

CONFIDENTIAL



he JK

10 DOWNING STREET

From the Private Secretary

22 February 1984

Dear Elizabeth,

TRAINING FOR JOBS

The Prime Minister has seen your Secretary of State's minute of 16 February and the minute from the Chief Secretary of 21 February. She sticks to the view, recorded in my letter to John Ballard of 15 February, that, as a consequence of the decision to give MSC a greater role in the provision of NAFE, RSG should be reduced by the same amount as the increase in the resources provided to the MSC.

She also agrees with the Chief Secretary that the mechanism by which the proposal is financed without generating an increase in public expenditure needs to be worked out now rather than incorporated as part of the negotiations on the 1985-86 RSG settlement.

I am copying this letter to John Gieve (Chief Secretary's Office), David Norminton (Department of Employment), John Ballard (Department of the Environment), Callum McCarthy (Department of Trade and Industry), John Graham (Scottish Office), Colin Jones (Welsh Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew Turnbull*

(ANDREW TURNBULL)

Miss Elizabeth Hodkinson,
Department of Education and Science.

✓



10 DOWNING STREET

Prime Minister ①

Although you knew that
RSG should be cut back by
the same amount as the
increase in spending on
NAFE by MSC, Sir Keith
is still arguing the toss.

The Chief Secretary's
minute to you puts the
matter very clearly. (Mr
Gregson has told me he
supports your interpretation)

Agree with CST?

AT

21/2

Yes no



FROM: CHIEF SECRETARY
DATE: 21 February 1984

PRIME MINISTER

TRAINING FOR JOBS

Keith Joseph's minute of 16 February suggests that there is a misunderstanding about the sum to be transferred from the RSG to the MSC. I am reluctant to bother you further; but we ought to clear it up. There are two main issues.

First, given that the taxpayer will give local authorities roughly £65 million more in 1985-86 through the MSC, should he pay £65 million less through the RSG? Keith implies that the answer is-no. I am sure that it is-yes. As Sir Robert Armstrong's paper of 12 December put it (in paragraph 26), "local authorities would not for the most part be losing resources: they would simply be getting them by another route".

Sir Robert Armstrong's paper floated, in parenthesis, the option of reducing the RSG by a lesser amount, so as to maintain the overall grant percentage (paragraph 6 of the paper). It would have been open to colleagues to propose this at your meeting on 20 December, but I do not remember that anyone did so. Had the alternative been raised, the Chancellor and I would have resisted it strongly, mainly because it would have made local authorities better off, and thus allowed them to increase their spending at the taxpayers' expense.

Second, should we identify amongst ourselves, both now and later, the transfer from the RSG to the MSC? As Keith says, we do not

CONFIDENTIAL

have a plan for the level of RSG in 1985-86. We have simply agreed that the RSG will be lower than it would otherwise have been. Keith suggests that this is just one of many factors to be taken into account when we come to settle grant. In one sense, that is clearly right. But I think we need an explicit discipline.

✓ We have taken a specific policy decision, and we need to carry
✓ it through. I have suggested that one option might be to settle grant in the normal way and then deduce £65 million. If colleagues would prefer, I should be equally happy to earmark £65 million of the RSG to be paid directly to MSC, if that is legally possible. There may well be other options. But we all - including Tom King - need to know where we stand. It is not sufficient to leave this to be lost amid the many other considerations which will ultimately determine the grant for 1985-86.

I am sending copies of this minute to the Secretaries of State for Education, the Environment, Employment, Trade and Industry, Scotland and Wales, and to Sir Robert Armstrong.

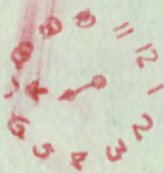
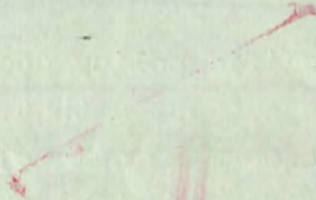
PR

PETER REES

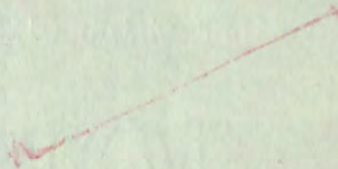
CONFIDENTIAL

EDUCATION
OVER

PT 2



2-1 JAN 1984



AP with Treasury ^{cc 40}
response



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400

Switchboard 01-213 3000

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Great George Street
LONDON
SW1

21st February 1984

Dear Peter,

TRAINING FOR JOBS

You wrote to me on 27 January mainly about taking forward the remit from the Prime Minister's meeting of 20 December to examine ways of ensuring that the proposal to transfer funds from the RSG to MSC does not lead to a net increase in expenditure.

I was greatly surprised by your approach to this question. I clearly recollect from the discussion at the Prime Minister's meeting that the danger of a net increase in expenditure was held to be very small. I can quite understand your concern that some courses will be persisted with by some colleges despite the reduction in grant. But I do not agree that many will be in that position.

It will not be the MSC's intention to start by disrupting existing NAFE provision. It will seek to agree the courses which it supports and any consequent changes in provision with the LEAs concerned. This should eliminate any question of LEAs increasing the overall amount of NAFE provision. The MSC will work out programmes with the colleges which take full account of their existing plans and which encourages them to see new developments growing out of, and therefore replacing, some present provision. The same consideration will ensure that the differing impact on authorities is minimised.



Moreover, it was clearly not our intention to introduce a change which would involve the MSC in finding from the resources allocated to its other programmes a substantial proportion of its extra expenditure to NAFE for that would negate our primary purpose. But if it would help in reaching agreement I will accept a maximum reduction of £5m in the MSC grant in aid on this account.

Copies of this letter go to those who received copies of yours.

2 u
—
lan

CONFIDENTIAL

Education : TUEI A2.



1 JAN 1984

ce 1/10

PRIME MINISTER

TRAINING FOR JOBS

Your private secretary's letter of 15 February crossed, I think, with my letter to the Chief Secretary of the previous day. - with ATT

At our meeting on 20 December there was indeed some confusion, for which I take my share of the blame, between local authority expenditure and its financing (ie from grant and rates). Part of the problem arises from the fact that MSC expenditure is classified as public expenditure, while RSG is not. We do not have a plan for the level of RSG for 1985-86. But paragraph 46 of the White Paper was clear about this. Plans for local authority expenditure are to be reduced by £65m and £110m; and "the resultant reduction in the need for local authority expenditure will be taken into account in settling the relevant rate support grants... subject to consultation with the local authority associations..."

As I said in my letter, the reduction in expenditure on NAFE is only one of many factors to be taken into account when we come to settle the total of grant to local authorities for 1985-86. May I suggest that we should leave the matter on one side for the moment? We must in any case consult the local authorities on these and other issues; and we shall be better able to judge in the autumn what level of grant will be appropriate to our general policies on expenditure and rates, including rate limitation.

I am sending copies of this minute to the Secretaries of State for the Environment, Employment, Trade and Industry, Scotland and Wales, the Chief Secretary and the Secretary of the Cabinet.

16/

16 February 1984

EDUCATION

TUET

PHZ

11 6 JAN 1984

