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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB COMMITTEE ON ECONOMIC AFFAIRS

TRAINING FOR JOBS

Memorandum by the Secretary of State for Employment

One of the major causes of our poor economic performance has been a poorly trained workforce. We have lagged behind our competitors in the quality and relevance of the preparation for working life. Putting this right is central to our employment strategy.

2. We have made a good start with the Youth Training Scheme. Despite some carping about points of detail, this is widely recognised as a big achievement, and of long-term importance. We need now consider the lines on which to carry it forward for the rest of the decade, without disrupting its basic concept. At the same time we must tackle adult training, where past effort has not been well aimed.

3. The attached note makes specific proposals, inevitably complex. They reflect a market-orientated approach to training in which the necessary increase in effort would be achieved by getting employers and trainees themselves to carry greater responsibility, and by improving the effectiveness of the State contribution at broadly its present real level. All would be carried out within current financial provision in the PES period and comparable levels in real terms thereafter.

4. We need not set everything in concrete now. But we need to establish the broad outline of our plans for future training. We can then show that we are tackling one of the major aspects of unemployment by creative investment in improving the skills of our people. I envisage setting this out in a major White Paper early in the New Year. I seek the Committee's agreement accordingly.

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TRAINING FOR JOBS

Note by the Secretary of State for Employment

1. Our 1981 White Paper on Training (Cmd 8455) set out a programme of action for improving vocational education provision and for action on three major national training objectives: to reform skill training (Objective 1); to see that all young people under 18 have the opportunity either of continued full time education or of proper foundation training for work (Objective 2); and to provide adults with wider access to training (Objective 3).

2. In the two years since then we have made marked progress towards Objective 2. The Technical and Vocational Education Initiative has been launched for 14-18 year olds in schools and Colleges of Further Education (CFEs) in England and Wales and the 16-18 Action Plan in Scotland. The Youth Training Scheme (YTS) has been introduced for those who have left school. Progress with Objective 1 has been less dramatic and the move towards agreed skill training standards for the major occupational groups by 1985 has been patchy, despite advances in electrical contracting and engineering. Much less progress has been made on the adult training Objective 3.

3. We now need and are able to chart further ahead the path towards our objectives. My officials have with others reviewed our general approach to the provision and funding of training, and the possible development of the YTS. The MSC are preparing a progress report on the reform of skill training and have put to me, after public consultation, proposals for a new approach to adult training. In the light of this I set out in this paper my proposals for further action over the next few years. I accept that they must be contained within existing provision in the PES period and comparable levels in real terms thereafter.

A MARKET APPROACH TO TRAINING

4. We rely on a combination of market forces, supported by State funding and in some sectors statutory training levies on employers, to meet vocational education and training needs. Employers were estimated in 1980 to be spending around £2½ billion a year on training, but there have been some severe cut-backs during the recession. The State has always funded educational provision, currently to the tune of £4 billion a

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year for post 16 education outside schools. Over the last two decades, in the face of emerging national training problems, the State has been drawn more and more into financing actual training, from under £10m in 1960 (at constant 1982 prices) to some £450m in 1980 and (with the advent of YTS) nearly £1 billion this year. Yet we still face shortages of skill in quantity and quality.

5. Our 1981 White Paper called for an examination of the way in which, in the longer term, the cost of training should be shared between trainees, employers and the taxpayer. In the light of the review since undertaken by my officials I am convinced that we need to attract the maximum contribution from the private sector to attain our objectives. This requires pressing on with our present efforts to remove obstacles, such as: improving the economics of training (more flexible arrangements for the pay, training and the use of skilled labour); widening access to training (by removing age and other barriers to the acquisition of skill); and improving the flow of information about skill needs, training provision and job opportunities. Taken together these efforts should enable the market to work more effectively, with trainees and employers accepting greater responsibility for obtaining, providing and financing training from which they ultimately benefit.

6. There is, however, a clear limit to the extent to which an individual employer regards training as a commercial investment. He cannot be sure of a return since the people he has trained are free to leave and take their skills elsewhere. This may be less of a problem where the training is specific to the job but it is acute where the training is of general application. This is why foundation training as now provided in YTS was not previously provided by employers.

7. This suggests that the broad basis of responsibility for industrial training will divide between employers, the State and individual trainees as follows. Employers would carry the responsibility for meeting both their specific occupational training needs and their needs for broad-based occupational skills (including apprenticeship). The Government would continue to support foundation training in order to ensure its

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wider provision for young people making the transition from education to work, as it does in the case of vocational education. The Government would also accept responsibility for training which has social objectives, such as remedial training for the unemployed or the disabled. But public intervention should otherwise be limited to aiding new developments or "pump-priming" training in new areas of skill where the initial costs seem likely to inhibit innovation or progress. Even where the Government does intervene, we should seek to maximise the extent to which the costs are borne by those who benefit commercially and use public funds in ways which most support the operation of the market. It is for individuals to seek to improve their capabilities through training, paying for it in appropriate circumstances with the aid of a loan, but more generally making at least a contribution to minimising the cost by accepting a low trainee wage or allowance

8. I apply this approach in the proposals which follow.

FOUNDATION TRAINING

9. It is still only 3 months since the full launch of YTS. Its progress so far and my plans for 1984-85 - essentially for a period of consolidation - are set out in a separate paper. I deal here with proposals for its further development after 1984-85, which require decisions on a number of questions of policy

10. At present unemployed 16 and 17 year old school leavers are eligible for YTS, together with unemployed disabled leavers up to age 21. In addition, some 16 year old employees can be brought into the Scheme if their employers take on unemployed YTS trainees. These criteria for entry are only loosely related to training requirements and we need to take a view on what ultimately makes sense in a permanent training scheme. What age limits should apply and should the employed as well as the unemployed young be covered by the Scheme? Then there is the length of training. There are some (including some of our supporters) who favour its extension from one to two years. The links between YTS and vocational courses and between YTS and long duration skill training have not yet been clearly established, nor have the links with other Government schemes, such as the Young Workers Scheme. We need a clear (though not rigid) idea of the form of permanent training scheme we ultimately want to see if these questions are to be answered coherently and the development of the Scheme is to be efficiently managed.

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11. Above all we need to clarify whether our primary objective for YTS is social or economic, whether it is a scheme designed mainly to provide occupation for the young unemployed or whether it is a training scheme to make young people (whether employed or unemployed) more adaptable, productive workers and which will aid the reform of skill training. I am convinced that the economic aim should predominate and that we need to give all young people access to good foundation training, as the 1981 White Paper envisaged. In the course of the decade I would hope to see that access given through three broad and complementary channels: in school, particularly by many more young people taking the 14-18 vocational training route that we are now opening up through the Technical and Vocational Education Initiative (TVEI); in further education, through the development of more effective work-related courses of Non-Advanced Further Education (NAFE); and for those who enter the labour market, through the medium of a developed YTS.

12. I therefore think we should aim to develop by the end of the decade a fully comprehensive YTS on the following lines:

- (a) it would provide all young people, on first entering the labour market, with the opportunity of receiving appropriate foundation training for work. They would be eligible to receive this training whether they get jobs or not. This would mean removing the present age limits (though the great majority would still be under 18) and opening the scheme more widely than now to young employees. These extensions could be made progressively and probably without increasing the present number of places, since the numbers of young people reaching minimum school leaving age will decline over the decade from the present 900,000 a year to around 700,000.
- (b) this foundation training would normally last one year as now, but it might be shorter and the content tailored as far as possible to take account of any further education, training or work experience the individual youngster had already received. Any training beyond this year would be a matter for the employer (save slightly longer courses for the disabled, as now).

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- (c) the content would be developed to ensure it becomes and remains a quality training scheme. A key requirement is to develop a comprehensive system of standards and certification for all foundation training whether given in school, NAFE or YTS. This would facilitate interchange and progression between educationally based courses, YTS and further skill training.
- (d) the Scheme would as now cover the first year of skill training (including apprenticeships) provided that the initial year was broadly based and that the training as a whole met the requirements for the reform of skill training.
- (e) training would be provided through employer-led schemes so far as possible, and employers would be increasingly involved in the local development and administration of the Scheme;
- (f) though employers would remain free to treat participants as trainees or employees the emphasis would be on trainee status and the concept of a trainee allowance at a level taking account of the cost of the training given would remain.
- (g) the Scheme would remain voluntary (though unreasonable refusal of a suitable place would continue to be grounds for temporary reduction of social security benefits)
- (h) other Government Schemes would be made complementary eg (as proposed in my other paper) the Young Workers Scheme would be focussed on ex YTS trainees to help them into work.

13. I deal later with the question of getting employers and trainees themselves to bear their proper shares of the cost of training generally, but conclude that so far as YTS is concerned it would be necessary to maintain something like the present degree of public sector funding per place. If the Scheme continued on its present rules fewer places would be required because of the diminishing number of school leavers, representing a potential saving by the end of the decade of some £175-225 million a year (at 1984/85 prices). To extend the coverage of the Scheme as proposed above is estimated to

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cost by the end of the decade a comparable £150-200 million a year (at 1984/85 prices). There is therefore every possibility that, by carefully controlling progressive steps towards the ultimate objective of a comprehensive scheme, this could be achieved by the end of the decade within levels of public expenditure comparable in real terms to existing PES provision and I accept that progress would have to be so contained.

14. Such estimates can only be indicative at this stage and I do not suggest that we should commit ourselves to a date for attainment of the comprehensive scheme. If colleagues approve the aim and the main features of the Scheme as proposed above, I would announce our intention to develop progressively a comprehensive scheme of this type as resources allow and would invite the MSC to give their views in due course on detailed implementation and priorities for advance. We can then guide development of the Scheme within this framework.

OCCUPATIONAL TRAINING

15. The other two of our national training objectives (paragraph 1 above) relate to the reform of skill training (for all ages) and to wider opportunities for adults. On the first, MSC has sought to establish 1985 as a date by which agreed standards should replace time serving and restrictions on age of entry in both national agreements and local practice. Substantial progress has already been achieved in several industries, particularly electrical contracting, engineering and general printing, and in office skills. The Commission has now set itself to secure further progress, particularly by making acceptance of reform a condition for funding the first year of such training through YTS (see paragraph 12(d) above) and as a condition of support for schemes of adult training on the lines proposed below.

16. On adult training the Commission, following public consultation, has now published recommendations to me for a major initiative to raise awareness of the need for adult training amongst employers, potential trainees and providers of training, and to restructure the Commission's own adult training programmes so as to contribute more cost effectively to that need.

17. These recommendations are based on the view that skill shortages cannot be coped with solely through training young people. Much depends on upgrading the skills of those already in the labour force, employed and unemployed; and since economic, technical and structural changes are likely to happen unpredictably, employers, trainees, and providers of training and education will need to be adaptable enough to respond.

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18. The MSC's proposals are of two kinds. First, to act as a catalyst for action by others. The MSC propose to do this by such means as improving information on local training needs and sources of provision, by encouraging collaboration between employers and training providers (including local education authorities); and by initiating in 1984 a national awareness campaign to get employers, individuals and providers to accept the importance of training as an investment.

19. The MSC also proposes to restructure its own training provision into two main programmes. The first would be an industry-focussed programme of job related training directed to known employment needs and to helping the creation and growth of businesses. Under this programme the MSC would offer help to employers to train or upgrade the skills of their employees. It would relate the supply of skill training to unemployed people to known local employment needs, emphasising upgrading of existing skills to higher levels and focussing on new technology. It would continue to support some demonstration and pump-priming projects, including the Open Tech.

20. The second programme would be designed to help those unemployed who needed training at a more basic level, particularly to restore employability after long periods without work. Such training might be provided through the short work-preparation courses already provided under TOPS and in conjunction with the Community Programme and the existing Voluntary Projects Programme.

21. The MSC propose to start implementing these proposals experimentally in 1984-85 and to complete the re-structuring of its own programmes in 1985-86. This would be done within the approved PES provision for adult training, but more people would be trained, and more effectively. This is partly because courses would on the whole be shorter but also because in some cases MSC would be contributing only part of the cost, and because the training would lead directly to jobs in a higher proportion of cases.

22. Specifically the awareness campaign and the facilitation of action by others might in 1985-86 (in cash prices) cost some £10m; the job-related programmes some £200m (including over £100m continued skill training of the unemployed) and basic training for the unemployed some £60m. The total number trained would be in excess of 250,000 (including some 125,000 unemployed) compared with some 110,000 (80,000 unemployed) under existing programmes.

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WHO SHOULD PAY?

23. When my predecessor announced the YTS in 1982 he said that we accepted the need for large initial funding of that Scheme while youth unemployment was high, but that we intended before 1985 to review the distribution of training costs between employers and Government in the longer term.

24. In line with the approach recommended earlier in this paper, we can reasonably expect individual trainees to contribute to keeping down the costs of training by accepting lower incomes whilst in training, and in the case of YTS specifically by holding the allowance at £25, so long as this offers a reasonable lead over SB.

25. The main factor limiting the contribution trainees can make to the actual cost of their training is their inability to pay. The MSC has therefore proposed to me that they should investigate the possibility of a pilot scheme under which Government would guarantee repayment of loans for training purposes by the banks, mainly to employed people, possibly with an element of subsidy. I think this idea is worth exploring carefully, and I propose to look at it further in collaboration with the MSC.

26. Occupational training is of clear and direct benefit to the employer, whether job-specific or more general in its application (as with traditional craft skills and many new technical skills). I am sure that we should therefore take care to confine public funding in this area to pump priming and demonstration projects, and necessary training of the unemployed. Only so will employers be given the necessary incentive to secure the reforms which will, amongst other things, make such training more economically attractive to them.

27. I do not believe, however, that it is realistic to expect individual employers to meet the costs of foundation training. Links between cost and return are too tenuous to leave this voluntary Scheme to the training investment decisions of individual employers. Some kind of central funding, either by the taxpayer or by employers collectively, will continue to be necessary.

28. I think it is necessary for the taxpayer to continue to meet the costs of this kind of training. The scheme is closely allied to vocational education which is so funded, there is a large element of community benefit in the training and there is significant State provision of vocational education and training to age 18 in competitor countries.

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29. I have, nonetheless, looked into the question of whether a shift to collective funding by employers could reduce the call of YTS on public expenditure, in case colleagues felt that a change was required on that ground. The obvious way of doing this would seem to be to introduce a remissible training tax raised and administered by the MSC. But this would run entirely contrary to our policy of cutting back on Industrial Training Boards with their collective funding powers in order to leave as much as possible of the financing of training to employers themselves. The alternative would be to hypothecate, say, a surcharge of 1% on NI contributions; this would be strongly resisted by employers and would in any case leave the public expenditure position as it is. Legislation would be required for either approach and in my view the present way offers a simpler and less bureaucratic method of funding than a special levy on employers.

The European Dimension

30. To develop YTS in the way proposed would fully meet our European commitment to make foundation training available to school leavers. We currently expect to receive about £200 million towards the cost of YTS and related programmes from the European Social Fund for 1983-84. The recent revision of the Fund rules should enable us to claim even more in future. This will reduce the burden of the Scheme on Government funds. I would also hope to maintain a useful contribution from the Fund to the MSC's adult training programmes (for which we expect to receive about £9 million this year). In connection with the Fund, we should remember that a decision to adopt collective funding of YTS by employers might enable the European Commission to argue that the Scheme was no longer publicly funded and so was disqualified for Social Fund aid.

CONCLUSIONS

31. I therefore propose that:

- (a) we should adopt the general approach to training policy set out in paragraphs 5-7, with the objective of maximising the provision of training through the market;

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- (b) in order to attain the 1981 White Paper objective (paragraph 1) we should progressively develop YTS in the course of the decade into a permanent comprehensive scheme along the lines suggested in paragraph 12 on the basis that it will cost no more in real terms at the end of the decade than in 1984-85. I would seek the MSC's views on the details and priorities of each necessary step towards such a scheme, but the timing of each step would be determined in the light of resources. The Exchequer should continue to bear the costs of YTS beyond 1985 rather than establish a special training fund by legislation from a collective levy of employers to cover the costs (paragraphs 28-29).
- (c) we should encourage the MSC to continue their efforts to reform the arrangements for long duration skill training (paragraph 15) and endorse their recommendations to restructure MSC support for adult training so as to focus more on employment needs as proposed in paragraphs 16-22. I shall consider the MSC proposal for providing training for the unemployed within the Community Programme when I review that programme early next year in the light of the evaluation study.
- (d) we should expect and encourage individuals to make a proper contribution to the cost of their training and in the case of adults I should explore with the MSC the possibility of a pilot loan scheme (paragraph 25).

32. The 1981 White Paper set out the Government's training objectives. We have made significant progress towards them. We now need to show how to build on what has been achieved. Subject to colleagues' agreement I therefore propose to prepare, in conjunction with the Secretaries of State for Education, Scotland and Wales, a White Paper on the further development of vocational education and training which would incorporate the above proposals and be published soon after Parliament reassembles in January.

Department of Employment
5 December 1983

TK