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Prime Minister

Simply to note the start of the ^{net} Treasury campaign to keep the cost of the MSC/NAFE down to zero.

AP 27/1

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Tom King MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

27 January 1984

Dear Secretary of State

"TRAINING FOR JOBS"

Thank you for my copy of your letter to Keith Joseph of 13 January. I am glad that you have reached an agreement, and will be able to publish your White Paper on 31 January.

The Prime Minister's meeting on 20 December left us with two main remits:-

- a. to "examine ways of ensuring that the proposal did not lead to a net increase in expenditure";
- b. "to examine the differing impact on local authorities and to devise a formula which would minimise it".

This letter is about a. I hope that it will give Patrick Jenkin an opportunity to comment, as appropriate, on b.

We are agreed that £65 million should be transferred from the RSG to the MSC in 1985-86, and £110 million in 1986-87. We need to decide how to make the adjustments. I suggest we treat them in the same way as the £33 million adjustment we made for 1984-85 in respect of the transport supplementary grant. That is, we should agree in E(LA) each year a figure for aggregate exchequer grant, and then deduct the agreed transfers to the MSC - £65 million in 1985-86, £110 million in 1986-87.

We also agree that we need to make corresponding reductions of £65 million and £110 million in the public expenditure provision, and GREs, for local authority spending on education. I take it that we should make the aggregate reduction before we establish the baseline for the next Survey. (To translate it into GREs for individual authorities, we shall presumably need some assumption about the way in which the MSC will spend the money transferred from the RSG). Other things being equal, the reduction in GREs will tilt the distribution of grant away from education authorities.

To round out the main adjustments on the local authority side, I suggest that when we set the public expenditure provision and targets for local authorities in 1985-86, we should (notionally) reduce by £65 million the local authority budgets for 1984-85 which will be used as a basis for comparison. As you know, this would follow precedents in the case of national insurance surcharge reductions. Instead of looking at "NIS-adjusted" budgets we should look at "NAFE-adjusted" budgets. Again, this will presumably require an assumption about the way in which the MSC will spend its new money.

I record these points mainly for clarity. They clearly involve the interests of colleagues who have not so far seen the correspondence - Willie Whitelaw and members of E(LA). I should therefore be grateful if you could reflect them - perhaps by circulating this letter, if that would be simplest - when you report your proposals to colleagues more generally.

While the steps I have described will be important, I think we all recognise that they are unlikely to be sufficient to prevent a net increase in public expenditure. There will be an increase in spending by the MSC. I suspect we can only count on a matching reduction in the case of authorities which:

- a. will be paid by the MSC for courses they would have provided anyway, and
- b. will lose grant exactly equal to their new income from the MSC.

I doubt whether many authorities will find themselves in this position. Others may get more from the MSC than they lose in grant, and therefore increase their expenditure. Some will lose more in grant than they get from the MSC, and maintain expenditure at the expense of the ratepayer. I think this was common ground at the Prime Minister's meeting.

It is, of course, a normal rule of public expenditure surveys, which we have all endorsed, that increases in programmes cannot be financed at all by offsetting savings on local authorities, because these savings cannot be delivered. There is, in the jargon, a ring fence around local authority "relevant" current expenditure.

I am prepared to relax the full rigour of that rule in the exceptional circumstances of this particular case; but we cannot afford to depart too far from the general principle. As the Chancellor and I indicated at the Prime Minister's meeting, we must therefore ask you for a substantial reduction in your expenditure allocation for purposes other than MSC spending on NAFE, from 1985-86 onwards, to ensure, as far as reasonably possible, that there is no overall increase in public expenditure. We shall of course be looking for this after adjusting the baseline for 1985-86 and 1986-87 to reflect in particular the reduced requirements of the Youth Training Scheme. If you agree, perhaps officials could be asked to begin to prepare the ground.

I am sending copies of this letter to the Prime Minister, Keith Joseph, Patrick Jenkin, Norman Tebbit, George Younger and Nicholas Edwards, and to Sir Robert Armstrong.

Yours sincerely

J.S. Gien

J.P. PETER REES

[Approved by the Chief Secretary]

EDUCATION
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