

Issues Paper 7

December 2005

Tuning up for training but who pays the piper?

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Summary

Education and training policy makers world-wide are emphasising the development of their national skills base to support long term economic growth, ensure competitiveness and to promote 'employability'. All countries recognise the need to tune up for training but are also acknowledging a growing policy problem: how should the costs be shared between the state, individuals and employers. In the English context such concerns are indicated in the Secretary of State for Education and Skills' 2006-07 Grant Letter to the Learning and Skills Council (LSC):

"We need a step-change improvement in the achievement and participation of young people, providing a strong foundation for adult working life. For adults, we need much higher achievement of basic skills and the platform of skills for employability at level 2, with stronger progression to level 3 and beyond. We need a real determination to change the way training is designed and delivered to meet the priorities of employers. In the Skills Strategy we set out the Government's intention to rebalance public and private contributions to the cost of learning, so that they better reflect the benefits and financial returns to learners and employers."

Current English policy targets identify two groups for whom the issues are seen as being particularly acute: 16-19 year olds, too many of whom it is felt are leaving education and training early, and those already in the workforce who lack a level 2 qualification. This issues paper focuses on policy for the latter group.

The policy problem

In the English context inadequate development of the skills base has largely been attributed to market failure. The preferred solution has been continual reform of the supply side of the skills equation in order to make it more responsive to the needs of employers and business. However, despite multiple reforms of the VET qualification system, changing the governance and regulation of the VET system, and a 48% increase in funding for the Learning and Skills Sector since 1997 there remains a yawning gap between policy makers expectations of system performance in delivering desired policy goals and its actual performance.

Nowhere is this more apparent than in the training of the existing workforce. Consider, for example, progress towards a key Public Sector Agreement (PSA) Target: increasing the proportion of economically active individuals with level 2 qualifications by 2010. Research indicates that to achieve the current target an additional 200,000 economically active individuals without level 2 qualifications would need to participate in level 2 or higher studies each year between now and 2010 (Frontier Economics, 2005). The magnitude of the likely shortfall against this PSA target provides a strong incentive for the state to intervene further in the training market, but this time ostensibly on the demand side.

The National Employer Training Programme (NETP)

Announced as part of the Chancellor's 2005 Pre-Budget Report, the NETP is characterised as a service to employers. At its core will be a brokerage service, intended to identify business needs and find appropriate training providers. NETP also offers a range of flexible elements at regional and local level, such as grants for leadership and management training, and training for Union Learning Representatives. Employers will also continue to have access to a range of financial incentives and support to release staff to take Skills for Life (including literacy and numeracy) and NVQ level 2 training, delivered flexibly at a time and a place to suit their needs. When the NETP service is in place eligible employees will have the opportunity to access their entitlement to free training either through their employer or independently.

In combination with other initiatives, such as Success for All and the Agenda for Change, the NETP is also intended to change learning providers training provision and methods of delivery, to ensure that they can respond quickly and flexibly to anticipated employer demand. Overall, then, the NETP is intended to:

- Improve business performance

- Raise the skills levels of the workforce
- Develop the capacity of learning providers to meet employer need
- Effect a change in the way training is delivered
- Raise the standards and quality of training provision
- Provide a national skills brokerage network

The extent to which this will occur depends upon the effectiveness of the policy instruments chosen to design and implement the policy.

Policy design

There are four major types of policy instruments - the financial and regulatory mechanisms that translate substantive policy goals into concrete actions - that form the basic building blocks of policy designs (McDonnell and Grubb, 1991, p. 6):

Mandates: rules governing the actions of individuals and agencies, intended to produce compliance.

Inducements: the transfer of money in return for certain actions, e.g., grants-in-aid to government agencies, private sector organizations, and individuals.

Capacity-building: the transfer of money for the purposes of longer-term investment in material, intellectual, or human resources; examples include funding for training institutions to improve their planning function or the quality of their course offerings and longer-term education to impart broader skills than those required for a specific job or occupation.

System changing: the transfer of official authority among individuals and agencies to alter the system by which public goods and services are delivered; examples include vouchers, the addition of new providers such as private sector organizations, and the development of entirely new administrative structures to oversee training programmes.

In addition, English policy makers make extensive use of hortatory tools: marketing, PR campaigns, and speeches by policy makers to promote the value of services. Such activities are intended to exhort policy targets to produce desired behaviours, such as training. An example is the planned marketing campaign to promote the generic value of training to employers, as part of the NETP strategy.

The various reforms currently being targeted at the VET system are a complex amalgam of these policy instruments. Complex policy designs are needed when the same policy is intended to address different problems and to change the behaviour of diverse targets. In the case of the NETP, for example, the desired policy outcome is not only to encourage employers to train and so improve their business performance, but also to produce a more flexible training delivery system; i.e. there are two policy targets - employers and the performance of training providers.

Inducement, supported by exhortation, is the primary policy instrument in the NETP. This involves passing fiscal resources from the Treasury, typically via the DfES and the LSC, to lower levels of the VET system (which includes employers) in the hope that specified education and training services will be delivered to target groups, such as those without a first level 2 qualification. LSC forecasts indicate that in 2005-06 £161 million will be allocated to the NETP rising to £399 million by 2007-08, an increase of 148%. While representing only 3.7% of total LSC budget in 2007-08 the NETP will see the largest proportional growth of any LSC budget line. This is a major investment: what are the risks to it paying off?

Policy targets and expected effects

As with any policy instrument, the use of inducements makes certain assumptions about the nature of the policy problem to be addressed, who the targets should be and how their behaviour should change, how much programmes should cost, and who should bear the costs. The use of an inducement assumes that, providing the right incentives are offered, targets employers, employees and training providers - have the capacity to alter their behaviour in accordance with the expectations of policy makers. The evaluations of the Employer Training Pilot1 (ETP), the forerunner of the NETP, suggest that the policy is likely to have an impact on the propensity of some employers to train their lower skilled staff. Nonetheless, there are a number of potential sources of slippage between policy expectations and outcomes immanent within the NETP design. This is particularly so with respect to what the ETP evaluation showed was the major carrot for employers to participate: access to subsidised training leading to a first level 2 qualification.

A key assumption is that employers, given a subsidy, will be willing to offer their low-skilled employees time to train up to a level 2 qualification and that employees will be willing to take up this opportunity. This requires that those employing low skilled staff see the need for them to have level 2 skills. Research suggests that there are important and large employment sectors, such as hospitality, where such a need is not being expressed (Tenant et al. 2005). While it may be socially desirable for people working in these sectors to have level 2 qualifications it is not, from the employers' perspective, economically

necessary. Consequently an inducement in the form of subsidised training linked to obtaining level 2 qualifications is unlikely to tempt such 'hard-to-reach' employers into participation. Such employers are more likely to be interested in subsidised training for basic health, safety and hygiene certificates. This is an area, however, where the LSC is keen for employers to pay more, as it is often mandatory to provide such training and certification (LSC 2005).

The policy also assumes that what employers need is people with level 2 qualifications when they may really want people with craft and technician skills. Historically such skills were developed without necessarily being accredited. This pattern of skill development is reflected in research showing that those in skilled occupations constitute the largest group who are economically active without level 2 qualifications (Frontier Economics, 2005). Such individuals are unlikely to be encouraged by their employers to take up opportunities to obtain level 2 qualifications when they already have skills at that level or higher.

A significant proportion of employers in some sectors, for example engineering, have major skill needs at level 3 and above. For such employers the current offer of subsidised training to level 2 is not appropriate, and the usual barriers of time and cost are likely to prevent employees requiring such training from being released. However, there are clear economic returns associated with possessing level 3 qualifications compared to holding level 2 qualifications. The government, therefore, is right to expect employers and individuals to make a contribution at this level and above. The reality is likely to be that without a regulatory push such investment may not be forthcoming forcing the government into further subsidy to meet policy goals.

Finally for individuals making the transition from one career to another, or developing their existing career, the need may be for additional level 2 qualifications rather than, say, level 3 or 4 qualifications. Again, without support access to such learning opportunities may be restricted unless employers and employees can be persuaded to pay for the training or pushed into undertaking it.

In principle, slippage can be rectified by the addition of secondary policy instruments to the policy design. Mandates, in the form of licences to practice, would require employers in low skill sectors to provide access to opportunities to achieve level 2 qualifications. For example, the requirement to have an NVQ 2 in Social Care to work in the sector has led to an increase in training effort. Extending subsidy to cover additional level 2 and level 3 provision (as currently being piloted) is an additional inducement verging on a capacity building instrument because of the longer time scales involved. However, it is difficult to see what can be done about those who already have adequate but uncertificated skill levels for their jobs, unless the state was prepared to

subsidise mass accreditation of prior learning for the sake of reaching the PSA target.

Costs and who bears them

Inducements impose direct service costs and oversight costs on policy initiators which, in the case of the NETP, have to be borne by the tax payer. An additional weakness of inducements as a policy strategy is the opportunity for providers to produce variability in service provision outcomes. The idea of imposing extra conditions within the NETP in order to ensure more consistency in meeting policy targets is politically difficult as it might frighten off employers. However, without such conditions there is likely to be slippage between policy expectations and outcomes that result in additional costs that policy initiators have to bear. The most likely of these is deadweight.

Deadweight occurs when programme funds designed for one purpose, for example providing extra training and achieving qualifications, are siphoned off into other uses that have value primarily for targets. For example, deadweight can be incurred when resources are used to fund training that firms would have undertaken anyway. The evidence from the qualitative evaluation of the ETP is that there is a significant risk of high levels of dead weight in the NETP. A consequence is that while the programme may have a detectable impact on training effort it may be economically very inefficient.

In addition to costs borne by policy initiators, policy targets also have to bear some costs. The most obvious of these in the case of the NETP are employer opportunity costs that result from engaging in training. Other costs associated with the NETP are borne by Further Education colleges whose adult training budgets have been cut to pay for the investment in the learning brokerage service. The proportion of the LSC budget targeted at adult learners will decline by 7% between 2005-06 and 2007-08. The restructuring and inevitable redundancies this will involve may make FE colleges less able to meet the government's commitment to free training for a first level 2 qualification for adults.

The main target of cost cutting in FE colleges is short, non-accredited courses. These are deemed by policy makers to be making an insufficient contribution to meeting government targets to receive funding. Such courses have traditionally been seen as a re-entry route for the most disadvantaged adults. The potential inequity predicted could be overcome by subsidising all adult learning up to and including level 2 (NIACE 2005). This would, of course, impose further direct costs on policy initiators, which they appear unwilling to bear.

Finally, both employers and training providers may incur excess costs - the cost of producing a desired good or activity, over and above the amount of grant or subsidy. Such costs would be incurred if policy targets, as must be the intention of the policy initiators, seek to institutionalise and expand the provision of training services as government subsidies for training are withdrawn. Training providers are placed in a particularly tricky position here.

If FE colleges, for example, gear themselves up to deliver the sort of flexible, expensive provision intended by the government, but demand from employers is either not forthcoming or falls off once the subsidies are withdrawn, then many will be left in a very difficult financial position. In the absence of support to bear such potential costs (and such support seems largely rhetorical at the moment) then FE college managers may be more cautious than expected in moving to provide new services employers. They will, perhaps, opt to concentrate their attention on attracting and providing services for more 16-19 year olds where funding is more secure.

Conclusion

The challenge for policy makers in designing policy is to estimate the costs that targets are willing to bear as closely as possible and within these constraints minimise their own costs in order to maximise the efficient use of public resources. The key assumption of the NETP is that employers are unwilling to bear the opportunity costs in order to enter the training market for lower skilled employees but may be willing to bear such costs for training for more skilled employees reducing opportunity costs through subsidy, and providing better information and better-tailored training services, will, it is hoped, make the training market work more effectively. There are a number of challenges to this assumption that stem from the use of inducements as the primary policy instrument. In particular, policy initiators are likely to run the risk of incurring high levels of dead weight and training providers may be unwilling to run the risk of producing new types of services. The upshot may be serious slippage between policy expectation and outcomes that can only be corrected by developing a new mix of policy instruments to underpin the NETP. Without such a new mix, the desired tuning up of the VET system for training may be a little flat with the costs borne disproportionately by the taxpayer.

Notes

¹At the time of writing, December 2005, the DfES had still not published the quantitative evaluation of the Employer Training Pilot undertaken by the Institute of Fiscal Studies.

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