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Your ref: ●

Our ref:

Date: 31 May, 1984



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TRAINING FOR JOBS: IMPLICATIONS FOR PUBLIC EXPENDITURE

I am writing about the effect on public expenditure of the transfer of NAFE money from RSG to MSC from 1985/86 onwards. I understand that the Treasury is arguing that in order for the whole exercise to be neutral in terms of public expenditure it is necessary for DE or MSC to find cuts outside NAFE of £20 million in 1985/86 and £30 million in 1986/87. If any reduction has to be made, surely it would be more logical for it to be made from the Rate Support Grant rather than the Commission.

Naturally I understand the Treasury's concern, especially given the Prime Minister's wish that the NAFE exercise should be a transfer of public spending, not an increase. Nevertheless, I am very unhappy about the figures being bandied about which seem to me to be of completely the wrong order. I have yet to see any coherent argument supporting an offset amounting to one-third of the total or anything like it. Indeed, I question the need for any reduction. The Treasury line seems to take no account of the careful efforts that we are making to set things up in 1985/86 so as to preserve maximum continuity (consistently with the underlying aims of the initiative) and thereby to minimise the public expenditure effect. I shall be writing round separately to invite approval for these financial arrangements and this is a point I shall re-emphasise for the benefit of the Treasury.

A further important consideration is that the acceptability of the whole package in the eyes of the Commission and others will be reduced if the transfer of NAFE money to MSC is seen to be associated with a real reduction elsewhere in MSC programmes, wherever it may fall. It is, as you know, hard going to get the initiative off the ground. We are in a delicate negotiating situation. A cut of the kind sought by the Treasury would ensure that we would have to proceed without the agreement of the local authority associations.

It has, I understand, been suggested that the matter ought to be left to be settled during the public expenditure bilateral in September. I question whether that is right. In my view we need

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to get the issue out of the way before then so that we have a clear financial basis for planning both this and other MSC programmes. I would welcome an opportunity to put this and the other points in this letter to you and to the other Ministers involved, including Peter Rees.

I am copying this letter to Keith Joseph.

Law
Haw

cc PS / Mr Marmar

PS / Secretary

Mr Dax

Mr Bayhri - admin / draft reply

631/r

Mr Brand

Mr Kalan

Mr Faw