

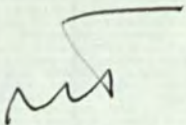
PRIME MINISTER

TRAINING FOR JOBS

The Treasury and Department of the Environment are now working out the financial consequences of the decision to give MSC greater responsibility for the financing of NAFE. The Chief Secretary proposed that MSC should increase its spending on NAFE by £65 million in 1985-86 and that RSG should be reduced by a corresponding amount. Mr. Jenkin wrote on 8 February proposing a different interpretation of the minutes of the 20 December meeting. He agrees that the public expenditure effect should be neutral but he suggests instead that LEA relevant expenditure should be reduced by £65 million and that the RSG proportion should be applied to the reduced total. The Chief Secretary has countered that this will leave LEAs approximately £30 - 35 million better off, i.e. they will receive £65 million from MSC but only lose about half this amount in grant.

I am sure that the Chief Secretary's interpretation is correct. Worse still, Mr. Jenkin's letter is guilty of selective misquotation of my letter of 21 December recording the outcome of the meeting. This did not talk about "resources but "RSG resources". It described the proposal as "transferring to the MSC part of the RSG resources currently attributed to NAFE".

Do you agree with the Chief Secretary's interpretation?

Yes  AT

13 February, 1984



2 Ppys

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

10 February 1984

Less Secretary of State,

TRAINING FOR JOBS

Thank you for your letter of 8 February. I am sorry that we seem to be at cross purposes.

Surely the central point is simple. We have agreed to give £65 million to the MSC in 1985-86. They will spend it (largely) on local authority courses. The local authorities will thus have £65 million more income from the MSC, and will need £65 million less from the RSG. Switching £65 million from the RSG to the MSC will be broadly neutral for local authorities in aggregate. It will not be neutral authority by authority, but it is not meant to be.

You suggest that we could reduce the RSG not by £65 million but by the RSG percentage of Local Authority Current Expenditure - ie. by £30-£35 million. But this would leave local authorities, in aggregate, better off. That is no part of our policy. It would enable them to increase their spending, and thus be inconsistent with the Prime Minister's remit that there should be no net increase in expenditure.

I hope, therefore, that you will be able, on reflection, to accept my suggestion that we should agree the aggregate exchequer grant for 1985-86 in the normal way and then deduct £65 million. That seems the only sensible way to ensure that we make the reduction in the RSG on which we have agreed.

I should add one small gloss. For simplicity, I have referred in this and my earlier letter to a single transfer of £65 million. In fact, of course, there will be two transfers - the bulk from the English RSG, and the remainder from the Welsh RSG. I am sure we should all be grateful if you and Nick Edwards could agree the appropriate division.

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I am copying this letter as before.

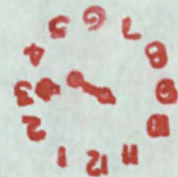
yours sincerely

MR

for PETER REES

(approved by the
Chief Secretary)

TV-1 P+2



13 FEB 1984

CONFIDENTIAL

MR TURNBULL9 February 1984TRAINING FOR JOBS

Patrick Jenkin's response to the Chief Secretary uses a highly selective quotation from your note on the meeting of 20 December to 'justify' the view that the transfer of NAFE funds to the MSC should come from LEA expenditure as a whole rather than from RSG alone. This would be a recipe for needlessly increasing Exchequer spending, since the Exchequer would be adding a new £65m to MSC resources, and would be reducing RSG by only £30m - a net additional cost of £35m.

I trust that the Prime Minister will therefore wish to make it entirely clear that £65m should be transferred from RSG to MSC to avoid an increase in Exchequer spending.

It is surprising that Patrick Jenkin "see(s) no point" in the Chief Secretary's proposal that the grant total should be first set and then adjusted downwards. The point of this manoeuvre is to ensure that the grant is reduced by as much as the MSC funds increase. The method is far from fool-proof, but it is the best that we can do.

The argument in Patrick Jenkin's third paragraph is specious. In purely technical terms, we shall be reducing the percentage of LEA expenditure borne by grant, since we shall be reducing both the RSG, and the total expenditure of which it is a part, by equal amounts. Some LEAs will no doubt say that this constitutes an attack on them. But in reality, these reductions in RSG will be matched by an equal increase in MSC funding for NAFE. If the LEAs are competitive enough with the private sector to attract almost all of the MSC funds, their effective grant percentage will not noticeably diminish. They will suffer only if they are not competitive. I hope that the Prime Minister will wish to make this clear in correspondence with DoE.

One further point should be noted, because it affects the interpretation that DoE and DES will place upon the first and second paragraphs on page 2 of the Chief Secretary's letter. A local

education authority should not be allowed to increase its grant related expenditure if the MSC shifts funds away from it to other LEAs or to the private sector. If we allowed such increases, we would effectively be preventing the MSC from rewarding good courses and penalising bad ones.

Oliver Letwin

OLIVER LETWIN

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

8 February 1984



Dear Peter,

TRAINING FOR JOBS

Thank you for sending me a copy of your letter of 27 January to Tom King.

I am most unhappy with your proposal for setting aggregate grant each year by first determining a global sum and then deducting the agreed transfers to the MSC. In the first place, the agreement between us was that £65m and £110m of resources should be transferred in England and Wales to the MSC in 1985-86 and 1986-87 respectively, not of grant. The distinction between the two was clearly brought out in the note from the Secretary of the Cabinet, and the note of the meeting of 20 December under the Prime Minister's chairmanship referred specifically to "resources". Paragraph 46 of the White Paper was carefully drafted so as not to imply that the increase in MSC provision would be matched by an equal reduction in grant.

Second, I see no point in agreeing a grant total which is then adjusted downwards. The simpler and more logical course is first to decide a figure for relevant expenditure - it is this figure which will be lower by £65m in 1985-86 than it would otherwise have been - and then to decide the amount of grant which is to be provided in support of it.

Third, we should avoid any suggestion in our discussions with local government that we propose to reduce both expenditure and grant by equal amounts. The arithmetical consequence of subtracting equal amounts from numerator and denominator would be a reduction in the grant percentage, which is not one of the purposes of our new policy. Indeed, we shall certainly be pressed by local government to say that it is not our intention to use the adjustment in public expenditure provision as an occasion for reducing the grant percentage, and I should like to be able to offer that assurance.

In principle I agree with your proposal for adjusting the PESC baseline, though since it is the education programme that will bear the adjustment, this is primarily for Keith Joseph in England and for Nick Edwards in Wales. As far as England is concerned, the methodology for translating the new control total into GREs will need to be discussed between my officials and Keith Joseph's; and we shall also want to hear the views of the local authority associations before reaching a decision.

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In principle, again, I agree with your suggestion for "NAFE-adjusted" budgets. But we shall need to look critically at the whole basis of targets for 1985-86, and I expect to be putting some suggestions on this to colleagues in the near future.

It was recognised at the Prime Minister's meeting that the decision to fund more work-related NAFE through the MSC could lead to an increase in public expenditure. I understand that my officials have already joined in a first discussion of your proposal that Tom King should reduce his expenditure allocation for other purposes.

As you say, the second remit from the Prime Minister's meeting was "to examine the differing impact on local authorities and to devise a formula which would minimise it". I think that the proposals in your letter, modified to take account of my objection to your suggested means of settling the grant total, go as far as possible to fulfil this remit through the grant and PESC systems. There is still a risk that the high spending authorities may gain more than they lose; this is especially the case with ILEA, which has no block grant to lose, and for whom therefore any payment received from the MSC will be a bonus. But this could only be avoided if the MSC's additional expenditure on courses were to match exactly, authority by authority, the reductions in expenditure by LEAs.

I am sending copies of this letter to those who received copies of yours.

Your ee
Pat

PATRICK JENKIN

Education - TUEI A2.

