be determined on a formula basis with specific additions to the basic voucher in cases of need, identified using nationally-set criteria.

Two other aspects of the administration of the scheme would be:

- (i) the classification of courses into subject bands required by the average cost approach in paragraph 31, and the value attached to each band, which would need to be determined on a national basis; and
- (ii) the disbursement of cash to training providers and employers in return for vouchers, and the determination of the method and frequency of payment, which would have to be handled by the body that initially allocated the vouchers.

50. Running a voucher scheme will thus essentially be an administrative rather than a strategic task: issuing vouchers automatically to all young people should ensure that direct negotiations between employer and employee will in most cases determine the training to be provided; decisions will be determined through the market rather than planned. Given this, the range of functions described in paragraph 49 above points to a central agency as the most effective means of administering a

CONFIDENTIAL

voucher scheme. Because of economies of scale, it also likely to be the most efficient.

51. The alternative of allocating voucher funds to individual TECs for automatic onward transmission to schools appears cumbersome, since it builds in an extra step, including calculations about the resources needed for each area. Nor is the task of day-to-day running of a voucher scheme likely to appeal to employers. As noted above, it would be likely to become an administrative function for TEC staff rather than a strategic task for employers. The TECs would however have a key role in two aspects of a voucher scheme:

- (a) promoting the scheme to local employers and raising awareness among the business community;
- (b) arranging work experience for unemployed 16-18 year-olds wishing to train as described in paragraph 35 and validating eligibility for public income support.

52. A central agency for the administration of vouchers would need to represent the different interests involved in the scheme. Employers and providers of education and training are the main interests concerned. The simplest approach would therefore be to establish a national agency on which representatives of employers had the main but not majority interest, and providers of education were also represented. The CBI favour a mixed employer/education interest approach.

53. No detailed work has yet been done on estimating the costs of administering a voucher scheme. They should however be containable within existing central provision. YTS managing agents would largely be replaced by arrangements made directly between employers, employees and providers, with consequent scope for redeploying existing provision for the YTS management fee.

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Territorial Coverage

54. YTS operates on a Great Britain basis. It would therefore be sensible for a voucher scheme to do so as well. The costings referred to in this paper have been calculated on this basis. If a voucher scheme is to cover Great Britain, territorial interests will need to be represented on the central agency.

Summary

55. It is proposed that:

- i. Vouchers should be operated for the funding of part-time mainstream FE. They would be issued to all on attaining school-leaving age, but those continuing on two-year full-time courses would not be able to exchange them for a part-time course after completing their full-time education.
- ii. The source of funds for vouchers for part-time mainstream FE would be existing YTS funds and existing LEA provision for part-time education of 16-18 year-olds. Vouchers could buy training for approaching twice as many young people as currently participate in YTS and part-time FE.
- iii. Each voucher could carry a face value of something approaching £2,000 (at current prices) covering two years, divided into annual trainee shares of £620 and employer shares of £300. Within the two-year entitlement, encashment could begin at any time before the 19th birthday so long as the individual had received less than 2 years' full-time education post-16, with the second year's entitlement cashed not later than the 20th birthday.

CONFIDENTIAL

- iv. The trainee's share of the voucher would be based on the average cost of a part-time course. The redemption value of the voucher to the provider of training would depend on the course taken. This share could be redeemed for any relevant part-time course leading to a nationally recognised qualification, whether provided by a public sector college, a private sector training institution or in-house by an employer.

- v. The employer's share of the voucher would be cashable against specified training costs.

- vi. A national agency should be set up to issue vouchers, to classify and cost courses, and to pay for certified provision. The composition of this agency should reflect the range of different interests concerned. The TECs would be responsible for promoting the scheme and arranging appropriate work experience provision for 16-18 year-olds unable to find jobs who wished to use their vouchers.

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