

Ref. A083/3476

PRIME MINISTER

Responsibility for Work-Related Training in the
Further Education Sector

BACKGROUND

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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:

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- 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.

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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;
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ROBERT ARMSTRONG

16 December 1983