

Tackling Long-Term **Un**employment:

A Discussion Paper
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'Our preliminary analysis has led us to the conclusion that what is needed is a more radical review of the entire range of opportunities for adults who are out of work, to cover how they are accessed, delivered and funded.'

The Future of Adult Training,
TEC Working Group, 1992.



**Liberal
Democrats**

Summary

- 1.1 The worst social and economic damage is caused by long-term unemployment. Skills and work habits are lost, confidence destroyed and dependency increased. The long-term unemployed are disadvantaged in the labour market because employers perceive them to be a bad risk. The effective exclusion of the long-term unemployed from the labour market means that labour shortages - and inflation - can appear very quickly, threatening sustainable economic recovery.
- 1.2 This discussion paper - Tackling Long-Term Unemployment, has been compiled by a Liberal Democrat parliamentary research team led by their Frontbench Spokesperson for Employment and Training, David Chidgey, MP for Eastleigh. During the summer of 1995, the team evaluated evidence from unemployment and training strategies adopted in the UK and elsewhere and the proposals of established bodies in industry and commerce. The team held a series of discussions with senior management representatives from a cross-section of Training and Enterprise Councils (TECs) across Britain. In the course of these discussions, they visited TECs based in Bournemouth, Lincoln, Manchester, Newcastle, Northampton and St. Albans. The purpose of their discussions was to identify the challenges facing TECs in tackling long-term unemployment and to assess the initiatives they had developed in the context of employment policy.
- 1.3 An analysis of employment statistics shows that long-term unemployment in the UK is costing at least £9 billion annually. Research shows that there is an equally disturbing social cost. Despite falling levels of those unemployed and claiming benefit, long-term unemployment (the unemployed for six months or more) is rising as a proportion of unemployment. There is a direct link between long-term unemployment and low skills, with many sectors of industry and commerce expressing concern at growing skills shortages.

- 1.4 The Training for Work (TfW) programme has failed to get the LTU into secure jobs. About a third of the total completing TfW schemes do so with a qualification with only slightly more finding employment. The longer someone is unemployed, the less likely they are to find permanent employment after completing TfW (see Table 1).
- 1.5 Funding of TfW is set to reduce substantially in 1995/6, with less time spent on schemes and less places available. There is growing concern among training procurers (TECs) and providers alike over the decline in the quality of training and in their inability to meet the skills needs in their local communities. The introduction of Output Related Funding (ORF) for TfW has increased bureaucracy, reduced flexibility and diminished further the chances of employment for the very long-term unemployed (VLTU), those unemployed for two years or more.
- 1.6 A Government initiative, "Workstart", aimed at helping the LTU into work, has met with strong criticism. The Workstart pilot projects, aimed at persuading employers to take on LTU through a £60 per week subsidy exclude any requirement for training. Indeed, most of the vacancies filled by LTU under these schemes have been low skill and low wage and would have been filled through normal recruitment.
- 1.7 Within the constraints of Government funding, TECs are developing a wide range of initiatives to get the LTU into work, by targeting specific obstacles to employment. A recurring theme is a belief in "jobs with training rather than training for jobs". There is widespread frustration that the TfW/social security benefits funding mechanisms inhibit the expansion of successful initiatives. There are encouraging examples of TECs contracting with employers to recruit LTU with the TEC funding required training, up to at least the level of National Vocational Qualification Two (NVQ2). The separation of TfW funding and social security payments in the TECs overall budget is seen as a major obstacle in developing these initiatives. However, the Government target for the

provision of TFW for those gaining employed status rather than training placement is only 9%.¹

1.8 There is a widespread consensus that the UK is failing to deal effectively with the skill deficit in comparison to our competitors and that at the same time the total of low-skill manual jobs available will continue to sharply decline. The need to invest in training and to improve the employability of those with least skills, often the LTU, is universally recognised.

1.9 Experience drawn from a number of TECs demonstrates the potential for using social security payments to fund in-work training for the LTU. The Liberal Democrats' policy for introducing a Benefit Transfer Programme would provide a national structure for funding training for the LTU, securing for them worthwhile jobs. Benefits would be transferred by vouchers to employers prepared to employ LTU people at the full wage for the job. Vouchers would be exchanged to meet the costs of training requirements received either in-house or by external providers. Vouchers would be progressively reduced in value over time, avoiding an open-ended commitment. The cost to the State would be negligible and always less than the costs of benefits and taxes foregone.

¹ DoE. *Departmental Report, 1995*, Table 1.15, p.38.

2. Introduction

2.1. *Unemployment - A price worth paying?*

Unemployment is currently costing the United Kingdom some £26 billion per year in benefits paid and taxes foregone.² Within that total, at least £9 billion is attributable to long-term unemployment. With annual costs now equitable to some 72% of the forecast 1994/5 Public Sector Borrowing Requirement,³ few would support Norman Lamont's claim when Chancellor that "unemployment was a price worth paying."

2.2 *The cost to the country*

The impact of unemployment is not confined to direct financial costs. There is clear evidence of a deterioration in physical and mental health amongst the long-term unemployed.⁴ Higher rates of divorce and increased chance of suicide⁵ confirm the social costs of unemployment. A perception of job insecurity and poor prospects, particularly amongst people over forty, has created psychological stress, undermining the Government's hoped-for "feel-good factor".

2.3 *The skills deficit*

While the headline count of those unemployed and claiming benefit has been gradually falling since January 1993, levels of long-term unemployment changed little. Unemployment for over six months, currently reported as standing at 1.739 million people,⁶ has risen proportionally from 50.3% in January 1990 to 57.3% of the headline figure in April 1995.⁷ A major factor in long-term unemployment is the skills deficit. Those with low skills are the least employable; those with out-dated or inappropriate

² Piachaud, D., *A Price Worth Paying?*, TUC/EMI Conference, July 1994.

³ Current PSBR for 1994/95 is running at a forecast £36.1 billion, HM Treasury, *Summer Economic Forecast*, 1995, p.41.

⁴ Office of Health Economics, *The Impact of unemployment on Health*, 1993.

⁵ Moser, K. A., 'Unemployment and mortality: comparison of the 1971 and 1981 longitudinal study census samples', *British Medical Journal*, 1989, pp.86-90.

⁶ July 1995, from NOMIS database. Series WQAD

⁷ Long term unemployment is defined as people who have been claiming for over 26 weeks. Data taken from the NOMIS Database. Series WQAD.

skills have more difficulty finding new employment. From January 1990 to January 1995, the proportion of males unemployed without academic or vocational skills increased from 12.7% to 21%.⁸ Perversely, high skill shortages have become acute, with TECs reporting serious shortfalls in information technology and in manufacturing technology. Commerce and industry are increasingly alarmed by the growing skills deficit. Chambers of Commerce reported that 39% of companies were suffering from skills shortages⁹ and the Forum of Private Business reported that for 18.9% of its members, skill shortage was a major concern.¹⁰ Nationally, the number of hard-to-fill vacancies is reported to have risen by 76% since 1990.¹¹

2.4 Tackling the problem

The link between low skills and long-term unemployment is well established. With every person unemployed for a year costing the economy £9,000 in benefits paid and taxes foregone, the need to improve employability by raising skills levels in the workforce is critical. This discussion paper examines the failure of current Government policy, reports on a range of initiatives promoted by TECs and others and calls for a new approach to tackling long-term unemployment.

⁸ Barron, K., 'Training for Our Future', *The House Magazine*, 13 March 1995, p. 12.

⁹ Taylor, R., 'Skilled labour shortage 'hampers recruitment'', *Financial Times*, 26 September 1994

¹⁰ The Forum of Private Business, *37th Quarterly Survey of Small Firms*, OMO No.37, April 1995, p. 8.

¹¹ Barron, K., *op. cit.*, p. 12.

3. Training for Work - A Failing Policy

3.1 *Training for Work - The Record*

The Government's Training for Work (TfW) scheme was introduced in 1993, aimed at people unemployed for over 6 months. TfW schemes were, according to the former Department of Employment (DoE), 'to develop programmes of skills training, temporary work and job preparation.'¹²

3.2 Ministers claim the TfW programme has been a success, stating that since 1991 the number of people leaving TEC training programmes with a recognised qualification or credit towards was 37%.¹³ But a report by the TUC in 1994 found that over the last year, for all LTU leaving a TfW scheme, on average only 35% get a qualification or credit towards one.¹⁴ The 1994 Liberal Democrat survey of one fifth of the TECs pointed to a figure of around 31% (see Appendix 1).

3.3 Government statistics show that in March 1995 only 37% of those leaving TfW went into employment.¹⁵ More than half those unemployed for more than a year remain unemployed after completing TfW. For those unemployed for more than two years, the figure rises to nearly two thirds (Table 1).

3.4 *Planning for Less*

The Government have claimed that they will 'increase the number of unemployed people who get jobs as a result of the programme from a reduced budget.'¹⁶ Funding for TfW is being reduced by 16% from an estimated out turn of £693 million in 1994/95 to a planned £578 million in 1995/96.¹⁷ The average length of training is likely

¹² Gillian Shephard, HC Deb., 12 November 1992, c903w.

¹³ DoE, *Employment Gazette*, August 1995, Table 8.3.

¹⁴ TUC, *Long-Term Unemployment: time for a new start, 1994*. (Prepared for the 1994 TUC Congress).

¹⁵ DoE, *Employment Gazette*, July 1995, Table 8.3.

¹⁶ Department of Employment Press Notice, *Michael Portillo welcomes a Budget for Jobs*, 214/94, 29 November 1994.

¹⁷ Employment Department Group Departmental Report, Cm 2805, March 1995, Table 1.15, p31.

to fall by 18% - from 22 weeks in 1992/93 to 18 weeks in 1997/98. There will be a 24% reduction in the number of places in the TfW programme from 280,000 to 225,000 for 1995/96¹⁸ (in 1993/94 the number of places was 320,000).¹⁹ The net result of this is that the average amount spent per person will reduce. However, in one major industrial region, the TEC is only able to fund TfW for one-sixth of applicants.

Table 1 - Percentage of people who are unemployed after being on government training schemes.²⁰

Period of Unemployment Year	Unemployed for 6-12 months	Unemployed for 13-23 months	Unemployed for over 24 months
1990/91	61	65	66
1991/92	61	68	67
1992/93	53	63	66
1993/94	47	58	64
Average	55	63	65

3.5 Delivering TfW

There is growing concern among TECs and training providers over their inability to deliver TfW relevant to their communities within the constraints imposed by the Government. Among many areas of criticism, the strongest concern the quality of training under TfW, the bureaucratic system of administration and the inflexible funding process.

3.6 Decline in quality of training.

Ministers have admitted that 'TECs lack credibility with the business community'.²¹ Part of this lack of credibility is caused by the poor quality of training provided under TfW. One third of colleges in England and Wales who provide training were considering pulling out of TEC-funded initiatives. (Part of the problem is that TECs are 'bad payers' and that they find the Output Related Funding (ORF) scheme

¹⁸ Humphries, D., 'Training for work', *Training Tomorrow*, May 1995, p.5; *Financial Times*, 27 February 1995.

¹⁹ 'Training for Work targets long-term unemployed', *Employment Gazette*, March 1993.

²⁰ Averages compiled from reply to David Chidgey from the Secretary of State for Employment, PQ 9418, 16 February 1995, Tables 5 to 16.

²¹ Hamilton Fazey, I., 'Portillo admits some TECs lack credibility', *Financial Times*, 27 February 1995.

problematic.²²) Chris Humphries, when Chief Executive of the TEC National Council, said he feared that 'the reduction in funding will make it more difficult for TECs to provide the longer and higher level skills training.'²³

3.7 *Shackled by bureaucracy*

In the FT survey of TECs,²⁴ 73% of all TEC directors thought that there was not enough independence from central government, a view confirmed by the TECs visited by the team. The structure does not allow the flexibility needed or allow TECs to be responsive to local factors, making delivery of the TfW programme increasingly difficult.

3.8 *Inflexible funding*

A universal view from the TECs visited was that there is far too much paperwork. The length and complexity of the Operating Agreement (which changes each year) creates problems of interpretation and reduces flexibility. TECs are audited up to five times a year and have 22 separate budget lines. Each month every TEC has to fill in a 12-page claim form in order to draw from their budget. One TEC pointed out that the latest Whitehall bureaucracy requires TfW candidates to be vetted by the Employment Service in order to check their eligibility. This 'can cause delays of up to four weeks before people can go on a TfW scheme.' The impact is, as Chris Humphries points out, to place 'an extraordinary administrative bureaucratic burden on the TECs.'²⁵

3.9 *Output Related Funding*

In April this year Output Related Funding (ORF) was introduced nationally. Funding is based on the numbers in TfW who leave with 'positive outcomes'. A 'positive outcome' is defined as a person gaining employment, or going on to further training or

²² Nash, I., 'Inquiry plea after TEC goes bust', *Times Educational Supplement*, 3 February 1995.

²³ Quoted in Rich, M., 'TECs hail funding change as boost for unemployed', *Financial Times*, 1 December 1995.

²⁴ Financial Times, *Training and Enterprise Councils, A five year survey of TECs*, 1995, Q6, p.52.

²⁵ *ibid.*, p.6.

education, but not remaining unemployed. TECs receive 25% of the course cost for reporting a start and the remaining 75% once a 'positive outcome' has been proved. The DoE project that while the percentage of those gaining qualifications on completion of TfW will decline to 30% from the current 37%,²⁶ positive outcomes will increase from the current 36% to 60%.²⁷

3.10 Initial observations in a report prepared by Coopers and Lybrand for the Employment Department suggest that where the system was introduced more positive outcomes were achieved than comparator TECs using the old system. For 1993/4 the ORF pilots achieved 29.75% positive outcomes while TECs using the old system achieved 20.95%.²⁸ But the score for the ORF pilots is still below the national average for current attainments in TfW. The study also found that performance for ORF in 1993/4 increased by 92.5%, against an increase in comparator TECs of 35.2%. But the study warned that 'it is currently not clear whether this performance is additional to that which would otherwise have been achieved.'²⁹ It also concluded that ORF was not the only way of gaining the achievements in output results.³⁰

3.11 *The Drawbacks of ORF*

The Coopers and Lybrand report uncovered evidence that OPR will have a major impact on the standards of training given and on those selected for training. The long-term unemployed and the 'non-productive' could be the main losers and the quality of already inadequate training could suffer further.

- **No significant improvement of chances for the very long-term unemployed.** The study found a direct correlation between the length of unemployment before starting TfW and attainment of positive outcome. In the five TECs studied, 46% of

²⁶ DoE, *Employment Gazette*, August 1995, Table 8.3.

²⁷ Employment Department Group Departmental Report, Cm 2805, March 1995, Table 1.15, p31

²⁸ Employment Department, *Evaluation of the Training for Work funding pilots. Final report*, March 1995, p.13, Table 2.2.

²⁹ *ibid.*, p.56, para. 504(ii)

³⁰ *ibid.*, p.58.

those unemployed for up to 12 months gained positive outcomes against 20% of those unemployed for over 24 months.³¹

- **Neglect of 'non productive' people.** The study found a selectivity preference in the TECs in favour of those unemployed for just over 6 months.³² It concluded that there could be 'a possible recruitment bias in favour of those in the eligible client groups who are more "job ready" at the expense of those participants who benefit from a longer period of training.'³³ One TEC reported that 'we would be concerned if a person's training took longer than the allotted six months.' The 1995 FT survey of TECs also found that 60% of TEC respondents thought that the emphasis on outcomes could discriminate against people who most needed help.³⁴ This would certainly include people who were unemployed for 1-2 years and those who have social problems and may also include those with disabilities.
- **Decline in the quality of training.** A DoE report on NVQ attainment in Tfw notes that a major factor in NVQ quality was the growing pressure on outputs and performance.³⁵ It warns that 'the higher the ORF the greater the temptation could be to "cut corners" and/or give lower priority to added value and/or be more selective in recruitment in order to achieve output, generate income and cash flow and/or reduce costs.'³⁶ The Coopers and Lybrand study suggested that the ratio for division of ORF should be 40% for a start and a further 60% for an output.³⁷ This was rejected by the Government who have set levels at 75% and 25%. The study also warned that under the ORF regime there could be 'a focus on short-term labour market needs at the expense of investing in skills to meet medium to

³¹ Employment Department. *Evaluation of the Training for Work funding pilots. Final report*, March 1995, Figure 2.7.

³² *ibid.*, Figures 2.5 & 2.7:p.41.

³³ *ibid.*, para. 506, p.63.

³⁴ Financial Times, *op. cit.*, Q18a, p.57.

³⁵ Employment Department. *Review of NVQs within Training for Work*, January 1995, para 25.

³⁶ *ibid.*, para 27.

³⁷ Employment Department. *Evaluation of the Training for Work funding pilots. op. cit.*, p.63, para. 507.

longer term needs',³⁸ and that there could be a 'reduction in the range and breadth of training provision available to participants.'³⁹

3.12 Our discussions with TECs confirmed that the unit price allocated for each individual only allowed low-level training. One complained that there 'was no national strategy for training for NVQ at levels 3/4.' Several TECs said that they had stopped funding long-term courses, run in conjunction with the local university. One TEC had to end a number of courses specialising, among other things in management, tourism and water management, 'because they either provided no outcome, took too long or cost too much.'

3.13 *The Government's Answer?*

The former Secretary of State for Employment, Michael Portillo, said 'I intervene with the long-term unemployed to give them skills to make them more attractive to employers.'⁴⁰ Many would argue that the opposite is the case. As well as reductions in the TfW budget, numbers and course length, other policies are limiting access for the LTU to training and skills. Those over 50 are denied student loans; the benefits system is geared against people who want to do voluntary work to gain skills and experience and the amount of time that can be spent in education while still entitled to benefit has been reduced from 21 hours full time to 16 hours 'supervised' per week.

3.14 *Workstart - An Opportunity Missed*

In 1993, Workstart pilots were launched in four locations; London, Kent, Devon and Cornwall and Tyneside. The main aim was to persuade employers to take on the LTU by offering a subsidy of £60 per week. The scheme showed some success in that nearly 80% of employers stated an intention to retain their new employees. The attention of the Government, however, has focused on the number of employers who were reportedly prepared to take on the LTU for a smaller subsidy.

³⁸ Employment Department, *Evaluation of the Training for Work funding pilots*. op. cit., para. 506, p.62.

³⁹ *ibid.*, para. 506, p.62.

⁴⁰ Hamilton Fazey, I., op. cit.

3.15 The original purpose of involving the TECs in the Workstart pilots was to enable them to offer training under the scheme. However, there was no requirement for employers taking part in the Workstart pilots to offer jobs requiring training.⁴¹ While there was a wide spread of jobs in the Workstart programme, most of them 'were at the lower end of the occupational hierarchy'⁴² and thus did not require training. One aim of the Workstart pilots was 'to ascertain how far and in what way the subsidy affected the recruitment and selection practices'.⁴³ This is the primary concern of the Government and the main objective of the second phase of the Workstart projects. They state that the aim is to 'explore the potential for varying the amount and method of payment of the subsidy' for an employer to take on the long-term unemployed.⁴⁴ Some TECs have a cynical view of the Government's agenda, one claiming that 'the Government's main aim is to reduce the headline unemployment figure'.

3.16 The experience gained during the Workstart pilots underlines major weaknesses. Even though training was offered up to the value of £1,000, out of 139 employers on one the Workstart programme, only 5 accepted. The main reason that training was the low skill requirement of the jobs offered. Out of the four pilots it was estimated that only one in ten of the jobs filled were skilled.⁴⁵ In the Tyneside pilot 30% of the jobs were in retail; 50% in service and 20% manufacturing. The average weekly wage was between £110-£120 a week.

3.17 Reports from the TECs identified pointed out three major concerns and problems with the Workstart programme.

⁴¹ Answer to WPQ from David Chidgey to the Secretary of State for Employment, 12 July 1995.

⁴² Atkinson, J., and Meager, N., *Evaluation of the Workstart Pilots*, Institute for Employment Studies, Report 279, 1994, p.18.

⁴³ *ibid.*, p.4

⁴⁴ Department of Employment, 'Workstart is working, say employers', Press Notice 228/94, 14 December 1994.

⁴⁵ Atkinson, J., and Meager, N., *op. cit.*, p.4.

- **Questionable use of scarce resources.** The value of Workstart is that it could give people without skills or access to training the opportunity of employment. Workstart pilots in fact funded jobs but not training and therefore did not lead to any increase in skills levels. There can be little justification for investing scarce resources in schemes limited to providing employers with an initial labour cost advantage. The resources available for the Workstart pilots did not allow for large-scale access to training or higher-skill jobs.
- **High turnover of personnel.** A dual problem was identified with employee turnover. Firstly, the aim of schemes such as Workstart should be not only be getting people into work but keeping them in work. The types of jobs on offer in the scheme are recognised to have high employee turnover. Secondly, turnover rates were likely to be increased by employers shedding participants when their subsidies ended. Attempts were made to deal with the potential threat by having a retention clause in the contracts negotiated by the TECs with employers. It is estimated that about one third of the people employed under Workstart remained with their original employer.⁴⁶ This high turnover is typical in the low skill, low wage employment sector.
- **The poverty trap.** There was general concern that Workstart would have a minimal effect in tackling the poverty trap, with wages offered no greater than the income many receive from benefits. There was the problem of motivating people into work. Workstarts had difficulty in recruiting participants to the scheme. There was a lack of motivation to forsake secure benefits for a job which was low paid, low skilled and could terminate after the subsidy ran out.

⁴⁶ Reply to WPQ from the Department of Education and Employment to David Chidgey, 12 July 1995.

4. Building on Experience

4.1 There have been a number of attempts in the UK to develop policies that would lever the LTU and those least employable into work, with mixed results. Drawing on past experience provides important guidance in the evolution of policies aimed both at improving the employability of the LTU and reducing the skills deficit in the workforce. Past schemes that contribute most to the current discussion are summarised below:

- **Employment Subsidy Schemes.** From the mid-Seventies throughout the 1980s a number of job subsidy schemes were introduced. They included Temporary Employment Subsidy (1975-79), the New Workers/Young Workers Scheme (1986-88) and Jobstart (1986-90). The schemes were generally aimed at placing people in predominantly low-skill jobs and were often targeted at the young. They achieved a degree of success, particularly during the 1980s boom. A significant drawback, however, was that they provided financial inducements to employers without requiring any investment in training to improve skills.⁴⁷
- **North Norfolk Action.** The Norfolk-based Employment Service introduced a pilot scheme on principles of the Workfare programme developed in the USA. Participants were employed on community projects⁴⁸ under the TfW system, receiving benefit payments plus £10 per week. No formal training was provided and only 25% of participants found employment at the end of the scheme.

American experience shows Workfare schemes are not cost effective; with the combined cost of administering the schemes and payments to participants far outweighing the market value of the work undertaken. Substantial cost burdens

⁴⁷ Employment Policy Institute, *Making Workstart Work*, Vol. 7, No. 8, April 1993.

⁴⁸ CRG, *A Qualitative Evaluation of the North Norfolk Pilots*, Employment Department, November 1994, p.28.

have been placed on State authorities operating Workfare whilst in many cases only a small proportion of the LTU and those on welfare have been found suitable for placement on Workfare schemes.

- **Workstart.** This latest initiative was introduced by six pilot projects supervised by TECs. The scheme has achieved a degree of success, with almost 80% of participating employers considering retaining LTU people placed with them.⁴⁹ However, the scheme has mainly placed young LTU in low skill, low wage jobs, many of which would have been filled from the larger labour market. The scheme does not require employers to provide training, although TECs were prepared to undertake it. Lack of training provision would explain why one fifth of vacancies were hard to fill.⁵⁰ No doubt conscious that the subsidy is in danger of being used by employers to provide a cost advantage in the market, the latest phase of Workstart pilots is testing the effect of reducing the subsidy.

⁴⁹ Atkinson, J., and Meager, N., op. cit., Table 4.3, p.37.

⁵⁰ *ibid.*, Table 2.12, p.22.

5. Taking the initiative

5.1 During the summer of 1995 a study tour was organised of six TECs across the country and discussions held with directors to gain at first hand an impression of the difficulties faced by the LTU and the initiatives devised to improve employability. Initiatives devised by the TECs demonstrated a range of imaginative approaches targeted at specific obstacles to finding employment for the LTU. Most of the funding for the TEC initiatives was derived from surpluses achieved on TfW budgets. There was unanimity in the view that TfW in isolation failed the LTU. There was strong support for setting as the prime objective “jobs with training rather than training for jobs”. TECs voiced the frustration that lack of funding inhibited the development of successful initiatives. Descriptions of some of these initiatives, grouped as appropriate, follow.

5.2 Avoiding Youth Unemployment

Potential unemployment of the young is being targeted in an initiative aimed at 13-14 year old school children thought likely to fail their GCSEs and lacking socio-economic status and family stability. Groups of up to 15 children are being given intensive personal/life skills training and careers advice in school to try to prevent them drifting into long-term unemployment. The mixture is resource intensive but is judged to be cost-effective in the long-term.

5.3 Jobs with Training

A number of TECs visited are operating providing in work training subsidies. Subsidies are offered to employers provided that the new recruit was from the LTU. One TEC offered between £200 and £2,000 worth of training to an employer prepared to take a person on full-time and pay them the market rate for the job. The participants were then classified as in ‘employed status’. This scheme is operated under the TfW programme. The amount of subsidy varied depending on the amount of training required. The TEC concerned reported a success rate for ‘positive outcomes’ of 85%.

compared with the 35% under their TfW scheme. Another is offered employers £500-1000 for providing people with work-based training. The aim was to break down the prejudice that many employers were found to have against the LTU.

5.4 In a major initiative, a TEC had arranged direct contracts for in work training subsidy schemes. A large foreign manufacturer had been persuaded to locate in the area by the offer of a fully-funded comprehensive training package. The TEC offered to conduct training with local providers as long as the company took LTU people. Training was designed to lead towards NVQs. The company is reported to be very satisfied with the results and some 300 LTU people have been employed.

5.5 Social security benefits paid to people who become classified as in 'employed status' are transferred to TECs' budgets. But because of Treasury concerns that the transference of benefits could cause dead-weight (i.e. employers receiving more money than required to take on LTU), many TECs complained that they could only access benefit budgets if they increased the *volume* of training given, not the *quality*.

5.6 *Providing the tools for training.*

TECs generally found that their standard training programmes were missing specific groups of people, particularly those who had special needs in terms of 'life skills' and numeracy or literacy problems. TECs found that this group were being marginalised by the ORF regime. ORF led to screening of those selected for training to ensure the best chance of attaining a 'positive outcome'.

5.7 One TEC adopted the initiative of establishing Training Support Groups. These were formed in order to help people with life problems such as indebtedness and drug abuse. Each individual could be provided with up to £1000 worth of counselling. Other TECs were pursuing similar access programmes aimed at improving people's literacy and numeracy skills. Training grants. A number of TECs also offered training grants for individuals to pursue specific courses and training of their choice which could not be

obtained through the TEC. Programme courses varied in value but were often no larger than £1000 and were at the TEC's discretion.

5.8 *Management Executive Link.*

All the TECs visited were dealing in similar ways with the problem of long-term unemployment among those aged over forty, made redundant from management positions. People in this category are placed in a company or charity on short-term, project specific contracts. They receive the standard TfW rate and TECs are paid up to £800 for the service. One TEC reported a 70% success rate in participants gaining employment. Most said that there were now shortages of suitable people as a result of the success of their schemes. It was often the case, however, that participants returned to employment at significantly lower salaries than earned previously.

6. Providing Jobs With training

6.1 The CBI have called for the 'right training ... to be available and funded in an accessible and flexible way.' In particular they have called action to address the skills mismatch, remove obstacles and to make the benefits structure more flexible.⁵¹ The FT survey of TECs found that improvements in training and the development of skills were the most popular solutions offered in order to tackle unemployment.⁵² The TUC have said that 'there should be a major expansion of quality schemes for proper training and work placements.'⁵³

6.2 Internationally, Britain's training provision for the LTU compares poorly, attracting damaging criticism from the OECD.⁵⁴ With the exception of Greece and Portugal the UK training record is the worst in the EU.⁵⁵ All our major competitors recognise that the way forward in the highly competitive global market is through investment in training. The Government recognises that the workforce of the future has to be more skilled, stating in the recent Competitiveness White Paper that 'in the future, the most successful nations will be those which develop high quality, skilled and motivated work forces and make good use of them.'⁵⁶ The DoE *Labour Market and Skills Trends* pointed out that there will be an extra 1.7 million managerial, professional and technician jobs by the year 2001 but there will be a decline by half a million in low skills manual jobs.⁵⁷ This projection has been underlined by the CBI and other groups.⁵⁸ The CBI survey of regional councils confirmed the coming reduction in employment opportunities in manual, clerical and secretarial jobs sectors; with an

⁵¹ Confederation of British Industry, *Tackling Long Term Unemployment - A Business Agenda*, 1994, pp.36-37; "The CBI wants to see more attention paid to training, pointing out that there is little use in encouraging employers with subsidies if job applicants lack the skills necessary for the job". *Sunday Telegraph*, 4 December 1994.

⁵² Financial Times, op. cit., Q31, p.66.

⁵³ TUC, *Budget for Jobs: Towards full employment*, 1994, p.28.

⁵⁴ Elite, L., 'OECD damns British skills training', *Guardian*, 24 May 1995.

⁵⁵ 'Work Schemes - UK Still Behind', *Labour Research*, May 1993, p.19

⁵⁶ DTI, *Competitiveness: Helping Business to win*, Cm 2563, HMSO 1994, para. 1.43.

⁵⁷ DoE, 'Labour market and skill trends 1995-6', p.5.

⁵⁸ see CBI, op. cit., p.11.

emphasis on employment opportunities in the professional and technical areas.⁵⁹ They stressed that 'the long-term unemployed must be enabled to participate actively in the UK's developing labour market: skills must be provided; and obstacles and barriers to their employment tackled.'⁶⁰

6.3 Discussions with TEC management teams throughout the country have underlined the failure of TfW and the growing concern over the impact of the skills deficit on current LTU and on future employment prospects. Successful initiatives to provide permanent jobs for the LTU secured by training packages to develop skills are frustrated by the funding process. A common theme is that the separation of benefit payments made to the LTU from training funds in TEC budgets inhibits employment opportunities. The Government's target that only 9% for LTU on TfW schemes should be in employed status instead of on work experience placements underlines the backwardness of the policy for benefits administration. The advantages of integrating benefits and TfW budgets were set out by the TECs when TfW was introduced but were overruled by Government.

6.4 *The Liberal Democrat approach*

The Liberal Democrats have long-argued that benefit payments to the unemployed should be used as an instrument for gaining employment by funding in-work training. Under the Liberal Democrat Benefit Transfer Programme (BTP), employers recruiting LTU would have transferred to them the benefits previously paid to unemployed persons. The benefits transferred would be used solely to fund training and would reduce to zero over a period determined by individual circumstances. The employer would pay recruits the full wage for the job from the commencement of employment. TECs could be empowered to administer the scheme under contracts with employers; set training requirements; reduce training provision; monitor compliance and curtail attempts at job substitution.

⁵⁹ Confederation of British Industry. op. cit., p.11.

⁶⁰ *ibid.*, p.14.

6.5 TECs already maintain full data on local employers and LTU and have the information technology and administrative systems in place to operate BTPs with little additional resources. Discussions with TECs have confirmed the success of their own initiatives in providing subsidised training under contract to employers who recruit LTU. The investment of benefit payments in in work training for the LTU would be the single most effective way of progressively reducing the £9 billion annual cost of long-term unemployment to the Exchequer.

6.6 Operating the Benefit Transfer Programme

The Benefit Transfer Program is based on a proposal originally devised by Professor Dennis Snower. Social security benefits payable to the LTU would be converted to vouchers payable to employers who took them on. Based on 1993 figures, the maximum initial value of the voucher would be £150 per week, reducing by £1.50 for each week of employment, thereby avoiding an open-ended commitment. The cost to the state would be negligible, and always less than the total of benefit and tax revenue foregone (an average of £173 per week). Rather than paying people to stay on the dole, the programme pays them to work.

6.7 To benefit from the scheme, employers would have to pay wages at least equal to the value of the voucher. They would only be eligible if they proved that the new employees were genuine additions to their workforce, to avoid displacement of existing workers. A crucial requirement of the scheme is that employers would also be required to provide training for the new employees, who may have been so long out of the jobs market that working habits had been lost. Careful monitoring of the scheme would be essential.

6.8 Although primarily aimed at the private and voluntary sectors, the voucher would also be applied to jobs on community programmes, such as the current Restart and Community Action schemes. Additional funds could be provided to raise wages above benefit levels, with the scheme being run by local authorities and public and voluntary

agencies, with central government providing finance. As above, the provision of training is essential. The operation of the schemes themselves would benefit from a partnership approach with the private sector, with employers involving themselves in design and management, so as to better prepare participants for eventual jobs in private firms.

- 6.9 The key objective of the Benefit Transfer Programme is to take positive action to give the LTU an advantage in the labour market and increase their long-term employability. Even if some displacement of existing workers were to occur, the restoration of hope, confidence and working capacity to individuals who would otherwise be almost permanently excluded from the workforce make it worthwhile, increasing both employability and employment. The Government's half-hearted experiment with the idea, in the Workstart pilot schemes introduced in March 1993, is much too limited, fails to require training, and offers a voucher of too low a value.

Appendix 1

Rates of attainment of qualifications

	Complete 1991/2	Qualification	Complete 92/3	Qualification	Complete 93/4	Qualification
Central England	5,000	910	4,600	970	N/A	N/A
City & Inner London	N/A	N/A	5,524	1,560	8,504	2,175
County Durham	5,900	1,652	6,400	1,984	6,500	2,765
East Lancashire	6,278	848	6,777	1,227	5,231	1,760
Essex	9,966	1,245	12,584	1,841	10,089	2,429
Merseyside	16,301	3,908	19,855	5,257	13,430	5,098
Mid Glamorgan	9,736	1,034	8,452	2,043	N/A	N/A
North & Mid Cheshire	N/A	N/A	8,712	2,704	6,938	1,989
North Nottingham	5,004	939	6,068	1,254	4,743	633
North West London	2,491	330	1,894	441	3,425	450
Oldham	1,577	739	1,567	997	1,556	1,036
Powys	1,473	385	1,319	720	1,156	536
Rotherham	4,375	1,115	3,970	1,378	4,534	1,829
Shropshire	N/A	N/A	3,428	1,432	2,967	1,334
Stockport & High Peak	N/A	N/A	3,406	974	2,491	915
Suffolk	2,900	722	3,818	929	3,326	899
TOTAL	71,001	13,827	98,374	25,711	74,890	23,848
Percentage	19.4		26.1		31.8	

Appendix 2

Glossary of Terms

BTP	Benefit Transfer Program
CBI	Confederation of British Industry
DoE	Department of Employment
JSA	Job Seekers Allowance
LTU	Long Term Unemployed
OECD	Organisation of Economic Co-operation and Development
ORF	Output Related Funding
TEC	Training and Enterprise Council
TfW	Training for Work

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