

EMCC case studies

Upskilling in the recession – the ProAct short-time working scheme in Wales (UK)

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Introduction

ProAct is a £48 million (€55 million as at 4 May 2010) programme launched by the Welsh Assembly Government (WAG) in response to the economic crisis. Through social partner engagement, the Welsh Assembly Government developed and implemented the ProAct initiative in a matter of two to three months with the aim of helping businesses cope with the downturn and develop their employees' skills.

This study assesses the effectiveness of the ProAct initiative in terms of keeping workers in employment and supporting local businesses in economically difficult times. Emphasis is given to the role of social partner engagement throughout the inception and delivery phases of the programme and whether it meets the skills needs of employers and employees in the downturn and subsequent recovery.

Impact of the crisis on the Welsh economy and measures taken

In order to understand the ProAct support package (explained in detail in the next section), it is essential to appreciate the local economic and policy context within which this scheme operates. The global recession posed significant threats to the Welsh economy. These were outlined at the first all-Wales Economic Summit on 16 October 2008 organised by the Welsh Assembly Government and which brought together business, union and community representatives.¹ In a joint presentation, the Confederation of British Industries (CBI) and Wales Trades Union Congress (Wales TUC) warned that the financial crisis had the potential to severely impact on the 'real' economy of Wales across every industrial sector (CBI and Wales TUC, 2008).

Official statistics show that the recession has had a negative impact on Wales, with a gradual decrease in production of 3.5% in the fourth quarter of 2008 coupled with a decline in manufacturing of 4.1% (ONS, 2009). The impact of the crisis has been felt most heavily by skilled trades and process, plant and machine operatives (particularly in the construction and manufacturing sectors). The construction sector in Wales (also hard hit by the recession) saw a decline of 6.4% for the whole of 2008 compared with the previous year, whereas the UK witnessed an increase of 1.5% over the same period (ONS, 2009).

In terms of the impact on the labour market, annual unemployment rates by gender and Welsh economic region (as designated by National Statistics) from StatsWales (as of 8 March 2010) and obtained from the European Labour Force Survey show that the unemployment rate in Wales rose from 5.6% at the end of December 2007 to 7.7% by the end of 2009. Southwest and southeast Wales have been disproportionately affected by rising unemployment.

The number of people claiming Jobseekers' Allowance (JSA) also increased. In May 2009, the number of claimants was 5.6% of the workforce (2.7 percentage points higher than in May 2008) compared with a UK rate of 4.8% (ONS, 2009).

The number of available jobs has also decreased with the sharpest falls in sectors such as manufacturing, agriculture, distribution, retail, hotels and financial services.

Despite some early signs of an economic upturn in the UK, employment growth projections made by the Welsh Local Government Association for the period 2009–2011 foresee a 3.6% decline in employment, the most affected sectors being manufacturing and construction.

¹ <http://wales.gov.uk/topics/businessandconomy/recession/response/summit/?lang=en>

These challenges have given rise to two sets of policy priorities:

- in the short term, maintaining employment and supporting businesses;
- in the long run, boosting productivity, and increasing skill levels and economic activity.

To meet these objectives, the Welsh Assembly Government announced almost £1 billion (€1.6 billion) worth of measures in December 2008 to help Wales deal with the global economic downturn (WAG, 2008). It introduced new measures as well as adapting existing ones such as:

- raising the level of subsidy for small and medium enterprises (SMEs) from 50% to 70% under the Workforce Development Programme run by the WAG Department for Children, Education Lifelong Learning and Skills (DCELLS), which ‘encourages employers to participate in training and development of their workforce through the provision of advice, guidance and access to support, tailored to meet the needs of differing organisations in Wales, particularly SMEs’ ([WAG website](#));
- increasing the capacity by 50% for 2009–2010 of the Redundancy Action Scheme (ReAct), a WAG programme of funding for training for people living in Wales who are facing redundancy and providing help to employers who are downsizing their business or are recruiting staff;
- providing funding for employees put on short-time working;
- commercial funding to SMEs;
- tax relief to businesses and professional advice to businesses in debt and facing insolvency.²

In the private sector, many Welsh companies have put their employees on short-time working or temporary lay-offs in an effort to avoid dismissals and keep costs down during the economic downturn. This has been noted across the UK and Europe where many companies have implemented similar measures. According to ProAct representatives, short-time working is being considered in Wales at an early stage before making workers redundant and losing the skills base within the company.

The funding provided through ProAct could therefore be seen to have had an ‘awareness raising impact’ on employers regarding the potential costs of significant redundancies during crises. In the absence of public funding, the extent to which this influences decision-making will depend ultimately on the financial position of the company, the willingness of the workforce to accept commensurate job reductions and the quality of collective bargaining capable of reaching agreement on suitable measures. Customer feedback suggests that the support has not stopped all redundancies as part of overall cost cutting measures by companies, but has significantly reduced the numbers of those who had to be made redundant.

The important question of whether the jobs retained through ProAct support are sustainable is difficult to answer in the current climate as the effects of the recession are still being felt in the Welsh economy. For example, Bosch recently announced at least 300 redundancies in its manufacturing plant at Miskin (WAG, 2010a). Recent statistics show that the claimant count rate for Wales was 5.3% of the workforce in April 2010, 0.2 percentage points down compared with April 2009 (WAG, 2010b).

² See <http://wales.gov.uk/topics/businessandconomy/recession/response/?lang=en>.

Unlike the majority of EU Member States (Mandl and Salvatore, 2009), there was no government support for short-time working available in the rest of the UK (it was argued that such a scheme would distort market forces). However, there have been many examples of employers introducing short-term or flexible working patterns in order to retain staff but these have largely been the result of social partner negotiations at local level.

A CBI survey on working patterns during the recession in the UK showed that nearly two-thirds of employers were introducing changes such as flexible working hours, extended leave, extra holidays and cuts in paid overtime in tandem with recruitment and pay freezes (CBI, 2009). Most companies implementing short-time working arrangements operate in metal manufacturing, construction, wholesale and retail trade, and machinery manufacturing sectors (Mandl and Salvatore, 2009).

For employers, such flexible working measures are aimed at keeping personnel costs low and retaining the human capital necessary in the upturn. The benefits for employees are primarily job security and income security (though a reduced working programme is generally associated with pay cuts proportional to reduced hours unless agreement on other arrangements are reached between the social partners – the negotiation of higher replacement rates was more likely in unionised workplaces).

No research is currently available to allow a comparison of the use of such measures in Wales and in the rest of the UK to judge the impact of ProAct on the share of employers refraining from carrying out redundancies in favour of introducing changes in working patterns.

The ProAct scheme

Rationale and objectives

Since 2008, when Welsh companies started to feel the bite of the financial crisis, various social partners and individual companies (particularly in the automotive sector) have lobbied for the introduction of a financial support package that could help viable businesses cope with the downturn and use the ‘non-productive’ time to upskill staff with the view to preparing for the economic upturn. For instance, the Welsh Automotive Forum lobbied for a Welsh equivalent of the German scheme of short-time working allowances.

At the first Welsh Economic Summit held on 16 October 2008, the CBI and Wales TUC called for the introduction of a wage subsidy scheme and urged the Welsh Assembly Government to ensure greater funding for the Workforce Development Fund from the Sector Prioritisation Fund – part of the European Structural Fund programme 2007–2013 in Wales designed to support strategic activities by Sector Skills Councils with the view to meeting key policy recommendations laid down in *Skills that work for Wales* (DCELLS, 2008) targeted at training and retraining. The CBI and Wales TUC called for this additional funding for training from the Workforce Development Fund to be made available to support workers to maintain their existing employment or to secure alternative employment in a redundancy situation.

These recommendations were part of a seven-point programme proposed to enable individuals and companies to respond quickly to changing market circumstances. This position was in line with the attitudes of employers during the current downturn, who have been more willing to retain staff and minimise talent drain than in previous downturns when collective redundancies were employed to keep costs down. The experience of the recession in the 1990s was that many companies dismissed too many people, which later made it difficult to regain a sufficiently skilled workforce to become competitive again. Furthermore, available data on skill shortages suggests that Welsh engineering companies entered the recession with hard-to-fill vacancies whose cost was estimated in May 2008 at around £31 million (€35.8 million) in lost gross value added (GVA) (Semta, 2008). This served to encourage employers to make efforts to keep skilled staff in employment.

In this context, the ProAct scheme was first proposed at the third Wales Economic Summit on 5 December 2008. The Welsh Assembly Government was aware of other schemes running across other parts of Europe, but chose to work with Welsh businesses and sector bodies to devise a system that was better matched to the needs of employers in Wales and the local economic climate.

The aim of the new scheme was to provide training assistance to businesses that were affected by the economic downturn and that (crucially) had been inherently viable prior to it. More specifically, the proposed scheme would provide financial support for employees to undertake training and receive wage subsidies during the training programme. The measure would only be applicable to companies and employees affected by short-time work arrangements. The package was presented as a flexible scheme ready to meet the needs of individual businesses.

The Deputy Minister for Skills, John Griffiths, officially launched the ProAct initiative in January 2009. For the first three months, the initiative was piloted in the automotive sector. At that time, the automotive sector in Wales was particularly hit not only by the financial crisis but also by the general downturn in vehicle manufacturing. During this period Honda announced a four-month shutdown, which raised serious concerns about the businesses of local suppliers in Wales (the automotive supply sector is a priority sector in Wales alongside others such as manufacturing, leisure and construction). The scheme grabbed the attention of companies in this sector which applied in great numbers during the pilot period; 90% of Welsh Automotive Forum (WAF) members applied, with only 5% having their applications rejected.

Wage and training subsidies and their compatibility with state aid regulations

Government policy can only be justified if it is motivated by efficiency and/or equity objectives. As outlined in *The Green Book* (HM Treasury, 2003), efficiency interventions are required by government to address areas of market failure or pre-existing government policy failure. Market failures are associated with imperfect competition, information failures, public goods or externalities. Of particular relevance to the ProAct intervention are externalities relating to (negative or positive) spillover effects of economic activities as well as credit rationing resulting from the financial crisis which will be explained below.

Externalities are costs or benefits arising from an economic activity that affect parties other than the people engaged in the activity (and are not reflected in the price). In the case of ProAct, the negative externality could stem from the economic costs of unemployment in the absence of an intervention to keep workers in their jobs.

Wage subsidies are one of the instruments available to public authorities to encourage or maintain the employment of various categories of workers when this is in the public interest, that is, when the costs of people losing their jobs would be higher than the cost of subsidies (European Commission, 2009a). State aid in the form of wage subsidies can help workers to remain in their jobs ‘by covering extra costs induced by their perceived or real lower productivity’ (European Commission, 2009b).

In relation to training, aid can be provided to address market failures that arise from an underinvestment in training (European Commission, 2009b). It is asserted that underinvestment in training can occur because companies have short time horizons, do not have access to credit or loans, or fear free-riders (for example, employees leaving a company to join competitors who subsequently benefit from the skilled workforce without necessarily sharing the training costs). The latter in particular applies to transferable skills.

Another typical reason for such interventions is credit rationing, which usually refers to any situation in which lenders are unwilling to provide additional funds to a borrower even at a higher interest rate (Calomiris and Longhofer, 2008). During the credit crunch, companies were negatively affected by reduced bank lending (very much triggered by the lenders’ uncertainty and fears regarding future market conditions). The same argument could apply to companies

themselves; the supply of jobs and training could fall short of demand even if companies were financially able to recruit more staff and provide more training. This again could be due to companies' uncertainty regarding future market conditions.

Despite the potentially positive effects of wage subsidies, measures involving state aid are associated with a risk of distorting competition. Therefore certain state aid instruments are subject to EU competition rules. Consequently, ProAct wage subsidies operate within the 'de minimis rule' designed to benefit SMEs.

The current 'de minimis' rule (revised Commission Regulation No 1998/2006) states that wage subsidies of less than €200,000 granted to an undertaking over a period of three years do not constitute 'State Aid' within the meaning of the EC Treaty's ban on aid liable to distort competition (Article 87 of Commission Regulation No 69/2001). Wage subsidies under ProAct are therefore limited to €200,000 over a three-year period.

In response to the financial crisis, however, the European Commission recently introduced a temporary framework for state aid measures to support access to finance (European Commission, 2009c). The temporary framework allows the aid granted to an individual enterprise under the de minimis rule to be up to €500,000 during the period from 1 January 2008 to 31 December 2010. Training subsidies are not subject to the same restrictions of being paid under the General Block Exemption Regulation (GBER) limit, that is, up to €2 million of aid to any one company and not time bound (European Commission, 2008).

Responsible authorities and the role of social partnership

Prior to the economic recession, the Welsh Assembly Government had worked with The Manufacturing Forum, the Wales Employment & Skills Board (WESB) and The Partnership Council for Wales as a way of consulting with social partners on the economic future of Wales and skills requirements/future skills planning. In 2008 the First Minister, Rhodri Morgan, called for an economic summit involving all stakeholders (the first Economic Summit was held on 16 October 2008). In preparation, the Welsh CBI and Wales TUC drew up a joint seven-point programme one of whose demands was for wage and training support (see above).

During consultations at the second and third Economic Summits held on 6 November 2008 and 5 December 2008, respectively, the concept of the ProAct programme became more focused on training rather than purely (or primarily) on wage subsidies. During the process of setting up ProAct, some meetings were held with the social partners, the UK Prime Minister Gordon Brown³ and the Business Secretary Peter Mandelson to discuss whether a similar scheme could also be set up at the UK level. The feeling was that this would not be possible because of the scale of the bureaucracy required and the potential for fraud.

³ Speaking in the House of Commons on 4 February 2009, Gordon Brown said: 'Through the Assembly, Wales has developed a new programme called ProAct to help people to stay in jobs rather than be made unemployed, and a great deal of work is being done by us to look at that scheme and at how it could apply to other parts of the United Kingdom.' (*Hansard*, Vol. 487, c. 844, 4 February 2009, available online at <http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090204/debtext/90204-0003.htm> 487).

The details of the ProAct scheme were worked out by the administrators in the Welsh Assembly but always followed by consultations with the social partners. Following the initial discussions at the October 2008 Economic Summit, the programme was developed very quickly. It was formally designed and implemented by the Department for Children, Education, Lifelong Learning and Skills (DCELLS) working together with:

- Welsh Automotive Forum (WAF);
- Welsh Manufacturing Forum;
- Sector Skills Council for Science, Engineering and Manufacturing Technologies (Semta);
- representatives from the Department for Economy and Transport (DE&T).

Throughout the pilot stage, DCELLS also worked closely with Unite, the union most closely linked to the automotive sector. DCELLS has run similar schemes in the past under the overarching Workforce Development Programme which encourages employers to participate in the training and development of their workforce; the ReAct scheme is an example of financial support to businesses that take on and train employees who have recently been made redundant. DCELLS took the lead on the ProAct scheme as its training element was considered more relevant (particularly in the long-term) than its wage subsidy element.

Initial discussions took place between the Welsh Automotive Forum and senior WAG officials on the issues arising with major manufacturers in the automotive sector closing down for prolonged periods. Ongoing discussions with other bodies including Sector Skills Councils, Wales TUC and other sector bodies including employers identified the clear need for action from the Welsh Assembly Government. This need was discussed before and during the third Wales Economic Summit on 5 December 2008.

Partners have been involved in the implementation of the scheme throughout the programme from its inception to its promotion and assessment of applications. There was no one single driving force as it was very much a collaborative approach. Partners are also involved in the monitoring and evaluation stage as they continue to provide feedback on how the scheme has affected their membership, any need for changes, etc.

ProAct has generally been promoted through employers and employer-led bodies such as Semta and the Welsh Automotive Forum. Other channels of promotion included letters sent to local suppliers affected by closures of large companies such as Anglesey Aluminium. ProAct was also advertised through a variety of papers and a sponsored web link was set up through Google to promote ease of access and information.

The role and details of each actor involved in the scheme are described below.

ProAct expert panel

The role of the ProAct expert panel is to consider the information provided by companies in their applications, in particular the business plans which constitute the first stage of the application. During the pilot stage (January–March 2009), applications from the automotive sector were considered by an expert local panel made up of representatives from DCELLS, WAF, Semta and Unite, and overseen by an independent chairman.

Department for Children, Education, Lifelong Learning and Skills

DCELLS aims among other things to improve education and training provision to secure better outcomes for learners, business and employers in line with the objectives laid down in its strategic document, *The Learning Country*, and the subsequent skills strategy, *Skills that work for Wales* (DCELLS, 2008). DCELLS officials are responsible for running and monitoring the ProAct scheme.

Welsh Automotive Forum

WAF represents component suppliers in Wales that provide parts for vehicle manufacturers worldwide. The Forum has 100 members, 80% of them being local SMEs. It is partly funded by the Welsh Assembly Government and partly through membership fees.

WAF was a key actor in the design and early implementation of the ProAct scheme. Among other things, WAF evaluated the appropriateness of the training needs and the future opportunities being outlined by auto companies in their business and training plans. In the early days of the scheme, WAF also helped to promote ProAct at the sectoral level as promotion of the scheme tended to be low-key at that time (this was justified on the grounds that there was no clear information about the potential demand for the ProAct package and whether the funding available would be sufficient to meet demand).

The role of WAF was to make auto-related companies in Wales aware of the scheme and to help officials with the application and screening process. During the pilot stage, the scheme was only available to companies operating in the automotive sector and, as a result, most automotive component manufacturers were successful in their applications for funding in the first round of ProAct.

WAF is not now represented on the expert panel though it may be invited on an occasional basis to assist in assessing applications from the automotive sector.

Semta

Semta is one of 23 Sector Skills Councils (SSC) in the UK. These employer-led, independent bodies promote skills training in particular sectors and cover around 89% of the UK workforce. Semta operates in sectors such as aerospace, automotive, bioscience, electrical engineering, electronics, and mechanical, maintenance and electrical (MME).

During the pilot stage, Semta was approached by WAF to help with implementation of ProAct. Semta no longer sits on the ProAct panel but still advises ProAct, human resources development (HRD) advisors and companies on qualifications and training pricing. HRD advisors are contracted by the Welsh Assembly Government to offer free one-to-one expert advice to businesses under the Workforce Development Programme and ProAct. Training pricing is particularly important for training providers such as further education (FE) colleges which, under the ProAct scheme, had to become more knowledgeable about training pricing and customised training offers. Semta also advises on training plans that cannot be readily translated in qualifications by breaking down the plan into qualifications.

Department for Economy and Trade

DE&T is responsible for delivering economic and transport policies in Wales with the aim of creating jobs, stimulating enterprise and growth, and enhancing skills for jobs. A DE&T relationship manager who had specific knowledge of the automotive sector and was able to obtain reliable financial information about companies was significantly involved during the pilot stage, and continues to attend all panel meetings and provide advice and guidance where appropriate.

Unite

Wales TUC was not involved in the early expert panels and Unite was the union which most closely represented the automotive sector.

Other actors

Wales TUC represents the majority of trade unions in Wales and has strongly supported ProAct as an alternative to redundancies. It was responsible for contacting local union members (within companies), providing information about employment and ensuring the overall fairness of the process for affected staff.

Although instrumental in supporting the introduction of ProAct, the Confederation of British Industry (CBI) in Wales opted not to be represented on the programme panel to avoid potential conflicts of interest (obtaining information on business plans and the economic situation of companies applying for funding).

After the pilot stage ended in March 2009, the composition of the panel changed to reflect the broader scope and coverage of ProAct, which was to support employment and businesses in all sectors in Wales affected by short-time working. Representatives of DCELLS and DE&T still sit on the panel but Wales TUC now provides union representation.

Scale and scope of ProAct

ProAct support is currently available to all private businesses – and within them all employees affected by short-time working – as well as third-sector organisations that meet specific qualifying criteria (discussed below). Its scope includes part-time and temporary staff who are on the payroll system and are affected by short-time working. However, according to the DECELLS representative, very few applications have included part-time staff.

Eligibility criteria

To qualify for ProAct support, organisations applying for financial support must meet the following criteria:

- The organisation was financially viable before the economic downturn. The following evidence is required in the application form: recent and forecasted turnover; net assets; profit; customer order schedule; and new contract proposals. According to ProAct representatives, companies ‘do not have to demonstrate long-term viability as this would be difficult to do through the recession.’ In some cases the expert panel will go back to ask for more information to ensure previous financial viability.
- The organisation has introduced, or is planning to introduce, short-time working at a minimum level of 20% (one day a week) reduction in working time for approximately 40 days over a 12-month period.
- The organisation has made or is considering redundancies and introduced (or has considered) short-time working as a way of avoiding further redundancies. The risk of redundancy is assessed on a case-by-case basis with due attention being paid to whether the company has already made redundancies and put employees on short-time working.
- The organisation has received no more than €200,000 of European funding over the past three years.

The stakeholders interviewed emphasised that ProAct is designed to support companies that are facing difficulties due to the economic downturn but have good commercial prospects. Otherwise, there is a risk of distorting the competition. More specifically, there is a risk that the wage subsidies may enable companies that are unsustainable in the long run to stay in the market for much longer with a potential negative impact on more efficient (and non-aided) competitors (for more information about the risk of distorting competition with wage and training subsidies in the EU see, for example, European Commission, 2009b).

A company’s financial viability is assessed based on the business case plan submitted to ProAct. The issue of financial viability is assessed primarily on a case-by-case basis taking into account various strands of information such as turnover, current and prospective orders, etc.

Income support and duration

The £48 million (€55 million) funding package is made up of £38 million (€44 million) from the European Structural Fund programme, with the rest drawn from underspends on the DCELLS budget for 2008–2009, and additional funding from WAG reserves for 2009–2010 (Cabinet Committee, 2009).

This budget was intended to cover the money paid out between January 2009 and March 2010, but because of funding left available, the scheme was extended to the end of June 2010 when the panel met to assess the last pool of applications. Companies that have their business plans approved can submit their training plans by July–August 2010.

A new form of ProAct, Skills Growth Wales, was introduced on 1 April 2010 and will run until March 2011 for new applications with all training to be completed by July 2012. Under Skills Growth Wales, companies receive no wage subsidy but can access an average of £3,000 (€3,474) per employee for training. It is intended that the increase in training costs will allow for higher level skills to be obtained.

Under the scheme, companies can receive up to £2,000 (€2,315) towards the cost of training for each employee on short-time working and a subsidy of up to £2,000 (at a rate of £50 a day) towards the cost of each individual's wages while undertaking training.

Employers remain liable to pay their statutory social security contributions based on the reduced hours. Having said that, short-time working in principle affects National Insurance contributions which are calculated on the basis of weekly earnings. Under a certain threshold of £421 (€482) per month, no national insurance is paid. Furthermore, contributory benefits that depend on National Insurance contributions such as state pension; contribution-based Jobseeker's Allowance and contribution-based Employment and Support Allowance may also be affected.

The training can be taken in a block period or can be spread over a longer period up to one year. Companies also benefit from free one-to-one advice from a HRD advisor contracted by the Welsh Assembly Government to help create a ProAct training plan (where they have not reached their *de minimis* limit). According to ProAct representatives, the Welsh Assembly Government expects approximately two days work from each HRD advisor including meeting company representatives, producing the training plan and researching training providers. However many advisors go above and beyond this time frame.

As mentioned above, the wage subsidies are subject to 'de minimis rule' of €200,000 over a three-year period. However, the scheme is able to fund additional training for employees as long as a further wage subsidy is not paid. Additional training funding is judged on a case-by-case basis.

It is difficult to estimate the extent to which the wage subsidies can cover the shortfall in earnings resulting from short-time working. ProAct does not gather data on the type and duration of short-time work arrangements implemented by the subsidised companies (as long as companies meet the minimum criteria of a 20% cut in working time).

Similarly, the scheme includes no hard and fast rules regarding monitoring to ensure that wage subsidies are passed on to employees in full. It was argued that ProAct would expect the full wage subsidy to be passed on if the employees are not paid for the day of short-time working (when they are undertaking training). This would be in line with the minimum wage rule as it is expected that the employee would receive at least the minimum wage while in employment. Beyond that, there is no guarantee to ensure that the amount of subsidy passed on is proportional to the loss of earning.

ProAct emphasises that 'employers are expected to follow all legal requirements in how they deal with their employees if they are on formal short time working'. However, the legal provisions do not specify whether employers must continue to pay 100% social security contributions for employees or not. In certain cases employees on short-time working may be entitled to a statutory guarantee payment (see the WAG [Flexible Support for Business](#) website for more information).

The rules of the ProAct scheme provide that, if employees receiving subsidies are made redundant, employers could be required to repay any wage subsidies received. This would apply only to companies that are still in receipt of subsidies when redundancies are being implemented.

An interesting issue was raised by the Cabinet Committee on Regeneration, Skills and Tackling Economic Inactivity in June 2009 with regard to larger national companies with a presence in Wales and elsewhere across the UK. Although these companies are in principle eligible for funding, they may choose not to use the ProAct scheme as this might unfairly disadvantage their workers not in Wales.

Application process

ProAct application forms are available:

- by contacting the Business Skills Hotline (0845 60 661 60);
- through the respective sector forum;
- from DE&T relationship managers;
- HRD advisors.

Initially the marketing was very targeted and in close liaison with the Welsh Automotive Forum and DE&T. This was part of the pilot scheme and initiated prior to approval for funding from the European Structural Fund. In these early days, the dissemination of information about ProAct tended to be low key mainly because of uncertainty about whether the existing funding would be sufficient to match demand from Welsh companies. Further into the project and once European Structural Fund approval had been gained, various marketing activities were undertaken including the use of Google AdWords and press releases. Other channels of promotion included letters sent to local suppliers affected by closures of large companies.

In order to access the ProAct financial package companies must follow the following procedures:

- The company fills out a business plan which must demonstrate financial sustainability, long-term business vision and a real need to develop the capability of the company by training employees who would otherwise be considered for redundancy. In particular, applicants are required to show:
 - main business activity;
 - suppliers and customers in Wales;
 - financial statement;
 - future orders and customers;
 - future opportunities in terms of new products and ways of working;
 - personnel development to match current and future business needs.
- The business plan is submitted to the ProAct team. Before being considered by the expert panel, two representatives of the ProAct team screen out those companies that do not meet the basic eligibility criteria. This first screening stage was introduced after the pilot stage because a significant number of incomplete or ineligible applications were coming through.

- The business plan drawn up by the company is submitted to the ProAct panel. Depending on the sector or industry in which the company operates, a partner with specific sectoral knowledge is invited to sit on the panel in addition to the permanent panel members (DCELLS, DE&T and Wales TUC).
- If the business plan does not meet the basic criteria (for example, the plan is incomplete, some requirements were misunderstood, the company does not have good long-term commercial prospects, etc.), the application is rejected or the panel requests clarification. Applications are rarely rejected; it is much more common for applications to give rise to further enquiries from the panel (see Table 2 for more information about the extent of this).
- If the business plan meets the requirements, then the panel endorses it. A letter is sent notifying the company that it has been successful at the panel stage and may now develop a training plan. No funding is agreed until the training plan is approved.
- An HRD advisor is appointed. The advisor is required to contact the company as soon as possible, but companies are not given a clear timeline of their communication with the HRD advisor.
- The HRD advisor contacts the company to assist the company to develop the training plan in line with European Structural Fund requirements. Practices differ from one company to another in terms of the level of involvement of employees or employee representatives in drawing up the training plan (in line with the strength of their social dialogue procedures). Companies are ultimately responsible for choosing the training content and provider. Beneficiaries' accounts suggest that completing the forms can be a relatively elaborate process taking between one week and up to two to three months to complete. There are no statistical data on the length of this stage, but in principle, the more employees proposed for training, the more elaborate the training plan as it needs to cover the details of each employee; this means that this does not necessarily in itself pose a disproportionate burden for smaller companies. The training plan together with an employee spreadsheet must be submitted for approval to the ProAct Team. When the full application is approved, the training can proceed.
- The training costs are paid directly to the agreed training provider by the ProAct team.
- Provided ProAct training is delivered according to the training plan, the wage subsidies are paid directly to the company in four equal instalments in weeks 4, 16, 36 and 52. More information on monitoring and follow-up is provided below.
- Any employment changes occurring between the submission of the training plan and the delivery of the training require amendments to the original training plan.
- The company is required to keep a full register of the training.

Overall, interview data suggest that applicant companies generally judge the application process as onerous and not always straightforward. It is understood that the Welsh Assembly Government did not add to the administrative burden as all the questions asked are required for European Structural Fund funding and monitoring purposes.

Training demand and provision under ProAct

Training demand

Under the ProAct scheme, employees are expected to take up accredited training programmes or modules that lead to various qualifications – vocational education or training (VET) or non-VET (90% of the subsidised training must be accredited). If the training programme on offer cannot be mapped to existing qualifications, the units of the programme or module can be assigned credit under the Credit and Qualifications Framework for Wales (CQFW). Where suitable qualifications do not exist but the company is able to demonstrate that the training identified meets industry standards, or is cutting edge, this will also be considered.

This principle allows companies to use their own staff to deliver courses tailored to the specific needs of their business as long as the internal trainers gain, or already hold, a qualification in training and become accredited in-house trainers. In this case, the funding goes to the company itself.

ProAct's support of the training of in-house trainers has attracted much interest from companies that make efforts to appoint and train their own in-house trainers. In such cases, the internal company training can be linked to an accredited unit, for example:

- internal training for computed numerically controlled (CNC) production can be linked to National Vocational Qualifications (NVQs) level 3;
- machine operating can be linked to NVQs in performing manufacturing operations.

National Vocational Qualifications are 'competence-based' qualifications available in England, Wales and Northern Ireland. There are five levels of NVQ ranging from Level 1 focusing on basic work activities to Level 5 for senior management.

ProAct can cover the costs of registering, assessing and accrediting in-house trainers. This would normally not be the case for external commercial training providers who, for example, would be interested in acquiring accreditation for a new course (demanded by a company awarded ProAct funding). Where appropriate, the costs of accreditation of training can be built into the external training providers costs. The length of the accreditation process varies according to the type of qualification, method of assessment (workplace based or not) and awarding body.

Coleg Sir Gâr – an example of good practice

Coleg Sir Gâr in Carmarthenshire is a Welsh FE provider which trained more than 850 employees under the ProAct scheme. The college ran train-the-trainer courses with a cluster of manufacturing organisations in southwest Wales during the ProAct pilot programme. The accreditation of in-house trainers ultimately ensures the long-term sustainability of personnel upskilling funded by ProAct.

The potential in-house trainers were selected on the basis of their expertise and knowledge of one or more of the elements of business improvement techniques (BIT). The training followed several steps.

- The trainers attended an accredited (EAL) 'train the trainer' programme.
- The trainers then completed an induction programme with regard to the BIT programme, assessment requirements and employee/candidate performance tracking systems.
- The trainers undertook an accredited Assessor Award (A1) during the course of delivery of a company-wide training programme.

The type of training requested by employers under the ProAct scheme has varied considerably depending on the needs of the company and sector specifics. Although ProAct encouraged the provision of training for transferable skills, this was not a formal requirement with decisions on training plans being at the discretion of employers. ProAct representatives emphasised that:

‘The aim of ProAct is to support businesses and the training plans therefore are focused on the business needs moving forward, ensuring accreditation for the employees so that they have a recognisable skill to take to other employees should they be made redundant or choose to move to alternative employment.’

For example, in the automotive sector there was a focus on lean manufacturing techniques, while in construction, employers have generally been interested in new methods of construction, green energy building and waste management techniques, etc.

Stakeholders’ accounts highlight that the companies benefitting from ProAct have opted for both VET and other qualification courses (for example, professional qualifications such as accounting). Despite the wide range of qualifications available, the amount of funding (£2,000 per employee) and the time available (a maximum of one year) have generally limited the range of qualifications that companies could opt for at between NVQ level 1 and 3.⁴ Consequently, some stakeholders estimate that the majority of employees who have benefitted from training have been relatively lower skilled employees. The Welsh Automotive Forum and beneficiary companies acknowledge that few employers have opted for professional qualifications such as quality engineering or a Master of Business Administration (MBA). However, there has been a great diversity in the duration, type and content of the funded courses/programmes.

Several interviewees noted that the BIT qualification has often been the primary qualification demanded by local businesses. As part of the assessment for the BIT qualification, all employees are involved in workplace projects embedding the knowledge gained from the taught sessions. The BIT programme was generally supplemented by additional training either of a generic nature such as IT or specialised technical training as identified for individuals or groups of individuals.

The HRD advisor helps companies assess their training needs and complete the ProAct training plan. There is a shared recognition that the HRD advisors are generally knowledgeable about companies’ needs, as they have been working with many of the local companies under the Workforce Development Programme which provides SMEs with a 70% subsidy towards the cost of training. The final choice of training lies with the company and advisors should provide impartial advice.

One issue raised here is whether HRD advisors can act as impartial and independent brokers. HRD advisors were originally contracted under the Workforce Development Programme but are paid per company they are involved with under ProAct. DCELLS has therefore introduced a new system to monitor and evaluate the work of the HRD advisors working with ProAct companies, which covers details about the providers they put forward and professional reasons for the choices they make.

⁴ It generally takes about a year to complete an NVQ at level 1 and 2, and up to two years to complete an NVQ at level 3. More information is available from [Directgov](#).

Another important issue has been whether companies understand the market needs and future skills gaps in their sectors. This is generally the case, though the interview with Semta highlighted some potential mismatches, showing that some employers may focus too much on qualifications that could be judged as obsolete. To address potential mismatches, Semta organised meetings and workshops with employers, training providers and HRD advisors.

Interviewees generally report that employers and employees have been very motivated to take up training, though a few cases of companies only interested in wage subsidies and ready to pay lip-service to training were noted. To prevent such cases, the initial business case forms were amended to clarify the objectives of the scheme and to make companies aware of the benefits of training before applying for the package.

Training provision

The training plan can be delivered by the company in-house, further education (FE) colleges or private providers. All interviewees agreed that private providers have generally been better prepared to respond to employers' specific needs as flagged up in the training plans. On the other hand, FE colleges primarily based on public funding tend to offer longer term (one or two year) courses, historically targeted at young people. FE colleges are also less able to provide customised training on a company's premises outside the normal working hours. Consequently, a large proportion of the training funded by ProAct has been provided by the private sector.

To try to involve colleges more in the delivery of the ProAct programme, the Welsh Assembly Government has taken steps to facilitate communication between HRD advisors and colleges – mainly to help advisors get a better idea of the range of courses that colleges can deliver (CollegesWales, 2009). In addition, Semta organised workshops during 2009 for HRD advisors and WAG training providers. These workshops highlighted the following aspects:

- The training plan must reflect the skills needs of companies and their employees.
- The chosen training must demonstrate that the company will be more efficient in the economic upturn.
- The training should provide employees with the following benefits:
 - transferable skills;
 - recognition of competence;
 - supplementary skills gained to support their learning such as IT skills.
- Forming basic skills in the workplace (for example, numeracy) can be part of the training plan (although the formation of such skills could be funded through other strands of WAG funding).

John Griffiths, Deputy Minister for Skills, emphasised the importance of selecting suitable training providers who are able to offer customised training to employers (not 'just off the shelf training') (Cabinet Committee, 2009). The training should also offer best value for money and accommodate the client's needs for training at various locations and times.

No breakdown of the most common training content exists, but lean manufacturing techniques have been a very common feature across the scheme, in particular for companies in manufacturing.

Working more efficiently and flexibly across the workforce has been a common need across all sectors. An overview of the training experience at Coleg Sir Gâr highlights the following issues:

- Previous experience with companies and involvement in local industry partnerships helps colleges to better tailor their courses to employers' needs.
- Tripartite discussions involving companies, HRD advisors and training providers improve the quality and adequacy of the training plans. There seem to be no clear rules regarding the role of training providers during the process of completing the training plan. In principle, HRD advisors have the role of impartial brokers but the same role cannot be ascribed to the providers themselves. On the other hand, companies will have worked with specific providers prior to ProAct and would therefore be expected to show preference for particular providers.
- The training subsidies capped at £2,000 per employee have proved relatively sufficient for low and medium level training, but might be insufficient for higher-level training for employees at a senior and executive level.
- Companies and their employees who benefitted from training subsidies show interest in following up on the training, with a few continuing their qualifications in their own time and at their own expense (no exact data are available).
- The most popular qualifications were NVQ levels 2 and 3, with a smaller percentage at NVQ levels 4 and 5.
- The training participants were of all ages between 20 and 60, though a few cases of older workers unwilling to take up training were reported. The average age of the employees attending courses at Coleg Sir Gâr was 35.
- Courses that lead to nationally recognised qualifications safeguard jobs and enhance the employability of workers.
- Employees are generally more willing to take up training when the employer and the training provider engage with them and help them understand the benefits of training and transferable qualifications/skills.
- The majority of courses requested by employers are soft skills-based. Only 20% are hard skills training courses, particularly in engineering and manufacturing technologies.
- Measuring the satisfaction of attendants is not a formal requirement for training providers awarded ProAct funding. Satisfaction forms are completed on an ad hoc basis depending on the employer and course attended.

The ProAct scheme allows for flexibility in the provision of training as shown through the following examples:

- If the company has a new client order, the provider can stop the training and resume it later when the company returns to short-time arrangements; the training plan does not need to be amended as long as the course is completed within 12 months from the approval of the plan. The company will, of course, need to seek the agreement of the training provider for this. As many of the training providers used were private providers, they were often more likely to be able to modify their training programme to accommodate such requirements than FE colleges.
- If the training needs are very specific and can be successfully met by internal staff, then ProAct allows companies to train their own in-house staff as long as internal trainers are accredited. Consequently the company itself can be awarded funding for training (in tandem with wage subsidies).
- The role of the HRD advisor can be flexible depending on the needs of the company completing the training plan. There have been cases when ProAct officials accepted a company's request to fill out the training plan and proceed independently without the assistance of the HRD advisor.

Monitoring and evaluation procedures

A formative evaluation of ProAct by an external evaluator is underway to identify any delivery issues and constraints in the process, as well as success factors and good practice. An impact evaluation is scheduled to take place a year after operation of the scheme in order to measure its long-term impact.

In addition to the evaluation, ProAct has also been subject to various audits to ensure compliance with the requirements of the Welsh Assembly Government and the European Structural Fund programme.

The training undertaken is subject to the quality systems and procedures of the accredited providers with external verification carried out by the awarding body. As the training programmes are subject to European funding, the provider is expected to gather and maintain all appropriate records relating to delivery costs and programme outcomes.

Companies that are awarded ProAct funding are also subject to audit by WAG or potentially the Welsh European Funding Office (WEFO) or European auditors. The audits are carried out on a random sampling basis, usually before the second instalment of wage subsidies. Before claiming the wage subsidies, employers need to provide the ProAct office with a copy of their payroll (to check whether assisted workforce is still on the payroll or not).

In a more informal manner, sectoral bodies such as WAF and Senta make efforts to ensure that companies awarded ProAct funding continue upskilling their staff. This is deemed to be particularly important for employees who acquired partial qualifications (qualification units) and require further funding to acquire full qualifications. However, no data are available on this issue.

Outcomes

Extent of support

The initial objective of the ProAct programme was to support a total of 240 Welsh companies affected by the economic crisis and 12,000 employees at the risk of redundancy between January 2009 and July 2011. According to project monitoring records, some 218 organisations and 9,743 persons have been supported by ProAct since January 2009 (Table 1). In addition, about 69 applications are in the pipeline at the stage of drafting their training plans

Table 1: *Summary of target and actual organisations supported (As of April 2010)*

	Target (January 2009 to July 2011)	Actual (as of 26 April 2010)
Organisations supported	240	218
Individuals supported	12,000	9,743

Support by stage of application process

In terms of timeline, completion and approval of the business plan tend to take little time (generally one to two weeks). The next step (completing the training plan) is more time-consuming. This partly explains the gap between the number of approved business plans (409) and the number of companies awarded funding (218).

Table 2 gives a breakdown of applications per stage of application process. It shows that almost 90% of the business plans are endorsed by the panel, with few outright rejections and the rest being cases where the panel requires further information and revisions of the plan. Only a minority of applicants withdraw their applications after having submitted their business plans to the panel.

Table 2: Breakdown of applications per stage of application (As of April 2010)

Stage	Number of applications
Business plan submitted	409
Business plan with queries (requiring revisions)	37
Business plan rejected	44
Business plans endorsed by the panel	365
Applications withdrawn	35
Training plan in the course of submission	69
No longer trading	6

Note: The data do not necessarily add up as figures have been amalgamated.

Companies approved at the panel stage were expected to submit their training plans by July/August 2010. Business plans could continue to be submitted up until around June 2010 when a further review of the ongoing need for ProAct support was planned. In principle, companies would have roughly 12 months to realise the training afterwards. The ProAct team hoped to contact the companies in the pipeline in the business plans or training plans by the end of June 2010.

Support by size of company

The majority of the companies that received ProAct funding are SMEs (<250 employees) and micro companies (<10 employees). The fact that large companies are underrepresented in the ProAct statistics reflects the predominance of SMEs in the Welsh economy as well as the fact that SMEs have been disproportionately affected by the crisis. For example, the majority of automotive employers are SMEs, with 82% of all sites employing fewer than 50 people.⁵

Table 3 provides a comparative overview of the number of ProAct beneficiaries and the total number of enterprises in Wales organised by size. The greatest majority (70%) of companies in Wales (and elsewhere in the UK) comprise enterprises with no employees, that is, sole proprietorships and partnerships. This category would therefore not be eligible for ProAct funding. Furthermore, large companies might be less interested in applying for the funding as they can only apply for wage subsidies for 100 employees (this limit is imposed by the cap of £200,000 aid a company can receive from ProAct). However, even the largest of companies can access substantially more funding for training under the ProAct scheme than through any other type of funding scheme in Wales. Beyond that, it is difficult to assess why very small companies and those with 100–200 employees have been most successful in their applications.

⁵ http://www.semta.org.uk/employers/automotive/sector_overview.aspx

Table 3: Breakdown of submitted and approved applications by size of company (As of April 2010)

Number of employees	Number of enterprises by size in Wales (% of total number)	Number of applicants	Number of companies supported	Funding committed
2–9	45,975 (22.8%)	90	56	£468,816
10–49	7,020 (3.5%)	175	80	£4,303,908
50–99	735 (0.4%)	67	35	£6,399,300
100–199	290 (0.1%)	44	32	£8,409,679
≥200	230 (0.0%)	33	15	£5,624,713
Total	54,250 + 147,105 (no employee enterprises) = 201,355	409	218	£25,206,416

Source: ProAct and UK Department for Business, Innovation and Skills (BIS)

Support by sector

The highest volume of applications was registered during the first quarter of 2009 when the scheme was trialed in the automotive sector. WAF notes that the ProAct panel received on average 10 applications per week at that time. The number of applications has now dropped for various reasons:

- those companies that were hardest hit by the economic crisis had already applied in the first half of 2009;
- in sectors outside the automotive industry (for example, construction), the number of self-employed persons is significantly higher which makes certain companies illegible for the support package.

The number of rejected applications has also increased as more companies now fail to meet the eligibility requirements. The most frequent caveats were identified in a company's future opportunities, absence of short-time working arrangements and no positive prospects to restore their long-term viability.

Table 4 provides a breakdown of companies awarded funding by sector. The data show that, as of February 2010, 78% of the beneficiaries come from the automotive, construction and manufacturing sectors – sectors that were severely hit by the crisis.

Table 4: Breakdown of submitted and approved applications by sector (As of February 2010)

Sector	Submitted applications	Approved applications	Funding committed
Automotive	86	61	£10,752,456
Construction	102	45	£2,351,548
Manufacturing *	93	45	£9,424,675
Other (engineering, etc.)	108	41	£2,677,737
Total	389	192	£25,206,416

Notes: * Includes auto-manufacturing.

By February 2010 almost half of the budget committed had gone to the automotive sector in Wales (Table 4). Almost three-quarters of beneficiary companies come from the manufacturing (including the auto-manufacturing side) and construction sectors. The percentage seems relatively high in comparison with the number of manufacturing and construction companies as these represent roughly 21% of the total number of enterprises in the region. However, the number of sole traders (that is, companies without employees) was not taken into account; hence, there are 4,435 enterprises in the local manufacturing and 7,445 in construction.

Support by Unitary Authority

Information about individual companies that have received aid to date from ProAct, the amount they have received and the number of jobs safeguarded within an individual company is exempt from public disclosure under the Freedom of Information Act 2000 (FOI) s43(2) (Prejudicial to legitimate commercial interests). As asserted by the project manager of ProAct in a letter dated 24 November 2009 (Lewin, 2009):

‘Releasing the company name makes a public statement to their clients, customers and suppliers that this is a company facing some financial difficulties where they have periods of short time working. We believe the resulting harm that would occur to the commercial interests of these companies would be substantial ...’

The information provided by ProAct is therefore aggregated and the number of companies awarded funding can only be broken down only by Unitary Authority, coupled with the funding committed in those areas as well as sector and company size. Table 5 provides a breakdown of companies which were awarded funding by these criteria.

Table 5: ProAct application breakdown by Unitary Authority (As of April 2010)

Unitary Authority	Number of companies	Approved applications	Number of employees supported
Anglesey	9	5	62
Blaenau Gwent	19	9	557
Bridgend	12	6	157
Caerphilly	19	8	814
Cardiff	29	16	470
Carmarthen	41	17	752
Ceredigion	3	1	8
Conwy	4	2	17
Denbighshire	14	8	434
Flintshire	23	6	741
Gwynedd	12	6	56
Merthyr	11	5	424
Monmouthshire	6	5	168
Neath Port Talbot	27	15	1388
Newport	18	8	385
Pembrokeshire	12	10	172
Powys	25	16	510
RCT	30	21	779
Swansea	48	29	723
Torfaen	14	10	675
Vale of Glamorgan	6	4	34
Wrexham	27	11	417
Total	409	218	9,743

Level of funding

By April 2010, ProAct had committed over half the available total funding of £48 million (Table 3). Originally ProAct had until July 2011 to spend its budget but the deadline has been extended to July 2012.

There has been an evaluation of the first year of the scheme and ProAct is reported to be on target for the original numbers of companies and individuals supported through the scheme.

The funding available per company has varied significantly depending on what training companies needed to undertake; the training may cost substantially less than £2,000 per head and take less time, but still have a significant impact on the company.

Companies have also generally not accessed the full amount of £4,000 per employee (£2,000 for wage subsidies and £2,000 for training), mainly because it is difficult for a company to send a high proportion of its staff on training during the same period without causing difficulties in the production cycle. That is why companies have generally chosen to implement training in a flexible manner; some have opted for a one day a week shutdown, whereas many automotive companies took advantage of the shutdowns of up to four months and themselves had shutdowns of many weeks. Companies also tend to apply for shorter training courses that better suit their business cycle. All this nevertheless goes back to the quality of the initial needs assessment undertaken before ProAct was launched.

Another explanation of the underspent budget may lie in the quality of the programme marketing, although the institutions involved (Semta, WAF) suggest that ProAct's strategy of promotion through sectoral bodies has created a high level of awareness about the programme.

Examples of companies receiving funding

Drawing upon the information available in the public domain, some companies were invited to participate in this study and were willing to provide further details about the impact of the ProAct funding on their business. In all three cases management was the main driving force behind the application for ProAct funding.

TRB Ltd

Background information

TRB Ltd is based at St Asaph in north Wales and is a wholly owned subsidiary of the Japanese multinational Tokai Rika Company. It supplies high quality automotive switch products mainly to auto manufacturers in the UK, France and Turkey. The largest shareholder of TRB's parent company is Toyota, which is also the company's main client (up to 95%).

Reasons for introducing short-time working and applying for public support

The TRB plant opened in 2000 and had been a viable business until the onset of the financial turmoil (Table 6). The number of orders fell drastically and, consequently, there was a shortage of work for staff as the TRB business is based on the just-in-time model, with production matching orders and virtually no products for stocks.

Table 6: *Evolution of business and number of employees (Data for the 12 months in the year to 31 March)*

Reference date	2005–2006	2006–2007	2007–2008	2008–2009	Average over 10 years
Turnover	£32.4 million	£31.6 million	£32.1 million	£22.2 million	£22.8 million
Profit (loss) before tax	£32.4 million	£100,000	£600,000	(£400,000)	£400,000
Number of employees	206	198	200	159	130

Source: *FAME database, Bureau van Dijk Electronic Publishing GmbH (BvDEP), 2009*

Because of a lack of orders the company used the extra available working time for internal training, community voluntary projects and updating internal documents. But by November 2008 managers decided that short-time working measures would be the only viable solution to keep workers in employment and the business afloat during the recession. Staff were allowed to take unpaid leave and many took up this option, either to increase their hours in second jobs or to reduce childcare costs. In February 2009, a formal four-day week was introduced with 50% pay on the fifth day (pay increased to 55% in May). At that time up to 100 jobs were at the risk of redundancy. As a member of the Wales Employment and Skills Board (WESB), the company’s general HR manager had been lobbying for ProAct from concept to delivery.

Number of applications and participants

In May and June 2009, TRB submitted two applications for training and wage subsidies covering all 150 employees. Although some courses were cancelled for various reasons, over 55 different training interventions were delivered. The estimated wage subsidy should all the training be completed is around £95,000 (€108,854) and training provider costs in excess of £140,000 (€160,417). A third application was submitted in March 2010.

Outcomes and highlighted benefits

- Job security: All jobs secured. No redundancies before, during or after support.
- Cost savings: Work previously subcontracted now undertaken by internal staff as employees have new qualifications and skills. Examples include cleaning services and portable appliance testing (PAT).
- Employee engagement: Higher employee morale + job satisfaction, less labour turnover.
- Business performance: The company will now not make the losses originally forecast.
- Upskilling: Team members have gained/are working through many formal qualifications and gaining new skills. These include:
 - Institute of Leadership and Management (ILM) management + supervisory;
 - NVQs in production, warehouse, engineering, customer service and BIT.
- ProAct audit: provided clarity and improved relationships; WAG very flexible and accommodating.

Shortcomings

- HRD advisor: Delay in initial contact and failure to provide documentation simultaneously caused delays and key skills training to be cancelled. Companies with own HR resources do not need HRD advisor as they seem to know their own business reasonably well.
- Documents: ProAct Part B document time-consuming to complete. Documents are not consistent, that is, Part A and the training plan both have training duration in days, Part B gives it in hours.

- Training provision: it does not cover distance learning programmes for which quiet work times would have been allocated for employees to undertake the study.
- Duration: Although the deadline for applications was extended, there is still a timescale associated with ProAct and the replacement scheme will be different. This is not helpful to companies that are still operating in the same business environment as 12 months ago.

FSG Tool & Die Limited

Company background

FSG Tool and Die Limited, founded in 1961, is a design and precision toolmaking business based in Llantrisant in south Wales. Prior to the recession the business had a turnover of approximately £4.8 million (€5.5 million) and profits before tax of £148,000 (€169,583).

Reasons for introducing short-time working and applying for public support

The company started to experience the downturn in late 2007 due to dwindling customer demand. In 2008, the company's turnover dropped to £4.1 million (€4.7 million) and it registered losses. In this context, seven employees were made redundant in March 2009 out of a workforce of 76 full-time staff.

Short-time working arrangements were put into place between January 2009 and February 2010 with the view to saving costs and retaining skilled staff (skilled engineers). Working time was reduced by 20%, amounting to approximately 1,500 hours per month.

Number of applications and participants

As chairman of the Engineering Employers' Federation (EEF), the managing director was involved in the initial consultations about the concept of ProAct in late 2008. Between January 2009 and early 2010, FSG Tool submitted 10 training plans applications to ProAct, putting 50 employees on its training plans. The high number of applications is explained by the company's uncertainty at that time about the duration of the crisis and the duration of short-time working. In addition, the scheme had gained momentum in the company, particularly because of several successful courses on product development. The measures were implemented in consultation with employee representatives.

Overall administrative burden

The process of application to ProAct and continuous administration of the internal measures had low time costs; completion of the first training plan did not take more than one to two weeks, while the continuous administration of the measures required, on average, eight hours per month. This is mainly because FSG had previous experience in drawing up and revising a training plan every 13 weeks.

Outcomes

The company received approximately £100,000 (€114,583) in wage subsidies and £100,000 (€114,583) in training subsidies.

- Job security: without the financial support from ProAct, managers believe the number of redundancies would have been higher than seven dismissals. No redundancies are planned in the near future and the company is considering recruiting new staff.
- Pay security: employees continued to receive their full pay during short-time working. The wage subsidy of £50 (€57) per day per employee helped to cover some of the daily pay of a skilled engineer. Having said that, the level of wage subsidies was considered satisfactory.

- Better business performance: the company is no longer registering losses. It has new customers and launched new products.
- Better qualification levels: employees have improved their qualification levels (most courses were at NVQ level 3–4). The training offered by private providers ranged from computer-aided design/computer-aided manufacturing (CAD/CAM) skills for design, programming and inspection, to training to support the development of new plastic technology. Better value training was obtained through negotiating on course prices with training providers.
- Positive publicity: although in the beginning, concerns were raised about the possible negative publicity around receiving state aid, the company enjoyed positive feedback and publicity through being seen as an innovative investor in people.

Success factors highlighted

- Right timing of the scheme.
- Flexibility of the conditions and attention paid to employers' needs.
- Satisfactory level of wage and training subsidies.

Possible shortcomings

The company believes that training providers should have had limited involvement in the early consultation and design of the scheme due to the potential conflicts of interests. Employers could find it difficult to negotiate on training prices if the provider is aware of the maximum level of funding available for training under the scheme.

Morgan Marine Ltd

Background information

Morgan Marine Ltd is a leader in the design, manufacture and supply of glass reinforced plastic (GRP) and steel enclosures and products.

Reasons for introducing short-time working and applying for public support

The company, which currently employs 113 people, started to experience the negative impact of the crisis in late 2008. In 2009 it reported a decrease in turnover by 80%. The usual working time of the company is four-day a week, but due to the fall in orders, working time was cut by 20–25%. This measure was taken in tandem with pay freezes and cuts. This was the first time the company had introduced short(er) working time arrangements.

Number of applications and participants

The company submitted its business plan in March 2009. In summer 2009 the training plan was completed, with the company proposing the entire staff for training. The ProAct scheme was introduced in consultation with members of the works council and local trade union.

Overall administrative burden

The company described the administrative process as onerous. As a result of the economic situation and redundancies having to be carried out during the application process, some administrative changes to the initial application were required, which meant the process took about three months.

Outcomes

- Job security: economic conditions required the company to make 20 people redundant before funding could be obtained from ProAct.
- Cost savings: participation in ProAct did not bring about any cost savings in the short run as the company still needed to pay National Insurance contributions and other overhead costs (while supporting the costs associated with the paperwork related to ProAct). Nevertheless the long-term benefits are acknowledged, in particular the upskilling of 112 employees (mainly at NVQ levels 3–4 in project management, supervisory and leadership qualifications) as well as staff retention and improved morale.

Shortcomings

- The administrative requirements of ProAct were found to be time-consuming.
- The application and approval processes were lengthy. Although the company applied in March 2009, actual training only started in autumn 2009. In the meantime the company's headcount changed, requiring revision of the training plan (imposing a further administrative burden).
- The ProAct funding for training is generally inadequate to support longer-term and higher level qualifications such as MBAs, accounting degrees and PhDs. Before receiving subsidies from ProAct, Morgan Marine had financially supported its employees to take up FE courses – though the internal funding for training has dried up during the downturn.

Next steps and lessons learnt

The current ProAct programme, which was initially due to close at the end of March 2010, was extended until the end of June 2010. Companies in the pipeline at the time of closure (that is, have had their business plans approved but are in the course of completing their training plans) were able to submit their training plans by July/August at the latest.

In terms of long-term sustainability, the programme will be continued in the form of a 'skills growth initiative' due to the availability of funding from the European Structural Fund and the possibility of diverting remaining resources from ProAct in a flexible way. On 11 February 2010, Lesley Griffiths, Deputy Minister for Science, Innovation and Skills, announced a £15 million business support package for growth companies with the view to improve their competitiveness during the upturn (WAG, 2010c). The new programme, ProAct Skills Growth Wales, focuses on improving productivity and creating jobs. It provides support in the form of training subsidies but the wage subsidy element is no longer part of the package. The initiative began on 1 April 2010 and will run until July 2012.

In terms of transferability, it is clear from interviews and available literature that ProAct is the product of an efficient and permanent dialogue between local government, sectoral bodies, trade unions and companies. The parties suggest that the political 'infrastructure' present in Wales (that is, devolved government) was the reason the scheme was designed and implemented so quickly. During the process of setting up ProAct, there were discussions about whether such scheme could also be set up at a UK level. The feeling was that this would not be possible due to the scale of the bureaucracy required and the potential for fraud. Wales provides a smaller geographical scale in which to apply such a programme. In addition, the higher level of unionisation in Wales than in the rest of the UK could have had an impact.

As well as the importance of existing partnerships, the involvement of social partners from the outset and the relatively small geographical extent of the programme, a number of other lessons can be learnt from the ProAct scheme.

Importance and benefits of acting early

Taking action early to prevent lay-offs could affect the future sustainability of companies and particularly SMEs. Experience from previous recessions had shown that some organisations found it difficult to recover and re-recruit skilled staff during an economic upturn. The knock-on costs of this on individual businesses and the wider economy are much higher than the costs of a scheme such as ProAct.

Data provided on total funding for wage subsidies and training measures show that the average cost of the scheme per job retained is €1197.50 for the wage subsidy and €1554.90 for the cost of training. Obviously, these are short-term outcomes and no data are so far available on the long-term sustainability of the jobs retained with funding from ProAct.

Efficiency of the programme

A comparison of the monetary costs and benefits of the ProAct programme would also be necessary to draw conclusions on its efficiency. On the face of it, the cost appears comparatively low compared to the cost of unemployment. Furthermore, WAF estimates that, for instance, the number of job losses in the motor industry in Wales would have been higher than 5,000 (the most recent figure) without the short-time working subsidised by ProAct. Evidence at the European level also suggests that countries like Austria, Germany and Malta for instance which have had less dramatic increases in unemployment rates than other EU Member States have provided public assistance for short-time working (alongside other measures such as temporary lay-off subsidies and stimulus packages) (EMCC, 2009).

However, it is still early days to draw any firm policy conclusions regarding the adopted measures. Some evidence from past recessions suggests that short-time working does not necessarily prevent redundancies in the long-run as some employers might choose to resort to short-time measures to delay planned layoffs (Hurley et al, 2009). Labour market monitoring by the European Commission underlines the fact that the different measures adopted (temporary stop, reduced time, outstanding time accounts, etc.) are effective in the long run when combined with training and occupational changes (European Commission, 2009d). This requires training focused on skills and competences required in the future labour market (for example, skills for green jobs) and not only short-time palliatives.

Benefits in the long run

The level of funding available under ProAct scheme meant that only relatively short-time training for lower level vocational skills could be supported – although ProAct has supported a whole range of skill levels, where appropriate funding the first year of longer courses. While the accreditation of the training funded by ProAct ensures the transferability of skills to other jobs, the nature and duration of the training may lead to certain categories of workers implicitly being excluded from access to training. However, ProAct representatives emphasise that:

‘The aim of ProAct is to support businesses and the training plans, therefore, are focused on the business needs moving forward, ensuring accreditation for the employees so that they have a recognisable skill to take to other employees should they be made redundant or choose to move to alternative employment. Skills Growth Wales will be looking to assist companies who are seeking to employ new individuals.’

As much of the training delivered through ProAct appears to have focused on soft skills and business techniques (detailed information on training delivered is not currently available), it seems that such skills have value in boosting employability within, as well as outside, the company. However, it is too early to assess the extent to which training received can assist in external transitions in the long run as the majority of beneficiaries currently remain with their company.

Programme limitations

The ProAct scheme appears to lack a monitoring mechanism to ensure that funds allocated for wage subsidies were passed on to employees. In companies with trade union representation, trade unions were involved in negotiations to ensure replacement rates paid during short-time work reached agreed levels. The same may not be the case in non-unionised companies.

The programme also highlights the importance of scrutinising company business plans to establish the longer term sustainability of the organisation being supported to ensure that such funding does not distort competition or delay necessary restructuring processes.

Obtaining training

The length of time taken to approve training plans was highlighted as a difficult issue, as in some cases, this meant that workers had to be made redundant while approval was awaited, leading to further changes being required to applications for funding.

The overall availability of suitable training appears not to have been a particular concern. However, it was apparent that private sector providers were better placed to offer flexible and targeted training to companies receiving ProAct funding. Lessons could be learnt regarding the availability of modularised content provided by FE colleges and the speed with which they can adapt to company demands.

Broader context

The availability of short-time work allowances in the different parts of the UK partly depends on political and economic ideology, and on size. The ‘ideological’ element is mirrored across the EU, with countries that have not introduced short-time work allowances arguing that such measures could distort market forces. As shown in this report, this does not mean that employers (and trade unions) themselves do not come up with their own solutions and local arrangements even without the existence of external support.

Experts tend to be divided in their assessment of the potential of short-time work allowances to restrict necessary structural change in the economy. The experience of ProAct and that of other EU Member States highlights the importance of companies accessing short-time work allowances generally needing to demonstrate their viability prior to the financial and economic crisis (this should address some of these concerns).

While there appears to be some agreement that short-time allowances need to be used as a short-term remedy in exceptional economic circumstances, there is in some countries a lively debate regarding the appropriate timing for phasing out such measures and the potential legacy of learning regarding flexible working arrangements in the context of flexicurity policies. This is not only relevant in the context of facing external economic shocks but also in relation to a wider agenda of creating labour markets offering more family-friendly conditions (in order to attract a ‘silent reserve’ of labour as demographic change starts to bite) and the need to provide a strong framework for lifelong learning to support employability and adaptability in the long term. In this context, reduced hours working combined with training could be one of the models of a life cycle approach to work and learning; others include the use of sabbaticals, job rotation and other similar schemes to suit the needs of individuals as well as employers. In this sense, the experience of short-time working combined with training initiatives may provide lessons for the future beyond the exit from the recent economic downturn.

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Annex: Organisations consulted

Organisation	Individual	Date
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Wales TUC	Martin Mansfield	25 February 2010
Welsh Automotive Forum	Paul Bullock	23 February 2010
Coleg Sir Gâr	Barry Liles	26 February 2010
TRB Ltd	Rob Lloyd	18 February 2010
FSG Ltd	Gareth Jenkins	15 March 2010
Morgan Marine Ltd	Martyn Ingram-Jones	22 February 2010