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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

REFORM OF INDUSTRIAL TRAINING

Memorandum by the Secretary of State for Employment

The training objectives endorsed by us and the Manpower Services Commission (MSC) in their May consultative document are: to achieve greater flexibility in skill training; to move towards vocational preparation for all young people; and to promote wider opportunities for adult training. They have been widely supported in the consultations. (Annex 1).

2 The issue is how best to achieve them and the consultations have produced no consensus on this. MSC will give us further views on the Industrial Training Boards (ITBs) by the end of October and on other issues by the end of November. We should not take final decisions without those views but in order to take consistent decisions on expenditure, we need to decide now our approach to reforming industrial training over the next few years.

3 Training problems are not all susceptible to training solutions. My proposals on industrial relations legislation should help employers tackle restrictions on the acquisition and use of skills and get more realistic pay levels for trainees. More can also be done in schools.

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4 But we need to increase the help we give employers to help themselves and to provide opportunities for the unemployed. I propose we proceed by:

(a) Establishing a comprehensive training scheme available to all 16 and 17 year old school leavers who find themselves unemployed. The Youth Opportunities Programme (YOP) (which cannot survive much longer in its present form) would be transformed in this direction until this comprehensive scheme could be fully introduced in September 1983. Thereafter Supplementary Benefit (SB) would no longer be available to any 16 year olds. The allowance on the scheme would be kept low. E(81)98 will set out the scheme in more detail. (No extra cost in 1982/83. MSC estimate that simply to continue YOP with existing undertakings and the quality improvement needed to make this practicable would cost an extra £377m in 1983/84 and £605m in 1984/85 - on top of existing YOP provision of £590m and £413m respectively. This alternative comprehensive scheme would add a further maximum of £200m in 1983/84 and of £174m in 1984/85. These are gross costs: the net costs would be significantly lower).

(b) Encouraging training for young people in jobs by further expanding the Unified Vocational Preparation (UVP) programme to 18,000 in 1982/83 and aiming to increase to 50,000 by 1984/85. (1982/83 costs coverable from other programmes. Extra £9m needed in 1983/84 and £23m in 1984/85).

(c) Maintaining through to September 1983 apprentice training support at the level for September 1982 agreed in July (around 35,000 places) but making support increasingly conditional on greater flexibility in apprenticeship. (Extra costs £11m in 1982/83, £12m in 1983/84).

(d) Encouraging more and better adult training by employers to appropriate modules and standards, by redirecting existing MSC Training Opportunities (TOPS) and Training for Skills Programme for Action (TPSA) programmes and launching the Open Tech programme for technician training. Detailed proposals will be in E(81)99. (Extra expenditure £3.6m in 1983/84 and £8.0m in 1984/85).

(e) Providing for other new training initiatives not within the rules of existing programmes. (Extra cost £6m in 1982/83, £10m in each of 1983/84 and 1984/85).

(f) Link education and training by replacing existing national advisory bodies with a truly representative body to be regularly consulted by MSC and the Department of Education and Science, and by developing local arrangements involving employers, trade unions, MSC and local education authorities to help identify and solve local training problems. Annex 2 gives details. (No net additional expenditure or manpower).

(E) At industry level rely on voluntary arrangements, keeping statutory ITBs in only 7 or so key sectors; cut off Exchequer support for operating costs of surviving Boards in March 1982; but meet operating and wind up costs of the rest. Details will be in E(81)100. (Extra cost in 1981/82 £11m and 1982/83 £30m).

5 Many of these proposals would attract support from the European Social Fund and are consistent with our line in the review of the Fund to give priority to schemes relieving youth unemployment.

6 Many of those consulted have doubted whether aided voluntarism of this kind will be effective. There is too the risk that it leads to an increasing State contribution. Other countries have sought to reinforce the market without massive public expenditures by introducing statutory rights to training and remissible levies on employers. I do not recommend a statutory rights approach. But taxing employers who do not train (on French lines, see paras 2-3, Annex 3) seems worth considering as an instrument to help achieve our objectives. It could substantially lessen the cost of the comprehensive scheme.

7 I see my colleagues' endorsement of this general approach and of these proposals as more fully set out in E(81)97 to 100. Annex 4 shows the extra financial and staff costs. I propose making a statement early in November on the financing and future of ITBs. For the rest, I intend to develop for colleagues further consideration the proposals in paras 4 and 6 with a view to a general statement on the reform of training to be made around the turn of the year.

8 Discussions on public expenditure are clearly relevant to all this and the Chief Secretary has stated his position in C(81)51.

Department of Employment
15 October 1981

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ANNEX 1OUTCOME OF CONSULTATIONS

1. An initial analysis of the responses to the NTI consultative document indicates the following results:
 - (i) general endorsement of the three objectives;
 - (ii) no consensus on the distribution of financial and organisational responsibility between Government and industry;
 - (iii) no consensus on the issue of statutory versus voluntary arrangements;
 - (iv) a call for more local involvement in the planning of training;
 - (v) a call for MSC programmes to be made more coherent.

2. The CBI's comments will not be available until after their Grand Council meeting on 21 October but are expected to be supportive of the objectives, in favour of a voluntary approach, interested in improving the local infrastructure of training machinery, looking to companies to negotiate the elimination of restrictions on training and realistic pay rates for young people and looking for a redistribution of spending on YOP, UVP, support for skill training and the Young Workers Scheme towards pursuit of the NTI objectives. Their general approach is that firms will train beyond their own needs if Government pays them to do so.

3. The TUC have not commented except to say that, "progress on the NTI is dependent on the retention of the statutory arrangements in the sectors where they presently exist and adequate resources".

ANNEX 2THE LINKS BETWEEN EDUCATION AND TRAININGNote by officialsA local focus

1. Most (though not all) training and vocational education is a matter of training local people in local establishments to meet local needs. A local focus is therefore needed to secure better co-ordination of local effort.
2. A local focus should be built on the local labour market or markets, as far as possible identified with existing local communities and coterminous with one or more local education authorities. It should be small enough for local employers and educationalists to identify with, but large enough to assemble a certain amount of talent. The pattern need not be uniform.
3. To avoid a new bureaucracy an existing agency should take on the servicing and co-ordinating role. The main possibilities are local employers' associations (eg Chamber of Commerce), the MSC and local authorities.
4. It is recommended that:
 - (i) arrangements should be established, progressively throughout the country, to provide a recognised local focus for consultation and co-ordination of action on local training and vocational education needs.
 - (ii) these would involve employers, unions, local education authorities, the MSC and possibly other interests, on an entirely voluntary basis.
 - (iii) they would normally be based on areas covered by LEAs, MSC Training and Special Programmes Districts and local Chambers of Commerce, singly or in combination; about 50 might be eventually required.

- (iv) the MSC should take the lead in ensuring that such arrangements are established and adequately serviced (up to one full time staff unit per area), but should wherever possibly build on existing local initiatives and seek to work towards a position where local employers' organisations take the major responsibility.
- (v) the essence of such local arrangements is a system of well-maintained contacts; at least some of these are likely to be found in existing local advisory committees, governing bodies etc; whether any new standing body is required specifically for this task should be a matter for local discretion and experiment.

National level links

5. The MSC already consists of representatives of employers, unions, local authorities and a professional educationalist and can resolve many problems of liaison. Training is only part of the MSC's functions, while on the other hand it has no direct responsibility for vocational education. Stronger links with the education world are needed.
6. The existing Training and Further Education Consultative Group has not in practice ensured that the MSC and industry on the one hand and educational interests on the other have consulted together as fully as they might in pursuing common or complementary tasks. The MSC Special Programmes Board has arguably been more successful in co-ordinating activities within its specific field.
7. It is recommended that:
 - (i) either that the MSC and the Education Departments should delegate their training and vocational educational functions to a joint body which would have full executive responsibility subject to general direction of policy and control of resources by the Education and (through the MSC) Employment Ministers.
 - (ii) or alternatively, or possibly as a first step, a single representative body should be established to replace the existing Special Programmes Board and Training and

Further Education Consultative Group, this would be essentially advisory but would be consulted by the MSC and the Education Departments as a matter of course on all major decisions and their advice normally followed.

(In either case there would need to be some special arrangement for Scotland and perhaps Wales).

Financial arrangements

8. In theory education, whether general or vocational, is financed in the main from public funds while industry has the primary responsibility for providing training: but the distinction is by no means clear cut. On a broad estimate, the total resources going into vocational education and training amount to about £4 billion a year, of which roughly half comes from the Government and half from industry; these proportions vary considerably, however between occupations, levels of qualification and areas. There is some evidence that the Government is tending gradually to take over a greater share of the total. This should not be allowed to happen save as a conscious decision. In any case rationalisation is needed.

9. Historically the costs of both education and training were borne by the individual and his family. The state has come to play an increasing role in education. As apprenticeship became shorter and more highly paid much of the cost of training was transferred to employers, but they are increasingly reluctant to make this investment in transferable skills because of the uncertainty of return.

10. The country's stock of manual - and to some extent technician - skills is increasingly being found to be inadequate. ITBs have not been able to ensure that the costs of training were distributed equitably across firms according to their use of trained labour.

11. It is recommended that:

- further consideration should be given to the case for funding all training and vocational education either from general taxation or to limit the public expenditure implications, a remissible tax on employers.

A. FRANCE

1. The French vocational preparation and training system has two general aims - the provision of vocational qualification for all and continuing education and training within working life. Much initial vocational training is provided within full time education. Continuing training involves competition and collaboration of public and private training organisations. Statutory and direct Government intervention are widely accepted as essential to underpin or influence private investment decisions.

Training taxes

2. All firms are liable to an Apprenticeship Tax, set at 0.5% of payroll. The tax need not be paid if firms provide initial training for young people with at least an equivalent expenditure to the tax. The tax can be set off against the costs of initial training (including an element of trainees wage costs). Course approval is given by a wide variety of tripartite and voluntary bodies. Apprenticeships in France are more like traineeships in the UK and apprentices earn between 15% and 60% of the national minimum wage (SMIC) depending on their stage of training.

3. Firms (with more than 10 employees) are also liable to the Continued Training Tax, presently 1.1% of payroll. This tax need not be paid if firms provide training for adult employees to at least an equivalent value eg by providing in-firm (but off the job) training, employing independent training firms, subscribing to employer or joint employer/union training organisations, financing employees on sabbaticals. Or the tax can be paid - about £20 million was paid in tax in 1978. Provision for special measures in 1978 required that 0.2% of this payroll tax be allocated to training measures for unemployed young people and women. In this way, the authorities in effect redirect employer spending towards purposes which would otherwise require direct state funding. Reduced social security charges and help with training costs for small firms are also used to combat youth unemployment.

Rights to Training

4. A right to educational leave was conferred in 1971, along with adult training taxes. Employees engaged for at least two years in their present occupations, and at least 6 months with their present employer, have the right to leave to take approved vocational training courses lasting up to one year. Their previous salary is paid initially by the employer and then by the government (subject to a maximum of three times the SMIC).

Standard-setting

5. Great emphasis is laid on standard setting and the attainment of qualifications through examinations after courses. Committees for each main industrial or professional group lay down the competences required for recognised qualifications for those occupations. Only recognised courses will attract income support from the state for educational leave. Standards achieved through different means are recognised as equal.

Direct state provision

6. The full time educational system plays a key part in vocational preparation and training. A technical element is provided in education from the start of secondary schooling as is pre-apprenticeship training, covering 60,000 young people, in the latter stage of secondary education. Full time vocational and technical schools and Technological Universities enable young people to take recognised qualifications in apprentice, technician and higher education training. In 1977 70,000 young people gained their occupational qualification (CAP) through apprenticeships, 150,000 did so through formal education.

7. The state also finances a skillcentre system (AFPA) which is similar to TOPS and which has 44,000 places. Vocational evening classes are provided free by the state, 107,000 adults took evening courses for technical diplomas in 1980.

8. Important features of the German training system include.
- (a) An extensive apprenticeship system - 60% of the age group are in apprenticeships and there is an annual intake of over 600,000.
 - (b) All under 18s in jobs have to be granted the equivalent of two days a week release for general and vocational education.
 - (c) Apprenticeships are attractive to young people because qualifications - to standards set by the Federal Government in about 450 trades - are a statutory requirement for entry to many jobs including self employment.
 - (d) Employers are basically sympathetic to training and are under pressure from local trade associations (to which they are statutorily required to belong) to do their bit.
 - (e) Moreover while apprentices paid ^{are} wages, negotiated by employers and unions, the negotiations may be outside the adult collective bargaining process. Typically a final year apprentice will receive no more than 40% of a skilled adult's pay (a level of remuneration which was criticised for not complying with the provisions of the European Social Charter about the remuneration of young workers).
 - (f) The state provides free courses for young employees on day/block release, family allowances in respect of youngsters under training, and full time courses for the young unemployed.
 - (g) Among a programme of special measures introduced in May 1980 500,000 DM was allotted for the state to reimburse employers in areas of high unemployment 80% of the cost of training their own unskilled or semi-skilled adult employees for skilled work.

Costs in cash prices

<u>Measure</u>	<u>1982/83</u>		<u>1983/84</u>		<u>1984/85</u>		<u>Additional Manpower</u>
	(a) Total	(b) Not available from existing provision	(a)	(b)	(a)	(b)	
YOP - improved - Comprehensive Scheme	771		1,167	577	1,192	779	Ø 1,000
NTI (a) Development Fund	6	-	10	10	10	10	nil
(b) UVP	15	-	27	9	47	23	nil
(c) 'Open Tech'	5	-	10	4	15	8	*15
ITB wind up costs	30	30	-	-	-	-	
Apprentice training	57	11	49	12	40	-	nil

Ø E(81) 97 indicates how these would be offset.
*Should be containable in existing provision.