

PRIME MINISTERNATIONAL TRAINING COMMISSION

Everybody agrees that the vocational side of NAFE is in a bad state. What should be done?

It would be disastrous to neuter the MSC by transferring its training functions to the DES. Nor should the DES be given specific grant powers for NAFE: the Department does not know enough about vocational training, or about the needs of employers, to use such powers wisely.

The questions are therefore:

- whether a National Training Commission should be set up under the hegemony of the Department of Employment;
- how such a Commission should be constituted;
- how it should fund NAFE.

1. A New Commission?

As Norman Tebbit points out, the Technical and Vocational Education Initiative has shown that a body like the MSC, under the control of DEm, can bring about improvements in education at a speed which the DES and the LEAs would consider impossible. This makes the idea of a new Training Commission attractive.

There will be vigorous opposition from local authorities and the educationalist lobby. The DES contend that this opposition will put at risk "the degree of co-operation which is required for [the Government's] . . . other educational objectives". We are inclined to doubt this. So long as the arrangements are sensible, the LEAs (after their initial remonstrances) will settle down to operating the new system, just as they have in the case of the TVEI. We therefore recommend that a new National Training Commission should be set up.

2. Constitution of the Commission

The DEm minute does not describe in detail how educational and other interests would be represented on the NTC. Nor does it clearly

identify the powers of the DES in relation to the NTC - important both for how the Commission operates, and how we present the change. We suggest that the DEM should be asked to produce quickly a detailed paper listing a series of possible constitutional arrangements, so that the matter can be discussed before any Cabinet decisions are made.

3. Who is to run the Employment Services?

The DEM minute also fails to make clear whether the employment services would be transferred from the Commission to the DEM. Norman Tebbit and David Young will argue that such a transfer should take place; Tom King's position is more ambivalent.

There are, in fact, good arguments both for and against the transfer: it would give Peter Morrison a chance to run the employment services more effectively, and it would establish the Commission's position as an educational body, thereby dampening some of the opposition from educationalists; but it would significantly weaken the case for leaving the Commission in the hands of the DEM, and would lead to increased pressure for a DES takeover.

On balance, we recommend that the employment services should stay where they are for the time being: this would make the required legislation somewhat simpler. The new body would then have to be called a Manpower & Training Commission.

4. A Gradual Shift in Funding

It is important to remember that 7.5 per cent (£90 million) of funding for NAFE already comes from the MSC. The proposal is to add to the Commission's training budget of £150 million the 37.5 per cent (£450 million) of NAFE expenditure that at present comes from the RSG. Should this transfer be immediate or gradual? Mr Tebbit favours an immediate shift, on the grounds that all the opposition could then be encountered and overcome at once. But we believe that a gradual shift would be preferable - say £100 million in the first year, rising to the full amount in the fifth year. This would give both the Commission and the LEAs time to adapt to the new conditions.

It would also enable the MSC to move in right away (ie 1984-5) without having to wait for the Bill to find a place in the legislative queue.

5 (C) A Role for Employers and the Private Sector

The main point of transferring the funds is to establish a customer/contractor relationship between the Commission and the LEAs. But we welcome the DEM suggestion that the Commission should sometimes act indirectly through employers, and should be willing to accept tenders from private-sector training institutions. Keith Joseph may argue that this will infuriate the LEAs, and make it impossible for them to sustain their present level of provision. The obvious reply is that public funds should be directed where they will be most effective: if LEAs are not providing the best services, they should not receive the money. And if the transfer of funds from the RSG to the Commission is gradual, the LEAs will have time to improve their services sufficiently to attract the money rather than lose it to the private sector.

Summary

We recommend that:

- a new Manpower & Training Commission should be set up, with power to fund NAFE;
- the DEM should be asked to produce a detailed paper on the constitution of the Commission and its relation to DES;
- the employment services should remain in the hands of the Commission for the time being;
- the transfer of funds from the RSG to the Commission should be gradual, and should start as soon as possible without waiting for new legislation to take effect;
- the Commission should accept tenders from private training institutions as well as from LEAs.

FERDINAND MOUNT *fm*

Prime Minister ②

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PRIME MINISTER

NATIONAL TRAINING COMMISSION

I would like to comment on the proposal for a National Training Commission (NTC) from the point of view of the Department of Trade and Industry. For a number of years the Department has been involved in activities to influence education and training to make them more responsive to the needs of industry and commerce. Many of these activities have been concerned with industry/education links, but others such as the micros in schools scheme and the CNC machine scheme for FE Colleges have been directed at influencing the curriculum and its relevance to modern industrial conditions.

2 The Department's experience, confirmed by its contacts with industrialists, is that the FE sector is a relatively neglected part of the education system which in many ways seems to have lost its sense of direction and purpose. It suffers from inadequate provision of modern technological equipment. It is recognised that improvements are being introduced - indeed the Department is co-operating in some of these - but it seems unlikely that these will lead to rapid improvements and certainly not to the 'step change' which will be needed to meet the rapid changes in technology and skill



requirements which already exist, and which we must expect to become more intense. If we are not ready to meet these changes, the prospect of industry being able to respond fully to an upturn in the economy or to the longer term challenges we face is poor. The Department therefore favours a change of the sort envisaged in the NTC proposal.

3 The idea of putting the purchasing power in the hands of industry and employers generally is attractive both as a discipline on the FE colleges themselves and as a stimulus to employers to articulate their requirements more clearly. Many industrialists presently fail to set out their requirements, some because they despair of influencing the education system, others because they are dismayed at the length of time which elapses before change is discernible. A major advantage I see from this Departmental viewpoint is that there will be much more effective and rapid mechanism for connecting changes in the real world of industry to the changes needed in education. Once this is recognised, a much fuller and better informed guidance from industry should be forthcoming. I think it would be surprising if such a change did not induce a greater degree of cost consciousness in colleagues, which could bring a better balance between expenditure on modern equipment and staff costs, as well as offering a prospect of more training within existing resources.



4 To make sure this happens, we shall have to 'market' the NTC in such a way as to attract greater industrial involvement. It would be essential to have the NTC answerable to one Secretary of State. Although it might be held that this Department should sponsor industrial training I would not ask for a formal arrangement for the NTC to report to the Secretary of State for Trade and Industry as I think clear lines of responsibility are needed. I would, however, be anxious to join Tom King in persuading industrial and commercial employers to play their full part, and to use the resources of this Department to that purpose in close consultation with him and the NTC.

5 For the initiative to be fully successful there is one other point to which we shall have to devote care. The local representation of employers must be credible in a way which existing arrangements within LEAs are usually not. The Manpower Services Commission have made substantial progress in improving their local contacts with employers especially through AMBs and the YTS programme. We must build further on those foundations. It will also be essential to ensure that the NTC is clearly presented as a body concerned with training the employed in order to improve their effectiveness in employment, rather than training for the unemployed often without a clear prospect of a job as the MSC used to do.



6 I do not underestimate the difficulties and likely reactions of local authorities and educationalists, but I believe the TVEI has shown that effective changes in education can be introduced by changes in the funding arrangements. The need for an initiative of this kind to bring education closer to the world of work and training has been long recognised and if promoted with enthusiasm and flair it could be widely welcomed. No alternative way of achieving the change which our present and prospective industrial and commercial situation requires has been put forward in the twenty years or more since the need has become increasingly apparent and action is now urgent.

7 I am copying this to Keith Joseph, Tom King, David Young and Sir Robert Armstrong.

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28 October 1983

Department of Trade and Industry



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DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

28 October 1983

Dear Andrew,

NATIONAL TRAINING COMMISSION

You wrote to Barnaby Shaw on 21 October to commission a brief for the meeting on 1 November.

I now attach an agreed cover note and notes produced separately by my Secretary of State and the Secretary of State for Employment on their preferred options.

I am sending copies of this letter to Barnaby Shaw (DE), Callum McCarthy (DTI), David Vere (MSC) and Richard Hatfield (Cabinet Office).

Yours,

Elizabeth

MISS C E HODKINSON  
Private Secretary

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London  
SW1



## VOCATIONAL FURTHER EDUCATION

Note by the Secretary of State for Education and Science and the Secretary of State for Employment

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The Government's objectives for the vocational education provided by the further education (FE) sector are that it must efficiently meet the needs of the customer - individual employers, ITBs and voluntary training organisations, the self-employed and students themselves - and adapt readily to change. Present standards of performance and of responsiveness are patchy. Some colleges and departments are good, other not. Areas such as catering and hairdressing are thriving; questions arise over quality and relevance in some traditional areas.

2. Attention needs to be focussed on the directly work-related part of Non-Advanced Further Education (NAFE) (ie not 'O' and 'A' level work or adult liberal education). The Advanced Further Education (AFE) sector has recently been given new machinery (the National Advisory Board) which should be given a chance to prove its capacity to assist with rationalisation.

3. NAFE currently costs some £1200 million a year. Some 17% (£200 million) is already derived from sources other than central and local government funding of education - particularly MSC (£90m), ITBs (£7.5m) and student fees (£75m). £450m comes from RSG and £550m from the rates and other local authority financial sources. We need to make better use of these RSG and MSC resources to improve the education and training provided, through new financial leverage.

4. Whatever form new financial leverage takes, local government bodies and others will be hostile to any arrangements which withdraw money from the discretion of local authorities and increase the direct power of central government or a quango. The degree and duration of hostility will vary widely with the nature, scale and presentation of change. The implications for other educational policies and objectives have to be considered.

5. The Secretaries of State agree on the analysis in paragraph 1 - 4. They differ on the form which new leverage should take. Several options have been identified in discussion, but the main choice may lie between:

- New*
- A. To transfer to a single Department of Education, Training and Science the training functions of the MSC and some key staff and to make the local education authorities responsible for implementing these with their education functions in an integrated way. Direct leverage would be exercised by the new department through specific grants (within the total of RSG) to LEAs for work-related NAFE on the basis of advice from the customer. Such grants could also be given without change in departmental functions.

Legislation would be needed to create the department or to give the grant-making powers.

- B. Increased resources in the hands of a re-shaped MSC - a National Training Commission (NTC).

Primary legislation is not essential for the transfer of resources; it would however be needed for any formal change of MSC title or change in membership and, if there were a large transfer of RSG funds, it might be needed to redefine the functions of local education authorities in relation to NAFE.

6. These Options are dealt with in the attached Annexes by the separate Secretaries of State.

OPTION A

CREATION OF A DEPARTMENT OF EDUCATION, TRAINING AND SCIENCE WITH SPECIAL GRANTS TO LOCAL EDUCATION AUTHORITIES

This option involves the creation of a Department of Education, Training and Science (DETS) by transferring the responsibility for publicly funded training from the Department of Employment to the DES. It is inherently sensible to combine responsibility for the whole of education and publicly funded training. It is not feasible to achieve this by transferring the whole of education responsibilities to the Department of Employment; but the reverse transfer is feasible. The new department would be able to evolve policies for the coordinated and rational development of training and education in a fast moving environment where the overlap between the two is becoming increasingly anomalous.

2. The staff responsible for the training activities of the MSC would not all be transferred to the DETS, but some would be, to provide the necessary cadre for eg the YTS. The Skill Centres would be privatised. A new body advisory to the DETS on training matters would be established. It would consist mainly of the customers. Powers would be taken to allow payments to private sector organisations in pursuit of training and vocational education objectives.
3. Direct leverage on NAFE would be exercised by the DETS through a new power to give grants direct to the LEAs for one specific purpose: namely the improvement of vocational and pre-vocational courses. The power would not extend to the schools, higher education, courses within NAFE of the type provided in schools or "adult liberal education". The justification for this distinction would be the Government's special responsibility to improve training and vocational skills for the sake of the performance of the national economy. The total amount of the grants is best decided after a review of the quality of colleges and courses and consultation with the customers and the local authority associations.
4. This approach is better designed to secure improved and more cost-effective training and vocational education than is the use of MSC (or a new NTC) as a proxy customer. The conditions attached to the allocation of grants to

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to individual authorities would be used to promote the quality and cost-effectiveness of both training and other related courses. The use of the powers could thus be directed to the improvement of the NAFE system as a whole. This is a task which can only be performed by the department which is responsible for the performance of the NAFE system, including those parts of the system which are responding to contracts placed from outside.

5. This approach, which does not conflict with the existing statutory functions of local authorities, has a reasonable chance of securing local authority cooperation. The DE proposal would so antagonise the local authorities as to put permanently at risk the degree of cooperation which is required for the Secretary of State for Education and Science's other educational objectives, especially that of raising the standards of education in schools.

6. If a major change to departmental functions were not acceptable, the specific grant described in paragraphs 3 and 4 should nevertheless be introduced by DES. Much work is already in hand to improve the efficiency and responsiveness of NAFE. The new grant powers would greatly reinforce this process by a means which the local authorities could be persuaded to accept.

Department of Education and Science  
28 October 1983

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OPTION B

MAJOR TRANSFER OF RESPONSIBILITY FOR FUNDING WORK-RELATED  
NON-ADVANCED FURTHER EDUCATION TO A NATIONAL TRAINING COMMISSION  
(NTC)

1 There would be a transfer of a substantial proportion of the £450m at present available for NAFE in the RSG to an NTC. The NTC would continue to have the MSC's present responsibilities for training in addition to its new responsibilities but the opportunity might be taken to transfer the employment services to DE. The NTC would then concentrate on training. Through membership of the NTC, the CBI, TUC, LEAs and as desired other representatives of employers, employees and education interests would continue to bear a measure of direct responsibility for the delivery of programmes to meet the objectives approved by Government. Both NAFE and Skillcentres would be opened up to private sector competition.

2 The NTC would spend the transferred funds mainly with the LEAs but some might go to private sector training. What exactly was provided would be responsive to the requirements of the NTC. A customer/contractor relationship would be introduced. The NTC would be able to exert a coordinated and integrated influence over the courses provided in the interests of meeting employers' requirements.

3 The NTC would, like the MSC, be accountable to the Secretary of State for Employment since the bulk of its expenditure would not be affected by the change but the Secretary of State for Education would be consulted on the educational and other members of the NTC, and on approval of NTC plans and would continue to be responsible for NAFE policy.

4 Attached at Annex A is a note setting out how an NTC would operate.

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5 This option has the major advantage that, without major organisational upheaval, it brings NAFE much closer to a body - the NTC - which is devoted to training and thereby secures greater responsiveness to employers' needs. The customer/contractor relationship give it a means for ensuring that the contractors - the CFEs - respond. Moreover, it builds on the MSC's existing connections with CFEs and, in particular, works outwards from the YTS which the MSC, because of its representative membership, is specially qualified to operate. It also uses the existing local office network of the MSC. Support for this option could be expected from employers and from parents and, if the package were balanced, the hostility of the trade unions could be greatly reduced.

Department of Employment  
28 October 1983

W AN NTC WOULD OPERATE IN NON-ADVANCED FURTHER EDUCATION

- 1 The objective of setting up an NTC is to alter the present arrangements for the central funding of training and work related further education so as to make the provision more integrated, more efficient and more responsive to the needs of employers and of the economy.
- 2 The 1981 White Paper on a New Training Initiative (Cmd 8455) set out a set of objectives in the educational and training systems in order to produce a better trained and more flexible workforce. The MSC now disposes of £1½bn of tax payers money within the training system in pursuance of those objectives under the direction of the Secretary of State for Employment. The Secretary of State for Education lacks the same power to steer the deployment of the £500m of taxpayers' money notionally made available for work related non-advanced education as part of the Rate Support Grant settlement, nor is that expenditure subject to the competition/price mechanism which operates in the case of the MSC's expenditure on training.
- 3 The creation of an NTC would see part of the taxpayer's input to work-related NAFE diverted to the NTC for deployment in the same way as taxpayers' money on training. The NTC would then have a similar capacity for intervention in the provision of part of work related NAFE as it would exercise within the training system.
- 4 The following paragraphs outline the mechanism by which an NTC could be expected to deploy the work related NAFE resources allocated to it.

THE NTC'S NATIONAL OPERATION

- 5 The NTC would work in accordance with the vocational education and training objectives adopted by the Government in the 1981 White Paper on a New Training Initiative, notably those concerned with the transition from full time education to work. This is where integration of the work related NAFE and the training systems is particularly needed, though the development of provision for adults will become increasingly important.
- 6 The NTC would develop at national level proposals for the development of both systems for the purpose of meeting the

national objectives. Subject to Government approval of these proposals, the NTC would then arrange for their implementation. In relation to the work related NAFE this would be largely conducted through its purchasing function.

PURCHASING FUNCTION OF AN NTC

7 From within the sums allocated to it the NTC would purchase training, technical or vocational education from an LEA, a Polytechnic or other public sector educational institution.

8 The purchase would be effected either

(a) directly (contracts between NTC and LEA etc); or

(b) indirectly (NTC would make grants etc to employer and employer would be customer).

9 The NTC contract (whether direct or indirect) would be for specified outputs within a specified cost limit.

10 There would be no presumption that the NTC money would necessarily go to the public sector. Thus the LEA etc would be competing for contracts with other providers (eg employers, private sector trainers, non-statutory providers such as YMCA etc).

THE MECHANISM

11 The basic mechanism would be the five year planning cycle of the NTC, within which the normal annual review determines at national level the priorities for attention and involve the allocation of a training, technical and vocational educational budget to each local/area office of the NTC. Each local office will then determine the deployment of its budget according to these national priorities and the skill/knowledge etc requirements of its local market, assessed in consultation with relevant local interests. (The exact location of NTC offices etc would be for NTC itself to decide after consultation with local authority, employer, educational and other interests.)

12 It would be for the NTC local/area office to decide how to place contracts locally to secure outputs required within resources available. In reaching such decisions, the NTC office



would draw into discussion the whole range of potential local providers. It could do this informally or formally (eg a published tender notice). The placing of contracts would be determined as a result of a judgement about price, produce offered and performance (including success in job placement).

13 In this process, therefore, LEAs would be drawn into dialogue and discussion about the local labour market, key national requirements, and the capabilities and likely behaviour of other providers in the market place.

14 Although the process would have to operate through annual expenditure budgets, the intention would be for the NTC to develop with training and further education providers a reasonably predictable relationship so long as they are cost effective and up to standard. Indeed, it would be an object of the relationship to ensure this.

15 The actual pattern of direct financing would contain a variety of arrangements for channelling funds to CFEs. Where courses were provided in response to local labour market needs the NTC's contribution might cover only part of the costs by paying fees, with LEA funds and employers covering the rest. On the other hand courses to meet nationally identified needs which as yet had little expression in local labour markets would need much fuller financing by the NTC. The nature of the NTC's contribution would therefore vary between courses and would be determined by its desire to achieve its objective and get students into courses which it was prepared to support at minimum cost to itself. The NTC contribution would be a matter of judgement and negotiation in each case.

#### HOW WOULD THE NTC DERIVE ITS INFORMATION ABOUT THE MARKET PLACE?

16 The NTC would derive its judgement about the needs of the market place from direct access to a number of institutions, agencies and organisations with which LEAs presently have no systematic or comprehensive contact. These would be at national, regional and local level.

17 At national and regional level, these would include

- National analyses of labour market trends and requirements;
- Government views about key areas and priorities.
- NTC regional offices labour market intelligence gathering about training and further education related to occupational and local labour market needs.

18 At local level, the sources of information available to the NTC would include

- employers and local employers' associations, across all sectors, and of all sizes;
- YTS managing agencies (virtually every large employer in any locality now has day to day contact with the MSC and this contact would continue in NTC). The same is true of many employer organisations (eg Chambers of Commerce, group training schemes etc);
- the Area Manpower Boards and their successors (the employer members, in particular, are not individuals but representatives of employers in the area and mechanisms are already being established for regular feedback between AMB employer members and those they represent and vice versa);
- the Employment Service (Jobcentres etc).

19 The NTC would also have access to the developing training information framework output within the MSC which it would take over. This produces a systematic review and analysis, constantly updated, of what training is going on in a locality, what provision is available for use, what spare capacity there is and at what price it would be available.

SO WHAT WOULD BE NEW?

20 So far as LEAs and State further educational provision was concerned, the following would be the new features of such a system:

- LEAs and their institutions and staff would be drawn into a local dialogue and discussion about local labour market needs provision and national key priorities;
- they would have access to a much wider range of information about employer requirements, intentions and reactions to current provision;
- they would be exposed to competition in the market place for the available contracts, though given reasonable assurance of custom where their output meets the requirements cost-effectively;
- they would operate in work-related further education within a framework integrated with training and formulated by an identifiable national organisation on which they are represented.

21 The following results could be expected:

- injection of a price mechanism and a customer/provider relationship would inevitably lead to greater responsiveness to the needs of industry and the economy and better value for public money;
- there would be more cost-effective use of public resources (whether LEA or NTC or other) in any locality;
- there would be better utilisation overall of the facilities of the training and education system, both public and private;
- the new method of operating would also exert pressure on the standard setting and examining bodies to make their standards and tests more relevant to labour market, employer and individual needs.



10 DOWNING STREET

Prime Minister <sup>(2)</sup>

For the meeting on Tuesday.

Briefs from Sir Robert  
and Policy Unit will  
reach you on Monday.

AT

28/10

Prime Minister <sup>(1)</sup>

Policy Unit brief  
attached. Nothing is coming  
from RTA.

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10 DOWNING STREET

*From the Private Secretary*

21 October, 1983

National Training Commission

A meeting has been arranged for 1 November at 5 p.m. to discuss the proposal for a National Training Commission. The meeting will need to have before it a paper or papers setting out the proposals and their implications. I would be grateful if you and Elizabeth Hodgkinson could sort out what material is needed and how it can best be presented. Could this reach this office by Friday, 28 October, with copies to the Secretary of State for Trade and Industry, David Young and Sir Robert Armstrong, who will all be attending.

I am sending copies to Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), Richard Hatfield (Cabinet Office) and to David Young.

ANDREW TURNBULL

J. B. Shaw, Esq.,  
Department of Employment

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