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# Economic Perspective 2

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## SCOTTISH ENTERPRISE - A FORCE FOR ECONOMIC CHANGE?

by Keith Hayton, Centre for Planning,  
University of Strathclyde

### Introduction

In a recent article in the Quarterly Economic Commentary (Hood, 1990) Neil Hood considered the background to the setting up of Scottish Enterprise and speculated about its eventual outcome. This article is intended to complement Hood's by looking in greater detail at some of the issues he raised which will affect the operations of the new body and the 13 local enterprise companies (LECs). Its main conclusion is that, in the short term, the "success" of the new structures will be crucially dependent upon the extent to which the LECs are allowed to pursue economic goals rather than being forced to manage national programmes such as Employment Training (ET).

### Employment Training

As Hood points out (Hood, 1990, p.66) one of the key reasons for the Scottish Enterprise proposals attracting widespread support was the logic of integrating the Scottish Development Agency's (SDA) economic development role with the training activities of the Training Agency (TA). How far this proves to be possible in the short term is likely to be determined by unemployment levels and Central Government's attitude towards Employment Training (ET).

Presently ET is the main TA programme that is targeted at the long term unemployed. At March 1990 there were 26,400 filled ET places in Scotland. That this title is something of a misnomer can be seen from Table 1 which indicates that only 23% of Scottish participants leave ET for a full time job.

TABLE 1 ACTIVITY OF EMPLOYMENT TRAINING PARTICIPANTS THREE MONTHS AFTER LEAVING - SCOTTISH LEAVERS BETWEEN JULY AND DECEMBER 1989

Activity	Number	%
Full time job <sub>1</sub>	1,646	23.3
Part time job <sub>2</sub>	329	4.7
Self employed <sub>2</sub>	303	4.3
Voluntary work	222	3.1
Government training	35	0.5
Education/training	206	2.9
<u>Unemployed and:</u>		
a) Claiming Benefit	3,226	45.5
b) Not claiming benefit	274	3.9
Job Club	322	4.6
Other/not specified	507	7.2
Total	7,070	100.0

Source: Training Agency

#### Note:

1. Part time work is defined as being less than 30 hours each week.
2. Self employed includes those on the Enterprise Allowance.

Not only is ET failing to get its participants into work but, as Table 2 shows, those that do find jobs are generally in low paid employment, with 50.5% of participants earning less than £100 a week. ET in Scotland therefore seems to be a

socio-political measure aimed at keeping the unemployed off the official register whilst almost accidentally getting a minority of trainees into low paid and, one can assume, low skilled jobs.

TABLE 2 WAGE LEVELS OF EMPLOYMENT TRAINING PARTICIPANTS WHO FIND FULL OR PART TIME WORK - SCOTTISH LEAVERS BETWEEN JULY AND DECEMBER 1989

Wages	Number	%
Up to £49	201	11.2
£50-£75	270	15.1
£76-£99	433	24.2
£100-£150	563	31.5
£151-£199	168	9.4
£200-£250	88	4.9
£250 +	66	3.7
Total	1,789	100.0

Source: Training Agency

Why this should be the case reflects a number of things. Firstly the training provided under ET is targeted more at employers who are willing to provide job placements than at areas of identified skill shortages. Thus a proportion of trainees are not learning skills which are in demand in the labour market, albeit that they may gain in confidence and develop the ability to "sell" themselves more effectively to employers.

However, the key factor underlying ET's apparent failure is the strength of the labour market in many parts of Scotland. The labour problem is fundamentally one of over supply rather than unmet demand. This is not to deny that skill shortages exist. However in numerical terms such shortages are relatively minor. For example analysis of the TA's Computer Assisted Local Labour Market Information (CALLMI) system in a number of areas in Scotland indicates that the jobs that employers estimate that they are unable to fill because of skill shortages account for between 0.3% and 1% of those in employment. This would imply that in Scotland as a whole there are at most 20,000 skill shortage jobs, at a time when there are around 200,000 people who are looking for work and

claiming benefit. The skill shortage jobs are also ones that generally need a long period of training. As such ET is unlikely to be an appropriate mechanism for filling them.

The implication of this for the LECs is that resources need to be diverted away from programmes such as ET towards assisting existing firms to grow, stimulating new starts and attracting inward investment. Training could then be targeted specifically at the employment and skill needs of these firms, either for existing employees or for new staff taken on as a consequence of expansion.

For this to happen Central Government will have to allow the LECs to suspend the guarantees that have been given about ET places and then let them divert resources into new programmes. In the short term this looks unlikely for two reasons:-

- a) the unemployment figures will rise as most, if not all, ET participants are eligible for benefit. For example if all ET participants in Scotland were counted as unemployed then the unemployment rate would increase by about 1%. Such a rise, at a time when unemployment is already going up in Scotland, may be politically unacceptable; and
- b) costs would increase as most of those on ET would be eligible for welfare benefits of some form.

Given this in the short term, the LECs may be forced to continue to run a programme whose justification, certainly if judged on its performance in getting trainees into work, seems to be primarily political: to keep unemployment figures down whilst claiming to be doing something about the problem. If this does happen then it may be that the LECs will exert considerable pressure, as have the Training and Enterprise Councils (TECs) in England and Wales, to be allowed to vary ET criteria to meet local circumstances, (Wood, 1991 (b)). Should this pressure be successful then it is likely that the long term unemployed and those suffering particular labour market disadvantages will be neglected in favour of those who can be trained more easily. However, as unemployment is forecast to rise even these favoured groups will find it hard to obtain work. The danger then is that the LECs get into the situation that to some extent characterises ET: of training people to be trained as they go from training course on to the

unemployment register and back on to further training courses. If this does happen then LEC staff and directors may rapidly become very cynical about "training" and little true integration of training and economic development may occur.

In this event what may happen is that within each LEC a core of relatively junior staff are given responsibility for managing national training programmes such as ET. Because of the local labour market situation and the need to meet nationally determined criteria their work may be seen by senior staff and directors as being of limited relevance to local needs. Training will become marginalised and will be seen as primarily a social function rather than having any close linkage with local economic development needs. Thus one of the main arguments in favour of the new structures, the close integration of training and economic development, may be lost. This danger may be increased by the dominance of staff from a non-training background in key posts in the LECs.

#### Staffing

All of the LECs' Chief Executives have now been appointed. Of the 13, 5 are former SDA staff, 3 are from the private sector, albeit that 2 of these had formerly worked in public organisations, 2 are from enterprise trusts, 2 are from public organisations other than the SDA and TA (a health board and a rural development agency) and only 1 was formerly with the TA.

The predominance of SDA staff had been predicted by a number of commentators (for example Hayton and Mearns, 1991) mainly because of the different cultures of the 2 organisations. Essentially TA staff have been administrators and managers of programmes that have been designed centrally to be delivered uniformly across the country. In contrast SDA staff have had considerable freedom to design and deliver programmes to meet the needs of specific areas. What seems to have happened is that the entrepreneurial skills possessed by former SDA staff have been the ones that the LECs felt they needed and TA staff have lost out.

However, press reports now indicate that there is considerable unrest amongst TA staff about the allocation of posts in the new structure, with claims being made that SDA staff are being given

preference for the key jobs (Aitken, 1991). Undoubtedly the predominance of former SDA staff as Chief Executives will fuel suspicions that they are favouring their former colleagues, however unfounded this may be.

Beyond the feelings of resentment that TA staff apparently feel there is a more serious concern. This relates to the priority that the LECs will give to training. If, as is argued, increasingly key posts are being taken by people with no background in training it may be that training will not become a priority in many LECs as its importance is not recognised. The danger of this happening will increase if it proves not to be possible to gain greater flexibility over the use of national training programmes. Again the outcome is likely to be an inability to set up an integrated training and economic development service. Financial pressures may intensify the likelihood of this happening.

#### Funding

One of the main concerns is the level of funding that the LECs will receive. Although the business plans are not publicly available press reports indicate that the total funding bids for the financial year from 1st April 1991 amount to £420 million (Stokes, 1991). The total 1991-92 Scottish Enterprise budget comes to £406 million of which £320 million is allocated to the LECs. Apparently this represents a real cut in non-training resources of £11.7 million (Young, 1990) over the previous year's budget.

It would be naive to think that the outcome will be anything but cuts. However the LECs still have to meet various government guarantees over such things as ET and Youth Training (YT) places. As unemployment in Scotland starts to rise there is likely to be increasing demand for ET places, albeit, as was pointed out above, that this may in part result from political pressure to see ET used as a way of reducing the official unemployment count. Given this it is probable that budget cuts will fall mainly upon those areas where there are no guarantees to be met, that is upon economic development rather than training projects. Particular targets are likely to be environmental and physical regeneration schemes. Many LECs may therefore be in the ironical situation of having funds for training projects at a time when labour demand is weak whilst being denied resources to

implement economic development schemes which could result in labour demand increasing. The outcome again will be an inability to integrate training and economic development services.

There may also be other undesirable side effects of a squeeze on economic development schemes. It may be that many of these have been developed as flagship projects by the LECs, designed to both stimulate public interest in their activities and to convince the private sector that its involvement can have an impact. If these are the first projects to be cut then the LECs' credibility will suffer and the private sector will lose interest. In the latter event the LECs may become increasingly officer led, which was hardly the Government's original intention.

#### Development Pressures

In the short term progress in implementing the LECs' business plans is likely to be affected by decisions about the future of British Steel's Ravenscraig plant. Its closure will lead to considerable pressure for additional public spending. One estimate of the funds needed, made by Lanarkshire Enterprise's Chief Executive, is of £650 million over 10 years (Young, 1991). It is difficult to see funding on this scale being provided. A more likely scenario is that money will be diverted from the other LECs' budgets. It may be that those LECs that have below average unemployment levels will be particularly at risk.

There will undoubtedly be considerable social and political pressure upon Scottish Enterprise to take a lead in regenerating Lanarkshire. However it may be that rather than invest in the area it might be in Scotland's best interests for money to be spent elsewhere, in areas that have greater economic potential. Ironically it is these areas which might suffer the greatest funding cuts if Ravenscraig does close. Hood does point out that there will be times when the priorities of individual LECs will have to be overruled in the interests of the wider Scottish economy (Hood, 1990, p69). This may well be one of those. Indeed it may prove to be a test case over the extent to which Scottish Enterprise is willing to concentrate upon the pursuit of economic as opposed to social objectives in the face of considerable political pressure. If social concerns are given priority then the chances of a major impact being made upon economic growth must

be slight.

#### Conclusions

It has been argued that the ability of the LECs to integrate economic development and training will be severely compromised if the LECs are forced to pursue social rather than economic goals. Any attempts to avoid this happening must start with the recognition that the main problem facing the Scottish economy is not a lack of skilled labour but a lack of jobs. Given this, energies need to be directed towards stimulating economic growth rather than training the unemployed for jobs that do not exist. It follows from this that the LECs should redirect resources from programmes such as ET towards ones that will bring direct economic benefits.

What then about those people who are denied access to ET? Should they be neglected? The answer to this question is no, but their needs should be met by programmes and agencies that are outside of the Scottish Enterprise framework. In terms of programmes what seems to be called for is the re-establishment of something along the lines of the Community Programme (CP); a programme whose main aim will be to employ people to do things that are of community benefit, rather than one that pretends that it is training people for jobs. This is something that is presently being considered in England (Wood, 1991, (a)). It would also seem important for such a programme to be run by bodies other than the LECs, in order that the LECs can concentrate upon their main aim of local economic regeneration. Here the voluntary sector would seem the ideal candidate, given the creative use that many voluntary bodies made of CP in the past.

Whether it proves possible for the LECs to be able to free themselves from the political pressures that will try to force them into a social role remains to be seen. It may be that lobbying by the LECs will be crucial in resolving such things as funding flexibility. However what does seem certain is that unless both Scottish Enterprise and the LECs are allowed the freedom to pursue economic priorities little progress will be made in integrating training and economic development. If this happens then the upheaval and the expense involved in setting up Scottish Enterprise will have achieved very little.

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