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Treasury Chambers, Parliament Street, SW1P 3AG
 The Rt Hon Lord Young of Graffham
 Secretary of State for Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NA

Prime Minister 2

DLW

5 March 1986

7/3.

Dear David,

TVEI

You sent a copy of your letter to Keith Joseph of 21 February to Nigel Lawson seeking colleagues' agreement to announcing in the summer that TVEI will move from a pilot to a national scheme from September 1987.

I appreciate the importance you attach to TVEI but we cannot accept that we should now agree to a plan costing £600 million which you describe as a "gesture of faith". I believe that the pressure from local education authorities for a decision- 15 months before the new spending you propose - can be resisted. If absolutely necessary the pressure could after all be met simply by extending the first pilots for a further year.

The possibility of further expenditure on TVEI must be considered as part of this year's public expenditure survey against the background of priorities both within DE expenditure and across Government expenditure more generally. You say that costs which fall within the PES period could be met from within present planned MSC resources. I appreciate that some savings in YTS would result from more pupils staying longer at school as a result of the extension of TVEI which you propose (equally there would also be additional costs for LEAs). But other possible savings do not depend on this. To the extent that savings are possible through reordering MSC priorities and eg increasing employer contributions to YTS, they must be considered, like other major expenditure proposals, as part of the Survey. Apart from being a normal and essential part of maintaining public expenditure discipline, this is even more important when, as in this case, a proposal that is to be financed by a switch within DE's provision may entail an increase in local authority expenditure within the DES programme.

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I am however content to agree that a working group of officials should prepare a report in advance of the public expenditure survey. As well as looking at the illustrative proposals set out in your letter I would like the group also to report on:

- a. the extent to which TVEI has so far been evaluated and the nature and timing of the availability of further results of evaluation;
- b. the extent to which local education authority expenditure would be higher or lower than it would otherwise have been as a result of your proposals both during and after the ten year period;
- c. what could be achieved by expenditure at a lower level eg half the rate you are suggesting;
- d. the savings that would be achieved to offset the proposed expansion.

The report can then be taken into account in the Survey process.

For my part I would need some persuasion that we should commit ourselves to expenditure on a national scheme prior to detailed and convincing evaluation results from the existing pilots, particularly in view of the priority you attach to enterprise and employment measures which have a direct impact on unemployment levels.

... I am copying this letter to the Prime Minister, Keith Joseph, Norman Tebbit, Paul Channon, Malcolm Rifkind and Nicholas Edwards. A copy also goes to Kenneth Baker together with a copy of your letter because of his responsibilities for local authority finance.

Yours etc,
JH

JOHN MacGREGOR