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P.01513

PRIME MINISTER

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Education and Training for 14 to 18 year olds.

(E(A)(85)14, together with E(A)(85)8 and 9)

BACKGROUND

A ——— The Employment Secretary's paper setting out revised proposals for a comprehensive education and training initiative for 14 to 18 year olds (E(A)(85)14) responds to the remit from E(A)(85)4th Meeting which discussed the proposals emerging from the Minister without Portfolio's MISC 107 Group. (Those proposals were set out in B ——— E(A)(85)9, and the main issues were picked out in Lord C ——— Young's paper (E(A)(85)8); my earlier brief P.01503 covers both these papers). E(A) invited the Chancellor of the Exchequer to assume for the purposes of his Budget that it might be necessary to provide public expenditure on such an initiative at a level no greater than indicated in E(A)(85)8; Lord Young was meanwhile asked to bring forward revised proposals for the initiative which would be more cost-effective, and to reconsider the possible withdrawal of entitlement to Supplementary Benefit (SB) from 16-18 year olds. Before his departure for China, Lord Young discussed with you the outline of a possible Government statement on the initiative, which took account of E(A)'s concerns; the revised proposals underlying this are now set out more fully in the Employment Secretary's paper. Decisions are urgently required so that the Chancellor of the Exchequer can take proper account of the initiative in the preparation of his Budget, which will be the occasion of the first announcement of the Government's proposals.

MAIN ISSUES

2. The main issues before the Committee are:

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- (i) whether to go ahead with the scheme as summarised in paragraph 11 of Mr King's paper;
  - (ii) the scale of Government funding, and the contribution to be expected from employers;
  - (iii) policy on the entitlement of 16-18 year olds to SB;
  - \*(iv) whether to establish a review body to consider the structure of occupational qualifications;
  - \*(v) whether additional funds should be allocated in 1985/86 and 1986/87 to support in-service teacher training required for the Technical and Vocational Training Initiative (TVEI), in advance of the establishment of the proposed new system of specific grants to local authorities for such training (which H Committee ~~is considering~~ <sup>approved</sup> on 6 March);
  - \*(vi) whether the Manpower Services Commission (MSC) should be developed as a National Training Authority (NTA).
- \* These MISC 107 proposals were not addressed by E(A) on 25 February.

Government funding, the burden on employers, and SB entitlement.

3. The main unresolved questions from the earlier discussion are all inter-related. MISC 107 based its estimates of the gross extra public expenditure costs of the initiative to be borne by the Government (£125 million in 1986/87 and £310 million in 1987/88) on the following assumptions:

- (i) that 16-18 year olds would retain entitlement to SB;



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- (ii) that employers would bear 30 per cent of the costs of training allowances during the first year and 60 per cent during the second;
- (iii) that the allowances would be £26.25 per week during the first year, and £30 during the second;
- (iv) that Mode B (ie non-employer-based) training places would be restricted to 15 per cent of the total.

E(A) essentially wanted a scheme which would involve additional costs not exceeding the amounts specified above, but which would enable the Government to withdraw entitlement to SB. MISC 107 estimated the net extra costs (beyond those indicated above) of providing sufficient training places to make possible the withdrawal of SB entitlement at £260 million and £210 million in 1986/87 and 1987/88 respectively, with assumptions (ii) to (iv) unchanged.

4. As is made clear in paragraphs 7-8 of E(A)(85)14, meeting this constraint requires employers to pay more, by

- (i) providing more places (ie so as to absorb people who would otherwise require a Mode B place or claim SB); or
- (ii) bearing a larger share of the costs of the allowances. Alternatively
- (iii) the amounts of the allowances could be reduced.

The Chancellor of the Exchequer does not regard these as realistic possibilities: he doubts whether employers can be expected both to provide 300,000 new places (in addition to the 225,000 currently provided under the present Youth Training Scheme (YTS)) and to make a bigger contribution to the costs per place. Equally it is doubtful whether



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allowances below those paid under the present YTS would be generally accepted. The Chancellor's position, therefore, is that he is prepared to accept the proposed scheme only if any extra costs are matched by offsetting reductions elsewhere on expenditure directed towards improving the functioning of the labour market.

5. No firm estimates of cost can be made until consultations have been held with representatives of employers about the characteristics of the scheme and the contribution they would be willing to make to it. Mr King proposes to try to resolve any conflict of objectives in the initial announcement, and in the subsequent consultations to be undertaken by MSC, by avoiding any specific indication of the Government's intentions about the level of the allowances, the share to be borne by employers or the proportion of Mode B places. The Government would announce the decision in principle to withdraw SB entitlement when places would be guaranteed to all unemployed 16 and 17 year olds, and the total additional provision for the new scheme, leaving the other elements to be negotiated, with the level of the allowances in some sense the residual.

6. There must be a serious risk that the consultations will demonstrate that it will not be possible, at the specified price, to provide enough places to permit a guarantee to all unemployed 16 and 17 year olds and thus the removal of SB entitlement. The Government will then be obliged either to find more money or drop the removal of SB entitlement. If the Sub-Committee wish to avoid this situation, there are the following alternatives:

*Chancellor's option*

i. agree now that the extra money will have to be found by savings elsewhere in the employment programme (Mr King would find this very difficult); or

*Policy limit option*

ii. refrain from saying anything now about a guarantee of places and the removal of SB entitlement.

#### Education and qualifications

7. There is no dispute about the need for an urgent review of



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occupational qualifications, although it hardly seems possible that changes would be implemented in time for the start of the new scheme in 1986. There may, however, be disagreement about additional expenditure on in-service teacher training, the costs of which are excluded from the additional expenditure on the scheme contemplated by the Chancellor and the Employment Secretary. After 1986/87 the proposed new specific grant to local education authorities (LEAs) should give the Education Secretary sufficient leverage to ensure that the desired priority is given to TVEI - related in-service teacher training; meanwhile MISC 107 proposed that additional money be made available to LEAs through the MSC. Treasury Ministers have not accepted that there should be a net addition to public expenditure on this account and are likely to press for offsetting reductions in other MSC expenditure.

8. Nor is there complete agreement on the respective roles of the MSC and the Department of Education and Science (DES) in securing appropriate educational provision in schools and colleges, both to prepare pupils for the new YTS and to serve as an integral part of the scheme in enabling trainees to obtain recognised occupational qualifications. The education input to the new scheme will need to be made consistent with the Education Secretary's initiatives to reform the school curriculum and the examination structure, and the respective responsibilities of DES and MISC will need to be clarified in relation to the work done by schools and colleges as part of the new scheme. Further consideration should be given to this machinery of government question by the Employment and Education Secretaries in consultation with the Chancellor of the Duchy of Lancaster, before general decisions are taken about the role of MSC as a National Training Agency.

#### Announcement

9. Although it is common ground that the salient points of the expanded YTS should be announced in the Chancellor's Budget speech, it is not yet agreed whether the fuller announcement should be included,

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along with other matters," in a post-Budget Employment White Paper or in a separate White Paper on Training and Jobs, or in both. You will probably wish to get this settled as soon as possible in an informal meeting of the Ministers mainly concerned. — Fixed for Monday 11 March

#### HANDLING

10. The Secretary of State for Employment will wish to introduce the revised proposals, and the Chancellor of the Exchequer will need to address their financial implications in the context of his Budget strategy. The Secretaries of State for Education and Science, Employment and Trade and Industry will have views on the education and qualifications questions, which also have a financial dimension as well as raising machinery of government issues.

#### CONCLUSIONS

11. You will wish to reach conclusions on the following issues:
- i. whether to go ahead with the new YTS as set out in the Employment Secretary's revised proposals, and in particular with a cost limit of £125 million in 1986/87 and £310 million in 1987/88;
  - ii. whether the initial announcement, prior to consultations with employers and other interests, should include a commitment to the provision of enough places to make possible the early abolition of SB entitlement for 16-18 year olds;
  - iii. if so, whether any additional costs to meet the commitment should be met by offsetting savings from the employment programme;
  - iv. whether to establish a review body to consider the structure of occupational qualifications, which would be asked to report to the Government in September 1985;
  - v. whether additional funds should be allocated in 1985/86 and 1986/87 to support in-service teacher training required for the TVEI, and if so how the money should be found;

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vi. whether to commission work to clarify the respective responsibilities of the MSC and the DES for the educational aspects of the Government's initiative prior to the publication of the relevant White Papers.

*PL*

P L GREGSON

6 March 1985

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