



MB

10 DOWNING STREET

Prime Minister

- ① Paper by RTA.
- ② Brief by RIA
- ③ Policy Unit note
- ④ Letter from Secretary of State for Scotland.

Is it worth all the trouble if all that is transferred is £100 million over 3-4 years?  
MSC already finances £90 million out of £800 million of work related NAFE. Raising this to £190 million is hardly going to transform NAFE.

AT

16/12



Ref. A083/3476

PRIME MINISTER

Responsibility for Work-Related Training in the  
Further Education Sector

BACKGROUND

Flag A

The paper for discussion is the note attached to my minute to you of 12 December which was commissioned at your earlier meeting of 1 November with the Secretaries of State for Education and Science, Trade and Industry and Employment. This outlines a proposal under which the Manpower Services Commission (MSC) would be able under existing legislation to carry out the functions envisaged for a National Training Commission. The MSC would be given responsibility for the direct funding of some work-related Non-Advanced Further Education (NAFE) by the transfer to the MSC of some part of the Government block grant distributed to local authorities through the Rate Support Grant (RSG) mechanism. In addition it would be possible, although this would go to the limits of what could legally be justified, for the Secretary of State for Employment to take back the employment service from the MSC so that it could concentrate its efforts on training and work-related NAFE. On balance my note comes down against doing that, largely because of the political difficulty of so profoundly changing the nature of a statutory body without legislation.

MAIN ISSUES

2. The main issues are as follows:
  - i. whether the proposed transfer of responsibility to the MSC for some work-related NAFE should go ahead;
  - ii. if so, what should be the scale of the transfer;
  - iii. what arrangements, if any, should be made to reduce the risk of net additional public expenditure;
  - iv. whether the MSC should continue to run the employment service;





- v. depending on i., what arrangements should be made to involve educational interests in the work of the MSC;
- vi. whether and, if so, how the scheme should apply to Scotland and Wales;
- vii. when and how any changes should be announced;
- viii. what arrangements should be made for further consideration by Ministers.

#### Merits of the Transfer

3. The main argument in favour of the proposed transfer to the MSC of responsibility for some work-related NAFE is that it would make this sector of education more responsive to national and local employment needs. The main considerations to be weighed on the other side are:

- a. the likely opposition of local authorities at a time when there is already controversy about the RSG settlement for 1984-85, the rate limitation proposals, and the abolition of the GLC and the Metropolitan County Councils;
- b. the risk of damage to other education policy initiatives, particularly in schools, which require the co-operation of local education authorities;
- c. the possibility that the increase in MSC expenditure, though matched by a reduction in block grant and in relevant expenditure, will not be matched by an actual reduction in local authority expenditure, thus leading to a net increase in public expenditure.

4. It is relevant to the points at 3a., b. and c. that the transfer of finance will balance out only at the aggregate level. Most local authorities will be gainers or losers. The Inner London Education Authority, which cannot lose grant since it does not receive any, will be a gainer in so far as it manages to sell courses to the MSC. The implications of this differing impact are discussed in paragraph 7 and 13 of my note.



5. We understand that the Secretary of State for Education and Science remains doubtful about the merits of the scheme, whatever the size of transfer. The Secretaries of State for the Environment and for Wales are worried about the effect on the Government's already difficult relations with the local authorities, but it is not clear whether either will press this point as far as opposing the scheme. The Secretary of State for Scotland, in his letter of 15 December, supports the broad objectives of the proposed change in England but argues (see paragraph 11 below) that the scheme need not, and should not, apply to Scotland. Treasury Ministers are said to be unenthusiastic about the merits but will probably not oppose the scheme if their public expenditure points are met. The Secretary of State for Trade and Industry is likely to support the Secretary of State for Employment in arguing for the scheme.

#### Scale of Transfer

6. The note illustrates two options for the scale of transfer: £200 million a year or £100 million a year, the latter possibly built up gradually from £30 million a year over three to four years. The advantages and disadvantages of each option, including the effect on courses provided, are discussed in paragraph 16 of my note and Annex B. Under either option there would be a switch of funding away from initial training for 16-19 year-olds to post-experience training, and away from direct course funding to central spending on teacher training, course development, etc. The £200 million option would give the MSC more leverage in improving the responsiveness of the further education sector to employment needs. But since it would involve, by design, a greater disturbance to existing arrangements, it carries the greater risk of opposition from local authorities, of harmful effects in other areas of education financed by local authorities, and of net additional public expenditure. The Department of Employment argues that the £200 million option could be less disruptive for local authorities than the £100 million option because it would provide more resources for direct course funding and because there would be less risk that the MSC's resources would be concentrated only



on a few local authorities. The Department of Education and Science does not however accept these arguments, and sees positive merit in a step by step approach.

#### Public Expenditure Arrangements

7. Treasury Ministers would be likely to find it easier to agree to the proposals if they could be assured that there would be no net additional cost. As paragraphs 13 and 24 of my note explain, this cannot be guaranteed in advance. Paragraph 14 of my note proposes a way of getting round this difficulty, ie "... to make some assumption, which would inevitably have to be arbitrary initially, about net additional cost and to offset this by a reduction in the provision for MSC expenditure for other purposes. The extent and appropriateness of the adjustment might then be reviewed from year to year in the light of experience".

8. The Secretary of State for Employment is likely, initially at least, to oppose this suggestion in principle on the grounds that it is a difficulty which arises on any shift of funding between local and central government. He will probably however be prepared in practice to accept some adjustment if that is the price of acceptance of his proposals. If so you will probably wish to leave the amount of the adjustment to be settled bilaterally. The Chief Secretary, Treasury is likely to want an adjustment in the first year of around 30 per cent of the amount transferred - ie £60 million on the £200 million option and up to £30 million on the £100 million option.

#### Responsibility for the Employment Service

9. The position is summarised in paragraph 29(ii) of my note. My own view is that giving the MSC some responsibility for work-related NAFE without legislation would be less likely to attract legal challenge or Parliamentary criticism if it were presented simply as an extension of the MSC's existing training role, with no change in its other responsibilities. I understand that the Secretary of State for Employment has not yet reached a firm view either way.



Arrangements for Involving Education Interests

why? 10. If the MSC takes on a new responsibility for work-related NAFE it could be argued that educational interests should have more opportunity than at present to influence the MSC's activities. Proposals to this end are contained in paragraphs 4 and 18-23 of my note. The main features are:

- Non-stat
- a. those nominating new members of the MSC when the next appointments are due in January 1986 will be asked to reflect the value of educational experience;
  - b. at the national level the Secretary of State for Education and Science might be involved in consideration of the MSC's Corporate Plan and there might be a new non-statutory body to advise the MSC on its expanded NAFE activities;
  - c. at local level, the MSC's existing Area Manpower Boards might have more representatives of local education authority and professional education interests, to supplement close and continuing contact at working level.

LSd's was missed the Training Boards

I understand that the Secretary of State for Education and Science would be generally content with the arrangements suggested, laying particular stress on the point at a.

Arrangements for Scotland and Wales

11. My note points out that further consideration will be needed on whether and how to apply the proposal to Scotland and Wales. The Secretary of State for Scotland argues in his letter of 15 December that the proposal should not apply to Scotland on the grounds that its objectives will already be achieved there by his 16-18 Action Plan announced earlier this year and that the implementation of that plan might be put at risk by a transfer of funding to the MSC. He would be prepared to review the position in two or three years' time in the light of progress with the Action Plan. The Secretary of State for Employment may be able to accept that Scotland should be left out provided he is satisfied that the arrangements there, though different, will be equally effective





and that they would not work against a unified labour market in Great Britain. It would however be made more difficult to justify not applying the English arrangements to Wales. The Secretary of State for Wales may argue that, if the scheme were to go ahead, he would want the Welsh Office to pay grant in aid direct to the MSC rather than through the Department of Employment. You will wish, without going into too much detail, to establish at your meeting whether the scheme will apply in broad substance to Scotland and Wales. The details can then be further pursued by the Ministers directly concerned.

#### Timing and Presentation

12. The main points arising on timing and presentation are as follows:

- a. that the proposal should be announced in the January White Paper on training;
- b. that it should be presented not as an attack on local authority competence but as a change in the route by which local authorities receive some of their funding;
- c. the need for further consideration of precisely how to handle the local authorities both around the time of the announcement and subsequently;
- d. the need for public guidance to the MSC on the exercise of its new responsibilities.

The Secretary of State for Education and Science is likely to lay particular stress on c. and d.

#### Further Ministerial Consideration

13. The handling of any further Ministerial consideration will depend on how far agreement is reached at your meeting. If there is a reasonable measure of agreement it may be sufficient for the Secretary of State for Employment to minute you as Chairman of E(A), with copies to other E(A) members, referring to the informal discussions which have taken place and indicating the substance of the proposals which have been agreed. Assuming no dissent from





any member of E(A) not involved in the informal discussions, no formal Ministerial meeting would be needed. The draft White Paper would be circulated in due course for clearance by E(A) members in correspondence. If however there was major disagreement which could only be resolved at a meeting of E(A) or the Cabinet, it will not now be possible to do this, on the basis of properly circulated papers, before the Christmas Recess. The matter would have to be taken at E(A) or at Cabinet as soon as possible after the holiday and this would probably make it difficult to publish the White Paper before the end of January.

#### HANDLING

14. You will wish to ask the Secretary of State for Employment, supported as necessary by the Chairman of the Manpower Services Commission, to argue the case for the proposals and then invite comments from the Secretary of State for Education and Science. The Ministers who have not previously been involved, ie the Chancellor of the Exchequer, the Secretaries of State for Scotland, Wales and the Environment and the Chief Secretary, Treasury should then be given the opportunity to comment. The Secretary of State for Trade and Industry may wish to re-emphasise his general support for the proposals. The Solicitor General and the Lord Advocate will be available to advise on any legal points, although it seems unlikely that their written opinion on the risk of challenge by local education authorities will be available before the meeting.

#### CONCLUSIONS

15. You will wish to reach conclusions on the following points:
- i. whether the proposed transfer of responsibility to the MSC for some work-related Non-Advanced Further Education should go ahead;
  - ii. if so, what should be the scale of the transfer;
  - iii. what arrangements, if any, should be made to reduce the risk of net additional public expenditure;
  - iv. whether the MSC should continue to run the employment service;





- v. depending on i., what arrangements should be made to involve education interests in the work of the MSC;
- vi. whether and how the scheme should apply to Scotland and Wales;
- vii. when and how any changes should be announced;
- viii. what arrangements should be made for further consideration by Ministers.

RA

ROBERT ARMSTRONG

16 December 1983



PRIME MINISTER16 December 1983  
Policy UnitCHANGING THE MANPOWER SERVICES COMMISSION

Two decisions need to be made:

1. How much NAFE money should be transferred from the Rate Support Grant to the MSC?
2. Should the Government remove the Job Centres from the MSC and put them under the direct control of the Department of Employment?

1. Transfer of NAFE Money

We believe that you should transfer £200 million quickly from the Rate Support Grant to the MSC. The only effective way to improve NAFE is to establish the MSC as a powerful and wealthy customer. The very small transfer of funds favoured by the DES would not achieve the desired result.

There is no real danger that a large transfer would make the LEAs less co-operative. Those LEAs that are running decent NAFE courses will continue to be funded, since the MSC will "buy" the courses. Only the laggards will suffer; and they can hardly be rendered less co-operative than they are already.

A transfer of £200 million is not, in any case, as radical as it sounds:

- The really radical move would be to transfer all the funds for vocational NAFE from the Rate Support Grant to the MSC; £200 million represents a compromise. *Total work related NAFE is £800 million, of which £325 million is financed (nationally) through RSG. Proposal is thus £200 million out of maximum of £325 million.*
- Because of the timing of the Rate Support Grant settlement, the amount transferred from the RSG to the MSC in the first academic year (1985/6) would be only £100 million.
- The MSC have said that they would not leave present NAFE courses high and dry in the first year; instead, they would go on funding even those courses that were unsatisfactory, and would use their new financial power as a Sword of Damocles to bring about improvements.



- Even if £200 million were transferred, this would give the MSC only 3/8 of spending on vocational NAFE, and only 1/4 of total NAFE spending.

## 2. Transfer of Job Centres to the DEm

This is more difficult.

Peter Morrison believes, probably correctly, that direct control of Job Centres would enable him to reorganise the system, and to save some £25 million p.a. (At present, such reorganisation is impeded by the trade union representatives on the MSC.)

On the other hand, there are a number of arguments against immediate transfer:

- The Law Officers have advised that a transfer would sail close to the legal wind. There is a real danger of challenge in the courts, and some slight uncertainty about the outcome of such a challenge.
- Even without the transfer, David Young intends to save £10 or £15 million a year.
- A decision not to effect the transfer at once would leave open the possibility of action later. It would be easy to prepare a short Bill, which could be introduced in the 1984/5 Session, and which would put us on a firm legal footing. (The Government could explain to the House that the MSC's increased role in NAFE provision made it sensible to remove the burden of running the employment service from their shoulders.)

We conclude that Robert Armstrong's advice should be accepted: you should not, at present, transfer the employment service to the DEm.

## 3. Subsidiary Issues

- a. Scotland. George Younger objects to all the proposals for changing the MSC in Scotland. He believes that the Scottish Office's 16-18 Action Plan will achieve all necessary changes in Scotland's NAFE, and he sees no reason to give the MSC more powers in the training field, or to remove any of its employment



functions. This is a matter for regret, but it need not put us off making the changes in England.

- b. LEA legal action. Under Section 41 of the 1944 Act, LEAs have the duty to "secure the provision of adequate facilities for NAFE". It is possible that some LEA will claim that it cannot fulfil this duty if funds for NAFE are transferred to the MSC. But we understand that the Lord Advocate has already expressed the opinion (privately) that any such legal challenge would be almost certain to fail. The legal position on NAFE is, in any case, so messy that legislative action may prove necessary in the near future, even if the proposed changes in funding are not made. (Under the 1944 Act, LEAs are meant to obtain the Secretary of State's approval for their "schemes" of further education, and they have not done so since 1947.)

We therefore believe that this is not as much of a problem as the DES claims.

- c. "Consultation" between DES and DEu. You may wish to point out that, under the proposed arrangements for consultation between the two Departments, the DES will have more real influence over the nature of NAFE courses than it at present exercises. (At the moment, HMI are the only agents of DES influence; under the new arrangements, the DES would play at least an advisory role in forming the MSC's structure plan for NAFE.) There is consequently no reason to give way on other educational involvement in the MSC: there is no need, for example, to second LEA officials to MSC manpower boards.

4. Timing

It is extremely important that Ministers should make a decision at this meeting. Miraculously, there have been no leaks so far. But the proposals are now known in several departments, and the risk of a leak is high: the only proper safeguard is to make decisions now, and to publish the news in a January White Paper, as planned. An early announcement is also necessary if we are to make the required changes in the 1984 RSG settlement.





NTC folder 15  
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SECRET

The Rt Hon Tom King MP  
Secretary of State for Employment  
Department of Employment  
Caxton House  
Tothill Street  
LONDON  
SW1H 9NF

Prime Minister  
Mr Younger supports NTC  
in England but wants to go his  
own way in Scotland.

AT 16/12

15 December 1983

Dear Secretary of State,

**RESPONSIBILITY FOR WORK-RELATED TRAINING IN THE FURTHER  
EDUCATION SECTOR**

We are due to meet on 20 December to discuss the note attached to the Secretary of the Cabinet's minute of 12 December about the proposal that funds should be diverted from local authorities to the Manpower Services Commission, which would become in effect a National Training Commission with new responsibilities for the direct funding of some work-related non-advanced further education (NAFE).

The paper notes that further consideration will be needed on whether and how to apply the proposal to Scotland. I am writing to let you, and the others who will be present at the meeting on 20 December, know my views on this.

I published in January this year "16-18s in Scotland: an Action Plan" containing radical proposals for the reform of NAFE in Scotland which have been welcomed both by industry and education authorities. Further education colleges (and to a lesser extent schools) are due to begin teaching the new courses based on the Action Plan in August 1984, but full implementation will take several years. Implementation is being led by the Scottish Education Department in accordance with the Scottish tradition which enables me to exercise a much more direct influence on the education system than in England and Wales.

I support the broad objectives of the proposed change in England, but I consider that in Scotland these objectives will best be achieved by implementation of the Action Plan in the following ways:

- a. NAFE courses are being broken down into modules, and the modules in which each student has reached the required standard will be recorded on a single vocational certificate. Employers will be able to see clearly from this certificate what a student has done, and will be able to specify particular combinations of modules for particular jobs;



- b. the modules allow latitude for content and teaching methods to be adjusted to suit local circumstances and local employers' requirements;
- c. the modular framework means that courses can be quickly updated; individual modules can be revised in the light of new technical requirements or new modules can be added;
- d. the modular framework means also that individuals can update their skills or retrain at any time by adding new modules to those they have already acquired. Although the term "16-18 modules" has been used, students of any age will be able to take the modules;
- e. availability of modules will not be restricted to local authority colleges. Some may be taught in schools, thereby improving the vocational preparation of young people even before they leave school. Private sector providers of training will also be able to use the modular structure and to present candidates to the awarding body, provided that they can satisfy that body that their standard of training and assessment is acceptable. (The awarding body is likely to be initially the Scottish Technical Education Council (SCOTEC) and the Scottish Business Education Council (SCOTBEC) jointly, and ultimately the proposed combined Scottish Vocational Education Council (SCOTVEC)).

The objective of providing more training for the same amount of money should also be achieved by the implementation of the Action Plan. One of the objects of breaking down existing courses into modules is to enable colleges to increase the size of teaching groups by teaching students aiming at different jobs together at the initial stages (after which students will be able to take further modules until they have achieved the combination necessary for a particular job.) Education authorities in Scotland are currently reviewing their provision for NAFE and secondary education in the light of the Action Plan

Employers will also shortly be consulted about the replacement of present SCOTEC, SCOTBEC and CGLI courses by particular combinations of modules. These consultations plus authorities' reviews of their provision should assist in identifying any gaps in present provision and tailoring provision better to employers' need.

Although the Action Plan is led by SED, the cooperation of education authorities is essential to its success. So far this cooperation has been wholehearted, although my view that the Action Plan can be implemented at no extra cost has been challenged and there are signs of restiveness on the part of teachers and lecturers because of the speed of the implementation programme and the burden of curriculum development and staff preparation being placed on them. I very much fear that their cooperation would be withdrawn, and the Action Plan would fail, if it were to be announced that from 1985 the funds at present available to local authorities for NAFE would be reduced.

I would find it impossible to implement the Action Plan in accordance with my present timetable if at the same time I were having to conduct extremely difficult negotiations with local authorities about the reduction in rate support grant. I am not sure that the MSC would welcome, either, the added complication that if the scheme were to be extended to Scotland there would have to be extensive and detailed discussions about the recognition of our new modular courses for the purposes of the proposed new grant: quite separate guidelines would be needed for Scotland on what would be recognised here as "work-related courses" eligible for MSC support.



My initial conclusion is therefore that the proposal should not apply to Scotland, and that we should explain this in the proposed White Paper on the grounds that the 16-18 Action Plan will achieve in Scotland the objectives of the proposal for England. If necessary we can say that we will review the position with regard to funding in 2 or 3 years' time in the light of progress with the Action Plan.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, Sir Keith Joseph, Nicholas Edwards, Patrick Jenkin, Norman Tebbit, Peter Rees and Sir Robert Armstrong.

Yours sincerely,

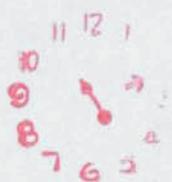
John S. Gorman

(PRIVATE SECRETARY)

APPROVED BY THE SECRETARY OF STATE  
AND SIGNED IN HIS ABSENCE



16 DEC 1987





B/F



10 DOWNING STREET

~~Caroline~~

Please add ~~Solicitor General~~  
and ~~Lord Advocate~~ to  
meeting on NTC on  
20 Dec.

~~Duty Clerks.~~ Invited 15/12  
JD  
DMS  
15/12

So sorry -  
Can you get  
please - OK

15/12 -