

SUBJECT



cc. O.L.

1815

10 DOWNING STREET

From the Private Secretary

21 December 1983

Dear Barnaby,

Work Related Training in the Further Education Sector

The Prime Minister held a meeting yesterday to discuss work related training in the further education sector. Present were your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Trade and Industry, Scotland, Wales, the Chief Secretary, the Lord Advocate, the Solicitor General, Lord Bellwin, the Chairman of the Manpower Services Commission and Sir Robert Armstrong. The meeting had before it the paper of 12 December prepared by officials under the Chairmanship of Sir Robert Armstrong.

The Chairman of the Manpower Services Commission said that the MSC had undertaken three substantial reforms, YTS, CP and TVEI. Its next major project was to bring about a reform of work related training in NAFE. The aim was to produce training which was employment related and responsive to local needs. This could be done by transferring to the MSC part of the RSG resources currently attributed to NAFE. MSC would use these resources to purchase training courses from FE colleges.

In discussion, this objective was unanimously endorsed. Though some areas of FE were satisfactory, large areas were not. The customer/contractor principle, upon which the proposal was based, would provide an external stimulus for improvement which was currently lacking.

The main issue was the size of the resources and the speed with which they should be built up. The paper by officials identified two options; a transfer of £200m, built up very quickly and a transfer of £100m built up from around £30m over 3-4 years.

The Secretary of State for Education and Science was concerned that the larger option would antagonise local authorities and would jeopardise their co-operation which was required for the major initiatives, eg on standards in schools and on improving the quality of teachers, that he was about to announce. A further problem was that as soon as the scheme was announced local authorities would seek guidance from him on how the change would affect them. It was important that he should be in a position to respond to this. In addition he was worried that resources might be diverted from schools by those authorities that were losing grant. For all these reasons he preferred the smaller figure and the slower build-up.

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In further discussion it was argued that the impact on local authorities needed to be studied very carefully as it could provide a further bone of contention with them at a time when their co-operation was being sought. There could be a harmful impact on the rate capping initiative. It was noted that the effect on local authorities would vary, some being net gainers, some being net losers. In practice the scheme would tend to benefit high spenders and penalise low spenders unless mechanisms were devised to prevent this.

Treasury Ministers were worried that the impact on spending would not be symmetrical. Those losing more in grant than they received from the MSC might raise rates to sustain their existing expenditure. Those gaining could use the extra receipts to finance additional expenditure.

To deal with this leakage, Treasury Ministers felt that an offsetting reduction should be made in MSC's total financial provision. The Secretary of State for Employment accepted that in principle the change should be neutral but he was worried that to announce a cut in the MSC's resources at the time the scheme was being announced would blunt the impact.

It was agreed that Scotland should continue to develop its own plans. The Secretary of State for Wales sought an assurance that Wales would be ring-fenced i.e. withdrawal of grant would be matched by MSC expenditure.

Summing up the Prime Minister said that there was unanimous agreement on the principle of transforming the MSC by stages into a National Training Commission. It was agreed that in 1985/86 £70m of RSG resources should be transferred to the MSC (in addition to £90m which MSC already spent on NAFE) and £110m in 1986/87. This would bring MSC expenditure to £200m, approximately one-quarter of work related NAFE. The size of funding in later years was to be left open. It was agreed that arrangements were to be made to ensure that the impact on Wales was neutral. Scotland was to continue developing its own proposals.

The Secretaries of State for Employment, Education and Science and the Environment, in conjunction with Treasury Ministers, should undertake further work to examine the differing impact on local authorities and to devise a formula which would minimise it. They should also examine ways of ensuring that the proposal did not lead to a net increase in expenditure. Further work should be undertaken on arrangements for involving educational interests in the work of the MSC. This work should be undertaken urgently in order to ensure that the scheme was sufficiently developed for announcement in the White Paper on Training.

I am copying this letter to the Private Secretaries to those who attended the meeting and to John Ballard (DOE).

*Yours sincerely*  
*Andrew Turnbull*

(ANDREW TURNBULL)

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



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The Prime Minister held a meeting yesterday to discuss work related training in the further education sector. Present were your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Trade and Industry, Scotland, Wales, the Chief Secretary, the Lord Advocate, the Solicitor General, Lord Bellwin, the Chairman of the Manpower Services Commission and Sir Robert Armstrong. The meeting had before it the paper of 12 December prepared by officials under the Chairmanship of Sir Robert Armstrong.

The Chairman of the Manpower Services Commission said that the MSC had undertaken three substantial <sup>reforms</sup> ~~requirements~~, YTS, CP and TVEI. Its next major project was to bring about a reform of work related training in NAFE. The aim was to produce training which was employment related and responsive to local needs. This could be done by transferring to the MSC part of the RSG resources currently attributed to NAFE. MSC would use these resources to purchase training courses from FE colleges.

In discussion, this objective was unanimously endorsed. Though some areas of FE were satisfactory, large areas were not. The customer/contractor principle, upon which the proposal was based, would provide an external stimulus for improvement which was currently lacking.

The main issue was the size of the resources and the speed with which they should be built up. The paper by officials identified two options; a transfer of £200m, built up very quickly and a transfer of £100m built up from around £30m over 3 - 4 years.

The Secretary of State for Education and Science was concerned that the larger option would antagonise local authorities and would jeopardise their co-operation which was required for the major initiatives, eg on standards in schools and on improving the quality of teachers, that he was about to announce. A further problem was that as soon as the scheme was announced local authorities would seek

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guidance from him on how the change would affect them. It was important that he should be in a position to respond to this. In addition he was worried that resources might be diverted from schools by those authorities that were losing grant. For all these reasons he preferred the smaller figure and the slower build-up.

In further discussion it was argued that the impact on local authorities needed to be studied very carefully as it could provide a further bone of contention with them at a time when their co-operation was being sought. There could be a harmful impact on the rate capping initiative. It was noted that the effect on local authorities would vary, some being net gainers, some being net losers. In practice the scheme would tend to benefit high spenders and penalise low spenders unless mechanisms were devised to prevent this.

Treasury Ministers were worried that the impact on spending would not be symmetrical. Those losing more in grant than they received from the MSC might raise rates to sustain their existing expenditure. Those gaining could use the extra receipts to finance additional expenditure.

To deal with this leakage, Treasury Ministers felt that an offsetting reduction should be made in MSC's total financial provision. The Secretary of State for Employment accepted that in principle the change should be neutral but he was worried that to announce a cut in the MSC's resources at the time the scheme was being announced would blunt the impact.

It was agreed that Scotland should continue to develop its own plans. The Secretary of State for Wales sought an assurance that Wales would be ring-fenced ie withdrawal of grant would be matched by MSC expenditure.

X | The meeting then considered whether MSC's employment services should be transferred to the Department, enabling the MSC to be transformed into a National Training Commission. The legal advice was that this change might well be achieved under existing legislation. However there was some risk of legal challenge and in any case it might be better to make one change at a time. It was therefore agreed that the employment responsibility should remain with MSC for a year and that legislation should then be introduced to effect the transfer.

Summing up the Prime Minister said that there was unanimous agreement on the principle of transforming the MSC by stages into a National Training Commission. It was agreed that in 1985/86 £70m of RSG resources should be transferred to the MSC (in addition to £90m which MSC already spent on NAFE) and £110m in 1986/87. This would bring MSC expenditure to £200m, approximately one-quarter of work related NAFE. The size of funding in later years was to be left open. It was agreed that arrangements were to be made to ensure that the impact on Wales was neutral. Scotland was to continue developing its own proposals.

The Secretaries of State for Employment, Education and Science and the Environment, in conjunction with Treasury Ministers, should undertake further work to examine the differing impact on local authorities and to devise a formula which would minimise it. They should also examine ways of ensuring that the proposal did not lead to a net increase in expenditure. Further work should be undertaken on

/ arrangements

arrangements for involving educational interests in the work of the MSC. The employment responsibility of the MSC should remain with it for a further year, following which legislation would be introduced to bring about a transfer to the Department. This work should be undertaken urgently in order to ensure that the scheme was sufficiently developed for announcement in the White Paper on Training.

I am copying this letter to the Private Secretaries to those who attended the meeting and to John Ballard (Department of the Environment)

*Yours sincerely  
Andrew Turnbull*

(Andrew Turnbull)

J. Barnaby Shaw, Esq.,  
Department of Employment

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c. Master SetFile  
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## 10 DOWNING STREET

From the Private Secretary

22 December 1983

Dee Barnaby.

Work Related Training in Further Education

You expressed concern that recording the discussion at last Tuesday's meeting on the future of the MSC's employment services could create difficulties. You were worried about having this record lying on departmental files several months in advance of a specific decision. We agreed, therefore, that I would recirculate the record without this passage and record it separately in a letter for more limited distribution.

The meeting considered whether MSC's employment services should be transferred to the Department of Employment enabling the MSC to be transformed into a National Training Commission. The legal advice was that this change might well be achieved under existing legislation. However, there was some risk of legal challenge and in any case it might be better to make one change at a time. It was therefore agreed that the employment responsibility should remain with MSC for a further year when the issue would be looked at again. This would permit legislation to be introduced to effect the transfer.

I am copying this letter to John Kerr (H.M. Treasury), Christine Duncan (Lord Advocate's Department), Henry Steel (Law Officers' Department), Chairman, Manpower Services Commission and Richard Hatfield (Cabinet Office). I would be grateful if this letter were not copied outside Private Offices and were shown only to those who need to know of its contents.

Your sincerely  
Andrew Turnbull

Andrew Turnbull

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