

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 DEm. 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.