

In Demand

Adult skills in the 21st century

**A report by the Performance
and Innovation Unit**

Workforce development report outline

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Foreword by the Prime Minister

British industries employ some of the most highly skilled people in the world. But today, as in the past, too many employees in too many industries are missing out on opportunities to make the most of their talents. Above all, 7 million adults lack basic skills. Another 6 million lack the intermediate skills that are vital for advancing their careers.

In the long run schools must play the central role in preparing people better for work and careers. But better strategies for workforce development can complement the work of the educational system.

Britain has a poor track record in this area. Policy in the past has led to too many small initiatives; a lack of clarity about objectives which confuses employers and employees alike; and too much institutional tinkering. What we now need instead is a much more coherent approach – helping firms to adapt to increasingly competitive markets and helping individuals to update existing skills and learn new ones, rather than seeing education as something that happens just once.

We have already made a lot of progress: raising standards in schools, increasing participation in higher education, advancing Investors in People and establishing **learnirect**. In parallel there have been significant institutional changes with the establishment of the Learning and Skills Councils, the Regional Development Agencies, the University for Industry and the Small Business Service. Good work has also been done on thinking through how we can do better. Last year the National Skills Task Force set out a bold series of recommendations for modernising the education and training system.

To ensure that this work comes together in a strategic framework, developed in consultation with all the key public and private-sector partners, I commissioned the PIU to develop a national strategy for raising our game over the next decade. This report recommends a radically different strategy for skills. It proposes a much more demand led system, in which the demands of employers and employees determine the provision of development, and assesses a number of policy measures to take this agenda forward.

I have now asked the PIU, in close collaboration with DfES, DTI, DWP and Treasury, to take this work forward by developing a detailed action plan setting out agreed policy which will be published in the summer of 2002 alongside the spending review. This report will set out government's response to the skills challenge. But this must be a partnership. To achieve the vision of a prosperous and inclusive Britain will involve millions of citizens seeing continuous development as crucial to their own ambitions, and hundreds of thousands of businesses putting it at the heart of their strategies for growth.

1 Executive summary

Our vision:

“In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all.”

Key points

- ! Workforce development (WfD) can help to raise labour productivity and increase social inclusion. Higher skilled workers are more productive, more innovative and better able to adapt.
- ! A relatively high proportion of the UK population of working age lacks basic and intermediate skills. A particular problem is the large number of low-skilled adults in the workforce. Though levels of attainment of young, new entrants to the labour market have been rising, they are not keeping pace with those of other industrialised countries.
- ! The benefits of education and training are, in large part, captured by individuals through increased earnings and by firms through increased productivity. But the benefits for society as a whole can outweigh individual benefits at lower skill levels since numeracy, literacy and other key skills, such as communication and IT skills, contribute generally to economic performance.
- ! Without basic skills – literacy and numeracy – individuals cannot start to develop a career path and may be trapped in a low pay/no pay cycle. Once on the development ladder, the chances of individuals accessing further training and moving on to better jobs are increased, but the personal benefits in higher earnings are still relatively low up to a level 2 (5 GCSEs A*-C or vocational equivalent).
- ! Tackling basic skills must be the top priority. However the report argues that Government's long-term aim should be to ensure that all adults have the opportunity to achieve a level 2 qualification.
- ! In the longer term, change must focus on:
 - raising the demand for WfD from both employers and individuals, through the development of a demand-led system based on: empowering individuals and employers to increase their demand for WfD, for example considering placing purchasing power directly in their hands; helping employers, particularly small employers, to develop business strategies that drive up demand for WfD; and tackling the barriers of time and money that prevent individuals taking up opportunities; and
 - increasing the supply of high quality WfD, which is responsive to the needs of both individuals and businesses, through capacity building and comprehensive audit and inspection procedures.
- ! Government's role should be to support this demand-led system – with appropriate incentives and safeguards. It is important that the main departments involved (DWP, DfES, HMT and DTI) and the LSC share a common vision of the aims of WfD policy. This framework must be supported by:
 - excellent Labour Market Information (LMI) to enable employers, individuals and providers to make informed decisions;
 - sufficient funding flexibility to meet the needs of different local labour markets; and
 - a more flexible qualifications system.
- ! Responsibility for investing in training lies with the individual, business and Government. We propose that Government considers what else it can do to contribute to increasing development opportunities for those in or seeking work. The report considers a range of financial incentives including both public expenditure and tax incentives.

- | This report proposes principles that should underpin future WfD policy and various elements of the strategy for implementing them. In the coming months, the PIU will consult widely within Government and beyond on the merits of specific proposals. Taking account of the Pre Budget Report, the Budget Report and the outcome of the 2002 Spending Review, these will be published in a second PIU report.

This is a report to the Government about WfD. It is not a statement of Government policy. We welcome views from interested parties on the arguments and proposals set out below.

What is WfD?

1. WfD is a relatively new term for training and skills development. It sits between training (which has a narrow focus) and education (which is broad), and is firmly grounded in business need. The PIU has adopted the following definition:

“Workforce development consists of activities which increase the capacity of individuals to participate effectively in the workplace, thereby improving their productivity and employability.”

WfD is vital to raising labour productivity and to increasing social inclusion

2. UK labour productivity currently lags behind that of other major industrialised countries. There are a number of reasons for this including a comparatively poor level of skills and the interaction between low skills and low investment. 36% of working age adults in the UK, over 13 million people, lack basic school-leaving qualifications¹.
3. Skills need to be improved because:
 - | higher skills contribute to higher productivity;
 - | low-skilled individuals can be caught in a vicious circle of low pay/no pay. They are also less likely to progress in work as employer funded development tends to be focused on the more highly qualified. This contributes to social exclusion; and
 - | a highly skilled workforce is more innovative and much better able to adapt to the demands of a changing economy.
4. Tackling basic skills must be the top priority. However, the Government’s long term aim is that all adults should have the opportunity to achieve a level 2 qualification (i.e. five A*-C GCSEs or their vocational equivalent). Above level 2, private returns provide a greater incentive for individuals and employers to invest in skills. So, gaining skills at level 2 allows individuals to make progress at work.

A range of economic, social and cultural factors lie behind the UK’s failings in WfD

5. Firms and individuals in the UK do invest substantially in training and development, but there are market failures or other barriers that may limit their investment.
 - | The returns to development are uncertain and often only become apparent in the long term. This is a particular problem for small firms focussed on maintaining short-term cash flow.
 - | There are a range of information failures that may make it difficult for individuals and firms to identify WfD opportunities of the right kind and quality to meet their needs. Information, advice and guidance services and labour market information are therefore important.

¹ the UK figure is 2001 - more recent data is not available for comparison but 1998 figures were 28% France and 17% in Germany. – International figures - Skills for All Research Report from the National Skills Task Force. UK figure - Labour Force Survey, UK, Spring 2001

- ‡ WfD may benefit society as a whole, even where the private returns to individuals or firms are low or zero – such a divergence between social and private returns is likely to lead to under-investment.
 - ‡ Firms can free ride on other firms' training by recruiting ready-trained workers. Evidence is mixed on whether this happens frequently or not, but it is clear that fear of 'poaching' is a significant barrier to investment in WfD, particularly for smaller firms.
 - ‡ There are barriers to participation for individuals and firms, primarily relating to time and money. For individuals with low skills, motivation is another important barrier that can be difficult to overcome.
 - ‡ UK employer networks and institutions are weak, limiting opportunities for information sharing, best practice, and collaboration.
 - ‡ The competitive strategy of many firms is based on a low cost/low added value approach. Such firms are unlikely to see any benefit in upskilling their workers. In some cases this may result in what is referred to as a low skill/low wage equilibrium in which neither employees nor employers demand higher levels of skill.
6. Government failures and cultural issues compound these market failures and other barriers: institutional structures and government funding systems are overcomplicated and are frequently changed. This leads to confusion and disengagement by employers and individuals, reinforcing a culture that undervalues development.
 7. Significant progress has been made: young, new entrants to the labour market are becoming more qualified over time. But, so are young people in other countries. We need to close this gap and keep pace with improvements elsewhere.

Tackling these failings requires a clear vision

8. Our vision is that:

"In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all."

An integrated package of measures is needed to realise this vision

9. Realising this vision requires three main elements to be put in place: measures to stimulate demand; measures to increase the quality and responsiveness of supply; and a Government framework conducive to these.

A demand-led system is central to achieving change

10. A demand-led system is one in which the demands of individuals and employers rather than providers shape the type and quantity of WfD provision that is available. Such a system offers the best combination of responsiveness to the needs of the labour market and cost effectiveness. The crucial step for the delivery of this system is to increase the demand for WfD, for example, by putting purchasing power in the hands of individuals and employers.

Stimulating employer demand

11. For employers, development is a derived need. They do it to enable them to achieve other objectives, notably to make a profit or deliver services. The best way to increase employer demand is by helping them to rethink their business and organisational strategies around more ambitious goals. Firms with low-cost, low added-value market strategies have little reason to value development. Organisations that resist changing their working practices find making improvements harder and harder as the gap between what they do and best practice widens.

12. Business support services have an important role to play but have not sufficiently integrated WfD into their thinking, and are in many cases failing to reach their target audience. The Department of Trade and Industry's ongoing review of business support and the Treasury's current cross-cutting review of business support for small businesses will, in due course need to recognise and build upon the crucial relationship between business support and WfD.
13. Services need to integrate support for WfD and business development, even where funded by different departments. A particular area for support should be management and leadership skills, which are weak in the UK.
14. Networks and benchmarking are important, as peer advice and opinion is seen as more credible than government advice. The new network of Sector Skills Councils (SSCs) has the potential to make a significant impact – not just in supporting skills but in promoting best practice within sectors and hence driving up demand.

Stimulating individual demand

15. Individual demand can be stimulated by promoting the benefits of WfD, removing practical barriers and providing better information, advice and guidance.
16. Trusted intermediaries tend to be the most effective source of encouragement and information. Expanding the number of informal advisors in the workplace would help engage those who are currently under-engaged in WfD.
17. Information, advice and guidance (IAG) systems for individuals have improved considerably, but further improvement is necessary to support a demand-led system. Services need to be more joined-up, more accessible and more transparent. Those groups most in need of IAG should be carefully identified, and mechanisms for targeting them put in place.
18. Tuition fees and other costs are potential barriers to WfD and may require support from Government. Lack of time is another barrier frequently cited by low-skilled individuals. A range of options could be considered to address this barrier including a more formalised statutory approach. But this would be a fundamental change requiring careful consideration, a regulatory impact assessment and wide consultation, particularly amongst employers. Finally embarrassment at lack of basic skills and low motivation may be key barriers to WfD.
19. There are a number of different mechanisms which could be effective at increasing individual's demand; for example, placing more purchasing power in the hands of individuals. One option would be a form of individual learning account.

Increasing capacity on the supply side and raising quality

20. In order to deliver high quality WfD in a demand-led system, providers need to constantly update their services to meet the changing needs of the labour markets in which they operate. Some providers, particularly small community-based providers, may need help to achieve this, especially in terms of their ability to use and exploit technology. However, in a demand led system, private providers, voluntary sector providers and companies' in-house training facilities should be able to compete with public sector providers such as FE colleges, based on the quality and value for money of the service they provide.
21. The Learning and Skills Council (LSC) has produced a strategy for quality which aims to ensure that all providers reach a satisfactory level of provision. Building on this strategy will require the promotion of improved development opportunities for the staff employed by training providers; consistent quality standards; and customers who are well informed about quality standards. There is a case for giving inspectors greater power to sanction providers who fail to meet quality standards.

A clear Government framework

22. Government's role is to put in place a demand-led system that is supported by appropriate incentives and safeguards. It is important that the main departments involved (DWP, DfES, HMT and DTI) share a common vision of the aims of WfD policy. They should therefore share outcome targets and develop a framework of accountability for delivering them.
23. In a demand-led system, excellent Labour Market Information (LMI) is essential to help learners, providers, employers and Government make decisions. A single co-ordinator should oversee the collation, interpretation and dissemination of LMI.
24. A demand-led system requires flexibility to meet the needs of different local labour markets. The LSC could consider introducing a new funding regime based on desired outcomes at national and local level within the appropriate regional economic strategy. More discretion over budgets at local level might encourage responsiveness to the diverse local needs of both the consumers of WfD and providers.
25. In order to support a demand-led system and to respond to rapid changes in the workplace, more flexibility is needed in the qualifications system. The process for developing and approving National Occupational Standards and new qualifications needs to become faster and more responsive. A credit-based system in which individuals can build up to a full qualification over time could help individuals and employers tailor qualifications more to their needs.

Next steps

26. The publication of this report marks the end of the first stage of the PIU WfD project, proposing a framework for future policy.
27. WfD needs a more joined-up approach. In the coming months, the PIU will consult widely within government and beyond on the merits of specific proposals and will work with departmental colleagues in HMT, DfES, DTI and DWP on options for taking the strategy forward as part of the 2002 Spending Review. John Healey will continue to be the Sponsor Minister.
28. The team will also work closely with the LSC as they develop their national strategy for WfD.
29. The PIU will publish a second report in the summer of July 2002 setting out, alongside the 2002 Spending Review, the details of how the Government's policy will be taken forward and on what timescale.

2 Introduction

Summary

- | | |
|--|---|
| | Education, training and skills have been the focus of policymakers' attention for a century or more reflecting concerns about the UK's poor relative economic performance and the social consequences of a poorly educated and trained workforce. |
| | Workforce development (WfD) is a new term for articulating these concerns. It has come to the fore in recent years as a result of the National Skills Task Force (NSTF) report published last year, the creation of the Learning and Skills Council (LSC) and the review of National Training Organisations (NTOs). |
| | The aim of this report is to set out a coherent strategy for WfD in the UK that draws together a range of new and existing initiatives as well as all the key stakeholders. |

WfD, skills and training have long been a focus of attention

30. Government, employers, trade unions and others have been concerned for well over a century about the decline in relative UK economic performance compared with other industrial countries; and about the social consequences of a workforce with low skill levels.
31. The National Skills Task Force, in a report published last year, set out a series of recommendations for the modernisation of the education and training system. In April this year, the Learning and Skills Council was set up with a statutory responsibility for WfD. There have also been other institutional changes in recent years – including the advent of the Regional Development Agencies (RDAs), the University for Industry (Ufi) and the Small Business Service (SBS). In parallel with the Performance and Innovation Unit's (PIU) work, several other reviews have been undertaken or are under way including: the Department of Trade and Industry (DTI) business support review; the Confederation of British Industry (CBI)/Trade Union Congress (TUC) work on productivity which has recently reported; the review of National Training Organisations (also recently concluded); and the Davies Review of Enterprise and the Economy in Education.

This project was announced by the Prime Minister last year

32. The Prime Minister announced this project through a Parliamentary Question on the 8th November last year.
33. The terms of reference for the project were to:
 - | carry out a thorough analysis of the WfD problem and its causes, covering the full range of demand and supply-side factors that determine investment in WfD;
 - | examine what has worked well, what less well and what gaps remain in provision;
 - | develop a vision for the future and identify the main responsibilities and aspirations of the main stakeholders;
 - | ensure future government policy has a clear strategic focus;
 - | develop a coherent strategy for change that seeks to draw together all the key initiatives and leads to real improvements on the ground; and
 - | engage fully with the different government departments with a stake in WfD – not just Department for Education and Skills (DfES) but also DTI which is responsible for most of government's dealings with business; Department for Work and Pensions (DWP) concerned with sustainable employment; the Treasury which leads on fiscal and other matters; and other government organisations with a sectoral interest.

The project has a number of clear boundaries...

34. The project had the following boundaries:

- | **age:** it focuses on WfD for those aged 19 and over;
- | **devolved administrations:** as training is a devolved area, this report focuses particularly on England whilst recognising that some elements of WfD are UK-wide (e.g. NTOs and private provision);
- | **higher education:** higher education was outside the remit of the project, though many issues central to WfD have implications for higher education. For instance, the Government's aim of ensuring that 50% of people under 30 participate in higher education has implications for the structure of vocational education;
- | **schools:** education for the under-19s was also outside the remit of the project. One of the objectives of education is to prepare young people for work (e.g. by equipping them with basic skills in numeracy and literacy and by helping to shape attitudes to learning both inside and outside the workplace). The Government has introduced a range of reforms intended to improve the quality of education and has substantially increased expenditure on schools. These reforms mean new entrants to the labour market should in future be much better educated and much better qualified than in the past. Although the project was not asked to look at this area, the success of these reforms will be vital to improving the skills of the future workforce and should be closely evaluated in this light;
- | **existing structures and initiatives:** major institutional changes impacting on WfD have only recently been implemented. The project seeks to build on these and to suggest ways in which they might work together, not to reinvent them; and
- | **skill levels:** development opportunities tend to be concentrated on those who already have high skills. This project therefore generally concentrates on lower and intermediate levels of attainment—where development opportunities are less commonplace—and not on those with qualifications at level 4 and 5 or people in the professions. It particularly focuses on those whose skill levels are such that they find it difficult to participate in the workforce (primarily those with sub level 2 or basic skills problems). Figure 1 provides an overview of the qualification framework.

Figure 1: Qualifications framework

Level of qualification	General		Vocationally-related ²	Occupational
5	<u>Higher-level qualifications</u>			<u>Level 5 NVQ</u>
4				<u>Level 4 NVQ</u>
3 <u>advanced level</u>	A level	<u>Free-standing mathematics units level 3</u>	Vocational A level (Advanced GNVQ)	<u>Level 3 NVQ</u>
2 <u>intermediate level</u>	<u>GCSE grade A*-C</u>	<u>Free-standing mathematics units level 2</u>	<u>Intermediate GNVQ</u>	<u>Level 2 NVQ</u>
1 <u>foundation level</u>	<u>GCSE grade D-G</u>	<u>Free-standing mathematics units level 1</u>	<u>Foundation GNVQ</u>	<u>Level 1 NVQ</u>
<u>Entry level</u>	Certificate of (educational) achievement			

² Also includes vocationally-related qualifications offered by organisations such as City and Guilds.

35. WfD has relevance to a number of policy areas. It has a direct impact on, and is in turn affected by, a wide range of issues which lie at the heart of Government strategies for UK prosperity including:
- ‡ **regeneration:** skills can be built in as a key part of strategies to revitalise areas in need and encourage enterprise;
 - ‡ **employment:** WfD plays a major part in the wider employment agenda;
 - ‡ **business support:** WfD is part of the overall agenda to provide businesses, particularly small businesses, with easily accessible advice and support;
 - ‡ **response to the shifting demographics of the workforce:** an ageing workforce raises fundamental questions about the length of time workers spend in the labour market and the consequent need for them to update skills; and
 - ‡ **immigration:** where skills are very scarce they may need to be imported, with consequences for immigration policy.
36. WfD starts in school with the workforce of the future and continues throughout life until retirement. Government policy can impact on WfD in a variety of ways: through schools; workplaces; individuals; and FE/HE provision. Government can also focus on specific groups in the workforce such as young workers, those about to enter the workforce or those with particular skill deficits.
37. Given the broad scope for Government intervention, it is inevitable that priorities will need to be developed and some trade-offs may be required. A balance needs to be struck between intervening to solve immediate problems or taking a longer term view and establishing systems to minimise potential future problems. The nature of Government intervention will also change as the characteristics of the workforce change in the future.

The project has been carried out by a multidisciplinary team working closely with others

38. A multi-disciplinary PIU team, comprising a mix of civil servants and secondees from outside Whitehall, was assembled in March-April 2001. Details of the PIU and the team are given in annexes 1 and 2. The team undertook its work in five phases (see annex 4):
- ‡ planning and scoping the project including identifying stakeholders;
 - ‡ fact finding based around eight workstreams;
 - ‡ production of an analysis paper reviewing the nature and extent of the WfD problem and its causes;
 - ‡ developing a vision for a better future; and
 - ‡ formulating policy options and recommendations to Government for the future of WfD.
39. In carrying out the review, the project team was supported by two groups: an Advisory Group and an Academic Panel. The advisory group was made up of representatives and stakeholders from inside and outside of Government. This group was chaired by Mike Kinski, Transaction Director, Principal Finance Group of Nomura. The academic group consisted of a range of academics all regarded as experts in aspects of WfD.
40. John Healey, the Minister for Adult Skills is Sponsor Minister for the project. From the outset the project team has worked closely with DfES, DTI, DWP and Her Majesty's Treasury (HMT) who have provided valuable data and information. Key agencies such as the Learning and Skills Council (LSC), Small Business Service (SBS), University for Industry (Ufi) and the Qualifications and Curriculum Authority (QCA) also worked closely with the project team. Regional visits helped the team to gain an understanding of WfD arrangements at local level. A variety of workshop events were also held to help shape the team's analysis and thinking.
41. Annex 5 gives a comprehensive list of all the individuals and organisations consulted by the project team, visits made and events held.

The report is structured as follows...

42. The rest of this report is structured as follows:
- | chapter 3 sets out why WfD is important and why change is needed;
 - | chapter 4 analyses the causes of current problems;
 - | chapter 5 presents a vision for the future of WfD and the roles and responsibilities of key stakeholders in achieving that vision;
 - | chapter 6 describes how demand for WfD could be increased;
 - | chapter 7 outlines proposals for enhancing supply;
 - | chapter 8 sets out proposals for the future Government framework necessary to support WfD; and
 - | chapter 9 summarises the next steps for taking forward the WfD project.
43. The report contains a number of annexes³:
- | annex 1: The role of the Performance and Innovation Unit.
 - | annex 2: The project team, Sponsor Minister, Advisory group and Academic Panel.
 - | annex 3: Definitions.
 - | annex 4: Methodology.
 - | annex 5: Organisations and people consulted.
 - | annex 6: Glossary.
 - | annex 7: Bibliography.
 - | annex 8: WfD performance targets.
 - | annex 9: International Comparisons.
 - | annex 10: Devolved administrations.
 - | annex 11: WfD initiatives.
 - | annex 12: Further Reading.

The second stage of the project will now get underway

44. This publication does not mark the end of the PIU project on WfD. It represents a first stage proposing the broad elements of future strategy. In the next stage:
- | the PIU will consult widely within government and beyond on the merits of specific proposals;
 - | the Pre Budget Report (PBR) and the Budget will take forward the Chancellor's Budget commitment to look at options for encouraging WfD;
 - | the PIU will work with the Sponsor Minister and departmental colleagues in HMT, DfES, DTI and DWP to ensure that WfD is fully considered in the 2002 Spending Review;
 - | the PIU will feed its further work into the LSC's national strategy for WfD, which the LSC is charged to produce by March;
 - | the PIU will publish a second report in the summer of July 2002 setting out in detail, alongside the 2002 Spending Review, how the Government's policy will be taken forward and on what timescale.

³ Annexes 8-12 are available on the PIU website at <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>

3 The Importance of WfD and why we need action

Summary

- | WfD consists of activities which increase the capacity of individuals to participate effectively in the workforce, thereby improving their productivity and employability.
- | WfD has a crucial role to play in:
 - helping to close the UK's productivity gap with its competitors;
 - contributing to social inclusion; and
 - preparing the economy for the future.
- | The UK workforce is getting more qualified over time but still suffers from serious deficiencies in basic and intermediate skills. Improvements in skill levels are not reaching those with lowest skills fast enough.
- | The UK needs not only to catch up with other industrial countries, but also to forge ahead as skill needs continue to evolve.

Introduction

45. The purpose of this chapter is to:

- | define what WfD is;
- | explain why it matters both now and in the future; and
- | set out where the UK currently stands in terms of its skills base.

What is WfD?

46. The definition of WfD adopted for the project:

- | is broader than training⁴ but narrower than education;
- | is part of but not the same as lifelong learning;
- | is firmly grounded in business need;
- | encompasses formal and informal learning; and
- | focuses on those in or near the workforce.

47. This suggests the following definition:

“Workforce development consists of activities which increase the capacity of individuals to participate effectively in the workforce, thereby improving their productivity and employability.”

48. Definitions of related terms e.g. training, education, lifelong learning, formal and informal learning and e-learning can be found in annex 3.

49. This definition is based on a broad view of the activities that constitute WfD. Such activities can be formal or informal. Informal WfD is notoriously difficult to measure and evaluate; hence much of the evidence underlying this report focuses on formal activities. But informal development can be immensely significant both for individuals and employing organisations alike.

⁴ In this paper we refer to “training” where statistics, surveys etc. also use this term.

50. Similarly, WfD is not a free-standing activity. In the workplace it must be seen as arising from the business needs of the organisation, the skills needed by employees and the basis of career progression by all.

Why does WfD matter?

*He who stops being better, stops being good. Oliver Cromwell,
Lord Protector of England 1653-58*

51. WfD has a crucial role to play in:
- | raising productivity;
 - | increasing social inclusion; and
 - | preparing the economy for the future.

Raising Productivity

52. Human capital – the level of knowledge, skills and experience within the population - has been identified as one of five key drivers of productivity growth. Others include investment, innovation, enterprise and competition.⁵ Increasing the stock of skills in an economy helps to increase productivity in a number of ways. Higher skilled workers are more flexible, adaptable and innovative. As a consequence, they can cope better with change and they are better at implementing and getting the most from new technologies.

The UK's productivity performance lags behind that of other countries

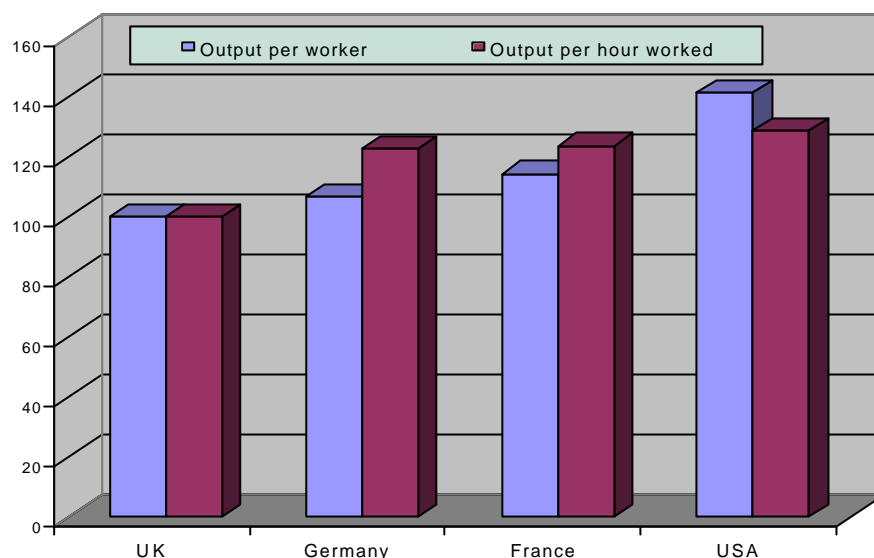
53. The UK's productivity performance, particularly labour productivity, lags behind other developed countries. Tackling this gap, illustrated in Figure 2 below, is central to current UK economic, industrial and education policies⁶.
54. Explanations for the lower level of labour productivity in the UK include lower levels of capital employed, historic choices about business strategy, and poor management as well as poor performance in WfD. The evidence suggests that: differences in physical capital account for a sizeable element of the UK's productivity gap with the US and Germany; differences in technological innovation explain the gap between the UK and the US; whereas skills are relatively more important in explaining the UK/German gap⁷.

⁵ *Productivity in the UK: Progress towards a productive economy*, HM Treasury, March 2001.

⁶ The Government's productivity strategy is explained in the following publications: *Productivity in the UK: The Evidence and the Government's Approach*, HM Treasury November 2000, *productivity in the UK: Progress towards a productive economy* op.cit. and *Productivity in the UK: Enterprise and the Productivity Challenge* HM Treasury June 2001.

⁷ See for example M. O'Mahony, *Britain's Productivity Performance 1950-1996: an International Perspective*, NIESR 1999; R.Layard, S.McIntosh and A.Vignoles, *Britains Record on Skills* working paper 2001; N.Crafts and M.O'Mahony *A Perspective on UK Productivity Performance* 2001.

Figure 2: Comparisons of Productivity 2000 (UK = 100)⁸



WfD is a key contributor to improved productivity performance

55. There is a large research literature on the relationships between WfD – training – and beneficial effects on firms' and individuals' productivity; the latter measured by wages. A more detailed discussion of these studies can be found in the PIU analysis paper.⁹
56. A recent UK study (see figure 3) drawing on industry-level data on training and productivity established a significant positive relationship between levels of training and productivity performance. Higher levels of productivity were associated with higher rates of training at the industry level, the gains being shared between the firms and their employees.

Figure 3: Who gains when workers train¹⁰

This study used industry-level data on training and productivity, noting a number of measurement problems. It found that:

- | training significantly boosts productivity;
- | the effect of training on productivity is around twice as great as the effect of training on wages. Employees and firms share in the gains from employer-provided training; and
- | the results demonstrate a sizeable effect - e.g. raising the proportion of workers trained in an industry by 5 percentage points (say from 10% to 15%) is associated with a 4 per cent increase in value-added per worker and a 1.6% increase in wages.

57. Research shows that there are large positive effects on individuals' earnings and employment rates from having better numeracy skills, specifically from achieving at least level 1 skills but also in acquiring entry level numeracy skills. For literacy, there is weaker and more mixed evidence of the relationship between literacy and labour market outcomes, although it remains positive.¹¹

⁸ *International Comparisons of Productivity*, OECD. All data relates to 2000 except output per hour worked in France is 1999.

⁹ <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>

¹⁰ Dearden L., H. Reed and J. van Reenen *Who Gains When Workers Train?* IFS 2000.

¹¹ A good review of the latest research can be found in: S.Machin, S.McIntosh, A.Vignoles and T.Viitanen *Basic Skills, Soft Skills and Labour Market Outcomes: Secondary Analysis of the National Child Development Study* Centre for the Economics of Education DfES Research Report No.25, 2001.

58. In terms of the economy as a whole, there is a direct link between output and literacy: the higher the proportion of adults with high prose skills, the higher the GDP per capita. Furthermore, countries with wider economic inequality also have wider literacy inequality. A number of social benefits are linked to literacy skills e.g. better health and longer life expectancy, public and civic participation.¹²
59. In terms of qualification levels, the private rates of return measured by earnings to vocational qualifications at level 3 have been found to be good and comparable with their academic equivalents (A level). Lower returns are experienced at level 2 and below with vocational qualifications yielding insignificant gains and being generally more variable than the academic equivalent (GCSE)¹³.
60. The National Skills Task Force¹⁴ acknowledged the major difficulties in proving and quantifying the relationship between education and economic growth. The evidence on the relationship between training and economic performance at national and firm level is even weaker. The practical problems of research in this field should not be underestimated. However, there appears to be a growing consensus that human capital can explain observable differences in economic growth between countries and that benefits from investment in human capital including WfD, accrue at firm and individual level¹⁵.

Box 1: Techno Terry

Even popping in briefly a couple of days a week will dramatically increase your abilities on the computer – as evidenced by our very own “Techno Terry” Bloomfield, who only a few weeks ago asked where you put the coal in to keep the computers running, and is now sending e-mails to suppliers throughout the World. **The Billingsgate Gossip, newsletter of the Greater London Seafish Group Training Association**

Increasing Social Inclusion¹⁶

61. Stable work is a significant factor in lifting individuals and households out of poverty and social exclusion in both the short and long term – hence the government’s welfare to work policies to combat poverty and social exclusion. However, while “unemployment may cause social exclusion, employment does not ensure social inclusion; whether or not it does so depends on the quality of the work offered.... People are excluded not just because they are currently without a job or income but because they have little prospects for the future.”¹⁷

There is a strong link between vulnerability to unemployment and educational or other qualifications

62. Studies¹⁸ suggest that unemployment and low pay are extremely important indicators of exclusion, linked as they are to poor housing, poor health and fractured social relationships. There is a strong relationship between unemployment and level of qualifications as shown in figure 4.

¹² Pont B. and P. Werquin, *Literacy in a thousand words*, OECD Observer, October 2000.

¹³ See for example, L.Dearden, S.McIntosh, M.Myck and A.Vignoles, *The Returns to Academic, Vocational and Basic Skills in Britain* (2000)

¹⁴ *Skills for All: Proposals for a National Skills Agenda*, Final Report of the National Skills Task Force 2000.

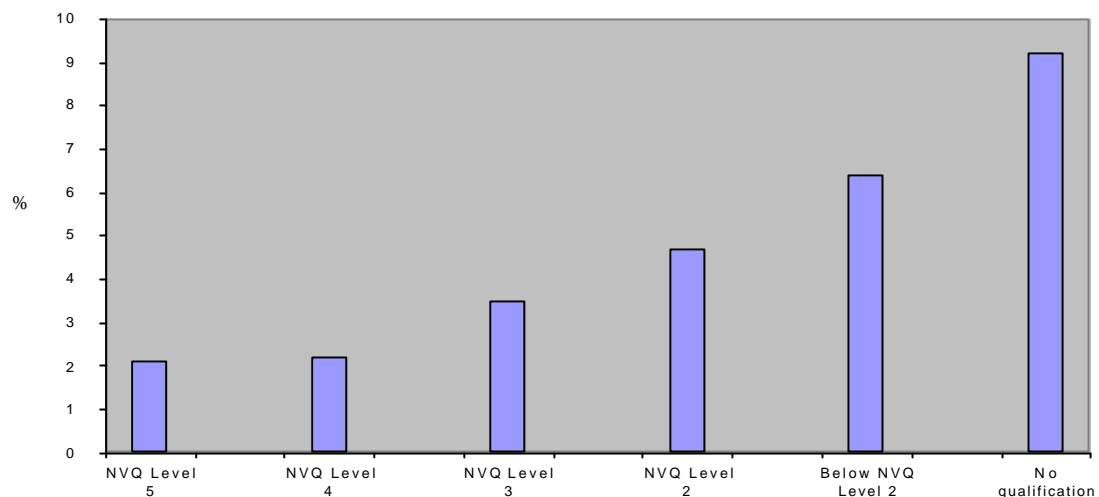
¹⁵ See for example *The New Economy: Beyond the hype: OECD Growth Project*, OECD 2001, R.Blundell et al *The Returns from Education and Training to the Individual, the Firm and the Economy: A Review of the Evidence*, IFS 1999, and S.Machin and A.Vignoles *The Economic Benefits of Training to the Individual, the Firm and the Economy: the Key Issues*, commissioned by the PIU available at <http://www.cabinet-office.gov.uk/innovation/2001/workforce/CODOC-rev1.pdf>.

¹⁶ Social inclusion is the avoidance of social exclusion. According to the Cabinet Office Social Exclusion Unit definition this is “a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdown.”

¹⁷ Atkinson A. B. in Atkinson & J. Hills (eds) ‘Exclusion, Employment & Opportunity’ LSE Centre for the Analysis of Social Exclusion Paper 4 1999.

¹⁸ Burchardt T., J. Le Grand & D. Piachaud ‘Social exclusion in Britain’, in *Social Policy and Administration* 33(3) 1999.

Figure 4: Unemployment rate by highest qualification (NVQ level equivalent) held



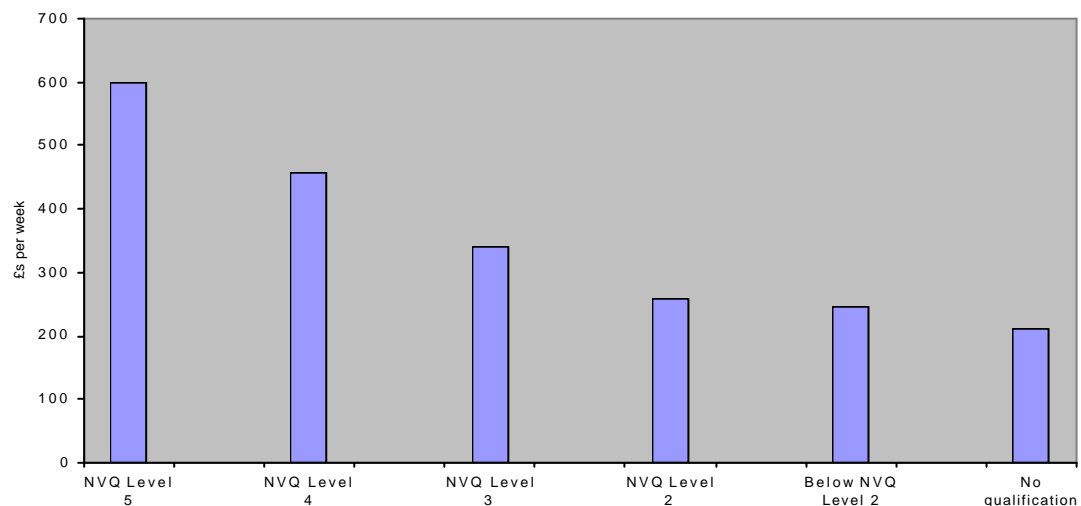
Source: Labour Force Survey, England, Spring 2001

Note: Full and part-time employees of working age. Not seasonally adjusted

WfD can facilitate employability, career progression and social mobility

63. WfD can play a key role in assisting those with low skills to move out of low pay-no pay cycles by raising their skill levels and thus their chances of gaining higher paid, more stable and more rewarding work. There is a strong positive link between earnings and educational attainment across most Organisation for Economic Co-operation and Development (OECD) countries¹⁹. Figure 5 shows the position of the UK.

Figure 5 Average gross weekly earnings by highest qualification (NVQ level equivalent) held



Source: Labour Force Survey, UK, Spring 2001

Note: Full and part-time employees of working age.

64. A number of studies have sought to estimate the gains to individuals from WfD, focusing on increases in wages. However the returns from WfD vary by type of qualification obtained and other variables. Some of these studies are discussed in the PIU analysis paper²⁰.

¹⁹ Education at a Glance: OECD indicators, OECD 2001

²⁰ <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>

There are significant inequalities in access to WfD

There is a strong correlation between participation in training and level of education - a quarter of those with degrees questioned in surveys have typically participated in training in the preceding 4 weeks compared to only 4% of those with no qualifications. The link with earnings is equally stark - participation is twice as great for those in the top earnings quartile as opposed to the lowest quartile.

S.Machin and D.Wilkinson, *Employee Training – Unequal Access and Economic Performance*, Institute for Public Policy Research, 1995

65. The disparity in participation in job-related training is significant. Whilst 40% of those with degrees or higher participate in such training, only 6% of those without qualifications do so²¹.
66. This unequal distribution of WfD opportunities is important because low achievement early in life is highly correlated with continuing low achievement in employment. There is a link between skill levels and extent of deprivation, which begins at school and is not reversed in later life:
- “educational qualifications show a clear and strong relationship to every single adult measure of disadvantage at ages 23 and 33”²²*
67. Some groups are disproportionately likely to have low skills including the disabled, certain ethnic minority groups and older age groups²³. There is conflicting evidence on whether ‘atypical workers’²⁴ receive less development or as much development as might be expected considering they work fewer hours and/or might frequently be in transition between jobs.

Preparing the economy for the future

The world of work is changing...

68. Major changes are taking place in all industrialised countries and the pace of change requires a better skilled and more adaptable workforce able to work efficiently in all sectors and in all types of business. Some of these changes and their impact on work demands are:
- | **globalisation** – as technology breaks down geographical barriers, firms can operate on a wider scale and the market for skills expands beyond country boundaries;
 - | **technological innovation** – requires a wide range of skills to bring new products and services to market and new skills to participate in the labour market;
 - | **customisation of good and services**– new technologies make it easier for customers to order to their specification. This has implications for supply chain relationships and the degree of worker flexibility required;
 - | **improved access to information, primarily through new technologies** – for customers and employees creates new opportunities to develop; and
 - | **demographic change** – the workforce is ageing and includes more women, creating new needs for WfD at different stages in people’s lives.

²¹ Participation in job-related training in the last 13 weeks, Labour Force Survey, Spring 2001.

²² Hobcraft J. ‘The Roles of Schooling and Educational Qualifications in the Emergence of Adult Social Exclusion’ LSE Centre for the Analysis of Social Exclusion Paper 43 2000

²³ Overall, white students perform better at school than those from many minority ethnic groups, apart from those from Indian and ‘Other’. With regard to the adult National Learning Targets, achievement amongst all minority ethnic groups exceeds achievement among white people, apart from the Pakistani and Bangladeshi groups, who continue to have very low levels of qualification - 37% at level 3 compared with 46% for the White group.

²⁴ This is the term used by the DTI to describe employees who work part-time, on fixed term contracts or through employment agencies.

69. Within this environment, the ability of those with low skill problems to participate will be severely restricted, therefore highlighting the need to focus attention on this group in the shorter term.

...highlighting the need for an adaptable workforce...

70. The workforce of the future will need to be adaptable, flexible, ICT literate and have the ability to learn.

<p>Of UK firms seeking to improve product or service quality, 70% will require additional high performance skills such as teamworking and customer handling²⁵.</p> <p>Net growth in employment over the last 25 years has been in 'new jobs' such as design, finance and leisure services, which demand a different kind of intermediate or higher level skill than those associated with manufacturing, for example creativity and problem solving skills²⁶.</p>

71. Some indicators of the need for these new skills are illustrated in figure 6.

Figure 6: Skills for the new economy

Adaptability	<p>Percentage of managers in companies in the US and Europe expected to change jobs in the next 36 months: 66%²⁷.</p> <p>Proportion of jobs where employer expects worker to take responsibility to find better ways of doing the job: 76%²⁸.</p> <p>Proportion of workers who agree or strongly agree that their job requires them to keep learning new things: 81%²⁹.</p>
ICT skills	<p>Proportion of jobs in which computers are essential or very important: 55% and rising. Only one third of workers in these jobs think they have the computing skills to maximise job performance³⁰.</p> <p>Proportion of jobs in which internet use is essential or very important: 24% and rising³¹.</p> <p>Percentage of workers without access to computers or internet at home or work: 41% and falling³².</p>
Communication and customer care skills	<p>Counselling, advising or caring for customers or clients is becoming more important, and is now seen as essential or very important in 51% of jobs³³.</p> <p>Of the 20% of firms reporting an internal skills gap, deficiencies in communication (54%) and customer care skills (51%) were most commonly reported³⁴.</p>

Sources: See footnotes (all statistics relate to the UK with the exception of the first item listed)

72. There is a large body of evidence on the growing shortage of IT skills, despite the current slowing of the economy (see figure 7). This could have a significant impact in the future as IT skills become essential for participation in the labour market.

²⁵ National Skills Task Force Employer Survey.

²⁶ Ibid, reaffirmed in the World Employment report 2001 'Life at work in the information economy', ILO, Geneva 2001.

²⁷ Johnson, M. *Winning the People Wars: Talent and the Battle for Human Capital* 2001.

²⁸ Felstead A., D. Gallie and F. Green *Work Skills in Britain 2001*, Department for Education and Skills, forthcoming in January 2002.

²⁹ ibid

³⁰ ibid

³¹ ibid

³² "Mouse in the House: the Role of Employers in Providing Internet Access for All," MORI and People PC, field research conducted in March 2001, report published June 2001.

³³ Felstead A. et al *Work Skills in Britain 2001* op. cit.

³⁴ NSTF Employer Survey

Figure 7: Shortage of technological skills

European Information Technology Observatory	By 2003, the UK will be short of 620,000 IT professionals, with e-business being the hardest area to address.
National Skills Task Force Employers' Survey (2000)	<p>Skills sought in connection with skill-related hard-to-fill vacancies in IT firms were overwhelmingly advanced technical 79% vs practical/technical at 24%, which was the second highest category.</p> <p>Technical skills also represented the highest area of need – 44% of hard to fill vacancies in all sectors.</p>

Box 2: Cisco Systems: e-learning in practice

Cisco provides its employees with access to a sophisticated e-learning system to support the knowledge-sharing culture it seeks to create. The system relies on a combination of peer-to-peer networking and support and flexible, quick-loading and easily searched content to help employees access what they need to know, when they need to know it, from their desk and laptops.

This approach to learning and information sharing blurs the lines between learning and work and between training, learning and information management, making it difficult to measure training in traditional ways. However, for Cisco, it has created efficiencies, increased employee satisfaction, and led to some important unintended consequences.

The company's new approach to learning and knowledge sharing has:

- ! reduced training and travel costs associated with training by 40-60%;
- ! increased employee learning options by providing anything-anytime-anywhere opportunities; and
- ! improved results as more confident employees are able to spend 40% more time with customers.

...and increasingly high performance firms

73. Changes in skills will only lead to improvements in economic performance, competitiveness and living standards if organisations are able to make use of the enhanced knowledge and potential of their employees. There is strong evidence to suggest that adult skills that are not used on a regular basis tend to atrophy and may be lost³⁵.
74. To make progress on the basis of enhanced skills across the board requires a move towards High Performance Working (HPW) practices which actively engage employees in shaping their own working environment and becoming self directed learners.
75. Evidence from the Chartered Institute of Personnel and Development (CIPD) indicates that companies which adopt and maintain HPW practices enjoy higher levels of productivity and should be better placed both to cope with change and to exploit technological or other innovation.
76. What constitutes high performance will differ for different industries. HPW is an emerging organisational model, which is still being developed throughout the world. High performance work practices include devolved decision-making, team working and autonomous working in non-hierarchical structures. It depends on high levels of skill and the ability to engage in lifelong learning. It also requires an environment in which there are high levels of trust, communication and involvement.
77. Fundamental to the success of HPW is the presence of workers who can demonstrate high levels of personal skill. However it also requires management commitment and, in many cases, significant cultural change. Therefore it cannot be regarded as a quick or easy solution.

³⁵ Krahn, H "On the Permanence of Human Capital: Use it or Lose it", *Policy Options* 1997.

Where does the UK stand in terms of its skill base?

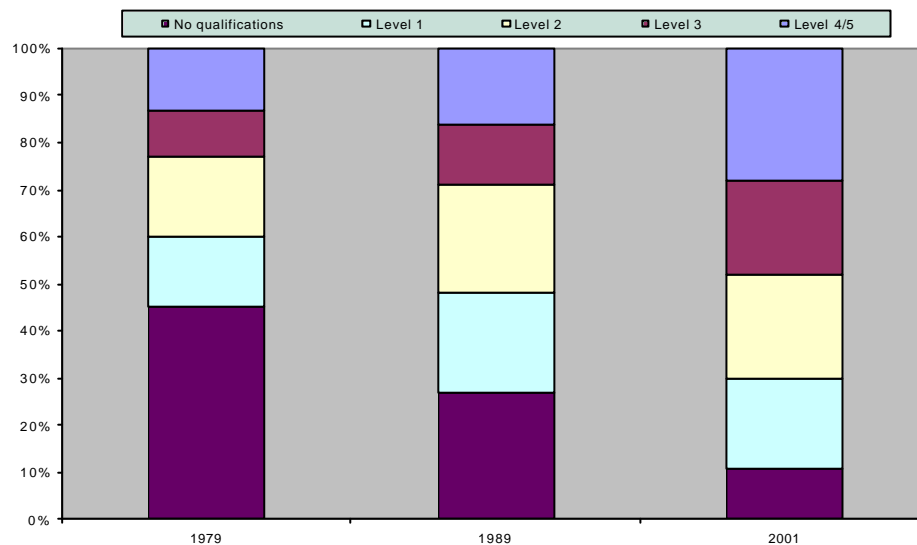
78. The UK is making progress in upskilling its workforce but it still has a comparatively large base of people lacking basic and intermediate skills. This may improve over time as the educational qualifications of future cohorts of younger workers increase. But economies are not static; the UK needs not only to catch up but also to keep up.

Qualification levels are increasing

Where I work, at one time you could make it to Managing Director with no qualifications, if you had trouble at school or whatever, you were given a chance in industry to go right to the top. Now, I am as high as I will ever go in my industry, unless I go and do a degree or something like that. **MORI/ focus group research for PIU**

79. Qualifications act as a proxy for skill levels by signalling achievement and motivation as well as indicating specific knowledge. Over the past 20 years there has been a significant increase in the general qualification level of the workforce. (See figure 8).

Figure 8: Qualifications (NVQ level equivalent) of employees and self-employed people of working age



Source: Labour Force Survey, UK, Spring 2001

Note: Employees and self-employed of working age

80. The proportion of the workforce holding qualifications equivalent to National Vocational Qualifications (NVQ) level 4 or above has more than doubled since 1979 and more than a quarter of the workforce is now qualified to this level.
81. The proportion holding no qualifications has declined dramatically. The increase in qualification level has been driven predominantly by the rising attainment of young people entering the workforce³⁶ and increased participation in full time education.
82. However, the qualifications that people hold are only one indicator of skills. Other proxies for the skills of the employed workforce are the qualifications required by employers and the length of training time and learning time required before proficiency is attained. These proxy measures also show that the average skills of all those employed have been increasing. (See Figure 9).

³⁶ Skills for All: Research Report from the National Skills Task Force 2000.

83. Between 1986 and 1997, the proportion of jobs requiring some sort of qualification rose from 62% to 69%. The proportion of jobs requiring just a short time (less than one month) to achieve proficiency (for the most part relatively low-skilled jobs) fell from 27% to 21%. A recent survey shows that, according to most measures, the skill level of jobs has continued to increase in the last four years³⁷.

Figure 9: Measure of job skill trends

	1986	1997
Required Qualifications (% of jobs)		
Some qualifications are now required to get job	61.6	68.5
A degree is now required to get job	9.7	14.1
Length of training for the type of work (% of jobs)		
Less than 3 months	66.0	57.0
More than 2 years	22.4	28.9
Time taken to learn to do job well (employees only) (% of jobs)		
Less than 1 month	27.1	21.4
More than 2 years	24.3	24.3

Source: F. Green, D. Ashton, B. Burchell, B. Davies and A. Felstead (2000)³⁸.

But there is a widespread lack of basic skills and qualifications

84. Over 20% of adults in the UK have poor literacy and numeracy skills³⁹ (see figure 10). While this is a similar figure to that in the US, it compares badly with many European countries.⁴⁰ This low level of basic skills has a negative impact on the UK economy and on the welfare of the individuals concerned. The Government has made improving basic skills a priority, with the ultimate goal of achieving the best numeracy and literacy rates in the world for the UK.
85. Basic skills can be measured using tests devised by the Adult Basic Skills Strategy Unit. A level 1 test is equivalent to the literacy and numeracy skills expected of an 11 year old and includes such tasks as identifying the main points and specific details in a text, or recognising and using fractions, decimals and percentages. A level 2 test is equivalent to the basic skills required of someone gaining a GCSE at grade C or above. Basic skills can be obtained at the standard of level 1 or level 2.
86. At present, the Government has a target "to reduce the overall number of adults who have difficulty with literacy or numeracy by 750,000 by 2004". It is expected that over a quarter of this target will achieve entry-level skills⁴¹ and the rest will achieve level 1 and above.

³⁷ Felstead A., et al *Work Skills in Britain 2001* op. cit.

³⁸ Borghans L. and A. de Grip *Are British Workers Getting More Skilled? The Over-Educated Worker? The Economics of Skill Utilisation*.

³⁹ *A Fresh Start: Improving Literacy and Numeracy* Report of the Working Group chaired by Sir Claus Moser DfEE 1999.

⁴⁰ *International Adult Literacy Survey*, OECD 2000.

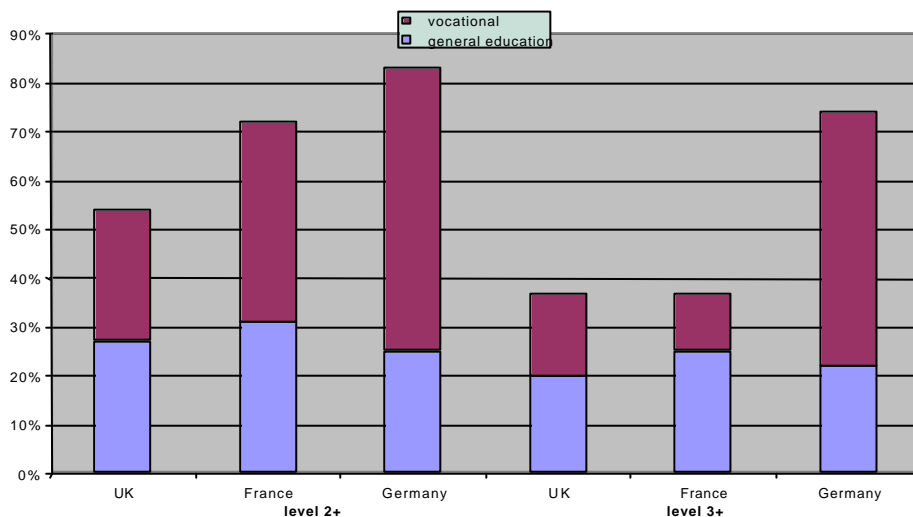
⁴¹ For instance, the ability to recognise and name common shapes such as rectangles, circles, cubes, etc. or to organise writing into short paragraphs.

Figure 10: Adult basic skills problems

7 million adults do not have literacy and numeracy skills of a level 1 standard. This means that one in five adults do not have the basic skills to perform simple everyday tasks.
Individuals with basic skills problems are up to 5 times more likely to be unemployed ⁴² and far more likely to work in low paid, low skill jobs.
Poor basic skills add to business costs ⁴³ (because of the need for additional supervisory staff, higher error rates etc.) and may also have wider social consequences ⁴⁴ (e.g. poor health) ⁴⁵ .

87. Since the Adult Basic Skills Strategy, Skills for Life was launched in March 2001 by the Prime Minister, much progress has been made. Since March, at least 70,000 learners have been helped to acquire basic skills, of whom 1,250 have passed the new National Tests in literacy and numeracy. And to stimulate further demand, a national promotional campaign was launched resulting in 50,000 adults calling a national telephone hotline information about courses.
88. These are vital improvements because the poor basic skills of many adults are a substantial barrier to the take-up of further WfD opportunities. Without good literacy and numeracy skills, individuals are unlikely to be able to engage in other skills development.

Figure 11: Percentage of the workforce with at least level 2 and at least level 3



Source: Steedman (1999)⁴⁶

89. As noted by the National Skills Task force Research Paper⁴⁷, the gap in qualification levels between the UK and France and Germany is particularly significant for vocational qualifications (see figure 11).

Despite recent improvements in performance, the UK seems likely to continue to lag behind other countries...

90. Figure 12 shows the proportions of young age groups holding qualifications at level 2 and above, and level 3 and above. The UK lags behind in older age groups e.g. 25-28 year olds.

⁴² Machin et al *Basic Skills, Soft Skills and Labour Market Outcomes* op. cit.

⁴³ Gallup Survey cited in *A Fresh Start* op. cit.

⁴⁴ *Skill for life: the national strategy for improving adult literacy and numeracy skills* DfEE March 2001.

⁴⁵ These have a combined cost in the order of £15bn but such figures are inevitably surrounded by a large error.

⁴⁶ 'Updating of Skills Audit Data'. Provisional interim report to the DfEE/LSE Centre for Economic Performance 1998. Reproduced in *Skills for All Research Report* op. cit.

⁴⁷ *Skills for all: Research Report* op. cit.

Figure 12: Comparisons of qualifications at Level 2+ and Level 3+ in the UK, France and Germany (% of relevant age group)

	<u>Level 2+</u>			<u>Level 3+</u>		
	<u>UK</u>	<u>France</u>	<u>Germany</u>	<u>UK</u>	<u>France</u>	<u>Germany</u>
<u>All qualifications</u>						
Age 19-21	70	81	65	43	43	48
Age 25-28	61	83	85	41	54	78
<u>Vocational qualifications</u>						
Age 19-21	26	25	28	14	5	26
Age 25-28	28	43	52	17	18	48

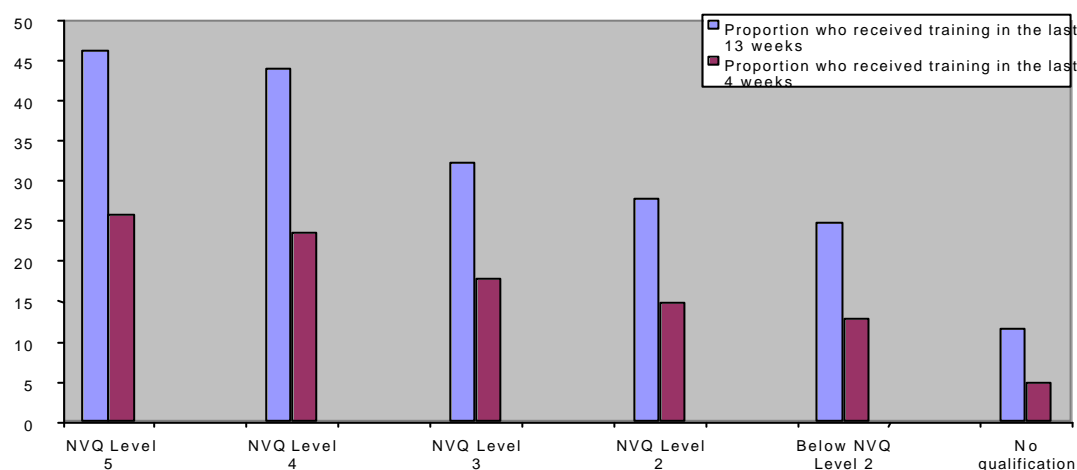
Source: Steedman (1999)⁴⁸

91. Workers in France and Germany undertake significant WfD after the age of 21 in order to achieve level 2 and level 3 qualifications. This is not the case in the UK. British workers who do not achieve level 2 or 3 prior to reaching 21 are less likely to make up for this in later life than their counterparts in France and Germany.

The least well qualified, older employees and those working in small firms are least likely to participate in training

92. As figure 13 shows, participation in training is almost five times greater for those with degrees and professional qualifications (level 4 and 5) than for those with no qualifications. This pattern is also reflected in the distribution by occupation: almost 30% of employees in 'professional' occupations participate in training, compared to 14% in clerical and secretarial, 12% in craft & related and 7% for plant and machine operatives⁴⁹.

Figure 13: Percentage of employees receiving job-related training by highest qualification (NVQ level equivalent)



Source: Labour Force Survey, England, Spring 2001

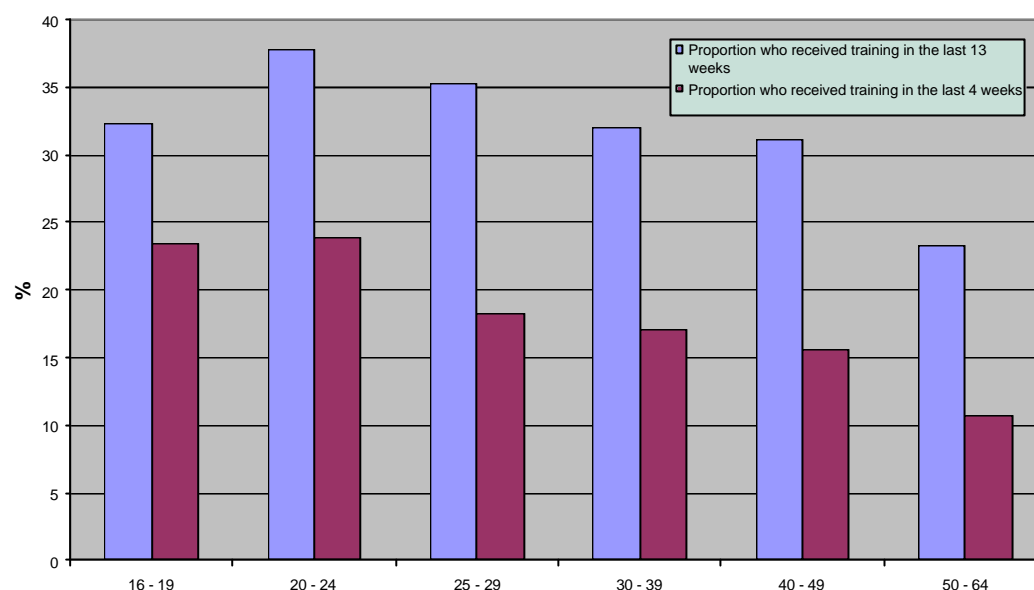
Notes: Full and part-time employees of working age

93. Young people aged 16-24 are more than twice as likely to participate in training as workers aged 50-64 (see figure 14). Yet the need for better skills can be just as relevant for older workers.

⁴⁸ 'Updating of Skills Audit Data' op. cit.

⁴⁹ Labour Force Survey, DfEE Spring 2000.

Figure 14: Percentage of employees receiving job-related training by age



Source: Labour Force Survey, England, Spring 2001

Note: Full and part-time employees of working age

There is a particular problem in small firms

94. The proportion of employees receiving training increases with establishment size, with relatively low levels of training undertaken in businesses with up to 25 employees. Figure 15 provides a summary of training by size of establishment⁵⁰.

Figure 15: Percentage of employers providing training

Size of establishment (no. of employees)	Off the job %	On the job %
1-4	33	59
5-24	54	81
25-99	78	89
100-199	92	94
200-499	96	93
500+	98	92

95. Firms with fewer than 25 employees are significantly less likely to provide training, yet 11% of the UK workforce is employed by such businesses⁵¹. This reinforces the poorer chances for lower skilled employees to upskill since approximately 50% of those without level 2 qualifications are estimated to be employed in firms with fewer than 50 employees⁵².

⁵⁰ *Learning and Training at Work*, DfEE 2000.

⁵¹ Small and Medium enterprises (SMEs) statistics for the UK 2000, Small Business Service

⁵² *Labour Force Survey* op. cit.

4 What's preventing the UK raising its game on skills?

Summary

- ‡ There is no single factor underlying the problems of WfD in the UK but a combination of economic, social, historical and cultural influences.
- ‡ In combination, market, Government and other failures may create systemic failures such as a 'low skills equilibrium' which traps both individuals and employers in a low skill/low expectation cycle.
- ‡ Insufficient levels of investment for at least some groups of workers are caused by market failures that impair the efficient operation of the market in WfD.
- ‡ Government failures ranging from overcomplicated structures to sub-optimal funding mechanisms have compounded these market failures.
- ‡ Given the complex nature of the factors underpinning WfD and their inter-relationships, it is unlikely that any single initiative can have a significant impact on engaging individuals and employers. An integrated approach addressing both the demand and supply sides within a supportive Government framework is required.
- ‡ The way forward is a demand-led system for all. There is a strong case for Government intervention to enable the lower-skilled to participate and progress within this system. The Government should prioritise the lowest skilled and the long term aim should be to ensure that all adults have the opportunity to achieve a level 2 as a springboard to further progress.

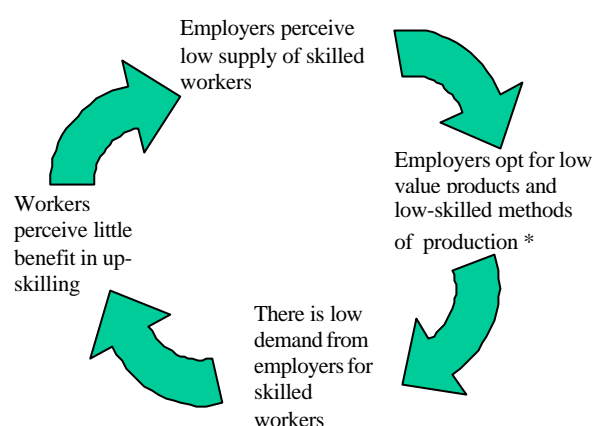
Introduction

96. There is no single factor underlying the problems identified in the previous chapter but a complex mix of economic, social, historical and cultural influences. WfD has a number of unique characteristics:
- ‡ WfD tends to be a long and uncertain process, the benefits of which are often hard to quantify, particularly in the shorter term, but there is evidence of economic and social gains.
 - ‡ The behaviour of people involved, including those receiving training, is often strongly affected by the social and cultural context.
 - ‡ Most WfD takes place in or around the workplace, so whether it takes place depends on the culture, business strategy, size, and type of firms or organisations where people work. Informal learning in particular is closely linked to specific workplaces and processes.
 - ‡ WfD requires a relatively long-term perspective, which does not always fit well with the culture of small businesses, the requirements of shareholders for returns, or with the competing pressures on individuals' time or the time horizons of policy makers.
97. This chapter sets out:
- ‡ the manifestations of failings in the WfD system;
 - ‡ the role of culture, market failure and Government failure; and
 - ‡ the implications for developing a new approach to WfD.

A low-skill/low-wage trap is symptomatic of many failures...

98. Many factors combine to create the WfD problems identified in the previous chapter, including cultural factors, market and Government failures. When these factors combine they may result in a 'low-skills equilibrium',⁵³ a vicious circle of low productivity and low supply of skilled workers, as illustrated by figure 16.
99. Though the 'low-skills equilibrium' is not a true representation of all sectors of the UK economy, and is, in part, an exaggeration of the actual situation⁵⁴, it provides helpful conceptual insights including recognition that innovation in products and processes may be discouraged by perceptions of skill shortages.

Figure 16: The low-skill/low-wage equilibrium



* Employers adopt product strategies and market positioning that require low skills.

100. This model also highlights the issue of 'path dependency': once managers adopt a strategy based on a given skill level, it is not easy to adopt a different strategy. Indeed if a previous strategy based on low skills has been successful, management may be reluctant to develop new or enhanced strategies even if a skilled workforce is available.
101. A survey undertaken by the NSTF found that roughly half the employers surveyed foresaw skills-related problems if they sought to respond to competitive market pressures by developing higher value added product strategies. Case studies carried out for the NSTF indicated that if companies attempted to move towards higher value added strategies without complementary changes to human resource strategies, latent skills gaps would be revealed.
102. Once locked into a particular path, it may be difficult to change even if the economy as a whole would benefit from doing so. The rest of this chapter explores the factors that may contribute to the development of a low skills equilibrium and the problems that Government needs to address in overcoming it.

Cultural factors – attitudes of employers and individuals

WfD does not lie at the heart of business strategies

103. For employers, development is a derived need—employers develop their staff because they believe it will help them achieve their business objectives. This suggests that an effective way to stimulate demand for development in businesses is through encouraging greater ambition in the planning process, the adoption of best practice and the pursuit of high value-added and innovative product strategies that need staff capable of delivering them.

⁵³ As described in D. Finegold and D. Soskice, *The Failure of Training in Britain: Analysis and Prescription*, Oxford Review of Economic Policy 4(3), 1988.

⁵⁴ The empirical evidence of a low-skills equilibrium in the UK is yet to be established. See *Anticipating Future Skill Needs: Can it be done? Should it be done?* Skills Task Force Research Report paper 1

104. However the NSTF's research suggests that skills tend to be neglected when employers are formulating their business strategies. Whilst 60% of businesses have business plans only 39% have training plans and only 24% have human resource (HR) plans⁵⁵ indicating the limited extent to which training and skills issues are integrated into senior management planning⁵⁶.
105. Many businesses do develop their staff. Employers reported spending £23bn on training during a 12 month period 1999-2000. This figure includes approximately £10bn of labour costs (a measure of the time spent on training). And it includes all types of training including induction and health and safety training⁵⁷. But without a link to business strategy, or to relevant accredited training, the effectiveness of such development may be undermined. There are a number of barriers which prevent organisations making this link:
- | WfD (a subset of wider human resource management) is often seen at best as **one of many elements competing for management attention**. WfD is only one of the potential tools available to firms (outsourcing, new purchasing arrangements and automation are others) for improving productivity performance.
 - | UK managers indicate a significant degree of **risk aversion** relative to other countries⁵⁸. The extent to which this affects the ambition of business plans is a matter for speculation but it is a widely held opinion that the UK's cultural bias⁵⁹ leans towards short-termism and risk aversion in planning.
 - | The most effective WfD is embedded in **company culture**. A culture that values development is more likely to maintain higher level, better quality and broader development opportunities. Aspirational models for companies including HPW or "The Learning Organisation" (see annex 3 for definitions) or liP are all about implementing such a culture. Many British companies would find it difficult to adopt these models without significant change.
 - | **Management and leadership skills** and expertise are essential for achieving enterprising cultures, innovation, growth and success, all of which underpin the successful development of the UK economy. The impact of poor management can be seen in figure 17. DfES and DTI have responded to this issue by establishing The Council for Excellence in Management and Leadership (CEML) which is tasked with developing a national management strategy.

Figure 17: The cost of a bad boss

58% of senior and midlevel managers reported that they have worked for an underperformer. How did this affect them?	
prevented me from learning	76%
hurt my career development	81%
prevented me from making a larger contribution to the bottom line	82%
made me want to leave the company	86%

Source: McKinsey's "War for Talent" survey of 6,500 senior and mid-level managers at 35 large US companies, 2000

⁵⁵ *Learning and Training at Work* DfEE 2000.

⁵⁶ "the Task Force's research suggests that skills tend to be a neglected issue when employers are formulating their business strategies" NSTF Research paper 15, Employer Attitudes Towards Adult Training.

⁵⁷ *Learning and Training at Work* DfEE 2000.

⁵⁸ UK Competitiveness Indicators: Second Edition, DTI, Feb 2001.

⁵⁹ Motivation for WfD: The Role of National Culture - David Guest, The Management Centre, King's College, London. Published on PIU website (www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml)

- | **Small and medium enterprises (SMEs) have distinctive needs**, which may not be addressed by the standard business qualifications available within the further and higher education system. While the issues are likely to be similar, the timing and type of management and leadership training required by the typical SME will be closely related to the business lifecycle, the changing size of the organisation and the need to address immediate business problems. A number of providers are currently working to offer flexible provision more suited to SME needs.
106. The public sector has a strong record of providing a wide range of employees with frequent development opportunities⁶⁰. The diversity of the sector leads to organisations with different purposes, cultures and approaches to WfD. The public sector has the potential to act as a role model for WfD and is already doing so in terms of requirements to achieve IIP accreditation and the adoption of the Chartermark scheme.
 107. The voluntary sector is small in terms of numbers of employees (485,000 workers which amounts to the equivalent of 319,000 full time posts). However, less than a quarter of the 135,000 general charities in the UK employ paid staff. This means that the vast majority of organisations rely solely on voluntary workers. WfD for this group poses a very particular set of challenges. However WfD is becoming more important for this sector as its role expands and it takes on work carried out in the past by the public sector.
 108. It is also important to consider the interaction with:
 - | **business regulation.** Some regulations may have beneficial consequences on skills development: for example recent regulations requiring care home workers to have a minimum level of skill will encourage development. The Low Pay Commission is researching the extent to which the introduction of the National Minimum Wage (NMW) may have encouraged employers to invest more in the training of their workforce⁶¹. Others may have unintended side effects and these effects need to be built into the design of policy options and into subsequent work on the evaluation of impacts;
 - | **inward investment:** skill development can incentivise inward investment or be part of the conditions for Government support; and
 - | **sectoral policy:** e.g. transitional arrangements for declining sectors and support for the development of strategic skills for the future.

Many individuals lack the motivation to learn

109. The National Adult Learning Survey (NALS)⁶² provides some insights on adult attitudes to learning (see figure 18). The survey has a fairly broad scope, defining a learner as someone who has taken part in at least one taught or non-taught learning activity within the past three years. These results give an insight into attitudes to WfD, even though NALS is not exclusively concerned with learning linked to work. They reveal how little motivation many individuals have to participate in any activity through which they may learn new skills or acquire new knowledge. They also reveal the reasons why many individuals do not participate in such activities.

⁶⁰ The *Employee Relations Survey* 1998 revealed that 70% of the public sector staff interviewed had had some development during the past 12 months.

⁶¹ 'Overall the minimum wage had a modest positive effect on training'. (Third report of Low Pay Commission para 3.111 Vol 1 March 01.)

⁶² NALS 1997 defines a 'learner' as someone who has taken part in at least one taught or non taught learning activity within the past 3 years, (although individuals are learning all the time).

Figure 18: Key statistics from NALS 1997⁶³

	74% of adults aged 16-69 who have left full-time education, say they have undertaken some form of learning in the last 3 years, or since leaving full-time education if more recent. Learners tend to be male; younger; in non-manual occupations; to have stayed in full-time continuous education longer; and to have left full time education with higher qualifications.
	24% of adults say that they have not undertaken any kind of learning in the past 3 years – ‘non-learners’ tend to be aged 50 or over; looking after the home or family; retired; or unable to work because of long-term sickness. Most have left school with few qualifications.
	50% of those that who say they have done no learning in the previous ten years say that nothing would encourage them to learn.
	Even 49% of non-learners who enjoyed full-time education a great deal say that nothing would encourage them to learn.

110. Prime reasons for non-participation in learning include a preference to spend free time doing other things, family commitments and work pressures. In addition individuals who have difficulty with literacy or numeracy are often reluctant to admit that they have a problem. They may avoid situations where their weaknesses would be exposed⁶⁴.

“It’s a bit embarrassing when they come home and say ‘oh, how do you spell this or how do you do this maths’ and you haven’t got a clue.”

Low income mother⁶⁵.

111. Government cannot compel individuals to learn. Enhancing motivation⁶⁶ must underpin all policy in this area, for employers and individuals alike. Psychological barriers to learning inhibit the motivation to develop, irrespective of whether other practical barriers, such as childcare, transport costs and access to information, have been overcome⁶⁷. Removal of any possible financial barriers is only part of the solution to stimulating demand.
112. Levels of motivation amongst individuals are not static. The quality of the learning experience and employment can impact on motivation levels across the workforce and over time. If levels of motivation are weakened by poor experiences or through insufficient rewards, then demotivation⁶⁸ will occur and motivation will be harder the next time around. Often the low-skilled have had negative experiences of training, education and employment starting from school. From this perspective, it is rational not to engage in any activity that may lead to further failure or difficulty⁶⁹.

⁶³ The forthcoming NALS 2001 results are not expected to show a significant change on these statistics.

⁶⁴ *Skills for Life: the National Strategy for Improving Adult Literacy and Numeracy*, DFES 2001.

⁶⁵ Project Railway Opportunities for a Learning Magazine. The Campaign for Learning 1998.

⁶⁶ Motivation generally refers to an inner drive, goal or the act or instance that drives you to do something, but psychologists define it as ‘the process that arouses or, sustains and regulates human behaviour’. Within this, motivation can be extrinsic (social, in order to gain social acceptance such as pleasing the trainer or the boss, or being one of the in-crowd or instrumental, in order to gain a tangible reward or avoid negative consequences) or intrinsic (curiosity, interest and satisfaction for its own sake or autonomy), for example, the desire to succeed - “I’m not going to let this beat me”. Intrinsic motivation is perceived as being far more effective and powerful.

⁶⁷ Research undertaken on barriers to learning during the development of Individual Learning Accounts suggested that a complex mix of emotional and practical barriers exist for individuals in different circumstances. There is a lack of robust information on the significance of single factor barriers and the numbers that might be motivated by their removal.

⁶⁸ A qualitative study in a disadvantaged neighbourhood in Northern England found only a small minority had no education or training since leaving school, but that multiple factors discouraged consistent commitment: T. Burden and J. Konrad, *Successful futures? Community views of adult education and training* 2000.

⁶⁹ McIntish, Steadman 2001 found that the majority of low skilled workers do not perceive the relevance of training because their jobs do not require literacy skills.

Market failures

Returns go beyond individuals and employers ('externalities')...

113. The benefits of education and training are, in large part captured by individuals through increased earnings and to firms through increased productivity. But the benefits for society as a whole can be even greater since numeracy, literacy and other key skills contribute generally to economic performance.
114. Since these so-called 'positive externalities' of WfD are shared widely, individuals' and firms' decisions to train may fail to take full account of them leading to under-investment in WfD from the point of view of society as a whole.
115. There are various reasons why the benefits of education and training to the economy as a whole (the social returns) may exceed the private returns obtained by individuals and firms. Most obviously, there are benefits to society from having a better educated and literate population e.g. in terms of democratic participation and social cohesion. But there is also evidence of positive effects on productivity e.g. higher educated individuals improving the productivity of their colleagues. Other benefits are the ability of better trained individuals to respond more quickly to change and to be more adaptable. These arguments provide an important justification for public support for the development of the workforce. However, there are, in practice, numerous difficulties in quantifying the precise scale of such effects.

Box 3: A shortage of Heating Engineers

There are about 94,000 registered gas installers in the UK, of whom 66,000 are qualified to fit gas central heating. Most of these installers were trained by British Gas, which used to train about 1,000 skilled staff a year under its apprenticeship scheme. Since privatisation in 1986 there has been a general reluctance within the industry to train new staff in such large numbers. This has two main causes:

- ! Almost half of all those employed are in very small companies, many of them being sole-traders without the inclination or confidence to grow.
- ! Those companies that are large enough to consider investing in training, cite fears of poaching as the greatest disincentive.

This lack of training over the past 15 years means that there are few young people employed in the industry, with the age profile skewed towards those of 40+ and even 50+. Some 30,000 installers could retire in the next 5 years. Problems are set to increase in the future as the Health and Safety Executive introduce a new safety qualification that is more rigorous and expensive than the current NVQ requirements for CORGI registration and renewal. CORGI estimates a 7-10% drop out of registration by those who can't or don't want to qualify under the new scheme. Some estimates are more pessimistic, warning that together with the age profile, as many as 30% of installers may decide to retire when their current certification expires – i.e. within the next 3-4 years.

There are severe implications of this shortage, not least for projects such as DEFRA's Home Energy Efficiency Scheme (HEES) and Transco's Affordable Warmth Programme, which seek to relieve fuel poverty and upgrade social housing. The longer term impact on prices across the market is also cause for significant concern.

Current measures to address the situation include:

- ! a national training programme initiated by HEES to train 800 new engineers for the scheme during 2001-2;
- ! DWP training programmes such as re-training semi-skilled staff being released by Corus; and
- ! work to promote the career to young people in Technical Colleges through a tailored NVQ.

Source: Ministerial group on fuel poverty, MGFP(01)04, DEFRA and DTI July 2001

...and there is a widespread perception that skilled staff are in danger of being poached

"Over the years you get a bit more cynical ...you take these people on for the first few years when you start and yes we'll train them and it will be wonderful and they all get pinched and they go off and get better jobs and as the years go by you think "What's the point?" Why go to the trouble of giving them the time off, pay for them to be trained and then a year later they are off somewhere else?" **Female employer, Less than 5 employees, PIU focus group 2001.**

"I invest in my employees. I understand that they may get a better job somewhere else, but at least they are better employees while I have them. Do I really want an untrained person sticking around?" **SME Owner/Manager, PIU focus group 2001.**

116. Many skills are transferable and employees are mobile. The loss of employees once trained is a key concern for SMEs. Many owner managers cite risk of poaching as a factor in their decision-making process. SMEs may be able to afford to train staff but not to pay an immediate premium for the training. Another employer can offer a small premium in pay and "poach" their ready-trained employees. In addition, promotion prospects may be more limited in SMEs forcing employees to move jobs to progress.
117. Available evidence on poaching is mixed – there is evidence to show that increased training can lead to improved rates of retention of existing staff⁷⁰ and evidence to the contrary, particularly for small firms⁷¹. On balance, the evidence suggests that training increases retention slightly, especially where the employer pays for the training. Thus, widespread concerns about poaching are not always justified by the evidence. However, employer perceptions and experience may discourage SMEs from investing in training their workforce.

Imperfect information is pervasive and affects the decisions and choices made by individuals, employers and suppliers...

118. Good quality information is needed because individuals and firms need to be aware of the benefits of WfD in order to make sound choices based on the expected returns. For this to happen all parties need easy and low cost ways of accessing information.

Current Information, Advice and Guidance (IAG) services are inadequate both for individuals...

Figure 19: Existing IAG provision

Existing public IAG provision includes⁷²:

- | The **learnirect** national helpline and website
- | 75 local IAG partnerships, bringing together diverse providers of IAG in local areas, including Jobcentre Plus and Connexions
- | Other web-based resources such as Worktrain

119. Good quality IAG is recognised by the NSTF⁷³ as essential to effective WfD, and to creating and sustaining motivation for individuals to learn. IAG for adults has, over many years, had fairly low aspirations and is perceived to have been relatively poorly funded, particularly when compared with arrangements for young people.

⁷⁰ Dearden L. et al, *Labour turnover and work-related training*, IFS May 1997.

⁷¹ Storey D., *Human Resources Management Policies and Practices in SMEs in the UK*, Warwick Business School Nov 1999.

⁷² <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml> (for further details)

⁷³ The NSTF found that stimulating informed demand for learning amongst individuals comprises four key components including providing access to information on future job and career opportunities and relevant learning provision and providing access to advice and guidance to help them interpret the information.

120. DfES has recently taken action to start to improve provision by joining up services at a local level, but some problems remain⁷⁴:
- | the quality of local services is variable and depends on the skills of the IAG partnership co-ordinator, the co-operation of local partners and the existing IAG services in an area;
 - | **learndirect**, the national learning advice line, and IAG Partnerships do not always work together as effectively as they might. Greater clarity about their respective roles would help to underpin the complementarity of the services and also help secure a more effective referral of clients between the two; and
 - | the large number of local IAG brands results in publicity that lacks impact and has the potential to cause confusion amongst customers, making access difficult.
121. The original design for IAG Partnerships focused primarily on reaching those with low skills and labour market returners and did not focus more widely on the needs of employers or WfD.
122. Research⁷⁵ shows that individuals tend to consider their employer as a primary source of information and advice about learning and development opportunities. The Union Learning Fund (ULF) has reported success to date in providing advice in the workplace; the challenge now is to provide similar services in the large number of small organisations that tend to be non-unionised.
123. For customers, availability of information about quality is not always easy to access. While inspection reports are available to the public, there is no readily available source of information on individual courses, their success rates in terms of achieving qualifications and subsequently helping students into employment, or helping them to make progress in their careers.

... and employers

124. The principal means of providing publicly funded business advice and guidance to SMEs is the new Business Link network overseen by the SBS, which started operating in April 2001. Other, primarily web-based initiatives, such as **learndirect**, provide WfD and training information on-line⁷⁶.
125. But:
- | penetration is low - Business Links reached 7.1%⁷⁷ of businesses in England between April and September 2001;
 - | many employers see the services provided as confusing and fragmented; and
 - | employers value the importance of independent advice from organisations not wishing to 'sell' their own products⁷⁸. This is a potential problem for both Business Links and **learndirect**, although it could also be regarded as an opportunity for both to work with SBS to develop more tailored solutions.
126. An alternative source of business information and support for micro businesses is provided by the enterprise agencies of which there are 160. These are charitable bodies serving local communities. During 2000, these agencies have supported approximately 45,000 micro businesses and 20,300 start-ups.

⁷⁴ 'Evaluation of Local Adult Information, Advice and Guidance Services', DfEE Research report 241, National Foundation for Educational Research November 2000

⁷⁵ 27% of adults gave their employer as first place to seek advice on education and training. Alloway and Nelson, 'Advice and Guidance to Individuals: a study for the Manpower Services Commission'. UDACE/NIACE1986.

⁷⁶ Ufi's 2001-02 target for SME engagement is 12,000 SMEs, and with current progress of 16,100, Ufi hope to reach 20,000 by the end of the year. Future targets are under discussion but **learndirect** expect to increase substantially their penetration of the SME market over the coming years.

⁷⁷ Business Links management information, quarters 1 and 2 of 2001/02.

⁷⁸ PIU Employer focus group.

127. Employers also use private sector sources of advice such as banks, accountants and solicitors. These sources may not offer specific advice regarding the role of WfD in developing a business, although they have the potential to act as gateways to such information. The Small Firms Enterprise Development Initiative (SFEDI) has developed a range of business support materials for use by such business advisors working with SMEs.

Business networks⁷⁹ are weak...

128. DTI estimates there are over 500 business networks in the UK (covering more than 180,000 companies) involved in a wide range of activities. These range from networks established to address specific, short-term problems to long-term collaborative arrangements. The SBS, through its Best Practice Services (CONNECT, Benchmark Index and Inside UK Enterprise) works with many intermediaries including its Business Links operators, private consultancy, accountants etc. and as such offers a further delivery mechanism for the WfD message.
129. Networks offer businesses a wide range of opportunities including scope for collaboration in the provision of WfD through:
- | information sharing and mutual encouragement;
 - | collaboration on particular tasks or business projects;
 - | collaboration on negotiating with providers of development; and
 - | collaboration on research and development and leveraging external support.
130. The principle behind networking is to encourage self help and peer group support and learning (see figure 20). Networks, however, can also enable Government to tap into large numbers of companies relatively easily.

Figure 20: Group Training Associations

Good examples of effective training networks are in the construction and engineering industries and through Group Training Associations. These associations generally act as training providers for specific industries such as the seafish industry. They can help to overcome the barriers to WfD posed by the small size of many firms, but appear best suited to industries that are cohesive and have funding available to support the network (e.g. through levies).

131. Business networks in the UK are perceived to be poor, with limited penetration or involvement, particularly of smaller firms. Reasons for this failure include a lack of leadership, funding, pressure of time and resources and a perceived (or actual) lack of value.
132. Involvement in networks seems however to be growing with a recent CBI survey⁸⁰ showing three quarters of companies had been involved in collaborative projects during the preceding 3 years. However, much of this activity is not directly related to WfD.
133. Government interventions to date have been patchy. Employer Learning Networks established by the DTI and DfES have reported success but they are still primarily pilot projects. The recent creation of the Sector Skills Councils (SSCs) has the potential to establish strong sectoral networks at national level.

⁷⁹ The term network is used to describe a collection of businesses and other organisations that meet and interact, with reasonable regularity, on subjects of mutual interest. These networks begin for many reasons and are often sponsored by a host organisation. Source – DTI.

⁸⁰ *A Question of Culture, Collaborative Innovation in UK Business* CBI, Feb 2001.

...and institutions fragmented

134. The UK has a large range of institutions, which connect with businesses and provide a variety of services, including some related to WfD. Some are privately funded, others Government funded. Institutions can be a positive force for promoting best practice and WfD to their members as well as representing members' views on such issues to Government.
135. Membership based institutions in the UK have been found to be fragmented and inefficient⁸¹ with around 1,600 trade associations in existence making it difficult for Government to hear a representative voice from employers. UK membership data is patchy but suggests that as many as 2 million companies (mostly sole traders and partnerships) are not members of any organisation⁸².
136. Most European countries have a stronger network of employer organisations, underpinned by statutory arrangements⁸³, which are important contributors to the WfD system. The strength of such networks is partially thought to result from the greater prevalence of collective bargaining⁸⁴.
137. In the US, in the absence of government funded organisations, private bodies (for example Chambers of Commerce or Neighbourhood Business Associations) compete for membership fees and project-based government funding and this, together with aggressive marketing and recruiting, results in fairly high levels of fee-paying membership.
138. Neither the European nor the US model would necessarily be suited to the UK given cultural differences. However, without strong networks and institutions, many employers are unrepresented and cannot readily access services and support.

Human capital accounting is in its infancy

There is a guy called John Ruskin, poet and artist and all the rest of it, he seemed to regard the people of this country as 'these are my jewels'. It seems to me that the government ought to regard its people as its assets, so they ought to be the ones thinking that the money invested in them now will spin back a reward later on. MORI/ focus group research

139. Information relating to how organisations invest in and value their staff (including expenditure on WfD) is not routinely reported as part of the annual accounts (some companies may choose to provide such information). At present, there is no standard accounting methodology for valuing such investment to enable it to be considered as an asset of the organisation. Consequently, there is limited understanding or interest amongst the investment community in human capital accounting. Such investment does not generally form part of the valuation models used by investment companies⁸⁵ when making decisions on behalf of traditional investors.
140. This is an issue that is starting to be explored by various accountancy bodies and academics worldwide and has also been examined by OECD through a series of papers and an international symposium held in 1999⁸⁶.

⁸¹ *The Business of Representation: The Modern Trade Association.*, DTI March 2001.

⁸² CBI membership data, Trade Association Forum, Federation of Small Businesses, British Chambers of Commerce.

⁸³ Several European countries, notably France, Germany and Denmark, have statutory membership of Chambers of Commerce. See D. Ashton, J. Sung, 'Lessons Learnt from Overseas Experience' <http://www.cabinetoffice.gov.uk/innovation/2001/workforce/overseas.shtml>.

⁸⁴ Streeck, W 'Skills and the Limits of Neoliberalism: the Enterprise of the Future as a Place of Learning', *Work, Employment and Society* 3 (1) 1998; D. Ashton, and F. Green *Education, Training and the Global Economy* 1996; and C. Crouch, D. Finegold and M. Sako, *Are Skills the Answer?*.

⁸⁵ '...There is an enormous mountain to climb to convince the investment community that they should be paying more attention to HR indicators...' PIRC report to Focus Central London March 2001.

⁸⁶ International symposium on measuring and reporting intellectual capital: experience, issues and prospects, Amsterdam 9-11 June 1999.

Cost and time are important barriers to participation

Cost

If you think education is expensive, try ignorance. Derek Bok, former president of Harvard University

Individuals

141. The cost of participating in a course for an individual can include expenses such as childcare for the hours of study, transport to the place of learning, books and registration fees, as well as course fees and potential lost earnings⁸⁷.
142. Capital constraints limit the extent to which individuals can raise loans, either to pay for the necessary fees and up-front costs of formal WfD, or to make up for lost earnings. The returns from training for any individual are uncertain. This impacts negatively on lenders' willingness to lend.
143. Unlike physical investments, human capital cannot be sold, and does not provide collateral for a loan. However, it is possible to take out government supported Career Development Loans (CDL) administered by the banks: around 18,000 are taken out each year⁸⁸.
144. Government funding arrangements are complex with different support regimes available for different students depending on age, location of training and type of training. This complexity has contributed to a system that is perceived as inflexible and difficult to access.
145. The main sources of support in FE are Access Funds and the Childcare Support Fund, both of which are purely discretionary. While amounts are increasing⁸⁹, amounts granted are low, and are not received by all students. For example in 2000/01 18,000 students benefited from childcare grants of approximately £1,300 each while the number of post-19 full time students with dependent children was over 40,000.
146. Individual Learning Accounts (ILAs) were established to be universally available, allowing discounts of 20% on courses (80% on some IT and maths courses). Take-up was high, but the specific impact on WfD remains to be demonstrated. ILAs have now been withdrawn in England.
147. New Deal programmes and Work-Based Learning for Adults (WBLA) offer opportunities for individuals to undertake formal education and training whether outside or within employment under the guidance of a Personal Adviser⁹⁰. Jobseekers Allowance rules currently allow an individual to study part-time without losing benefit, but that individual must be available for work. The Employment Service/Jobcentre Plus (ES) already offers jobseekers information and advice about studying opportunities.
148. There is a substantial contrast between the maintenance support offered in Higher Education (HE) and that in Further Education (FE). Some learner support in HE is in the form of grants to particular groups but much is in the form of income contingent loans. This reflects the higher rates of return to the individual from HE compared to much FE.

Employers

149. For employers, the cost of providing WfD can be low in terms of course fees for formal training but can be high in terms of lost production and supervision costs. The help available to cover such costs is limited.

⁸⁷ Callender C., *Hardship of Learning* 1998.

⁸⁸ CDLs are available for anyone aged 18 or over to cover 80% of course fees and related expenditure for any full-time, part-time or distance learning course as long as it is vocational and lasts no longer than two years. DfES pays interest on the loan for the length of the course plus one month.

⁸⁹ FE learner support funds total £102m for 2001/02 of which £60m has been allocated as FE access funds, the majority of the remainder is for childcare. The equivalent figure for 2000/01 was £89m with approximately £55m representing access funds.

⁹⁰ The Full Time Education and Training Option and the Employment Option both offer training opportunities, the latter in conjunction with employment.

150. For SMEs, cash-flow is a key driver of daily decision-making. Investment in WfD may not seem like an immediate priority when cashflow is tight and may not be overtly encouraged by the banks and advisors that typically deal with small businesses. The NSTF quoted evidence⁹¹ showing that the cost of training was the main discouraging factor for 43% of small firms.
151. For SMEs, support is available via the Small Firms Training Loan, administered by the banks. However take-up has been extremely low: 581 loans since 1994. The only other direct financial support available to employers is via the ability to offset training costs against taxable profits for the purposes of calculating corporation tax for incorporated businesses and income tax for unincorporated entities.
152. This does not greatly benefit those organisations:
- ! who report taxable losses; or
 - ! who pay tax at the small companies rates or the lowest rate of income tax.
153. Further indirect support to business is provided through the Adult Development Rate of the NMW, which helps employers to meet the cost of training by enabling them to employ adults at a rate lower than the NMW if under 22 or, for workers of 22 and over, for the first 6 months of a new job if they are receiving accredited training (see figure 21).

Figure 21: National Minimum Wage rates

<p>Main (adult) rate for workers aged 22 and over</p> <p>£4.10 per hour (from 1 October 2001) £4.20 per hour (from 1 October 2002)*</p> <p>Development rate for workers aged 18-21 inclusive</p> <p>£3.50 per hour (from 1 October 2001) £3.60 per hour (from 1 October 2002)*</p>
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154. There are also new services and courses provided electronically through **learnirect**. E-learning can provide the timely and flexible solutions to immediate problems that are required by small and medium sized employers.
155. Larger organisations can better absorb the cost of WfD. However even they are likely to cut back expenditure if business performance slumps or cash flow problems arise. The public sector may be more immune to recessionary pressures, however even in this sector, training budgets may be cut if financial settlements are tight.
156. The voluntary sector has a particular problem in this area in that it is often difficult for voluntary organisations to spend donated resources on costs, such as training, rather than directly on their charitable objectives.

Time

Individuals

157. Qualitative research for the PIU undertaken by MORI suggests that a frequently cited barrier to development by individuals is lack of time; this is reflected in the NALS research quoted at paragraph 110. Individuals experience problems balancing family, home and work commitments.
158. In many of the professions, 'continuing professional development' is a formal requirement and, as such, employees are able to take time off for it. Most low or medium skilled employees are not, however, under such an obligation.

⁹¹ 1995 Skill Needs of Small Firms in Britain survey. PAS for DfEE

159. Learning needs to be provided at a time to suit the consumer, not the provider. Many providers already recognise this need, and are providing training in 'bite-size' chunks, at workplaces and outside working hours. New technologies have real potential to make opportunities for WfD available to individuals at a time and place suitable to them. However, technology is only one of a range of tools that needs to be considered.
160. Government has put in place a right to time off for training as part of the employment option in the New Deal for Young People. This consists of one day of training per week, and while it is part of the employment option, which has a higher success rate in job placement than full time education and training, it has not proven very popular with employers. This is primarily because the one day a week training is not perceived to be directly related to the needs of the job and may indicate that the employee is not yet capable of doing the job. The Government has also introduced a right to time off for 16-17 year olds who have not yet achieved a level 2 qualification. Early evaluation suggests that take up of this right has been low.

Employers

161. There is a perception amongst employers - and a very real problem for SMEs - that time off for the training of employees is expensive and difficult to arrange. Employers' approaches to time off vary greatly depending on their specific commitment to training. Concerns about time commitments may arise from broader staffing issues including the tendency to operate with minimum possible headcount to create 'leaner' organisations and their ability to manage absences.

Market failures are compounded by Government failures of various kinds

162. Aspects of the performance of the education system have led to a relatively poorly qualified workforce, and a disproportionate number of employees lacking basic skills.
163. Other Government failures identified in the area of WfD are set out below.

There is a perceived lack of an integrated national strategy...

164. Over time a bewildering number of initiatives have been introduced: these are listed in annex 11⁹². In the past, these have not been linked by an overarching strategy. Local delivery bodies and the targeted customers consistently express confusion regarding the number and workings of these initiatives⁹³.

...and a potential lack of clarity about who is responsible and accountable for WfD

165. At a *national* level, responsibility for increasing social inclusion and productivity is shared primarily among four Government Departments:⁹⁴
 - ‡ DTI, with the RDAs and the SBS, supports business competitiveness and productivity.
 - ‡ DfES and its key agencies and partners, including the LSC, QCA, Sector Skills Development Agency (SSDA) and Ufi Ltd, invest in education, learning and skills.
 - ‡ DWP through the Employment Service/Jobcentre Plus and the New Deal programmes focus on creating employment and career opportunities.
 - ‡ HMT addresses the productivity agenda.

⁹² Available on the PIU website, <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>

⁹³ Although there was substantial support for the principle of a more skilled workforce, this was matched equally by the level of confusion experienced by the participants. PIU focus group, Doncaster.

⁹⁴ A range of other departments maintain performance targets that address particular groups—such as the media industry in the Department of Culture, Media, and Sport.

166. Each of these departments operates its own performance measurement framework and PSA targets encompassing WfD. There is currently no shared strategy backed up by common targets. Annex 8⁹⁵ lists the key targets in this area.
167. The recently established LSC has a statutory responsibility for the production of a national strategy on WfD. But it cannot do so in isolation from the many other bodies involved.
168. At *regional* level the nine RDAs are developing 'Frameworks for Regional Employment and Skills Action' (FRESAs) plans which will provide a single umbrella plan for skills for their regions.
169. These have the objective of ensuring that:
 - | every individual has the opportunity and skills to find employment; and
 - | employers get the recruits they need with the skills they require (including basic skills).
170. The LSC does not have a regional presence. It and the RDAs have recently signed a Memorandum of Understanding that articulates a vision for co-ordinated WfD in the regions and local areas. It is likely that the RDAs will adopt a regional co-ordination role while the local LSCs will invest resources and deliver services at a local level.
171. At *local* level there are 47 LSCs. A variety of agencies present at a local level also have an interest in WfD such as the SBS, the ES and local authorities. Whilst there are plenty of examples of good joined-up working, it is only recently that memoranda have been agreed between the main agencies covering roles, responsibilities and working arrangements to ensure that good practice is followed throughout the country (ES to sign in December 2001). Examples can still be found of local strategies and working practices not in harmony.
172. The planned establishment of SSCs and the SSDA will provide a *sectoral* view on strategic issues. These bodies have the potential to influence demand for development throughout their sectors and to provide Government with the intelligence needed to shape the future WfD agenda. To ensure their success it is essential that the experiences gained through the NTOs be taken on board and that they are properly aligned with the LSC and RDAs. DfES is currently developing, with partners, a model framework to help build SSCs priorities into the planning mechanisms of partners.
173. The challenge is to join up the work being undertaken at regional, local and sectoral level under the auspices of the LSC's national WfD strategy and to ensure that there is a shared understanding of accountability for strategy, systems and delivery.

The focus of departments is on intermediate targets rather than the outcomes they are seeking to achieve

174. One of the challenges for Government is to develop outcome measures that enable the success or otherwise of policies to be evaluated. Existing performance measures (see figure 22) give rise to a number of problems.
175. DTI targets focus on broad measures of productivity and competitiveness. In contrast DfES targets focus closely on participation and achievement in learning. The DWP targets in this area focus on numbers placed in work. None of these targets explicitly focus on WfD although it is implicit in all three.

⁹⁵ Available on the PIU website, <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>

Figure 22: Problems arising from existing performance measures

‡	It is not obvious which departmental indicators measure WfD, as distinct from learning, training, or other provision. It is, therefore, difficult for departments and their agencies to invest resources in ways that will improve WfD performance.
‡	Projects that advance WfD generally but do not make a direct contribution to departmental objectives, particularly at local level, may not be pursued.
‡	Existing measures do not emphasise outcomes, particularly customer satisfaction, making it difficult for departments and agencies to evaluate and improve the quality of their programmes.
‡	There is no measure that connects the skills and productivity agendas—measuring whether skill development rewards individuals in the workplace through promotions, better jobs, higher wages, or simply increased labour market bargaining power.
‡	Without consistent performance measures across departments, it is difficult to track customer progress as an individual moves from one department's programmes to another's.

Labour market intelligence services should be improved to support strategic planning

176. Excellent Labour Market Intelligence (LMI) is crucial to the operation of an effective WfD system. The customers of this information are:
- ‡ learners, who need information about courses to make choices;
 - ‡ firms, who may use information to plan for expansion, relocation, recruiting;
 - ‡ staff in agencies with responsibility for delivering local targets who must have reliable signals of supply and demand; and
 - ‡ Government, which is responsible for setting a strategic direction for policy and supporting intelligence on what works and why.
177. What is needed is a system of LMI that satisfies these requirements by:
- ‡ collecting and collating useful, reliable and timely information on a consistent basis across the country;
 - ‡ maintaining a set of key indicators that are consistent across local areas and can be aggregated to show the national picture; and
 - ‡ supporting supplementary data collection at regional and local level in order to provide a solid basis for good local decision-making.
178. The NSTF final report recommended that Government should establish a national system for collecting and disseminating information on the labour market and skill needs, led at a strategic level by the DfES and at operational level by the LSC.
179. There is already a plethora of LMI collected, often more than once, but this is rarely transformed into relevant or useful 'intelligence'. Current information is variable in quality, not always capable of being collated and difficult on occasion for users to access and understand.
180. There are already structures in place to bring together good sources of qualitative information (e.g. the observatories developed in some RDA regions). What is needed is a single structure, which underpins the collation, interpretation and dissemination of LMI. Much work has been undertaken in this area in the past and the difficulties of getting it right should not be underestimated.
181. With the LSC in place, there is now a concerted effort to collect, analyse and disseminate labour market and skills information and to ensure that planning and funding authorities such as the LSC and RDAs have access to available intelligence. It is essential that this process is properly scoped, reliably carried out and collated and disseminated on a consistent basis at national and local levels.

Government funding mechanisms do not necessarily support the operation of the WfD market

182. The LSC has a combined budget of £5.5bn in 2001-02 rising to £6.4bn in 2003-04 (excluding funds for school sixth forms which transfer to the LSC from April 2002). The PIU analysis paper⁹⁶ set out a detailed description of the principles, key features and level of the LSC funding system.

The current publicly funded system

183. Under the current (until 2001/02) system, the majority of funding (85%) to FE providers is allocated through national formulae based on standard units of provision (see figure 23 for a description of units). This system has been in operation since 1994 during which time, the level of funding per unit has gradually converged, with the majority of colleges now receiving the same funding levels per programme delivered.

Figure 23: FE unit based formula funding from 1994-2002

Each FE course and each type of provision is allocated a set number of 'units' depending on factors such as its length, complexity and likely cost. Each unit attracts a monetary value. The number of units per course and volume associated with each programme indirectly reflect local differences in cost of provision. The monetary value of the units is paid to colleges at different stages during the year, on 'entry', 'on-programme' and 'achievement'. This regime is based on average costs with has weakened the link between costs incurred and income received by individual colleges.

184. In addition to its key objective of converging funding levels, this regime also sought to deliver substantial increases in FE enrolments. However, because colleges were allocated volumes of funding based on predictions of the activity levels they could generate, surplus and deficit units were common and the rebate mechanisms in place did not assist in maintaining financial stability.
185. In an effort to encourage private sector contributions, college provision of employer specific training attracts lower-levels of Government funding. However, there remains little evidence of substantial private contribution to most colleges' overall budgets, either by individuals or employers, with colleges often forfeiting fees from employers and individuals.
186. While this funding regime did address local needs to some degree through the strategic planning approval process, the absence of a direct link to the labour market made it difficult to take overt account of outcomes such as increased employability or wage gain.
187. This system is considered to have achieved its primary objective of ensuring that college funding levels converged. It has maintained a demand-led element and attempted to accommodate national and local priorities. However, it has not maximised its public investment and taken too little account of key outcomes for individuals and firms. It will be replaced in August 2002.
188. In addition to the budget supporting the FE college system, the LSC maintains three other key budgets relevant to WfD. These are:
- | The £763m⁹⁷ Work Based Learning (WBL) budget for young people was transferred from the TECs to the LSC and is governed by an interim funding approach. For 2001/02 the LSC adopted national funding rates with some dampening and cushioning to minimise the impact on those providers who stood to lose significantly through a switch to national rates. This approach will continue in 2002-03 but dampening and cushioning mechanisms will be phased out.

⁹⁶ <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>.

⁹⁷ Primarily composed of the LSC budget for Modern Apprenticeships and level 1 and level 2 attainment for young people.

- ‡ The £213m⁹⁸ budget for WBL for adults was transferred in its entirety from the TECs to the ES in 2001. Although it no longer manages these resources directly, the LSC seeks to work closely with the ES to ensure that it complements national and local WfD strategies, and is used to maximise outcomes for individuals and firms.
 - ‡ A £49 million budget was specifically allocated to WfD for 2001-02 to be managed in line with WfD plans prepared by each local LSC. The bulk of this budget supports employer-based programmes, notably Investors in People.
189. The majority of the LSC's budgets for 2001-2 were allocated by predecessor bodies such as the Further Education Funding Council (FEFC) to ensure continuity of provision and so that providers knew what their budgets were in advance of the start of the year. This has restricted the discretion of local LSCs to allocate funds in their first year.
190. This initial lack of flexibility was also reflected nationally where 16% of the LSC's overall programme budget was ring-fenced, and in the FE budget which, while not actually ring-fenced, is committed to the support of the FE college network. In addition the opportunities for virement (transfer) between non ring-fenced budgets are restricted.

An amended system from August 2002

191. Discussions and consultation about future funding arrangements occurred during 2000 and 2001, leading to a new circular issued in October 2001 which provides a blueprint to govern funding arrangements from 2002. The general emphasis is on planning and allocation at local level, local targets rooted in local needs, an increase in flexibility across the overall LSC budget and within a reduced number of separate LSC budgets, and a review of the phasing of funding during the year. These changes build on those adopted during the 2001 transition year.
192. The aim of the new regime is to bring the disparate ring-fenced budgets for adult learning and WfD into closer alignment over time and to create a progressively more 'level playing field' between FE colleges and private providers, ensuring that neither are disadvantaged in the market. In particular the amended FE funding system replaces the currency of funding units with allocations expressed in cash and learner numbers. This is intended to increase funding transparency and provide incentives for increasing the quality of provision.

The quality of publicly funded supply

193. The quality of provision available from publicly funded FE colleges and private training providers is variable and there is a need to raise standards further across the board. The Chief Inspector for FE's report for 1999-2000 commented that in many colleges:
- ‡ quality assurance was not rigorous enough and/or staff do not apply agreed procedures consistently;
 - ‡ franchised provision and short courses for employers received scant attention;
 - ‡ the quality of work experience and training in the workplace was seldom assessed effectively; and
 - ‡ insufficient attention was paid to reviewing the quality of part-time and short courses.
194. Private sector providers also vary greatly in quality. The 2000-01 report from the Training Standards Council, which covers WBL commented on the high percentage of providers (60%) who achieved at least one unsatisfactory grade at their first inspection in 2000-01, an increase of 10% from the previous year (it should be noted that this figure will also include FE colleges that provide work-based training).
195. This report summarised grades received by type of provider as shown in figure 24.

⁹⁸To support Work Based Learning for Adults.

Figure 24: Performance of WBL providers

Provider	Outstanding/good	Less than satisfactory
Employers	46%	11%
Other*	34%	18%

*the majority of whom are private providers (with a small number of not-for-profit bodies, local authorities and FE colleges)

Source: Training Standards Council annual report of the Chief Inspector 2000-01

196. One of the key determinants of quality is the quality of the teaching staff. In many cases staff do not hold teaching qualifications (although all staff in FE colleges are now required to obtain such qualifications). A key issue is the lack of recent industrial or commercial experience of many lecturers. Inspectors' reports have also noted that the quality of part-time lecturers was poorer than full-time, which is worrying when the proportion of part-time lecturers is increasing.

Capacity

197. For a dynamic supply side to exist, sufficient capacity both in terms of the numbers of providers and the capabilities of providers to meet needs is essential.
198. Successful providers need to develop solid organisational infrastructures, including technology and management capacity. Private and voluntary providers may not have access to capital funds to support technology investment while public providers may be able to access such funding through the standards funds. In addition, small non-public providers may find it more difficult to develop the organisational infrastructure required to support the self-assessment and quality regimes that accompany public funding. All providers may face the challenge of change management and the need to constantly develop new provision and new methods of delivery.

Qualifications are not responsive to employer and individual needs

199. The PIU analysis paper⁹⁹ described the importance of the NVQ framework as the basis for the Government's National Learning Targets. The QCA has done a great deal of work to develop a national qualification framework of which NVQs are a key part. This work has also seen the introduction into the framework of increasingly popular vocationally related qualifications (VRQs). These include high status qualifications offered by City and Guilds, the Business and Technology Education Council (BTEC) and the Royal Society of Arts (RSA), for example, which have not always been nationally recognised. The new Technical Certificates for Modern Apprenticeships (MAs) will also be included as VRQs. DfES are also about to introduce 'new generation' MAs.
200. Figure 25 sets out the benefits of qualifications.

⁹⁹ <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>.

Figure 25: Why have qualifications?

The Benefits	
Qualifications are beneficial to Individuals because they:	Qualifications are beneficial to Employers because they:
<ul style="list-style-type: none"> are a motivator: offering wage returns and status; enhance employability by providing recognisable proof of transferable skills; are a way of securing government support for development; and can provide a licence to practice. 	<ul style="list-style-type: none"> provide a recruitment tool; enable assessments of skill needs; and are a way of securing government funding and support for development.
Qualifications are beneficial to Providers because they:	Qualifications are beneficial to Government because they:
<ul style="list-style-type: none"> measure performance; provide a structure to programmes; and enable workloads to be managed. 	<ul style="list-style-type: none"> measure skill levels; indicate ability; and provide a framework for funding.

201. Two important trends are emerging in relation to the qualifications framework:

- ! the number of NVQs being awarded appears to have reached a plateau¹⁰⁰; and
- ! the extent to which development activity by employers falls outside the NVQ framework. Figure 26 indicates that many employers provide qualifications other than NVQs, which suggests that employers may not be convinced of the value and benefit of NVQs. More importantly, figure 27 shows that a significant number of individuals and employers are not engaging with the qualifications system at all, nationally recognised or otherwise.

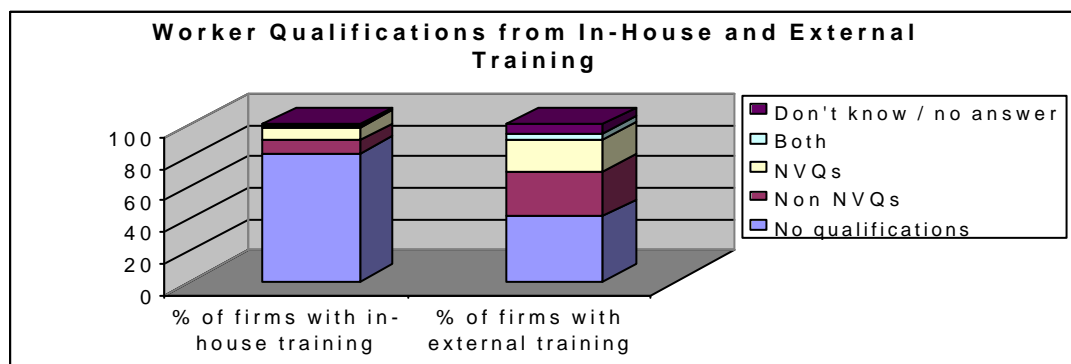
Figure 26: Registration on non-NVQ courses – City and Guilds¹⁰¹

For the year to the end of September 2001: Registrations: N/SVQ 43%, Other 57% (this includes general qualifications, Pitman single subject qualifications, vocational qualifications and client/customised provision).

(Not all vocational subjects have a registration process, therefore the above figures may not represent 100% of all courses taken).

Source: Figures provided by City and Guilds

Figure 27: Worker qualifications from in-house and external training



Source: Curran et al (1997), Table 5, P96

¹⁰⁰ Qualifications and Curriculum Authority.

¹⁰¹ National statistics are not available for registration on non-NVQ courses (per QCA).

202. Particular concerns relating to qualifications expressed by employers and key stakeholders in discussion with the PIU include:
- ‡ the lack of clarity about who is accountable for different parts of the qualifications system and the role of employers and other industry networks which has resulted in a lack of ownership of qualifications amongst sections of the business community;
 - ‡ the process of approving National Occupational Standards (NOSs) (which inform the content of NVQs and all other vocational qualifications in the framework) can be slow, overly complex, insufficiently responsive to employer need and lacking in strategic direction. On average, it can take 18 months to gain final approval of new standards, which then have to be converted into qualifications by awarding bodies¹⁰². The sequential nature of this process undermines the responsiveness of NOSs to changing sector skill needs;
 - ‡ the routes to the accreditation of qualifications which lie outside the national framework, especially 'vendor' qualifications such as Microsoft IT awards, are seen as bureaucratic and slow; and
 - ‡ the linkage of funding to complete vocational qualifications rather than individual units discourages employers who do not wish to commit to a full NVQ/VRQ from the beginning. Several recent reports have pointed to the advantages of a unit-based funding approach.
203. Other research, such as *Learning Works*¹⁰³, has highlighted the potential for even greater flexibility being introduced to the system via a framework for credit accumulation and transfer (CAT), such as those currently being introduced in the devolved administrations. CAT systems provide an assessment of the *volume* of learning completed, enabling individuals to pursue diverse learning pathways, mixing and matching different courses to suit their needs, and to build a full qualification.
204. DfES and QCA have recently reviewed some of these issues through their review of the process by which NOSs are approved¹⁰⁴.
205. Figure 25 indicates why qualifications are important for a variety of stakeholders. Nevertheless, there is a more fundamental question as to the future role of qualifications in a changing workplace. The need for 'softer skills' such as communication and team working is likely to increase, and with that, so will the value of informal workplace learning. This may also be brought about by new methods of organisation in the workplace i.e. flatter structures, more team based operations, greater diversification of job roles and other changes to the nature of work and the workplace.
206. This highlights the need for qualifications to be kept up to date and relevant but also indicates that formal national qualifications may not be the best tool for development in future situations. The DfES's experience of working with key skills qualifications suggests that a spectrum of 'harder' and 'softer' skills can be fostered through a variety of approaches to assessment.

¹⁰² Hillier J., 'An Independent Review of the UK National Occupational Standards Programme' 2001.

¹⁰³ Kennedy H. *Learning Works: Widening Participation in FE* FEFC 1997.

¹⁰⁴ A strategic group chaired by Sir Dominic Cadbury recommended a review of the Standards Programme after a period of approximately two years following its establishment. This review was set up by QCA/SQA as an independent exercise chaired by John Hillier, Head of Personnel at Weetabix Ltd and Chair of the CBI's Learning and Skills Panel and it was carried out between April 2000 and June 2001.

Moving it on

Breaking out of the low skills equilibrium involves addressing cultural factors, market and government failures

207. The UK has a significant proportion of the workforce without basic or intermediate skills. Whilst progress is being made in raising qualification levels, the evidence suggests that low levels of skill, particularly for adults, will continue to be a defining feature of the economy.
208. This chapter has argued that an integrated approach is required to break out of the low skills equilibrium and raise the game of UK business. Action is needed simultaneously to:
- | bring about a change in culture which can raise the demand for more skills on the part of employers and individuals;
 - | address market failures to provide high quality information, remove barriers to participation and assist in the development of quality provision thus increasing demand and raising the supply of skills; and
 - | articulate a clear Government strategy underpinned by more joined up structures, well-targeted spending and relevant measures of performance.

The way forward is a demand-led system....

209. Raising demand is the key to breaking the low-skills equilibrium. An increase in demand from employers will encourage individuals to train if the right rewards and recognition are available. Raising demand from individuals will put pressure on employers to make use of individual skills and will enlarge the availability of skilled labour in the market as a whole.
210. A demand-led system will change the dynamics of the WfD market encouraging participation by individuals of all levels and employers regardless of size by enabling them as customers to make choices and take control of their own development.

Getting individuals onto the development ladder

211. There is a strong case for Government intervention to enable lower skilled individuals to participate in the demand-led system:
- | the lack of lower level skills is a result of government failure in the past to provide adequate compulsory education up to the age of 16;
 - | rising skill levels in the economy means that those with lower skills face lower life time earnings and career progression prospects. The proportion of jobs requiring NVQ levels 1 and 2 has increased while there has been a fall in the number of jobs that can be carried out without any qualifications¹⁰⁵;
 - | skills at this level are transferable rather than specific to individual firms, which can make employers reluctant to invest in WfD for low-skilled and often low-paid individuals; and
 - | low-skilled individuals are more likely to be low-paid and to be deterred from pursuing a qualification by the cost involved. A disproportionate number of those without a level 2 qualification work in small firms, which are less likely to engage their employees in development, often also for reasons of cost and constraints on their cashflow.
212. Tackling basic skills must be the top priority. However, our long term aim is to ensure that all adults have the opportunity to achieve a level 2 qualification. The Pre Budget Report emphasises the importance of progression in raising individual skill levels.

¹⁰⁵ Green F. et al *Are British Workers Getting More Skilled?* in A.B. Atkinson and J. Hills (eds) *Exclusion, Employment and Opportunity* CASE Paper no.4, LSE 1998.

Within this vision Government should prioritise the lowest-skilled...

213. The Government is committed to raising the current basic skills level in the UK. That commitment is based on both the benefit to people's personal lives and fulfilment, as well as the benefit to the country as a whole¹⁰⁶. The Adult Basic Skills Strategy *Skills for life*¹⁰⁷ arising from the 1999 Moser report¹⁰⁸, was published earlier this year. It promises that 750,000 adults will improve their literacy and numeracy by 2004.
214. Basic skills act as the foundation for all further learning. Without these skills, individuals are, in many cases, unable to participate effectively in the workforce. Nor can they access further WfD since they lack the basic tools to undertake it. Basic skills are therefore a springboard to further development.

...offer all the opportunity to achieve level 2...

215. The long-term aim should be to ensure that all adults have the opportunity to achieve a level 2, which is the equivalent of five A*-C GCSEs or vocational equivalent.
216. Government strategies in schools should ensure that increasing numbers of school leavers reach this level. The target of this report is the stock of adults in the current workforce who have missed out.
217. The case for Government support, which has been made by many, including the CBI/TUC and the NSTF, is based on the benefits to the economy as a whole if more individuals attain a level 2 qualification. Private returns for individuals or employers at this level are less than the wider returns to society at large. Beyond level 2 the private returns to individuals and firms are much greater and the case for expecting them to invest in their own development is correspondingly greater. Therefore it would represent a significant step forward in raising skill levels right across the workforce, allowing individuals to be able to navigate through, and make use of, the opportunities provided by a demand-led system.

... and enhance the ability to focus on higher skill levels when appropriate

218. While skill shortages are reported at level 3, the case for Government intervention is much weaker as the returns from private investment at level 3 are higher and less variable. However there may be certain circumstances (specific skills gaps, business failures) where intervention at this level would be appropriate (e.g. where it would support inward investment). Therefore a discretionary ability for local LSCs to fund level 3 attainment or higher may be appropriate. Chapter 7 discusses discretionary funding arrangements further.

¹⁰⁶ *A Fresh Start* op. cit.

¹⁰⁷ Rt Hon David Blunkett MP, foreword to *Skills for life* op. cit, March 2001.

¹⁰⁸ *Skills for life* ibid.

5 WfD in 2010: a new approach

Summary

- | This report's vision for WfD is:
"In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all."
- | This vision can best be achieved by moving toward a more demand-led approach for WfD and aligning the WfD infrastructure with that approach. A demand-led system can be expected to generate greater and better-informed demand and more responsive supply within a supportive and flexible institutional framework. It has the potential to deliver both increased productivity and greater social inclusion.
- | Individuals, employers and Government all have a role to play in moving toward this system.
- | A number of different instruments are available to Government including financial and status incentives, recognition and dissemination of information, advice, guidance and best practice.
- | The new approach to WfD set out in this report is intended to initiate a "virtuous spiral" in which employers and individuals value development, seek out opportunities, invest in development for themselves and their firms, realise improved productivity, share rewards, and continue to develop.

Introduction

219. This chapter outlines a vision for WfD, its features and advantages and describes the roles and responsibilities of Government, employers and individuals in realising that vision. It shows not only how the strategy presented will address the failings of the current system, but how it will also lead to significant changes in cultural attitudes to, the demand for, and delivery of, WfD.

Setting the scene

Flexibility and adaptability are vital for the economy of the future

220. Economic and industrial change increasingly demands a workforce that is flexible and adaptable. For business, retraining and re-deploying employees to support more efficient and effective operations and integrating new technologies will be crucial to remaining competitive.
221. For individuals, lifelong learning and retraining will be essential for both employability (including reducing periods of unemployment) and career progression. Employees will need to be autonomous, self-motivated learners; in future, knowing how to improve one's own learning and performance will be more important than ever before. To participate and progress in the future workplace, individuals will need to have basic skills as a minimum.
222. WfD strategy and systems must be designed to meet these business and individual needs.

Other countries adopt diverse approaches

223. Different countries respond to this challenge in different ways (see annex 9 for more details¹⁰⁹) and their effectiveness has to be seen in the context of the culture in which they operate. In Germany, the apprenticeship system is strong with some 350 different options available to young people. Training is offered both on and off the job. Typically apprentices receive wages at around half the standard rate and there is comparatively little direct financial support from the state (parents often support their children through the apprenticeship period).
224. The US has a strong culture of self-advancement with very little state funding for development. The success of the system relies on the fact that most individuals take responsibility for their own development and are prepared to finance it themselves (often borrowing heavily to do so).
225. Both of these examples imply a different type of equilibrium in the labour market – in the US, the returns to development must be well understood and immediate to justify the individual investment. In Germany, young people have to accept low wages for the duration of their apprenticeship rather than start to look for better pay as soon as they have acquired any skills. The US model may be better placed to respond promptly to changing demand from individuals and employers whereas the structures underpinning the German model are more inflexible. However the German model may better recognise the social returns from training. Where on this spectrum do we wish to be?
226. The following sections of this chapter articulate a vision and outline a future strategy for this country.

The Vision

227. The project's vision for the future is
- “In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all.”*
228. This vision needs to be underpinned by a number of clear principles if it is to be made operational (see figure 28).

Figure 28: Principles underpinning the development of Government policy for WfD

	WfD should focus on responding to employer and individual demand.
	There needs to be a clear and shared understanding of the roles and responsibilities of Government, employers and individuals.
	A package of financial and status incentives, regulation and other measures are needed to overcome the barriers to WfD faced by individuals and employers and to help realise the full benefits of investing.

229. These principles for WfD reflect the principles for improved public service delivery articulated by the Prime Minister (figure 29).

¹⁰⁹ For more detail, see D. Ashton and J. Sung ‘Lessons learnt from Overseas Experience’ op. cit.

Figure 29: Key principles for the delivery of public services including WfD

	Clear national standards & entitlements - with a simpler structure for employers and employees to understand and use.
	Devolved delivery to the front line, to enable innovation - moving increasingly away from a top-down, producer-driven system.
	A flexible approach to employment and rewards - enabling public and private organisations to fit training into their own business development needs.
	Greater choice for end user - putting more power in the hands of employees - a demand led system.

Source: Prime Minister's speech, Labour party conference 2 October 2001

Developing a new strategic approach

What should an effective system of WfD do and what would it look like?

230. The three key attributes of an effective WfD system are:

- | **responsiveness to changing demands over time.** Demand will change during different stages of the economic cycle and as structural changes take place in the economy. A well-designed system will be able to respond rapidly to short term needs (like local redundancies) as well as making longer-term adjustments (for new skill requirements like ICT or biotechnology). Most importantly, it will be able to balance the demands of employers, individuals and society;
- | **cost-effective delivery of high quality development.** Provision that is delivered where, when, and how people and firms demand it, at a reasonable price and which makes a measurable difference; and
- | **flexibility.** A system that suits the needs of a wide range of employers and individuals must be flexible to satisfy different learning styles.

Sources of demand

"The more effectively a WfD programme meets employer workforce needs, the better its ability to help job-seekers succeed in the labour market. And what goes for a particular programme is true for the system as a whole: a system that satisfies employers will be a system that is better able to meet the needs of jobseekers for quality jobs, sustained employment and career advancement."¹¹⁰

- 231. Demand for WfD comes from three main sources – employers, individuals, and the economy/society. Individuals demand development for a variety of reasons, usually a combination of economic benefit and personal fulfilment. Individuals may satisfy their demand by undertaking training independently of their employer or they may rely on their employer to provide or fund it.
- 232. Employers demand skilled workers because it enables them to achieve their business goals more effectively and profitably. They can satisfy their demand either by hiring skilled workers or by developing their existing workforce and will do whichever they believe is most cost effective.
- 233. Societal demand could be in support of a policy agenda (for example social inclusion – a policy goal to reduce inequality leads to a need for targeted development for the excluded) or could be as a result of market failures (for example, the economy as a whole needs more people trained in ICT skills but the market is not providing them).

¹¹⁰ Seltzer M. and R. Kazis "Toward a "Demand-Led" WfD System: Rationale, Definition and Implications for Government Roles' Paper prepared for the 'Welfare to Work: New Solutions for the New Economy' UK/US Symposium September 2000.

234. In the past, emphasis has tended to be on supply. The problem with this approach, however, is that it is not well connected to the market place and to meeting employer needs. This becomes more problematic as the needs of the economy and individual employers change more and more rapidly. Training based around the workplace is more effective both because it is more attuned to the demands of workplace and because the skills developed are more likely to be used and hence reinforced.
235. The supply of WfD in England comprises a publicly funded network of over 400 FE colleges, the **learnirect** network, which currently numbers 1347 **learnirect** centres, and a large number of privately run for-profit and non-profit organisations that compete for business. Another source of supply is in-house provision within firms and the public sector (normally within large organisations). Both private and publicly funded suppliers can access public funding for the delivery of specific packages or courses (like the New Deal or Modern Apprenticeships).
236. In a system that is primarily centrally planned, managed and delivered through a Government owner network, there may be a lack of incentives to innovate resulting in a reduction in quality unless a strong quality assurance system is in place. Nor does such a system encourage dynamic partnerships between providers and local employers to meet local need.

The case for a more demand-led approach for WfD

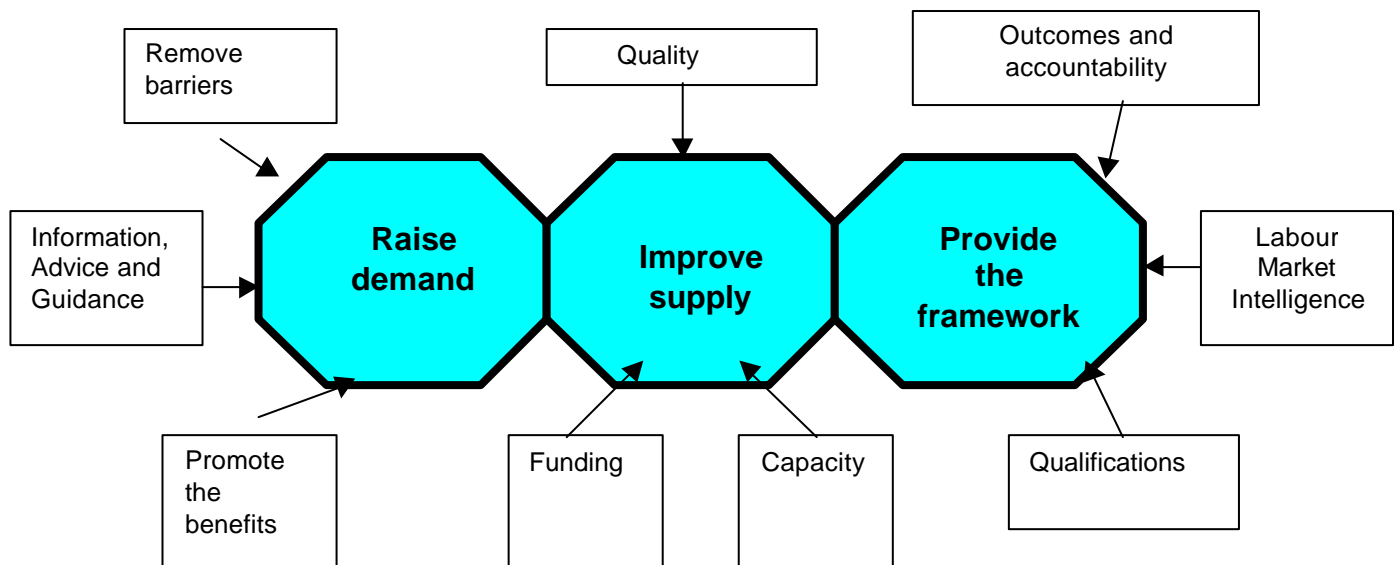
237. A more demand-led approach has a number of desirable features.
- | Purchasing power is in the hands of the customer (individuals and employers), leading to greater choice and empowerment.
 - | Provision is more responsive to individuals, offering benefits in terms of quality, cost, range and availability.
 - | There will be alternatives and hence escape routes from poor or failing providers.
 - | There should be increased satisfaction with WfD services received.
 - | Choice and competition will stimulate innovation.
 - | Government frameworks will support and facilitate the system (in areas such as information provision), intervening where failures occur or where specific social inclusion issues arise.
238. These features should combine to produce more highly motivated individuals who are more likely to undertake development and employers who are more likely to invest in it.

How do we get to this demand-led system?

There are three key areas to be addressed...

239. The analysis pointed to three key causes of the WfD system's current failures including:
- | insufficient demand;
 - | patchy quality of supply; and
 - | the absence of a clear and consistent Government framework.

Figure 30: Action needed to put in place a demand-led system for WfD



240. A solution needs to be focused on these areas as figure 30 illustrates. It also needs to clarify the roles and responsibilities of individuals, employers and Government.

1. Developing greater and better-informed demand for development amongst employers and individuals, focusing efforts on low-skilled individuals and small and medium-sized firms where they have the potential to effect the greatest impact.

241. Creating the right market conditions in which demand can be tapped or stimulated is critical to the vision. Many small firms and individuals with low skill levels are not in a position to demand high quality development as shown in chapter 4: the benefits are unclear; the barriers too great; and the responsibility seems to be someone else's. However, the effects of individuals and employers raising their demand are shown through wider gain to the economy and society from having a more skilled workforce. This provides a broad justification for Government intervention and can best be supported by a demand-led approach which puts greater purchasing power in the hands of individuals and employers; improved provision of high quality IAG; and action to remove barriers to participation (such as time and cost).

2. Making supply more responsive to demand, focusing efforts on bringing new providers into the marketplace, assisting the exit of providers that have not performed well and rewarding innovation and creativity in content, delivery and partnering.

242. Provision of learning and development must meet the needs of employers and individuals rather than being formulated and delivered at the convenience of the provider. Shifting a greater share of purchasing power into the hands of individuals and employers will create a more competitive environment for providers. The proportion of courses more clearly matched to need should increase, improving services to individuals and creating incentives for new entrants to the market.

243. Supply-side improvements and increased choice should impact on firms and individuals at all levels, and particular interventions should ensure that hard-to-reach firms and individuals benefit from these improvements.

3. Providing a flexible institutional framework that supports the development of innovative firms, multi-skilled workers, and healthy local economies and labour markets.

244. Clear policy goals and corresponding performance and accountability systems should underpin the development of an institutional framework encompassing all relevant Government departments and agencies. The accountability system should promote the delivery of increased demand and ensure responsive, high-quality supply at national, regional and local levels.
245. Institutions have to be flexible enough to adapt to the changing demands of local labour markets, as well as help identify industries or areas with serious skills shortages, gaps, or needs. The new framework should provide the basis for the production of relevant information and intelligence that will help individuals and firms make good decisions about development and provide suppliers with high quality information on which to plan and develop new provision. Specific interventions may be required to ensure that underrepresented individuals and firms will be able to access these resources.

4. Setting out the roles and responsibilities of individuals, employers and Government as a basis for partnership working to implement the solution.

246. Employers, individuals and Government can best create a successful WfD system by working in partnership. While each has distinctive needs and can make different contributions, the best results will arise from the successful matching of roles and responsibilities. This ensures that all participants experience a sense of ownership and empowerment through participating in the system. This theme is reflected in the proposals in the Pre Budget Report.
247. **Government responsibilities:** Government has a key role to play in creating the overall policy and institutional framework for WfD:
- ‡ in tackling past failures, notably in the provision of basic skills;
 - ‡ in tackling market failures; and
 - ‡ in ensuring that the right incentives and other signals are in place to deliver desired policy outcomes over a longer timeframe.
248. Within the right overall framework, it is for individual firms and employees to decide what WfD actions are appropriate to their needs and circumstances.
249. The Government's role and the extent of intervention required can be expected to change over time as changes in the marketplace create new conditions. Government's current role is to:
- ‡ define the vision for WfD and define the overall framework supporting that vision;
 - ‡ bring about relevant structural change;
 - ‡ help tackle market failures, particularly among the low-skilled and within small firms where social returns are higher;
 - ‡ leverage private investment and action; and
 - ‡ establish clear accountabilities and outcome targets.
250. **Employer responsibilities:** Employers manage the environment in which WfD takes place and have a significant impact on the demand for development among their employees. Employers should be responsible for:
- ‡ high aspirations in their firms and for putting in place business cultures and strategies designed to improve productivity and profitability;
 - ‡ promoting high quality management in order to develop business strategies that make best use of the skills of their workforce;
 - ‡ demanding high quality, bespoke development and qualifications that meet their business needs;
 - ‡ job-specific skills development; and
 - ‡ supporting—with assistance from Government—the development needs of the least skilled individuals in their workforce.

251. Smaller firms are more likely to need support in this process.
252. **Individual responsibilities:** Given the scale of the potential benefits to individuals from WfD, there is a very strong case for individuals accepting more personal responsibility for training and development. The result should be greater demand for WfD to which the supply side needs to be responsive, providing training of the right kind and quality, making maximum use of technology and innovative methods of provision.
253. Individuals should be expected to:
- | seek necessary advice and guidance, and respond to it;
 - | ascertain their development needs;
 - | demand high quality development that meets their personal needs;
 - | invest in their development to keep skills up to date; and
 - | support and encourage peers, colleagues, friends, and family members to take active responsibility for their development.
254. The right support mechanisms need to be in place to help individuals assume this responsibility. Some will need more support than others.

Safeguards for the demand led system

255. There are a number of issues associated this approach, which need to be addressed to ensure that Government obtains value for money and to minimise the potential of misuse:
- | Government budgets cannot respond to open-ended demand but it can be difficult to know when or how to cap funding streams.
 - | By putting resources out of direct Government control, there may be a higher risk of misuse.
 - | Individuals may make choices that seem to the Government to be inappropriate.
 - | Poor quality provision could be funded.
256. The above issues would need to be tackled by a combination of approaches including the provision of information to support better decision making and local monitoring by agencies such as the local LSC.

Policy instruments for creating the system

257. This report has argued that the causes of shortcomings in the skills of the adult workforce are multidimensional. It follows that no one policy instrument is likely to be sufficient to realise our vision or to put in place the demand-led system needed to deliver it.
258. A number of policy instruments are available to Government and the likely effectiveness and value for money of each needs to be considered carefully. This section reviews the case for:
- | promoting best practice;
 - | improving status incentives;
 - | providing relevant and timely information;
 - | offering financial incentives;
 - | using statutory approaches and regulation.

Promoting best practice

259. The promotion of best practice through supporting benchmarking, mentoring, partnering, networking and other routes to sharing best practice can be an effective incentive to improvement.

260. The advantages of this approach are that it provides organisations with examples of what works and enables them to communicate with others who have had similar experiences. Many employers prefer to gain knowledge this way.
261. A problem with this type of approach can be getting sufficient organisations to become involved to make it work effectively. In particular, smaller firms are difficult to involve in networks, partnering etc. due to lack of time and at times a perceived lack of relevance.
262. The promotion of best practice can be undertaken in two main ways: the establishment of Government structures and institutions to share best practice or Government support of employer generated institutions and structures.
263. Government generated structures can be high profile and may generate interest and involvement from major employers. However, Government structures are not always attractive to small businesses. Employer generated structures may have more credibility with other employers although employer organisations are weak in the UK. The case for Government intervention needs to be clearly articulated and what works for one industry or geographical area may not be relevant for another.
264. The key criteria for introducing incentives based around routes to sharing good practice are:
- | the level of interest amongst business;
 - | the extent to which businesses perceive themselves as comparable;
 - | the value for money of such interventions, which may be hard to quantify;
 - | the impact over both the short and long term; and
 - | the ease of maintaining enthusiasm and interest.
265. When designing promotion incentives, these are a number of key questions:
- | Who is this incentive aimed at and how will they benefit?
 - | How easy will it be to participate?
 - | What standing does the Government have in the industry/area?
 - | How can best practice be identified?
 - | How can national and local needs be balanced?

Status incentives

266. Status incentives are based on comparisons, recognition and reward. The most common status incentives include:
- | achievement of quality standards;
 - | gaining awards; and
 - | performing well in benchmarking exercises/case studies.
267. These can have both positive and negative impacts depending on the nature of the incentive. Positive impacts include:
- | providing businesses with an advantage in the labour market by enhancing their reputations as employers;
 - | increasing business success by raising the profile of a firm;
 - | raising morale internally (which can result in improved productivity); and
 - | acting as a learning experience for the organisation and an inspiration for others.

268. Negative impacts can include:

- | driving a quest to 'get the badge' that becomes an end in itself, not related to organisational objectives;
- | not practising what is preached;
- | increased paperwork and bureaucracy; and
- | unequal benefits for workers, managers and employers.

269. Ultimately the most important role of status rewards is to drive change by identifying and publicising good practice.

270. Key criteria for introducing status incentives are similar to those identified above for promotional incentives.

271. When designing status incentives, these are a number of key questions:

- | Who is this incentive aimed at and how will they benefit?
- | How easy will it be to participate?
- | How do you balance rigour with minimising bureaucracy?
- | How do you identify best practice?

Providing relevant and timely information

272. Another set of Government interventions can be identified under the general heading of information. This includes establishing effective systems of collecting and disseminating IAG to individuals and employers using 'one stop shops', mentors, business advisors and technology.

273. As identified in chapter 4, market failures relating to information play a key part in the problem of WfD. Therefore, any action taken to improve the position must tackle the issue of information. Chapter 6 describes a variety of possible interventions.

274. When designing information systems, the key issues to address are:

- | identifying the audience and what they require;
- | establishing the media preferred by the audience (e.g. net based information is not appropriate if most of the audience do not have net access);
- | considering the cost/benefit of data collection/provision (collecting data because it can be collected can be a costly business with no real benefit);
- | balancing standardisation against customised provision; and
- | assuring the quality of the system and the data it provides.

Financial incentives

275. The Government uses financial incentives to achieve its goals in a wide range of policy areas. Financial incentives can take a number of forms, including:

- | an entitlement – the recipient has a "right" to receive some financial benefit;
- | a reward – where the recipient receives some financial inducement in return for certain behaviours;
- | compensation – where the recipient receives financial recompense for complying with required behaviour; and
- | punitive – where the recipient incurs a cost if they fail to demonstrate required behaviour.

276. The Government provides positive financial incentives principally through either public expenditure subsidies or the tax system. Possible financial incentives for demand for WfD include:

<i>Public expenditure subsidy</i>	<i>Tax system</i>
<ul style="list-style-type: none"> ‡ Directly subsidised public provision ‡ Payments to individuals, employers and/or training providers i.e. grants, discounts, interest subsidies 	<ul style="list-style-type: none"> ‡ Tax credits via income or corporation tax ‡ National Insurance (NI) concessions

277. Selection of the most appropriate incentive or combination of financial incentives and other instruments needs to be guided by a clear set of criteria that will ensure value for money. These criteria include:

- ‡ avoiding substitution – i.e. the risk that attaching financial benefits to one type of training could encourage employers to change what they currently do and adopt the type of training with financial benefits attached irrespective of its suitability;
- ‡ avoiding deadweight – the risk that the Government will incur a cost that employers already incur or would be willing to incur;
- ‡ encouraging desired behavioural change – the need to ensure that perverse incentives are not created by the financial incentive or its interaction with other policy instruments;
- ‡ ease of targeting – blanket interventions may be rather crude and run the risk of missing the target group;
- ‡ effectiveness – how well does the intervention address the problem, its symptoms or causes?
- ‡ value for money – the level of return achieved for the investment in the intervention; and
- ‡ comprehensibility to potential recipients – too much complexity may be a disincentive to take up of the incentive and thus a barrier to achieving the desired change in behaviour.

278. Whichever option or options are selected, a number of design issues also need to be addressed:

- ‡ who are the target group for the intervention;
- ‡ how far is the incentive aligned with recipient behaviour;
- ‡ what constitutes eligible activity;
- ‡ what should be the scale of the intervention or the size of the financial incentive;
- ‡ how to manage risk e.g. of perverse incentives;
- ‡ how to achieve best fit with other incentives; and
- ‡ how best to administer the incentive.

Subsidised provision: payment to providers

279. Subsidised direct provision through FE colleges is substantial and in 2000/01 benefited just under 1.4 million adult students, the majority (1.2 million) studying part-time¹¹¹. Around 60% of the total are enrolled for courses at the equivalent of level 2 or below.

¹¹¹ Students aged 19-59 enrolled on FEFC-funded provision in further education sector colleges and external institutions in England on 1 November 2000.

280. Chapter 4 of this report sets out: the details of how funding to colleges has been allocated through 'formula-funding'; some of the difficulties this can lead to; and the improvements that can be expected from the forthcoming changes. In general terms, the strengths of direct provision are:

- | the ability to plan and manage provision centrally;
- | a common funding regime for each college; and
- | equality of access.

281. Difficulties with the system are:

- | it is supply-side driven rather than demand-led and customer focussed;
- | not always transparent; and
- | it can blunt local initiative and innovation and distort local decision-making.

Direct payments to individuals and businesses: grants, discounts, accounts and loans

282. Direct payments to the users of WfD (i.e. individuals and businesses) can play a major role in stimulating and focussing demand. There is already considerable experience of using direct payments to support WfD, for example discounts on course fees have been provided through Individual Learning Accounts in the past and loans are available for both individuals (Career Development Loans) and small businesses (Small Firm Training Loan) for WfD.

283. In general, direct payments have a number of advantages:

- | the cost and amount of the subsidy is transparent;
- | they can be easy to target as eligibility conditions can be set;
- | they can be tied explicitly to the objectives of policy;
- | they offer a degree of flexibility;
- | options are numerous and imaginative e.g. matched funding provisions can be incorporated; and
- | by giving purchasing power to consumers, they increase the incentive for providers to be responsive and efficient.

284. The drawbacks are:

- | administrative costs of targeting and monitoring use;
- | potential deadweight costs; and
- | the risk of creating a dependency culture.

285. Subsidised loans can more specifically help to address some of the capital market constraints associated with the funding of WfD (set out in Chapter 4)¹¹². Loans have a number of advantages as a policy instrument. They can be:

- | an effective and efficient way to meet Government objectives. Since loans are generally repaid, the cost to Government in the longer term should be lower (depending on default rates);
- | a fair way of recovering some of the benefits of Government intervention from recipients. If individuals or businesses gain from intervention then there is a case that they should contribute to the cost; and
- | a way to achieve important incentive effects. For example, they may provide incentives to choose value-for-money options by looking at the likelihood of future gains and pay-offs. They may also generate desirable behaviour, for example a training loan may encourage the borrower to finish the course paid for by the loan.

¹¹² The PIU has been looking at loans in its current project "Modernising Government Loans". [This is expected to be published shortly.]

286. The main disadvantages of loan mechanisms from a public policy perspective are:
- ‡ low take-up that may jeopardise the achievement of the objective. Individuals on low incomes and small businesses may see the prospect of indebtedness as a disincentive;
 - ‡ loans are better at incentivising activities which generate private returns (e.g. higher wages) than activities which generate wider social returns (that do not accrue to the borrower); and
 - ‡ some individuals and businesses may incur excessive debt.
287. Some of these disadvantages can be tackled by careful design and implementation. For example providing money management advice for those interested in taking out a loan, increasing financial literacy generally and making debt advice available.
288. In the context of WfD, direct grants could take on a larger role in shifting funding from providers to users (i.e. individuals and employers). This is discussed in more detail in Chapter 6. There are potentially a wide range of options to consider. For example:
- ‡ A new form of individual learning accounts for individuals, where direct payments could cover elements of course fees;
 - ‡ packaging support to small firms through a small firms learning account; these could cover various costs associated with WfD and incorporate direct payments in a variety of forms; and
 - ‡ discretionary support for employer network facilitators/co-ordinators.
289. In all these cases it might be possible to structure incentives to encourage partnership working between individuals, employers and Government.

Tax credits

290. Existing tax provision for WfD treats “work-related training” as an expense, like any other business expense, and it therefore reduces business profits and hence corporation tax. There are currently no tax credits for WfD either for employers or for individuals.
291. In general terms, tax credits can be used to stimulate additional expenditure by reducing costs. There are several ways of implementing a tax credit, including through the corporation tax system – a so-called super-deduction¹¹³ or through the PAYE system by reducing income tax or National Insurance contributions. Each has the potential to work in particular situations and with specific design features. However, in general terms, a tax credit has a number of advantages, including:
- ‡ reaching a large number of firms;
 - ‡ using existing administrative systems; and
 - ‡ the capacity for it to be targeted on particular firms.
292. But tax credits also have a number of drawbacks:
- ‡ trade-offs between avoiding deadweight and simplicity of design;
 - ‡ perverse incentives to exaggerate WfD expenditure; and
 - ‡ risk of missing key groups e.g. employers either outside the corporation tax system or employees earning below the NI threshold.

¹¹³ Tax deductions are normally given on a pound for pound basis (i.e. a pound of taxable income is deducted for every pound spent). A “super-deduction” gives greater relief, so for every pound spent, a higher amount can be deducted.

293. A tax credit to increase training and development activity would have to be carefully designed to take account of:
- ‡ the size of firm eligible for the tax credit i.e. small or large firm and where the boundary is drawn;
 - ‡ the eligible categories of training expenditure i.e. costs of tuition and accreditation, wage costs; and
 - ‡ the size of the incentive to be offered: full or partial reimbursement of costs.
294. The evidence shows that the smaller the firm, the less training it is likely to do. So, making help available to all firms with training costs would carry more deadweight than a more targeted incentive. On the other hand targeting would be accompanied by a set of rules, which would in turn increase the costs of bureaucracy and audit.
295. A significant amount of training activity already takes place for those employed, although as this report shows (Chapters 3 and 4) it is unevenly spread between large and small firms and low- and high-skilled workers and covers many elements including health and safety and induction. Approximately 740,000 adults in employment are estimated to be working towards a qualification up to the equivalent of level 2¹¹⁴. A large proportion of these may be working towards additional qualifications at the same level¹¹⁵. Furthermore, not everyone will be funded by their employer although it is difficult to estimate the extent of employer funding¹¹⁶.
296. Current public funding for employers is limited to some course costs in FE colleges. Employers will meet all the other costs associated with training and development in full i.e. accreditation and examination; participation costs (e.g. books, tools); and replacement wage costs, both for trainees and for those supervising them when training is on the job.
297. The level of the incentive offered by a tax credit could be altered to send stronger or weaker signals depending on how it was delivered (the corporation tax system, PAYE or NI).
298. In the longer term, this report's proposals to put funding directly in the hands of individuals would mean that they became responsible for their own development, receiving help with tuition, accreditation and participation costs, and the effectiveness of existing policies would need to be reviewed. Support for living costs would continue to be a matter for individuals and their employers.

Statutory approaches and regulation

299. The UK currently takes a voluntary approach to WfD (apart from some specific interventions such as the right to paid time off for 16-17 year olds) but has, in the past, adopted policies which, to varying degrees, have sought to require employers to develop their workforce. Regulatory obligations are used in some countries (Singapore, France), but they cannot be divorced from surrounding structures and culture (see annex 9¹¹⁷ for international comparisons).
300. Introducing any statutory regulations in the UK would, therefore need to learn lessons from the experiences of other countries and to be tailored to the particular needs of the UK. These issues would have to be carefully considered, and comparison with non-legislative alternatives and wide consultation would be necessary before making a decision to legislate for any specific proposal. This would be a major step involving consultation, a regulatory impact assessment and possibly pilot projects if this option were to be rolled out.

¹¹⁴ Adults, aged 19 or over, employees and self-employed in the UK. Labour Force Survey Spring 2001.

¹¹⁵ For example, around 350,000 are estimated to already hold the equivalent of a level 2 qualification.

¹¹⁶ For example, the Skills Survey 1997 asked those in employment who paid for training. Over 40% had their costs paid by their employer and a further 40% were reported to have shared the cost with their employer, and/or with their relatives. See F. Green, 'Training the Workers', in P. Gregg and J. Wadsworth (eds) *The State of Working Britain*.

¹¹⁷ Available on the PIU website: <http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml>

301. The Government's election manifesto made a commitment that "where both sides of industry in a sector agree [the government] will help set up a statutory framework for training".

What kind of statutory framework or regulation?

302. There are a wide range of statutory or regulatory incentives that could be considered, all of which have advantages and disadvantages, a flavour of which is included in figure 31. To a large extent these depend on the details and circumstances of implementation.

Figure 31: Statutory and regulatory approaches

Advantages		Disadvantages	
<i>Levies</i>			
<ul style="list-style-type: none">‡ increase volume of expenditure on WfD‡ respond to specific skills issues within an industry‡ encourage strategic planning of training at firm and sector level‡ help smaller firms overcome diseconomies of scale‡ disincentive to poaching and combat free riding		<ul style="list-style-type: none">‡ increase administration and bureaucracy‡ potential for manipulation from firms‡ meet resistance from individual firms‡ the cost may not be proportionate to the benefit obtained‡ minimum level of training may exceed economically efficient level of training	
<i>Building in skill requirements to procurement and franchising contracts</i>			
<ul style="list-style-type: none">‡ maximise the use of supply chains by encouraging elements of the supply chain to work together to meet contract requirements‡ promote coherence throughout an industry by promoting an expected level of skill‡ lever up skills and qualifications attainment to enable firms to tender‡ provide an opportunity for Government to demonstrate best practice		<ul style="list-style-type: none">‡ significant legal complications, particularly regarding European Union (EU) procurement directives‡ lead to a 'tick box' mentality where firms adopt a superficial compliance with contract terms‡ involve a bureaucratic assessment process‡ place skills in competition with other Government policies such as value for money which are at the core of tendering and contracting	
<i>Right to paid time off for development</i>			
<ul style="list-style-type: none">‡ increase demand for training by motivating and empowering individuals‡ promote cultural change among employers and individuals‡ lessen the impact of market failures, e.g. poaching‡ place the UK on a par with other European countries‡ ease pressure on work/life balance‡ underline Government's commitment to improving skills of whole workforce		<ul style="list-style-type: none">‡ potential impact on business in terms of cost and administrative burden‡ complications with enforcement‡ stigmatise development if limited to those with lowest skills	
<i>Using licence to practice</i>			
<ul style="list-style-type: none">‡ encourages continuous development‡ promotes excellence‡ makes the link between skills and performance‡ push up a consistent level of basic skills		<ul style="list-style-type: none">‡ may act as a barrier to entry and restricts competition‡ demands a consensus on standards and accreditation‡ discourages transferable training and flexibility	

<i>Compulsory membership of networks (e.g. Chamber of commerce)</i>	
<ul style="list-style-type: none"> tackles the problem of freeloading may improve the quality of networks increases employer engagement 	<ul style="list-style-type: none"> be treated as another imposition fails to recognise the voluntary nature of the best networks
<i>Provide statutory backing to peer advisors in the workplace building on the success of ULRs</i>	
<ul style="list-style-type: none"> stimulate demand outside unionised workplaces 	<ul style="list-style-type: none"> create a regulatory burden be difficult to enforce

303. To assess the suitability of any of these options, a range of criteria need to be defined. Such criteria could include:

- | cost for all stakeholders involved compared to the benefit achieved;
- | extent to which the ultimate objective would be achieved;
- | ease of implementation, enforceability and administration;
- | degree of agreement amongst stakeholders;
- | extent to which the problem to be solved is intractable;
- | interaction with other incentives and other regulations; and
- | impact on motivation and partnership working.

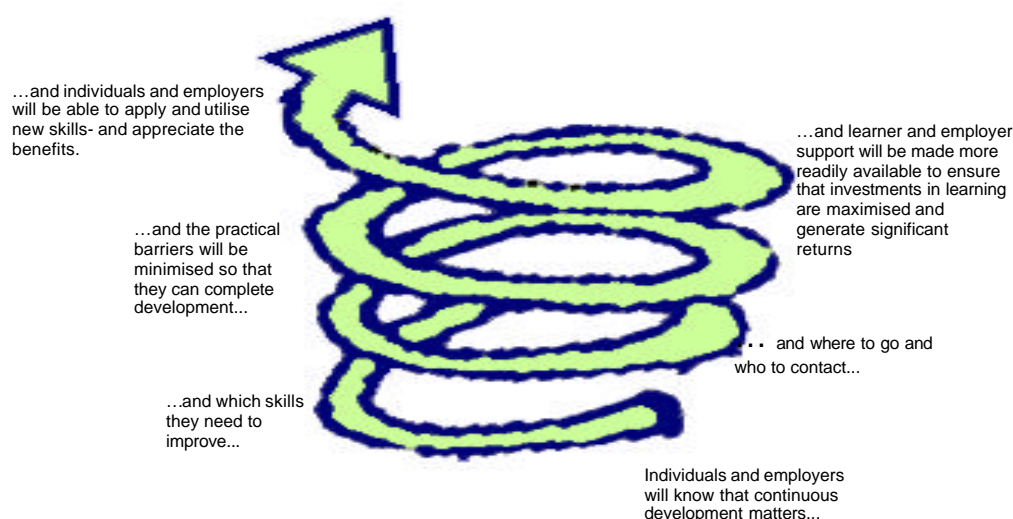
304. Each of the options has specific design features that would need to be examined. Some of the more general issues would include:

- | ability to target and the impact of targeting;
- | complexity and susceptibility to misuse or fraud;
- | clear definition of the problem to be solved; and
- | definition of the activity involved.

Achieving these objectives would place the UK in a virtuous spiral of development

305. The virtuous spiral that the vision and strategy in the report could deliver is illustrated by figure 32 and by the two forward looking case studies in boxes 4 and 5.

Figure 32: The virtuous spiral of WfD



Box 4: Realising the vision: a possible scenario for WfD in 2015 - Jack's story

Jack left school twenty years ago with no qualifications. He has some basic skills problems, but for the last five years he has had a largely manual job on the floor of an SME called Ridley's Papers which sells paper supplies to regional businesses. Jack is a good employee and people at the firm have suggested that he should aspire to become a supervisor. But he knows that he would need to improve his literacy and might have to use a computer and he doesn't think he would be able to. So, he always ignores his colleagues when they encourage him to apply for supervisory jobs.

Ridley's has around 40 employees, built up from a 5 person business seven years ago. The company is finding it increasingly difficult to keep up with their much larger rivals and are beginning to find cashflow very tight. The managing director and his deputy discuss this with their accountant at the end of the quarter. Profits have been shrinking for some time and they want the accountant to help them understand why – do they need to cut costs? The accountant points them to a new package of government support available which may help them understand their problems. The accountant has mentioned it to other firms which have found it helpful, as it is tailored specially for firms of 50 employees and below. He gives them a brochure and explains what is available.

The management team decides to take up the offer of support. This enables them to understand better the market they are operating in and they discover that one of the main reasons many of their former customers are going to rival companies is because they do not offer a good enough online ordering system. The management team start to look into this.

Meanwhile, part of the Small Firms package also supported a colleague of Jack's to be trained as a Company Learning Representative. A supervisory job comes up in the workshop, and it is mentioned to Jack again that he might apply. He says that he doesn't have the right skills. The CLR catches him as they are leaving work and points out that he can learn new skills.

Jack is nervous about admitting his problems with basic skills and is also reluctant to go into a formal learning environment again, having left school so long ago. He tells the CLR that he doesn't have time and that he can't afford it, especially since he and his wife have just had a new baby and his son is still living at home while pursuing his Modern Apprenticeship. The CLR explains to him that he can get a course for free with his Learning Credit and about the 5 days' leave he can have to improve his basic skills. He also explains the advantages of undertaking a course. Jack says he will think about it. In the meantime, the supervisor's job is given to someone else.

He discusses the possibilities with his wife, Jill, who encourages him to pursue promotion in the future and supports him in taking up the credit. The CLR has already got several people signed up to courses and speaks to the management about the opportunities they have to aggregate their employees' learning credits and gain extra support through their Small Firm package. Management know that if the new ordering system they want to introduce is to work, their employees will have to be more computer literate because the system will deliver information direct to the factory floor.

They agree with the CLR that they will support employees and aggregate the learning credits if they pursue ICT training. The CLR discusses this with the employees that have expressed an interest in undertaking learning. They all agree that they are happy to pursue ICT training – Jack is especially pleased because this is likely to assist him in his hopes to progress further at work.

Management are keen to provide the ICT training in the office just after main office hours because everyone will be able to attend and they will be able to keep their eyes on the training and make sure it is top quality. They are sent a list of approved providers, and try the local FE college first. Unfortunately, they are full to capacity and cannot provide the course for the small number of people taking part at Ridley's. But another provider on the list agrees to deliver the course. Because the employees are pursuing training up to a level 1 standard, the employees and the company do not pay the cost of the training, but Ridleys provide the premises and individuals give up their own time.

Six months later, Ridleys successfully install their online ordering system. Employees still require half a day's training to operate the system, but the management are confident that the training has made the installation smoother than it would have been. Jack enjoys his course enormously, and decides to get his level 2 certificate at the local FE college next year. Just before he gains his certificate, another supervisor's job comes up. Jacks applies for it and gets it.

Box 5: Realising the vision, another scenario for WfD ...Jill's story

Working as a mother and general superwoman around the house has been Jill's main occupation since the children were born. Since baby Freddie's arrival however, Jill has started to think about going back out to work in a couple of year's time. As well as the money, she feels in need of a change and a challenge.

But Jill is nervous: her NVQ 2 in Office Administration has become outdated with the on-set of new technologies; she hasn't been in the workplace for nigh on 15 years and can't see herself competing with bright young graduates, or people who've been building up impressive CVs while she's been washing nappies. To make matters more difficult Jill has decided that she doesn't want to go back into office work. As a secretary in a large firm she often felt bored, underused and lonely. Her experiences as a mother, and as a carer for her ageing father, have given her a taste of a more active lifestyle and brought out her natural ability for dealing with people and providing care and support for others. Jill knows that she would like to build on these skills but isn't sure what kind of career would give her the opportunity and, anyway, with a baby to look after, she can't see how she would be able to train in anything new....

With these thoughts bubbling under the surface, Jill was surprised to find support in her local Mother and Child group. As part of the area's Information, Advice and Guidance Partnership, the group was able to offer Jill some initial support in thinking about what kind of career would suit her needs and skills. Having decided upon something in the field of Social Care, they referred her on to another specialist adviser in the neighbourhood, based in the local careers service. There the advisor helped Jill look up some courses on the Internet and discussed these and other options with her. She was able to go back to the advisor a few times with new enquiries and concerns.

Jill signed up for her learning credits and decided to spend them on a specialist NVQ 3 course in care for the elderly, which, she was delighted to discover, meant she would receive a special grant. With more people living longer in 2015 great strain is being placed on care homes. The local Learning and Skills Council has identified a shortage of trained carers to work in mobile units which, by visiting elderly people in their own homes, could help ease the pressure on local residential care facilities, keeping places for the most needy. The local LSC has therefore decided to use a proportion of discretionary funding to support care courses at levels 2 and 3.

Following an easy and fast means test Jill found that she was also eligible to receive financial support for childcare. The FE college helped her find a suitable place for Freddie and when, three months into the course she started volunteering part time in a residential care home, the college found a way to rearrange her timetable.

Three years later we revisit Jill. Not only is she now running three mobile care units through out the area, but she has also started to study part time for a Diploma in Social Care at the local University.

6 Raising demand

Summary

- | Stimulating demand is the key objective of the WfD strategy set out in chapter 5.
- | Raising demand from employers could be achieved by:
 - sharing of best practice through networks, supply chains and benchmarking;
 - enhancing management skills through support for management development;
 - supporting change and innovation through the provision of relevant advice and information; and
 - recognition and reward.
- | Raising demand from individuals could be achieved by:
 - promoting the benefits of WfD;
 - provision of appropriate information, advice and guidance; and
 - reviewing mechanisms for adult financial support.
- | Central to the raising of demand is addressing barriers of time, money and motivation for both individuals and employers. This could be achieved by:
 - putting purchasing power in the hands of individuals and employers. Funding is one barrier to participation and extra support may be required from Government;
 - incentivising partnership working between employers and individuals to raise levels of investment; and
 - providing small businesses in particular with a readily accessible package of support.

Introduction

306. As discussed in Chapter 2, the benefits of education and training are captured by individuals through increased earnings and to firms through increased profits. Taken at face value this implies that everyone has an incentive to undertake WfD. However, Chapter 3 shows that the UK has a particular problem with a stock of low skilled workers with qualification levels below level 2, compared to other industrialised countries. Chapter 4 describes why this situation arises – a complex mix of failures in the training market, overlaid with Government failures and cultural factors – and therefore why there is an under-investment in WfD.
307. The conclusion drawn from these chapters is that progress needs to be made on:
- | raising the minimum skill level of the workforce; and
 - | creating a system that is based on an integrated approach to demand and supply to break out of the low skills equilibrium.
308. If a demand-led system is to be effective in meeting the goals of raising the level of WfD and impacting on productivity and social exclusion, the level of demand for WfD itself has to rise. In particular, it has to rise among those who currently do not demand WfD: low-skilled individuals and small firms.
309. This chapter discusses possible approaches to raising demand amongst employers and individuals and mechanisms that could be used to empower employers and individuals to participate in a demand-led system.

Raising employer demand...

- 310. The key to raising demand for WfD amongst employers is to stimulate/encourage innovation and change e.g. by promotion of High Performance Working (HPW) practices. This should lead to better business performance, thereby stimulating demand for better skills and more development.
- 311. This can best be achieved by adopting policies that build the capacity for innovation and change within firms. Key to this agenda is the need to promote and share best practice and develop excellent management capability.
- 312. Building this capacity will require different approaches for large and small firms. Government interventions are best targeted on small firms that may not have the expertise to adopt challenging business strategies or to train and develop their workforce.

Spreading and sharing best practice and recognising achievement...

- 313. Innovation and change can be stimulated and supported through the spreading and sharing of best practice. Helping businesses identify areas of business performance where improvement can be achieved can help to promote WfD (e.g. within the public sector best practice guidance produced by the Audit Commission and the National Audit Office enables all relevant bodies to learn from each other). For this to happen requires reliable comparative information and appropriate channels of dissemination.
- 314. Benchmarking is an effective tool for identifying best practice by enabling businesses to compare results and processes and for encouraging improved performance by demonstrating to individual businesses how they compare with their peers or competitors. For example the Times Top 100 graduate employers survey indicates clearly to firms how their performance compares to others.
- 315. There are a number of benchmarking initiatives already in place within the overall framework of the CBI/DTI 'Fit for the Future' campaign; relevant elements include, e.g.:
 - | the people's skills scoreboard, developed with DfES;¹¹⁸
 - | the SBS's Benchmarking Index;
 - | the CBI benchmarking service;¹¹⁹ and
 - | there are also public sector benchmarks such as Audit Commission performance indicators.
- 316. Therefore the creation of a new system of benchmarking may not be appropriate, but there is scope for a much stronger element in the existing system. The weaknesses of the existing systems arise from lack of participation and the ease of access to detailed benchmarking information.
- 317. A co-ordinated approach to identifying (through benchmarking), disseminating and encouraging the adoption of best practice, drawing on existing initiatives, would best serve business. Skills issues should form an integral part of any benchmarking tools adopted.
- 318. The SSCs could take the lead in identifying, disseminating and strongly encouraging the take up of best practice within sectors, along with other bodies such as liP UK, the CBI, SBS and CIPD who could provide best practice indicators and guidance in relation to WfD. Methods for linking firms to share best practice and benchmarking information including the use of technology to develop virtual networks should be actively explored. The DTI business support review should also feed into this process.

¹¹⁸ DfES and DTI working with NTOs and Trade Associations on a sectoral basis.

¹¹⁹ The CBI offers a benchmarking service relating to human resource issues. This product focuses on four critical factors for people management: Leadership and culture; Employee development; Employee involvement; Work organisation.

319. liP UK has a successful track record of embedding training and development and promoting good practice within a variety of organisations. liP UK is currently developing new approaches to engaging small businesses (including the establishment of a small business taskforce) and retaining those businesses already accredited.
320. These include:
- ‡ developing further voluntary support tools to help organisations reach beyond the Standard. Areas will include developing managers and leaders and helping organisations to manage a diverse workforce to successfully meet the needs of their business;
 - ‡ developing a route map that will include other quality standards to ensure employers move in the right direction for their business;
 - ‡ exploring ways of recognising excellence. Recognising organisations that have been outstanding in promoting and representing the values and principles of liP, encouraging organisations to be pro-active in championing the Standard to customers, suppliers and within the local community; and
 - ‡ using large organisations as mentors to smaller organisations.
321. As a means of maintaining momentum liP UK should consider proposals for “beacon status” for successful liP UK companies. Beacon status might include such elements as benchmarking, demonstrating quality leadership and management, piloting HPW methods, and running liP UK “clubs” to support local smaller firms and supply chain firms in their development and in moving towards liP UK status. This is in line with the work currently being undertaken by liP along with SBS, building on the Inside UK Enterprise programme.
322. Good practice in WfD often arises when organisations are going through change processes. Recognition of achievement is a vital part of such processes. Government sponsored methods of recognition include awards such as the National Training Awards. Recognition could also be achieved through the award of liP UK beacon status.
323. One of the problems with the current systems of recognition and reward may be the number and diversity of awards currently in operation. A review and rationalisation of publicly funded awards may be beneficial.
324. A valuable form of recognition may be through industry specific awards where best practice in that industry is acknowledged. An example of such an approach is shown in figure 33. The SSCs could have a role to play in this area. In particular the recognition of business and performance improvement deriving from WfD could be rewarded rather than focusing on WfD or human resource processes.

Figure 33: Sectoral awards: Excellence through people

Excellence Through People was set up by the British Hospitality Association as a response to a Department of National Heritage report, which showed how the hospitality industry's ability to recruit decent staff was undermined by its image as a poor employer. It covers a whole range of employment practices - recruitment and selection, offering a decent reward package, developing skills and performance (including job design), effective communication, and staff retention. Extra points in the assessment system are available for employers who recruit modern apprentices, achieve liP, have in place appropriate people management skills and forge links with local schools and colleges. In its first three years the scheme has made awards to about 700 hospitality trade employers.

The Government as an employer can lead the way...

325. Government is a major employer. It is already signed up to National Learning Targets, and parts of the public sector are major providers of WfD – for example the Army in partnership with external providers is establishing one of the most comprehensive systems of basic skills provision throughout the UK and overseas.

326. The Government is also able to pilot and test innovative approaches internally and to promote good practice identified within its own workforce and externally. In addition, the Government could consider the applicability of the National Learning Targets to its own workforce and establish the extent to which they actually drive improved performance or whether alternative targets might be more appropriate.

Box 6: Basic skills in the MOD

The Army is committed to developing a system of high quality Basic Skills provision that meets the needs of individual Army personnel (and where practicable, their families), wherever they are stationed across the world. That provision must be comprehensive and flexible enough to offer a range of opportunities that accommodates individual needs and preferences as well as the demands of Army life. To this end, the Army is establishing local networks of provision that exploit a variety of learning contexts, from traditional college courses to family and community settings

Access to on-line and other IT-based learning programmes (some already fully contextualised for Army settings) will provide an effective option for many. The use of the Army's growing network of well equipped Learning Centres that draw on **learnirect** services will provide an essential platform for this aspect of the basic skills service.

At the same time, the Army is set to provide all students with access to specialist Basic Skills Tutors, as well as mentor support, in all its 35 Adult Education Centres and recruit training centres. Access to quality first line basic skills advice and information in settings away from the learning centres – in the workplace, in libraries, in community outlets in Garrisons and beyond – will complement this provision and dovetail with local external services.

This planned integrated system of provision represents a significant investment in assisting individuals to improve their skills and, in the longer term, realise their potential more fully. The opportunities provided for basic skills assessment very early in a soldier's career and the effective long-term tracking of student progress are all endorsed with the Basic Skills Agency's Quality Mark.

...while Government procurement policy can have an impact...

327. Government procurement can influence a wide range of supplier companies. Government policy states that procurement should be based on value for money¹²⁰ (VFM). Procurement policy should not obstruct other government policies nor should procurement be distorted in the pursuit of other policy objectives. Where WfD is a factor in the ability of a supplier to deliver goods or service, then it can, where appropriate be a legitimate element of the specification or form part of the selection criteria used to determine the suitability of candidates for a contract. This needs to be assessed on a case by case basis, therefore it is difficult to produce blanket guidance.
328. Any actions to encourage WfD must be set within procurement policy and the EU framework. 'Green' procurement offers an example of how this could be achieved (see figure 34).

Figure 34: 'Green' procurement'

A useful parallel is the work done on "green" procurement, which resulted in a joint note between the Treasury and the former Department of the Environment, Transport and the Regions (DETR)¹²¹. This was carried through by a network of "green" champions in departments at ministerial level which was set up following the publication of the 1990 white paper "The Common Inheritance" which required that each department should have a strategy in place for "greening" their operations.

¹²⁰ Defined as the optimum combination of whole life costs and quality to meet the user's requirement. See www.ogc.gov.uk for details.

¹²¹ Environmental Issues in Purchasing, HMT and DETR, available on OGC website.

329. A similar approach to WfD could be effective if co-ordinated with the Office for Government Commerce (OGC) to ensure compliance with VFM principles and EU rules.

330. Other possible actions include:

- | working with suppliers post awarding of contract. After the award of a contract, there are many ways in which departments can work with suppliers to promote WfD including promoting government initiatives on skills, helping them to achieve quality standards like LiP or providing access to departmental training facilities. DfES are currently looking at ways in which they can introduce such practices;
- | building continuous improvement into specifications. It is consistent with the principle of VFM to ask bidders to demonstrate their capability for continuous improvement which should benefit WfD; and
- | DfES taking the lead on skills and procurement. DfES is currently working on examining how to use its procurement arrangements to influence its suppliers to raise their skill levels. They are well placed to take the lead and provide examples of best practice in consultation with OGC and other departments.

Recognising and promoting the value of WfD

331. Employers need to be persuaded to adopt best practice in developing their employees and to put in place appropriate strategies to make best use of these individuals within a learning organisation. A key step is developing a convincing business case for investing in developing the workforce and promoting this via a targeted promotional campaign. This should be a key part of engaging employers on basic skills as part of the 'skills for life' strategy.

332. Knowledge, skills and capabilities play a major role in contributing to sustainable profits. It is essential to encourage businesses to provide detailed information to help investors understand how human capital builds long-term corporate value. This includes the kind of people a company employs, their skills, training philosophy and investment, knowledge management systems, ability to handle change and recruitment strategies.

333. Moving towards a system that better records human capital information is a longer-term option. Initially it should be possible via the review of the Operating and Financial Review statement being undertaken by the Accounting Standards Board to start to encourage large employers to include information on their training and development activities in their annual reports.

334. Research involving Government, a sample of companies, the investment community and accountants should take place to start to identify measures of human capital to produce guidance for companies who wish to provide more meaningful disclosures. This could be taken forward by DTI in conjunction with other relevant parties, including a sample of large organisations.

335. Ultimately, through a period of voluntary disclosure, elements of best practice should develop. Figure 35 gives examples of types of information that could be disclosed.

Figure 35: Human resource measures

- | |
|--|
| Levels of competence and qualifications, including basic skills |
| Employee satisfaction |
| Results of 360 degree feedback on all or selected groups of staff |
| Training expenditure |
| Distribution of training activity across the workforce |
| Work/process/product changes and the resulting training |
| Innovative and socially responsible approaches (i.e. learning through job swaps/volunteering networks) |
| Details of in-house programmes and progressions through these |
| Outputs from exit interviews |
| Recruitment/retention costs |

Expanding opportunities for management development...

The productivity of work is not the responsibility of the worker but of the manager. Peter Drucker

336. The lack of opportunities for management development is a significant problem for smaller organisations, a barrier to business expansion and innovation and, in some cases, a cause of business failure. Management development policy should encourage the uptake of development by managers and encourage newly trained managers to recognise the importance of training employees.
337. A starting point for the delivery of improved management development is a national management strategy. CEML is working on a national strategy to be produced in March 2002. Taking forward this agenda needs to be overseen nationally, by the DTI and DfES but could also involve SSCs in helping to define and champion management development. It is important not to lose the focus given by CEML.
338. Some of the issues that the strategy could address include:
- | encouraging SME owner/managers to participate in management development;
 - | the appropriateness of management qualifications for SMEs;
 - | the development of training units based on business growth points;
 - | people management training; and
 - | high performance working.
339. Provision of management development must be tailored to the needs of the small business. In many small businesses the owner-manager is starting from a relatively low level of formal education and may not see the relevance of undertaking a postgraduate or similar qualification. For such managers, a starting point would be short courses in topics of direct practical use provided by local suppliers.
340. To encourage SME owner/managers to participate, an approach to management/business development giving help to small businesses at key business development points could be introduced. The purpose of such an approach would be to provide financial incentives at stages in the growth of a business for the owner/manager to seek advice, mentoring or training related to specific managerial problems from a wide range of providers. These incentives could be offered to all businesses with less than 50 employers as part of the overall package of incentives provided to small business.

...while building stronger employer networks...

341. Networks can be valuable sources of business advice, mentoring and development, particularly for small employers and thrive best where they are established to meet a particular need that is clearly identified by the business community which they serve. US experience on moving towards a demand-led WfD system suggests that one of the top priorities should be “institutionalisation of employer leadership and strengthening the infrastructure of employer organisations¹²²”. The Small Business Council has also recommended supporting small businesses through supply chain and cluster mechanisms¹²³.
342. There are huge variations in the quality of employer institutions and the services they deliver. The SSCs have been charged with working with existing institutions, especially Trade Associations, but this is complicated by their fragmentation.
343. SSCs are well placed to develop stronger networks within specific sectors to promote the benefits of WfD. However, in some cases nationally driven programmes are too inflexible to respond on a timely basis to local need.

¹²² Liebowitz M., M Seltzer and R Kazis, ‘Building Organisational and System Capacity: How Government Can Support “Demand-Led” Reform’. Paper prepared for the Welfare to Work: New Solutions for the New Economy UK/US Symposium 2000.

¹²³ Small Business Council annual report July 2001. (<http://www.sbs.gov.uk/organisation/sbc.asp>)

344. There may be a case for public support at local level introduced via the RDA or local LSCs to help establish networks at the request of employers and/or provide network co-ordinators to promote the value of networks and help networks to become established. The SBS also has a role ensuring that networking for WfD is linked to mainstream business networking.

...and extending the sources of information available to SMEs

345. SMEs need to be able to engage with a wide range of providers of information but also need simplicity. Many businesses are best reached through their usual intermediaries such as banks and accountants both of whom could be encouraged to provide WfD information along with general business information as part of their advisory role. CEML and liP UK are currently looking at this area.
346. For those employers who have particular problems with time or geographical access, technology may offer a solution. Examples of such methods include:
- | live web-based assistance. An employer could be directed to web-based IAG/LMI through any number of linked web-sites. This would enable the employer to ask questions, request assistance, or set appointments through web-based interactions with live assistants. The role of the SBS Gateway and Business Links in providing such assistance should be considered;
 - | intelligent search engines/databases. An employer could enter a postal or industry code and be directed to local databases that provide services such as information about average wages, skills or occupations in demand, local providers of business services, training providers, and specific assistance provided by the public sector; and
 - | facilitated discussions, meetings, or events among employers with common interests. For example, employers in a geographic area undergoing regeneration or employers in similar sectors or industry clusters could use technology to participate in activities such as education, problem-solving or information sharing. Such events provide an opportunity to experiment with new technologies in the workplace, and to demonstrate them to local firms.

Raising individual demand

347. If the level of demand for WfD is to be raised, individuals must recognise and understand the benefits it brings.

The benefits of WfD must be promoted

348. While national promotion of WfD has a role to play, individuals who have not engaged in formal WfD activities for some time are best reached through intermediaries in their workplace or community.
349. The national network of Union Learning Representatives (ULRs) has enjoyed substantial success. However, ULRs only operate in unionised workplaces. This limits their potential, since the smallest firms tend not to recognise unions except in certain industries such as print. Also, because they are a relatively new concept and not universally accepted, it would not be feasible to require all companies to appoint ULRs on the model of health and safety representatives.
350. The concept of peer advice underpinning ULRs, is one that could be usefully adopted in small and non unionised settings. There are a variety of mechanisms by which this could be achieved including identifying individuals within each firm, establishing networks, using supply chain relationships and sharing advisors between clusters of small firms. All of these ideas could be explored with efforts focused on smaller firms who do not have in-house human resource functions.
351. The apparent success of ULRs in promoting learning in the workplace suggests that something similar might be effective in developing demand for learning in local communities.

352. This could be particularly effective when combined with other initiatives:

- | to minimise the impact of redundancies;
- | to support community renewal or regeneration; and
- | to promote entrepreneurship and co-operative enterprise in communities isolated from the wider economy.

Box 7: Employers and Unions working together

Littlewoods/USDAW/GMB

In a ground-breaking agreement that may become a model for others to follow, Littlewoods has formalised its commitment by developing a joint lifelong learning policy with USDAW and the GMB. The agreement aims to make learning as accessible as possible for all employees. The agreement specifically states that Littlewoods supports the work of Union Learning Representatives and accepts its responsibility to provide resources where appropriate. Eighteen reps have been trained at the site so far, and have been given paid time for the training as well as to carry out their on-going duties.

353. The potential of ICT as a method of promotion should also be explored. The ability to reach a wide range of individuals and employers through virtual networks could help to address problems of access and remoteness.

Box 8: Experimenting with peer-to-peer networks and e-learning in Government

A joint venture between EPIC and the local government Improvement & Development Agency (IDeA) will result in a system that enable over 400 local councils (a workforce of 1.8m) to develop and share e-learning modules to support continued professional development and better communicate best practices.

The first major on-line leadership development program for senior civil servants (about 6,000) is under development through a partnership between CMPS, Enlighten, and Lancaster University. The program will offer "blended" learning solutions that incorporate both on and off-line mentoring and support.

354. The LSC has a responsibility for promoting the benefits of learning generally. It is important that the branding, marketing and promotion of WfD is undertaken in a co-ordinated way so that all Government agencies present a joined up agenda and consistent messages. These messages should be transparent and straightforward to encourage employers' and individuals' interest and participation.

Better information, advice and guidance is crucial

355. A demand-led WfD system relies on that demand being well informed. If we are to develop such a system, we must therefore ensure that individuals:

- | are aware of the opportunities on offer;
- | know which choices would be most appropriate and effective for them; and
- | know how to access their chosen course or programme.

Improving the institutional arrangements

356. Current IAG Partnership arrangements have achieved some success in joining up existing services on the ground at local level. Nationally, **learnirect** has reached large numbers of would-be learners through multiple ICT channels, including the web¹²⁴, and has established a high profile brand.

¹²⁴ There have now been over 3.5m calls to the **learnirect** helpline since it was launched in February 1998 and over 3.7m searches to the website since its launch in May 2000. 14% of callers identified their learning as 'for leisure' demonstrating that 86% of callers see their learning as work related.

357. Bringing IAG Partnerships and **learnirect** together into a coherent, integrated IAG service is the next logical step in the strategic development of IAG provision and would achieve multiple objectives:
- ‡ The whole system would be more visible, accessible and joined up.
 - ‡ Improved referral arrangements between its constituent parts would make better use of existing channels for the delivery of services.
 - ‡ Quality of provision and content could be made more consistent, while retaining the diversity of the current local arrangements.
 - ‡ Better use could be made of existing marketing budgets and a greater degree of public awareness would be achieved if the constituent parts of the service shared an easily recognised common identity.
 - ‡ A clear set of outcomes for the integrated service could more readily be developed.
358. There are different options for achieving this:
- ‡ The national learning help line, currently managed by Ufi Ltd, could lie at the heart of the model, acting as the hub of a national service.
 - ‡ Alternatively, an IAG unit within the national LSC or in each of its local arms could lie at the centre, managing a national service and ensuring co-ordination of the national help line with the network of IAG partnerships.
359. Whatever model is chosen, the role of Ufi Ltd as the current manager of the help line would need to be carefully considered and steps taken to avoid any perceptions of a conflict of interest or a threat to the impartiality of the system.
360. The LSC are currently working with Ufi Ltd to produce a feasibility study for an integrated national and local IAG service.

Employers as sources of information and advice

361. Their employer is the first port of call for many individuals when seeking information or advice about work-related learning and careers¹²⁵. The best way to help employers fulfil this role is to convince them of the value of WfD as a method of enhancing business performance. If employers are convinced they will tend to require or encourage their employees to participate in WfD activities.
362. But are employers able to provide good advice or know of the key sources of further help? A common brand for IAG would help raise awareness of services available. In the light of this, DfES and the LSC should consider a campaign to promote IAG to employers. The new National Standards for guidance are being launched in February 2002 and DfES are working with the Guidance Council and the Guidance Accreditation Board on a marketing strategy to convince more employers of the value of seeking accreditation against the Standards. This would provide the ideal focus for such a campaign.
363. Larger 'blue chip' companies might wish to consider whether they should become accredited IAG providers to provide a full, impartial information and advice service to their employees. This is something the government should seek to encourage, and DfES and liP UK should consider whether such a requirement might form part of the criteria for liP UK beacon status¹²⁶.

¹²⁵ 37% of users seek IAG first and foremost from their employer and are more likely to report a positive outcome from IAG. However, those who used an employer were also more likely than other users to cite difficulty in accessing relevant IAG¹²⁵.

¹²⁶ Discussed in the earlier part of this chapter.

Box 9: Lloyds TSB Corporate University and Career Management Centre

The University for Lloyds TSB (UfLTSB), launched in July 1999 is modelled on the University for Industry. Seeking to make learning both more accessible and better linked to the needs of the organisation, the UfLTSB covers career and diversity management as well as having a faculty based learning curriculum (Faculties of Change, Customer Service, Risk etc).

The award winning *Centre for Career Management (CfCM)* was launched as part of the UfLTSB in 2001 and offers a range of IAG services, including:

- A web based advice and information resource;
- a call centre in Bristol, offering careers and learning advice to employees by telephone; and,
- opportunities for face-to-face interviews with around 100 trained career advisors.

The service is able to provide impartial advice on learning and careers within Lloyds TSB, from beyond the line-management chain. The *Pathways* service is also being developed, offering support on both internal and external opportunities for those who have been displaced as a result of organisational changes. The CfCM has obtained formal accreditation according to the National IAG Quality Standards, and all advisors are working towards professional IAG qualifications.

Staff attitude surveys, carried out at regular 6 monthly intervals have shown a step-change in results for satisfaction with training and related morale issues since the launch of the UfLTSB.

...but doesn't offering IAG encourage people to seek work elsewhere?

In the words of one HR Strategist "the worst kind of employee is a reluctant one."

The Lloyds TSB approach is that effective, impartial careers advice provides the opportunity for employees to confirm that they are there because they want to be. It is a strategy for retaining the highly motivated and enabling the unmotivated to consider alternatives.

Some people need more intensive guidance

364. Very little evidence is available on the relative merits of simple information and advice compared with more intensive forms of face-to-face guidance, as it depends on individual need. Some find it straightforward to reach decisions about personal development, with only limited input from advisors. Others need much more intensive help to make sensible well-informed choices. Current IAG arrangements provide public funding for information and advice, but not for in-depth guidance – individuals requiring this would usually have to pay for it themselves¹²⁷.

365. While it is clearly not appropriate to fund full guidance interviews for everyone, there is a case for focusing more resources on the hardest to help. The DfES is currently piloting further work to determine the precise groups that might benefit from publicly funded full guidance interviews, and what additional demand such an entitlement would generate. The results of these pilots should be used to help to demonstrate the likely impact of any expansion of the service beyond the provision of information and advice.

Those undertaking publicly funded training need good advice

366. There is a strong case for requiring individuals who want to undertake publicly funded training to get information or advice from an integrated national and local IAG service before public funding is made available, because:
- ! the lowest skilled are identified as being particularly disadvantaged in accessing and benefiting from IAG services;
 - ! this would go some way to ensuring that the best use is made of public funds;¹²⁸ and
 - ! it would provide a mechanism for ensuring that individuals get impartial advice and guard against the possibility of them wasting public money on unsuitable or inappropriately expensive training provision.
367. DfES and LSC would need to consider carefully how such a requirement might work in practice and develop proposals for monitoring it.

¹²⁷ Some IAG Partnerships have managed to secure other funding, for example the European Social Fund to support such activity.

¹²⁸ Currently, Career Development Loans have to be endorsed by the local IAG Partnership even though this is essentially the learner's own money rather than public funds.

The unemployed and those on the New Deal should be followed through the system

368. New Deal programmes and WBLA offer opportunities for individuals to undertake formal education and training whether outside or within employment under the guidance of a Personal Adviser. Jobseekers Allowance rules currently allow an individual to study part-time without losing benefit, but that individual must be available for work. Jobcentre Plus already offers jobseekers information and advice about studying opportunities.
369. However, individuals are not currently targeted to receive WfD opportunities once they have moved out of unemployment and into work. Such opportunities are essential if these individuals, who are often the lowest skilled and most at risk of further periods of unemployment, are to achieve sustainable work and greatest mobility within the labour market.
370. The following approaches could be considered:
- ‡ Offer more opportunities for jobseekers to receive guidance on part-time studying while seeking work. This would ensure that individuals undertook appropriate courses that would enhance their employability.
 - ‡ Establish sign-posting systems that encourage those who have graduated from the New Deal and former jobseekers to undertake further WfD. Much of this could be done through a referral system activated at the last point of contact, between the job seeker and their employment advisor. In this way successful jobseekers (and their employers) could be directed towards their local IAG Partnership, ULR or other web/phone-based tools such as the **learnirect** helpline or Worktrain.
 - ‡ Overall, better co-ordination of different government welfare to work and WfD programmes could improve outcomes for individuals and help meet government objectives. The linking up of these programmes presents considerable difficulties but is a vital aspect of reaching those individuals who are most at risk of exclusion from WfD.

Box 10: skillsformedia - the sectoral approach to IAG

September 2001 saw the launch of a unique new career development service, *skills formedia*. The service is owned and managed by the media industries' National Training Organisation, Skillset, and specialist Trade Union, BECTU, which started the scheme under the Union Learning Fund.

The service includes:

- ‡ *skills formedia* Direct – individual in-depth career management advice for experienced media practitioners;
- ‡ *skills formedia* Express – one-to-one career advice for media graduates, new entrants and media professional at the start of their career;
- ‡ *skills formedia* Helpline – career advice and guidance by phone;
- ‡ *skills formedia* Workshops – marketing and business development workshops run by media experts; and
- ‡ the industry-backed portal for information about media careers, qualifications and training in the UK, www.skillsformedia.com.

skills formedia is a pioneering industry specific careers advice service, delivered by and for media professionals. Its advisors are working media freelancers trained as careers advisors and the service hopes to gain quality accreditation in line with the National Standards for Guidance next year.

With funding from the European Social Fund, DfES and the Scottish Executive, the aspects of the service which are not free of charge, such as *skills formedia* Express, will be subsidised until they become self-sustaining. Special emphasis will be placed upon supporting under-represented groups and reaching out across the regions.

The service also has close links with both **learnirect** and local IAG Partnerships and seeks to encourage better referral arrangements and information sharing. Industry specific IAG initiatives such as these have an important, complementary role to play in the context of an integrated national and local IAG service.

Tackling financial barriers to participation

371. Low paid and unemployed individuals are least likely to be involved in WfD activities. These groups are also the least likely to have disposable income to support learning activities. Almost a fifth of those surveyed quoted the costs of learning as one of the barriers to participation¹²⁹ and lack of finance has an impact on learning outcomes¹³⁰.
372. The costs of learning are broader than tuition and can include childcare, transport, books and equipment. Currently, the disparity between funds available and the costs of participation in courses remains a financial barrier to engagement. A new system of adult learner support should ensure that low-income students are not discouraged from studying for a qualification by costs such as tuition, childcare, transport and books.
373. While loans may be an appropriate vehicle for maintenance support or to cover participation costs for some adult learners, the rates of return¹³¹ suggest that it would not be worth learners taking out substantial loans for qualifications up to level 2. In addition, the groups most likely to be in this position are also those that are most likely to be averse to taking on debt.
374. Maintenance grants may act as an incentive to study full-time outside of work. This is problematic because evidence suggests that formal further education and training are more effective when undertaken within work, and being in work itself can offer considerable opportunities for development¹³². Rather than full-time study, part-time or flexible provision should be encouraged. In particular, making the best use of technology to support distance and e-learning should be encouraged although this would require consideration of quality, access and motivation issues.
375. There may be a case for discretionary provision of support for living costs for adult learners in some cases, such as for those with severe basic skills problems, or those whose circumstances change while pursuing a qualification or where a qualification demands heavy time commitment. The criteria and mechanism for this should be explored.
376. Financial support for students in higher education is more substantial. Means-tested grants for participation costs such as childcare are available, and students can take out income contingent loans to cover living costs.
377. In the future, funding based on the nature of the course undertaken (vocational or academic) rather than the institution delivering the development may be more appropriate as the boundaries between higher and further education become more blurred with students at FE colleges undertaking HE courses, and HE institutions introducing foundation degrees based on a vocational model. Incentives to encourage individuals to participate in more flexible methods of learning, which may be more cost effective, could be considered.

Tackling time barriers to participation

378. Qualitative research for the PIU undertaken by MORI suggests that a frequently cited barrier to development by individuals is lack of time; this is also reflected in the NALS research. The only current Government intervention in this area is the right to time off for 16-17 year olds without a level 2 qualification.

¹²⁹ *National Adult Learning Survey* DfEE 1997

¹³⁰ When disadvantaged individuals do take courses, they are the least likely to complete them, H. Kennedy *Learning Works* op. cit.

¹³¹ See chapter 3 of report

¹³² OECD Jobs Study; *Employment Outlook* OECD June 1999; Joint Employment Report, EU 2001.

379. A range of approaches could be considered to overcome the time barrier. A number of criteria need to be considered when choosing the correct intervention, including:

- | actual effect/objective;
- | cost and deadweight;
- | administrative ease;
- | enforceability;
- | value for money;
- | attitude of employers and unions; and
- | regulation in proportion to the extent of the problem¹³³.

380. The types of possible approaches that could be considered are:

Promotion and best practice

381. The promotion of WfD to employers would help to pinpoint more clearly the benefits that could be achieved through investing in their workforce (e.g. adults with poor literacy skills may be a health and safety hazard in some workplaces but employers may not have considered the potential consequences). This could be carried out through:

- | peer advisors at individual firm level, who would work with staff and employers to demonstrate the benefits of WfD and find ways of best delivering such development;
- | sectoral approaches, whereby organisations such as the SSCs could promote the specific benefits of WfD to their members to sell WfD as an investment for the future; or
- | best practice benchmarking or comparisons in order for individual firms to see how they compare with others and consider how this impacts on their business performance.

Financial

382. There are a variety of financial incentives that could be adopted including:

- | targeted help with tuition and accreditation costs;
- | compensation for wage costs for business that give time off;
- | support for business for employing staff to cover absences, linked to the administrative cost for example of finding replacement staff; and
- | support linked to business initiatives that helped to overcome time barriers (e.g. businesses providing individuals with computers to learn from home outside of work).

383. For all financial incentives, there are a number of mechanisms by which they could be delivered and a range of models would need to be explored.

Statutory approach

384. The central objective is for businesses, large and small to build WfD into their practice and planning. However there may be a case for a more formalised statutory approach. Such a decision would be a significant undertaking. Careful consideration, including a full regulatory impact assessment, and wide consultation would be necessary before proceeding with any specific proposal.

385. Getting the design right for any intervention to reduce time barriers would be crucial. There are a variety of approaches that could be used, which would further reduce time barriers and ease the potential burden on employers. Highlighting the importance of partnership between employers and individuals and the need for both to take responsibility for WfD is particularly important.

¹³³ *Think Small First, Supporting smaller businesses in the United Kingdom – a challenge for Government* Small Business Service 2001.

386. A number of factors need to be taken into account:

- | the nature of provision. In many cases, WfD takes place outside of normal working hours at college or through distance learning. The growth of e-learning should expand the range of such provision and make it more accessible to a wider audience by increasing its flexibility. Therefore the promotion of e-learning approaches may be beneficial. However participation in such WfD demands a high degree of motivation and commitment that many lower skilled adults may not demonstrate;
- | the case for different approaches for different groups and if so what the criteria should be e.g. prior qualifications, need to obtain specific qualifications, wage level. It may be appropriate to focus attention on one group, i.e. those without basic skills, but over a period of time, this focus could change;
- | the extent to which partnership approaches could be used. For example employers providing premises or equipment for employee use outside of normal working hours or both employer and employee contributing time could be a positive way forward where both are committed;
- | the impact on employers, particularly small employers in terms of cost, loss of staff time and administrative burden of introducing any requirements to provide WfD or time off for WfD; and
- | links to qualifications. If financial or regulatory incentives were used, should they be linked to the achievement of specific qualifications?

387. Some business support has been expressed for a right to time off for basic skills. Any such right would need to be well targeted where the market failure is greatest and on those most likely to benefit. This would be a significant undertaking with complex pros and cons which would only be taken forward when preceded by a Regulatory Impact Assessment that shows the costs and benefits of such a policy.

Mechanisms for empowering employers and individuals

Empowering small firms

388. The analysis in chapters 3 and 4 shows that small firms face particular problems which discourage them from engaging in WfD, including:

- | capital constraints;
- | lack of access to information;
- | lack of time;
- | weak supporting networks; and
- | fear of poaching.

389. However, around 50% of workers with less than level 2 attainment work for firms with fewer than 50 employees who may not offer training or support for their employees. Therefore, there is strong justification for Government intervention aimed at tackling the market failures and barriers that prevent small firms from training.

390. Raising demand for WfD amongst small firms is likely to be more successful if it is clearly linked to business development. By helping small businesses to survive, grow and develop, the derived demand for WfD is likely to increase. In addition, small firms often display little interest in WfD itself but their interest can be increased by demonstrating the links between WfD as a solution to business problems or as a driver for business growth or improved results. Therefore incentives based around business development are likely to be more attractive to small firms.

391. Increasing small firms' purchasing power for business development is key to raising demand for WfD. This enables the firm to purchase what they require, when it is needed, from a wide variety of suppliers with minimal bureaucracy.

392. A simple, accessible package of support, with the capacity for it to be tailored to the diverse needs of individual businesses and local circumstances is therefore desirable¹³⁴.

393. Such a package could contain:

- | | |
|--|---|
| | support for management/business development; |
| | incentives for analysis of training needs; |
| | funding for quality awards (e.g. liP); |
| | incentives for network participation; |
| | incentives to achieve qualifications; and |
| | small firms training or business development loans. |

394. Various options could be used to deliver each element of this package including:

- | cash grants to spend on WfD activities;
- | vouchers to be spent on specific activities;
- | tax credits to incentivise expenditure on WfD; and
- | loans for business development/training.

395. Government must take into account of a number of factors when selecting appropriate mechanisms to ensure that value for money is achieved, policy objectives delivered and simplicity is maintained. These include:

- | the level of demand and possible cost to the Government of each of the elements of the package;
- | the extent of deadweight and how this could be minimised by targeting specific areas where evidence of market failure is clear;
- | inappropriate use of funds;
- | restrictions (e.g. certain elements only available to firms of a particular size or to those who have reached a certain stage of development or growth, an overall cap on what an individual firm can receive);
- | establishing outcome measures that encourage the best use of the package; and
- | ensuring the business support network has the capacity to deliver.

396. DfES are currently examining a similar model (see box 11). The next stage of this project will address how such a package might be designed.

¹³⁴ Company Learning Accounts were recommended by the Small Business Council in their July 2001 annual report.

Box 11: The Small Firms Learning Account

The *Small Firm Learning Account* is a pilot scheme aimed at encouraging small firms of between 5 - 49 staff to encourage their employees to take up ILAs and use them for development that meets both personal and business needs. By registering on the scheme, the employer is offered either:

- | a visit from a Skills Coach to provide help identifying learning objectives which meet individual and business needs; and
- | attendance at a free local workshop to provide practical help in identifying learning needs related to business needs. If companies choose this option and once 50% of staff have applied for an ILA and 75% of these have booked learning, they receive £500.

When an employee opens an account and uses the discounts on training endorsed by the employer the discount is increased by £50. Employers' contributions to ILA are tax deductible, *provided the offer is made to all employees*. Employees are not subject to tax or NI contributions on the employer's contribution.

The pilot will be revised in the light of changes regarding ILAs, but the essential features of incentivising the employer to engage the workforce in learning will be retained.

Empowering individuals

397. Lack of demand often arises from a lack of motivation or a fear of learning. By empowering individuals through putting purchasing power in their hands, Government would be seen to trust and value individual choice thus helping to enhance motivation or remove fears.
398. Possible mechanisms for delivering purchasing power to individuals include:
- | cash grants to individuals to spend on development activities;
 - | tax credits to incentivise increased expenditure on WfD;
 - | learning vouchers which can be spent with different providers;
 - | subsidised loans for WfD – income contingent or mortgage-style; and
 - | a form of individual learning account mechanism.
399. As with employers, a number of factors would need to be taken into account in deciding on the best option, including:
- | the ability of Government to respond to open-ended demand, leading to high levels of expenditure and the potential for capping such expenditure;
 - | the extent of deadweight and how this could be minimised by targeting specific problems where evidence of market failure is clear;
 - | the ability to secure value for money and quality of provision;
 - | minimising the risk of abuse or mismanagement. Tight central control may reduce the risk of abuse or mismanagement but may fail to achieve policy objectives. A system that based controls around both training providers and individuals would reduce the potential for abuse. However, this requires careful balancing of controls when designing the delivery system;
 - | establishing outcome measures that incentivise desired behaviours; and
 - | ensuring that the right market conditions are in place to support a demand led system (e.g. widely available systems of IAG to help individuals make informed choices).

Figure 36: How one option might work...a new form of individual learning accounts

A new form of account mechanism could address weaknesses within the WfD system, such as low demand from low skilled individuals. It is a potential delivery mechanism for connecting individuals with opportunities and provides a mechanism through which multiple targeted or universal resources can be delivered.

For instance, such an account could include:

- | funding for specified achievement which could be spent with a range of providers on a range of provision covering both classroom and e-learning;
- | potential for contributions from employers, individuals and Government;
- | discounts to encourage lifelong learning;
- | a link to compulsory initial assessment of need and appropriate options; and
- | a tracking system to follow up achievement with more options for development.

Incentivising partnerships between individuals and employers

400. WfD is more effective when employers and individuals work in partnership although they may not always have the same goals. By aggregating resources between employers and individuals, the total quantum of resource is increased and mutual benefit is more likely to be obtained. WfD partnership based approaches are consistent with approaches being adopted in other areas of Government policy balancing the rights and responsibilities of stakeholders. Examples of successful partnership approaches are shown in figure 37.
401. Government also has a role to play in partnership arrangements as Government funds can have the most impact if they are used as leverage for private funding in targeted areas/scenarios.

Figure 37: Partnership working

Ufi has developed a diverse set of partnership models to make learning available to learners and firms, including SMEs. In addition to its co-branding and co-locating efforts with UK Online Centres and FE Colleges in local communities all over England, Ufi has developed 8 sector partnerships in 7 industries, with another 15 sector based projects in pilot or planning stages. The initial 8 sector projects have resulted in employees taking up over 12,000 courses from 1 April to mid-October 2001. These sector based partnerships reach SMEs and their employees directly through various sector business networks, and reach the employees of large firms through their supply chains.

402. The key to the success of partnership working is the ability of local agencies, employers and individuals to put together funding packages that maximise the impact of any Government's contribution. The role of the SSCs in developing sector based partnership arrangements is also critical. Therefore flexibility in the operation of such arrangements is required.
403. DfES are currently undertaking pilot studies looking at combining individual and employer contributions to WfD. This could be further developed, through individuals and small firms combining their new purchasing powers and being able to negotiate better training deals. Government intervention in the form of top-up funding or other benefits (e.g. free advice) for employers who implement partnership arrangements could act as a further incentive.
404. A similar approach could be extended to the community to help hard to reach groups. By providing some incentives for individuals to combine their individual purchasing power, similar benefits in terms of better value for money would be achieved as well as increasing motivation.

7 Meeting demand with high quality WfD provision

Summary

- ‡ A demand led system requires a responsive supply side that can meet demand through the provision of high quality, relevant training and development.
- ‡ Current funding regimes do not adequately incentivise the achievement of desired outcomes on the supply side and can provide perverse incentives to meet intermediate targets rather than add value.
- ‡ The systems of quality assurance for WfD could be further enhanced to reward good providers and strengthen sanctions for poor providers who do not improve despite support to do so.
- ‡ A more diverse mix of providers and methods of provision needs to be supported by helping to build capacity.

Introduction

405. This chapter sets out three key objectives for ensuring providers of WfD are well placed to respond to a demand-led WfD system. It emphasises the importance of ensuring that the supply of WfD is adequate in terms of quality as well as quantity to meet both existing and projected future demand. It also focuses on the need for effective funding regimes for publicly funded WfD to incentivise the achievement of desired outcomes and to ensure that the taxpayer obtains best value for their investment.

406. The three objectives are:

- ‡ to restructure funding regimes to improve incentives for high quality provision;
- ‡ to raise standards of provision across the public, private and voluntary sectors; and
- ‡ to increase capacity within all sectors, particularly the capacity to provide training in essential WfD skills such as ICT.

New methods of funding to support provision

407. The current funding mechanisms used by the LSC have been carried forward from previous structures which distinguished between FE college based provision, WBL and adult and community learning. In addition, the LSC has responsibility for other funding streams not directly related to WfD.
408. An effective funding regime needs to incentivise the achievement of desired outcomes while committing sufficient resources to guarantee the standard of quality required. This regime should be flexible enough to recognise local needs or to respond quickly to unexpected changes while stable enough to enable providers to plan ahead with some degree of confidence.
409. The LSC is currently developing a unified funding regime that will bring together all of its budgets and ensure that all programmes and providers are funded according to a common funding mechanism. The design and implementation of a unified funding regime is a significant task and will be undertaken in stages.
410. The new funding system will assign responsibility to local LSCs for the allocation of funds to FE colleges and WBL providers, moving away from the existing national allocation system. The allocation will be based on the colleges' own plans which should clearly indicate how they will fulfil local employer needs. In addition, local LSCs will have responsibility for determining the allocation of the smaller earmarked WfD budget.

411. As the new funding system develops, the LSC has a role in:
- ‡ ensuring that it provides positive incentives for colleges to work proactively with employers as part of local WfD strategies;
 - ‡ seeking ways in which the employer/college relationship should be put on a more commercial basis; and
 - ‡ building greater flexibility into its budget to enable local LSCs to address local WfD and infrastructure needs.
412. Chapter 5 outlined plans to transfer funding gradually into the hands of individuals and employers. If this system were to be implemented, over a period of time, an increasing proportion of the allocation of public funds to providers would come through individuals and employers. This would enable purchasers to exercise buying power while enabling providers to work with customers to develop innovative ways of using such funding.
413. In order to maintain a degree of stability in the provider network, however, it would be necessary under such a scenario to retain the ability of the local LSCs to contract directly with providers for certain types of provision, e.g. basic skills. Therefore in the long term the LSC budget might divide into three blocks:
- ‡ Funds allocated to individuals and small firms seeking to upgrade their skills or secure entry-level qualifications through specifically targeted provision. This might take the form of individual accounts for learning, some form of development accounts for small firms and innovative ways of linking the two. This would enable direct purchase of development by firms and individuals and would be a powerful means of reflecting and raising demand.
 - ‡ Resources to support the provider network such as:
 - central contracting for specific groups if deemed essential;
 - capacity building;
 - national priorities associated with the Standards Funds;
 - sectoral agendas;
 - labour market information; and
 - capital development funds.
 - ‡ Local discretionary funds to support individuals, firms, and communities. Discretionary resources held by local LSCs are a vital means of addressing specific local circumstances (e.g. regeneration, redundancies, or technological change) and supporting innovation.
414. This reshaped budget would need to be accompanied by an increasing degree of budget flexibility for the LSC, both locally and nationally to better meet need through strategic investment and to enable improved leveraging of other public and private resources for WfD.
415. Criteria would need to be put in place to guide the allocation of discretionary funds to ensure that it supports local needs and local plans, is in line with national and local LSC targets, complements initiatives such as the Rapid Response Fund and represents value for money for the Government.

416. Key considerations should include support for:

- | priority local and regional growth sectors (e.g. industries, clusters, and key firms);
- | environmental or economic crises (although care needs to be taken to ensure that this does not duplicate the Rapid Response Fund);
- | community regeneration and renewal projects seeking to leverage existing resources;
- | innovations in WfD seeking to expand their reach, scope, or scale;
- | technology access and use (for enterprise, commerce, learning etc.) within firms and among local providers and areas; and
- | entrepreneurship or co-operative enterprise in targeted communities that lack access to such business development resources ¹³⁵.

Improving the quality of WfD provision

Stimulating and rewarding quality provision

417. Historically, inspections of FE colleges ¹³⁶ and WBL providers ¹³⁷, while recognising examples of excellence, have highlighted incidences of mediocre or poor provision, which did not appear to improve over time and yet incurred no financial or other penalty. A key objective of the LSC working locally is to raise the quality of provision across public, private and voluntary providers.
418. Since its establishment, the LSC has produced a quality strategy which aims to ensure that all providers reach a satisfactory level of provision and over time only high quality provision is funded. Local LSC's have started to implement many aspects of this strategy. Key aspects, all of which should contribute to improved quality include:
- | local review of performance three times a year, to identify quickly underperformance and enable intervention to take place at an early stage;
 - | support for poor providers to improve;
 - | the introduction of a national learner survey to measure user satisfaction; and
 - | an increased focus on self-assessment by providers.
419. The strategy also aims to tackle a number of other key issues on which policy work is now being taken forward:
- | the quality and qualifications of staff in public, private and voluntary providers;
 - | enhancing mechanisms for easily providing potential customers with quality information relating to individual courses; and
 - | the development of appropriate performance indicators and benchmarks for work based learning.

The quality and qualifications of staff need to be enhanced

420. WfD requires high quality training staff who are skilled in teaching methods and up to date in their particular area of expertise. The Employment National Training Organisation is currently developing occupational standards and a structure of vocational qualifications that can be undertaken by private and voluntary sector training staff to match that adopted by the FE sector for its teaching staff. This should have a significant impact on the quality of teaching available if implemented on a timely basis.

¹³⁵ Existing programmes tend to run with little or no supporting skills development. An exception is a pilot programme the New Entrepreneur Scholarship combining skills and employment for people from socially-deprived areas. Delivered jointly by a number of organisations including the Prince's Trust.

¹³⁶ *Quality and Standards in Further Education in England 1999-2000*.

¹³⁷ *Reaching New Standards: Annual Report of the Chief Inspector 1999-2000* The Training Standards Council Report, 2000.

421. In addition, since March 2001 all post-16 providers, registered on the post-16 provider database, regardless of size have been required to produce annual self assessment reports in line with the new Common Inspection Framework. One of the requirements of this new approach is that all providers should have up to date plans for the professional development and training of all their staff. If properly implemented this should help to address the quality and qualifications of staff.
422. However, the professional development and training of staff should be planned with a clear focus on the need to maintain leading edge industry and technological knowledge and to develop appropriate local business links and experience. In addition up to date ICT skills are essential both for the delivery of training using a variety of methods and to pass on the latest ICT techniques to students. Self-assessment training plans must adequately reflect this focus.
423. The standards fund operated by the LSC currently allocates funds to FE colleges for staff development. If teaching standards are to be driven up, there are questions about whether such funding is only available to public sector providers. This could be considered in the context of introducing a requirement for all trainers to obtain specialist qualifications.

Comparable customer quality information should be made readily available

424. Currently, potential customers can access inspection reports via the web¹³⁸. Many FE colleges, under the FE charter, and WBL providers, as a matter of good practice, provide quality information to prospective students. National statistics on student retention and achievement of qualifications are also collated and published on the web¹³⁹.
425. The local LSCs examine customer satisfaction data as part of the regular 4 monthly performance reviews of provider performance. The LSC is also setting up a new national survey of learners to oversee local survey activity. All of which will feed into a new set of quality indicators covering the diverse range of post-16 provision.
426. All of the above developments will produce data that can be turned into valuable information for customers. To maximise the use of this information, the development of a readily accessible mechanism or source to enable potential customers to obtain comparable information would be beneficial. Such information could include customer satisfaction, retention and achievement rates on specific courses and the ultimate success of individual courses in helping participants obtain employment.

Quality benchmarks and performance indicators should be developed for WBL

427. The LSC is currently developing a range of provider performance indicators for WBL. These should be based on the requirements set out in paragraph 426 above.
428. Training providers may not just provide training for LSC funded programmes but may also contract with other national or local government departments or organisations. To prevent duplication of effort and ensure that information is readily available to those wishing to contract, an easily accessible database of quality information concerning all providers involved in the provision of publicly funded programmes would be helpful. Government departments would have to agree on responsibility for the content and maintenance of such a database.
429. Entry on this database would follow satisfactory completion of an initial assessment based on criteria covering elements of customer satisfaction, technology capability and quality of staff. The LSC has recently issued such criteria.

¹³⁸ <http://www.lscdata.gov.uk/documents/inspectionreports/index.html>

¹³⁹ <http://www.lscdata.gov.uk/data/analysisandbenchmarking.html#9798>

Box 12: Getting the Best from Each Other

Getting the Best from Each Other is a DfES initiative proposing new ways of working between DfES and its providers, (excluding Schools and Higher Education services). The consultation document proposes a new framework of principles for sharing best practice among Departments, agencies and providers.

The emerging framework focuses on strengthening contractor-provider relationships in line with five key principles including:

- | a focus on outcomes;
- | a needs-led approach;
- | improved standards;
- | modern funding and contracting practices; and,
- | continuous improvement and shared learning.

Respondents have been largely positive about the framework proposals, both in writing and at the 20 events that were held around England. DfES is considering how to best mainstream the findings of the consultation both within the Department and associated NDPBs, and exploring the potential for wider application across Government, emphasising those other Departments and Agencies which share the same provider-base as DfES.

Further information, including a copy of the consultation document, a summary of responses and the action plan (when published) can be downloaded from:

http://www.dfes.gov.uk/consultations/sor/results_sor.htm

Developing the COVE initiative

430. Another key element of the LSC's approach to quality is the implementation of Centres for Vocational Excellence (COVE). The award of COVE status should recognise innovation and imaginative provision not just good provision. The criteria should be set to make the achievement of COVE status challenging and forward looking.
431. Currently, only FE colleges are eligible to apply for COVE recognition although the range of organisations eligible to apply may be expanded in the future. To encourage innovation and productive partnering arrangements a wide range of organisations should be eligible for COVE recognition. At this stage, barriers to such arrangements (for example the provision of capital funds to certain types of providers only) could be reviewed and a timescale set for expansion of the initiative. Work to bring greater coherence between the COVE initiative and New Technology Institutes, University Innovation Centres and the Manufacturing Advisory Service should also be further developed.

Inspecting and assuring quality

432. Inspection is only effective as a tool if the results of inspections lead to improvement. In the past, a small number of instances have occurred where WBL providers have not improved but no sanctions have been applied¹⁴⁰, although in the majority of cases re-inspection did lead to improvement. The LSC have powers to address this situation, and can, after a period of support and advice, reduce or withdraw contracts from providers who appear incapable of improvement. This may not always be appropriate if there is no alternative source of provision available. In the most serious situations, the Secretary of State may intervene to deal with problems in FE colleges and has the power to remove college Governors. The ability of the LSC to intervene directly, (e.g. to invite in private or voluntary sector managers to take over failing colleges) may need to be reviewed as the LSC's quality strategy develops.
433. The new Common Inspection Framework, which applies to all providers not just FE colleges, aligns criteria between OFSTED and the Adult Learning Inspectorate (ALI). This is a recent development and would merit evaluation in the future to ensure that the joint arrangements and new criteria were adding value to the inspection process.

¹⁴⁰ *Reaching New Standards: Annual Report of the Chief Inspector 1999-2000* op. cit.

434. In addition the marketing of the inspection framework to in-house providers should be considered. This would provide in-house training with an independent assessment of its quality, which may be useful for firms seeking to fulfil quality standards.
435. In the longer term, the need for separate inspection bodies for various elements of the education system involved in WfD, including schools and higher education should be reconsidered, as should the drawing of the boundaries between the inspectorates.

Building WfD provider capacity

436. In a demand-led system, the capacity of suppliers to provide what is required promptly and to an appropriate standard is crucial. Part of this capacity is the ability to react quickly to change and to remain at the forefront of workplace developments. Therefore, it is not enough to facilitate existing providers to become better at delivering the same training. There is a need to open up the supply side to new entrants who can develop and deliver innovative new training and/or methods of training. Figure 38 suggests ways in which this could be done.

Figure 38: Building provider capacity

Building capacity among new providers (private or voluntary sector organisations)

New providers may need assistance with process issues (e.g. contracting processes, self-assessment etc.), and some may need assistance with basic organisational capacity issues. Private providers may not be familiar with government structures and funding. Similarly, voluntary sector providers might not offer access to new technologies. The local LSCs should take primary responsibility for creating a richer, more diverse, and better quality network of providers in their local areas by helping to address such issues.

Building capacity among firms as providers

Firms are already key providers of formal and informal WfD. For firms engaged in formal training or interested in establishing training facilities, the local LSCs should assist in seeking ways that such facilities or training capacity could be used more broadly to help make existing high-quality provision available to a wider customer base.

437. In assisting local providers with their capacity building efforts, local LSCs should pay particular attention to the ways in which providers are integrating new technologies into their provision:
- ‡ maintaining effective technology infrastructures instils confidence on the part of funders, learners, and employers;
 - ‡ improving use of existing technology and access points, including **learnirect** and UK Online, can help providers increase the breadth or depth of existing markets and help develop new ones;
 - ‡ incorporating new technologies to support learning encourages innovation and quality throughout the sector; and
 - ‡ developing content for on-line provision either through brokers, firms, other providers, or through their own systems can help build fee-generating enterprises.
438. Local LSCs need to adopt a strategic approach to building capacity through working with public, private, and voluntary training, education and WfD providers. This approach should focus on management, quality assurance, contracting, technology, finance and other critical organisational capabilities as well as considering the number and mix of providers available.

Box 13: Capacity Building for a Demand-led Approach: Bradford Project

By forming closer connections between employers and staff delivering their programmes, the ES could become more efficient and effective, improving outcomes for individuals and employers alike. The ES and partners in Bradford agreed to participate in a project to build their capacity to better meet the needs of local employers.

With assistance from DfES, a partnership consisting of Bradford ES, Yorkshire Forward (the RDA), and local training providers is preparing to launch a project that will be led by a new Capacity Building Team working alongside Bradford ES. The project will address the following objectives:

- ‡ Develop the capacity of ES Providers, ES staff and local strategic partner organisations working with unemployed people to meet employers' demands for quality, service, reliability and cost from the services provided by the ES.
- ‡ Engage employers, especially SMEs in the design and delivery of provider programmes in a systematic and sustainable way.
- ‡ Prepare unemployed disadvantaged individuals, particularly ethnic minority and young unemployed people for good jobs and new careers.
- ‡ Produce best practice templates along with tools and techniques for employer engagement (by providers, ES staff and local strategic partner organisations), which can be replicated with other providers and strategic partners.

In addition to delivering quality services to individual and employer customers, the project hopes to inform the future development of new models for effectively connecting individuals with jobs, support, and appropriate training based on both client and employer needs.

8 Developing a Government framework to support WfD

Summary

The proposed demand-led WfD system needs to be supported by an effective Government framework. This framework needs to be developed through consultation and further review. Aspects to be considered include:

- ‡ the development of a set of shared outcomes for the key Government stakeholders underpinned by a comprehensive accountability structure;
- ‡ the establishment of a system for the collection, collation and dissemination of reliable and timely LMI to inform planning and decision-making by all stakeholders in WfD; and
- ‡ the responsiveness and flexibility of the qualifications system.

Developing shared outcomes for WfD

WfD cuts across a number of Government agendas and departments...

439. Responsibility for WfD is shared primarily across DfES, DTI, DWP and their partner bodies. All of these have targets linked to WfD. However, the extent to which WfD is central to each department's work varies according to their differing roles.
440. While WfD is central to achieving the Government's objectives of increased productivity and social inclusion, it can be hard to develop outcome measures for WfD which reflect these objectives:
- ‡ defining the link between action taken and achievement is problematic; and
 - ‡ different elements of WfD are delivered through assorted programmes and organisations, with subtly different aims and objectives.
441. There needs to be a shared understanding of what outcomes the Government seeks to achieve from WfD, which all departments and agencies can aim towards.

... but needs to be based on common goals

442. Shared outcomes between all the players are needed so that:
- ‡ the intended outcomes of WfD will not be sidelined by an agenda too focused on only one element—whether skills, employment, or productivity;
 - ‡ national, regional and local organisations will be better able to 'join-up' their efforts on WfD; and
 - ‡ employers and individuals are not confused by local strategies with conflicting objectives.
443. Research carried out in the US¹⁴¹ has shown that the most effective WfD programmes focus relentlessly on employment or advancement as the goal of participation, work closely with employers in the design of programmes and services and hold participants to high expectations.

¹⁴¹ Strawn, J. and K. Martinson, *Steady Work and Better Jobs* New York: Manpower Demonstration Research Corporation 2000.

444. Outcomes should be set at a high level and supported by a small number of clearly defined success measures as appropriate. Relevant departmental and agency targets should be set in accordance with these outcome measures so that they are not working towards conflicting goals. Figure 39 sets out some examples of the outcome and success measures that might be developed.

Figure 39: Potential outcomes and success measures

Achieving higher productivity through WfD	
<u>Outcomes</u>	<u>Success measures</u>
Business success	<ul style="list-style-type: none"> - Higher productivity/profitability - Business confidence - Higher rate of business growth - Customer satisfaction
Outcomes relating to business success should be closely linked to regional and local economic development strategies.	
Employment opportunities and career progression	<ul style="list-style-type: none"> - Acquisition of qualifications and skills (and) - Periods of continuous employment (and) - Increase in earnings (and) - Employee satisfaction
The success measures above should be used in combination rather than as separate measures: <ul style="list-style-type: none"> ➤ Employment without increased earnings does not offer career progression. ➤ Qualifications do not necessarily lead to increased earnings. ➤ Relative earnings increase is a measure of labour market bargaining power. ➤ Employee satisfaction should be a particular priority. 	
Quality and responsiveness of WfD provision	<ul style="list-style-type: none"> - Customer satisfaction - Private-sector investment in high quality WfD provision - Impacts on business success, employment opportunities and career progression
Customer satisfaction data can inform future customer decision-making, but does not provide a complete picture of quality. Increased private sector investment is a measure of confidence in provision, but not quality.	
Achieving social inclusion through WfD	
<u>Outcomes</u>	<u>Success measures</u>
Social Inclusion	<ul style="list-style-type: none"> - % those previously not involved in the labour market who become involved, particularly those with no or low qualifications .
Social inclusion determined by a range of factors of which WfD is only one. Engagement in WfD (or work or learning) is one of a number of possible measures of movement from exclusion to inclusion.	

445. Figure 40 gives an example of a shared performance measure. The outcome measure described is "Earnings Gain" which is one of the key indicators of career progression.

Figure 40: Developing relative wage gain as a Shared Performance Measure

In the US, recent welfare and WfD reform has raised the profile of wage gain as a key performance indicator. It is now used in most employment and WfD programmes at federal, state, and local levels.

- *Why?* Increased earnings are certain positive outcomes for customers. Using “wage gain” as a performance measure also incentivises staff to help customers identify high-impact development opportunities and good jobs rather than simply facilitating “participation” in development.
- *What?* Although the formula for determining wage gain does vary by programme, it is generally determined by comparing pre- and post-programme wages of customers. Local targets are set in relation to median wage levels in local labour markets.

Importantly, wage gain is not the sole performance indicator in any WfD programme. But when coupled with complementary measures such as customer satisfaction and achievement of qualifications, it is an effective means of ensuring that real customer outcomes are achieved.

446. There is a strong case for an overarching PSA outcome fitting into the current PSA structure and shared between DfES, DTI and DWP reflecting the overall goals of WfD. This would inform the target setting processes of the three Departments and their agencies and provide a clear focus on WfD as a defined cost centre.

Establishing clear accountability for achieving outcomes

447. To make shared outcomes work, it needs to be clear who has responsibility for delivering the different elements of the system at national, regional and local levels, and how these institutions need to join up. It will also be important to consider the role of the newly emerging SSCs since their expertise will be focused around specific industries, cutting across national, regional, and local boundaries.
448. DTI, DfES, and DWP should work together to establish a clear and appropriate division of accountability for delivering common WfD goals. The accountability framework should define responsibilities at national, regional and local levels. It should ensure the planning and processes undertaken by the different departments and institutions are co-ordinated.

Accountability needs to be held at a national, senior level....

449. Accountability at national level is currently split. It needs to be integrated and focused both in terms of overall strategy and day to day delivery to support the delivery of the future policy framework proposed in this report. There are a number of ways in which this could be achieved, one way being through a Minister reporting to a Cabinet sub-committee supported by a cross departmental WfD unit. Whatever structure is developed needs to:

- | be able to exert influence across Whitehall at both Ministerial and official level;
- | have control over the budgets involved;
- | have credibility with the main stakeholders involved;
- | have sufficient time to dedicate to the task;
- | include the key players;
- | be composed of the right mix of skills and knowledge; and
- | be committed to and skilled at delivery.

450. Ultimately the structure at national level needs to be able to embed WfD in the key departmental agendas. The Government should have responsibility for setting the overall strategic direction and establishing an appropriate accountability framework. Regional and local areas are, in turn, responsible for co-ordinated planning and aligning, delivering excellent performance, and maximising the impact of their individual and collective investments.

...at regional level....

451. At regional level WfD should be linked to economic planning¹⁴². A possible vehicle for taking this forward in the short-term is the Framework for Regional Employment and Skills Action (FRESAs) co-ordinated by the RDAs¹⁴³. Although any number of local workforce or skills planning mechanisms could provide such a vehicle, local stakeholders are just beginning to organise around these plans, which could stimulate a higher level of co-ordination and collaboration across regions and local agencies.
452. RDAs are responsible for economic planning at regional level. WfD is an important component of economic planning. The RDAs will therefore be responsible for collaborating with partners, in particular the local LSCs to ensure that the WfD and skills agenda is appropriately reflected in economic planning, and is then successfully delivered in their regions.

....as well as locally, where flexibility is key

453. Locally, planning and delivery of WfD should be focused around the 47 local LSCs, with each LSC responsible for consulting with key partners including SBS, ES, local authorities and others.
454. The local LSCs are well positioned to begin moving toward shared accountability immediately by using their discretionary resources strategically. Over time, the discretionary portion of their resource will increase. This flexibility, together with better aligned accountability between regional and local partners, should support the ability of local LSCs to invest strategically, increase their impact locally and build credibility in their communities and amongst their private and public partners.

Box 14: Great expectations in Tyne and Wear

Tyne and Wear is one of four local LSC areas in the Northeast Region. It falls in the lowest performing category on almost every measure of economic and community health. However, local planners and policy-makers in Tyne and Wear are working with a variety of partners in the area and region to tackle these challenges head-on. Key local challenges relate to the skills and ambitions of individuals and firms:

- ‡ The economy is more reliant on manufacturing than other parts of England and this sector has been subject to considerable volatility over the past several months. Employment rates are already lower in Tyne and Wear than in England overall (62% and 68% respectively).
- ‡ The economy is overly reliant on lower-paying jobs and claims a disproportionately low number of managerial and professional positions.
- ‡ ICT skills are in demand among many employers, but ICT intensive firms are experiencing lay-offs and are reticent to invest in developing these skills among their employees.
- ‡ Only 7.5% of individuals are self-employed in Tyne and Wear, compared with England's 11.5% average.
- ‡ Talented young people are leaving Tyne and Wear after completing their education-the area suffers from "brain-drain".

¹⁴² Skills are a key challenge among all the RDAs already and the recent CBI evaluation called upon the RDAs to adopt skills as a key priority. *RDAs Getting down to business*, CBI August 2001.

¹⁴³ These frameworks are joint plans reflecting the roles, targets and long-term plans of the key partners including the RDAs, the LSCs, the GOs, ES and local authorities.

What is the LSC doing?

Firstly, the LSC is working closely with the RDA (One-Northeast) to ensure that where possible, LSC resources support regional efforts to move from the current “low-skill equilibrium” to a “high-skill, high-wage” economy where high paying jobs are available for individuals who acquire new skills. Specific examples include: aligning efforts and resources—where possible— with RDA investments in regeneration projects; entrepreneurial initiatives; and innovative strategies to address specific community challenges including redundancies and transport issues.

Second, as evidenced by the extensive consultation process in which it is currently engaged, the LSC values relationships with local and regional public, private, and voluntary-sector partners—including employers—with common interests. LSC staff are collecting information and intelligence about community activities not as a “tick-box” exercise, but with the intent to improve partnerships and align efforts amongst all stakeholders to generate greater impact.

Finally, the LSC is engaged in efforts to build its own capacity to better deliver on its local priorities. In addition to staffing changes and training, the organisation is attempting to be more thoughtful about setting priorities and identifying core competencies to inform business planning and collaboration with other agencies and entities.

The sectoral dimension is also crucial

455. The recently announced proposals for the creation of SSCs outlined the importance of their role. Any new accountability arrangements must ensure that the sectoral element is used effectively and is fully represented.

Box 15: Framework for Skills for the Rail Industry

This 18-point action plan was launched in April 2001 following extensive collaborative work by the Strategic Rail Authority (SRA) and DfES. The framework sets out a coherent strategy for developing people in the industry and has identified six broad themes for action:

- ! Overcoming obstacles to recruitment and labour supply.
- ! Improving training for people in the industry.
- ! Increasing the number of people gaining nationally recognised qualifications.
- ! Using the regulatory and franchising arrangements to improve skill levels.
- ! Ensuring that high quality training and assessment is available.
- ! Training, development, and qualifications for priority occupations a) drivers, signallers and track layers, b) 1st line/middle management; and c) Graduate and professional staff.

The Framework for Skills establishes a strategic plan for the next 10 years in these key areas. Government will support the implementation process in its first 2 years. This support has three complementary aims, to provide initial resources to kick-start action, to lever resources from the industry and key stakeholders to sustain momentum, and to evaluate the impact of the strategy.

SRA and DfES will be working with the Rail Industry Training Council (RITC) to galvanise industry ownership of the strategy to support the SRA's vision for “a bigger, better, safer railway”

All these levels must be linked together, and planning cycles co-ordinated.

456. Over time, the planning cycles of all the organisations involved could be synchronised, leading to better strategic and operational co-ordination and improved results on the ground.

The importance of excellent labour market intelligence, used effectively

Developing a system for collecting LMI

- 457. The DfES Skills and Economic Intelligence Working Group (SEIWG) brings together all the key agencies involved in the collection and analysis of skills and economic intelligence at national, regional and local level. This group has established principles on how the agencies should work together and has developed a framework to improve the coherence of the overall system. Challenges still remain in the effective specification, collation, and subsequent use of information. These challenges should not be underestimated and will require co-operation and co-ordination between national, regional, sectoral and local agencies.
- 458. The ability to use information effectively is as important as the quality of the information itself. LMI should be accessible to everyone who wishes to use it including employers, individuals, providers, guidance staff and so on. In addition to developing more user-friendly products, it is important to help staff at all levels develop a better understanding of LMI and how to use it. Different levels of access may be appropriate. This will also inform demand for continuous improvement in information.
- 459. In order to establish good arrangements for the collection and dissemination of useful and timely LMI, a strategic approach covering all aspects of LMI should be developed. This could best be operated through the accountability framework proposed earlier in this report.
- 460. The integration of the role of the RDAs and the local LSCs, along with the SSCs is critical to the successful development of LMI arrangements. Initiatives already in place, such as the observatories established by many RDAs, and the FRESAs being established by all RDAs should form part of the overall strategy. SEIWG could act as a specialist national advisory group.

Putting in place a more flexible and responsive qualifications system

- 461. The achievements of the QCA in using a regulatory framework to lend credibility to vocational qualifications have been significant. In the context of the proposed demand-led WfD system, this report seeks to build on that success and to facilitate employer involvement in the qualifications process through the new SSCs and DTI.

The approval process for National Occupational Standards needs reform

- 462. NOSs form the basis for NVQs and inform all other vocational qualifications in the national framework. NOSs need to be approved by the Projects and Standards Approval Group (PSAG), a joint executive group of the QCA and its counterparts in the devolved administrations. The Hillier Review examined the process governing the development and approval of NOSs and has just reported. It included that the approval process is slow, insufficiently responsive to the needs of employers and lacking in strategic approach. Many of the difficulties with this process were rooted in the weaknesses of the former NTO network. The new SSCs will need to fulfil their role efficiently if the whole system is to function smoothly. However, it remains the case that the QCA/PSAG process needs to be simpler, faster and more flexible.
- 463. In line with the Hillier review it is recommended that the role and make-up of PSAG should be refocused and repositioned. Representation on the group is currently rather limited and needs to be widened so that all relevant stakeholders take part in approving NOSs.

464. This would increase awareness of the role of the standards beyond informing NVQs, for example in setting competencies in an industry or contributing to vocationally related courses in both HE and schools.
465. The stakeholders involved in the reformed board should include representatives from:
- | the SSCs;
 - | the LSC;
 - | the ALI;
 - | HE; and
 - | the under-19 education sector.
466. The QCA should ensure that it has clear arrangements in place to work in partnership with the LSC, the SSCs and the SSDA on the standards development process. These arrangements should be flexible enough to enable the roles and responsibilities of the partners to change and evolve over a period of time.
467. The QCA could then take a more strategic approach to the development of NOSs in the longer term. The new grouping could consider ways in which to approve and fund SSC plans for standards development over a set period (e.g. 3 years) rather than having to approve each individual sub-project, in order to give the SSC greater freedom and flexibility in developing standards to respond to demand. Equally, existing straightforward arrangements for updating NOSs should be encouraged.

The process for accrediting vocational qualifications needs to be swifter to make the system more responsive

468. Once NOSs have been approved it is the job of the awarding body to develop qualifications. The QCA then accredits each qualification and brings it into the framework, with the aim of establishing a coherent and transparent whole. QCA has faced a mammoth task with up to two hundred awarding bodies facing quality inspection for the first time and often not meeting the required standards. This has resulted in an accreditation process that is considered to be too slow. The impact of a slow process is that changes in the world of work are not reflected in the qualifications system on a timely basis.
469. Initially, the accreditation process should be reviewed, with the intention of making it faster and more responsive, building upon changes already undertaken. Increasingly, approved awarding bodies could be given a 'licence' to develop and accredit qualifications themselves, subject to inspection by the QCA. This approach would be particularly advantageous in fast moving sectors such as ICT and could begin on a sector by sector basis.

It should be easier for private and 'vendor' qualifications to be mapped onto the national qualifications framework

470. Many qualifications currently lie outside the national qualifications framework. These are typically qualifications offered by private providers or learning developed privately or by colleges responding to employer demand. This includes a number of 'vendor' qualifications, which are popular with employers for recruitment. Microsoft IT qualifications are an example of this. Lack of public funding for these types of provision can leave individuals unable to obtain the qualifications they need for certain types of employment.
471. Courses leading to qualifications of this kind could not draw down public funding under the FEFC system. This has changed under the LSC, which may fund the provision of courses and training, but can only make payments towards the fees and charges of awarding bodies if the qualification is accredited within QCA's national qualifications framework. If these qualifications were mapped onto NOSs and vocational qualifications within the national framework, then candidate registration, examination and certification costs could be made eligible for public funding.

472. Furthermore, in some cases, mapping of private qualifications onto the national framework would ensure quality and give an individual national recognition for achievement.
473. It is already possible for 'vendor' qualifications to be mapped onto the National Framework and work has begun on a sectoral basis. More work needs to be done in this vein, with a view to making the process more transparent and accessible, while maintaining the quality and rigour explicit in QCA accreditation. This could be taken forward by the QCA, the LSC and DfES working with the SSCs, employers and private training providers. A starting point could be to identify those sectors in which there is a clear mis-match between public provision of nationally recognised qualifications and user demand for vendor alternatives. This would best be achieved by piloting in selected sectors, where the SSCs should take the lead.

Box 16: The LSC E-Skills Project

The LSC, working alongside other public agencies, leading IT companies such as MICROSOFT UK and major employers, is taking the lead in this pilot project, which seeks to explore how ICT qualifications can be made to meet the needs of employers and individuals.

Why?

Take-up and achievement of poorly rated national ICT qualifications (NVQs/SVQs) are low, while the high cost of more popular vendor qualifications also restricts take-up. Courses leading to vendor qualifications could not be publicly funded under the FEFC system. This has changed under the LSC, which may fund the provision of any courses and training, but can only make payments towards the fees and charges of awarding bodies if the qualification is accredited within QCA's national qualifications framework. This project hopes to establish what IT training the LSC might usefully support.

How?

4 local LSCs will commit to working with 60+ employees who have recently secured 'specialist' qualifications (half with NVQ and half with vendor ones) and a further 60+ who have secured 'user' qualifications (similar combination). The pilot will bring each group of employees' skills up to the level of the qualification they did not take. It will then assess the relationship between these qualifications and employers' perceived real needs. This pilot, with approximately 480 employees in four areas, will inform policy and practical changes to funding and delivering IT training nationally.

Outcomes?

The project partners will consider whether the pilot supports moves to:

- ‡ identify the common elements (core knowledge and understanding) required for both NVQs and existing vendor qualifications;
- ‡ assign modular values to these and map them across qualifications;
- ‡ deliver these across a range of providers, with LSC support; and
- ‡ revisit both sets of qualification with a view to integrating them.

Unitisation and the credit-based system

474. Unit- and credit-based qualifications systems can offer flexibility and responsiveness, allowing individuals to build up blocks of learning with different content and of different lengths and sizes in order to obtain a full qualification. The UK already has a qualifications system that is increasingly unit-based and should be fully unitised in England by 2004/5. Scotland, Wales and Northern Ireland are currently looking at developing a credit basis for their qualifications system.
475. While introducing a credit-based system in England would be complex and lengthy and its potential advantages remain to be substantiated, it is still an option worth considering for the future. It would require the development of detailed rules of combination and agreement on how credits should be assigned to different, and new, parts of qualifications. DfES, the QCA, DTI and the SSDA may wish to monitor the impact of a credit-based system in other parts of the UK.

9 WfD: a way forward

476. This report proposes the principles by which future WfD policy should be formulated. Alongside these, the report suggests a variety of different options for how these policies could be put into practice and some specific policy changes.
477. This publication is not intended to mark the end of the PIU project on WfD. It represents the completion of the first stage setting out the possible approaches the Government could take to encourage WfD. In the coming months, the PIU will consult widely within government and beyond on the merits of specific proposals. The Pre Budget Report and Budget Report will take forward the Chancellor's Budget commitment to look at options for encouraging WfD. Over the course of the next few months, the PIU will work with departmental colleagues in HMT, DfES, DTI and DWP to ensure that WfD is fully considered in the 2002 Spending Review.
478. The PIU will also feed its further work into the LSC's national strategy for WfD, which the LSC is committed through its Corporate Plan to deliver by the end of March. In doing so, the team will work closely with the national LSC. This will ensure that the future vision set out in this report informs the work of the agency with a responsibility for WfD both nationally and locally.
479. The PIU will publish a second report in July 2002 setting out, in the light of the 2002 Spending Review, the details of how the Government's policy will be taken forward and on what timescale.