

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT  
E(80)117  
13 October 1980  
COPY NO 55

CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

INDUSTRIAL TRAINING

Note by the Central Policy Review Staff

WHAT IS WRONG WITH TRAINING

1. On the basis of our earlier study of Education, Training and Industrial Performance, we agree broadly with the analysis of weaknesses set out in Part III of the Report attached to E(80)111. Summarising, these are:

- Local mismatches but not national shortages of traditional craft skills;
- national shortages of people with skills in new technologies;
- a failure to adapt to change: managers do not update their skills and knowledge; skilled workers maintain outmoded skill demarcations and do not add new skills as the need arises; unskilled workers have poor motivation to work and do not find it easy to learn new skills when required.

2. The underlying problem is an outdated concentration on initial training particularly in narrow craft skills. The system needs to provide a broad based vocational preparation for everyone supplemented by opportunities for retraining.

THE LEVY SYSTEM

3. The most difficult decision is the future of the levy system. At present Industrial Training Boards are given a limited power to raise levies on part of industry to finance training collectively. The system was intended to foster training by sharing the cost between those who train and those who "poach". But studies show that levy at present levels has little influence on firms' training decisions, which are dominated by their own economic prospects. This is not surprising: levy cannot normally exceed 1% of payroll; firms training for their own needs are exempt; small firms are excluded; and nearly half employees are in industries not covered by ITBs. Voluntary bodies without levy powers outside the ITB sector perform as well on average.

118

119

120

121

122

123

124

CONFIDENTIAL

4. RETA proposed making levy more effective by removing some of the restrictions on levy. In our view for levy to affect firms' training policies it would have to be raised considerably and employers are likely to resist this strongly. Moreover, there could be no guarantee that ITEs would respond to the needs identified in paragraph 2.

5. One possibility would be to withdraw levy powers altogether since, at present levels, they are relatively ineffective. Industry could be encouraged to retain and fund joint training boards on a voluntary basis. We believe this has attractions as a long-term aim. However, in current economic circumstances there is a risk that many employers would withdraw all financial support and cut back on training as an easy economy in hard times. We therefore agree with the Secretary of State for Employment that attempts should be made to make levy a more effective instrument, but limiting it to key industries.

6. It will be important that levy should be used as far as possible to tackle the problems identified in paragraph 2. The Secretary of State for Employment proposes a sanction for non-cooperating boards of refusing to approve their levy orders. This in our view could have a perverse effect since the penalty would benefit a recalcitrant industry by effectively removing a tax burden. We suggest a more effective long-stop sanction would be for the MSC or DE to take over the levy raising power in the event of non-cooperation.

#### GOVERNMENT FUNDING

7. The official report explores the possibility of dispensing with government grants. Ideally under a free market the individual would bear the cost of training and would reap the reward by extra pay for his skill. Government encouragement could help it to happen more often than it does. However, the labour market is notoriously rigid - there are barriers to obtaining skill, to using skills once obtained, and to adequate pay differentials - none of which can quickly be removed. If training is not to suffer serious set-backs in the short-term, therefore, government must continue to fund a significant part of it, but focus it narrowly on the key issues.

3. Whichever approach is adopted, the priorities for government expenditure should be:

- a. Government should not be spending money to keep up traditional forms of craft training. Over 60 per cent of Training for Skills grants goes on

CONFIDENTIAL

CONFIDENTIAL

supporting craft apprenticeships. This would be better spent on adult retraining programmes, through TOPS and through pump-priming funds for innovatory forms of adult retraining in firms.

- b. Government should expand its provision for new technological skills in short supply.

- c. Government should expand vocational preparation for young unskilled workers through YOP and UVP.

Better information rather than more money is the main requirement for dealing with local labour market shortages and updating skills.

#### INFORMATION AND ADVICE

9. Whatever decisions Ministers take on ITEs or public expenditure there is a need to improve information and to mount a public campaign on training flexibility.

#### Local labour markets

10. There is general acknowledgement of the need to improve local coordination of training in view of the fact that most labour is pretty immobile. The choice is between formally constituted local labour market boards (with staff of their own attempting to develop comprehensive local training plans), expansion of district manpower committees to cover training, and ad hoc liaison with the local MSC training office as coordinator. Formal boards would be expensive, impose burdens on firms and still, because of the enormous uncertainties, find it hard to plan effectively. Further work is needed to decide between the other two options.

#### Updating of skills

11. The government should concentrate on:

- a. a campaign on the need to keep skills up-to-date perhaps based on the forthcoming DES consultation paper on continuing vocational education and specific campaigns on the implications of particular technological developments on the lines of the microprocessor awareness programme;
- b. creation of brokerage services between educational establishments and firms.

#### A public campaign on flexibility

12. If employers and unions insist on retaining traditional apprenticeships, unilateral changes in government institutions will not be effective. We there-

CONFIDENTIAL

252

**CONFIDENTIAL**

fore believe that whichever approach is adopted by Ministers, it should be accompanied by a public campaign on the need for more flexibility in training. Confrontation may be counterproductive and since the TUC and many top union officials support the need for change we recommend the government to try to secure agreement, e.g. by a joint government/MSO campaign. It will not be easy to get change accepted at the shop floor.

CONCLUSIONS

13. The CPRS recommends:

- i. tightening up levy powers and restricting ITBs to key sectors as proposed by the Secretary of State for Employment, but ensuring that ITBs tackle the underlying problems by taking long-stop powers for the MSC or DE to take over from ITBs who do not cooperate (paragraph 6);
- ii. to concentrate public expenditure on the targets set out in paragraph 10;
- iii. to ask officials to examine ways of improving information as set out in paragraphs 10 and 11;
- iv. to initiate a public campaign on making training more flexible if possible jointly with the MSC (paragraph 12).

Cabinet Office

13 October 1980

**CONFIDENTIAL**

118

119

120

121

122

123

124