

## Summary: Intervention & Options

**Cabinet Office  
(Economic & Domestic  
Affairs Secretariat)**

**Impact Assessment of Joint Statement on Access  
to Skills, Trade Unions and Advice in Government  
Contracting**

**Stage:** Final Proposal

**Version:** 1.6

**Date:** 26 March 2008

**Related Publications:** Success at Work (DTI), Skills for Life (DfES), Leitch Review of Skills (HMT).

**Available to view or download at:**

<http://www.berr.gov.uk/files/file27469.pdf>

[http://www.dfes.gov.uk/readwriteplus/bank/ABS\\_Strategy\\_Doc\\_Final.pdf](http://www.dfes.gov.uk/readwriteplus/bank/ABS_Strategy_Doc_Final.pdf)

[http://www.hm-treasury.gov.uk/media/6/4/leitch\\_finalreport051206.pdf](http://www.hm-treasury.gov.uk/media/6/4/leitch_finalreport051206.pdf)

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### **What is the problem under consideration? Why is government intervention necessary?**

Despite significant investment by employers, individuals and Government, basic skills gaps still exist across all sectors (market failures and disincentives are discussed in the first part of the evidence base attached). As one aspect of addressing this problem, this policy considers how Government, in its contracts for services such as cleaning and security, can ensure that employees are given access to basic skills training.

Government intervention is necessary to ensure that employees delivering Government services (whoever their employer) are recruited, retained and motivated to deliver high quality services, are aware of rights to which they are entitled and are assured fair treatment. It is important for Government to lead by example with its workforce, in protecting low-skilled employees and supporting good employers.

On access to advice and trade unions, the policy will seek to address asymmetries of information that may exist – i.e. where employees may not be aware of their rights or basic information about their working lives, or where to go for impartial advice.

### **What are the policy objectives and the intended effects?**

To improve the quality of services delivered under Government contracts by ensuring that employees working on Government service contracts are given access to basic skills training and, should they wish them, access to advice and trade unions.

Intended effects: employees are motivated, retained and better equipped to deliver improved services. The policy also supports *Skills for Life*, the national strategy for adult literacy, numeracy and language skills, and *World Class Skills*, implementing the Leitch Review of Skills in England. Providing access to basic skills training will also help to ensure fair treatment, promoting equality and social inclusion by up-skilling a workforce that may have high numbers of low-skilled, female or migrant employees.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** Within 12 months of the policy being implemented, with a review of progress at six months.

## Summary: Analysis & Evidence

**Policy Option:**  
1C, 2+3B

**Description:** Presume relevance of basic skills either in contract specification at pre-qualification stage, and/ or by introducing contract performance criteria for service providers to provide access to basic skills training for their employees; Encourage other voluntary actions in support of skills investment; Strongly encourage service providers to provide specified information to their employees on advice and trade unions.

ANNUAL COSTS		Description and scale of <b>key monetised costs</b> by 'main affected groups'
One-off (Transition)	Yrs	
£ nil		<p>The main costs are for training, for which Government support is available through the <i>Train to Gain</i> programme. In addition, there are opportunity costs of working time foregone, which are incurred by service providers. There are also implementation costs (additional bidding and monitoring costs), split between service providers and contracting authorities.</p> <p>In the central case set out in this impact assessment (i.e. the middle point between the maximum predicted and minimum predicted scenarios), training costs are calculated as £448,000 p.a. and implementation costs are explained as coming to £500,000 p.a. Taken together, this gives an annual cost of around £1 million. £19 million is the "present value" of this amount over 30 years, discounted at 3.5% p.a.</p>
<b>Average Annual Cost</b> (excluding one-off)		
£ 1.0 million		
		<b>Total Cost (PV)</b> <b>£ 19 million</b>
<p><b>Other key non-monetised costs</b> by 'main affected groups'</p> <p>There are costs in providing access to advice and to train unions, incurred by advice providers and trade unions.</p>		
ANNUAL BENEFITS		Description and scale of <b>key monetised benefits</b> by 'main affected groups'
One-off	Yrs	
£ nil		<p>The main benefit is in the form of increased productivity of trained employees – leading to improved public service delivery. This accrues partly to employees (possibly in the form of increased wages over time) and partly to firms in the form of productivity gains over and above the additional wages. (In the second round, some of these gains may be passed to Government.)</p> <p>In the central case set out in this impact assessment, our assumption is for a one-third increase in training amongst the specified workforce, with annual benefits of around £2.5 million, or £47 million "present value" over 30 years.</p>
<b>Average Annual Benefit</b> (excluding one-off)		
£ 2.5 million		
		<b>Total Benefit (PV)</b> <b>£ 47 million</b>
<p><b>Other key non-monetised benefits</b> by 'main affected groups'</p> <p>There may be additional gains from reduced staff turnover. Access to advice and trade unions may improve personal well-being and the efficiency of labour allocation. (There may also be additional transfer payments from government to employees if the take-up of benefits increases).</p>		

**Key Assumptions/Sensitivities/Risks**  
 The key sensitivities are around the take-up of training, which affects the scale of the operation. Achieving high benefits depends on increases in productivity flowing from the training, and the key to holding down costs is low implementation and monitoring costs, particularly for small contracts.

Price Base Year 2005	Time Period Years 30	<b>Net Benefit Range (NPV)</b> - £21 million to + £150 million	<b>NET BENEFIT (NPV Best estimate)</b> + £ 28 million
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What is the geographic coverage of the policy/option?		England only		
On what date will the policy be implemented?		TBC		
Which organisation(s) will enforce the policy?		Gov Depts		
What is the total annual cost of enforcement for these		£ 0.6 million		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		n/a		
What is the value of the proposed offsetting measure per year?		£ n/a		
What is the value of changes in greenhouse gas emissions?		£ nil		
Will the proposal have a significant impact on competition?		No		
Annual cost per organisation (illustrative)	Micro £260	Small £2,400	Medium £9,300	Large £90,000
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)		
Increase	£nil	Decrease	£ nil	<b>Net</b> £ nil

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (evidence relating to the summary sheets)

### Policy Aim and Objective

The overall aim of this policy is to improve the quality of services delivered under Government contracts by raising the skills of service providers' employees and to help ensure fair treatment. The objective is to ensure that employees working on Government contracts are recruited, retained and motivated to deliver high quality services by being given access to basic skills training, and, should employees wish, access to trade unions and to advice, whoever their employer. The employees most likely to be affected are cleaners, security guards and catering assistants – a workforce group that is typically low-skilled and with a relatively high number of female and migrant employees.<sup>1</sup>

This policy will apply only to contracts for basic services let by central Government Departments (with a possible future extension to the NHS and also to local government). The potential for a second phase extension is not analysed in this document, as it is subject to a separate decision-making process that will require a separate impact assessment.

### Overview of Final Policy Option

The proposed policy constitutes 3 parts: (1) Access to Basic Skills Training, (2) Access to Trade Unions, and (3) Access to Advice. We deal with each part in turn below, setting out the proposed policy and analysing its potential impact.

In addition, the following chapters are also included:

- Part 4 – projected implementation costs of the overall policy;
- Part 5 – small firms impact test;
- Part 6 – competition assessment;
- Part 7 – sensitivity analysis;
- Part 8 – specific impact tests.

### Part 1: Access to Basic Skills Training

The proposed policy on access to basic skills training (option 1c in the summary section) assumes that basic skills are relevant to contracts let by Government organisations and ensures that contracting departments either:

- (i) use the formal procurement process to identify on a contract-by-contract basis the basic skills which will be needed for successful contract delivery, taking into account whole life cost, quality of service and value for money. Commissioning authorities will ensure such skills-related criteria are reflected in the contract specification and taken into account in assessing tenderers; and / or:
- (ii) Include performance conditions in Government contracts, requiring contractors to provide access to basic skills training, in accordance with the public procurement framework; and monitor contract performance to ensure that employees delivering the service have access to basic skills

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<sup>1</sup> E.g. Statistics relating to the UK cleaning workforce: 54% are female; 39% have no qualifications; skills gaps for operatives are (amongst other) reported in adult literacy and numeracy (including ESOL) and employability (Asset Skills, Labour Market Information for Cleaning Sector, <http://www.assetskills.org/site/Research/LabourMarketInformation/tabid/270/Default.aspx>). A survey of contract cleaning companies found that 37% of employees working within cleaning companies in England were migrant workers, with highly concentrated results in London (58%) and the South East (49%). The Role and Importance of Migrant Workers in the Cleaning Industry, Asset Skills, Nov 2007.

training and, therefore, the necessary basic skills to provide the quality and efficient service specified.

In addition, outside of the formal procurement process and as part of good relationship management, contracting organisations will work with service providers to:

- (iii) Highlight the importance of the skills agenda, through regular dialogue and/ or distribution of relevant literature;
- (iv) Raise awareness of services and funding available through *Train to Gain* (see below);
- (v) Encourage service providers to sign the Skills Pledge (see below);
- (vi) Facilitate service providers' employees' access to basic skills training, e.g. by sharing in-house expertise or facilities;
- (vii) Encourage and support voluntary further basic skills development and training by the service provider.

### **Government Funding for Training**

Research shows that 1.3 million people go to work every day without the skills they require to do their job proficiently.<sup>2</sup> The Learning and Skills Council's *Train to Gain* service provides impartial, independent advice on training to businesses across England. It can help businesses improve their productivity and competitiveness by ensuring that employees have the right skills to do the best job.

*Train to Gain* helps to do this by using skills brokers who can:

- offer free impartial and independent advice to businesses;
- match any training needs identified with training providers; and
- ensure that training is delivered to meet business needs.

The skills broker works in partnership with businesses to:

- Identify the skills your business needs;
- Pinpoint the right training;
- Agree a tailored training package;
- Find available funding; and
- Review progress.

This policy states that Government contracting organisations will work with service providers to raise awareness of the availability of *Train to Gain* to employees to access further skills training at basic level and up to Level 2.<sup>3</sup>

Government will provide full funding to train employees in basic numeracy and literacy skills through the *Train to Gain* scheme. *Train to Gain* will also give all service providers working on Government contracts free access to a skills broker who can identify skills needs and then help the service provider to source appropriate training provision.

The Joint Statement encourages further development of service providers' employees' towards a first full Level 2 qualification – also funded by *Train to Gain* – because this will bring benefits both for contract delivery and the wider goals set out in the Skills Pledge, which employers are also encouraged to sign.

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<sup>2</sup> [www.traintogain.gov.uk](http://www.traintogain.gov.uk)

<sup>3</sup> Basic skills are defined as Level 1 literacy (equivalent to GCSE English at grades D-G) and Entry Level 3 numeracy (one below Level 1). Level 2 is equal to 5 GCSE's at grade C or above.

*Train to Gain* will also provide match funding to support English as a second or other language (ESOL) training. In addition, employers with fewer than 50 employees can claim a contribution towards the costs of releasing employees for training.

### **Government Skills Pledge**

The Skills Pledge is a voluntary, public commitment by the leadership of a company or organisation to support all its employees to develop their basic skills, including literacy and numeracy, and work towards their first full Level 2 (equivalent to 5 good GCSEs) in an area that is relevant to their business/ organisation. The purpose is to ensure that all employees are skilled, competent and able to make a full contribution to the success of the company/organisation. The Skills Pledge is open to all employers of all sizes in the private, public and voluntary sectors.

Under the Joint Statement, Government contracting organisations will encourage service providers to sign the voluntary Skills Pledge<sup>4</sup> as part of further improving performance and raising the standard of public services – and highlight the benefits of doing so. Service providers should, in turn, consider whether, by signing a commitment to the Skills Pledge, they might better meet their business needs by encouraging and facilitating their employees' access to training up to Level 2 through *Train to Gain*.

### **Market Failure in Skills**

A recent paper by Skills for Business<sup>5</sup> sets out reasons why the market for investment in skills (generally, as opposed to just basic skills training and investment) may be subject to failure, of which the following are relevant and applicable to this policy:

- (1) imperfect information – employers or individuals lack reliable information on quality and content of learning opportunities, and benefits that may accrue from investment;
- (2) short-termism and risk aversion – individuals and organisations may fixate on the short-term and ignore long-term benefits. In addition, both firms and individuals may be risk averse, and the returns on investment in skills are often uncertain;
- (3) capital market imperfections – problems may be encountered in obtaining funding to invest in skills.

This Joint Statement addresses (1) – (3) above through the provision of public policy as set out below (using terminology provided by Skills for Business report):

- (1) exhortation and the provision of information on the benefits of skills – this policy encourages and promotes *Train to Gain* funding and other means of supporting access to basic skills training, e.g. through the sharing of in-house training facilities;
- (2) compulsion – the Joint Statement introduces specific levers through the Government contracting and monitoring process; and
- (3) subsidy and state substitution for employer and/ or individual investment – provided through *Train to Gain*, via this policy.

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<sup>4</sup> Employers signing the Skills Pledge commit to:

“actively encourage and support employees to gain the skills and qualifications that will support their future employability and meet the needs of our business/ organisation  
actively encourage and support all our employees to acquire the basic literacy and numeracy skills, and with Government support work toward their first Level 2 qualification in an area that is relevant to our business/ organisation; and  
demonstrably raise our employees' skills and competencies to improve company/organisation performance through investing in economically valuable training and development.”

<sup>5</sup> 'Market failure in Skills', Skills for Business Sector Skills Development Agency, February 2006

## **Access to Basic Skills Training – Policy Risks**

EU law and particularly the EU Procurement Directive (2004/18/EC) constrain the extent to which skills and training requirements can be written into contract specifications.

Whilst requiring service providers to demonstrate that their workforce possess a specified level of skills at the pre-qualification stage is permissible under some circumstances, a formal blanket assumption would present serious risk of infraction proceedings. Furthermore, requiring service providers to demonstrate that they will invest in the training and development of their workforce at pre-qualification stage is not permitted within the current legal framework. As such, policy option 1(b) was not permissible.

The proposed policy is legally sound, and encourages and promotes skills investment (primarily basic skills training) through a mixed economy of formal procurement levers, contract conditions and voluntary action.

There is a risk that the policy might produce perverse consequences in that, to simplify matters, service providers might only recruit ready-skilled employees (e.g. part-time graduates, highly skilled migrants) rather than those in need of basic skills training. However, the general intention is that contract performance conditions and voluntary actions will respectively ensure and promote investment in the training and development of the workforce, to offset this policy risk.

There is also an issue concerning the extent to which procurement professionals have the expertise and resources to work skills requirements into the contracting process and monitor them thereafter.

## **Size of Sector and Number of Employees Affected**

The measures proposed will apply to central Government procurement of basic services (i.e. excluding professional, consultancy and construction services). They will also apply only to direct procurement and not to sub-contracted provision of services. Data do not exist for this categorisation, but the group in the Input-Output tables of “other business services” (OBS) provides a fairly close fit. The total of £7.8 billion of general government consumption of OBS in 2004, compares with the £13.7 billion of public spending on “soft” facilities management found in the survey by Oxford Economics for the CBI, but that has a wider coverage, including some professional, property and IT-related services.<sup>6</sup>

This is the market for General Government. However, we are interested in procurement only by central Government (excluding local government) and, within that, procurement only by public administration and defence (excluding expenditure by the NHS, education, social work and recreational services). The latter split is given in the input-output tables. We derive the central Government/local government split of the consumption of OBS from the tables of the composition of final demand and the associated indirect consumption of OBS. On that basis, we arrive at an estimate of £1.3 billion of central Government public administration and defence consumption of OBS in 2004.<sup>7</sup>

Assuming that the per person level of output in OBS is the same as that for “other services” (a much wider category) in the national accounts, this implies a workforce of 23,000 engaged in providing OBS to central Government public administration

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<sup>6</sup> The Oxford Economics survey has a separate category of “Back-Office IT services”, but at £1.3 billion, it is too small to include all IT-related services provided to the public sector.

<sup>7</sup> Source: ONS input-output analytical tables 1995 and 2004.

and defence.<sup>8</sup> Given that the policy will not apply to sub-service providers, this is likely to be an over-estimate of the numbers affected.

### Take-up of Basic Skills Training

The research review prepared by NRDC for the DfES of the benefits to employers of raising workforce basic skills levels<sup>9</sup> documents the ample evidence of low workforce skills levels: over 20% of the UK population falls into the lowest (Level 1) category on all three “International Adult Literacy” skills types (prose, document and quantitative). From the nature of the work, the workforce supplying other business services (OBS) to Government are likely, if anything, to have below average skills levels.<sup>10</sup> On this minimal requirement, about 5,000 of the 23,000 employees identified above could be expected to be able to benefit from basic skills training.

What, however, would be the take-up? This depends on the options implemented and, given the newness of the policy, there is bound to be some uncertainty about this aspect. Some evidence on the effectiveness of government procurement as a lever in securing workforce changes comes from the long-standing US federal affirmative action requirements on federal contractors.<sup>11</sup> During the period of most stringent enforcement, federal contractors showed a significantly faster growth in black employment between 1974 and 1980 than did non-contractor firms. The growth in the proportion of black male employment over this period was 11.3% in non-contractor firms and 15.5% in contractors. So, with a policy that was more controversial than a skills increase, but with potentially severe although rarely-used penalties for non-compliance, the procurement policy led to a one-third increase over the normal rate of black male employment growth, over a period of six years. Assuming a similar effectiveness for UK procurement policy, we can take as our central case a **one-third increase in the relevant training effort**. As part of the sensitivity analysis, we also construct a range around this assumption.

Data from the 1998 cross-section and 2004 longitudinal component of the British Workplace Employment Relations Survey showed that of private establishments with more than 10 employees, 17% provided no off-the-job training to their largest occupational group; 32% provided less than 2 days of training; and 50% provided more than 2 days of off-the-job training (though we do not know how much more).<sup>12</sup> Assuming that the proportion by establishment carries over to proportion of employees, approximately half the workforce experiences at least 2 days off-the-job training per year. A one-third increase in basic training effort thus translates to at least an extra half a day training a year on average across the workforce. However, training in acquiring basic skills is much more demanding than 2 days per year (9 hours per month for 8 months for a full Level 2 qualification according to the partial RIA for the Leitch implementation plan). Thus, making the stylised assumption that basic training requires 72 hours tuition, the extra training effort, spread across the 5,000 very low skilled employees, would allow **at least an extra 280** to be fully trained in basic skills each year.

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<sup>8</sup> Source: ONS workforce jobs by industry; GVA by industry

<sup>9</sup> National Research and Development Centre for adult literacy and numeracy, “The benefits to employers of raising workforce basic skills level: a review of the literature”, October 2003.

<sup>10</sup> 39% of the UK cleaning workforce has no qualifications; skills gaps for operatives are (amongst other) reported in adult literacy and numeracy (including ESOL) and employability (Asset Skills, Labour Market Information for Cleaning Sector, <http://www.assetskills.org/site/Research/LabourMarketInformation/tabid/270/Default.aspx>).

<sup>11</sup> Jonathan S Leonard, “The Impact of Affirmative Action Regulation and Equal Employment Law on Black Employment”, *Journal of Economic Perspectives*, vol 4, no 4, Autumn 1990, pp 47-63.

<sup>12</sup> William Collier, Francis Green and Young-Bae Kim, “Education, Training and Establishment Survival”, unpublished draft, University of Kent, November 2007.

This is the central estimate used in the rest of this calculation. Variants are discussed in the “sensitivity analysis” section.

### **Costs and Benefits of Training**

The average cost per learner for the training mentioned above is given by the partial RIA for the Leitch implementation plan as £1,600. Of this, about half would typically be met by the employer in terms of wages for the time released and the costs to the firm of organising (though not providing) training, and half – the costs of tuition – by government subsidy if available, or else also by the employer.

The following analysis relates to general skills improvement, not just basic skills training and investment:

Improving skills levels or developing new skills has benefits for the individual (see below) and employers (see below), as well as improving social inclusion. The Leitch Review of Skills concluded that skills are *the* key driver of prosperity and fairness: “...The UK has serious social disparities with high levels of child poverty, poor employment rates for the disadvantaged, regional disparities and relatively high income inequality. Improving our skills levels can address all of these problems.” For example, women are crowded into a narrow range of lower paid occupations (Women and Work Commission, “Shaping a Fairer Future”, 2006). Gaining access to new, or developing existing skills, can lead to better job prospects and, in turn, improvements in salary and overall quality of life, reducing social inequalities.

For the employee, good quality training and the acquisition of new or improved skills, can produce intangible benefits, such as improved confidence, in addition to tangible benefits such as specific functional skills that can be from there on applied within and outside the workplace. Over a longer trajectory, the employee may accrue benefits in terms of better job prospects and, in turn, improvements in salary. To make the most of the training opportunities set out in this policy, it should be noted that employees may need to commit personal time to further study or training.

For the employer, improved skills will normally result in greater productivity (e.g. if a workforce is enabled to take advantage of developments in technology; or improved customer service levels for the client) and greater workforce stability (there is evidence of a small but statistically significant increase in the retention rates for staff who have received training).<sup>13</sup>

In terms of this Joint Statement, potential service providers’ and actual service providers’ costs could include:

- At pre-qualification stage, additional bidding costs. Potential service providers will be expected to be ready to provide evidence of capability to deliver a value for money service, including evidence that their workforce who would be performing the contract have the relevant basic skills. For small firms, these costs will be higher as it may be the owner-manager who has to undertake this additional activity, with equivalent opportunity/ loss of labour costs; and
- Once the service provider has been contracted in to provide a service, in relation to the workforce performing the contract:
  - Identifying employees’ with a basic skills need;
  - Planning to acquire to meet those basic skills needs;
  - Working with *Train to Gain* to identify and facilitate access to such basic skills training;
  - Organising employees to attend basic skills training;

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<sup>13</sup> National Research and Development Centre for adult literacy and numeracy, *op cit*, p. 31.

- Providing any facilities required (although these should be minimised through working with the contracting organisation wherever possible, e.g. by using in-house facilities or sharing training programmes); and
- Cost of employees spending time away from normal duties to attend basic skills training – match funding is available through *Train to Gain* to mitigate this cost for employers with less than 50 employees.

### **The Effect of Skills and Training on Wages**

Skills acquired later in life seem to have less effect on earnings than those acquired early on. On the other hand job-specific training seems, not unsurprisingly, to yield greater monetary benefits. Since both aspects apply in this case, the two effects are assumed to offset each other, and we assume a central effect of a 4% increase in wages, on average, from training.<sup>14</sup> Applied to someone on the minimum wage, this yields an increased wage of £445 per annum. Arguably the training, particularly if job-specific, might depreciate over time. This can, however, be offset against other, potentially positive, effects, such as job stability and progression.

Aggregating the individual effects, gives us an estimate for the overall cost of the policy, in terms of training provided, of £448,000 each year (in addition to implementation costs – see Part 4). After some time the number of low-skilled employees might be expected to reduce, but employee turnover and rising aspirations for skills would probably keep the demand for extra training at least at this level. The net present value of the cost of this training over 30 years (discounted at 3.5% p.a.) is £9.0 million.

The estimated overall benefit of the policy in terms of extra wages is £124,600 per annum. However, there is a sizeable body of evidence that not all the increased productivity which may result from training is captured by the employees concerned and that some of it accrues to the employer. We therefore increase the estimate of the productivity effect by a factor of 1.4 (in line with the wage share in national output), giving a productivity benefit of £174,440 per annum. This benefit is assumed to last for 30 years per employee, so the benefits build up over time as more employees are trained. The net present value of the benefits over the first thirty years is £46.9 million.

These estimates refer solely to the costs and benefits for those employees engaged on government contracts. They make no allowance – either on the cost or benefit side – of a demonstration effect, whereby skills training might be extended to other employees in the same firm or group of firms who are not engaged on Government contracts

## **Part 2 - Access to Trade Unions**

The proposed policy on access to trade unions recognises that employee involvement is a key ingredient of successful public service delivery, and that trade unions play a valuable role in the workplace, for example, as an established source of help and information to their members. The principal aim of this section is to ensure that employees working on contracted Government services can access trade unions, should they so wish to do so. The proposed policy will ensure that all employees can access information, advice and support at work, and understand their rights in relation to trade union membership.

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<sup>14</sup> R.Blundell et al, “The Determinants and Effects of Work Related Training in Britain,” IFS, London 1996, quoted in NRDC, *op cit*.

The policy options and provisions are designed to complement current good employment practice, and in no way extend current legislation. The proposed policy will be particularly relevant to good practice where there is no formal union recognition.

Under the Joint Statement, Government contracting organisations will strongly encourage service providers working on Government contracts to communicate the specified information (provided by the Government Department) to their employees in a timely and appropriate manner that fits with their business processes, e.g. in their induction pack or staff handbook.

One would expect that increased access to trade unions would, over time, lead to increased unionisation of the relevant workforce. The effect would probably be rather modest, since only those employees working on government contracts are directly affected. Moreover, the overall economic effect of increased unionisation – although perhaps important in specific instances – would be expected to be small. There is extensive literature on the economic effects of unionisation, with positive effects being seen where increased unionisation counters employer monopsony and enables a more efficient negotiation of terms and conditions of work, and negative effects where unionisation results in labour-force segmentation. The conclusion of some recent comparative research into the effects of unions on employment growth and workplace survival is that unions in Britain had no impact on closure or growth.<sup>15</sup> Given the likely small effect on unionisation and the ambiguity about whether there would be any knock-on economic effects, we make no attempt to estimate such effects.

### **Part 3 - Access to Advice**

On access to advice, the proposed policy outlines practical steps that contracting organisations and service providers can take to help employees working on Government contracts to access useful advice about their working lives and rights at work.

The provisions on access to advice are designed to:

- Complement existing information about a company's policies and employment rights and how these apply to employees provided in the company or staff handbook; and
- Signpost and navigate employees (should they wish) to impartial and trusted sources of advice, including through external sources,<sup>16</sup> or through their own line management and HR organisations and trade unions, where they are recognised. The emphasis is on enabling access to advice, rather than providing personal or prescriptive advice.

Government contracting organisations are expected to provide service providers with specified information about sources of advice. Service providers working on Government contracts are, in turn, encouraged to communicate this information to

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<sup>15</sup> Alex Bryson and Harlad Dale-Olsen, "A Tale of Two Countries – Unions, Closure and Growth in Britain and Norway", Policy Studies Institute and Institute for Social Research, unpublished paper, December 2007, conclude: "In contrast to the earlier literature which identified negative effects of unions on employment growth and some negative effects on workplace survival, unions in Britain had no impact on closure or growth [from 1998 to 2004]....The findings for Britain suggest that unions' workplace role has changed in recent years. There is evidence that the union wage premium associated with union bargaining has diminished recently, a change which might explain the disappearance of union effects on closure and growth."

<sup>16</sup> E.g. Government funded DirectGov, or via Citizens Advice Bureau.

their employees in a timely manner that fits with their business processes, e.g. in their induction pack or staff handbook.

It is difficult to estimate what difference their adoption might make for the employees concerned, for their employers, for those services providing advice or for the government finances (if, for example, there was a greater take-up of benefit entitlements). Some of these effects, such as greater take-up of benefits, would count as transfers and, while important to those involved, would have little effect on the economy overall. In general, one would expect that more extensive advice and information, in so far as they had any effects on working life, would lead to a more efficient allocation of labour, and that there might also be some favourable effects on personal health and well-being.

However, the scale of any benefits is likely to be small, both in absolute terms and relative to the effects of increased skills and no attempt is made to estimate them. Nor are we estimating the costs – to trade unions and other sources of advice – of providing the advice. Some of the costs to employers are covered in the “implementation costs” section below.

#### **Part 4 - Implementation Costs**

The costs estimated so far are the direct costs of basic skills training, including provision of courses, “brokerage” (i.e. arranging the courses) and the opportunity costs of wages foregone during training. These costs (which have been taken from the Leitch implementation plan RIA) are more or less directly proportional to the numbers being trained. In addition, there are implementation costs that fall on Government departments and service providers, which include setting up what will be slightly more complicated contracts, additional costs of bidding under these contracts (inasmuch as additional attention will have to be given to basic skills training) and monitoring compliance with the undertakings given on such training and access to advice and trade unions. Although some of these implementation costs could be considered to involve the provision of information to Government, they are not the result of a statutory requirement and so are not classified as administrative costs.

Estimating the above implementation costs is much more difficult, since they depend crucially on the size and duration of the contract. In general, the set-up costs will be much lower – per employee concerned – for larger, longer-term contracts, since the bidding and contract management costs, even if larger, will be spread over many more employees. By contrast, there is no presumption that monitoring and reporting costs will be lower for larger contracts, because small firms will have a very direct view of any additional training or access to advice that takes place, whereas larger operations might have to build an additional monitoring requirement into their personnel systems. This view is reinforced by the proportionate approach that departments will be enjoined to take – with more informal assurances required for smaller contracts.

We do not have data on the size, duration and distribution of Government contracts for basic services. Informal consultation with two large departments suggests that there is likely to be a bi-polar distribution, with a few large, long-term contracts, e.g. facilities management contracts, and a number of much smaller, shorter-term contracts. We have also conducted a consultation with small business organisations, including on the additional administrative work that access to basic skills training, advice and trade unions would impose. We draw on this consultation

to provide the implementation cost component in the illustrative “costs per business” in the Summary template, where the assumptions are:

Micro: 2 employees, 1 contract of one year duration

Small: 25 employees, 1 contract of one year duration

Medium: 100 employees, 1 contract of one year duration

Large: 1000 employees, 1 contract of ten years’ duration

However, these figures are only illustrative of stylised contracts and an estimate of overall implementation costs cannot be built up on this basis. An alternative starting point is the Small Business Service survey of contracts awarded by public sector bodies. This found that the government departments (excluding the MoD) surveyed awarded a total of 45,050 contracts in 2004/5. Extending this survey result to the total of contracts awarded by central civil government gives an estimated total of 111,000 contracts for the £6.0 billion of relevant procurement, giving an average contract size of £53,000. Using our estimate of £1.3 billion of OBS procurement, would give 24,000 OBS contracts. As discussed above, there is reason to think that the bulk of expenditure on for basic services would be represented by a few, very large contracts: we therefore assume that nine-tenths of OBS procurement is represented by large contracts with the remainder having an annual duration and the average contract size of £53,000. Using our estimate of £1.3 billion of OBS procurement, this gives us a total of 2500 contracts, with, typically, only one extra employee being trained per ten contracts. From our small business consultation we estimate that the average extra contract documentation and monitoring over the one-year life of the contract will take an average of 5 hours per contract where no employee is being trained, and 55 where an employee is being trained. Using a cost of £20 per hour for management time, this gives an average additional cost of £200 per contract or a total of £500,000 per year. The present value over thirty years is £9.7 million.

### **Part 5 - Effects on Small Businesses: Small Firms Impact Test<sup>17</sup>**

The policy:

- will apply to all businesses contracted to provide basic services such as cleaning and security to central Government Departments, including service providers that are small or micro businesses;
- will affect the business environment in which all businesses, whatever their size, may bid to provide basic services for central Government, i.e. potential service providers to Government as well as current service providers.

Businesses likely to be affected are those which currently contract with, or may bid to supply, basic services in central Government Departments. There is no central intelligence regarding the characteristics of basic service providers to central Government. However, evidence from contracting Departments suggests that the majority of contracts for basic services are currently let to large firms on a long-term basis. For example, one central Department contracts all of its basic estate and accommodation services, including cleaning and security, through a 20 year contract with a large firm (i.e. a company that employs more than 250 employees, with an annual turnover of more than £500m).

However, the Small Business Service’s annual survey of contracts awarded by public sector bodies to small and medium enterprises (SMEs) estimated that of contracts awarded by Government departments, 69% by number were awarded to

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<sup>17</sup> The following organisations were consulted on the Small Firms Impact Test: Confederation of British Industry, British Chambers of Commerce and the Federation of Small Businesses.

SMEs, representing 24% by value.<sup>18</sup> The definition of an SME is that it employs 250 or less people. There is no indication of contracts awarded to small businesses: 50 or fewer employees, or micro business: 10 or fewer employees. Nor can we be sure that contracts for the provision of basic services were typical of contracts overall. Subject to this uncertainty, however, we can say that SMEs will also play a role in the success of the new arrangements.

The terms of reference for this piece of policy state that the policy must not prejudice tenders from smaller organisations (to supply Government Departments with basic services). In the Review of Civil Procurement in Central Government (HM Treasury, 1999),<sup>19</sup> Peter Gershon noted that there was widespread agreement that UK Government procurement is fair and open, but that some potential bidders were deterred from competing by potential costs.<sup>20</sup> However, Gershon's conclusions refer to Government procurement overall, not basic service contracts. For the purposes of this small firms impact test, we therefore assume that:

- The majority of contracts for basic services in Government services are *currently let* with large firms;
- All contracts let by Government Departments, including those contracts for basic services such as cleaning and security, are open to bidding from *all* firms, including SMEs; and
- The *potential* service provider base (i.e. those bidding for contracts for basic services) is not typically diverse, and tends to be made up mainly of large-sized firms.

It is not the role of this policy to improve supplier base diversity – only to ensure that the policy does not prejudice tenders from smaller organisations. As set out in Gershon's review, it is the role of OGC to determine whether the base of service providers is broad enough to maintain competition and innovation, e.g. whether there was the opportunity for a renewed impetus to attract more SMEs to bid for Government contracts.

A complete or partial exemption to the policy would not be appropriate for micro and small businesses. It is important that the policy is applied consistently across all service providers. This is necessary to ensure that the Joint Statement ensures access to basic skills training, trade unions and advice for employees working on *all* Government contracts for basic services, whoever their employer.

Recent research on the effects of training on establishment survival found – consistently with some earlier results - that there was a small but significantly positive effect for small establishments (defined as between 25 and 200 employees) but no observable effect for large establishments (200 or more employees).<sup>21</sup> An interpretation postulated by the authors is that large establishments were more likely already to be doing the optimal amount of training for their circumstances, so that training establishments had no significant advantages over non-training

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<sup>18</sup> Small Business Service, "Small Business Service annual survey of contracts awarded by public sector bodies to small and medium enterprises (SMEs), 2004-2005."

<sup>19</sup> HM Treasury, 1999:

[http://www.hm-treasury.gov.uk/documents/enterprise\\_and\\_productivity/ent\\_pep\\_gershon.cfm](http://www.hm-treasury.gov.uk/documents/enterprise_and_productivity/ent_pep_gershon.cfm)

<sup>20</sup> Tendering to Government (regarding any service) is burdensome and costly to suppliers. Inputs into the Gershon report from industry indicated that bidding for Government contracts is typically 10 - 50% more costly than bidding for comparable projects in the private sector with the key drivers of these cost burdens being the greater level of detail required and more extended time scales. Gershon also concluded that, in some sectors, the OGC needed to determine whether the base of suppliers was broad enough to maintain competition and innovation, e.g. whether there was the opportunity for a renewed impetus to attract more SMEs to bid for Government contracts.

<sup>21</sup> William Collier, Francis Green and Young-Bae Kim, "Education, Training and Establishment Survival", University of Kent, unpublished draft, November 2007.

establishments. By contrast, smaller establishments would have had a small bias towards under-investment in training. Note, however, that these results are only for firms with 25 or more employees, and cannot necessarily be extrapolated to micro businesses (fewer than 10 employees). A paper by Skills for Business<sup>22</sup> states that short-termism is a potential reason why the market for investment in skills may be subject to failure, and that there is a general assumption that SMEs will tend to be more short-termist than larger firms, with horizons not extending beyond immediate survival.

A March 2007 report on SME's and skills by the British Chambers of Commerce<sup>23</sup> found that the main barriers to training for smaller employers are a lack of financial resources and a lack of resources to cover employees in training. On *Train to Gain*, 33% of the businesses surveyed had heard of *Train to Gain*, but just under 6% had taken part in the scheme. The report confirms that SMEs are committed to training their workforce despite the barriers they face (over 83% of those surveyed invest in external training for their employees), and that more needs to be done to bring *Train to Gain* to employers' attention. This policy should go some way to promoting the use and availability of *Train to Gain* funding for organisations contracted to provide services for central Government, including SME's.

The policy set out here supports and complements the *Skills Pledge* through which employers support employees to acquire basic literacy and numeracy skills, and work towards their first full Level 2 qualification in an area that is relevant to their business.

Potential service providers will be expected to be ready to provide evidence of capability to deliver a value for money service, including evidence that the workforce which would be performing the contract has the relevant basic skills.

Once the service provider has been contracted in to provide a service, in relation to the workforce performing the contract, the following costs could also apply:

1. Identifying employees with a basic skills training need;
2. Planning to acquire to meet those basic skills training needs;
3. Identifying and facilitating access to basic skills training;
4. Organising employees to attend basic skills training, and other training;
5. Providing any facilities required; and
6. Cost of employees spending time away from normal duties to attend training.

For all employers, Government (through *Train to Gain*) will provide free access to a skills broker who can identify skills needs and then help to source appropriate training provision and funding – effectively, covering costs (1) – (4) above. Match funding will also be provided to support ESOL training.

For employers with fewer than 50 employees, *Train to Gain* will also make a contribution to costs of releasing employees from their normal duties to undertake agreed training (relevant to (6) above). In addition, the proposed policy sets out that contracting departments will facilitate service providers' employees' access to basic skills training e.g. by sharing in-house facilities or expertise, and mitigating costs attached to (5) above. These provisions may be especially beneficial for small firms.

For small firms, these costs ((1) to (6), and the preceding paragraph) will be higher as it may be the owner-manager who has to undertake this additional activity, with equivalent opportunity/ loss of labour costs.

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<sup>22</sup> 'Market Failure in Skills', Skills for Business Sector Skills Development Agency, February 2006.

<sup>23</sup> UK Skills: Making the Grade, British Chambers of Commerce, March 2007.

The policy on ensuring access to advice and to trade unions, should employees desire it, should not have a disproportionate impact on small or micro firms.

## **Part 6 - Competition Assessment**

The proposals would apply uniformly to the providers of basic services to central government. In general, this is a sector with large numbers of potential service providers and low entry costs and the effects of the policies on unit costs, as documented above, would be minimal. There will, therefore, be no effect on competition.

## **Part 7 - Sensitivity Analysis**

This assessment makes range estimates around the maximum predicted and minimum predicted scenarios for the effect of the Joint Statement. For each of the elements of the cost-benefit analysis there is a margin of uncertainty and we conduct sensitivity analysis around three main elements. The ranges used are wide due to the number of influences on the outcome.<sup>24</sup> It is probable that the actual outcome will be close to the central case articulated, rather than the maximum and minimum predicted scenarios.

### ***Take-up of basic skills training***

There is considerable uncertainty about the total value of the contracts involved and about the numbers working on them who could benefit from basic skills training. The contract-value figures for the central case are based on ONS input-output tables which are somewhat stylised in their composition, and there is imprecision about the classification of the type of services and of the breakdown between central and local government procurement. The check with the Oxford Economics survey of government procurement for the CBI is reassuring that the order of magnitude is correct but does not provide a more definite figure. We assume, in the absence of other data, that the output per employee and workforce composition is similar to that of a wider service sector and have made fairly conservative assumptions about the classification of those lacking in basic skills – these factors probably underestimate the numbers without basic skills. On the other hand, we have made no allowance (other than would change the input-output categorisation) for sub-contracting and this would overestimate the numbers subject to the Joint Statement. On this basis, our central assumption is that 5,000 employees on Government contracts could benefit from basic skills training.

We could conduct sensitivity analysis around this figure but, in fact, there is even more uncertainty around the proportion that would take up basic skills training and it is more efficient to look at variations of the workforce and take-up together. Our central assumption is for a one-third increase in training effort, giving **280** employees trained per year. These proportions are derived from studies of US federal procurement and, given that this had quite formal requirements, it could be argued that the estimated take-up is rather high. It may also be the case that, particularly if there is a high initial take-up, training effort will decrease after the first few years (or, alternatively, given the existence of some current long-term contracts, it might take some time to build up). On the other hand, the increase in training effort is assumed to be only relative to existing basic skills training: it is not implausible that, given their

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<sup>24</sup> For example, it is plausible that if the training leads to productivity gains at the highest end of what is believed possible, while at the same time implementation costs are kept quite low, then there could be a large net benefit from the policy.

agreement to the Joint Statement, the service providers would look at their overall training budget and use that as their baseline for increasing basic skills.

These considerations suggest that there is the possibility of a higher take-up of basic skills training from a larger pool of eligible employees. However, the upside potential is fairly limited and we consider a 50% higher uptake (to 420 trainees per year) as a likely maximum.

There is also the possibility that there will be very little extra training, either because we have overestimated the need for it or because the service providers and their workforce do not take it up, despite having agreed to the Joint Statement. We therefore, look at a 10% increase in basic training effort applied to our central workforce assumption, implying 84 trainees. In this low-take case, the training cost reduces proportionately – to £134,000 per year. However, the implementation cost reduces less than proportionately, because we assume a minimum cost per contract of £100, even if no one is being trained. The implementation cost therefore becomes £334,000 p.a. This gives a total cost of £468,000 per year, or a present value of £9 million over 30 years.

### ***Benefits from basic skills training***

We have confined our calculation of benefits to just the productivity increase – which is certainly economically much the largest potential benefit and, as discussed above, it is not possible to quantify benefits to other aspects of skills training or to access to advice and trade unions.

The evidence both from the UK and other countries is that training does have a positive effect on productivity and our central assumption, based on the UK study by Blundell *et al* is that there will be a permanent 4% increase in productivity from the acquisition of basic skills. The literature review in the study by the National Research and Development Centre for the Leitch review showed that a few studies failed to find an increase in productivity but that a plausible lower bound would be an increase of 1.5% in productivity. Some other studies found very large productivity increases, but we take as our maximum a 10% increase (based on the larger, more methodologically sound studies).

### ***Costs of basic skills training***

Our central estimate for the cost of training comes from the Leitch implementation review RIA and – as an average – it is probably fairly reliable. On the other hand, there are far greater uncertainties around our estimates of implementation costs, given the very limited data about contract size and distribution and about bidding and monitoring costs. Consequently, our sensitivity analysis of costs focuses on this element.

Our assumption of a bi-polar distribution for OBS contracts seems fairly robust, but there could still be many more or somewhat fewer contracts. Thus, we look at a range (around our central estimate of 2,500) of from 1,250 to 12,500 contracts. The average fixed implementation cost per contract will not be independent of the numbers of contracts: if contracts are, on average, very small, then the average bidding and monitoring costs are likely to be small also. Thus, applying our central assumption of £5 per contract (where no training actually takes place) to the high number of contracts will give a very high – and a plausible maximum - estimate of costs. And applying it to the low number of contracts will give a very low – and a plausible minimum – estimate. The monitoring costs associated with contracts where employees are being trained are varied in line with the numbers of employees being trained rather than the number of contracts.

We therefore have three sets of alternative estimates: a maximum and minimum and central case of basic skills training take-up; a maximum and minimum and central case of productivity benefits per trainee; and a maximum and minimum and central case of fixed contract costs. This gives a potential 27 scenarios. However, not all the estimates are mutually compatible: it is very unlikely that service providers would go to the trouble of incurring high implementation costs if training take-up was going to be very low; and, conversely, it is unlikely that high training take-up would be associated with the minimum implementation costs. If we discard scenarios involving these combinations, we are left with twenty-one possible scenarios. The range for net benefits given in the Summary is taken from the two scenarios with the greatest and least net benefits.

Given the many scenarios possible, it is not surprising that we end up with a wide range of possible outcomes. The central case is for net present value benefits of £28 million. The highest net present value is +£150 million (high-take-up; high productivity benefits; central case implementation costs). The lowest net present value is -£21 million (central case take-up, low productivity benefits, high implementation costs).

Because of the stylised way these scenarios have been constructed, too much should not be read into these results. However, because the level of take-up affects both the costs and benefits of the policy, it is clear that the more extreme positive outcomes are being driven by the achievement of high productivity benefits and that the more extreme negative benefits occur when high implementation costs are being incurred and are not being offset by even average productivity gains.