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PRIME MINISTER

TRAINING FOR JOBS

I have seen the letter from your Private Secretary to mine of 15 February; and a copy of the letter from your Private Secretary to Keith Joseph's of 22 February. I have also seen Peter Rees' letter of 10 February and minute of 21 February, and Keith Joseph's letter of 14 February, and minute of 16 February. I am sorry to have to return to the charge, but the view the Treasury is now taking will put me in an impossibly difficult position. It is not what I understood to be intended; and it will place me in legal difficulties.

I had clearly understood the decision taken at the meeting of 20 December to relate to resources. The note of the meeting certainly used the term "RSG resources", but this is an ambiguous and unusual expression, since Rate Support Grant is not, under the accepted definition, public expenditure; nor does it count as resources, since it is treated as a means of financing expenditure, like rates. Moreover there is no future provision for RSG from which a transfer to the MSC could be made; in terms of public expenditure planning, a transfer to MSC must be made from the appropriate local authority expenditure programme. At a meeting of officials on 21 December this interpretation of our decision was put forward by one of my officials and apparently accepted by all present, including the Treasury representative.

Irwin Bellwin and I, in considering the issue discussed at the meeting of 20 December, had very much in mind that any reduction in block grant necessarily falls on authorities which do not provide education, as well as on LEAs. So the greater the reduction in grant relative to total expenditure, the greater the perceived injustice to non LEAs.



I would have been content to go along with Keith Joseph's suggestion that the matter should be left on one side for the moment. I agree with him that 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. Besides, I think it important that in public presentation of the question we should be seen to be acting consistently with paragraph 46 of the White Paper, which says that "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".

I have considered Peter Rees' suggestion that £65m of the RSG for 1985-86 should be earmarked to be paid directly to MSC. This is not legally possible. The only other suggestion on the table is that we should settle grant in the normal way and then deduct £65m. He describes this as "an explicit discipline". In my view an agreement among ourselves to deduct £65m from a total that we have not yet decided would be logically indefensible. In law, we have to listen to what the local authority associations say and then take our decision in the light of their representations and all other relevant considerations. If this is not done, we are open to challenge in the courts. The local authority associations feel so strongly about this issue generally that such a legal challenge must be treated as a serious possibility.

I am sending copies of this minute to Keith Joseph, Tom King, Norman Tebbit, George Younger, Nicholas Edwards, Peter Rees and to Sir Robert Armstrong.

PJ

P J

24 February 1984

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