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14 November 1980

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

INDUSTRIAL TRAINING

Memorandum by the Secretary of State for Employment

At their meeting on 15 October, in advance of considered views from the Manpower Services Commission, the Committee endorsed the broad approach of retaining a limited number of ITBs, operating costs being transferred from the Exchequer to the industries concerned through the levy. I was invited to submit further proposals on these arrangements and for further work, in consultation with other colleagues concerned and the CPRS, towards the production of a consultative document on the longer term development of industrial training policy. In particular the Committee stressed the need to re-examine and improve the relationship between the training and education services. (E(80)36th Meeting item 2).

Consultations

2. I have now received the MSC's considered views. They endorse the broad objectives and most of the recommendations of the report of their Review Body published in July (the RETA report), including continuation of an industry-based structure for the promotion and encouragement of industrial training, and a sector-by-sector review of the coverage of ITBs. However they make no recommendation as to the transfer of operating costs and related issues. CBI Commissioners proposed deferment pending completion of the review (as have the CBI in a direct submission to me). TUC Commissioners proposed a three-year transitional period.
3. I attach a further report by the inter-departmental working group of officials on all these issues, which is summarised in its first three pages.
4. I have consulted the Chancellor of the Exchequer, the Secretaries of State for Industry, for the Environment, for Scotland, for Wales and for Education and Science and the Head of the Central Policy Review Staff. Following are my conclusions with which they generally concur.

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Industrial Training Boards

5. The MSC response and the CBI's own views confirm our basic approach, ie. to maintain an industry-based system subject to a sector by sector review. Our aim will be to extend the area of reliance upon voluntary arrangements and to keep statutory ITBs only in a few key sectors where they seem essential to securing necessary reforms.
6. We shall need to make clear to all concerned that this is our aim and that, though we shall (as we must) await the outcome of the MSC sector-by-sector review we intend to seek power to abolish an ITB without an MSC recommendation where we judge it right to do so. On the other hand we shall also need to make clear that national priorities may require continuation of a statutory ITB even where some employers at least are opposed to this.
7. I would propose to give the MSC guidance on the criteria to be used in the review, on the lines suggested in the report by officials. I would ask them to report not later than mid-June 1981, so that we could take our decisions in July, and the ITBs being abolished wound up so far as possible before the end of the financial year.
8. We have taken the view that where an ITB is retained we should require the industry concerned to meet in 1981/82 part, and from 1982/83 the whole, of the operating costs (representing up to 0.2% of the payroll of firms in scope). I entirely agree with the Secretary of State for Industry that the handling of this needs very careful consideration. I am sure that we must make our position on the principle clear before the review starts so that everyone knows where they would stand. In view however of industry's current difficulties I propose that we should say that we will consider the timing of the transfer in the light of the review (though I must make clear that I cannot at this stage commit myself to finding the extra costs of any slower phasing). I also propose to talk privately to the CBI about the terms of my announcement.
9. I therefore propose that the legislation on ITBs to be introduced early in the new Session (and already substantially in draft) should:
 - a. revise the procedures for review of ITBs, giving me powers to act after consultation with the MSC, instead of on their recommendation as now;
 - b. enable operating costs of remaining ITBs to be met from levy, including levies raised under existing powers;
 - c. retain the present requirement for Affirmative Resolution procedure for levies over 1%;
 - d. replace the present statutory right of establishments to total exemption from levy on the ground that their training arrangements are adequate for their own needs with a requirement for ITBs to operate levy exemption schemes approved by me in consultation with the MSC (and which would therefore take account of our priorities); and
 - e. strengthen my powers to act where an ITB is in default.

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A Government/MSD Document on wider issues

10. The MSD have expressed keen interest in issuing jointly with the Government a document setting out proposals for the development of vocational preparation for young people generally, the reform of apprenticeship and the widening of opportunities for adult training. A summary of these proposals is annexed to the officials' report. However, in view of the need to take informal soundings of their constituent bodies the MSD will not be in a position to agree a text before end-January at the earliest and it could take longer.

11. I think this MSD initiative is very much to be welcomed and we should try to build on it. I fully agree with their objectives of systematic voluntary preparation for all young people (though further consideration will be needed as to the means), of more flexible apprentice arrangements and wider opportunities for the training and re-training of adults. I propose that officials be asked to examine their proposals in detail and report back to us. There are however two qualifications which I intend to bring to the attention of the MSD at once.

12. First, quite apart from the present stringent limitations on additional public expenditure, it would in my view be essential to maintain the basic principle that the cost of industrial training, and part of the costs associated with vocational education, should be met by industry and not by Government. We should in particular avoid any commitment to Government funding of universal one-year traineeship by 1990.

13. Secondly, while recognising the way in which the development of wider traineeships would help to open up the reform of apprenticeship and this in turn lead to wider opportunities for adults, I think we should press for immediate action by employers and unions alike to remove unnecessary restrictions in both areas. Many restrictions are matters of custom and practice at local level and could and should be tackled now. To that extent, at least, the document needs to be more than consultative.

14. It is important that we should not prejudice the possibility of successful collaboration with the MSD in their initiative. Nevertheless there is a case for publishing alongside the Bill a short White Paper setting out our overall policy, including related proposals on youth and education, and showing how the detailed provisions of the Bill fit in with that. I propose to consider this further.

Links between training and education

15. There has been a good deal of criticism of the relationship - or lack of it - between industrial training and vocational education. A number of issues have been under review in the light of the CPRS report "Education, Industry and Training" and the attached report by officials sketches some practical possibilities for improving

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liaison at both national and at local level as well as for improved provision and exchange of local labour market information. I recommend that officials are instructed to report with definite proposals, taking account of consultations currently in progress, by the end of January. (I welcome the Secretary of State for Scotland's suggestion that there might be scope for experimenting with a somewhat different approach in Scotland). We can then identify areas for immediate action, and others which might be included in the consultative document referred to above.

Timetable

16. We are committed to bring before Parliament early in the new Session our decisions, particularly as regards ITBs, on the recommendations of the RETA report, in the light of the comment now received from interested parties and the MSC itself. These decisions require legislation which must be enacted this Session if we are to meet our public expenditure objective with regard to Exchequer funding of ITB operating costs, and to minimise the period of uncertainty affecting industry's training plans. A place in the programme is conditional upon early introduction. The required Bill is now largely drafted and can be completed in the light of our decisions on the issues raised in this paper.

17. I therefore propose to make a statement during the Debate on the Address, which will announce our decisions on the future of the ITB system to be embodied in early legislation, outline our approach to the wider industrial training issues (including the need to improve links between training and education), and state our intention to develop these in a document to be published in collaboration with the MSC as soon as possible after the legislation has been introduced.

Conclusion

- 18. I seek my colleagues agreement
 - a. to the proposals for a review by the MSC of industry's training needs, sector by sector, set out in paras 5-8;
 - b. to the proposals for legislation on ITBs set out in para 9;
 - c. that I should encourage the MSC to prepare for publication jointly with the Government a document on wider issues on the lines described in paras 10-11; this is to be subject to the reservations set out in paras 12 and 13;
 - d. that I should give further thought to the possibility of a White Paper to accompany the Bill (para 14);

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At both national and at local level as well as for... provision and exchange of local labour market information... officials are instructed to report with details... taking account of consultations currently in progress... end of January. I welcome the Secretary of State for... suggestion that there might be scope for expanding... approach in Scotland. We can then... for immediate action, and others which might be... in the consultative document referred to above.

It is proposed to bring before Parliament early in the new... decisions, particularly as regards ITPE, on the... of the BETA report, in the light of the current... from interested parties and the NEC itself. These... legislation which must be enacted this Session if we are to... expand our objective with regard to... of its operating costs, and to minimise the burden of... affecting industry's training plans. A plan to... is conditional upon early industrial... will be largely drafted and can be completed in the light of... on the issues raised in this paper.

I therefore propose to make a statement during the debate on... which will announce our decisions on the issue of the ITPE... to be embodied in early legislation, and our approach to the... industrial training issues (including the need to improve links... and education), and state our intention to revise... a document to be published in conjunction with the NEC... as possible after the legislation has been introduced.

I look to colleagues agreement

to the proposals for a review by the NEC of industry's... needs, sector by sector, set out in paragraphs 1-3.

to the proposals for legislation on ITPE set out in para 11.

that I should encourage the NEC to prepare for... with the Government a document on wider issues on the... in para 10-11, this is to be subject to the... set out in paras 12 and 13.

that I should give further thought to the possibility of a White Paper to accompany the Bill (para 14).

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- e. that officials should be instructed to bring together current work on improving links between training and education and report on specific proposals by the end of January (para 15); and
- f. that I should make a statement during the Debate on the Address on the lines indicated in para 17.

Department of Employment
London SW1

J.P.

14 November 1980

The Secretary of State for Employment and Training (Mr. P. Ripstone) has recently published a report of the Industrial Training Board (ITB) on the ITPE report. The recommendations that ITB should submit to the Secretary of State are... in view of the fact that the ITB has not yet... to improve industry's training plans. The ITB has... to improve the standard of operating costs, productivity... of industry.

It is proposed to make a statement during the debate on... which will announce our decisions on the issue of the ITPE... to be embodied in early legislation, and our approach to the... industrial training issues (including the need to improve links... and education), and state our intention to revise... a document to be published in conjunction with the NEC... as possible after the legislation has been introduced.

I therefore propose to make a statement during the debate on... which will announce our decisions on the issue of the ITPE... to be embodied in early legislation, and our approach to the... industrial training issues (including the need to improve links... and education), and state our intention to revise... a document to be published in conjunction with the NEC... as possible after the legislation has been introduced.

I look to colleagues agreement

to the proposals for a review by the NEC of industry's... needs, sector by sector, set out in paragraphs 1-3.

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FUTURE INDUSTRIAL TRAINING ARRANGEMENTS

Second Report of a Working Group of the official Manpower Group

SUMMARY

1. Introduction

Ministers' preliminary views, on the basis of the Group's first report, favoured retention of a limited number of Industrial Training Boards (ITBs), operating costs being transferred from the Exchequer to industry through the levy; the necessary legislation should be accompanied by publication of a consultative document on the longer term development of industrial training policy. (E(80)36th Meeting item 2).

The Manpower Services Commission (MSC) have now confirmed, in the light of reactions to their recently published review of the Employment and Training Act (the RETA report), the recommendation that ITBs should continue, subject to a sector-by-sector review. However, in view of CBI representatives' strong opposition to increasing industry's financial burden, the MSC has made no recommendation with regard to the transfer of operating costs, procedures for levies over 1%, or rights of exemption.

The MSC have welcomed proposals for a consultative document on the development of vocational preparation, reform of apprenticeship and adult training, but are unlikely to be ready to agree a text before the end of January at the earliest.

Developments in related areas include the extension of the Youth Opportunities Programme (YOP) and the Unified Vocational Preparation experiment (UVP), proposals published by the Education Departments for comment by the end of the year on new vocationally-orientated examinations for 16-18 year olds and for the development of post-experience vocational education and a review by officials of financial support for 16-18 year olds to be considered by the Ministerial Committee on Home and Social Affairs later this month. A general review of education for 16-19 year olds will shortly be completed by representatives of education authorities under the chairmanship of the Parliamentary Under Secretary of State for Education.

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Decisions are needed now, for announcement by the Secretary of State for Employment in the Debate on the Address, on:

- outstanding issues on the Employment and Training Bill concerned with ITBs' powers and relationship to the MSC and the Secretary of State
- the arrangements for reviewing the number and scope of ITBs
- the timing, nature and scope of a Government statement on future training policy.

2. Arrangements for the review of ITBs

Ministers provisionally agreed that the MSC should undertake an urgent review of ITB coverage of particular sectors of industry, on the basis of criteria to be approved by the Secretary of State, who would also be responsible for the final decisions.

Ministers will need to consider whether the MSC should be asked to complete their review by mid-June 1981 - though this means a very limited period for consultation - in order to minimise the period of uncertainty and to minimise the extent to which ITBs selected for abolition will need to raise "terminal levies" in 1982/83.

3. Outstanding issues on ITBs powers etc

Existing public expenditure plans provide for reduction of Exchequer funding of ITB costs by 25% in 1981/82 and complete withdrawal thereafter. It is assumed these plans will be maintained, despite CBI opposition and TUC counter-proposals for a 3 year transitional period.

Officials are agreed that Affirmative Resolution procedure for levies over 1% should be retained. Ministers are invited to consider whether, in order to avoid repetitious recourse to this procedure, power should be sought to vary the figure for particular ITBs for specified periods.

Officials support the RETA recommendation that firms should no longer have a statutory right to total exemption from levy on the ground that their training arrangements are adequate for their own needs. Ministers are invited to consider

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whether, to replace this, ITBs should be given discretion merely to determine what proportion of the levy should be non-exemptable, or whether they should have a wider discretion to operate levy exemption schemes on any basis approved by the Secretary of State in consultation with the MSC.

Ministers provisionally agreed that the Secretary of State should be empowered to establish, abolish or change the scope of an ITB after consultation with the MSC rather than, as now, only on their recommendation. Officials are agreed that this should also apply to the transfer of a particular establishment from one board to another. Ministers are invited to consider the extent to which the powers of the Secretary of State and/or the MSC to act where an ITB is in default may need to be strengthened.

4. Government statement on future training policy

Ministers are invited to consider whether the consultative document under consideration by the MSC, summarised in the Annex to this report, provides a basis for a joint document, or an MSC document endorsed by Government - subject to agreement on the text, this might be ready for issue in February.

Meanwhile Ministers are invited to consider the content of the statement to be made by the Secretary of State for Employment, probably during the Debate on the Address.

5. Improved Relationships between Training and Education Services

The report contains some suggestions for strengthening links between the MSC and the Education Service, and for improving the availability and exchange of information about training needs and training and education opportunities at local levels. Ministers are invited to remit these for closer examination and report.

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1. INTRODUCTION

Minister's Preliminary Decisions

1.1 The Ministerial Committee on Economic Strategy at their meeting on 15 October (E(80)36 Item 2) endorsed the broad approach in Option D of the Working Group's first report and invited the Secretary of State for Employment to make further proposals in November on the arrangements for industrial training boards (ITBs) and for further work, in consultation with the other Ministers concerned and the Central Policy Review Staff, preparatory to the production of a consultative document on the longer term development of industrial training policy.

1.2 Option D was to retain a limited number of ITBs, to be identified by an MSC review, final decisions resting with the Government. The operational costs of the remaining ITBs would be borne by the industries concerned through the levy. Approval of levies would be conditional on energetic pursuit by ITBs of Government objectives for reform. MSC programmes would continue as currently planned (subject to the Government's overall programme for public expenditure).

MSC Views

1.3 The Manpower Services Commission (MSC) meeting on 30 October reviewed reactions to the report published in July of their Review Body on the Employment and Training Act (the RETA report). The MSC endorsed the basic objectives set out in the report including continuation of an industry-based structure for the promotion and encouragement of industrial training, but because of the critical comments received from industry were unable to endorse all of the report's recommendations. At their/ ^{December} meeting they will consider detailed proposals for a review sector by sector of arrangements for promoting training at industry level, both where there are ITBs and where there are not. The proposals will deal in particular with the position of small firms.

1.4 The MSC were unable to make a recommendation to the Government on the implementation of the recommendation that the funding of ITBs' operating costs should be returned to industry. All Commissioners were agreed that the present funding arrangements give rise to difficulties stemming from the requirements of public accountability and reduce the accountability of Boards to their industries. CBI Commissioners stressed that the imposition of these additional costs would be strongly opposed by employers and would be harmful to the maintenance and development of industrial training, and that the matter should be deferred until the sector by sector review, referred to above, had been

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completed. TUC Commissioners reaffirmed their support of ITBs but stressed that it was logical to expect industries to pay for the costs of training bodies which were doing valuable work in promoting training for their industries and that it was essential that training arrangements which were needed in the interests of the nation should not be allowed to disappear. The TUC would however have supported a transitional period of 3 years to give effect to the return of ITB operating costs to industry.

1.5 The Commission also reached no decision on the question of the statutory limit on the size of levy which can be introduced by ITBs or on whether ITBs should have discretion as to whether or not to introduce levy exemption schemes; decisions on these questions depend on the outcome of consideration of the arrangements for funding ITBs.

1.6 At the same meeting the MSC considered proposals for a consultative document on the development of vocational preparation, reform of apprenticeship and adult training. They welcomed the idea of issuing such a document jointly with the Government but deferred consideration of the text to allow time for consultation with constituent organisations. It is unlikely that they will be ready to agree a text before the end of January at the earliest.

Other Developments

1.7 Ministers are currently considering the future of the Youth Opportunities Programme (YOP) and of Unified Vocational Preparation (UVP).

1.8 The education departments have recently published two consultative documents, both inviting comments by the end of December. First, "Examinations: 16-18" sets out broad proposals for new vocationally-oriented examinations for that age group. The second, "Continuing Education" examines ways of encouraging the development of post-experience vocational education in England and Wales.

1.9 A general review of education for 16-19 year olds will shortly be completed by representatives of education authorities under the chairmanship of the Parliamentary Under Secretary of State for Education.

1.10 Officials will be reporting shortly to the Ministerial Committee on Home and Social Affairs on existing arrangements for financial support for 16-18 year olds, including social security benefits, education awards, child benefits and YOP allowances.

Decisions needed now

1.11 Uncertainty about the future of ITBs and wider industrial training policy is distracting the attention of all concerned, not least in industry, from getting on with the job of providing training.

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1.12 To meet present public expenditure plans it is essential that Exchequer funding of ITB operating costs should be reduced by 25% in 1981/82 and be withdrawn completely from 1982/83. It is therefore essential that the necessary legislation to use the levy for this purpose should be enacted in the 1980/81 Session. It is also desirable that the changes in the number and scope of ITB should be implemented as soon as possible.

1.13 A place in the legislative programme is conditional on early introduction. A Bill is already in draft but finalisation of its terms and arrangements for its introduction require decisions now

- a. to confirm adoption of Option D of the Working Group's first report, including the transfer operating costs;
- b. on whether to continue the requirement for special Parliamentary procedures for levies exceeding 1%;
- c. on whether to replace the present statutory right of establishments to total exemption from levy on the ground that their training arrangements are adequate for their own needs with a requirement for ITBs to operate levy exemption schemes approved by the Secretary of State in consultation with the MSC;
- d. on measures to strengthen the powers of the Secretary of State over the operations of ITBs.

1.14 For the same reasons it is desirable to set in hand as soon as possible the review by the MSC of ITBs with a view to reductions in their number and possible changes in scope. This requires decisions on

- a. the manner and timing of the review
- b. the question of guidance to the MSC on the criteria

1.15 Ministers also have in mind the desirability that concurrently with the passage of legislation and the review of ITBs there should be a positive campaign for the reform of industrial training, which might be based upon the publication of the consultative document by the MSC or by the MSC and Government jointly. This requires decisions on

- a. whether to await further consideration by the MSC in January of their own proposals, or

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b. to issue some earlier indication of the Government's own views, whether by way of a White Paper or a Parliamentary Statement, and if so, the content of this.

1.16 Finally Ministers will need to consider the handling of the announcement of their decisions on all the above, the suggestion being that this should be done by the Secretary of State for Employment during the Debate on the Address.

1.17 The Government's proposals are outlined in the White Paper on the subject of the National Health Service, which is published today. It is a comprehensive and detailed statement of the Government's policy on the subject of the National Health Service, and it is hoped that it will be of interest to all those who are concerned with the health of the Nation.

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2 ARRANGEMENTS FOR THE REVIEW OF ITBs

Background

2.1 In the light of the RETA report and reactions to it the MSC propose to carry out a review, under their existing powers. This would be a review not of existing ITBs as such but of the training needs of industry, sector by sector with a view to establishing the need or continued need for that sector to be covered by an ITB.

2.2 Reactions to the RETA report have confirmed that in virtually all industries at present covered by ITBs, save construction, there is considerable and sometimes overwhelming opposition by employers to the continued existence of a statutory ITB. This opposition is strengthened by the proposal to transfer operating costs, but not due to that alone. The majority of employers take the view that industrial training bodies should be continued if at all on a voluntary basis, not necessarily tripartite and selling their advisory services on a commercial basis.

2.3 Workers' organisations and educational interests, on the other hand, have mainly taken the view that ITBs should be continued where they now exist, with stronger powers and some extension of scope. Educational interests have stressed the need to develop closer links with educational institutions, particularly at local level.

Timetable

2.4 Against this background an MSC review is likely to be prolonged and indecisive in the absence of a clear lead by the Government.

2.5 Ministers may therefore consider it necessary to set a firm timetable. The winding up of an ITB, even after abolition has been decided, is likely to take several months and involve considerable terminal expenses, including contractual compensation to staff (who are not civil servants.) It may be unavoidable in some cases for boards which are being wound up to raise levies to meet the cost of winding up, with the further difficulty of deciding whether firms at present exempt should contribute. To minimise this it is desirable that decisions should be taken as early as possible in 1981/82 so that activities are brought to an end as quickly as possible and levy income in that year, together with 75% Exchequer funding of operating costs and accumulative reserves can be devoted to the costs of winding up. (Necessary additional powers for this will be contained in the new legislation).

2.6 Ministers may therefore consider that their own decisions on which ITBs should be retained, and on their future scope, should be taken not later than end-July 1981. This would require a report from the MSC by the middle of June (allowing for intervening consultations between the Government and the MSC on areas of disagreement). This in turn would mean that the MSC would have to set a closing date of end-March for the views of the many organisations concerned.

2.7 This is a tight timetable though some of the ground has already been covered by the organisations concerned both in their evidence to the MSC Review Body earlier this year and in their recent reactions to the RETA report.

2.8 The alternative is to set a later timetable in 1981, either generally or for particular sectors. This would increase the difficulties in meeting the planned 25% reduction in Exchequer funding of operating costs in 1981/82 and mean the raising by many ITBs of "terminal levies" and acute problems over exemption.

Criteria

2.9 Since final decisions will rest with Government, the Government will need to indicate to the MSC the criteria which it will be applying at that stage and which should therefore inform the MSC's preparatory review.

2.10 The views of employers, through their representative organisations, are clearly a key starting point. Where a majority (weighted for size) are in favour then almost certainly an ITB should be continued. Nevertheless if the Government considers it necessary for the achievement of its objectives for the future of industrial training, without relying entirely upon expansion of the public sector, to continue ITBs in some key sectors then it will be necessary to over-ride employers' objections in some cases.

2.11 It is suggested that these cases might be identified by the following criteria:

- a) a history of shortage of trained labour at normal levels of economic activity, generally or in particular localities
- b) an emerging demand for trained labour in new technologies with no sure prospect of this being met by employers unaided efforts

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- c) evidence of inadequate quality of training, including lack of agreed standards
- d) evidence of failure to open up opportunities for vocational preparation below craft level, unnecessary restrictions on apprenticeship or on adult training.

2.12 Potential sectors having been identified in this way it would then be necessary to consider the extent to which a statutory ITB - in particular the tripartite structure and the levy raising power - was likely in the particular circumstances of that sector to be able to contribute to furtherance of the Government's objectives. This would include such considerations as

- e) why could not these objectives be achieved by voluntary means; would a statutory ITB be more effective?
- f) is the sector dominated by large firms where the Government's objectives might be achieved more directly (eg non-imposition of an ITB being conditional upon maintenance of good practice)?
- g) is the sector dominated by small firms, so that an ITB could not operate without excessive bureaucracy?

2.13 The MSC, and their constituent organisations, are likely to be very sensitive to any direction by the Government which appears to pre-judge the outcome of the review in terms of the precise number or identity of ITBs to be retained. Nevertheless it would be right for the Government to indicate that it wished to extend the area of reliance upon voluntary means, and to keep ITBs only in a few key sectors where they seemed essential to secure the desired training objectives.

Agricultural Training Board

2.14 The Agricultural Training Board, though originally established under the 1964 Act like other ITBs is now funded and administered directly by the Agricultural Departments. The Agricultural Departments have no plans at present to change these arrangements (which would require special provisions to be made in the Bill).

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3 OUTSTANDING ISSUES ON ITBs POWERS ETC

Operating Costs

3.1 Ministers have decided that Exchequer funding of operating costs should be reduced by 25% in 1981/82 and withdrawn completely in 1982/83. Enabling powers are contained in the legislation now in draft. These will extend to use for this purpose of levies collected in the current year (and any accumulated reserves) though not originally assessed for this purpose.

Levies over 1%

3.2 Since the 1973 Act levies over 1% have been subject to Affirmative Resolution procedure in both Houses. (The procedure has been utilised in respect of one sector of engineering). The RETA report recommended that the requirement for this special procedure should be removed, partly because the addition of operating costs would make it more likely that some ITBs would need to exceed 1% even on their present scale of activities, but mainly because they were looking to ITBs to play a more active role which would require higher levy rates. Prior to the limitation in the 1973 Act the Engineering ITB fixed a levy of 3%. (Such higher levies would not necessarily be collected, but increase the degree to which an ITB can influence firms' policies as a condition of exemption or off-setting grants).

3.3 Employers have generally reacted with hostility to this recommendation, over and above their hostility to the transfer of operating costs. The MSC are divided and offer no recommendation.

3.4 The point is essentially one of procedure rather than substance; it is open to ITBs now, with the agreement of the MSC and the Secretary of State, to seek Parliamentary approval by Affirmative Resolution for levies above 1% up to any figure. If the special procedure were dropped it would be open to employers or anyone else to oppose a Levy Order whatever its size, by seeking to promote a Prayer against it. Nevertheless the difference is of considerable practical as well as psychological importance.

3.5 In these circumstances we doubt whether Ministers would wish to go for complete removal of the need for special procedure. Nor can we see any general case for raising the figure from 1% to say 1.5% or 2% or 3%. The majority of existing ITBs have current levies significantly below the 1% figure and operating costs, if spread over all firms in scope, would require an additional levy of only

0.1% or 0.2%. (To avoid collecting such small sums from large numbers of firms some ITBs might well want to exempt firms from this, eg if they are clearly training beyond their own needs, which would mean a bigger percentage addition for the others).

3.6 Nevertheless there may well be cases where a combination of justifiably increased activity by the ITB and the addition of operating costs (particularly if not shared over all firms in scope) may well require a levy exceeding 1%. Such cases will deserve special scrutiny and it is entirely logical that they should be subject to Affirmative Resolution procedure, at least in the first instance. Ministers may however wish to consider whether, where the circumstances giving rise to the higher levy are unlikely to change from year to year, it should be possible for the Secretary of State to obtain Parliamentary approval to raise the limit of 1% for a particular ITB for a specified period without further recourse to Parliament.

Exemption

3.7 The 1973 Act introduced a statutory right of exemption from levy for establishments whose training arrangements were, in the view of the ITB, adequate for their own needs. Some 80% of firms covered by the Engineering ITB, for example, are currently exempt. They are required to furnish the ITB with such information as is necessary to establish their right to exemption and the extent to which the decision rests with the ITB gives the ITB some influence over the quantity and quality of training provided by such firms. Nevertheless the ITBs' powers in such cases are limited to such training as is clearly required for the firm's own needs; they cannot, for example, make it a condition of exemption that the firm trains beyond its own immediate needs in order to offset general wastage from the industry or to build up a foreseen future requirement. As a result such gaps in training provision have increasingly had to be met by the public sector through Skillcentres or MSC grants to encourage firms to undertake additional training.

3.8 A particular problem arises if operating costs are to be met out of levy income. If the present mandatory exemption requirement stands, the whole cost of operating the ITBs - including the cost of investigating claims for exemption - would fall on those firms (20% in the case of Engineering) who cannot claim such exemption. At the very least therefore it seems necessary to give remaining ITBs the option of requiring a contribution to operating costs from establishments who would otherwise be exempt from levy. (But equally they should have the option of exempting establishments from such a contribution, eg if they were training well beyond their own needs).

3.9 The RETA report recommended that ITBs should be given discretion in this matter - subject to approval by the MSC and the Secretary of State . The recommendation has been strongly opposed by most employers. The MSC is divided and offers no recommendation.

3.10 If operating costs are transferred, the law cannot be left as it is. To leave the present exemption provisions in respect of money raised by ITBs for the provision of training services but give ITBs discretion as to the grounds on which firms may be exempted from a contribution to operating costs seems too inflexible. The alternatives seem to be to give ITB's discretion to make some part of the levy non-exemptible, or to widen the considerations which may be taken into account in relation to exemption beyond the immediate training needs of the establishment concerned to include such purposes within the competence of the ITB as the MSC and the Secretary of State may approve.

Secretary of State's fall-back powers

3.11 Ministers have already agreed that provision should be made in the Bill for the Secretary of State to have the power to establish, abolish or change the scope of an ITB after consultation with the MSC rather than, as now, only on their recommendation. It seems logical that the same should apply to the transfer of a particular establishment from one ITB to another.

3.12 It is also an essential part of Option D that remaining ITBs should apply themselves vigorously to the pursuit of the Government's training objectives. We have given further consideration to the powers of the MSC and of the Secretary of State to see that this happens.

3.13 ITBs will be dependent for continued existence not only on periodic re-appointment but also on annual approval of their levy orders by the MSC, the Secretary of State and Parliament. In addition ITBs must obtain the approval of both the MSC and the Secretary of State for their proposals for exempting employers from levy, and from the MSC for their grant schemes. This means that ITBs will need to take full account of MSC and Government objectives in developing their programmes.

3.14 Furthermore, the MSC has power to direct ITBs to submit for its approval proposals for the exercise of any of their statutory functions. The Secretary of State in turn has wide powers to "give to the Commission at any time such

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directions as he thinks fit with respect to its functions", including its functions in dealing with ITBs. This means that in general he can ensure that ITBs pursue Government training objectives. However he cannot direct the MSC to form a particular opinion or to make a particular recommendation. This is of particular importance in relation to his default powers. With regard to most but not all ITB functions if an ITB fails to comply with an MSC direction to submit proposals or following an MSC direction produces revised proposals which the MSC considers to be unsatisfactory, the Secretary of State has power to declare the ITB to be in default and to authorise any other person to act in its place for a 6 month period until a new board is appointed. It follows that where an ITB has been directed to submit revised proposals he can only exercise his default powers if the MSC considers them unsatisfactory and brings them to his attention.

3.15 Ministers may consider that the Secretary of State's default powers should be strengthened. First, the scope of the powers may need to be extended to cover proposals for the exercise of all ITB functions. Secondly, where the MSC has directed an ITB to submit revised proposals it might be required to report on those proposals to the Secretary of State leaving it to him to decide whether the proposals are still unsatisfactory and merit a default order.

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CONSULTATIVE DOCUMENT ON INDUSTRIAL TRAINING

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MSC Draft Document

4.1 At their meeting on 30 October the MSC considered a draft consultative document setting out proposals for extending vocational preparation for all 16-18 year olds, reforming apprenticeship and widening opportunities for the training of adults. A summary is attached to this report.

4.2 The MSC expressed interest in the idea of issuing such a document, jointly with the Government, but deferred further consideration to their meeting at the end of November, to allow members more time to consult their constituent organisations. No date has been fixed for the MSC to consider a revised draft of the document but it may well be the end of January before the MSC have cleared a final version for publication. Ministers will wish to consider whether these proposals form the basis for a possible joint initiative with the MSC sometime early in 1981; if so in what respects the proposals are in need of modification to be acceptable to the Government; and in either case whether the Government should take an independent initiative at an earlier date.

Comment on the substance of the MSC's proposals

4.3 It is understood that the MSC see the three elements of their proposals as inter-dependent: that the progress on adult re-training is dependent on reform of apprenticeship and this in turn is best approached by widening training opportunities for young people generally. All this sounds very long term and the last potentially very expensive, either to Government or to industry even if young people themselves can somehow be got to make a contribution by accepting relatively lower pay or less favourable social security provisions.

4.4 We suggest that the Government would want, either in a joint document or in an earlier independent initiative, or both, to lay greater emphasis on the scope for more immediate removal of unnecessary restrictions on the training of adults, on entry to apprenticeship and on the attainment of standards as a condition of skilled status. These are essentially matters for negotiation between the two sides of industry, in some cases at national level but most importantly as matters of custom and practice at local level. There is no reason why employers should not be encouraged to pursue them energetically, and unions to give a cooperative

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response at the present time. There is therefore no need to wait for the MSC's proposals on vocational preparation to be implemented before pressing for changes in apprenticeships and on adult training.

4.5 As regards the development of traineeships for all young people between the ages of 16 and 18 the Government is already encouraging development of unified vocational preparation by an experimental scheme of grants to employers in selected localities. If this grows there will be increasing demands on public expenditure both to extend the scheme of grants and also for the necessary provision of vocational education. There would also be increasing costs of administration. Ministers will need to consider whether they are prepared to accept an increasing commitment to public expenditure (as the MSC document would suggest) or whether there will come a point at which at least the cost of grants should be transferred to industry. The ITB levy mechanism would provide a means for doing this in those sectors where ITBs continue to exist.

4.6 As regards unemployed young people in this age group the Government is currently undertaking a somewhat similar commitment through the Youth Opportunities Programme. The MSC proposals would see this being extended to cover all unemployed young people between leaving school and reaching the age of 18. Ministers will need to consider the implications of accepting this as a permanent commitment and the time scale over which it might be extended to cover the whole group.

4.7 The MSC document envisages that even with the extensive Government commitment that they propose it will be necessary to offer employers some additional inducement and that they suggest remission of National Insurance contributions for young people under the age of 18 - either generally or on condition that they were undergoing approved training.

4.8 Young people's National Insurance contributions (taking the employers' and the employees' contributions together) currently total some 20% of pay and amount to some £300m per annum. It would be administratively impracticable to remit them selectively; the same result could be achieved by a system of selected grants but this would involve considerable bureaucracy. The question of reducing social security benefits to young people is under separate consideration but it seems likely that only a small part of the £300m could be offset by this means. The balance would need to be recouped either through general taxation or by increasing contributions for those over the age of 18. The latter would further enhance the desired effect of making the employment of young people a relatively attractive proposition, but at the expense of transferring the unemployment problem from school leavers to those aged 18 plus. Ministers will wish to consider this matter

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in conjunction with the issues of rewards for young people generally, which are under consideration elsewhere. In the training context it seems to us that the objective must be to secure reduction in the relative pay of young people (which is much higher in this country than in others) and this is a matter for collective bargaining.

4.9 Ministers may wish to instruct officials to explore these proposals further in consultation with MSC officials and to report to Ministers again in time for Ministers' views on the broad issues to be taken into account when revised proposals are placed before the MSC.

Possible Government initiative

4.10 Even on the assumption that Ministers will wish to subscribe to a joint venture with the MSC, or broadly to endorse an MSC venture, it is clear that this would not now be published until well into February at the earliest. It is quite likely that further discussions within the MSC or between the MSC and Government would lead to further delay.

4.11 Ministers may therefore wish to consider the possibility of taking some initiative of their own both in order to get things moving and also to provide a more positive background for the passage of legislation and the review of ITB coverage which otherwise might seem a somewhat negative preoccupation within the institutional framework.

4.12 If Ministers see very little future in the MSC initiative then there is everything to be said for the early publication of a Government White Paper setting out the Government's objectives particularly for the reform of apprenticeship and the training of adults, and how they saw the new pattern of ITBs and their other programmes fitting in with this.

4.13 Even if Ministers want to build on the MSC initiative (or at least to keep that option open) it might be possible to consider issuing an earlier Government document which would pave the way for it - and perhaps for other developments in related educational areas. However it is difficult to see what this could contain beyond what we envisage being contained in the statement by the Secretary of State for Employment in the Debate on the Address.

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5. LINKS BETWEEN TRAINING AND EDUCATION SERVICES

5.1 The RETA report, organisations of all kinds in their comments on it, the MSC in their draft consultative document and Ministers at their meeting on 15 October have all referred to the need for closer links between industrial training and vocational education. As we see it, the problem goes to the heart of our systems of industrial training and vocational education respectively. Both are extensively de-centralised - much more so than for example in West Germany - industrial training through the MSC, ITBs, other industry training bodies, and employers' organisations to individual firms, and vocational education from the education departments through education authorities to individual educational institutions. (The educational system in Scotland is more centralised and offers some useful opportunities for experiment).

5.2 The attempt to promote links between two such highly de-centralised systems presents formidable problems. Some attempt has been made in the past, eg by representation of education institutions on ITBs and by the involvement of industry in various educational bodies. While every effort should be made to promote links at all levels we suggest that further progress is most likely to be made at the only two levels where the structures at present coincide - the very top and the very bottom.

National level

5.3 We note that in addition to the appointment of educational representatives as members of ITBs the education departments have a right to send observers to meetings of ITBs. With the substantial reduction in the number of ITBs it might be possible to make more use of this right, resources permitting.

5.4 We note that though there are also education representatives on the MSC itself there is no corresponding right for the education departments (or the DE) to send observers to their meetings. MSC should be requested to invite such representation at meetings where training matters are under discussion.

5.5 Similarly greater efforts might be made to associate the MSC (and thereby the CBI and the TUC) with the development of vocational education policy by the Education Departments. Specifically we consider that the DES Training and Further Education Consultative Group, or some similar mechanism, should continue. DES and MSC are currently considering how the MSC or ITBs

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directly concerned could be more closely involved in the formulation of vocational education curricula and represented on the relevant examining bodies.

Local level

5.6 There is clear need for the better provision and exchange of information at local level about emerging shortages of trained labour, likely sources of recruitment and available training and education facilities.

5.7 We do not think the answer lies in the establishment of permanent committees, if only because the membership could not possibly represent the variety of interests, whether employers, unions or educational, that might be involved in particular problems as they arose. Rather we suggest the need is for some single existing organisation to be charged with responsibility for identifying particular problems as they arise and bringing together interests concerned ad hoc.

5.8 A suitable framework might be provided by the MSC's existing local training organisation though this would require some addition of staff. Alternatively or in addition the responsibility might be placed upon the local education authority. Experiments with different forms of organisation might be tried.

5.9 In any case there is need for better local labour market information, much of which is at present collected by individual ITBs to different specifications. The MSC is currently reviewing the present arrangements with a view to ensuring that the information required is reduced to the minimum necessary and collected in the manner which is most efficient and effective having regard to employers' existing records.

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Summary of the MSC draft consultative document on industrial training

The proposals put forward by the MSC in their draft consultative document have three main objectives:

(i) to ensure that by 1990 all 16 and 17 year olds have the opportunity to undertake either full-time education or a basic one year traineeship which would combine work, work-related training and vocational education and could be used as a basis for more advanced training. The precise content of the traineeship would be determined by the individual employer acting on the advice of the appropriate industrial training bodies and educational interests. The cost of piloting the new approach would be borne partly by the Educational Departments and the MSC, but mainly by employers, though for them it is envisaged that the costs would be offset by negotiated wage reductions for young people. The Youth Opportunities Programme would be retained so that traineeships would be available to the unemployed, particularly those in areas of high unemployment or members of disadvantaged groups. To encourage employers to support this proposal national insurance contributions by or in respect of all 16-17 year olds in employment would be remitted by the Government;

(ii) to develop the apprenticeship system in such a way as to remove the worst of its present rigidities and to place greater emphasis on the achievement of standards. Apprenticeship would also start with a foundation year along the lines described above so as to give both the trainee opportunity to judge the strength of his commitment to a particular career before his involvement became irreversible and the employer a fuller opportunity to assess a trainee's potential for advanced training. Accelerated Training modules would be developed to enable late entrants, ie 18 year olds leaving school or adult workers, to achieve similar levels of skill to the "normal" apprentice. Greater emphasis would be placed on the need to achieve standards of competence. Completion of a particular module would indicate achievement of a defined level of skill. Employers and trade unions would be encouraged to negotiate agreements removing restrictions on access to training, in particular removing anomalies as regards pay differentials.

(iii) to open up widespread training and retraining for adults - whether employed, unemployed or returning to the labour market - to enable them to acquire extend or update their skills or to assume more responsible positions. Achievement of this objective would be considerably helped by the changes proposed above in relation to the apprenticeship system. In addition the possibility of increasing the scale and scope of the Training Opportunities Scheme (TOPS) is mentioned, together with increased emphasis under the Training for Skills Programme for Action (TSPA) on support for initiatives which open up fresh opportunities for adult training, and allocation of resources for the expansion of programmes enabling adults to undergo training and education on their own initiative, for example for increased "open learning" provision.

2 The MSC sees these three objectives as closely related. Progress on adult retraining is considered to be dependent on reform of apprenticeship. This in turn might be accelerated by widening training opportunities for young people generally. It therefore regards each element as essential to the success of the overall strategy.

3 The MSC envisages its proposals being carried forward mainly on a voluntary basis. The Government's main input would be to create the right climate for change by:-

(i) formally committing itself to a new training initiative, setting out specific objectives for achievement by 1990 and indicating what action it would take and what action it expects from others; and

(ii) maintaining and possibly increasing, though only ^{on} a limited scale, its financial support, ^(a) for certain MSC programmes including the Training Opportunities Programme (TOPS) and Training for Skills: A Programme for Action (TSPA), the Direct Training Services and (b) for the expansion of programmes enabling adults to undergo training and education at their own initiative, and funding the further education component of the expanded vocational preparation provision; and

(iii) remitting all National Insurance payments made by or in respect of 16-17 year olds in employment, at a cost of about £200 million a year.

in other respects the main burden of the MSC's proposals would fall as with the existing training arrangements on industry itself and the education service. The broad shape of industry's contribution to the initiative would be laid down in a CBI-TUC framework agreement setting out the basic principles and criteria to be followed. The Government and the MSC would discuss with the education service how the service could make a substantial and growing contribution to the initiative. Despite the considerable resources involved, the MSC does not anticipate that the initiative would significantly increase the costs of training to industry. General oversight of the practical development of the initiative would lie with the MSC.

The MSC sees these three objectives as closely related. Progress will be made in one area only if the other two are also advanced. This in turn might be accelerated by widening training opportunities for young people generally. It therefore regards such an approach as essential to the success of the overall strategy.

The MSC envisages its proposals being carried forward mainly on a voluntary basis. The Government's main input would be to create the conditions for change by:

- (1) formally committing itself to a new training initiative, setting out specific objectives for achievement by 1990 and indicating what action it would take and what action it expects the others to take;
- (2) maintaining and possibly increasing those extra funds which the Government has made available for the MSC programme including the Training Opportunities Programme (TOP) and Training for Britain: A Programme for Action (TBPA); the direct training services and (3) for the expansion of resources enabling adults to undergo training and education at their own initiative, and funding the further expansion of the expanded vocational preparation system;
- (4) reviewing all national insurance payments and the impact of 16-17 year olds in employment, as a result of which 100 million a year.

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