

FINAL REGULATORY IMPACT ASSESSMENT

SKILLS STRATEGY WHITE PAPER:

SKILLS: GETTING IN ON BUSINESS, GETTING ON AT WORK, 22 March 2005

1. PURPOSE AND INTENDED EFFECTS

i) Objectives

The objective of this White Paper is to ensure that employers have the right skills to support the success of their business and individuals have the skills they need to be both employable and personally fulfilled.

The core strands are:

- To put employers' skills needs and priorities centre stage in the design and delivery of training for adults, through the National Employer Training Programme (to be branded Train to Gain).
- To give employers a stronger voice in shaping the supply of training at every level - nationally, regionally, locally and in each sector of the economy. Sector Skills Agreements and Skills Academies are the key levers, with a stronger role for Regional Skills Partnerships.
- To support individuals in achieving their ambitions, through better information and guidance to identify the best options for them in terms of jobs, skills and training.
- To help all adults gain the basic skills of literacy, language, numeracy and employability, with more opportunities for people to progress on to skilled trade, technician, graduate and professional qualifications, going as far as their talents and drive can take them.
- To tackle the obstacles that people face in gaining fair access to training and jobs, including the barriers between welfare and work.
- To build the capacity of colleges and training providers to deliver these benefits for employers and individuals, respected and valued as essential contributors to economic and social progress.

We will work with partners and stakeholders in the Skills Alliance to take forward an important agenda which takes us on from the first Skills White Paper "21st Century Skills - Realising Our Potential", July 2003. This new White paper sets out what we will do for employers to help them recruit and retain people with the skills needed to raise productivity - and what we expect of employers in return by way of greater investment in training. It also sets out the support we will provide for adult learners to gain higher skills and qualifications, and thereby help achieve their ambitions for themselves and their families.

ii) Background

The overall objective of the Skills Strategy is to contribute towards raising productivity and competitiveness, by creating a more highly skilled, more productive workforce. The Government's second Skills White Paper "Skills: Getting on in business, getting on at work" (March 2005) sets out the Government's plans for the next major phase of reform in making this country a world leader in skills.

There are six major areas for implementation of the Skills Strategy. The delivery of these objectives is overseen by the Skills Alliance.

1. Skills for Employers - A new "demand-led" approach to delivering skills for business success, where employers in each sector work together to identify and tackle the full range of skills they need for business success through delivery of Train to Gain, the National Employer Training Programme, offering free training at basic skills in literacy, language and numeracy and NVQ Level 2. In addition, we will pilot in the North West and West Midlands offering subsidised training at NVQ level 3 through Train to Gain, as well as brokers being able to source NVQ 3 and above training for employers.

2. Skills for sectors - Employer-led Sector Skills Councils, RDAs and the LSC are working together to deliver this demanding new agenda. There are now all 25 Sector Skills Councils completing the Skills for Business Network and the four pathfinder SSCs are taking forward Sector Skills Agreements, with a further 6 planned by July 2006.

3. Individuals - Our ambition is that all individuals – whether employed or not – can get the skills and qualifications they need for sustained and rewarding work, and for personal growth. We will support those out of work to gain skills to become employable through New Deal for Skills. We will begin national roll-out of entitlement to free training at NVQ level 2 alongside that of basic skills. In addition, we will further support individuals to study to NVQ level 3 and above. To help people make sense of the system, our long term ambition is to create a high quality, personal guidance service through the full Ufl and online centre network.

4. Qualifications - The reform of qualifications will create a more flexible framework for recognising achievement: one which measures and values learning, welcomes diversity in provision and equips individuals for work and life. The proposals link with those in the 14-19 White Paper "14-19 Education and Skills" (February 2005). The basis for the reforms was set out in the QCA's Framework for Achievement Consultation launched in November 2004.

5. Reforming Training Supply Many of the reforms set out in the White Paper will result in publicly funding training providers responding to their need. Through Success for All, significant progress has been made in recent years on this agenda, including a key new LSC business cycle driving a new focus within colleges and training providers on meeting employers' skills needs, local LSC-led Strategic Area Reviews and developing four new curriculum frameworks.

We will build on Success for All to support colleges and training providers respond effectively to the new demands of employers and learners providing support to meet the needs of Train to Gain.

6. Partnerships and delivery - The Skills Alliance at national level and the Regional Skills Partnerships at local level provide strong partnerships shaping delivery on the ground. They provide a framework in which local, regional and sectoral initiatives can be developed and operate.

- The CBI, the TUC and the Small Business Council have agreed shared skills targets.

- Regional Skills Partnerships have been established in each of the nine English regions.
- National Employment Panel report - *Welfare to Workforce Development* – was published in March 2004.

iii) Risk Assessment

Our goal is to ensure that the design and delivery of publicly funded training put employer needs centre stage, through providing training at a time and place convenient to them, and in a way that would support more ambitious strategies for business development.

The task remains great - it is worth recalling the likely demand for jobs and skills and the performance of competitor countries:-

The jobs with the biggest net requirement (2004-14) will be:

- Corporate managers – 1.9 million
- Teaching/Research professionals & Science/Technical professionals - 1.4 million
- Health associate professionals - 600,000
- Business/Public Service Associate professionals - 670,000
- Caring personal service occupations - 1.1 million
- Sales occupation - 950,000
- Administrative and Secretarial occupations - 1 million

Compared to the US, France and Germany the UK has the lowest proportion of its workforce qualified to Level 2 and above. In 1994, someone in the UK workforce was around 60% as likely as one in the German workforce to hold a level 2 or higher; by 2003 that likelihood had increased to just over 70%.

The UK is comparable to France in terms of the proportion of the workforce qualified to Level 3 or above, worse than the US and significantly worse than Germany.

There are a number of arguments for intervention which hold as true now as they did at the start of the Skills Strategy:-

- Skills are a key driver of productivity, with a gap between the UK and its competitors;
- More highly skilled people are likely to be more productive, will earn more and be less likely to be unemployed. They are more likely to be able to adapt to labour market change;
- Despite employer investment there are identified skill shortages resulting in unfilled vacancies both within firms and when recruiting externally;
- Those with low skill levels/ no qualification are more vulnerable and at risk than other groups in terms of continued learning in adult life and the likelihood of recovering lost ground from school.
- By 2020, two thirds of all jobs are expected to require skills at Level 3 or higher.

The evidence points to the continuing case for intervention in developing skills, because of their central role in achieving competitiveness and social justice. This White Paper includes proposals which have already been taken into account

in our spending plans, with funding provided from existing resources.

The strategic risks lie around the value placed on a better skilled, training and qualified workforce:

- Employers must be clear about the relationship between skills and productivity;
- Individuals need to understand the link between being more highly skilled/ qualified and earnings, employability and the wider social benefits to them, their families and the communities in which they live.

Within those groups there are some who will already have seen some of the benefits of raising their skills levels and who will therefore be relatively easy to convince. But there are also groups, who may be significant in number, who do not see the benefits.

A continuing effort is required to overcome the difficulties of keeping the case for skills at the top of the agenda. The risk is of a deterioration of the position if nothing is done. The basic message is not well enough understood:-

- Employers perceive a link between training and labour productivity. In the Learning and Training at Work Survey (2002), 23% of employers said that training led to a large increase in labour productivity. A further 42% said it led to a small increase.
- Larger employers are more likely to perceive a large increase.

This second Skills Strategy White Paper addresses the key challenge of understanding the arguments for skills and making it easy to find help in tackling deficiencies. We will build on the progress described in the paragraphs below and embed and further improve the infrastructure.

We will continue to help employers to recruit and retain people with the skills needed to achieve productivity and what we expect of employers in return by way of greater investment in training. At higher skill levels the balance between benefit to the individual and the employer and cost to the taxpayer must be better made. At lower levels where the market has failed and social justice arguments apply more strongly, the government will continue to provide support to target groups.

Progress to date indicates that intervention can bring benefits as follows:-

- Level 2 - By autumn 2005, the number of adults in England qualified to at least NVQ level 2 qualification or equivalent has increased by 824,000 compared since autumn 2002 (or by 1,191,000 compared to autumn 2001).
- Level 3 - In autumn 2005, 51.6% of economically active adults (12.1 million) were qualified to at least NVQ level 3 or equivalent. This is an increase of over 3 percentage points since autumn 2001.

2. OPTIONS

The options are:-

- a) doing nothing

- b) adopt a voluntary approach
- c) legislate

The factors in favour of **doing nothing** have not changed since the introduction of the Skills Strategy. Letting employers, providers and individuals reach a balance realising the value of training would happen over time, and with intervention a flexible market would offer simplicity and clear winners and losers. The capacity of the system would be allowed to find its own level. Doing nothing is undoubtedly easier.

A **voluntary** approach leads to less regulation on business and less bureaucracy. It recognises the legitimate interest of Government in improving competitiveness and influencing both demand and supply of skills. The voluntary approach does not rule out voluntary levy arrangements. The voluntary approach is very much more flexible, allowing different industry sectors/ segments/ geographic areas to develop approaches that meet their own needs and those of their people and to take account of time factors in implementing change. The voluntary approach gives the individual a greater sense of ownership and choice. This may lead to an improved sense of achievement and stimulate further learning and progression.

The **legislative approach** has been tried and we know the benefits it can bring in forcing the pace of change and sending clear messages about rights and responsibilities. And it would also allow a clear focus. A legislative approach has been tried before.

Having considered these advantages the Government has decided on the **voluntary approach**, because, in addition to the above advantages, we can argue:-

- a) That it is wrong for the state to introduce compulsion on employers when a substantial part of the problem lies with the public supply side. We should first get our house in order before telling others what to do.
- b) That experience in other countries (e.g. France and Australia) which have tried compulsory approaches indicates a substantial problem of avoidance behaviour by employers.

We want to promote strongly collective voluntary action by employers as a way of addressing some of the market failures in training (including the “first mover” problem). Sector Skills Agreements are the primary way of doing that.

The new White Paper consolidates the terms of Government’s engagement with employers and adult learners and also continues to make the case for reform of training supply.

We want to ensure that there is coherence between the support for training available to individuals who are supported by their employers in work, those that are studying in their own time, and those that are not in work, can call on a coherent set of support which meets their circumstances.

3. BENEFITS

i) Business Sectors Affected

The skills agenda covers all sectors and segments of the business community (and

also the public and voluntary sectors). Though as the statistics in section 1.iii show, employer investment in skills is variable. And some sectors or types of business stand to gain more than others. For example:-

- The National Employer Skills Survey 2003 showed that between 50% of the smallest establishments (with 1-4 employees) and 97% of the largest (with 500 or more employees) provided training for some of their workforce in the previous 12 months.
- As well as varying by establishment size, the incidence of training also varies by sector, with over 90% of establishments in public administration & defence and in education providing training, compared to just 47% in printing and publishing and 46% in textiles and clothing.
- There is a general pattern of employees in lower skilled jobs being less likely to receive training. This is confirmed by the winter 2003 Labour Force Survey data on the receipt of job-related training in the last 13 weeks. 48% of employees in professional occupations had received job-related training, compared to just 17% in elementary occupations and 15% of process, plant and machine operatives.

ii) Equality and Fairness

Many of the disadvantaged groups in society can benefit disproportionately from the initiatives available as part of the Skills Strategy. The skills gap between men and women is closing. The pattern of skills amongst different ethnic groups shows a complex pattern where most ethnic minority groups are in a favourable position.

The opportunities set out in this White Paper will particularly benefit adults on welfare benefits, older learners, those from disadvantaged background and people returning to the labour market after career breaks.

4. COSTS

Under the voluntary approach the Skills Strategy remains cost neutral overall. The Confederation of British Industry (CBI) has estimated that employers' spend some £23bn annually.

i) Compliance Costs

We do not believe that the strategy will lead in itself to higher costs for any organisations whether provider, private sector company or other organisation in the voluntary or public sectors. There will continue to be implementation costs for colleges and other training providers in adjusting provision to reflect the priorities identified in the Skills Strategy, but these must be taken with the quality improvement measures under Success for All. Moreover there is support available, through the NETP capacity building budget, to support colleges in responding to this agenda.

Assumed total funding for FE colleges allocated to the LSC to rise by £1billion by 2005-6 compared to 2002-03, colleges will have 3 year funding deals from 2003. The LSC will offer 3 year funding deals to providers from the academic year 2003/4, linked to agreed assumptions on student numbers. Total capital funding for the learning and skills sector allocated to the LSC will rise to over £400million in 2005-06 compared to 2002-03, a real terms increase of over 60 per cent.

Colleges and providers have a continuing role developing effective marketing strategies to encourage much greater numbers of low skilled individuals to engage in learning. This group is typically among the most difficult to engage in learning, and are least likely to be in training supported by their employers. Engagement of this 'hard to reach' group is relatively expensive and will increase the average cost per learner.

ii) Other Costs

There will continue to be resourcing implications for the LSC as it delivers the Skills Strategy. The public sector alone is spending some £5 billion a year to support 3 million learners in 400 colleges and 800 other training providers.

iii) Costs for a Typical Business

There will be no additional costs for a typical business in the sense that they will be compelled to pay for something they do not pay for now. We will be encouraging business, as well as individuals, to pay more for learning in lower priority areas and for lower priority groups. So any additional costs will be voluntary for businesses of any size including small businesses.

There are ways in which we expect employers to engage:-

- Representing employers' views to the supply side through engagement in governing bodies, to shape how education and training is supplied
- Making a financial contribution through Investing in the costs of Training and Skills Development
- Providing opportunities for pupils and students to gain an understanding of the world of work
- Better using workforce skills to deliver increased firm productivity.

The costs of this engagement will vary between businesses and need to be balanced with the opportunities they create. The mode of engagement is voluntary.

5. SMALL FIRMS IMPACT TEST

We do not intend to impose any legislation on small businesses through this Skills Strategy White Paper.

The Small Business Council, Small Business Service and other employer representative partners and stake holders are part of the Skills Alliance (see section 9 - below) and have been consulted on the proposals in the White Paper. Some of the proposals such as Sector Skills agreements and those measures for individuals will not affect small businesses directly, though indirectly they will benefit from the increased pool of skilled labour and the improved productivity available. As Section 3i shows, small businesses generally do less training and so will have most to gain from the strategy.

6. COMPETITION ASSESSMENT

When considering the competition assessment, the following are key factors:-

- No provider or college has a 10% or greater market share, and the measures will affect all those in the market.
- The market structure is changing and these measures are likely to change the market by bring in with more private providers and more brokers as a result of the NETP rollout.
- New firms will not have higher set up costs or ongoing costs as a result of these measures, the measures will not affect the ability of firms to choose the price, range or location. The quality initiative Success for All, will ensure minimum standards are met - though some funding is available for this.

The public sector supports 3 million adult learners in 400 colleges and 800 other training providers. These providers and colleges are already engaged in quality improvement and employer engagement activity as part of the Success for All and education and training for 14-19 year olds. The Skills Strategy intends to open the door to the LSC funded training market to new providers. We anticipate that this may mean some providers being replaced by ones of higher quality. Separating the effects of these is not possible as the two operate concurrently.

The principal impact in terms of competition will continue to be on the education and training market given that we propose to refocus resource onto areas of highest priority, i.e. level 2 skills, basic skills, management skills etc.

7. ENFORCEMENT AND SANCTIONS

The Government does not propose sanctions beyond any already available within existing legislation.

8. MONITORING AND REVIEW

For the first Skills White paper we published our underlying data analysis and did the same for our One Year On progress report. Part III of the second Skills White Paper is a similar document.

The Skills Strategy policies are kept under review and monitored by evaluation by both DfES and LSC. The following major evaluation projects are examples of our work supporting policy development and delivery:

- Adult Learning Grant (Year 1 published in Dec 2003, Year 2 published with the second skills White Paper, March 2005);
- ETP evaluation (Year 1 published in December 2003, year 2 published with the second skills White Paper, March 2005);
- Small Firms Development Account (completed);
- iIP Small Firms Initiative;
- Union Learning Fund.

In addition, the following have evaluative aspects:

- IAG longitudinal survey

- Personal Community Development Learning (PCDL – formally known as ACL) longitudinal survey
- Longitudinal survey of FE learners (i.e. destinations survey)

In addition, in November 2004 we appointed Sir Andrew Foster, Deputy Chairman of the Royal Bank of Canada and Chair of the post 16 Bureaucracy Review Group, to head a review of the future role of further education colleges. The final report, *Realising the Potential: a review of the future role of further education colleges* was published in November 2005 and looked at key strategic issues, challenges and opportunities facing the further education sector over the next 5 to 10 years.

9. CONSULTATION

The Skills Alliance which comprises representation from our social, economic and delivery partners has played a major part in informing policy and content of this White Paper.

Created in 2003, the **Skills Alliance** represents a new social and economic partnership for skills. It brings together the key partners who work with the Government to drive forward the delivery of the Skills Strategy, ensuring the radical proposals to transform both the demand for and supply of skills are carried through and achieve their impact. The member organisations form two groups:

A Social and Economic Partnership which meets twice a year to stimulate wider engagement, agree broad direction, and take stock of progress from a strategic perspective. The Social and Economic Partnership consists of key Government Departments [Department for Education and Skills (DfES), Department for Trade and Industry (DTI), Department for Work and Pensions (DWP), HM Treasury (HMT)], Trade Union Congress (TUC), Confederation of Business Industry (CBI) and Small Business Council (SBC). It is chaired jointly by the Secretaries of State for Education and Skills and Trade and Industry.

Delivery Partners, led by the LSC and focuses on the effective implementation of the Skills Strategy. The Group meets twice a year with additional smaller thematic meetings as and when necessary. The Group is chaired by the national Learning and Skills Council (LSC) and consists of the following delivery partners: Investors in People UK (IiPUK); University for Industry (Ufi); Jobcentre Plus (JCP); Regional Development Agencies (RDA); Sector Skills Development Agencies (SSDA); Qualifications Curriculum Authority (QCA); Small Business Services (SBS); Higher Education Funding Council for England (HEFCE); National Institute of Adults Continuing Education (NIACE); Association of Colleges (AoC); Association of Learning Providers (ALP).

Twice a year, the two groups come together as the **Skills Alliance** to review progress and agree priorities for action.

As a high-profile champion for the Skills Strategy, the Skills Alliance has made a real impact in driving forward the skills agenda, for example in:

- securing a strong role for partners in the development of Sector Skills Agreements;
- stimulating Government and agencies to align the range of targets relating to skills productivity and labour market support;
- raising understanding of the importance of informal training in SMEs.

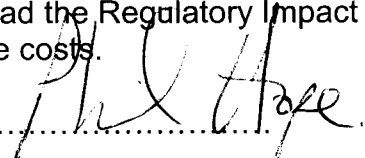
10. SUMMARY AND RECOMMENDATION

The second Skills Strategy White paper builds on the successful interventions developed as a result of its predecessor. These are proving to be effective in addressing both the economic and social justice arguments. The presentation of a coherent package of measures to Employers, Adults in Work and Adults Outside of Work will be pressed home with emphasis on responsibilities and benefits. There will be no change to the approach which has been successful so far,

As in the Partial RIA, we recommend the voluntary approach for further interventions in this area.

11. DECLARATION

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed 

Date: 15th March 2006.

Phil Hope MP
Parliamentary Under Secretary of State

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