



House of Commons
Committee of Public Accounts

Employers' perspectives on improving skills for employment

**Forty–fifth Report of
Session 2005–06**

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

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The following was also a Member of the committee during the period of the enquiry:

Stephen Williams MP (*Liberal Democrat, Bristol West*)

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

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Summary

A strong skills base is an important element in a productive and sustainable economy and the delivery of better public services. Skills also contribute to social inclusion, because better skilled people are generally more able to fulfil their potential, earn more and use their skills for the benefit of their families and communities. The Learning and Skills Council's National Employer Skills Survey has, however, identified skills gaps in England costing an estimated £10 billion a year in lost revenue. Skills training is required both to fill skills gaps and to keep up with the standards in skills that our international competitors achieve.

The Department for Education and Skills (the Department) spends around £6.7 billion, through the Learning and Skills Council, on employment-related education and skills training in England. The priority for government funding is training up to level 2 (equivalent of five GCSEs grades A*–C), which is designed to improve employability and to provide a basis from which people can progress to higher level training. Employers are expected to pay much of the cost of training above level 2, which has a greater impact on productivity. Collectively employers spend more than £23 billion, including the costs of training and employees' time. However as recently as 2005, the National Employer Skills Survey showed that more than one third of employers provided no training at all for their staff.

Recent reports of this Committee have recommended that public funders and providers of training work more effectively with employers on employment training:

- local Learning and Skills Councils should support training providers who have a good track record of convincing employers of the business benefits of training their staff;¹
- further education colleges should analyse their local industries, talk to local businesses about their skills' needs and plans, and seek independent feedback from them about the quality of training the college provides;² and
- Ufi and the learndirect service should substantially increase direct work with employers within the next two years.³

The Comptroller and Auditor General's Report, *Employers' perspectives in improving skills for employment*,⁴ drew directly on employers' views on how they obtain advice on which training to use; what training best meets business needs; how they can be encouraged to support employees in training; and how employers want to influence the development of training. The Committee examined the Department and the Learning and Skills Council on the issues raised in the Comptroller and Auditor General's Report.

1 21st Report from the Committee of Public Accounts, *Skills for Life: Improving adult literacy and numeracy* (HC 792, Session 2005–06), recommendation 7

2 25th Report from the Committee of Public Accounts, *Securing strategic leadership in the learning and skills sector* (HC 602, Session 2005–06), recommendation 8

3 28th Report from the Committee of Public Accounts, *Extending access to learning through technology: Ufi and the learndirect service* (HC 706, Session 2005–06), recommendation 3

4 C&AG's Report, *Employers' perspectives on improving skills for employment* (HC 461, Session 2005–06) 14 December 2006

Conclusions and recommendations

1. **Some 16% of employers in England report skills gaps and 4% report skill shortage vacancies.** Sector Skills Agreements, by which employers and Sector Skills Councils⁵ identify and tackle skills shortages, should be supported by action to provide more good quality training in key areas of skill shortage such as communication, customer handling, and technical and practical skills.
2. **More than a third of employers have not trained their staff in the past year.** Employers are much more likely to engage in training if it improves productivity and is provided at times and at places that suit working patterns, such as around shifts or on site. Employers would also welcome more opportunities for electronic learning and assessment.
3. **Some 27% of employers do not provide external training because they consider the training available does not meet their needs.** Ofsted found that in 50% of further education colleges, shortages of specialist staff limited their responsiveness to employers. Local Learning and Skills Councils should encourage colleges to collaborate with other colleges and training providers to bring together the specialist skills required to meet employers' needs, for example by developing capacity through Centres of Vocational Excellence⁶ and reaching small employers through larger employers' supply chains.
4. **As recently as 2003 nearly 60% and 80% of 16–19 year olds respectively had literacy and numeracy skills below level 2.** Public money intended for employment-related skills training should not have to be used to equip people with basic literacy and numeracy skills that they should acquire at school. Schools should work with further education colleges to make learning more attractive to hard to engage teenagers, for example by combining practical vocational and life skills with literacy and numeracy qualifications that will help them gain employment.
5. **Some further education colleges have closed courses for people with learning difficulties and disabilities, which can be relatively expensive to run.** Local Learning and Skills Councils should secure training for people with learning difficulties and disabilities in their area by identifying good quality providers and helping them to improve the viability and sustainability of their courses by sharing costs and pooling resources.
6. **One fifth of employers find it difficult to obtain advice on the best skills training for their staff.** The Learning and Skills Council should co-ordinate the efforts of different public sector organisations to increase awareness among employers of how and where to get advice, and consult employers on the information sources they prefer to use. They should, for example, streamline communications as part of the

5 Sector Skills Councils are employer-led organisations representing business, industrial and other sectors.

6 Around 400 Centres of Vocational Excellence, led mainly by further education colleges but also by private companies, are focused on delivering vocational skills that meet particular sector and industry needs.

National Employer Training Programme⁷ and make the website 'Employer's Guide to Training Providers' more user friendly.

7. **Further education colleges engage with only 18% of those businesses which the Department considers need support in training their staff.** Some 450 skills brokers are being recruited, at a cost of around £30 million, to provide independent training advice to businesses and help them source training. Independent brokerage should focus on the most difficult challenge by strengthening good quality colleges' and training providers' links with hard to reach employers. The Department should require brokers to assess and report the extent to which they secure participation by employers who have not previously provided much training for their employees.
8. **Public funds have been spent on courses that employers would otherwise have paid for.** Local Learning and Skills Councils should minimise this risk by funding packages of training in which employers and the public sector share costs, and public funds are focussed on training that is genuinely additional.
9. Both Individual Learning Accounts and the Consultancy Brokerage Service had weak IT systems which made them vulnerable to fraud or difficult to access. In rolling out the National Employer Training Programme, and in building the capacity of skills brokers, the Learning and Skills Council should have an explicit risk management strategy that focuses on safeguarding public money and maximising the benefits for business.

7 A national programme known as Train to Gain, introduced from 2006 following Employer Training Pilots in selected pilot areas that provided free or subsidised training for employees in basic skills or to a first level 2 qualification.

1 Improving skills and increasing productivity

1. The UK has historically had low productivity relative to its main international competitors. A strong skills base, though not sufficient on its own, is an important element in a productive and sustainable economy, and countries such as the UK are increasingly in competition with economies such as India and China, which are investing strongly in higher level skills.⁸

2. In 2004, 20% of employers in England reported skills gaps, costing in total some £10 billion a year in lost revenue, equivalent to £165,000 a year in a typical business with 50 employees. The rate fell in 2005, when 16% of employers surveyed reported skills gaps. There have been nine surveys of employers in the period 1996 to 2005. Using those that the Department considers to be comparable, the proportion of employers reporting skill shortage vacancies has remained constant, at 4%.⁹ The interim report of the Leitch Review¹⁰ found that employers are most likely to report generic skills, such as communication, customer handling and team working as lacking in the existing and potential workforce, though they also report a lack of technical and practical skills.

3. Recent research¹¹ has estimated that on average an 8% increase in the proportion of trained workers can lead to a 0.6% increase in UK productivity, as measured by the value added per hour worked. The Department for Education and Skills spends around £6.7 billion, through the Learning and Skills Council, on employment-related education and skills training (**Figure 1**). In 2000, some 1.9 million employers in England spent an estimated £23.7 billion, including £10.3 billion on trainee wages.¹²

4. The percentage of employers training their staff increased from 59% in 2004 to 65% in 2005.¹³ However, this still meant that over a third of employers had done no staff training over the last year. There is a link between the size of companies and propensity to train, with 75% of larger companies reporting that they train their staff. Others, including a large number of employers with less than 50 employees, need more convincing of the economic benefits of training. Such benefits include, for example, that generally staff are less likely to leave employers who are willing to train them.¹⁴

8 C&AG's Report, paras 1, 5; Q 63

9 C&AG's Report, para 2; Qq 40, 57–59; Ev 16; LSC Press Release <http://www.lsc.gov.uk/National/Media/News/ness05.htm>

10 Leitch Review of Skills, *Skills in the UK: The long-term challenge*, Interim Report, December 2005, para 2.27 and Chart 2.5

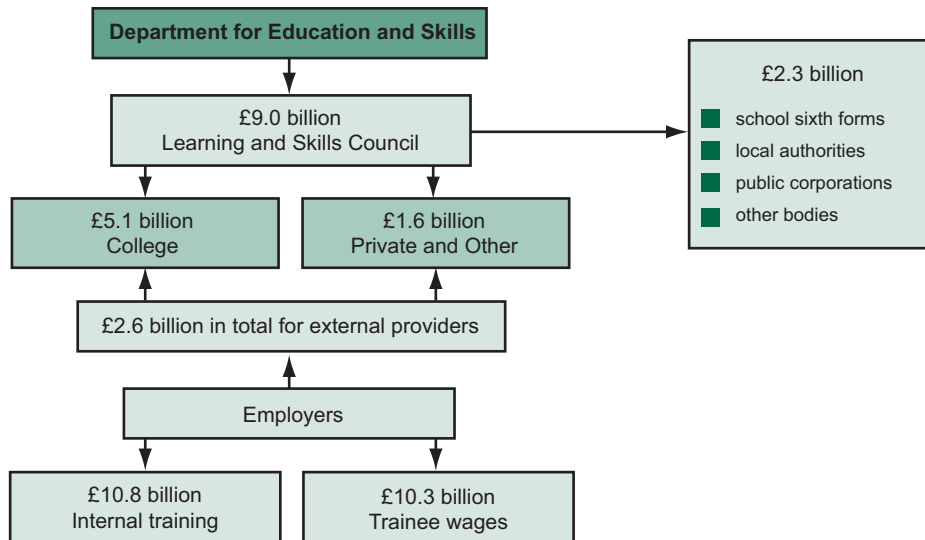
11 *The impact of training on productivity and wages: evidence from British Panel Data*, Dearden, Reed and Van Reenen, Institute for Fiscal Studies (2005)

12 C&AG's Report, paras 2, 12 and Figure 2

13 LSC press release, <http://www.lsc.gov.uk/National/Media/News/ness05.htm>

14 C&AG's Report, para 4; Qq 40, 60, 62; *National Employer Skills Survey 2005*, Learning and Skills Council

Figure 1: Expenditure on learning and skills in England



Source: Department for Education and Skills, and Learning and Skills Council financial statements 2004–05

5. Most occupations require greater levels of skills than in the past. More and better skills training is needed to enable the UK to continue to compete internationally. The Leitch report,¹⁵ to be published in 2006, will try to identify the likely skills gaps in 2020. It will consider future challenges as well as emerging gaps in existing skills due to demographic changes. The Department has asked the review also to consider what incentives are required to encourage employers to focus on training where there are skills gaps.¹⁶

6. Recent reports of this Committee have already examined the government's priority funding of basic skills and qualifications up to level 2 (equivalent of five GCSEs grades A*–C).¹⁷ The Department considers that level 2 is the minimum requirement for sustainable productive employment in a modern economy, and it is also the level that employers could reasonably expect most young people to have attained at school.¹⁸ However, as recently as 2003, nearly 60% and 80% of 16–19 year olds respectively had literacy and numeracy skills below level 2.¹⁹ Specialist diplomas in particular skills, which combine English with vocational subjects, have been shown to capture the interest of pupils who are less attracted to academic subjects. They generally encourage attendance and achievement, and help prepare young people for employment.²⁰

15 Leitch Review of Skills, *Skills in the UK: The long-term challenge*, Interim Report, December 2005, paragraphs 7–9

16 Qq 8, 19, 63, 67

17 21st Report from the Committee of Public Accounts, *Skills for Life: Improving adult literacy and numeracy* (HC 792, Session 2005–06); 25th Report from the Committee of Public Accounts, *Securing strategic leadership in the learning and skills sector* (HC 602, Session 2005–06), paras 12–13

18 Qq 3, 21, 32

19 C&AG's Report, *Skills for Life, Improving adult literacy and numeracy* (HC 20, Session 2004–05), Figure 7, p16

20 18th Report from the Committee of Public Accounts, *Improving school attendance in England* (HC 789, Session 2005–06); Qq 45, 52

7. Training up to level 2 has been free to individual adult learners for some time. The National Employer Training Programme ‘Train to Gain’ is extending the former Employer Training Pilot programme with the aim that, by September 2006, all employers will be able to access free training for their employees who do not yet have qualifications up to level 2.²¹

8. Most employers consider there are greater returns on investment in training at higher levels (level 3 – A level equivalent – and above). The greater benefits in terms of increased productivity and profitability are reflected in the Department’s expectation that employers will accept a shared responsibility for funding higher level skills. Individual learners may also contribute where training leads to increased wages, more flexibility in the labour market and better quality of life. In 2004–05, the Learning and Skills Council spent some £418 million on training at level 3, compared with £457 million for level 2 (excluding expenditure on Skills for Life). Employees who already have level 2 skills are most likely to receive further training from their employers. Pilots in the West Midlands and the North West are testing the extent to which employers are willing to contribute to the cost of level 3 training.²²

9. Part of the solution is to make employees more demanding, so that they too can help persuade their employers of the benefits of training for competitiveness and enhanced productivity. The Union Learning Fund, supported by £11 million from the Learning and Skills Council in 2003–04, aims to strengthen learning at work by increasing the capacity of trade union officials to promote learning. Some 14,000 came forward to train, rising to an expected 100,000 people benefiting in 2005–06.²³

21 C&AG’s Report, Figures 6, 7; Qq 72–77

22 C&AG’s Report, Figure 6; Qq 4, 33

23 C&AG’s Report, para 1.5; Qq 17–18, 40–41

2 Helping employers find training that meets business needs

10. Employers want simple ways of getting advice on the best skills training for their business. However, there is a wide range of public, private and voluntary sector organisations involved in planning and delivering education and training for employees, and employers have mixed views on how easy the available advice and guidance is to understand. Train to Gain is introducing a brokerage service for employers with independent brokers responsible to and funded through the Learning and Skills Council. Brokers will seek to make employers more aware of the link between better skilled employees and profitability and business success. They are expected to help employers identify the skills training they require and find a training provider who can meet their needs at a location and time that suits the employer. They should add value and reduce costs by bringing together different small employers seeking the same or similar skills development and providers who can provide the best training solution for an employer or group of employers.²⁴

11. The Learning and Skills Council is looking to reduce its administrative costs and increase the percentage of funds available for learning.²⁵ There is a risk however, that brokers could create an extra layer of bureaucracy between employers and training providers, especially where effective relationships have already been established. It is important therefore that skills brokers do not duplicate the service provided by others such as by Business Link or Chambers of Commerce. They should focus on those employers least likely to invest in training, provide a simple route for getting advice and help develop more consistently high quality contacts with employers across the country. The Learning and Skills Council has set brokers a target for 50% of their work to reach companies who have provided little or no training for their employees. The initiative will be marketed to increase awareness, and the Learning and Skills Council is developing its website to include a register of training providers, which will take account of feedback from employers.²⁶

12. The Learning and Skills Council is planning to spend £30–40 million a year on 450 skills brokers, who it proposes to appoint through competitive tendering. Brokers will be accredited by the Learning and Skills Council and will be expected to gain a national qualification. They will require considerable business knowledge and experience to gain credibility among employers. And they will need to understand the benefits and impact of training on business, so that they can explain them clearly and persuasively to employers, especially small employers who may have the greatest difficulty releasing staff for training.²⁷

24 C&AG's Report, paras 15–18, Figure 3; Qq 1–2, 52

25 25th Report from the Committee of Public Accounts, *Securing strategic leadership in the learning and skills sector* (HC 602, Session 2005–06), paras 3–4

26 Qq 7, 39, 77–83, 92–95, 99–100

27 Qq 12–16, 30–31, 79–83, 101; Ev 17-18

13. There is a risk that publicly funded skills training subsidises training that employers would have been willing to pay for themselves. Only 14% of the 26,000 employers who had participated in the 20 pilots of Train to Gain (the Employer Training Pilots) had not been involved in training before, and the Institute for Fiscal Studies²⁸ found that only 10–15% of the training was additional to that which employers would have provided anyway. The Institute estimated that in the two-year pilot period, only 11,000 new basic skills and level 2 awards had been made. The Learning and Skills Council is considering carefully how to minimise the extent of ‘deadweight’ as the Train to Gain programme is rolled out nationally, and the Department will monitor take-up of training, to check that employers are raising their overall investment in skills. The Learning and Skills Council is also continuing to pilot and test wage compensation as an incentive for employers.²⁹

14. Skills brokers’ levels of activity, operational costs and overheads, and IT security will all need to be monitored carefully in order to avoid repeating the mistakes of the Individual Learning Accounts and Consultancy Brokerage Service, which were wound up in 2001 and 1994–95 respectively. Individual Learning Accounts depended on brokers to encourage people back into learning, but the scheme had to be closed because of weaknesses in information technology systems which meant the scheme was vulnerable to fraud.³⁰ The Consultancy Brokerage Service, which operated a computerised directory of consultants, was intended to help small and medium sized enterprises’ access good quality consultancy services, but consultants were discouraged from registering because of cost and bureaucracy.³¹ Through satisfaction surveys the Learning and Skills Council will seek to examine whether skills brokers are impartial and are succeeding in improving the commitment of “hard-to-reach” employers to train their employees.³²

15. Employers have a range of routes for influencing training, including direct contact with colleges and other training providers, or through the Learning and Skills Council and Sector Skills Councils (**Figure 2**). Many employers want to influence skills training but do not have the time to do so. Larger employers with more than 250 employees are a relatively small group, and their views are relatively easy to obtain. However, 96% of employers have fewer than 50 employees, and it is harder for them to have a voice.³³

28 DfES Research Report RR694: *The impact of the Employer Training Pilots on the take-up of training among employers and employees*, 29 December 2005

29 C&AG’s Report, para 3.5; Qq 5, 68–70

30 10th Report from the Committee of Public Accounts, *Individual learning accounts* (HC 544, Session 2002–03)

31 *Financial Times*, 12 September 1995

32 Qq 13, 88–90, 98

33 C&AG’s Report, paras 28, 4.3, Figures 4, 11; Qq 2, 10–11

Figure 2: Employers can influence skills training through a number of channels

- Through representative bodies, such as the Confederation of British Industry and the Small Business Council
- The Learning and Skills Council includes employer representatives on its National Council
- The 47 local Learning and Skills Councils include and consult with employer representatives
- Governing bodies of further education colleges include and consult employer representatives
- The nine Regional Development Agencies include employer representatives
- The 25 Sector Skills Councils are designed as employer-led organisations for employers to influence the skills agenda
- Skills Academies from 2007–08 will include employers to govern and shape the Academies' work

16. Sector Skills Councils help employers secure the training they want for their sector, for example through liaising with the Regional Skills Partnerships and with the local Learning and Skills Councils who plan and fund provision in colleges and other providers.³⁴ The 25 Councils are employer-led organisations representing business, industrial and other sectors. But there is relatively low awareness among some employers, partly because some of the Councils are still relatively new. Surveys indicate that awareness is improving, but key tasks required of the Councils, such as developing Sector Skills Agreements and Sector Qualification Strategies, represent a particular challenge for some of the newer and smaller Councils. There is a risk that they will become overstretched undermining the quality of service they provide to employers.³⁵

³⁴ C&AG's Report, Figure 12

³⁵ C&AG's Report, paras 29, 30, 4.2–4.3, 4.7–4.8; Qq 2, 22, 32

3 Improving colleges' responsiveness to business

17. Nearly 90% of employers in the National Audit Office survey who train their staff used private companies as external trainers; 46% used further education colleges. Further education colleges engage with only 18% of those businesses which the Department considers need support in training their staff. While further education colleges are independent corporations, most are substantially focused on the government's educational and skills agenda. They have traditionally recruited learners directly rather than through employers, and much of their provision is based around achieving qualifications.³⁶

18. Responding to employers' needs requires a different mindset and approach. Private training companies have a number of advantages over further education colleges that can make them the natural choice of many employers. For example, they can understand, or are perceived to understand, the needs of business better. They usually specialise and develop expertise in one area, and gain a lot of experience in tailoring their particular expertise to different companies' needs. Private training companies may also have more experience in selling their product by helping employers to see its benefit to the business.³⁷

19. Many colleges sub-contract training or parts of courses to the private sector, but tend not to work in close partnership with a private provider as frequently as they do with other colleges. Employers are most satisfied with providers who pro-actively support them with training administration and flexible working. Some colleges employ staff with prior private sector experience who employers consider understand their business needs better. Ofsted's report on the responsiveness of colleges to employers found that a shortage of specialists limited responsiveness in half the colleges surveyed.³⁸

20. Employers can influence college training programmes directly by being more demanding about what they want from colleges. In our recent Report on the learning and skills sector, we emphasised the need for colleges to communicate well with both large and small employers about their skills needs now and in the longer term.³⁹ Some colleges are working effectively with particular employers or sectors, and these employers welcome what the colleges offer. In his recent review of the future of further education colleges,⁴⁰ Sir Andrew Foster proposed that colleges should aim to become the provider of choice for many employers.⁴¹

21. Employers, however, see other less responsive colleges as irrelevant to their business, and these colleges can damage the reputation of the college sector as a whole. Initiatives such as Centres of Vocational Excellence – the network of 400 centres specialising in

36 C&AG's Report, box on page 12, para 2.1; Ev 17-18

37 *ibid*, para 2.2

38 *ibid*, paras 2.5–2.6; *The responsiveness of colleges to the needs of employers*, Ofsted, November 2004

39 25th Report from the Committee of Public Accounts, *Securing strategic leadership in the learning and skills sector* (HC, Session 2005–06), recommendation 8

40 *Realising the Potential: a review of the future role of further education colleges*, Sir Andrew Foster, November 2005

41 Q 102

vocational skills designed to meet the needs of particular sectors or industries – provide a vehicle for colleges to develop a strong business focus and expertise by working closely with other colleges or training providers to provide local employers training that meets their business needs.⁴²

22. Skills training for people with learning difficulties and disabilities, for whom training leading to qualifications is not always appropriate, is particularly important in the light of the government's recent announcement on welfare reform⁴³ and to provide a basis for further study and better prospects for employment. The Learning and Skills Council has found itself paying the costs previously borne by other parts of government in relation to some disabled groups.⁴⁴

23. At the same time, colleges have to focus on government priorities, especially 16–19 year olds, adult literacy and numeracy courses and training to raise skills to level 2. Courses for adults with learning difficulties and disabilities, which can be relatively expensive to run, are at risk when funding is limited. The Learning and Skills Council recognises the importance of reviewing instances of colleges cutting their provision,⁴⁵ so that learners can continue to secure courses they need through another training provider.⁴⁶

42 C&AG's Report, Case Study 12, p39; Qq 2, 10, 42; *The responsiveness of colleges to the needs of employers*, Ofsted, November 2004

43 Welfare Reform Green Paper, *A new deal for welfare: empowering people to work*, 24 January 2006

44 Qq 27–28

45 *Eight in Ten: Adult learners in Further Education*, National Institute of Continuing Adult Education, 2005, para 30

46 Q 97

Formal minutes

Wednesday 10 May 2006

Members present:

Mr Edward Leigh, in the Chair

Annette Brooke
Greg Clark
Mr Ian Davidson
Helen Goodman

Sarah McCarthy-Fry
Mr Austin Mitchell
Mr Alan Williams

A draft Report (Employers' perspectives on improving skills for employment), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 read and agreed to.

Summary read and agreed to.

Conclusions and recommendations read and agreed to.

Resolved, That the Report be the Forty-fifth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Monday 22 May at 4.30 pm.]

Witnesses

Wednesday 25 January 2006

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Mr David Bell, Department for Education and Skills, and **Mr Mark Haysom**,
Learning and Skills Council

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Department for Education and Skills

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Third Report	Ministry of Defence: Major Projects Report 2004	HC 410 (<i>Cm 6712</i>)
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Nineteenth Report	Department of Health: Tackling cancer: improving the patient journey	HC 790 (<i>Cm 6766</i>)
Twentieth Report	The NHS Cancer Plan: a progress report	HC 791 (<i>Cm 6766</i>)
Twenty-first Report	Skills for Life: Improving adult literacy and numeracy	HC 792 (<i>Cm 6766</i>)
Twenty-second Report	Maintaining and improving Britain's railway stations	HC 535 (<i>Cm 6775</i>)
Twenty-third Report	Filing of income tax self assessment returns	HC 681 (<i>Cm 6775</i>)
Twenty-fourth Report	The BBC's White City 2 development	HC 652
Twenty-fifth Report	Securing strategic leadership in the learning and skills sector	HC 602 (<i>Cm 6775</i>)
Twenty-sixth Report	Assessing and reporting military readiness	HC 667 (<i>Cm 6775</i>)
Twenty-seventh Report	Lost in translation? Responding to the challenges of European law	HC 590 (<i>Cm 6775</i>)
Twenty-eighth Report	Extending access to learning through technology: Ufi and the learndirect service	HC 706 (<i>Cm 6775</i>)
Twenty-ninth Report	Excess Votes 2004–05	HC 916 (<i>N/A</i>)

Thirtieth Report	Excess Votes (Northern Ireland) 2004–05	HC 917 (N/A)
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The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 25 January 2006

Members present

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr David Curry
Mr Sadiq Khan

Sarah McCarthy-Fry
Mr Austin Mitchell
Kitty Ussher

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, was in attendance.

Ms Paula Diggle, Second Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

EMPLOYERS' PERSPECTIVES ON IMPROVING SKILLS FOR EMPLOYMENT (HC461)

Witnesses: **Mr David Bell**, Permanent Secretary, Department for Education and Skills, and **Mr Mark Haysom**, Chief Executive, Learning and Skills Council, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts. Today we are dealing with the Comptroller and Auditor General's Report on Progress on *Employers' perspectives on improving skills for employment*. We welcome Mr David Bell, who is the Permanent Secretary in the Department for Education and Skills—I think it is your first time here as Permanent Secretary, so we congratulate you on your appointment—and Mr Mark Haysom, who is Chief Executive of the Learning and Skills Council. I should emphasise to start with that this is a Report on employers' perspectives, so my questions to you are based on what employers think of your work. Perhaps you can start by looking at the number of people who are involved in this process. We read at paragraph 1.2 on page 22 of skills brokers, sector skills councils, Train to Gain, and other people are mentioned in the report. Is this all adding to the bureaucracy as far as employers are concerned?

Mr Bell: This is a complex landscape, which involves individual institutions, whether colleges or employers; it involves national bodies like the sector skills council, the LSC and so on. There is a responsibility on us to look at that national and regional/local framework to try and simplify it where possible. When it comes down to the individual employer, whilst they are interested in that wider landscape, they are interested in having the right advice at the right time. Therefore, the notion of brokers, people who can sit down with them and identify what is available locally and identify what is right for their staff, is what really matters. It is about trying to simplify the infrastructure around this whole area, but for the individual employer, they want somebody who they can get in touch with, who can help them navigate their way through the system.

Q2 Chairman: Do you really think these organisations will bring the perspective that employers want?

Mr Bell: That is the whole issue around this Report: to what extent do employers influence the nature of the offer? They do that in all sorts of ways. We see the involvement of employers across 25 sector skills councils, so at that kind of level you have the engagement of employers in influencing what is right for their sector. Clearly, in the LSC, in its organisation, employers are heavily involved at that level. At the higher level we hope that employers are influencing what happens and what is on offer. At the local level there are important relationships that employers can form with, for example, local colleges. One of the issues picked up in this report is the responsiveness of colleges to enable employers to have what is available for them. Nobody can be complacent on the back of this report, but I think there is a sense of employers welcoming the efforts that have been made to ensure that their interests are considered whether planning at national level—the sector skills councils and so on—right down to what happens locally, so that something is available for them in their local area.

Q3 Chairman: Would you look at part 3, headed *Employers want incentives to train their staff more*. Look at page 33, paragraph 3.3: "Employers have mixed views on whether the government's priorities for skills training would benefit their business and many are not convinced that the direct benefits to their businesses warrant their investment in qualifications up to level two." Is this a problem for you? Can you expect businesses to give time off to their staff, school-leavers, to train, when these businesses often do not see any direct benefit to them?

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Mr Bell: Perhaps, Mr Chairman, I can put that in a slightly wider context about the whole approach. Mark may want to comment after I have finished. Undoubtedly, the Government is placing a lot of emphasis on what one might describe as the level two threshold, in other words, seeing that as the platform of skills and knowledge that employees of the future are going to require to come into the workplace. There are economic benefits in that, clearly, to employers. They want people who have got that baseline of skills to be able to take their place in the workforce. All the evidence suggests that without that level two platform, employees are going to find it very difficult to get employment. I would also make the comment in passing that if we look to the future, that level two is clearly only a minimum, given the international challenges we face, and modern economies are investing in level two and above. There is also a social benefit. All the evidence we have in relation to the likelihood of finding employment in the first place, to levels of health, deprivation, and so on, suggests that a good investment at level two ensures that there are social as well as economic benefits. The Report does, however, state elsewhere that, while the view is not universal, employers do understand that rationale for strong investment at the level two platform.

Q4 Chairman: What they actually say, if you look further on in the Report at paragraph 3.6: “A number of stakeholders have suggested revising public funding to promote increased take-up of training at level three, for example by sharing the cost with employers for level three training in high priority skills.”

Mr Bell: They do, Mr Chairman, but perhaps I can also point out paragraph 14 on page 11: “Many employers and other stakeholders recognise the social benefits of much of the education and training for employment that receives priority funding . . .” I do not think that we should characterise this as an either/or; we really should not, because in relation to the level two, the important platform, there is a strong recognition from Government about the need to support level three, because it is on that basis that you get the higher skills and the higher value. The other argument for shared responsibility at level three is that that is where the employer gets the added value: if you have a highly trained workforce at level three and beyond, those are the sorts of people that will bring added value to your business.

Mr Haysom: If I can add to the discussion about level three in particular. We talked about level two on a previous occasion when I came before this Committee—and David has articulated this very clearly. There seem to be some misunderstandings in the level three discussion. It seems to be suggested that all of our funding somehow is going to level two and that we have somehow stopped funding level three. I have brought along some figures in which I thought the Committee would be interested. I think we need to focus our attention on adults: the Learning and Skills Council funds across the country to the extent of £457 million at level two, and £418 million at level three. I share that with you

because it demonstrates that there clearly is a commitment to level three. If I had more time, I would take you through this, but the very interesting thing is how that varies across regions; level two and level three have a greater prominence in different regions. There is clearly investment in level three. The other thing to point out about the level three discussion is that it is about who pays and to what extent more than anything else. It says very clearly in the report that employers are looking for government to subsidise training at level three. As I have just demonstrated, the Government clearly does that. The Government is now interested, and we are interested in testing this for them, in finding out the extent to which employers will contribute. That is why there are going to be two level three pilots later this year. There is one in the West Midlands and one in the North West, and there is a similar activity in London as well. What we are going to be testing is the extent to which employers are prepared to contribute towards level three.

Q5 Chairman: Can you please look at the risk, Mr Bell, that you might be providing funding for what was going to be done anyway. If you look at paragraph 3.5: “There is a risk that subsidies for first level two training may be used for training by many of the overall minority of employers who would have undertaken it anyway.”

Mr Bell: Mark may wish to comment on this, given the employer training pilots and this whole concept of deadweight, in other words the public purse paying for what employers would pay for themselves. The important point to make is that the ETPs, the employment training pilots, are just that; they are pilots to find out if this is happening, and therefore when we get to the roll-out of the programme nationally to learn some of those important lessons. It is important, however, to say that there are about 26,000 employers that took part in these arrangements, and a large number, 14% of employers on that programme at the pilot stage had no prior involvement in public training. There clearly were benefits in investing in encouraging people to do that level of training. The vast majority of employers found the free or subsidised training an attraction for getting involved. In other words you have got people to participate in a particular way. As you have said, there was a degree of deadweight amongst employers that may already have put that money in; and we need to think carefully about how we avoid that, recognising that it cannot be avoided altogether when the programme is rolled out across the country.

Q6 Chairman: I am interested in employers’ attitudes. This is illustrated by figure 8 on page 22—the website. There were ten employers who were questioned about awareness of the website, especially designed to help them; and only one had ever heard of it.

Mr Haysom: I think it is probably best if I pick that up since it is a Learning and Skills Council website. I am not sure that ten is representative.

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Q7 Chairman: No, I am not saying that, but they happened to go to ten and only one was aware of it.

Mr Haysom: Yes, absolutely. There are several points about this. The main point is that we have not as yet started aggressively marketing this particular website because there is still work to be done. It says elsewhere in the Report that we need to make sure we take account of employer feedback, and we are building that into the site. We are also working with the Department on the register of learning providers, to make sure that is aligned; and we are also working with the Agenda for Change, which has an element of it that impacts on this, which is the new quality mark. Until those things are together it does not make any sense to aggressively market it. Having said that, when you look to see how it is used and you look to see the links from the business link website, you can see good traffic already going on.

Q8 Chairman: Have you seen, Mr Bell, the *Financial Times* for 24 January: “Business groups push tax breaks as best way to raise skill levels: Businesses are urging the government to introduce a new tax break for training, arguing that it would be the most effective way to raise the skills of the workforce. Have you seen that article, and do you have any comment?”

Mr Bell: I have not seen that specific article, but I am aware of the debate. I think it is a very interesting question here now, about how you incentivise—and I use that word advisedly—employers to participate in training. We have asked Sandy Leitch, who did the first stage review of skills to consider precisely this question in the second stage report: what is the balance between incentives and voluntarism on the one hand, right the way through to compulsion at the other, with incentives somewhere in between. At the moment different ideas are being considered. On a personal level I think that this is quite a difficult call. Employers do legitimately say, “Give us some incentive to do this”, and tax breaks may be one way of doing it. On the other hand, you might say, “if employers are not doing this, should there be a degree of compulsion at some stage?” I think that there are interesting arguments either side of this, and we look to Sandy Leitch to advise us further.

Q9 Sarah McCarthy-Fry: Can I move to part 2, *Employers want training that meets their business needs*. In paragraph 2.3 on page 26, “Although they are offered a choice of quality assured providers, employers engaged in employer training pilots told us that they would prefer to nominate who delivers their publicly funded training.” Why do you think that is?

Mr Haysom: I think employers want to be in control of who trains their staff, and I understand that entirely, having spent most of my life running businesses. I would recognise that entirely. That is very much what we are trying to introduce with the National Employer Training Programme.

Q10 Sarah McCarthy-Fry: That does seem a little broad. It is self-evident they want to be in control of who trains, but have you any insight into whether it is the standard of the training delivered or what it is that makes them want to pick their own providers?

Mr Haysom: We have learnt an awful lot through the employer training pilots, as you can imagine. We know for instance that they want to make sure that training is delivered flexibly, at a time and place that suits them, and those are all very important parts of this programme. We also know—and again from personal experience I know—that you choose training providers on the basis of specialist knowledge and skills.

Mr Bell: There is a really important role for employers here in driving demand, particularly in relation to further education colleges. We know that the picture is not universally positive in relation to what further education colleges provide for employers, and I think that employers have to be really pushy on that front and say, “we need this, this and this”. I do not think that there is an absolutely ideological objection to using public services in relation to further education colleges, but business has taken a very pragmatic view, as paragraph 2.2 says—“If they do not provide what we want, we are not going there.” That acts as a real incentive and should act increasingly as an incentive to colleges to make sure that what they provide is then going to be chosen by employers. In some ways I urge employers to be even more demanding of what it is that colleges provide.

Q11 Sarah McCarthy-Fry: How are you monitoring whether colleges are providing what employers want?

Mr Bell: A couple of years ago Ofsted was asked to look at this issue and colleges’ responsiveness to employers. Ofsted looked at particular examples and particular areas. It was found that in some sectors of the economy colleges generally were more responsive than others. For example, in information technology colleges were generally seen to be more responsive than they were on construction. We can monitor that through mechanisms such as inspection. We can also pick that up through the Learning and Skills Council and the regional/local operation, because it is very important that employers who sit on the regional/local bodies say, “I am sorry, this kind of provision in colleges in our area is not meeting our needs”. Do not forget that the LSC does a lot of gathering of data and evidence from employers to track that, so it is a very important issue that colleges have a demand pressure on them.

Q12 Sarah McCarthy-Fry: In a reply to the Chairman you were extolling the virtues of the skills brokers that were going to work with the employers, and then going they are going to act as a liaison between the providers. When we go national on this, are you satisfied that you have done enough monitoring of the effectiveness of the brokers in the pilot programme that they are going to be able to do this huge task?

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Mr Haysom: I am going to answer in much the same way as I did before; there is a huge amount of learning on this. David is absolutely right that the brokerage role is key. We are going through a contracting process at the moment to make sure that we select people on the basis of the experience that we have gained. We want experienced people; we want people with massive credibility as far as the business community is concerned, and we have got criteria from national standards that we have established in order to measure that.

Q13 Sarah McCarthy-Fry: Can we come back to page 22, paragraph 1.2, because some of these brokers will be based in colleges. “College-based brokers need to counter the risk that their advice to employers might emphasise courses provided by the college . . .” Case study 1 shows that the danger is that they are going to push the courses that their college provides, because they are based in the college, rather than anything else. What kind of safety measures do you have in place to prevent this?

Mr Haysom: Very clearly, part of the contract we will have with brokers is that we will be insisting that they are impartial in their advice, and we will monitor it through management reports, through the referrals that they make, and so on, to watch what is happening. We will be watching that all the time.

Q14 Sarah McCarthy-Fry: Are you planning to have some kind of accreditation scheme?

Mr Haysom: Yes. As I say, there is a national qualification, a national standard that they have to meet.

Q15 Sarah McCarthy-Fry: Where are these brokers going to come from? How many pilots did you do?

Mr Haysom: We did twenty over different periods and in different parts of the country. An awful lot of pilots have gone on.

Q16 Sarah McCarthy-Fry: Even so, when you roll it out nationally you are suddenly going to have to find these brokers. How are you going to find the people—

Mr Haysom: You are absolutely right to focus in on this area because it is a hugely important one, one that we have spent an awful lot of time looking at. We are going through the process now of tendering. We are confident that we can find people across the country who have sufficient experience. Business Link is obviously a major resource here as well.

Q17 Sarah McCarthy-Fry: On page 23, paragraph 1.5 mentions the Union Learning Representatives and the Union Academy, which, from my own experience I know has been a tremendous success in encouraging the employees to ask their employers for training. I know we are looking at this from an employer perspective, but if the drive is coming from employees, then that is very useful. Who is funding this Union Academy? Is it funded by the TUC or the Department?

Mr Haysom: We put £11 million, as you can see, into the Union Learning Fund. And over the course of our involvement with them—we started quite modestly with the Union Fund, and I think we had something like 14,000 individuals who came forward for learning—we are expecting that to be over 100,000 now in 05/06. So there is £11 million going into it.

Q18 Sarah McCarthy-Fry: Does it then come under the remit of the Learning and Skills Council?

Mr Haysom: We would provide funding, yes.

Q19 Sarah McCarthy-Fry: The Chairman asked you about the economic benefits to employers of training employees to level two, and it also comes out in the Report that employers may be reluctant to train—although they are not paying for the training themselves, the employees’ time is a huge constraint. I have worked in business myself, and I know that the difficulty is if you send people out for training you are losing the time when they could be working for you. I found that when businesses are getting accredited for other quality issues, very often, particularly in a manufacturing industry, where people have always done a job the same way, it is not until you come to get accreditation where you are required to read a drawing perhaps that you find some of your longstanding employees do not have the skills required to read a drawing even though they are perfectly capable of doing the job. Is this a route that you could use to emphasise to employers the requirement; that although people are doing a job they need basic levels?

Mr Bell: Absolutely correct. It is fair to say from the first Leitch report, and looking ahead, that the level of expected skills, even of the existing workforce, is rising all the time, so as well as worrying about what we are going to do in the future, those in work need to be trained up to a high level. That is why I would not want to draw a very sharp distinction between level two or level three, because clearly in the example you cite for the employer getting that level two platform is absolutely crucial to business success. If that person cannot read the drawing properly, then that will have a direct impact on the employer. It is important again to emphasise the point: level two investment—the basic platform—accompanied, as Mark said, through serious funding for level three for higher level skills.

Q20 Sarah McCarthy-Fry: Green enterprise was mentioned very much, and the whole key about green enterprise is that you have to have flexibility of workforce.

Mr Bell: Absolutely.

Q21 Sarah McCarthy-Fry: It is no good having one person that can do one thing; they have to be able to move around.

Mr Bell: It is very interesting. When employers were asked in this Report about skills shortages, one can identify particular sectors of the economy, but also employers, as we know, want more generic skills—the ability to transfer your knowledge from one area

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to another and the ability to work in a team—all those generic skills that are terribly important to be a flexible employer. That is another important reason why we do not just look at the investment in level two and level three, as it were, for 16-plus students and for adults, but we also think of how to generate those sorts of attributes in the employees of the future. Therefore, it seems to me that the schools system has an important contribution to make to ensure that we are preparing workers of the future to be much more flexible, given that that is the nature of the economy that they are going to grow up into.

Q22 Angela Browning: Mr Haysom, I understand that the funding streams from the Learning and Skills Council for FE colleges reflects the priority that you give to the types of courses they run. For example, it was recently described to me as rather like a traffic-light system, and therefore some of the practical skills in which we have shortages, for example engineering, would be in the green light, whereas A levels now appear in the amber light. You are shaking your head, and I am delighted you are shaking your head. Can you briefly outline how your funding streams are going to influence the priorities in FE colleges?

Mr Haysom: We have talked a little about this on previous occasions, have we not? The way that we envisage this working, and the way in which it is working to a greater extent already, and will work even more in the future, is that we want to be able to take from sector skills councils, regional skills priorities and local employers as much information as we can gather about demand. Then we want to sit down and have a series of intelligent conversations with suppliers, colleges and others. We want to see where we can get to in terms of shaping what happens in colleges and other providers against that demand. There are priorities, as David has clearly outlined and as I have already referred to. There are some things in the lower priorities but one is not A levels—absolutely not.

Q23 Angela Browning: There is less money though, now.

Mr Haysom: No, that is not true; more and more money has gone into training and education for young people to the extent that I recall on a previous visit here that there was quite a lot of questioning about the impact of that—the growth of funding for young people and the impact then on adults. It is wrong to say there has been a reduction for young people.

Q24 Angela Browning: I may come back on that, but I will not delay the Committee on it at the moment. How do you make sure that what is perceived nationally to be a skills shortage is really reflected at a local level? I know of women in their thirties in my own Devon constituency going to train for midwifery, having previously trained as nurses, only to find at the end of the day that there are no midwifery vacancies in Devon. They are unable to move because of family commitments, and only finding that out at the end of a year's training. How

are you going to marry up what is seen as a national problem or national skills shortage and really targeting it in local areas?

Mr Haysom: The way we are not going to do it—if I can come at it from that angle—is to sit in London or a head office in Coventry and somehow produce a perfect map of skills shortages and training provision across the country. That is not the way it works. The way this has to work is the way I have just described; we have to take all of those inputs from the national level, the regional level and the local level, and then to really see how that works in the local environment; and then to work it through with colleges and other providers. That does not take you however to a position where every course that is provided in every college in the land is going to lead to a positive employment outcome in that location, because people in Devon may indeed wish to train to be a midwife and then go elsewhere in the country—

Q25 Angela Browning: They may, but the problem was family commitments and they were not free to travel.

Mr Bell: There is a question, is there not, about the initial advice given to the returners? If it was known that there were not going to be employment opportunities locally people might have made a different choice.

Q26 Angela Browning: Exactly.

Mr Bell: There is an important issue there.

Q27 Angela Browning: Mr Bell, you talked about generic skills, and we are all familiar with what are basically life skills and interpersonal skills. Many, many employers say these are lacking, and I quite agree with the role the schools play. However, yesterday we had an announcement in the House about welfare reform. Quite clearly, into the market place will come a lot of people, including people with disabilities who may never have worked and who will not have the benefit of the schools having an input; so how will you tackle this problem? Unless there is a qualification at the end of the course now, it is very, very difficult to get the funding for people to attend it. Even young adults with disabilities for the social services package are having their funding cut, so how are you going to deal with this group of people as well as the existing people? We are talking about generic skills that are important in the workplace, but there is no formal qualification at the end of it.

Mr Bell: Mark may want to comment in terms of provision for those with disabilities. A more general point to make, however, is that in giving people those level two skills, the platform that I mentioned earlier, that does include of course development of those more generic skills. In other words, you are encouraging people to be able to communicate effectively in such training; you are encouraging people to participate with others, and to do all those general generic things that are important. I do not think you should just see getting people to the level

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two baseline as simply about a set of knowledge; it is also about the attributes that one requires to be a productive employee in the future.

Mr Haysom: I recall that we talked about this, but there should not be a situation where there is not suitable provision for all people in communities, with or without disabilities. If there are examples of provision being cut that impact on people's disabilities, I need to know about them. I know that individual courses have changed and that one provider has stopped provision, and that those people may have to go somewhere else; but in every single part of the country there should be a map of provision for people with disabilities.

Q28 Angela Browning: I am particularly focused on what FE colleges provide in this area, where now social services are being asked to pick up the element of the package that people with disabilities were gaining in an FE college; when of course social services do not have the money in the existing budget simply to pick up that tab. That is the reality in my constituency.

Mr Haysom: I am not aware of social services being asked to pick up that tab. I am aware of the opposite happening: an awful lot of costs previously borne by other parts of government have over time switched to us to fund. A review published late last year talks about that aspect of it and about seeking to redress those sources of funding.

Q29 Angela Browning: I will write to you on that specifically, but my broader point was that in the light of yesterday's announcement we do want to see more people with disabilities getting back into work, but I am also concerned about people who have never been in work and are being introduced to the workplace in their twenties and thirties with quite complex disabilities, particularly in communication. Will the training needs that will inevitably be needed by employers considering taking those on, whether it is making them ready for work or whatever, be in place?

Mr Bell: Colleges have quite a good story to tell when it comes to working with young people, and adults with disabilities in fact. I think that the colleges are well placed to do that. You made a passing comment about employers being prepared to take those folk on, and that is a more significant question, because employers are always having to make an assessment of what is going to be in their interests in terms of the success of their business; and they may be sceptical, frankly, about taking some people back, and I do think that that is one of the questions to be addressed by colleges, to ensure that when they are talking to local employers they say, "we have been training these people and they could be productive employees for you in the future".

Q30 Angela Browning: Turning to the small business, particularly referencing paragraph 28 on page 14, I wanted to talk about the challenges for small businesses in training. One of the difficulties for really small businesses is that as they increase the number of people they employ, including usually the

principal in the business, it is critical that people can multi-skill. Very few people in a small business have the luck to be doing just one job in the course of a day. Their training needs are very often to multi-skill the existing workforce, which may be very small indeed. Are your brokers going to be able to deal at this micro level; and how will this affect costs? I notice in the Report, quite rightly, that it says the broker could identify shared costs between different employers, but are you going to regard the micro businesses collectively, or will they have individual assessments of their multi-skilling needs?

Mr Haysom: They all have to have individual assessments, do they not, because every business is different and every business needs to be understood? If a broker is going to be successful, then they truly have to understand how they can help to make a bottom-line impact to that business, and therefore have to understand the nature of what could be provided to make a real difference to that business. If that can be brought into co-operating with other businesses, so much the better, but the starting point surely has to be in helping that individual business?

Q31 Angela Browning: You are not going to get the economies of scale with this group of people.

Mr Haysom: It is harder, is it not? That is absolutely the case. This is the group of employers that is the hardest to reach, and it is the group that most urgently needs reaching. Again, the learning out of the pilots suggests that there are ways of achieving that, and we have got some great examples of us being able to achieve it.

Mr Bell: To reassure you, a lot of the provision under the employer training pilots was targeted at the companies with between 1-49 employees, and 70% of those that participated were in that category. They actually received more assistance and higher rates of wage compensation. That is just one example of how the strategies together are trying to focus particularly on the needs of small businesses. I hope you will be reassured that we are very sensitive to the particular needs of small enterprises.

Q32 Kitty Ussher: When I go round the larger employers in my constituency I am repeatedly told by the good employers—and I will come back to the bad ones later—that skills is their main blockage to achieving success; and that if the Government cared about the future of their business, then they would help solve that problem for them. What should I say?

Mr Bell: There is an answer to some extent in this Report about the wide range of ways in which government is helping employers to improve the skills base, not least the sums of substantial money that we have described earlier. We can say to those employers that we are ensuring that more young people are coming through the schools system and are hopefully better prepared to take their place, with higher numbers of them getting the level two platform and above. We would say that there is significant investment in making sure that the existing employees are at least at that level two baseline, because without that we could say to them that they are going to find it really hard to compete.

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We could also say to them at level three: “We recognise that the real challenge in the future for their company and for this nation is to invest in the high-level skills”. There is a strong story to tell on the part of government in relation to each of those different categories of today’s employees and tomorrow’s employees.

Mr Haysom: Can I add one thing to that? We should also say to them that we are trying through all of this to listen to them, to really understand what employers are seeking, and to make sure that their voices are heard through sector skills councils and in all the other ways that David mentioned earlier; and to shape qualifications that are relevant to people, to make sure that they are the qualifications that employers want, and then to fund those qualifications and then not to fund other things that employers do not want. There is awful lot of really good activity going on, but it is a huge, huge task, is it not? That is the other thing that comes through here.

Q33 Kitty Ussher: I do say all of that, but it comes back to, “How you can help my company now?” Is the answer in the future that I give them the phone number of the brokerage guy?

Mr Haysom: Yes, absolutely, because there will be a national programme which rolls out in two parts this year, and so there will be this programme called Train to Gain, and there will be brokers who are there to help them.

Mr Bell: It was very interesting that the Leitch report talked about the tripartite responsibility when it comes to skills development. The individual has a responsibility to contribute to that. The Government has a responsibility if it wants to create a healthy and competitive economy; but the business also has a responsibility. I think it would be good to encourage employers not just to say “what is government going to do for me?” but to say, “how can you contribute alongside employees and government to become more competitive?” That is an important point, just to keep reminding them that the responsibility is shared across three parties.

Q34 Kitty Ussher: Sure. I wanted to pick up on the point you made that colleges need demand pressure on them from employers, but it comes back to the situation that we need these guys; we need more training; we need skills levels to rise, to make our economy more prosperous. Skills are the biggest potential gap in terms of having an effect on productivity. It is very easy to blame the private sector, but we need the results, and if they are not doing it we need to solve the problem. I would say to them, “You should invest because you will reap the rewards from it”; but what they are saying to me is, “You have got to make it easier for me”. In terms of investment in fixed capital, the Government provides loan schemes, particularly in deprived areas, and twenty or thirty years’ research has been done into the type of work that the Government can provide. In human capital there is absolutely nothing, and employers say this to me as well. What would your response be to that?

Mr Bell: You say there is nothing.

Q35 Kitty Ussher: You, the Government, will broker some kind of regional selective assistance type firm-based public sector support for investment in fixed capital.

Mr Bell: Yes.

Q36 Kitty Ussher: Specifically to raise productivity; but you will not do it for human capital and skills and so on, whereas the economic effect is exactly the same.

Mr Bell: We could say that there is continuing growth in the amount of money that has been invested in skills development. That is the first thing to say. One would also then say that part of the conversation with the broker is, “what does your company need—not just tomorrow but what might it need in the future?” There is a difference obviously between long-term capital investment and support for that, and the human investment, which may well be ongoing but will depend on particular needs of your workforce at a particular time. I do not think any of the interventions that we have referred to or that Mark has referred to are simply one-off; it is about keeping the needs of the workforce under review and investing judiciously at the right time. There is no sense in which we would say this is a one-off, but I do not think that you can quite draw the parallel with the capital investment, which inevitably has to be fixed over a longer period of time.

Q37 Kitty Ussher: I am not sure I would agree with you on that, but we will move on! Lancashire was a pilot for the employer training. My constituency is in Lancashire; why do my companies not know anything about it?

Mr Haysom: I find that very difficult to answer. I do not know which companies you are referring to.

Q38 Kitty Ussher: I would need to check with them first, but they are large manufacturing firms.

Mr Haysom: I think the statistics speak for themselves about the number of employers that we have dealt with—not just private companies but the number of employers that we have dealt with and the number of employees that we have helped. If you would like to let me know of any individual employer, then I will happily look at it.¹

Q39 Kitty Ussher: How proactive would the brokers be in terms of reaching out to employers in their areas? Will they knock on doors asking them what they need?

Mr Haysom: That is very much the idea. We are going to be targeting their activity, however, at those employers that are hardest to reach, as we have said before. There is a target of 50% for their work to reach companies that are new to training and new to the public sector in particular.

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Q40 Kitty Ussher: That is what I find to be the most frustrating aspect; the bad employers, the ones that are not investing in their staff, do not even recognise that they need to invest; and those are the ones, of course, where the job losses are because they cannot face the competition. I have trade unions and staff coming to me saying, “we are going to lose our jobs and are not reaching our potential. How will the broker solve that type of problem?”

Mr Haysom: That is part of the job that we have got to do, which is to demonstrate that making this investment, shared with the Learning and Skills Council or the state makes good business sense. That is the case we have got to build. I do not think you are going to convince, in your words, “the bad employers”, to train unless they can see something that is about productivity for their own business or ability to expand, or whatever it is. I do not think, however, we should be totally dispirited by this. Throughout the Report there is reference to our major survey, which is the National Employer’s Skills Survey, and it was up to date at 2004—and we have just had the 2005 numbers coming through—but if I can give you two numbers from that, the percentage of employers training staff over the last 12 months in 2005 was 65%, and that was up from 59% just two years ago. There is some movement there. To see the correlation with that, the percentage of employers reporting skills gaps is down from 23% in 2001 to 16%. As I said earlier, and as you are rightly flagging, this is still a huge, huge task.

Mr Bell: There is also an interesting question about employees being more demanding. If the case for higher level skills keeps being made, and we talk about our international competitiveness and local competitiveness, I think we want employees to be more demanding, saying, “If you are not going to give me the opportunity to train and develop my skills, I will take my labour elsewhere.” I am not naïve about that. That is not straightforward and easy for people to do that. However, I do think that employees will become increasingly aware of the need to ensure that their company trains them up in the future.

Q41 Kitty Ussher: I will certainly encourage my trade unions to make those demands, and I am sure employers will be delighted. Can I draw your attention to page 39 where there is a case example and a summary stating that colleges, by being proactive, can provide opportunities to employers. I realise I am on shaky ground here because I am very delighted to welcome the principal of my own college in my constituency in the audience, but I would like to ask Mr Haysom what experience you have of making sure that case example is spread out more widely.

Mr Haysom: Is this case study 11?

Q42 Kitty Ussher: It is case study 12. The college, by reaching out, has done what—

Mr Haysom: Exactly. One of the things that we are working on—and again I recall talking about this on a previous occasion—is our Agenda for Change,

which is very much targeted at transforming the way colleges work with employers; and a lot of that is built on best practice that exists out there already, learning the lessons from what works and taking that across the whole of the network.

Mr Bell: I just wish everyone were like East Berkshire College because the picture we cannot say to you is absolutely universal with that kind of proactive stance. For instance, initiatives like centres of vocational excellence—there is a very good initiative there where colleges can build their expertise, but that expertise is very much based on working with local employers and responding to demands. For example, I visited Burnley College recently, where there is a strong growth in the number of staff working in the residential sector for adults. Lots of little businesses are setting up in that area, and the centre for vocational excellence then positions to support that. To give a very good example, the college responds to the local demand and employers say, “We need something to help train our workforce”.

Q43 Mr Mitchell: I see from one of the other Reports *Skills for Life: Improving Adult Literacy and Numeracy*, to which Mr Haysom gave evidence in December, that in the Skills for Life Strategy more than half of the qualifications in the first three years were gained by 16 to 18-year olds. What are you doing is remedying the failures of the schools. Here are people who should have been given these basic literacy skills in schools and are were not, and are now trying to catch up on them by labour provision. I see from the Report that employers require convincing of the benefits to their business of improving low levels of literacy and numeracy. Why should they? They have paid through taxes for this to be done in schools and it has not been done; why should it be taxed twice?

Mr Bell: I think it is an extremely sharp and important argument. We would want to say, however, that this is a war that cannot be fought on one front. We have to see what else is going on in the education system to avoid that happening in the future. It seems to me that that is everything from ensuring that children leave primary school with the right level of basic skills to start secondary school, to ensure there are catch-up lessons for those at the start of secondary education; to ensure, as this Government is now doing, that there is a premium placed on English and mathematics when it comes to the judgment of institutions at the age of 16 and so on. It is a sharp argument and it is a fair argument in many ways for employers to say, “Why should we do what the statutory education system should do?” The Government’s response properly could be, “We are tackling that one across so many different fronts.” It is a fair comment.

Q44 Mr Mitchell: It is fair to say that it discourages employers from seeking and taking up opportunities for training for their workers. A number have said to me in Grimsby, where we have not got a very strong manufacturing base now, that there is a need for skill

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training. We are fairly deficient in the area. They do not see why they should be concentrating on literacy and numeracy when they do want skills.

Mr Bell: Yes. There is an important point to be made here about the future. We must not in any sense give out a message that it does not matter to—

Q45 Mr Mitchell: Of course it matters. It matters to society, but what does it matter to them when they are interested in skills?

Mr Bell: But you then put that alongside the Government's proposals in relation to 14-plus education, so the movement towards specialised diplomas for those wish to follow a more vocationally orientated route is set alongside the English, maths and basic skills requirements. You can address both the basic skills requirement of English and maths, to satisfy the employer, and at the same time for many young people of 14-plus, they are going to have the opportunity to follow a specialised diploma in a particular skills area. In the medium term that is the solution, but, equally, it cannot be denied that the employer can argue, "Why should I be spending time and effort at 16 plus on the business that should have been done below the age of 16?"

Mr Haysom: Part of our response to that, because as you might expect this is an issue that must be tackled, has to be to get that skills-for-life training embedded in other training as we go. We are doing things with employers that they very clearly want us to do because it raises the skills of their workforce; and while we are doing that we are also identifying and tackling some of those skills-for-life issues. I am right in saying I think that in the employer training pilot something like 14% of training involving the skills for life. Once you are in there talking to employers you can start to win that argument a bit.

Q46 Mr Mitchell: That is true, but I see in our earlier Report that the Department for Education believes that improvements will come through in the schools, which it expects to see reflected in the results in two or three years' time. We have been pumping huge sums of money into education. There has been a steady improvement since 1997 for a long period: why has that not come through already and what will make it come through in the next three years when it has not come in the last eight?

Mr Bell: It has come through. We have seen significant improvements in the percentage of young people achieving the required standard at age 11; we have seen in secondary education more and more young people achieve the higher grades in GCSE. Even if you take the English/maths indicator, more and more young people are coming out at the age of 16 with the basic English and maths; but—and it is an important "but", there is still much more to do.

Q47 Mr Mitchell: This situation was appalling—

Mr Bell: I think the situation required substantial improvement before then. We know, for example, in terms of those youngsters entering secondary education that previously less than half of them had the basic English and maths. We have to say that the

situation was very serious. Many improvements have been made since, but there is a huge amount still to do to ensure that every young person coming out has those skills for working life, absolutely.

Q48 Mr Mitchell: We do not know whether the latest White Paper will materialise into a Bill that will replicate what is in the White Paper—I doubt that it will—but what in that will improve the situation? I should say that you could do with a literacy course in your own Department because my assistant put the White Paper through a spell-check and I looked through because I was looking for the aberrant apostrophe, and on both counts it failed! The question was not that; it is this: what is going to improve matters in that White Paper?

Mr Bell: On that point, as the new Permanent Secretary, I have already got a reputation for being a bit of a pedant when it comes to the apostrophes and other things.

Q49 Mr Mitchell: This is a pedant revolution then!

Mr Bell: On your second point, the first thing we would say is that what the White Paper lays out is what still needs to be done. Nobody but nobody should be complacent about what improvements are still required in our education system. There are lots of things that one could say, but one particular point that I would make is the opportunity for those schools serving a wide variety of communities that are doing a really good job in ensuring that youngsters get to those basic levels and beyond, given the opportunity to work alongside other schools that are perhaps not quite so successful. There is a very real sense in which the White Paper is about raising standards and helping the more successful schools in all sorts of areas to improve the standards in other schools. The other thing is that there is an opportunity for businesses and others with an interest in education potentially to work with schools in setting up trusts so that that expertise, that employer's expertise in some cases, can then be used to influence the shape and the content of the curriculum.

Q50 Mr Mitchell: Can I move on to colleges and specifically to the institute in Grimsby where we have a very go-ahead principal, Daniel Khan, who is doing great work and consulting very closely with industry. He tells me, and I have written to you about it, and certainly I have written to the Humberside Learning and Skills Council—and you will probably remember it because it was probably an abusive letter—that while wanting to get people up to level two, you have actually cut the funding for courses which are very heavily concentrated in the Grimsby Institute for level one and for the foundation courses. He tells me that there has been a reduction of about 2,000 places. That seems absolutely barmy! How the hell can you get people to level two if you are not providing the funding to get them through foundation courses and level one? It is a particularly big number in Grimsby.

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Mr Haysom: I know Grimsby very well and I know Mr Khan very well. Having lived and worked in Grimsby, I understand the challenges that there are in that community. You can rest assured that we have not done what Mr Khan is describing, which is to remove provision which will now enable people to move to level one. We have made very, very sure that we are protecting provision which is going to help the learner to progress from pre-entry levels to level one, level two and so on. A discussion has been going on for some time with that particular college about the nature of some provision which does not count towards any kind of qualifications.

Q51 Mr Mitchell: I would query that because he is not going to tell me that you have reduced funding or that he has not got the funding to get people through if he has.

Mr Haysom: Forgive me, I am not saying that funding for adults has not reduced in that college. What I am saying is that the discussions are about reducing funding which does not contribute to any kind of qualification. We can discuss this further outside. I recall the letter; I replied to the letter; the letter was not too abusive!

Q52 Mr Mitchell: Okay. Just one final question, there is a complex array of structures here. I did not realise how many structures there were involved in skills and training and how difficult it is for employers, particularly smaller employers, to choose who to deliver them. Would we not have done better to adopt the very simple structure they have in Germany, where skills and training at work overlap to a large degree and there is continuous provision for both skills and literacy in education, because the structure is so well accepted and so strong and so simple? We have made it too complicated, in other words.

Mr Bell: As I said perhaps in response to the earliest question from the Chairman, I think we can always look to make the system simpler, and there is probably more to do on that. What I would say about the connection between training for skills and, in a sense, basic education is that more and more of that is happening with the moves to improve and change 14 to 19 education. It is precisely the point about the reforms 14-plus so that young people in a school working, perhaps sometimes in the local college, sometimes in the local workplace, will be able to pursue a particular kind of diploma. I actually think we are moving to a system which will give many more young people the opportunity to combine their statutory education up to the age of 16 with a more vocationally orientated kind of education. All the evidence from the pilots where 14-plus young people are going into colleges suggests that there is a huge appetite amongst thousands and thousands of young people to get a more practically orientated, more vocationally orientated curriculum, so I think there is a great opportunity there to exploit all of that interest and enthusiasm.

Mr Mitchell: Thank you.

Chairman: Sadiq Khan?

Q53 Mr Khan: Can I follow up the line of enquiry that Mr Mitchell began, albeit in a non-pedant manner, and say that I am also concerned. I have an equally good FE college, South Thames College, with an equally good Principal, Sue Rimmer, and one of the concerns she has is that because we are in London we have a disproportionately high number of ESL students who need pre-entry level access courses that will lead to them having level two qualifications and the Sword of Damocles hanging over her head is that ESL funding (which has not been cut this year) could be cut in the next year or two because of the priorities to diverting money towards qualifications and in particular to level two.

Mr Haysom: I can perhaps answer part of that and David would probably wish to pick up on the wider question. As you rightly say, there has been no reduction in funding for ESL work. ESL represents a very large proportion of the budget in London, for pretty obvious reasons. One of the things that we have to be very clear about is that that money is actually delivering for individuals, for employers, and so on. So the work that we are involved in doing is making sure that as much of that provision as is sensible leads towards qualifications which are going to help those individuals.

Mr Bell: I think the only rather obvious point for me to make is that with increasing mobility of labour and peoples across Europe and across the world we cannot do anything other than continue to ensure that people are given a good basic grounding in language when they come into the country.

Q54 Mr Khan: No cuts with the ESL funding then?

Mr Bell: As Mark said, we will want to ensure that we get the best return on what we are doing but there are certainly no plans to reduce any specific funding for ESL.

Q55 Mr Khan: Good. Can I just put the legacy into its correct context. If you have a large number of adult people between 18 and 25 who are long-term employed with the lowest skills base, then it is correct that the priority should be towards funding up to level two so they can be employable and be useful to an employer?

Mr Haysom: Absolutely, yes.

Q56 Mr Khan: So it is not necessarily a recent phenomenon that is the problem; it is the longer term legacy?

Mr Bell: If I might say, Mr Khan, it is just worth reminding ourselves of the scale of the task. There are 6.4 million adults in the workforce at the moment without level two qualifications and I think the rather sobering thought is that whilst we should have that priority there is an enormous amount that we are going to have to do to ensure that many, many of those adults get that baseline of qualification.

Q57 Mr Khan: That was my point because Mr Mitchell touched upon the problems and the paper talks about a figure of around 6% of employers

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having a skills shortage vacancy level. What must the position have been, say, for example, ten years ago if that is the case now?

Mr Haysom: In terms of skills shortages, we do not have that information.

Q58 Mr Khan: If you were to hazard a guess, is the curve going upwards or downwards?

Mr Haysom: There is no curve at the moment, it is a straight line, and that is worrying. I have a slight difficulty with the 6% number. The number that I had through the major survey that we do is 4%, and it has been stuck at 4% for four years now, so there is an issue there.

Q59 Mr Khan: You cannot go back beyond then?

Mr Haysom: I do not have any data going back beyond then.

Mr Bell: I can check if the Department has but I do not know offhand.²

Q60 Mr Khan: I would be very interested in those figures, please. The other thing is this issue about incentivising for employers level three training and Mr Bell talked about employees being more assertive, but is not one of the problems that employers are concerned that a skilled employee may use the skills that he or she has inherited and go to a new employer?

Mr Haysom: That is something that I hear often and my answer to that is always my own experience in running companies, which is the more you train people the more you retain them, so they actually stay in the workplace, and there is an awful lot of evidence to support that. It is one of the things that we have to do in terms of getting past the barrier of understanding, and again it is probably part of the work of brokers to do that.

Q61 Mr Khan: You have led me on to another theme that has been topical over the last couple of days, with major speeches being made by aspiring politicians about productivity and about the argument that productivity in this country is low in comparison to cousins overseas. Is one of the reasons for productivity not being as high as it should be the lower skills base that Mr Bell talked about which is the legacy that we talked about?

Mr Haysom: I am not sure about aspiring politicians but I can answer the question as far as is there a direct link between low skills and low productivity. Yes, there is and the Report actually refers to that, and I think previous reports that we have looked at in the last month or so have also made that link.

Mr Bell: Certainly the Leitch Report highlights that point very explicitly. If you look at economic output and growth it depended both on the number of people who are in work as well as how productive they are. We do better on the former than we do on the latter and that is spelled out very clearly in the Leitch Report on Skills.

Q62 Mr Khan: That is what puzzled me because you would have thought the good employers Ms Ussher talked about would understand that there are greater financial rewards and greater productivity with having a more skilled workforce.

Mr Haysom: Yes, and there is a very strong correlation between size of companies and propensity to train, so the larger companies will train, by and large. Once you get past about 100 employees, something like 75% of companies say that they train, so the issue here is that huge number of very small companies, and that is the challenge that we have getting through to them. It is a particular kind of challenge.

Q63 Mr Khan: Sure, but if you go to page 31 one of the examples the Chairman gave was the tax breaks reported in the *FT* but also page 31 gives examples of financial incentives employers would want, which includes tax breaks. Can I just ask what work you are doing to make the arguments you are making—benefits to employers in level three training and all the rest of it—especially to the smaller ones?

Mr Bell: In general terms certainly for the second stage of the Leitch Review of Skills we have asked Sandy Leitch to address that point specifically. I would also, in a sense, spell out exactly what you have said; the case for investing in skills development, what is the business case to be made. It is an interesting point, is it not? You opened that line of questioning by suggesting that surely good employers would just get it; it would be self-evidently obvious to them. Yes it might be, but there is still a case to be made. I think actually one of the more serious questions is do we all 'get it' for the future because, undoubtedly, there is increasing productivity and the high levels of investment at levels three and above in places like India, China and so on. That is the really big question mark.

Q64 Mr Khan: Time really is flying and you have led me on to my last question (although I have got many more). It is a question in two parts. The first part is can you give us an idea of international comparisons *vis-à-vis* investment by government and employers into training? The second part of that question is you have talked about the massive, fantastic investment by this Government, but can I just ask you what sort of level of further investment you think we would need to address the skills gap?

Mr Bell: On your first point, I am not sure of the detail in relation to what other governments put in, but we know from the data that skill levels at levels two and three lag behind even our European competitors.

Q65 Mr Khan: The paper only mentions Germany and the US.

Mr Bell: Absolutely, but I think your specific question was what is other governments' investment.

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Q66 Mr Khan: Exactly.

Mr Bell: I do not have that to hand but, again, we could get that information for you.³ As far as the future is concerned, I think it is very hard to put a number on it.

Q67 Mr Khan: You accept that record levels are being invested now in level two training?

Mr Bell: There is certainly much more and it is going to continue to rise in level two training, absolutely, and the data is there to support that. One of the important issues that will come out of the Leitch Report, again in part two, is that we asked Leitch to look at what the likely skills gaps will be as we head towards 2020. In other words, not just where the gaps are at the moment but where the gaps are going to be in the future. We can get a reasonable feel for that. In general terms we know that areas of the economy where lower skills are required are likely to shrink whereas areas with levels of higher skill demand are likely to rise. We have asked Leitch to lay out particularly those areas where growth is required. The big issue all the time is not just worry about today but worry about tomorrow and how we are going to be competitive. Those countries—India, China, Brazil, wherever—are investing massively in this because they see that is where the world economy is going—high level investment in high level skills.

Mr Haysom: Very quickly just to add to that, that is certainly the challenge, as David has outlined, but there is a challenge that runs alongside that at the same time, which is that of replacement skills for the more traditional industries as the workforce retires during that period, so we have got that double challenge that goes on all the time. It is a big demographic challenge that goes on all the time.

Mr Khan: Thank you.

Chairman: Richard Bacon?

Q68 Mr Bacon: Mr Bell, could I ask you a bit more about getting employers to accept the idea of supporting level two training. It follows on from what Mr Mitchell was asking. Plainly they have to give up time and effort, but currently level two training is provided free so they are not having to give up money, other than the absence of the employee (which is obviously a cost). Is there any part of your provision of level two training which either now or in future has about it an expectation that they are going to be paying for level two training or is the commitment still there that level two training should be free?

Mr Bell: There is commitment in the short term and probably into the medium term that it will be there, but, do not forget, it is not just about giving the person the training, there is a wage compensation dimension to this as well, so we are making it easier, if I can put it that way, for employers to ensure that their employees have level two training, making sure the training is available and offering a degree of wage compensation. If you want me to comment on the detail of that.

Q69 Mr Bacon: That is what I am interested in. Are you expecting employers to contribute to the cost in terms of paying out money for level two training?

Mr Haysom: No, absolutely not, and the Train to Gain programme nationally as the training programme rolls out speaks very clearly about free first full level two and we will be continuing as part of that—

Q70 Mr Bacon: For precisely the reasons Mr Mitchell said, that employers would be very reluctant otherwise.

Mr Haysom: Absolutely, and the Report makes that clear. Just to draw out this point on wage compensation, we will be continuing to pilot and test wage compensation for the next two years as part of that scheme.

Q71 Mr Bacon: So it is mainly a case of persuading employers to allow their employees to take time out to go and do this rather than a real financial cost?

Mr Haysom: Yes, and what happens within that is to look at flexible ways of doing that so it does not disrupt business in the normal course of things. So what we are looking for is to provide training at times which really do suit business and that can mean doing training at some very, very unsocial hours. Some of our providers are turning up and training night shifts on the site rather than expecting people to trot off to a local college when it suits the college.

Q72 Mr Bacon: I have employers in my constituency who say that although they have got workers who are excellent, sometimes now the inability to read a health and safety document before you sign it is an issue, and they also have great employees who are reliable and skilled and I imagine they would mostly be interested if they knew that it was free, which brings me on to my next question because on page 21 it says that 66% are unaware of the entitlement to free level two training. How long has level two training for free been available?

Mr Haysom: I think the really interesting statistic there is that 34% are aware of it because what we have not—

Q73 Mr Bacon: Mr Haysom, with respect, if I had asked you the question “On this page in your opinion which is the really interesting statistic?” then I would have expected the answer you gave. The question I asked was: how long has the entitlement to free level two training been available?

Mr Haysom: Well, it has not, which is the point I am just trying to make to you.

Q74 Mr Bacon: It has not.

Mr Haysom: We are in a transition year at the moment and we are about to roll it out as part of the whole—

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Q75 Mr Bacon: It is available now?

Mr Haysom: We had a pilot in two regions, the North East and the South East, some learning from that, and this year there is a transition towards doing the whole roll-out, two parts.

Q76 Mr Bacon: So for employers who want level two training now, is it available to me free or does it depend where I am geographically?

Mr Haysom: With employer training pilots it does to an extent depend where you are geographically. When we roll out the whole programme as of April, and then August, it will be available everywhere.

Q77 Mr Bacon: By September this year it should be available everywhere?

Mr Haysom: Yes.

Q78 Mr Bacon: And you have presumably got a marketing plan in place?

Mr Haysom: Absolutely, that is the way it works, and that is why I said to you that it is more interesting perhaps to think that 34% do know about it as an entitlement already.

Q79 Mr Bacon: Can you tell me how many brokers you are going to need?

Mr Haysom: I cannot recall that number off the top of my head.

Q80 Mr Bacon: How many, roughly? You must have some idea. How much is it going to cost?

Mr Haysom: It is going to cost £30-odd million a year.

Q81 Mr Bacon: For the brokers?

Mr Haysom: For the brokers, yes.

Q82 Mr Bacon: But you do not know how many there will be?

Mr Haysom: Forgive me, I do not have that.

Q83 Mr Bacon: Is it possible that you can write to the Committee?

Mr Haysom: I can do that, certainly.⁴

Q84 Mr Bacon: This concept of brokers interests me a lot. You mentioned earlier that you wished that every college was like East Berkshire, or perhaps that was Mr Bell who said that, but plainly you would like every FE to be extremely good. They are not equally good. Is there some truth in the idea that if all FEs were equally good you would not be needing to go down this brokerage route?

Mr Haysom: I think that is an interesting argument.

Q85 Mr Bacon: Is it not the case that a good college should be going out into --- I will read you the section about Berkshire that is in figure 12. It said, and I quote: "Business co-ordinators have visited all employers in the sector to find out what they like about college provision and what they would

change." Should a really good FE not be doing that with its employers as a matter of course, and the good ones are doing that, are they not?

Mr Haysom: I do not think any college can visit every single employer in the community they serve so, as I started to say, I think it is an interesting argument. As I would have gone on to say, I am not sure how practical that really would be. I think you can still understand the need for intermediaries such as a broker.

Mr Bell: Can I maybe just comment on that, Mr Bacon. Somebody referred to it earlier and it is on page 26 in 2.2 in relation to what employers want. "Private training companies have a number of advantages over further education colleges." In a sense, even if colleges were uniformly excellent in providing what they provided, I do not think they could provide everything that employers might want.

Q86 Mr Bacon: No indeed, and on page 11 it refers to the fact that 60% of colleges use private consultants already.

Mr Bell: Absolutely, so I think there will always be this—

Q87 Mr Bacon: Private consultants, but these are not the brokers you are talking about, who are going to be paid for by taxpayers, are they not?

Mr Haysom: That is right, yes.

Q88 Mr Bacon: Just thinking about the word 'brokers', if you look at most spheres of life brokers spring up naturally. Whether it is inter dealer brokers or estate agents or insurance brokers, they find people who want to buy things and they find people who want to sell things and they put them together. You do not need somebody at the centre to come along and say, "Let there be some brokers." The attempts of Government to do this have not really been universally successful. Have you heard of the Consultancy Brokerage Service?

Mr Haysom: Have I heard of a consultancy—

Q89 Mr Bacon: No, it is called the Consultancy Brokerage Service; have you heard of it?

Mr Haysom: No, I have not.

Q90 Mr Bacon: It was a DTI programme which closed in 1994-05 after squandering about £2.5 billion. The industry said at the time it would not work and it would be a waste of money, which is exactly what it was. The DfES tried the Individual Learning Account which was another method of finding trainers, a different kind of scheme but nonetheless one that went horribly wrong. What is it about finding these brokers that is going to be different and better?

Mr Haysom: As I have tried to explain earlier, this is not something that we just dreamt up and we are rushing out to do. We have been working on this for a number of years now so we have accumulated an awful lot of experience.

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Q91 Mr Bacon: Is it—

Mr Haysom: It is terribly difficult to finish a sentence at the moment. From that experience we do have confidence in the ability of this system to work.

Q92 Mr Bacon: Is it not the case that the best arrangement that could exist is a very close working relationship on an on-going basis between the local college and the employers in its area? You would not want to be justified in having a fear that having a broker in the middle just creates an extra link in the communication chain and may end up slowing things down rather than improving communication.

Mr Haysom: I do not think there is any suggestion at all that there is an existing relationship between an employer and a college that we want to get in the way of that. So I am used to speaking to you, I now have to speak to David so that he can speak to you; that is not the idea at all. The idea is that we build new, long-term relationships and we target the work of the brokers to those hard-to-reach people that we have all been talking about today.

Q93 Mr Bacon: And presumably those hard-to-reach areas where the FEs are doing a less good job to some extent?

Mr Haysom: There are some sectors that are very difficult and some sectors that we need to work harder on than others.

Q94 Mr Bacon: Is it also true geographically that some are—

Mr Haysom: Absolutely, and you will recall from our Agenda for Change that what we have said very clearly is that there are some very, very good examples—and we have seen some of them in the Report and I could quote a number of others—of colleges working incredibly well with employers, but that is not universally the case and we need to really up the game across the whole of the sector. That point was made very clearly by the recent Foster Report as well, and I am sure will be emphasised again by the Leitch Report when it concludes.

Q95 Mr Bacon: If you have got a college that has got very good links already, it is not necessarily the case that they would be required to go down this brokerage route?

Mr Haysom: As I say, we are not looking to disturb relationships. That would not be part of the rationale at all.

Mr Bacon: Thank you, Chairman.

Chairman: Thank you, Mr Bacon. And the best of luck for your wedding on Saturday. I shall be representing the Committee at this great occasion.

Q96 Mr Bacon: I did not have a broker by the way!

Mr Haysom: And you must allow her to answer!

Mr Bacon: I am lucky if I can get a word in actually!

Q97 Angela Browning: I wonder, Mr Haysom, if I could come back to you on one point and that was when I asked you about the reduction or the removal of the funding in FE colleges for people with disabilities and the courses that they have been on

developing generic skills rather than qualifications at the end, I perhaps should have been more specific when I talked about people with learning disabilities. It is that group that I am talking about and that I think was what Mr Mitchell was talking to you about and you did concede there that, yes, the funding is not there any longer if they are not going to get a qualification at the end. Is that the case because that is certainly the experience we have had in Devon?

Mr Haysom: What we have tried to do—and this is why individual cases need to be looked at individually—is to create a sensible map of provision across any area, so that no learner is excluded and that is so much part of what we are about. So if people have got examples of learners being excluded because of that I need to know about it and, rest assured, I will investigate it fully. What tends to happen, from experience of looking at these things previously, is that a provider may have stopped delivering a certain type of provision for whatever reasons—because we have not made funding available, because they have decided they want to divert activity somewhere else, that is in the knowledge that another provider is going to pick up that responsibility.

Q98 Angela Browning: That is the reverse of what is actually happening but I will write to you separately on that. Just if I may, picking up on Mr Bacon's question to you about these brokers, my experience of when government has tried to deliver advice of any kind to businesses, particularly small businesses, it is that the same old faces keep coming up, in other words it is the 'old boy' network working, and the patronage of these brokers in identifying the suppliers of the training is going to be enormous. You mention that the brokers themselves would need to be accredited. What checks and balances are you going to put in place to make sure that the people that they actually refer their clients to and commission training from are not just part of the old boy network?

Mr Haysom: Rest assured, there will be very, very rigorous checks and balances put in place. We will be monitoring all the management information that you would expect us to. We will be monitoring all the referrals. There will be a running satisfaction survey that goes alongside this work. You name it, we are going to be looking at it. This is a tough regime because this is a very serious issue that certainly we do want to see addressed.

Q99 Mr Mitchell: When you say it is looked at by area, I would just emphasise the table on page 9 which shows how backwards Yorkshire and the Humber are and therefore our need for better funding compared to other parts of the country which are better off in this respect. That is not my question. I was struck on Fabian Society visits to France, Germany, Austria and indeed to Sweden as well to a degree, by the important role that chambers of commerce play in training and in upgrading the workforce. It has been a patchwork here. The Mid Yorkshire Chamber of Commerce was doing a lot of

 Department for Education and Skills and the Learning and Skills Council

training. Why were they not more totally and more uniformly and more substantially involved in this kind of programme? You have got so many other agencies involved, it seems illogical not to use the chambers of commerce which are the direct interface with industry.

Mr Haysom: We do use chambers. As you say, it is a patchy network across the country in some regards. That may be doing them a disservice for which I apologise. However, we do use them for training and they are heavily engaged in our work in trying to understand the employer need. I cannot answer your question any more than that.

Q100 Mr Mitchell: There is not a reserved or a specified place for them; it is up to them to take it up?

Mr Haysom: They are part of the provider network we have in place. We do work very closely with them, though, in terms of understanding what it is that their members are looking for.

Q101 Mr Bacon: I know you are going to write to the Committee in terms of the number of brokers, but the number £30 million rings a bell in my mind as the amount that the Environment Agency finally told this Committee they were going to be spending on hiring agricultural inspectors. It worked out at about 900 inspectors. £30 million divided by 30,000 would be approximately 1,000, divided by 50,000 would be 600, so it is presumably somewhere of that order, between 500 and 1,000 brokers, you are going to get depending how much they are paid. That is a lot of people. Like Mrs Browning I am concerned that you will find out there 500, 600 or 700 people with the right skills to go and do this. So if you could send us a note specifying exactly how many you are expecting to find and exactly where you are expecting to find them, plus the cost, I would be very grateful.

Mr Haysom: Absolutely.

Q102 Chairman: A last question from me. Would you please look at the box on page 12, Mr Bell. Employers want training that meets their business needs. It tells us that employers who train their staff

prefer to use private providers, 88%, rather than further education colleges, 46%. You see that box, do you? Why is this, or another way of putting this question is would it not be better to leave development and training to market forces?

Mr Bell: I do not think you could leave it absolutely to market forces because we want to get the combination right of that provided by the private providers and that by the public sector particularly helping to provide in areas where the market does not provide. Can I make one comment, it has already been touched on once, about the Foster Review because I think it plays directly to your question. The Foster Review made the point that further education colleges in many ways have had to be all things to all people over many years, and what Sir Andrew suggested there was that colleges, in a sense, should become the engine room for training people for the future in relation to the skills that they require, so I hope if we were looking at such a table in the future we would not want to see further education colleges doing it all, but we would want to see more employers saying that a further education college is a place of choice for them to go. So I think there is a real sense on the back of Foster and the Government response during the course of Foster that there is much to be said for colleges focusing in a very singular way on their mission to have people train with the right sort of skills, so I am optimistic that in the future more employers will want to use further education colleges. What this masks, of course, is the huge variation between individual colleges. Some colleges are seen at the moment as real power houses; other colleges, frankly, are seen as an irrelevance by local employers, and often those are the colleges that do not do very well when they have been held to account.

Q103 Chairman: Okay, thank you very much Mr Bell and Mr Haysom. That concludes our inquiry. You are spending £7 billion on employment-related skills and we hope this process will help make business more cost-effective and help with business needs.

Mr Bell: Thank you very much, Chairman.

 Supplementary Memorandum submitted by the Department for Education and Skills

Questions 36-38 (Kitty Ussher): Details of the companies in Lancashire targeted for the Employer Training Pilot (ETP)

Detailed information on the Lancashire ETP has been provided by the Learning and Skills Council.

Lancashire is a Phase 3 pilot, which started ETP activity in September 2004 and currently has 1006 employers and 7,407 learners on ETP activity.

Learner Split

<i>Lancashire LSC</i>	<i>Number of Learners</i>	<i>Proportion of total</i>
Basic Skills	401	5%
NVQ Level 2	6963	95%
Total	7407	

<i>Lancashire LSC</i>	<i>Number of Learners</i>	<i>Proportion of total</i>
Successes	2269	31%
Early Leavers	773	10%
In Training	4365	59%
Total	7407	

Number of Employers by Company Size Band

<i>Company Size Band</i>	<i>Number of Employers</i>	<i>Proportion of total</i>	<i>Target proportion</i>
1 to 49	603	60%	70%
50 to 249	248	25%	20%
250 or Greater	155	15%	10%
Total	1006		

ETP Target Achievers

Lancashire has a high level of achievers counting towards their ETP targets. 93% of NVQ Level 2 successes count towards Full level 2, 88% count towards First Full Level 2 and 76% of Basic Skills successes count towards Basic Skills target.

Comparison with other Phase 3 Pilot Areas

Lancashire is the third largest of the Phase 3 pilot areas, in terms of number of employers and has a very high number of NVQ Level 2 learners.

The average number of Early Leavers in Phase 3 pilot areas is 11%, Lancashire is slightly below this at 10% and most of these leave to take other jobs or for personal reasons. The rate of completion in Lancashire is similar to other phase 3 pilots.

Questions 57-59 (Mr Sadiq Khan): The level of past skill shortage vacancies

Currently, 4% of employers report skill shortage vacancies; this was the level reported by employers in the 2005 National Employers Skills Survey.

Ten years ago data were collected in the "Skill Needs in Britain 1996" survey and 6% of establishments reported skill shortage vacancies but the different parameters of the 1996 and 2005 surveys make it impossible to draw valid comparisons.

The 1996 survey sampled only firms of 25 employees or more (and we are aware that larger firms are more likely to report skill shortage vacancies) in Great Britain and had a sample size of 4,000. However, the 2005 survey sampled firms with one employee or more in England only and had a sample of 75,000.

There have been nine surveys in the period 1996 to 2005. Parameters have varied for the surveys and we consider the ones shaded in the table below, to be comparable. On that basis, since 2001, the level of skill shortage vacancies reported by establishments has remained constant at 4 %.

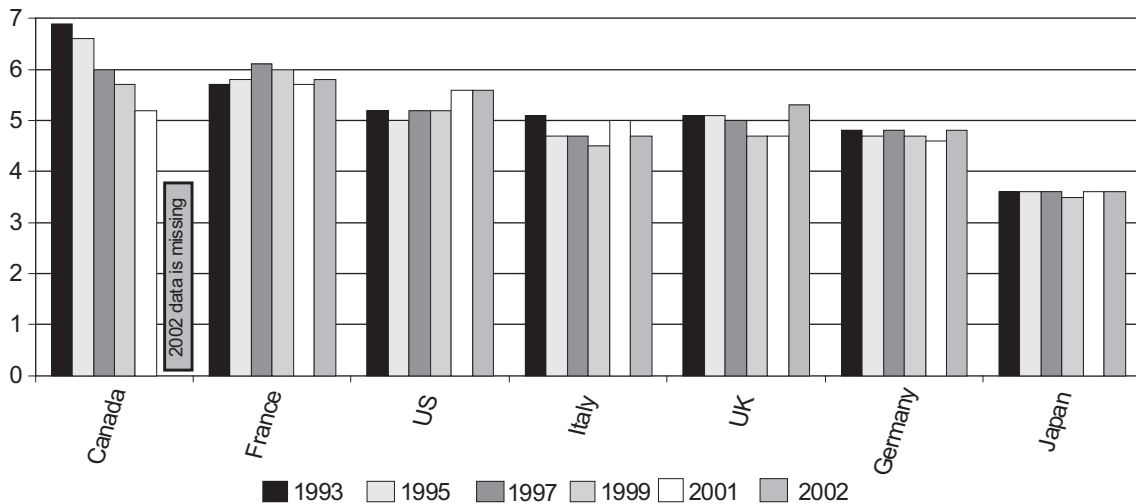
Parameters of Employer Surveys of Skills 1996 to 2005

<i>Year</i>	<i>Proportion of establishments reporting skill shortage vacancies</i>	<i>Establishment size (number of employees)</i>	<i>Sectors excluded</i>	<i>Countries</i>	<i>Sample Size</i>
1996	6 %	25 or more	None	GB	4,000
1997	7 %	25 or more	None	GB	4,000
1998	10 %	25 or more	Agriculture, fishing, food	GB & NI	4,000
1999	13 %	5 or more	food	England	27,000
2001	4 %	1 or more	None	England	27,000
2002	8 %	5 or more	None	England	4,000
2003	4 %	1 or more	None	England	27,000
2004	4 %	1 or more	None	England	27,000
2005	4 %	1 or more	None	England	27,000

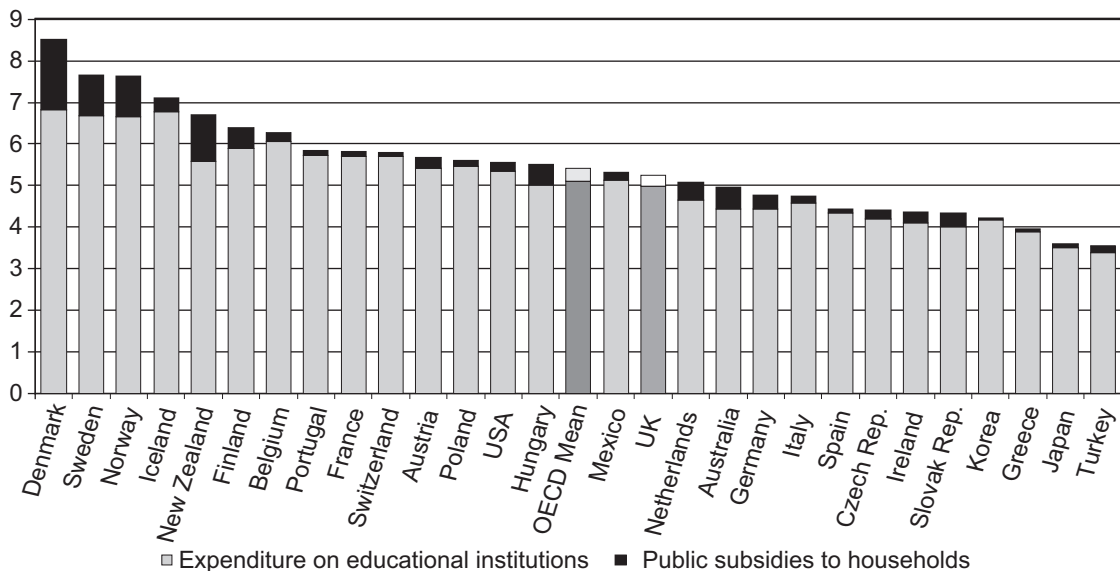
Questions 64-66 (Mr Sadiq Khan): The investment level of other countries

We know of no international comparisons on training as such but the Organisation of Economic Co-operation and Development does produce a comparison of the expenditure on education in its annual OECD Education at a Glance reports. The UK's public spend on education as a percentage of Gross Domestic Product is near the middle of the G7 group of countries, but was a little below the OECD's unweighted mean in 2002. The most recent available data shows an increase in the percentage.

Public expenditure on education (including public subsidies to households) as a percentage of GDP, G7 countries, 1993-2002.
(Source: various EAG)



Public expenditure on education as a percentage of GDP, 2002.
(Source: OECD, EAG2005, Tables B2.1a and B4.1)



Questions 79-83 (Mr Richard Bacon): Number of Skills Brokers in Train to Gain

There will be approximately 50 skill brokers in each of the nine regions. They will be independent and impartial and will work with employers to diagnose business need and source appropriate training.

The Learning and Skills Council is committed to an independent and impartial brokerage service that will work with and on behalf of employers to identify their skills needs and signpost them to relevant, quality training opportunities. Employers have told us in no uncertain terms that this is what they want. To date, over 27,000 employers have been involved in the Employer Training Pilots and when we ask them, they prioritise this kind of support as very high in the list of the elements of the service that they find most useful.

Skills brokerage will also benefit providers. Currently the number of businesses that FE colleges engage with is only about 18% of the number of companies out there that we want to support in training their staff. This is potentially a huge market that independent brokers with experience in this area could help providers reach. Furthermore, we will be targeting this service at the small, hard-to-reach companies that we know need help with staff training, but don't know where to turn.

Evidence tells us that brokerage will be a vital part of Train to Gain. Brokers will be constantly monitored to ensure they remain impartial and are operating at high standards. We believe that they will help us enable millions more employees to improve their skills and progress in their careers.

Skills brokers will be funded and managed by the LSC and fully integrated into a reformed Information, Diagnostic and Brokerage business support service, managed by the Regional Development Agencies. They will signpost employers to training at all levels and give employers a clear understanding of the cost and commitment required.

The Learning and Skills Council has led the development of a new national broker competency framework for delivering all business support and brokerage, based on expanding and enhancing existing standards to meet our aspirations. This is being developed to ensure a consistently high quality and independent service to employers.

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