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PART A

SECRET

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PART A

1986 BUDGET BRIEFING AND BUDGET PRESENTATION

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PART A

STARTS :- 01-03-85
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Ref No. M1

BUDGET SECRET

Reference: BP 187

COPY NO 1 OF 28 COPIES

From: SIR PETER MIDDLETON
Date: 1 March 1985

CHANCELLOR

cc Mrs Lomax
Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Mr Bailey
Sir T Burns
Mr Littler
Mr Cassell
Mr Monck
Mr Battishill
Mr H Evans
Mr Monger
Mr Odling-Smee
Mr Folger
Mr Pratt

Sir Lawrence Airey)
Mr Green)IR
Mr Isaac)

Mr Fraser)C&E
Mr Knox)

Mr Cropper
Mr Lord
Mr H Davies

BUDGET: PRESENTATION

We are to consider presentation at the next overview. This note sets out a number of considerations which might guide the discussion.

2. There are three elements in the presentation:

(a) the Speech and Broadcast;

(b) the FSBR;

(c) briefing.

The Speech and Broadcast

3. The speech has to be positive. It cannot deal with defensive points except to a limited extent. There are three major themes:

(a) essential to keep to financial strategy to maintain and improve progress against inflation - good results so far must be rammed home - determination despite temporary setbacks and uneven path from year to year must be clear.

- need to do this realistically - stressing how you will have succeeded compared to past. Revised numbers on expenditure can be achieved; lower PSBR for next year can be attained.

- need to take account of events beyond our shores which affect exchange rate and interest rates. May affect relative role of instruments of policy - but not its direction;

(b) no scope for major reforms of tax this year but have to plan the next stage:

? computerisation /

- personal tax needs consultation in any case;

- Green Paper on personal tax;

- start to plan now, to start operation in 1987;
- not a Green Paper to put off action.

(c) what limited margin there is to be used to create jobs without putting strategy at risk:

(i) to deal with short term problem of unemployed;

(ii) to build up supply-side for medium term;

4. It is difficult to be sure what sort of market background we shall have. But:

(i) money and the exchange rate. We can be short about these in both the speech and the MTFS provided a sufficiently sharp piece can be drafted. A lot has been said already. We are sticking to the MTFS. And this primarily is a matter for post-Budget briefing;

(ii) the world background will be sufficiently cloudy to make a relatively short section on this desirable too.

5. We should therefore be able to have a relatively short speech - not more than one hour.

6. I need hardly add that getting the right balance between the counter-inflation and counter-unemployment themes is crucial to a successful presentation. There must be no suggestion that the Government is changing its priorities, while carrying conviction that:

(i) this is really an effective budget for jobs;

(ii) it is not just a lot of short term expedients that prove that jobs can only be created by higher expenditure rather than lower taxes. This means putting the main emphasis on the supply-side measures - YTS, NIC restructuring, supply-side aspects of other changes and emphasising the long-term benefits of raising tax thresholds;

? (iii) we are not [just] trying to cut pay but limit pay increases. The budget and the strategy are consistent with more jobs if pay is restrained. Emphasise the NEDC commitment (in the MTFS) that demand will be kept up if pay is reduced.

These are points which can be made again in a more direct manner to the population at large in the Budget broadcast.

The FSBR

7. We are returning to the crisp style of earlier MTFS's. This puts a great weight on briefing and post-Budget presentation. But we are likely to be more successful this way, and it will allow us to return to a more clear sighted statement of the strategy rather than a document designed to anticipate in advance questions from Select Committees and others. So it will support strongly the first theme of the speech.

Post-Budget briefing

8. This will assume an even greater importance than last year. A whole series of doubts will emerge in the days after the Budget. And we need to mobilise the whole department to deal with them:

- Ministers on the media;
- Ministers and advisers with the Government's own supporters;

- Ministers, advisers and officials with the press.

9. We shall need notes on:

(a) companies;

(b) the Budget and jobs

as well as the usual list of post-Budget summaries for the press, and backbenches etc.

10. We must draw up the sort of list we had last year of individuals and organisations who need special attention. We could perhaps take ideas for this at the overview.

11. Among the issues which the defensive briefing effort will have to deal with are:

(a) Realism. Past overruns will be repeated next year. Public expenditure will be attacked because of:

(i) the appearance of having suffered a major defeat;

(ii) the charge that there has been no effective attempt at control;

(iii) the charge that the growth is in areas over which there can be no control (in particular the allocation to economic categories in part 6 of the FSBR needs thinking about).

We have to convince people that the addition to the Reserve gives realistic and attainable totals - not just the base for more overspending;

(b) Priorities have shifted to dealing with unemployment by spending - ie adding the cost of the public expenditure measures to the overrun. Supply-side tax measures not very apparent;

(c) The Budget is irresponsible - reducing taxes despite a public expenditure overrun bigger than the Autumn Statement fiscal adjustment, and taking advantage of a temporary blip in North Sea revenues - should really have announced public expenditure cuts in 1985-86;

(d) There is a credibility problem on the receipts side - how we happen to have extra revenue to cover increase in spending since the PEWP;

+ the fact that increase from the N Sea, in view of what has been said about their temporary nature, [illegible] PSBR etc

(e) That the Government is succeeding in none of its major objectives:

- expenditure up every year;
- borrowing up this year;
- inflation up next year;
- interest rates up;
- exchange rate down;
- taxes hardly down if at all;
- tax reform shelved (bowing to pressure groups).

12. We shall be asked about how different outcomes for the dollar would affect the prospect, given what we have said about money and the exchange rate. In addition there will be all the

questions on monetary management which are not addressed directly in the MTFS this year.

13. There will be other rather smaller questions:

(a) issues arising from the TCSC : on expenditure where it looks as though they have been right all along; and on the exchange rate (we expect their report next week);

(b) We have to decide how to deal with demands for precise figures on jobs effects, leading to requests for unemployment forecasts;

(c) There will be any number of questions about the coal strike; its continuing cost and its financing.

14. The Budget presentation will also be affected by other events which will be, or are thought to be taking place in close proximity to the Budget. The two big events are:

(i) the Employment White Paper (if any);

(ii) Fowler.

The former affects the employment measures. The latter casts a shadow back to the Budget because we are bound to be asked whether it takes account of the Fowler Reviews. If not, why not. And does that mean there will be no public expenditure savings etc.

15. There are no doubt many other issues: we want to identify as many as we can of the big ones at your meeting.

PEM

P E MIDDLETON

Thanks. A possible Budget Starter.

FROM: A M RHODES
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

20 June 1985

1. MR DRAPER

2. PS/CHANCELLOR (MRS LOMAX)

UNIT TRUST INSTRUMENT DUTY

1. Your note of 18 June asks for an explanation of unit trust instrument duty. First perhaps it should be made clear that it has nothing to do with life assurance pipeline policies. Any misunderstanding on this score seems to have arisen because the briefing for the Chancellor's lunch with Save and Prosper was faxed across to the Treasury in the wrong order. References in the brief to unit trust instrument duty referred to the suggestion by Save & Prosper that the duty be repealed.

2. Unit trust instrument duty is charged at a rate of ¼% on all property put into a unit trust at its inception and on later net additions. It was intended as an equivalent to the duty investment companies had (and still have) to pay on their capital though at ¼% it compares favourably with the 1% capital duty investment companies pay. On the other hand unit trust holders bear directly or indirectly more stamp duty than portfolio investors because as well as unit trust instrument duty, stamp duty is also payable on transfers of the units and the underlying assets. The abolition of the duty was one of the possibilities considered by the 1983 Consultative Document and was one of the starters for this year's reforms. In view of its yield (estimated at £m 17 for 1985/86) it was decided not to abolish the duty this year (Ms Goodman's minute of 14 December refers).

cc Mr Corlett
Mr Farmer
Mr Munro
PS/IR
Mrs Rhodes

3. As the briefing for the lunch with Save & Prosper indicated the yield from unit trust instrument duty at £m 17 is more than the total cost of this year's stamp duty reform package (£m 14).

A M RHODES

3.17

FROM: MRS R LOMAX
DATE: 18 June 1985

cc Mr Farmer

PS/INLAND REVENUE

UNIT TRUST INSTRUMENT DUTY

The (unsigned) supplementary briefing on life assurance pipeline policies which was provided by someone in Revenue for the Chancellor's recent lunch for Save and Prosper referred to unit trust instrument duty. The Chancellor would be grateful for a note (which might start by explaining what it is!)

RL

RACHEL LOMAX

Ch.

The message from PEM is that you need to decide at tomorrow's meeting if you are going to raise the planning total at Budget time or both so you can say something at Cabinet, & to protect the CST in the PEWP debate. (The latter problem looks more immediate now: we have just heard that the CST has been invited to give evidence to the TCSC on the PEWP next week). How much to put on depends on how hard we are going to press on 1985-86 after the Budget.

I don't think tomorrow's

PTO

meeting is the right place to discuss monetary targets.

Partly because there is a lot else to be sorted out; partly because Geoffrey Howe's minute doesn't focus on all the relevant issues, many of which are better considered in the context of a draft of the MTFS. (What are we going to <u>say</u> e.g. about the exchange rate, our ambitions to stay well within the ranges? overfunding (both uncertain - if anything). The words matter as much or more than the figures.

I suggest we look at all this <u>next</u> week, when we will have a draft & - possibly - a note from HF.

You ought to take the Bank's

CHANCELLOR OF THE EXCHEQUER

Mind on likely market reaction to some of the fiscal/PG stories. There will be an opportunity to do so — informally — at the working lunch on Wednesday ahead of the EMS Seminar.

(In normal form, you would have a proper meeting on the MTFS monetary ranges when we had a draft — say next week or even later).

RL

11/2

Budget : Secret

Permanent Secretary
H M TREASURY

Chancellor,

You might like to glance at this. It's a note on which I will draw in presenting the arguments at tomorrow's meeting. Apart from the two problems of substance: the PE overrun + the markets, the main presentational problem arises from the margin which we made in the Autumn Statement

PEM

See also note by C Riley, responding to your questions on Goldhap Share.

Covering BUDGET-SECRET Budget Ref F36

FROM: A M W BATTISHILL

DATE: 11 February 1985

SIR PETER MIDDLETON

PUBLIC SPENDING AND BUDGET PRESENTATION

I have jotted down some points as you asked. They have come out on the long side, because I have tried to weave in the Pratt tables. But I think they cover the ground.

Higher spending } extension charges
Higher taxation } in all forms

A M W BATTISHILL

BP64

PUBLIC EXPENDITURE AND BUDGET PRESENTATION

1. Really three questions to be settled:

(a) what we are going to do about the expenditure prospect; and when;

(b) what is to be said to colleagues at strategy Cabinet on Thursday;

(c) (depending on (a) and (b)) how the Chief Secretary is to handle PEWP debate later this month. + TCSC evidence next week.

2. Must start on substance. All agreed that, on present policies, we face prospect of substantial overrun on PEWP figures next year. Forecast is a reasonably central estimate: suggests overrun of £1.8 billion on planning total (of which £0.6 billion is for coal; £0.4 billion for higher inflation/interest rates); plus another £½ billion on debt interest. Say £2¼ billion all told.

? £0.8 bn

3. Absolutely clear that the figures have to be increased sometime. Question is when; and what maximises tactical advantage (or minimises risk of adverse market reactions).

but by how much? Can any of this be clawed back?

4. Options are:

(a) to do nothing + by complication, go ahead with the 1½ bn tax cuts; brazen it out until July; and then face colleagues (and outside world) with need for a very substantial correction. Advantages: avoids having to explain changes only weeks after PEWP published; gives time to probe possibility of social security etc savings; maximises impact on 1985 Survey (better chance of getting realism). But risks increasing charges (through Budget) of total unrealism; and builds up enormous problem for July; criticism of letting things slide. If these are real risks, alternative is

? Identify this - Survey

[If you can have higher PE + lower taxes this year, why not next? hard credibility with colleagues too.]

yes.

BUDGET - SECRET

(b) to act in Budget (with conceivably some warning in the PEWP debate). Either:

- doing something in the direction of more realism on 19 March; with likelihood of more to come in July (the "two-shot" approach); or

- going for a larger correction at Budget time, and then trying to hold to that (the "one-shot" approach).

5. The presentational problem of (b) is that anything scored to higher expenditure (whether on the reserve; or programmes; or debt interest) has to be explained - with other Budget measures - in relation to £1½ billion (or less) fiscal adjustment. Money has to come from somewhere.

& how prospect has changed since A/S

6. Options are set out in Richard Pratt's minute of 8 February - especially Tables 1 and 2 (Table 3 assumes no action until July).

7. Perhaps start with Table 2. Assumes we announce an extra £1½ billion on public expenditure next year (£1 billion on Reserve; £½ billion extra debt interest).

- tokeep to a fiscal adjustment of £1½ billion and a £7 billion PSBR leaves no apparent room whatsoever for a tax/NICs package (or SEMs) other than on a revenue-neutral basis (unless we can claim prospect has improved)

OK - if you are also going to warn that 1985-86 is going to be overspent. If not, could put more on Reserve, & less on debt interest.

- Even then an extra £1 billion on the Reserve is not enough to cover the forecast overrun (without e.g. mid-year cuts or unrealistic Fowler etc savings).

- But we are actually burying some £1½-2 billion margin in the forecast.

M

but on the right direction - if aim is to not to overrun next year's PSBR (more about significant in rel. to margin of error) (contd)

8. If we wish to publish higher figures - on spending; tax; or the PSBR - we move into the territory covered by Table 1.

- This assumes £1½ billion on public spending; £¾ billion on tax/NICs/SEMs; adding up to a "fiscal adjustment" of £2¼ billion (plus) and a PSBR of £7 billion or:

Query

- could be presented as (say) £1¼ billion "fiscal adjustment" and £8 billion PSBR (or some other combination).

- Still falls short of complete realism on public spending, which needs at least £1½ billion on the Reserve.

which figures / "total Budget"?

9. So if it were decided to go for a realistic "one-shot" approach and a tax package the figures in Table 1 would have to be at least £½ billion higher still: £2¾-3 billion in all.

10. Could be achieved by combination of:

- original £1½ billion fiscal adjustment;

alt: Rest 1½ has taken the F.A. Responded by (a) scaling down tax cuts (-½) (b) raising PSBR (+1½ → 1) Debt interest + oil cancel out.

- plus up to another £1 billion by raising PSBR (to £7½-8 billion)

- plus (say) another £½ billion explained by higher oil revenues.

[This would cover +£1½ billion on Reserve; +£½ billion on debt interest; +£¾+ on tax/NICs/SEMs].

- and we should still have a £1-2 billion margin in the forecast.

11. Whichever scenario we are in, there is a question whether increaes in 1985/86 spending should be carried forward to later years. Without doing so, the cost terms reductions in later years will look totally unreaslistic.

but need to make them realistic is much less pressing

12. Relations with colleagues. Presumably no question of riasing public expenditure figures without Cabinet agreement. Will be criticised as collective failure. Re-establishing

realism must also be seen as collective business. Thursday's Cabinet probably best time to raise this. Suitable peg in para.12 of Strategy paper. (Easy to explain why no details given in paper). And essential to get early resolution with PEWP debate in early March. But need to discuss first with Prime Minister (? on Wednesday).

13. PEWP debate. Whatever outcome not easy for Chief Secretary to handle. Cannot risk criticism of "misleading House". One possibility is to warn of problem in general terms whilst leaving figures for the Budget. Risks of market uncertainty; but better than announcing extra public spending figure before this can be put into context of next year's PSBR and modest Budget package. "Definition of Budget" a bit of a red herring: higher public spending would still have to be explained in Budget context whether announced on, or before, 19 March.

c/ As promised. You may like to glance in the car.

MAY 17/6

LIFE ASSURANCE 'PIPELINE' POLICIES

The problem

Although not mentioned in Mr Messer's letter of 29 January, the question may arise of life assurance policies 'caught in the pipeline' on Budget Day last year.

As you will recall:

- a legal contract of insurance is only made where none party has notified unqualified acceptance of a proposal by the other.
- but some life offices mistakenly thought a contract ran from the point at which they regarded themselves as 'on risk!

So many last-minute policies now turn out to be ineligible for LAPR. This is a question of fact.

The recent Counsel's Opinion obtained by LOA lends no support to the alternative legal interpretation.

Save and Prosper issued a number of disputed policies but, after some negotiations, we are hopeful that a compromise settlement will be agreed soon.

Line to take

If pressed on this point, we suggest your line should be:

i. The legal position appears no longer to be in dispute, so ..

ii. the question of whether a legal contract was made in time will rest on the facts, and ..

iii. the Revenue are obliged to satisfy themselves that relief is properly due. They will not necessarily challenge every single policy - but they cannot give relief if there is no evidence that the contract was made before the deadline.

In the case of Save and Prosper themselves, you could say that you understand negotiations with the Revenue are still proceeding and that you hope a settlement can be reached.

AW2AAJ

PS. Pse let me have a note on 1(c). ~

i. CGT, Stamp Duty and Life Assurance

i(a) Point at issue - CGT should be abolished or simplified.

Line to take - abolition expensive (about £m800) and would allow tax aviodance by capitalisation of income.

- introduction of March 1982 market value as basis for indexation market the tax fairer, and allows restoration of share pooling. CGT now simpler for new investors (and for existing investors once shares acquired before March 1982 have been disposed of).

i(b) Points at issue - Abolish 1% transfer duty, or exempt unit and investment trusts from duty

i(c) - Abolish unit trust instrument duty.

i(d) - Abolish duty on life asssurance policies.

Live to Take

Cut in rate of transfer duty from 2% to 1% last year significantly reduced cost of share dealings . Abolition of duty on share transfers would be very costly.

Changes made to Stamp Duty this year - the abolition of duties on gifts and contract notes and the repeal of many fixed duties - significant simplification at modest cost). (£14m). This is less than the expected yield from unit trust instrument duty alone. (£17m)

AW2AAJ

i(e) Point at issue - reinstate pegged rate relief

Background - the "pegged rate" of 37½% at which life companies' profits are charged to be abolished when CT rate reduced to 35%. Life companies complaint not about level of rate, but are concerned that it should be pegged to given certaintly for future.

Line to take - Government's policy to keep CT rates low, and to keep distortions in tax system to a minimum. Retention of pegged rate and to counter to this policy.

iii. Employee Share Schemes

Points at issue Save and Prosper are unable to run an approved employee share scheme (under the FAs 1978, 1980 and 1984) becuase they are unquoted subsidiary of an unquoted parent.

Line to take

Chancellor aware of S & P's correspondence with the FST. As the FST has explained an acceptable relaxation to help S & P was unlikely to help many others, therefore Government decided against including legislation in the FB (see also Mr Farmers submission 14 June). (below)

AW2AAJ

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AW2AAJ

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(below)

AW2AAJ

SECRET

1986 Budget

FROM: MRS R LOMAX

DATE: 1 July 1985

M.O.M pmp.

cc PS/Financial Secretary
Mr Monger
Mr Pratt
Mr Corlett - IR
Mr Draper - IR
Mr Farmer - IR
Mr Munro - IR
PS/IR

MISS RHODES - INLAND REVENUE

UNIT TRUST INSTRUMENT DUTY

The Chancellor was grateful for your minute of 20 June. He would like to include abolition of this duty as a possible Budget starter for the 1986 Budget.

RL.

RACHEL LOMAX

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Mr Halligan
Mr G. McKenzie
Mr A. Walker IR
PS/IR

PWP

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

J M Sword Esq.
Chairman
Landowners' Group Taxation Committee
Bedford Office
29A Montague Street
London WC1B 5BL

27 July 1985

Dear Mr Sword,

Thank you for your letter of 11 July.

I was grateful to have these early thoughts for next year's Budget. I would not wish to preempt the Budgetary process by directing the content of your further submission. But I can say that the earlier it reaches us in the Autumn the better and I look forward to receiving it.

Yours sincerely
John Moore

JOHN MOORE

FINANCIAL SECRETARY TO THE TREASURY

RWP

MR J W BOYCE

FROM VIVIEN LIFE
DATE 29 JULY 1985

cc PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Monck
Mr Cropper
Mr Monger
Mr Jones IR
PS/IR

BUDGET STARTER 1986

DISCLOSURE OF INDIVIDUAL ESTABLISHMENT EMPLOYMENT DATA TO LOCAL AUTHORITIES

The Financial Secretary has read your minute of 24 July. He has commented that your proposal seems sensible and he is content in principle for this matter to be included in the list of starters. In due course the question will be one of space and priorities.

VL

VIVIEN LIFE

LT4.26

RWP

FROM: A W KUCZYS
DATE: 20 August 1985

PS/FINANCIAL SECRETARY

cc Miss Sinclair
Mr McKenzie

1986 BUDGET: LUNCH WITH COUNTRY LANDOWNERS ASSOCIATION

Mr McKenzie's note of 7 August suggested that the Financial Secretary should accept this invitation to lunch, but that the Chancellor should turn it down. He attached a draft reply for the Chancellor to send to James Douglas. I see, however, that it was Peter Gifford who wrote to the Chancellor.

2. Would it not be better if the Financial Secretary were to write to Mr Douglas, accepting the invitation, and explaining that the Chancellor's diary was already rather full for the Autumn? (I am not sure that it is necessary to go into detail explaining that we are rationing the CLA to one Minister.)

3. <u>If</u> you think it necessary, we could follow up the Financial Secretary's letter with one to Peter Gifford expressing the Chancelllor's apologies, but pointing out that the FST had now accepted.

AWK

A W KUCZYS

file

FROM: R C PRATT
DATE: 10 September 1985

CHANCELLOR OF THE EXCHEQUER

Ch.

I'd been strongly in favour of March. 2 possible dates, but no need to choose now. You may want to discuss arrangements on Monday

RC
13/9

18/3 v 15/4

cc
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Sir G Littler
Sir T Burns
Mr Cassell
Mr Evans
Mr Odling-Smee
Mr Scholar
Mr Turnbull
Mr Peretz
Mr Monger
Miss Peirson
Mr Culpin
Mr Cropper
Mr H Davies
Mr Lord
PS/IR
Mr Lewis (IR
PS/C&E
Mr Wilmott (C&E)
Mr Graham
Parliamentary Counsel

DATE OF THE 1986 BUDGET

1. This submission seeks your views on whether you wish to present your 1986 Budget in March (which has been the assumption on which we have been working so far) or in April. There is no need to decide on the precise date now (although you may wish to consider the possibilities) but longer term planning - particularly for your international commitments requires a reasonably firm decision on the month.

2. The attached paper sets out the main considerations, and includes suggested timetables for Budgets on March 11th, March 18th, April 8th, April 15th and April 22nd. Essentially, a March Budget:

(i) Avoids excessive pressure on the Finance Bill timetable;

(ii) Means tax changes are known before the beginning of the tax year, and their effects, whether increased revenue from changes in indirect tax rates or in larger pay packets from income tax cuts, show up more quickly;

(iii) Avoids the complications of having the Easter break in the final run up to the Budget.

But:

(iv) Allows less time for Budget decisions;

(v) Means that the final PSBR outturn for the 1985-86 will not be known before Budget Day.

The converse is true for an April Budget.

3. You will recognise these points as being similar to those that you considered last year. However, experience and circumstances have altered the weight of some factors a little - in particular:

(a) Easter is relatively early next year (March 30th) and so would be less disruptive to the Budget planning for a Budget on, say, April 15th, than would have been the case this year.

(b) Last year, we assumed that an April Budget would only be possible if the Finance Bill were printed (by the security printers) before the Budget. Having looked again at the required intervals between stages, and the time required for each stage, it now looks possible to plan for an April 15 Budget, without having to print the Bill before the Budget - although of course an April Budget leaves less room for manoeuvre if, as has happened in the past, the Finance Bill runs into difficulties.

(c) One more year's experience of a reasonable accurate forecast of PSBR outturn suggests that there is a reduced risk of the outturn proving substantially different from that forecast in the Budget.

Thus the difficulties associated with an April Budget look a little less severe than they did last year, but, at the same time, the main advantage - knowledge of the actual PSBR outturn - is perhaps less important as well.

?

4. Turning to the particular dates, a March Budget could be on 11th or 18th (no later because the Budget debates could then not be completed before the Easter recess). There is not a lot to choose between them, but the 18th allows another week for Budget planning and ensures that we know the February PSBR figure before the Budget.

5. In April, Budgets are possible on the 8th, 15th and 22nd. The 8th is very unattractive as we would not know the PSBR outturn and hence the main advantage of an April Budget would be lost. Easter would also interrupt the final Budget preparations. A Budget on the 15th would give very little time to change any of the Budget decisions in response to unexpected PSBR figures, (even if contingency plans were in place). The actual PSBR figure, however, could be inserted in the Budget documentation and there would be no need for advance, security printing of the Finance Bill. A Budget on April 22 would allow more time to reflect the PSBR outturns in Budget decisions but would require advance security printing of the Finance Bill, and mean a very tight Finance Bill timetable with little or no margin for unexpected delays.

6. It is worth bearing in mind that you are due to address the Lombard Association on 16th April. At present, EF are attempting to arrange IMF/IBRD meetings on 9th-11th April and OECD Ministerial meeting on 17th-18th April.

7. The attached paper sets out the main considerations more fully. As last year, the decision rests mainly on the weight to be given to the advantages of knowing the PSBR outturn figures as against the disadvantage of a compressed Finance Bill timetable. The balance, again as last year, still seems to point to March, (with March 18th marginally preferable). Sir Peter Middleton agrees with this conclusion, as do FP, PSF, the Inland Revenue, Customs and Excise and Parliamentary Counsel.

8. I should be grateful to know if you agree that the 1986 Budget should be in March. There is no need to decide on the precise date now but it would assist planning if you could indicate whether you agree that the 18th looks a slightly better alternative than the 11th.

Richard Pratt

RICHARD PRATT

DATE OF THE 1986 BUDGET

This note discusses the factors bearing on the choice between a 1986 Budget before Easter (in March) or after Easter (in April). It has been discussed and agreed within the Treasury and with Parliamentary Counsel and Revenue Departments.

The Options

2. In March, the Budget could on the 11th or 18th; in April, on the 8th, 15th or 22nd. Provisional timetables for Budgets on each of these days are set out at Annex A. Annex B gives details of past Budgets.

3. Easter Day is Sunday March 30th, with the Easter recess probably running from March 27th until April 6th.

An Early Budget

4. Apart from the increased time for printing and publishing the Finance Bill, and giving more flexibility for the Parliamentary timetable (see below) an early Budget ensures that revalorisation of excise duties and VED produces more revenue (about £12m a week) and that the effects of income tax reductions reach pay packets earlier. Moreover, if there are changes to the basic rate of income tax, it is helpful if that is known before the beginning of the tax year. Otherwise deductions of tax at source from interest and ACT on dividends are collected at the wrong rate for the first few weeks of the year.

5. An early Budget ensures that both the Budget itself and the immediate post Budget work is completed, before the Easter break (except insofar as a March 18th Budget would not allow the TCSC to complete their enquiries before Easter).

6. Annex B explores possible Finance Bill timetables. For either March 11th or March 18th, no real problems emerge. At least as much time is given between the various stages as is required by the conventions, and as much or more time is given for the duration of the individual stages as was required this year or has been required in most recent years. For both March timetables, the Finance Bill gets to the Lords before the end of July and there are intervals (for example between Second Reading and Committee of the Whole House) which we could squeeze if necessary to increase the time available for Standing Committee.

7. On the other hand, the earlier the Budget, the less time is available for its planning. And less is known about the financial year just ending - particularly the PSBR outturn figures, which are not known until the middle of the second week in April. This could affect the forecast and the judgements underlying the Budget arithmetic.

8. There are two possible dates in March - the 11th and 18th. The 11th would be one of the earliest in recent years but would not be unprecedented. Two factors weighing against it are (just) worth mentioning:

(i) There would be no opportunity to take account of the February PSBR outturn figure (although that may not matter too much because an unexpected result for the 11th month does not necessarily imply a changed forecast for the year as a whole);

(ii) the provisional money supply figures for banking February will be published at 2.30pm on March 11th and this, coming an hour before the Budget Statement, could be a source of potential embarrassment.

These factors would not apply to March 18th and indeed, the extra week for pre Budget planning would allow further development of the forecast by eg allowing Departments more time to assess their likely end-year spending. But on the other hand, March 18th could cause some difficulties (but negligible revenue loss) for the Department of Transport in that VED renewal applications for April could be posted before the Budget but within 14 days of the end of March, and hence be eligible for renewal at the old rate. Moreover, because Easter is so early next year, the Budget debates would only just be completed before the recess and the TCSC enquiry would have to spill over until after the recess.

9. On balance March 18th looks preferable, but there is nothing very much to choose between that and the 11th.

An April Budget

10. With improved forecasting methods reflected in another year's experience of a reasonably accurate forecast PSBR outturn, the risk of a substantial and embarrassing divergence betwen a forecast PSBR in a March FSBR and the outturn four or five weeks later are reduced. The main advantages of an April Budget - that it allows account to be taken of the outturn figure in the Budget judgements and documentation - therefore carries a little less weight. At the same time, experience with the Finance Bill this year, and the effect of an early Easter, suggest that the practical difficulties and risks to the pre-Budget and Finance Bill timetable of an April Budget may also be reduced. These factors are considered below.

PSBR Outturn

11. An early indication of anything unexpected in the PSBR figures might be given by the CGBR(O) figure, which would be known in the Department by April 2nd. The PSBR overall figure will be known by about Wednesday April 9th (but if the figure for LAs on PCs is different from forecast we will not know whether it is because of a revenue shortfall or expenditure overrun, and hence what implications it carries for 1986-87.

12. An April 8th Budget would therefore be presented before the PSBR outturn were known. Even the CGBR(O) figure would only be known the previous Wednesday. Since this date offers little advantage, in terms of knowledge of the PSBR, over March Budgets the rest of this note assumes that the realistic dates for an April Budget are 15th and 22nd.

13. For an April 15 Budget, the deadlines are as follows

(i)	Decisions on VAT and excise duties	March 27th
(ii)	Decisions on income tax basic rate	April 4th
(iii)	Decisions on personal allowances	April 8th
(iv)	Agreement on FSBR text	April 12th

Provided that contingency plans, for alternative packages, had been worked up in advance, it should be possible to extend these deadlines a little for some tax changes. Thus decisions on say, tobacco duties and personal allowances might be left until the middle of the week beginning April 7th, (albeit with a greater risk of error).

14. This would mean that, if the Budget were on April 15th, it would be possible to include the new PSBR figure (and 'best guesses' of its component parts) in the text and tables of the FSBR. Charts could probably not be amended and would have to be dropped.

15. It would be technically possible to adjust some tax measures (such as the basic rate of income tax) in response to the CGBR(O) figure. If contingency plans had been laid, and alternative tax packages prepared one or two changes (perhaps to personal allowances or tobacco duties) could conceivably be made in response to the overall PSBR figure known on April 9th. However, to make such changes would carry a substantial risk:

(i) There would be very little time to ensure that the overall balance of the Budget was not upset.

(ii) There would be a high risk of error in the hurried changes that would be necessary to the FSBR, Press Notices and to the instructions and guidance the revenue departments have to issue.

(iii) It might not be possible to produce any distributional analysis of the effects on households.

16. For a Budget on April 22nd, the extra week allowed would ease many of these problems by allowing that much more time to consider more fully the implications of any changes to tax measures and amend the Budget documentation.

The Budget and Finance Bill Timetable

17. Pre-Budget planning begins in earnest after Chevening. An April Budget therefore extends the planning period from about 9 weeks, to about 14 weeks. The Easter Bank Holiday (March 27th-March 30th) would eat in to this a little, but since there would be two clear weeks after Easter before the Budget, it should not cause too much disruption.

18. After the Budget, the debates, the subsequent TCSC enquiry and associated work would slip into May, thus diverting resources from other, non-Budget work.

19. The Finance Bill timetable for an April Budget, whether on 15th or 22nd looks tight, but not impossible. In the case of an April 22nd Budet it would be necessary to make up an extra week, partly by printing the Finance Bill before the Budget (by security printers) and partly by squeezing the intervals between the different stages. Annex A assumes that the Bill could be published 10 days after the Budget and the interval between publication and Second Reading squeezed by a day with the timetable thereafter identical to that for a Budget on April 15th. But the precise details would have to be discussed with the Whips, Parliamentary Counsel and the printers.

20. Advance security printing of the Finance Bill is itself a serious added complication to the timetable. Although the security record of the printer is good, there is a slight increase in the risk of a leak. The printer has a substantial amount of work to do already (including the FSBR and Budget resolutions) and so may impose printing deadlines which might limit the extent of tax changes that could be made in the last days before the Budget. Despite the difficulties, advance printing should probably be possible but it would be necessary to discuss the detailed arrangements with the printer, Parliamentary Counsel and the Whips. The extra rush to get the Finance Bill to the printers early would also increase the risk of drafting error and the need for subsequent amendment. and the further squeeze on the timetable could well attract Parliamentary criticism.

21. The timetables for both 15th and 22nd assume that Committee of the Whole House should come one week after second reading, instead of leaving a gap of at least two weekends, as in recent years. There is no Parliamentary need for two weekends, since there is no need to allow time for drafting complicated amendments before Committee of the Whole House. Parliamentary Counsel and Inland Revenue consider that provided advance notice of the timetable is given, this shorter interval would be unlikely to attract criticism.

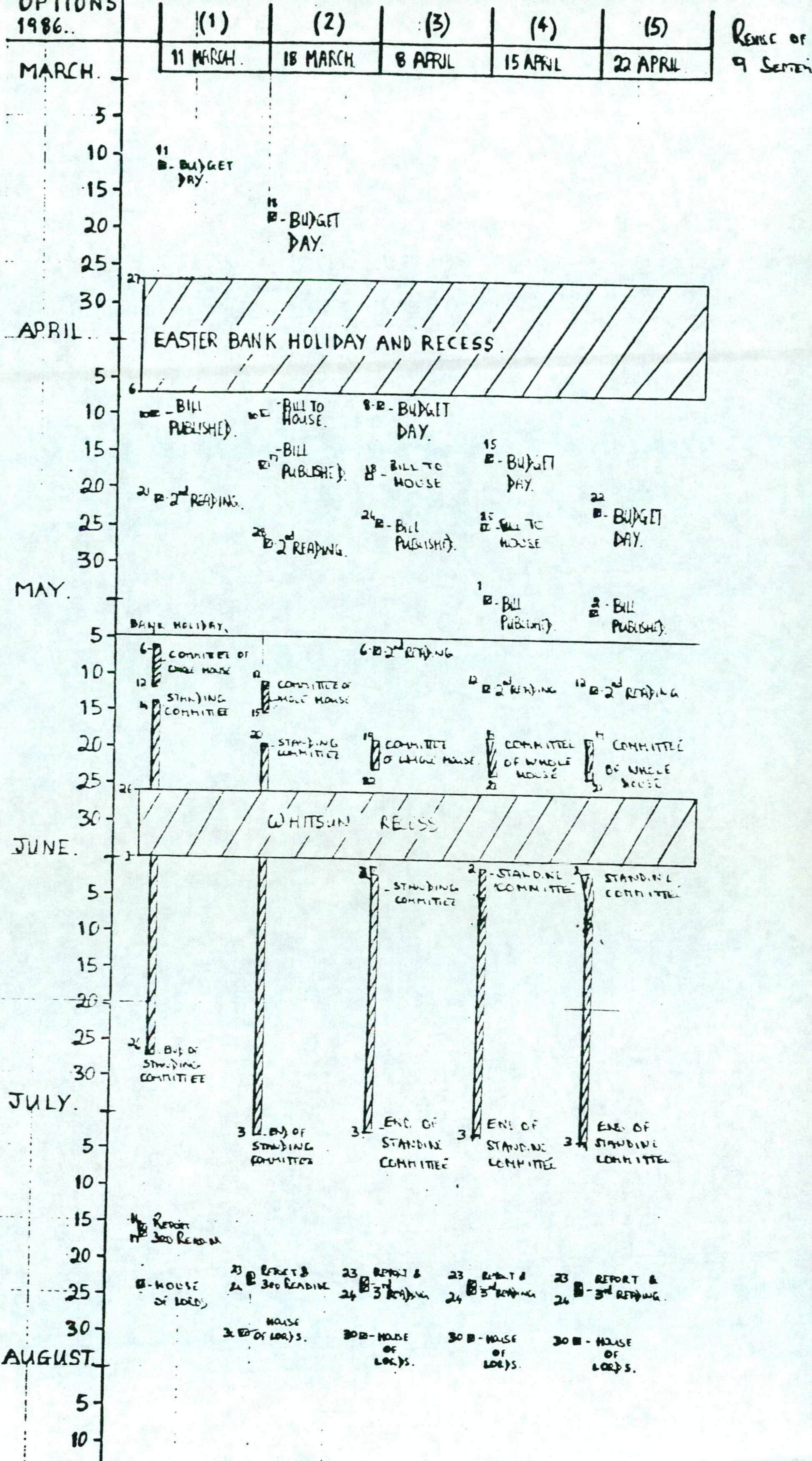
22. Standing Committee would then start immediately after the Whit recess - on June 22nd. The timetable gives 10 sitting days for Standing Committee, with a gap of just under 3 weeks between Standing Committee and Report. This is in line with this year, but in the past, 11, 12 or even 13 days have been required. Were this to be the case in 1986, it would be necessary to consider squeezing the time between Committee and Report (awkward as there are a number of Government amendments to draft) or having 3 instead of 2 Standing Committee sittings a week in some weeks. The Bill would then go to the Lords on July 30th.

Conclusion

23. The case both for and against a late Budget consists of much the same factors as were considered last year. But in the light of experience and given an early Easter in 1986, both the advantages of a late Budget and the practical difficulties appear a little less significant than they did at this time last year.

24. The balance, as last year, is between the value to be attached to knowing the PSBR outturn in advance of the Budget, and the risk of an excessively tight Finance Bill timetable.

25. Again as last year, the risks of an April Budget outweigh its advantages and a March Budget seems the safer option. Of the two alternative dates, March 18th seems marginally preferable.



OPTIONS 1986.
(1) 11 MARCH
(2) 18 MARCH
(3) 8 APRIL
(4) 15 APRIL
(5) 22 APRIL
Revise of
9 Septem
MARCH
APRIL
MAY
JUNE
JULY
AUGUST
11 - BUDGET DAY.
18 - BUDGET DAY.
EASTER BANK HOLIDAY AND RECESS.
BILL PUBLISHED.
BILL TO HOUSE.
8 - BUDGET DAY.
17 - BILL PUBLISHED.
18 - BILL TO HOUSE
15 - BUDGET DAY.
21 - 2nd READING.
22 - BUDGET DAY.
24 - BILL PUBLISHED.
25 - BILL TO HOUSE
28 - 2nd READING.
1 - BILL PUBLISHED.
2 - BILL PUBLISHED.
BANK HOLIDAY.
6 - COMMITTEE OF WHOLE HOUSE
6 - 2nd READING
14 - STANDING COMMITTEE
12 COMMITTEE OF WHOLE HOUSE 15
12 - 2nd READING
12 - 2nd READING
20 - STANDING COMMITTEE
19 COMMITTEE OF WHOLE HOUSE 22
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COMMITTEE OF WHOLE HOUSE
WHITSUN RECESS
2 - STANDING COMMITTEE
2 - STANDING COMMITTEE
STANDING COMMITTEE
26 - END OF STANDING COMMITTEE
3 - END OF STANDING COMMITTEE
3 - END OF STANDING COMMITTEE
3 - END OF STANDING COMMITTEE
3 - END OF STANDING COMMITTEE
16 - REPORT
17 - 3RD READING
23 - REPORT & 3RD READING
24
23 - REPORT & 3rd READING
24
23 - REPORT & 3rd READING
24
23 - REPORT & 3rd READING
24
- HOUSE OF LORDS
31 - HOUSE OF LORDS.
30 - HOUSE OF LORDS.
30 - HOUSE OF LORDS.
30 - HOUSE OF LORDS.

EAR	SUNDAY	DAY.	OF BILL	READING	WHOLE HOUSE BEGAN	DAYS	STANDING DAYS	ENDED	BEGAN	DAYS	READING	LORDS	BILL	ACT	BUDGET TO 3RD READING	COMMENTS.
69	APRIL 6	APRIL 15	APRIL 29	MAY 6	MAY 13	4	7	JUNE 26	JULY 15	3	JULY 18	JULY 24	192	216	94	
70	MARCH 29.	APRIL 14	APRIL 28	MAY 5	MAY 12	3	—	—	MAY 27	1	MAY 27	MAY 28	71	75	44	BUDGET BEFORE GEN. ELECTION
71	APRIL 11	MARCH 30	APRIL 20	APRIL 28	MAY 11	4	7	JUNE 21	JULY 5	3	JULY 7	JULY 21	119	130	99	
72	APRIL 1	MARCH 21	APRIL 11	APRIL 20	MAY 9	6	15	JUNE 28	JULY 10	3	JULY 19	JULY 26	204	223	120	
73	APRIL 22	MARCH 6	MARCH 23	APRIL 2	APRIL 10	2	7	MAY 23	JULY 10	1	JULY 11	JULY 24	92	116	127	
74	APRIL 14	MARCH 26	APRIL 26	MAY 9	MAY 16	5	8	JULY 2	JULY 16	3	JULY 22	JULY 30	93	122	118	ELECTION YEAR
974	NOT RELEVANT.	NOV. 12	DEC. 10	DEC. 17	JAN. 15 (1975)	3	12	FEB. 18 (1975)	MAR. 4. (1975)	4	MAR. 10 (1975)	MAR. 13 (1975)	130	157	108	WINTER BUDG BROADLY COMPARA
75	MARCH 30	APRIL 15	APRIL 29	MAY 8	MAY 15	3	8	JULY 3	JULY 16	2	JULY 17	JULY 31	110	122	93	
76	APRIL 18	APRIL 6	APRIL 15	MAY 3	MAY 11	3	13	JULY 1	JULY 13	3	JULY 19	JULY 27	144	179	105	
977	APRIL 10	MARCH 29	APRIL 19	APRIL 28	MAY 9	3	8	JUNE 23	JULY 14	3	JULY 25	JULY 28	78	88	128	OCTOBER MINI-BUDGET AND FINANCE BI
978	MARCH 26	APRIL 11	APRIL 20	APRIL 27	MAY 8	3	10	JUNE 27	JULY 5	4	JULY 13	JULY 31	91	108	93	
979	APRIL 15	JUNE 12	JUNE 21	JULY 27	JULY 3	5	—	—	JULY 18	1	JULY 18	JULY 24	22	22	36	BUDGET AFTE GENERAL ELECTI
980	APRIL 6	MARCH 26	APRIL 17	MAY 8	JUNE 2	3	10	JULY 3	JULY 16	2	JULY 17	JULY 31	142	176	113	
981	APRIL 19	MARCH 10	APRIL 3	APRIL 13	APRIL 30	5	11	JUNE 30	JULY 14	3	JULY 20	JULY 24	195	218	132	
982	APRIL 11	MARCH 9	MARCH 26/30	APRIL 6	APRIL 22	4	11	JUNE 24	JULY 12	2	JULY 13	JULY 20	189	256	126	
983	APRIL 4	MARCH 15	MARCH 31	APRIL 14	APRIL 25	4	—	—	—	—	MAY 11	MAY 12	164	79	56	BUDGET BEFOR GENERAL ELECT
984	APRIL 22	MARCH 13	MARCH 29	APRIL 10	APRIL 30	3	13	JUNE 26	JULY 10	2	JULY 11	JULY 25	223	262	120	
985	APRIL 7	MARCH 19	APRIL 16	APRIL 29	MAY 7	2	9	JUNE 25	JULY 10	2	JULY 11	JULY 25	242		114	

CONFIDENTIAL

FROM: R PRATT
DATE: 20 SEPTEMBER 1985

PS/CHANCELLOR (Mr Kuczys)

1986 BUDGET DATE

The Chancellor, with the agreement of Treasury Ministers, has now decided on a possible date for the 1986 Budget.

2. It is customary for the Chancellor's private secretary to write to the Prime Minister's private secretary asking for confirmation that the Prime Minister is content.

3. I attach a draft letter which you may care to send.

Richard Pratt

RICHARD PRATT

CONFIDENTIAL

Pl type for my sig

~~DRAFT~~ LETTER TO THE PRIME MINISTER'S PRIVATE SECRETARY

David Norgrove Esq
10 Downing Street
LONDON SW1

1986 BUDGET

The Chancellor has been considering the timing of next year's Budget. He has provisionally decided that the best date would be 18 March. This is feasible in terms of the Parliamentary timetable, timetable for Publications of Statistics, and diaries.

The Chancellor would be grateful for confirmation that the Prime Minister is content that we should plan provisionally on this date. An announcement would not of course be made until the New Year.

I am copying this letter to David Morris (Lord Privy Seal's Office) and Murdo Maclean (Chief Whip's Office).

[AWK]

008/114

RESTRICTED

pst

CHIEF SECRETARY TO THE TREASURY

FROM: **PAUL PEGLER**

DATE: 16 September 1985

MR PRATT

cc: Chancellor
FST
EST
MST
Sir P Middleton
Mr Bailey
Sir G Littler
Sir T Burns
Mr Cassell
Mr Evans
Mr Odling-Smee
Mr Scholar
Mr Turnbull
Mr Peretz
Mr Monger
Miss Peirson
Mr Culpin
Mr Cropper
Mr H Davies
Mr Lord
PS/IR
Mr Lewis IR
PS/C&E
Mr Wilmott (C&E)
Mr Graham (Parly. Counsel)

DATE OF THE BUDGET

The Chief Secretary has seen your minute of 10 September to the Chancellor and has commented that he would prefer a date in March for next year's Budget.

Paul Pegler

PAUL PEGLER

001/052 CONFIDENTIAL ~~B/f 1/10~~

Mr R Pratt

RWP

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

David Norgrove Esq
10 Downing Street
LONDON SW1

23 September 1985

Dear David

1986 BUDGET

The Chancellor has been considering the timing of next year's Budget. He has provisionally decided that the best date would be 18 March. This is feasible in terms of the Parliamentary timetable, timetable for Publications of Statistics, and diaries.

The Chancellor would be grateful for confirmation that the Prime Minister is content that we should plan provisionally on this date. An announcement would not of course be made until the New Year.

I am copying this letter to David Morris (Lord Privy Seal's Office) and Murdo Maclean (Chief Whip's Office).

Yours sincerely

Tony Kuczys

A W KUCZYS
Private Secretary

1. ~~Rachel~~
2. ~~Phil~~ (o/r)

10 DOWNING STREET

From the Private Secretary 25 September 1985

Dear Tony,

1986 BUDGET

The Prime Minister has seen your letter of 23 September. She is content that the Chancellor should plan provisionally on a date of 18 March for the Budget. She has noted that an announcement would not be made until the New Year.

CH/EXCHEQUER

REC.	25 SEP 1985
ACTION	Mr Peatt
COPIES TO	

25/9

Yours,

David.

DAVID NORGROVE

Tony Kuczys Esq
H M Treasury

2150/13

CONFIDENTIAL

1. Rachel ~~2. Phil~~ — this is evidently the result of FST's private word with Ch before the conference.

~~3. B/f with Revenue pps (or 1/12)~~

AWK

RJP

NOTE OF A MEETING IN HM TREASURY
9.45 AM TUESDAY 8 OCTOBER

Present: Financial Secretary
Mr Corlett IR
Mr Munro IR
Mr Morgan IR
Miss Sinclair

PREPARATION FOR 1986 BUDGET

1. The Financial Secretary explained that he had done some preliminary thinking as to which areas it might be useful to explore in preparation for the 1986 Budget and had also had some initial discussions with the Chancellor. As a result he wanted to look at two areas: Pensions and CTT.

Pensions

2. The Financial Secretary identified two areas: abuse and refund of surpluses. He explained that the Chancellor was very anxious to see action to curb abuse of tax relief for pension funds.

3. On the question of refund of surpluses there was a new approach which he and the Chancellor would like the Revenue to explore. Rather than requiring companies to grant a contributions holiday or improve benefits before allowing a refund of surplus to be paid to the company, could not the Revenue allow refunds provided that the tax foregone were paid back to the Exchequer? This would be in keeping with the Inland Revenue's role which was to ensure that there was no abuse of the tax relief. It would be for the actuary to determine whether or not there was surplus, and hence to protect the rights of pensioners.

4. The Financial Secretary asked Mr Corlett and Mr Munro to produce a "think piece" on both these aspects of tax relief for pension funds by later this month.

CTT

5. The <u>Financial Secretary</u> recalled the consideration which had been given to Business and Agriculture relief for CTT prior to the 1985 Budget. One reason why it had not been pursued was that it had seemed difficult to separate business relief from agriculture relief and there seemed little justification for granting agricultural relief. But he would now like the Inland Revenue to look again at the question of business relief in isolation from agricultural relief.

6. The Financial Secretary also wanted to take another look at removing lifetime CTT. It was clearly right in logic to remove it. The decision not to pursue this last year had been taken in the light of the fact that it required very lengthy legislation: 30 pages to legislate for a zero rate of lifetime CTT and 200 pages to remove it from the statute book altogether. However, we were starting earlier this year and he would find it helpful to look at this again.

7. He therefore asked for a second paper covering these two aspects of CTT.

VL

VIVIEN LIFE

cc Those present
PS/Chancellor
Mr Monger Mr Scholar.
PS/IR

MICHAEL FORSYTH : TEN MINUTE RULE BILL ON SELF-EMPLOYMENT

Line to take

Government have done a great deal to encourage self-employment - number of self-employed has risen by over 1/3 since 1979. My hon Friend's Bill goes in some respects too wide, but we shall continue to look for further opportunities to foster enterprise and risk taking.

BACKGROUND

Treasury Chambers. Parliament Street. SW1P 3AG

Rt Hon John Biffen Esq MP
Lord Privy Seal
Privy Council Office
Whitehall
LONDON
SW1A 2AT

24 January 1986

Dear John

Michael Forsyth has tabled a motion for a Ten Minute Rule Bill for First Reading on Tuesday 4 February. The motion reads: "Right to be self-employed: that leave be given to bring in a Bill to clarify the criteria used to determine self-employed or employee status for the purposes of tax and other legislation".

He has not yet handed in the Bill itself, but I am assuming that it is the draft Bill which was published before Christmas as part of a policy paper by the Institute of Directors. The Bill's aim (broadly speaking) is to allow anyone to choose to be self-employed for tax and other purposes if he has more than one job (or if he has only one job but it is not subject to a written contract of employment). At present, a person's employment status rests basically on the question of whether he is in business on his own account.

We have done a great deal to help and encourage the self-employed (and this is evidenced in the very big rise since 1979 in their number). In particular, the Inland Revenue and DHSS have put in a lot of work in recent months to ensure that people are aware of the criteria for determining employment status, and that their own staff in local tax and social security offices are clear and consistent about applying them. But the question of changing the criteria, so as to adjust the boundary, is something we have looked at several times and very thoroughly, without finding any acceptable alternative to the present position.

I recognise of course that some colleagues see attractions in the general sort of approach behind Michael Forsyth's Bill. But his proposals would go very wide. They would enable a large number of people who are ordinary employees simply to change their status for tax purposes without in any way changing their work pattern or engaging in risk-taking. If that were the main effect, we would be paying a heavy cost in lost tax and national insurance contributions (and in extra civil service manpower) without any benefit in terms of added employment or enterprise. This is something we can hardly support; among other things, it could add to difficulties over "earning and drawing" among casual workers.

If you and colleagues are content, I suggest that we allow his Motion to proceed but that the Whips should arrange for the Bill to be blocked at Second Reading (if it gets that far). If there is a vote following the Bill's introduction on 4 February, I suggest the right course for Ministers is to abstain.

I am copying this to David Young and to the other members of L Committee.

JOHN MOORE

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Prup

C. OK?

R 4/2

Phil

NO 10 BRIEFING

on: M. Forsyth's 10 Minute Rule Bill on Self-Employment

The line to take was provided by Mr. Martin in IR over the 'phone – a copy has gone to the FST's office.

Req. asap for PM's questions.

Richard
4/2

OK

PWP

FROM: APS/Minister of State

DATE: 11 November 1985

MR G W MONGER

bj 13/11

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Anson
Mr Byatt
Mr Cassell
Mr Scholar
Mr Watson
Miss Sinclair
Mr Cropper
Mr Isaac - IR
Mr Blythe - IR
Mr Mace - IR

TIMETABLE FOR THE PUBLICATION OF THE PERSONEL TAX GREEN PAPER

The Minister of State has seen your minute of 8 November and has commented that he favours a post Budget Day publication date.

E Frankis

MISS E C FRANKIS
Assistant Private Secretary

014/SP

AND PERSONAL

SECRET

Pl. type for Ch's signature

NWP

OK as slightly amended. Thanks

Ch/ Stuck in draft, a rather hasty but you might check that I have met the points you mentioned this morning. The "political" paragraph reflects discussion with Peter Cropper - though the stuff about local government is mine.

RL 2/12.

FROM: CHANCELLOR
DATE: 2 DECEMBER 1985

PRIME MINISTER

TAX CUTS: STRATEGY

A month or so ago we discussed the need to rebuild the shrinking constituency of those who want to see substantial cuts in personal taxes. I believe that we have made some headway here in recent weeks, but it has been particularly disturbing to sense these doubts amongst some of our own supporters, who should be the main proponents of the argument that without lower taxes we will never get an enterprising, vigorous and flexible economy; and that voters rightly want to keep more of their own money to spend themselves.

It is ironic, but we need to continually to advocate the case for lower taxes - not just with our colleagues in Cabinet, whose interest in lower taxes may conflict with their Department's pressures for higher public spending, but even with supporters inside and outside the House whose interest in tax cuts one might expect to be much more straightforward. I believe that we now have to step up our effort, to prevent erosion of our position, and to go on the offensive, with new arguments and fresh approaches.

Since our 1979 reduction in the basic rate of income tax we have put very large sums of money into threshold increases, taking people at the bottom end out of income tax altogether, reducing the numbers of people facing very high marginal tax/benefit withdrawal rates, and improving the rewards for those who work in relation to those who do not.

But the sheer cost of raising allowances with the present tax structure means that year by year we appear to be making painfully slow progress. This is, perhaps, a reason why our supporters lose enthusiasm for tax cuts. We need to think of imaginative ways of restoring their appeal.

This has been a major driving-force behind my personal tax Green Paper. Its proposals would distribute threshold increases more cost-effectively. From a given amount of tax relief more would go to one-earner couples where the wife is at home with the children - the group most a ~~effected~~ affected by the why-work syndrome, and where the disincentive effect of taxation and benefit withdrawal is strongest. There would also be a step-increase in the single person's allowance - which, by taking many young people out of tax altogether, should help to reduce the numbers of young unemployed. The result would also be a fairer distribution in the tax burden on married couples at different points in their lives. Most women nowadays have paid jobs for ~~at least~~ a good part of their working lives. But the present tax system is hardest on married couples at just that time when they have the responsibilities of a young family and the wife is least able to work outside the home.

a x

I believe that the Green Paper proposals would be [~~politically~~] attractive to a wide range of political opinion, both within and outside the Party - and especially to women voters. The various tax penalties on marriage - all of which spring from the anachronistic rule that ~~the taxpayer persist~~ for tax purposes a married woman's income is treated as her husband's - arouse resentment among women right across the political spectrum, as I am sure you know from your own correspondence. All of them would go if the Green Paper proposals were adopted. ~~You will recall that the Women's National Advisory Committee, in responding to Geoffrey Howe's~~ earlier Green Paper, unequivocally supported the principle ~~and~~ of mandatory independent taxation with a transferable option, arguing that the present system is anomalous, discriminatory against the family and inequitable as between husband and wife. Since I outlined my proposals in my Budget Speech there has been sustained and favourable interest both in the press and in the Party. ? public ~~and I have been particularly struck by the lack of any vocal opposition to what I have in mind [from any quarter]~~.

x

perhaps cut?

The high-tax, high-spending lobby would, of course, add up all the threshold increases and label the total the 'cost' of the Green Paper - ignoring the fundamental difference between tax reductions and expenditure increases. What we have to get over is that these are not 'costs' in the public expenditure sense, nor do they represent a new or additional commitment to cutting taxes. There is a world of difference between higher spending and allowing people to keep more of their own money. And we have already made it very clear that we intend to reduce personal taxes anyway, ~~year after year~~ over a period of years. In last year's Green Paper, 'The Next Ten Years', we set out the scale of tax reductions which could be achieved if public expenditure is kept in check, up to 1993. These reductions would bring the (non-North Sea) tax burden down from its current 37½ per cent of GDP to as much as 6 percentage points below this level ~~- but still only 3 percentage points below the level we inherited in 1978-79~~. By comparison, the illustrative figure given in the personal tax Green Paper is equivalent to only about 1½-2 per cent of GDP, assuming ~~my~~ the proposals ~~can be~~ were introduced on a ~~no-~~ no-cash-loser basis. And a tax which ~~This would still~~ of this size, a change which on ~~its own, would~~ would still leave us above the tax burden we inherited in 1978/79.

If we can settle on, and publish, a strategy for substantial increases in thresholds along these lines we can then use the period between now and 1990, the earliest date on which any new system of thresholds could be implemented, to reduce the basic rate. Fiscal prudence must continue to constrain the pace at which we can move, but I believe our ultimate target should be the 25 per cent basic rate first advanced by Geoffrey Howe in 1979. Such reductions would be fully justifiable against the background of the raised and restructured thresholds in prospect. They would also help significantly to reduce the cost of the restructuring. And they would help all taxpayers - including those two-earner couples who do not stand to gain immediately from the Green Paper proposals themselves.

I believe that we should go for a two-~~s~~pronged strategy on these lines. Without a clear prospectus for threshold increases we would be unable to build up support for reductions in the basic rate; and without basic rate reductions we risk losing the political initiative on our whole tax-cutting policy. Everyone knows what the basic rate of tax is: very few can tell you what their threshold is.

The essential first step is that you and I should together settle on a broad strategy - for both thresholds and the basic rate - on which we are agreed. Given the key political importance of all this and the substantial interactions between the tax structure and our social security and employment policies we will need next to secure the agreement of key colleagues - in particular Willie Whitelaw, Norman Fowler, Norman Tebbit and David Young - to what we have in mind, before Budget security considerations supervene. My aim would then be to publish the Green Paper itself on Budget Day - in the context of a fresh look at our overall economic strategy, and well clear of the publication of Norman Fowler's White Paper and Kenneth Baker's Green Paper on ~~the whole~~ local Government finance.

X I hope ~~you~~ we will be able to have a further talk about this at our meeting on Wednesday.

NL

CONFIDENTIAL

FROM: A W KUCZYS
DATE: 2 DECEMBER 1985

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Sir P Middleton
Mr Cassell
Mr Monger
Miss Sinclair
Mr Cropper
Mr Isaac - IR
Mr Houghton - IR
PS/IR

PREPARATION FOR 1986 BUDGET: ABOLITION OF LIFETIME CTT CHARGE

The Chancellor, the Financial Secretary and others discussed on Friday Mr Houghton's minute of 31 October and subsequent papers. The Chancellor accepted that there were difficulties in abolishing the lifetime charge. Completely reconstructing the tax was not possible within the timescale in which he would like to make this change, so charging lifetime gifts at a 'zero rate' would have to be the route adopted. He did not see that Parliamentary Counsel could reasonably raise objections. And since what was proposed was a relieving measure, he did not think consultation was necessary. The Chancellor saw many attractions in returning to something more like the old Estate Duty, which was described as a 'voluntary tax' yet still brought in a significant yield. But the spouse exemption should clearly be retained, despite the cost this involved. As far as possible, the regime for Trusts should be left exactly as it is now: so no-one would be worse off than now.

2. Mr Isaac said that such a regime would be more 'voluntary' than Estate Duty, which had included some fairly draconian provisions. Those with medium sized estates who were not especially well-advised would not benefit. But there was potentially a very large cost - above the £40 million quoted in Mr Houghton's paper. And even though no-one was worse off than now, the relative position of those giving directly and those giving into Trust would be altered, and would give rise to complaints. There would be some particularly hard cases where it might seem that, for example, some one who was incapable of managing his own affairs, and to whom property was

therefore left in Trust, was financially penalised. An alternative approach would be to exempt gifts into Trusts but to increase the periodic charge - with transitional protection for existing Trusts. The Chancellor agreed that this option should be explored.

3. There was some discussion of the appropriate protective period. It was agreed that 7 years was the right length of time, and that there should be a taper. The Chancellor stressed that there should not be large steps - eg at 3 years before death. Mr Houghton said it would be possible to construct an attractive taper which, while not in equal annual steps, avoided large discontinuities, and had the advantage that no-one would be worse off than now.

4. Mr Houghton pointed out that the present lifetime structure would 'cast a shadow' over the new regime, by pushing up the rate of tax on estates where large lifetime gifts had been made within the 10 year period of cumulation. He proposed reducing the cumulative period to 7 years. The Chancellor said this would be acceptable, but ideally he would like to go even further in reducing cumulation, and asked the Financial Secretary to explore whether this might be possible.

5. The Chancellor said that the most difficult area was gifts with retention of benefit. Here Estate Duty had been tougher and simpler than CTT. There were many attractions in going back to the Estate Duty regime: there was no reason to encourage 'gifts with strings', which amounted to having your cake and eating it. People could always choose to give outright, although there would have to be transitional protection for existing arrangements. Mr Houghton added that, in any case, answers could probably be found to the more extreme hard cases.

Conclusions

6. The Chancellor asked for a proposal on these lines to be worked up without delay. He did not, however, want to pursue the option of radically stretching out the CTT rate bands. Revenue officials

would look again at their previous work in this area, consult Parliamentary Counsel, and put as simple a package as possible to the Chancellor and the Financial Secretary by Friday 6 December.

A W KUCZYS

(iii) Taxation of savings. The Chancellor has asked the Financial Secretary to pursue the "income tax approach" as a Starter for 1986, but has asked for no other work to be done on, eg. IRAs or Loi Monory.

(iv) Taxation of pensions. Papers attached to Mr Corlett's minute of 28 November. The Chancellor would like to focus on pension fund surpluses and loanbacks and self investment. We are having a separate meeting on this later on Friday, for which the Financial Secretary is providing an annotated agenda.

Alternatives to Revenue paper on stamp duty due this week.

(v) Stamp duty. ~~No papers.~~ The Chancellor has asked for figures showing the level of comparable taxes in other financial centres. He has also asked the Financial Secretary to explore with the Inland Revenue on a very restricted basis alternative ways of raising revenue in this area.

~~2. The Chancellor would be grateful for a progress report from the Financial Secretary to help focus discussion at this meeting.~~

A W KUCZYS

RT8.117 SECRET

Before this goes out, pl cd you see if it covers the topics you want to discuss? (Rachel has already seen).

I have tried to record where things currently stand, so do you still need a progress report from FST (as opposed to an oral report at the meeting)?

I gather you also raised perks with the FST. Shd that also be here?

AWK 3/12

FROM: A W KUCZYS

DATE: ~~3~~ 4 December 1985

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Byatt
Mr Scholar
Mr Monger
Miss Sinclair
Mr Cropper
Mr Davies
Sir L Airey - IR
Mr Isaac - IR
Mr Corlett - IR
Mr Houghton - IR

PS/FINANCIAL SECRETARY

An oral report (from FST) at the start of each item will do. Forget perks. I have arranged perks show to FST.

PREPARATION FOR THE 1986 BUDGET: DIRECT TAXES

The Chancellor is holding a meeting at 10.00 a.m. on Friday 6 December to discuss a number of topics which ~~the Chancellor would like to consider has~~ have serious possibilities for the next Budget. The topics are:-

(i) CTT - abolition of life time charge. Paper: Mr Houghton of 31 October. At the Chancellor's meeting on 29 November the Revenue were commissioned to work up a scheme and report back to the Chancellor and Financial Secretary by Friday 6 December.

(ii) CGT - Exempt ammount and indexation. Paper: Mr Bryce of 29 November. The Chancellor has expressed interest in the possibility of simplifying CGT, both by ~~switching to a threshold defined in terms of disposals rather than gains. And Lord Vincent and others have raised the complexity of the present indexation rules.~~ and by abolishing indexation.

001/108

SECRET

RSP

FROM: R J BROADBENT

DATE: 5 December 1985

PS/CHANCELLOR

? Catch AARs
? Abolish for individuals
NOW.

cc:
PS/EST
PS/MST
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Byatt
Mr Scholar
Mr Monger
Miss Sinclair
Mr Cropper
Mr H Davies
Sir L Airey - IR
Mr Isaac - IR
Mr Corltett - IR
Mr Houghton - IR

PREPARATION FOR THE 1986 BUDGET: DIRECT TAXES

The Chief Secretary has seen your minute of 4 December listing the topics to be discussed at the Chancellor's meeting tomorrow morning which the Chief Secretary is unable to attend. He has also seen the relevant background papers. He has commented on CGT (exempt amount and indexation) that he is very doubtful about the possibility of switching to a threshold defined in terms of disposals rather than gains and that he would be unhappy to abolish indexation. On stamp duty, the Chief Secretary's comments are recorded in Mr Pegler's minute earlier today.

R J Broadbent

R J BROADBENT
Private Secretary

SECRET

008/108

CONFIDENTIAL

FROM: PAUL PEGLER
DATE: 5 December 1985

PS/ECONOMIC SECRETARY

cc:
PS/Chancellor
PS/FST
PS/MST
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Byatt
Mr Peretz
Mr Monger
Mr Scholar
Miss Sinclair
Mr D Jones
Mr Cropper
Mr Graham (Parly. Counsel)
Mr Hewitt - B of E

Sir Lawrence Airey
Mr Isaac
Mr Battishill
Mr Painter
Mr Calder
Mr Pitts
Mr Spence
Mr Draper
Mr Gonzalez
Mr Pipe
Miss Rhodes
PS/Inland Revenue

Mr Hall -Solr.

STAMP DUTY PACKAGE (STARTERS 130, 121, 137 and 138)

The Chief Secretary has seen Mr Corlett's submission of 4 December covering Mr Draper's of the same date. He thinks this is not the right time to give away so much on this special pleading, particularly when he is doubtful of the merits of this pleading compared to other priorities. He feels that the City is doing well enough already and although he is very strongly in favour of wider share ownership he does not see the proposed stamp duty package as a crucial element in promoting that policy objective. The Chief Secretary has commented that he agrees entirely with the points made in paragraph 7 of Mr Corlett's submission.

PP

PAUL PEGLER

RT4.2

SECRET

AWK
TO
CH/EX
5/12

FROM: A W KUCZYS

DATE: 5 December 1985

cc Mrs Lomax

NB
See relevant files
for papers

CHANCELLOR

PREPARATION FOR THE 1986 BUDGET: DIRECT TAXES

You have asked the Financial Secretary to give an oral report on each item. But you may find it helpful to have this very brief note on where things stand.

1. CTT abolition of life time charge.

Stop Press
Brian Houghton has pulled out the stops and got the papers (4 plus cover note) to us tonight. But there is a lot to read, and no-one will have had much time to do so. AWK
below

~~It has not proved possible to have the Revenue paper ready before the meeting. But you will have it for the weekend.~~ The FST and Brian Houghton can report on what it will say. Brian Houghton tells me the key question is whether it will be possible to hold the line against pressure for further changes. This is a political judgement.

2. CGT Exempt amount and indexation.

We have received further papers today from the Revenue, and from the FST. These deal with the option of abolishing indexation, and using the yield to reduce the rate of CGT.

3. Taxation of savings.

Not much to discuss here. You have already taken the decision to narrow down work in this area to one option.

BWP

4. Taxation of pensions.

The papers are not on this folder, but on the separate folder for your 3.00 pm meeting. Presumably you will not want to spend long on this item, given the later meeting on this subject.

5. Alternatives to stamp duty.

below

nb. You have not previously seen the Revenue paper. Don Draper's paper rather assumes that outright abolition of the duty on share transactions is not on for 1986, but Clive Corlett's covering note does raise this possibility. The information you asked for comparing transaction taxes in different financial centres is contained in a table attached to the paper. Not surprisingly, it shows that levels of commission are at least as important as taxation in making London less competitive than, say, New York.

In the heart of the paper are a lot of second order questions which I imagine you will not want to go into at this meeting, but leave to the Economic Secretary - who will in any case want to say something about this package. But note that the Revenue are asking for early decisions in principle on some of these matters.

There is nothing on paper on alternatives to stamp duty. The FST has been discussing possibilities with John Isaac, but I don't think they have any proposals to put forward yet.

AWK

A W KUCZYS

1. Rachel
2. PWP

NOTE OF A MEETING HELD IN HM TREASURY
ON FRIDAY 6 DECEMBER 1985

Those present

Chancellor
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Byatt
Mr Monger
Miss Sinclair
Mr Cropper
Mr Davies

Sir L Airey - IR
Mr Isaac - IR
Mr Battishill - IR
Mr Corlett - IR
Mr Houghton - IR

PREPARATION FOR THE 1986 BUDGET: DIRECT TAXES

The meeting followed the agenda set out in Mr Kuczys's note of 4 December.

Capital Transfer Tax

2. The Chancellor said he was most grateful to Mr Houghton for producing such a thorough set of papers in time for this meeting. He asked what was the new approach which Parliamentary Council sel had proposed, and Mr Houghton explained that it was based on the concept of an exempt transfer. The Chancellor also asked for an estimate of the cost year by year. Mr Houghton explained that estimating the cost of this proposal was very difficult. But in the first year (1986-87) the cost might be around £40 million, taking account of the spouse exemption. He undertook to do more work on how the cost would build up year by year over the following four years.

3. Turning to the more detailed papers, the Chancellor said that, as far as trusts were concerned, he would prefer to see half the amount charged at the full rate - rather than having a special rate scale. Mr Houghton undertook to consider this. The Chancellor said that the Revenue's proposed treatment of protective trusts was satisfactory. He entirely accepted that it would be essential to "hold the line" on trusts, and that there would be pressure for relaxations for hard cases, which would have to be resisted. Mr Houghton argued that it would not be right to reduce the period of cumulation to less than 7 years (the same as the "protective period") and the Chancellor accepted this. The Chancellor said he would leave the question of an appropriate "taper" over the protective period to the Financial Secretary: his preference was for as smooth a taper as possible.

Capital Gains Tax

4. The Chancellor said he was persuaded by Mr Bryce's paper that there was no advantage in moving to an exemption based on disposals. The question then was whether to continue with indexation. He had been very disappointed by the continuing complaints about the complexity of indexation relief. He believed some people would prefer to see it go altogether.

5. The Financial Secretary argued that the CGT regime, though complex, was now rational. If, however, there were to be a change of approach, it might as well be a major one: with a significant reduction in the threshold, and in the rate. Sir Lawrence Airey said that, from an administrative point of view, he would welcome the demise of indexation; but he would be worried about the staff effects of a lower CGT threshold. Mr Cassell thought that indexation had been a great step forward, and would regret a "U turn". Sir Terence Burns said that, if the CGT threshold were to be reduced, the counterpart should be allowing carry forward of unused exemption. Mr Battishill thought that ending indexation

would receive a mixed reception. Mr Davies thought that those who were complaining about complexity did not seriously think the result would be an end to indexation.

6. Summing up this discussion, the Chancellor said that abolition of CGT indexation should not be pursued for 1986. More work needed to be done, in particular to assess the likely response to such a change from ordinary investors (as opposed to advisers who had an interest in making the present system appear complicated). But he remained very interested in ending indexation, and would like to return to this next year. The present arrangements tended to lock investors into pre-1982 assets, while the post-1982 regime was too favourable in comparison with income tax. So there was a good case for some toughening up of the post-1982 system combined with changes which would benefit pre-1982 gains.

7. As far as 1986 was concerned, the Chancellor was interested in "de-indexing" the threshold, rounding it up to £6,000, and freezing it at that level. He would want to reconsider the abolition of indexation next year on a more informed basis. Meanwhile, the Inland Revenue could go ahead with publication of their leaflet on the indexation rules.

Taxation of Savings

8. The Chancellor said that the Financial Secretary was now pursuing the "income tax approach", which was not necessarily related to retirement. This was a promising starter for 1986.

Taxation of Pensions

9. This was to be discussed at a meeting later that day.

Stamp Duty

10. The Chancellor said that it was not on politically to have a "handout" to the City in the next Budget. But Stamp Duty, at a rate of 1 per cent, had undesirable features. There was therefore a case for reducing the rate of Stamp Duty on share transactions to ½ per cent, balanced by an offsetting increase in tax elsewhere on the financial sector. The question was, what possible replacements were there?

11. Sir Peter Middleton and Mr Cassell pointed out that any tax - and some possibilities had been looked at before - would tend to be passed on to the investor. The Financial Secretary said that, in conjunction with Mr Isaac, he had looked at the possibility of a special income tax. There was nothing to report as yet. The Chancellor said he would be attracted by taxing intra-account dealings, and by charging entry into ADRs.

12. The Chancellor said that a reduction in Stamp Duty on share transfers should particularly benefit individuals. He asked whether it would be possible to impose a lower rate on individuals or to exempt them from stamp duty altogether. The Financial Secretary said that, in effect, this had been looked at 2 years ago when the proposal had been a sliding scale of stamp duty depending on the size of the bargain. Mr Corlett said that a number of practicalities would have to be considered - in particular whether the Stock Exchange computer could distinguish individuals' transactions. There might also be enforcement difficulties. It would help to be able to talk to one person at the Stock Exchange in strict confidence.

13. In conclusion, the Chancellor asked Mr Isaac to look at three areas:

(i) Imposing stamp duty on the entry into ADRs.

(ii) Exempting individuals from stamp duty on share transfers (in particular, what would this cost?).

(iii) Recouping this cost with an alternative tax, which would not have the effect of making the City uncompetitive.

AWK

A W KUCZYS

12 December 1985

Distribution

Those present
PS/Chief Secretary
PS/IR

PRESENTATION OF THE BUDGET ARITHMETIC PRATT 8/2

273/4

BUDGET-SECRET

Budget Ref F20

COPY NO 1 of 15

FROM: R PRATT
DATE: 8 February 1985

1. **MR BATTISHILL**

2. **CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Monck
Mr Cassell
Mr Scholar
Mr Monger
Mr Odling-Smee
Mr Evans

[Options issue one thing, dynamics of Budget arithmetic ...?] [illegible] also [illegible] margin of safety (PSBR) in tax cases

PRESENTATION OF THE BUDGET ARITHMETIC

You asked us to consider how the various tax, NIC and public expenditure changes currently under discussion might be presented in the Budget arithmetic. This includes possible action to increase the Reserve or the debt interest figure published in the PEWP. In effect it involves looking at the usual definition of the Budget, and at how the various measures might score against the fiscal adjustment.

2. It has been the practice in past FSBRs (although, given the absence of expenditure changes, this was not done last year) to include a statement defining the Budget. The convention is that the Budget normally includes all changes made to the pre-Budget baselines for tax, public expenditure and NICs. The baselines are usually taken to be as follows:

(a) **Tax** - the forecast receipts, assuming statutory indexation and including the effects of any tax changes announced before the Budget (e.g. Corporation Tax changes effective this year which were announced last year).

(b) **Public expenditure** - the White Paper figures.

(c) **NICs** - the rates and earnings limits announced in the Autumn Statement.

BUDGET-SECRET

3. In practice, this year, this means that the following would need to be taken into account in defining the Budget:

(a) the tax changes to be announced on Budget Day;

(b) any further changes to the NIC rates or limits - both gross cost and, if so decided, the "clawback" of the corresponding reduction in public expenditure on NICs for public service employees;

(c) any expansion of employment and training measures - both gross expenditure cost, and offsetting flowbacks (e.g. Supplementary Benefit savings, savings from withdrawn Young Workers Scheme);

GSP (E)

Absurd (no precedents)

(d) any addition to the Reserve announced in the Budget, to help meet the expected public expenditure overrun;

(e) similarly, any addition to debt interest;

and it would be necessary to take account of the implications of (a)-(e) above for the PSBR target for 1985-86, and the implied amount of the fiscal adjustment being spent.

4. Your meeting on 8 February identified three possible broad approaches to the present complex issues, and considered briefly how these could be reconciled with the £1½ billion fiscal adjustment tentatively forecast in the Autumn Statement, and your more recent statements suggesting even less room for manoeuvre. We have drawn up illustrative tables for each of these options showing how the figures might look. These are described below.

Option A (Table 1)

5. Table 1 shows the effect of:

(a) increasing the Reserve by £1 billion (for simplicity, we have assumed in <u>each</u> of the 3 years covered by the PEWP);

ridiculous, surely, for later yrs; simply don't bump them down. As used figs

Similar comment, I think that [illegible] possible

(b) adding £½ billion to the forecast expenditure on debt interest (again for each of the 3 forward years);

(c) including tax changes, with a net cost of broadly the amount shown in this week's scorecard;

(d) including some expansion of employment and training measures with the cost added to the planning total.

(e) restructuring employers' NICs with a full year net cost of £250 million.

6. Depending on the size of the extension of the employment and training measures, the total cost of this package adds up to £2¼-2½ billion in 1985-86; £3-3½ billion in 1986-87; and £3-3½ billion in 1987-88. The total cost rises in the last two years because of the increase in the costs both of the contemplated tax package, and of the employment measures.

7. For 1985-86, there is a clear discrepancy between the size of this total and the £1½ billion fiscal adjustment indicated in the Autumn Statement. You could square the arithmetic by:

Mainly oil, surely

(a) announcing that revenues are after all higher than expected (and indeed forecast revenues are higher than published in the Autumn Statement) - though this does not fit easily with your most recent statements; or

(b) accepting a higher PSBR (of up to £8 billion) rather than the £7 billion in the MTFS;

(c) or some combination of these.

8. For 1986-87 and 1987-88, the package costs £1 billion more than in 1985-86, and this £1 billion is the amount that should be scored against the projected fiscal adjustment for those years. Whether or not this carries any presentational problem will depend on what figures you wish to publish in

this year's MTFS - which is the subject of a separate submission from Mr Odling-Smee.

Option B (Table 2)

9. This option also increases the Reserve by £1 billion, and forecast debt interest by £½ billion - in both cases for each of the 3 Survey years. But, in consequence, the package of tax changes, NICs restructuring and employment measures has to be made revenue-neutral. This would almost certainly mean abandoning some of the present components; or re-opening the search for measures to <u>raise</u> more revenue.

10. The effect as Table 2 shows would be to increase the public expenditure totals - both the planning total and debt interest - while keeping the overall cost within the £1½ billion figure, and hence keeping the 1985-86 PSBR target at £7 billion. But the whole of the fiscal adjustment would be seen to be absorbed by higher public expenditure rather than tax cuts.

better tax cuts <u>than</u> infrastructure!

Option C (Table 3)

11. This assumes that no adjustment to public expenditure is made at Budget time to cope with the expected overrun, either by adjusting the Reserve, or by altering the figures for forecast debt interest. The problem is simply shelved until later: and the forecast adjusted accordingly. The package of tax changes is then as in the scorecard this week; with the employment measures (including NICs restructuring) added to the planning total in the White Paper.

12. As Table 3 shows, this results in a published fiscal adjustment of less than £1 billion in 1985-86, of between £1½ billion and £1¾ billion in 1986-87 and of £1½ billion to £2 billion in 1986-87. Public expenditure (on employment measures) is shows as increasing by £65 million to £120 million in 1985-86, by £375 million to £735 million in 1986-87 and by £430 million to £805 million in 1987-88. The PSBR can be £7 billion - or less.

13. But nothing is done to ease the pressure on the Reserve from the coal strike (continuing beyond last December - the date the PEWP figures assumed it would end) and from the demand-led programmes because of higher inflation and interest rates.

14. In July (or sooner), Ministers would be faced with one of three alternatives:

(a) announcing mid-year cuts;

(b) announcing an increase in the Reserve, accompanied either by an increase in the PSBR, or an increase in forecast revenues; or

(c) doing nothing, and accepting that, once again, there would be an overrun on the planning total (although not necessarily on the PSBR: though that might be difficult to persuade the markets in advance).

Conclusions

15. The three broad options have been presented starkly so as to bring out the main implications of each. In practice they shade into one another; and there may be variants which combine features of each. The choice between them depends on:

(a) how one judges the effect on credibility of a substantial change at Budget time to the PEWP totals;

(b) as against the importance of the Budget package of tax cuts and of employment measures; or the market risks of raising the PSBR; or appearing to produce a much larger fiscal adjustment than expected.

Richard Pratt

RICHARD PRATT

B14

DC

Notes to Tables

1. The figures in these tables were prepared in advance of the scorecard due to be submitted on 8 February. They therefore show direct revenue yields, and gross costs rather than PSBR effects. It is not expected that a change to PSBR effects will significantly alter the totals.

2. Where there are increases to the Reserve and to debt interest they are assumed to take place in each of the 3 Survey years.

3. No credit is taken in the Budget arithmetic for any Fowler savings.

4. The net cost of employers' NIC restructuring is shown - ie after taking account of the clawback of the reduction in expenditure on NIC in respect of public service employees. Although, strictly speaking, the planning total should be reduced by an amount equivalent to public sector clawback, this has not been done - in order to keep the tables simple.

5. YTS extension is assumed to be accompanied by the withdrawal of YWS, but not the withdrawal of SB from under 18s.

6. No account is taken of the revenue flowbacks that will result as CP participants pay tax.

NOTES TO TABLES

B10

DC

TABLE 1

OPTION A

£m

		1985-86		1986-87		1987-88	
1	Cost of tax changes		600		900		1000
2	Reconstructed Reserve	1000		1000		1000	
3	Employment Measures	65 to 170		375 to 735		430 to 805	
4	Change to planning total in Cmnd 9428		1065 to 1170		1375 to 1735		1430 to 1805
5	Addition to debt interest		500		500		500
6	Net cost of NICs restructuring		120		250		250
7	Charge to Fiscal Adjustment		2285 to 2390		3025 to 3385		3180 to 3555

1. Revenue effect of all tax changes. Figures for 1987-88 illustrative only.

2. Reserve increased by £1 bn in each year.

3. Gross cost of Employment Measures (less savings from abolition of YWS); range shows CP expansion by 50,000 or expansion by 130,000.

4. Planning total in Cmnd 9428 raised by the increase in the Reserve, plus the cost of employment measures as defined in 3 above.

5. £500m increase in forecast debt interest in each year.

6. The gross cost of NICs is £180m in 1985-86 and £375m in each of 1986-87 and 1987-88. Public sector clawback would reduce these figures by one third.

7. The charge to the fiscal adjustment is shown as the sum of the tax changes, the increase in the Reserve and the gross cost of employment measures. It is assumed that any benefit savings that flow from employment measures will simply ease the pressure on the Reserve, and would <u>not</u> reduce the planning total. Tax flowbacks from employment measures are ignored here on de minimis grounds.

TABLE 1

B13
DC

TABLE 2

OPTION B

		1985-86	1986-87	1987-88
1.	Cost of tax changes	0	0	0
2.	Reconstructed Reserve	1000	1000	1000
3.	Employment measures	0	0	0
4.	Change to planning total in Cmnd 9428	1000	1000	1000
5.	Addition to debt interest	500	500	500
6.	Net cost of NIC restructuring	0	0	0
7.	Charge to Fiscal Adjustment	1500	1500	1500

1. The overall revenue effects of tax changes, employment measures and NIC restructuring are shown as zero. As an alternative it would also be possible to construct a revenue neutral package in which costs of employment measures or NICs were offset by tax increases.

2. The Reserve is assumed to be increased by £1bn in each year.

3. See note 1.

4. The sole change to the planning in Cmnd 9428 total is the increase in the Reserve.

5. £500m increase in forecast debt interest in each year.

6. See note 1.

7. The only charge to the fiscal adjustment is the increase in the Reserve and the increase in forecast debt interest.

TABLE 2

TABLE 3

OPTION C

£m

		1985-86	1986-87	1987-88
1	Tax changes	600	900	1000
2	Employment measures	65 to 170	375 to 735	430 to 805
3	Change to planning total in Cmnd 9428	65 to 170	375 to 735	430 to 805
4	Net cost of NICs	120	250	250
5	Charge to Fiscal Adjustment	785 to 890	1525 to 1885	1680 to 2055

1. Revenue effects of all tax changes. Figures for 1987-88 illustrative only.

2. Gross cost of Employment Measures (less savings from abolition of YWS); range shows CP expansion by 50,000 or expansion by 130,000.

3. The planning total in Cmnd 9428 is assumed to be increased by the gross cost of employment measures (as defined in 2 above).

4. The gross cost of NICs is £130m in 1985-86 and £375m in each of 1986-87 and 1987-88. Public sector clawback would reduce these figures by one third.

5. The charge to the fiscal adjustment is shown as the sum of the tax changes, and the gross cost of employment measures. It is assumed that any benefit savings that flow from employment measures will simply ease the pressure on the Reserve, and would not reduce the planning total. Tax flowbacks from employment measures are ignored here on de minimis grounds.

REDUCING EXPECTATIONS ABOUT THE BUDGET

CONFIDENTIAL

FROM: M C SCHOLAR
DATE: 11 December 1985

CHANCELLOR

cc: Sir P Middleton
Mr H Evans
Mr Fitchew
Mr Odling-Smee

REDUCING EXPECTATIONS ABOUT THE BUDGET

I attach, as requested, a speaking note for Cabinet (Annex A). Most of paragraph 3 could be left out if time is short. I also attach (Annex E) some numbers underlying the speaking note.

MCS

M C SCHOLAR

Ch/

I don't think Michael's note will do much. I have done a quick rehash - but that may not survive the morning's press (+ meeting) either! I'll look at it tomorrow [illegible])

There are some quite useful figures at the back of Michael's note + in para 3 (which I have not repeated)

RL
11/12

PS. See note on oil market below - which Steve will update in the morning as necessary.

CONFIDENTIAL

REDRAFT

SPEAKING NOTE FOR CABINET

OPEC meeting this week created great confusion in the oil market which has been echoed, on a smaller scale, in the foreign exchange markets. It is difficult to know how long all these uncertainties will persist but we must be prepared for them to go on right through the run up to the Budget.

2. There is little point now in speculating on the effect of recent market events on the judgement I shall have to reach for next years Budget - as some commentators have been tempted to do. But if recent developments help to reduce expectations about the scale of tax cuts I shall be able to afford in the next Budget, that may be no bad thing.

3. The fact is that we certainly cannot count on tax reductions on any particular scale at this stage: and certainly not on the scale envisaged not so long ago by a number of commentators.

4. Of course we all want to reduce the burden of tax - but that cannot take priority over sound finanial policies. In particular we cannot let the idea get about that we would be ready to take risks with inflation - by being complacent about a fall in the exchange rate - in order to preserve the scope for tax cuts. That would be dangerous and self defeating.

CONFIDENTIAL

Speaking Note for Cabinet

1. The OPEC meeting this week seems to have taken the oil markets rather more by surprise than it has the foreign exchange markets. But we are clearly now entering a period of greater uncertainty in both markets, and this may go on right through the run-up to the Budget.

2. This uncertainty is not, I think, a wholly unwelcome development in the context of the very unrealistic expectations which, as usual, are beginning to build up about the Budget. We have this year gone out of our way to lower the temperature, in particular by not publishing revenue and fiscal adjustment numbers in the Autumn Statement. But the increase in forecast privatisation receipts, together with the reiteration in the Queen's Speech of our commitment to cut taxes, was too much for most of the press.

3. This week's developments should help us to reduce the build up in expectations. [There is now widespread appreciation of the revenue implications of a significant fall in dollar oil prices. Some commentators, it is true, have obscured this message

by pointing to the countervailing effect of depreciation of the exchange rate, both on sterling oil revenues and on non-oil revenues through the effects of higher activity in the economy at large. But this countervailing effect will offset the reduction in revenues to only a limited extent. If the levels of oil prices of recent days were to persist throughout the next financial year at, say, about $2 a barrel lower than the assumption underlying the Autumn Statement forecast this would mean a direct reduction in oil revenues of about £1 billion in 1986-87 if there were no associated fall in the exchange rate (although less if the recent fall were sustained.)]

4. There is certainly little point in speculating on the effect of today's market events on the judgment I shall have to reach for next year's Budget. But these events underline the uncertainties we face and I shall do all I can - and I hope colleagues will say nothing which may appear inconsistent with this - to get across the message that we certainly cannot count on tax reductions on any scale at this stage: and certainly not the scale envisaged by a number of commentators.

CONFIDENTIAL

Average $ oil price in 1986-87 assumed in AS forecast	$25
Press interpretation of Sir T Burns' comments on this assumption	$26
Spot price 11 December	volatile between $21.80-$25.70 - $25 4.00 pm
Futures price (May 1986) 11 December	$22 but very thin trading
Effect on revenue in first year of $1 barrel change in dollar oil price	£440 million
Effect on revenue in first year of a 1% change in £/$ exchange rate	£110 million

273/029 Annex B

CONFIDENTIAL

Average $ oil price in 1986-87 assumed in AS forecast	$25
Press interpretation of Sir T Burns' comments on this assumption	$26
Spot price 11 December	volatile between $21.80-$25.70 - $25 4.00 pm
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Effect on revenue in first year of a 1% change in £/$ exchange rate	£110 million

1. Rectel 2. ~~Phil~~ pov 3. pup ~~3 pup~~

44/15

FROM: ROBERT CULPIN
DATE: 9 January 1986

SIR PETER MIDDLETON

cc PPS
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monaghan
Mr Romanski
Mrs Lester

BUDGET SECURITY: MINISTERS' CONTACTS WITH JOURNALISTS

I am aware of the following plans for ministerial contacts with journalists. All require your approval under the budget security instructions. Please will you give it?

2. If and when I initiate anything further for Ministers, I will ask for your authority. I expect **private offices** to clear any other contacts with you, copied to me.

Chancellor

9 January - lunch with Philip Stephens, FT.
15 January "Yes, Prime Minister" reception.

Chief Secretary

15 January - Public Expenditure White Paper press conference and associated interviews.
21 January - Birmingham visit and associated interviews.
5 February - Southampton visit and associated interviews.

RC

ROBERT CULPIN

SECRET

MAIN TAX ISSUES FOR THE 1986 BUDGET

Direct Tax

1. Income tax: rates and allowances

2. CTT: abolition of lifetime charge

3. Stamp Duty: rate; individual share transactions; alternative ways of raising revenue.

4. Business Expansion Scheme: extending life, preventing abuse, some relaxations.

5. Pension fund surpluses.

6. Tax relief for savings ("income tax approach").

7. Tax relief for charitable giving

8. Tax relief for domestic employees

9. Enterprise and Employment (SBICs, Weitzman; employee share schemes).

Indirect Tax

1. Over-indexation of excise duties

2. Change in balance between VED and petrol duty

CONFIDENTIAL

FROM: MRS LOMAX
DATE: 20 DECEMBER 1985

pusp

MR SCHOLAR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Lavelle
Mr H Evans
Mr Monger
Mr Odling-Smee
Mr Turnbull
Mr Culpin
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies
PS/IR
PS/C&E
Mr Graham
Parliamentary Counsel

TIMING OF THE BUDGET

The Chancellor was most grateful for your minute of 20 December.

2. He agrees that we should stick with 18 March. And he also agrees that it would be prudent to include within the Budget preparations contingency plans against the possibility of a sharp drop in the oil price.

RL.

RACHEL LOMAX

273/027

FROM: M C SCHOLAR
DATE: 20 December 1985

Many thanks. I agree with the [illegible] recommendations in para 6.

CHANCELLOR

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Lavelle
Mr H Evans
Mr Monger
Mr Odling-Smee
Mr Turnbull
Mr Culpin
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies
PS/IR
PS/C&E
Mr Graham
Parliamentary Counsel

Ch

I think you naturally decided to stick with March at Rogers. But here is a more elaborate justification for doing so.

You'll want to bear in mind the suggestion at the end of para 6

RL 20/12

TIMING OF THE BUDGET

You asked us urgently to reconsider the option of a Budget Day later than 18 March, given the latest inflation prospects and the possibility of turbulence in the oil market in February/March.

2. Mr Pratt sent a paper to you (copy attached) on 10 September setting out the arguments, as then seen, for and against March 11th, 18th and April 8th, 15th and 22nd. Most of the arguments in that paper still stand, but there have been some changes:-

(i) following your provisional preference for a March Budget a number of engagements have now been arranged for you for April. You are due to attend a meeting of the Interim/Development Committees in Washington on 9-11 April - difficult, given that you could not go to Seoul, to drop out of, although it might be possible to keep the visit down to two days. Then there is your address to the Lombard Association on 16 April which you accepted last June and which would now be rather awkward to cancel.

(ii) the likelihood that we will be publishing the Personal Tax Green Paper on Budget Day clouds the picture. Although, in one sense, the later the Budget the more time we have to get the Green Paper right and agreed by colleagues, a late Budget would on balance be unhelpful: it would point up our failure to honour the words in the Budget last March that a Green Paper would be issued "later this year". And, whatever the date of the Budget, we will need to have taken final decisions on income tax allowances about a fortnight before Budget Day in order to incorporate the new allowances in the Green Paper, rework the distributional consequences annex and so on. On an April 15 Budget that puts the main tax decisions back pre-Easter - ie before the 1985-86 PSBR outturn is available on 9 April, and <u>before</u> the CGBR(O) figure is known, on April 2nd.

(iii) Even a Budget on April 22nd would, with the Green Paper complication, leave little time to take account of an unexpected PSBR outturn for 1985-86. It would also require the Finance Bill to be printed before the Budget by security printers. Producing the Finance Bill as well as the Personal Tax Green Paper and the FSBR under these conditions would increase the strain on the printing schedule, and would lengthen the BLO List. These drawbacks should not be underestimated; but they are not decisive.

(iv) PSBR developments so far this year, with surprisingly low local authority borrowing, may make the accuracy of the forecast outturn for 1985-86 a little more problematic than we expected in September - because these developments increase our estimate of the (always very large) borrowing in March. This very slightly strengthens the case for a later Budget.

Inflation Prospects

3. As you have noted, a further significant fall in the RPI is not expected to occur before the index for February is published on 21 March (a further fall should occur when the March RPI is published on 18 April). Although publication of a sizeable drop in the 12-month rate of inflation a few days before the Budget would help its presentation and reception, the Budget would, arguably, be equally or better received if it included a pretty firm forecast of falling inflation, and if this were validated a few days later, and in the succeeding months. Furthermore, an April Budget, with any RPI effects feeding through to the May RPI published in June, would mean a sharper fall in the April RPI published in May than would otherwise occur, as the RPI effect of the 1985 Budget dropped out of the 12-month figures. A low figure for one month with a subsequent rise might, on balance, be less rather than more helpful in policy presentation. If anything, therefore, this consideration points rather more to a March than to an April Budget.

a fair point

Oil Price Prospects

4. We have, of course, little idea now of the likely state of the oil market in March or April 1986. Particularly in 1982 and 1983 (see chart at Annex A) there was extra turbulence in the oil market in the early months of the year as uncertainty over OPEC production interacted with expectations of the spring decline in demand for oil. If anything, in more recent years

buyers' anticipation of excess supply has been coming earlier, around the turn of the year. This suggests that turbulence is more likely in January or February than in March or April. But, on balance, our advice is that there is little to choose between March and April on this score, except that later information is always a slight help.

CONCLUSION

5. Although the oil price prospect, taken on its own, points a little more towards a later rather than an earlier Budget,

(i) April 15 can be ruled out, if a visit to Washington needed to be fitted into the end of the previous week. This (and the Lombard speech) would also fit very awkwardly with April 22;

(ii) for either April date the Green Paper complication means that there would be little or no time to change the content of the Budget in response to an unexpected PSBR outturn for 1985-86. But we would be able to print the correct figure for 1985-86 in the FSBR, and if necessary change the PSBR forecast for 1986-87;

(iii) the need for advance security printing of the Finance Bill, and the pressure on the Finance Bill timetable inherent in an April Budget, point to March rather than April;

(iv) it would be best to avoid the complication of having the Easter break in the final run-up for the Budget.

deserve!

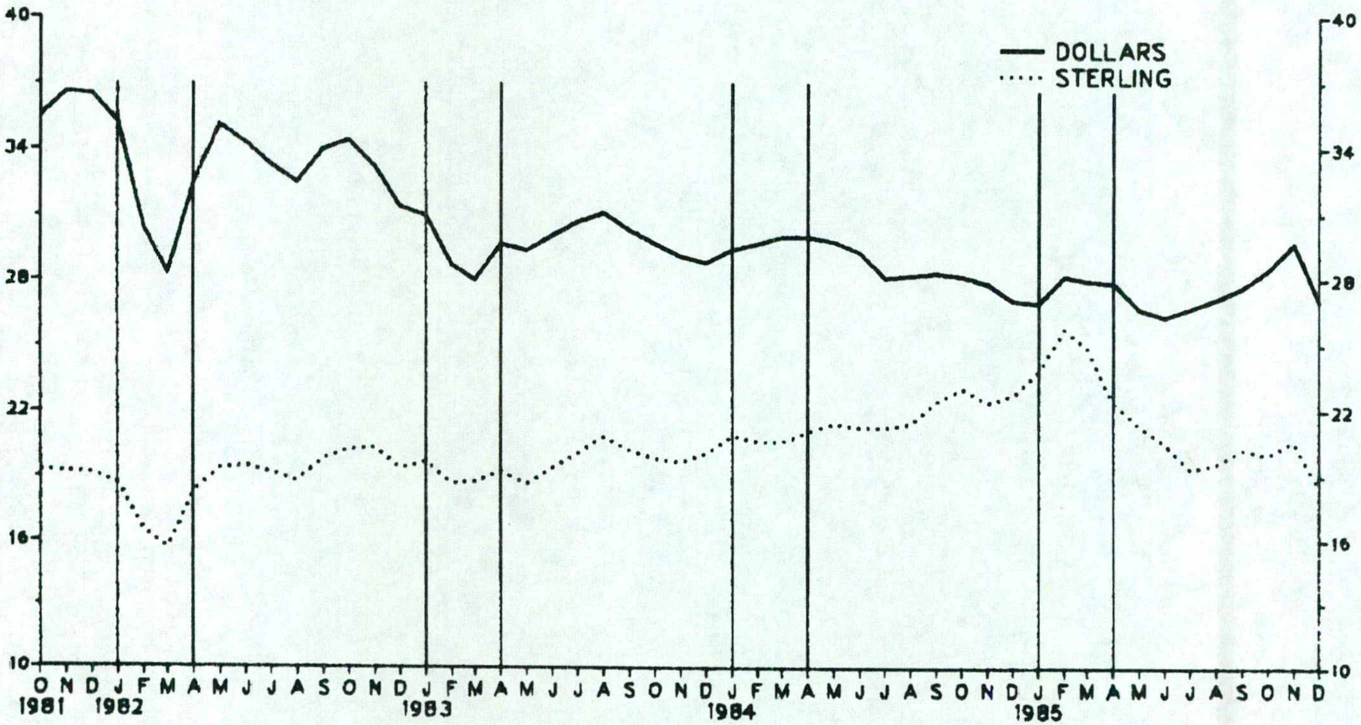
6. Our recommendation is, therefore, to stick with 18 March. If you agree with this advice it might be prudent to instruct

us to include within our Budget preparations from the start contingency plans against the possibility of a sharp drop in the oil price immediately before the main Budget decisions have to be taken.

MCS

M C SCHOLAR

BRENT SPOT PRICE



ANNEX A

2155/53

CONFIDENTIAL

b/f 6/1 for JK. RSP

FROM: VIVIEN LIFE
DATE: 23 December 1985

MISS HILL IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Miss Leahy
Mr Cropper
Mr Wilson
Mr Graham OPC
Mr Pitts IR
PS/IR

BUDGET STARTER 156: "KEITH RELATED" ADMINISTRATIVE CHANGES ON PRT

1. The Financial Secretary has read your minute of 18 December.

2. He is prepared to drop items a to e and g to h from the 1986 Starters list and instead consider them further for legislation in a later Finance Bill.

2. He is not, however, persuaded of the need to legislate in 1986 for item f - the rules for calculating the amount of tax that may be withheld on appeal. Firstly, it is an essentially relieving item and as such would fit better in a balanced Keith related package. In addition there are points you make about the links between this item and item g and about the effect on government cash flows. The Financial Secretary would therefore like to see this item considered, along with the others mentioned in your minute, in the context of Keith for 1987.

VL

VIVIEN LIFE

CONFIDENTIAL

CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: M A HILL

DATE: 18 DECEMBER 1985

1. MR PITTS Please see note at end. [initials] 18/12.

2. FINANCIAL SECRETARY

BS 156: "KEITH RELATED" ADMINISTRATIVE CHANGES ON PRT

1. This Starter covers a bundle of possible changes to the present rules on the administration of PRT. Taking them in the order in which they appear on the Budget Starter sheet, these possible changes relate to:

a. appeal rights in the case of "late" expenditure decisions made by the Revenue

b. appeal rights for individual participators against expenditure decisions

c. the Revenue's right to vary assessments to PRT or determinations of PRT losses

d. the Revenue's powers to recover PRT where incorrect relief has been given for expenditure

e. the rules for withdrawing oil allowance in the case of a late expenditure claim

---

cc	
PS/Chancellor	Mr Battishill
PS/Chief Secretary	Mr Pollard
PS/Economic Secretary	Mr Painter
PS/Minister of State	Mr Pitts
Mr Cassell	Mr Elliss - OTO
Mr Robson	Mr Gribbon - OTO
Miss Sinclair	Mr Johnson - OTO
Ms Leahy	Mrs Hubbard
Mr Cropper	Miss Hill
Mr Wilson	Mr Cleave
Mr Graham - Parliamentary Counsel	Mrs Ayling
	Mr Pang
	PS/IR

f. the amount of tax that may be withheld on appeal

g. the time limits for submitting PRT returns

h. the time limits for making a "spreading" election.

2. With the exception of c. and d. (which arise from our own concern to ensure that there is no loss of revenue because the legislation as currently drafted may not cover all situations encountered in practice) all these possible changes have their origin in representations made by the industry. Accordingly the changes if made would for the most part be to the industry's benefit. All the changes for which the industry is pressing are, however, administrative changes only. Whilst some would have cashflow consequences (detailed in the Annex), none of the changes would involve a permanent loss of revenue. Equally we do not see any of the recommended changes as giving rise to a need for extra staff.

3. Though BS 156 as a whole is described as "Keith related", many of the 8 administrative changes which it covers are only tenuously related to the actual recommendations in the Keith Report. It was in fact originally the <u>industry</u> which insisted on the Keith connection. They clearly hoped that Keith implementation would provide an opportunity to find legislative space for the various administrative changes they themselves have been pressing over a number of years. We for our part have gone along with this view, and would see the 2 items in the package designed to protect Revenue interests (ie c. and d.) as also being most appropriately dealt with in the Keith context.

4. It is not therefore the case that this Starter falls <u>automatically</u> with the decision to defer Keith implementation itself. The question now arising is whether any of the various changes are sufficiently pressing to merit being dealt with in advance of the Keith changes. There are in fact some general considerations which suggest that, for certain at least of the individual BS 156 changes, Finance Bill 1986 legislation would be inappropriate. First, some the individual items are too closely

bound up with the actual Keith recommendation on PRT to make it practical to take action in advance of implementing the relevant Keith change itself.

5. Second, others of the BS 156 proposed changes arise from the industry's representations on the present rules and procedures relating to expenditure claims. These representations, which date back to 1983, were originally considered in the context of the 1984 Finance Bill. On the basis of that consideration Ministers decided that, whereas action in a future Finance Bill might be appropriate for individual items, they did not favour wholesale legislative change in this area. They therefore authorised the Revenue to undertake discussions with the industry, with a view to finding mutually acceptable solutions within the present rules. Until those discussions are complete (which is unlikely to be before the 1986 Finance Bill), it would not seem sensible to try to legislate piecemeal in this area.

7. With these considerations in mind, the Annex examines each of the various administrative changes covered by BS 156 in turn. For each individual change it gives a brief idea of a. the point at issue, and b. the current state of play in discussions with the industry. Finally we try to come to an assessment, for each change in turn, of whether or not legislation in the 1986 Finance Bill would be appropriate.

Summary and Conclusions

8. As the Annex makes clear, we think that only two of the eight items - the amount of tax withheld on appeal (item f.) and the time limits for submitting PRT returns (item g.) - can now be regarded as serious starters for legislation in this year's Finance Bill.

9. Of these two, we feel that item g. has perhaps the weaker claim to limited 1986 Finance Bill space. We believe, in the light of administrative realities, there is a good case for legislating to extend the current time limit on PRT 1s. Equally there can be no doubt that the industry would welcome any such

extension. On the other hand, discussions between ourselves and the industry have not really reached the point where we can be sure of precisely what we are aiming to achieve.

10. On balance, therefore, we would not recommend legislation in Finance Bill 1986 on item g. Instead we think we should continue discussions with UKOITC on this matter, with a view to reaching a solution which can be implemented at the same time as the Keith recommendations on PRT. We do not think it this will come as too much of a disappointment to the industry. They originally raised this issue in their Keith representations, and are unlikely to have any strong objections if it continues to be considered in the Keith context.

11. Item f. - the rules for calculating the amount of tax that may be withheld on appeal - is rather different. The industry has always seen this as essentially a free-standing issue and has never sought to link it with Keith. In fact, as the Annex makes clear, it is just possible there could be some interaction between this issue and what is decided about the time limit discussed above (ie item g.). Of itself, this possible interaction might point to deferring any legislation on the amounts of PRT which can be withheld on appeal until a final decision has been reached on the time limits for PRT returns. Moreover it could be argued that there might be some tactical merit in holding back action on the appeals point for use as a "sweetner" when the Keith PRT changes are implemented (though we hope that the final Keith PRT package is not going to require much "sweetening".)

12. In all other respects, however, we think there is a strong case for legislating in Finance Bill 1986 on item f. The present rules bite harshly at a time when oil prices are falling - a situation which has occurred in recent chargeable periods and which we may face in even more extreme form in 1986. A change to a current period basis is something for which the industry is pressing strongly. Early legislation would thus be welcomed as an indication that the Government is alive to the (minor) problems the industry is facing in the real world, and as such an

earnest of the Government's good intentions towards the industry generally.

13. There will be no cost in that the amount of PRT finally payable will be unaffected. But, as noted in Annex, there would be an effect on cashflow, with some of the PRT which would otherwise be paid at the end of June and the end of December being deferred by possibly up to 6 months. We estimate that, at the maximum, the total receipts so deferred would not amount to more than £m20 a year, some half of which (ie £m 10 a year) would be at risk of being pushed from one financial year to the next. As to amount of Finance Bill space needed, we reckon that only a few lines of legislation would be required to give effect to this particular change. Notwithstanding the considerations outlined in paragraph 11, therefore, we would on balance <u>recommend</u> that this legislation be included in Finance Bill 1986.

14. Accordingly this note seeks your approval:

   i. to drop items a - e and g - h from the 1986 Starters list, and instead to consider them further (consulting the industry as appropriate) with a view to including any necessary legislation in a later Finance Bill;

   ii. to legislate on item f. - ie revising the rules for calculating the amount of PRT that may be withheld on appeal - in the 1986 Finance Bill.

MAH

M A HILL

Had we known at the time that 'Keith' was not for 1986, some of these items would never have reached this year's Starters list. But, as Miss Hill says, there is a case for f. in equity: in aptness, because oil prices are falling: and - although not related - to soften a second refusal on 'incrementals'. If applied to assessments made after Budget Day, it would first enable companies to use 2nd half 1985 prices in lieu of 1st half, a difference likely to be some £3 a ~~barrel~~. DV 18/12

ANNEX

A. APPEAL RIGHTS IN CASE OF "LATE" EXPENDITURE DECISIONS

Point at issue

Under the relevant provisions in Schedules 5, 6 and 7 Oil Taxation Act (OTA) 1975, appeals against PRT expenditure decisions have to be made within 3 years of the date of expenditure claims to which they relate. But there is nothing to require the Board to make a decision within that time and, in the absence of a decision, on a strict construction of the statute the appeal right is then lost. In practice companies have never been disadvantaged in this area, but they seek a clearer statutory right of appeal in such circumstances.

Discussions with industry

The industry (UKOITC) originally raised this with us in 1983 in the context of their general representations on the timing of PRT expenditure reliefs and appeals. It was discussed in our notes concerning these representations (Mr McManus' note of 22 April 1983 and Mr Crawley's note of 14 October 1983), and was for a time regarded as a starter for the 1984 Finance Bill. However, in recognition of the links with what is now item d. in this paper, and with Keith, it was not proceeded with (Mr Hudson's reply to Mr McManus' 2 February 1984 minute). Since then there has been no further substantive discussion of this issue. Although equitable solutions can in fact be provided administratively in the sort of circumstances outlined above, we infer that UKOITC expects legislative action to be taken in the context of Keith implementation.

Finance Bill 1986 legislation?

This item does not seem a strong candidate for Finance Bill 1986. The present administrative practice provides an equitable solution, and there is no particular pressure for early action to enshrine this practice in the legislation itself. Legislative action - if any - could thus be deferred until Keith implementation.

B. APPEAL RIGHTS FOR INDIVIDUAL PARTICIPATORS

Point at issue

In the case of claims for expenditure made under Schedule 5 OTA 1975, it is the responsible person who makes the claim for all participators in a particular field, and it is only he who has the right of appeal against the Revenue's decision on that claim. In theory it is possible to envisage circumstances where the interests of all the participators do not coincide. For example, as a result of changes made to the uplift and safeguard rules in 1981, it may sometimes be against an individual participator's interest to have a claim determined on the basis that uplift is due even though all the other participators benefit from such a decision. Against such a background, the industry submits that each participator should have a right of appeal against the Revenue's decision.

Discussions with the industry

The industry first called for such an extension to the existing appeal rights in their representations on Keith. Subsequently they agreed that this issue should be swept up in the ongoing UKOITC/OTO discussions on expenditure claims generally. Whilst the issue still seems to arouse strong feelings in some quarters, it now seems that it will be possible to agree procedural solutions to any problems within the terms of the existing legislation. In any event, because it would not fit happily into the Schedule 5 system whereby all the Revenue's dealings are with the responsible person, we doubt whether giving appeal rights to individual participators would be the appropriate answer.

Finance Bill 1986 legislation?

Given the background outlined above, this is another item which would seem to have little claim to Finance Bill 1986 space.

Indeed it is looking increasingly unlikely that legislation will be needed at all. But a final decision can sensibly be taken only when the present working level discussions on expenditure claims have been completed.

C. VARIATIONS IN ASSESSMENTS OR DETERMINATIONS

Points at issue

The basic powers enabling the Revenue to vary assessments to PRT or determinations of PRT losses are enshrined in paragraph 12, Schedule 2, OTA 1975. This paragraph empowers the Board to make assessments/determinations (or to amend assessments/determinations) wherever it appears to them that their original assessment/determination should have been larger or smaller. These powers also run in respect of other chargeable periods where the original adjustment has a knock on effect.

Over recent years we in the Revenue have become increasingly conscious that the legal basis of this provision may be flawed, and thus some of the actions the Board takes under it potentially open to challenge. This whole issue is currently under consideration by our Solicitor.

Meanwhile we now have the Keith recommendations on PRT, one of which - recommendation 121 - relates specifically to this particular provision. Keith recommends that, to furnish additional safeguards for the taxpayer, the 6 year time limit under Section 34 TMA for making assessments generally should be extended to all the Board's powers under Schedule 2, paragraph 12 .

Discussions with the industry

The industry has not commented on the general question of the legal basis of the Board's powers under Schedule 2 paragraph 12. They have however expressed their support for the particular amendment (ie extending to all the Board's powers under this paragraph the 6 year time limit for making assessments) proposed by Keith.

Finance Bill 1986 legislation

It clearly is not sensible to have two bites at amending Schedule 2 paragraph 12. This points to leaving all legislative action until the Keith recommendation affecting this paragraph can be implemented.

D. VARIATION OF DECISIONS ON CLAIMS FOR ALLOWABLE EXPENDITURE

Point at issue

In 1983 a provision (Section 40, Finance Act 1983) was introduced to fill a gap in the existing variation right provided by Schedule 2, paragraph 12. Up to then there had been no clear variation right where the reason for the error in the PRT assessment/determination of losses was because incorrect relief had been given for expenditure. In its present form however Section 40 applies only to claims made under Schedules 5 and 6 OTA 1975: it does not extend to claims for E&A expenditure (claimed under Schedule 7) or for allowance for unrelievable field losses (claimed under Schedule 8).

Discussions with the industry

Ministers were made aware of this lacuna in Section 40 Finance Act 1983 at the end of 1983 itself (Mr Pitts of 18 November 1983) and agreed in principle to deal with the matter in the context of implementing the Keith recommendations. In the light of the 1983 changes, the number of Schedule 7 claims - and thus the risk of errors which cannot be corrected - has subsequently increased. This lacuna is of course primarily of concern to the Revenue: the issue has never been discussed formally with the industry.

Finance Bill 1986 legislation?

Clearly there would be some merit in regularising the position on variations on Schedule 7 expenditure claim as soon as possible. But the need has not yet become pressing, and given the link between this item and item c., it is perhaps more appropriate to deal with this item too as part and parcel of the Keith PRT "package".

E. WITHDRAWAL OF OIL ALLOWANCE

Point at issue

Paragraph 11, Schedule 3 OTA 1975 is designed to ensure a participator cannot increase his oil allowance by deliberately holding up his expenditure relief. It gives the Board power, if it so directs, to withdraw from an assessment oil allowance which would not have been given had an expenditure claim been made not more than 12 months after the end of the claim period to which it relates - thus giving rise to a PRT charge on the oil allowance plus interest. Any oil allowance withdrawn then goes back to the pool to be carried forward.

Discussions with the industry

UKOITC criticised this provision in their Keith representations, claiming that it was "penal" in its effect, and suggesting with it should be withdrawn. At a meeting held last year, we told UKOITC that, though a direction had never been made under paragraph 11, Schedule 3, we felt that the provision had a useful "in terrorem" effect. If it were to be withdrawn, we think an alternative anti-avoidance provision would be required. Though the matter has not been raised since, we suspect that UKOITC may well revive their objections to this particular provision in the context of Keith implementation.

Finance Bill 1986 legislation?

As will be clear from the discussion above, we doubt whether it is in fact appropriate to legislate in this area. Certainly we could advise Ministers to contemplate early legislation only if the industry were pressing strongly on this issue. At present this is not the case.

F. WITHHOLDING OF PRT ON APPEAL

The point at issue

Under the OTA 1975 the amount of PRT which a participator may withhold when he appeals against an assessment is normally calculated by reference to the difference between the market values of non-arm's length disposals the participator has himself returned and the values actually assessed. Where however the participator's own returned values are lower than the average of the arm's length prices returned by participators for the previous period, Schedule 2, paragraph 14 enables that average (higher) price to be used instead. This effectively restricts the amount of tax the participator can withhold. In this way paragraph 14 protects the Exchequer against receiving low payments on account from the return of artificially low market values.

Discussions with the industry

UKOITC originally included this issue on their 1985 Finance Bill "shopping list". They argued that it is inequitable, at a time when oil prices generally are falling, to tie the paragraph 14 calculation to prices in the previous period. The industry obviously regard this issue as high on their list of current priorities, and have recently written setting out detailed proposals for change. Broadly they want to switch to a basis which would take account of returned prices in the current period, either taking all fields together (as at present) or looking at each field separately. UKOITC have said they would be prepared to live with the fact this produced less generous results than the existing basis at a time when oil prices are rising.

Finance Bill 1986 legislation?

As a matter of equity the case UKOITC are making would seem to command some sympathy. We suspect the limitation was originally tied to prices in the previous period for administrative reasons - it would not have been practical to use the current period basis with the assessing timetable in force up to 1982. Now this constraint has disappeared (but see item g.) there would seem no reason for not moving to a current period basis as UKOITC suggest. However - from a desire both not to prejudice our own valuation figures and to protect companies' commercial confidentiality - we would wish to resist producing these current price figures on each field separately.

Looked at in isolation, therefore, this item has a stronger claim to be considered as a serious candidate for Finance Bill 1986 legislation than most of the others also covered by this note. Though obviously related to the sort of matters considered by Keith, this item is largely freestanding: in terms of tax logic there is no reason why it should be held over until the Keith recommendations are themselves implemented. We reckon any effect on revenue would be slight (see below) and only a few lines of legislation would be required.

It could however be argued that this issue should <u>not</u> be looked at in isolation. Specifically there are links between this item and the question of extending the current time limits for the submission of PRT returns (ie item g.). Depending on how the latter question is resolved, it is just conceivable - though unlikely - that we could again be in the position of not having sufficient time between the receipt of the returns and calculating the paragraph 14 limitations to do that calculation on the basis of prices returned in the current period. More generally, though not strictly necessary in terms of tax logic, there might be a political case for dealing with this item as part of the Keith PRT "package". The proposed change is one for which industry is positively pressing. There could therefore be something to be said for holding it back for use as a "sweetener" when the Keith proposals are themselves implemented.

<u>Revenue effects</u>

Other than when prices are actually rising, moving to a current period basis for calculating the amount of tax which may be withheld on appeal is likely to increase the amounts held over by companies. As such it will have an effect on Government cash flow, deferring part of the total PRT finally payable. It is impossible to give a precise figure for either the amount which might be deferred, or for how long this might affect Government cash flow. We reckon however that, we are unlikely to be concerned with an amount over £m10 for a chargeable period and that the deferral would only exceptionally last longer than 6 months.

G. TIME LIMITS FOR SUBMITTING PRT RETURNS

Under the PRT system every participator is required to make, in respect of each chargeable period, a return of the prices/values his oil achieved in that chargeable period (the PRT 1). In addition the responsible person has to make a return of total field volumes also for each chargeable period (the PRT 2). By virtue of paragraph 2 of Schedule 2 OTA 1975, PRT 1s have to be submitted within 2 months of the end of the chargeable period. The deadline for PRT 2s - on which rather less information is required - is 1 month after the end of the chargeable period (Schedule 2, paragraph 5).

Discussions with the industry

In their Keith representations UKOITC made quite an issue of what they describe as the "compliance burden" arising from the statutory time limits for the submission of these PRT returns. They argue that, in some situations now encountered in practice (eg where fields share a common pipeline), it is simply not possible to assemble the information required for the return in the time allowed. More particularly all the necessary information has to be processed at the same time as companies are in practice trying to complete their PRT expenditure claims (and at the same time as they are required to complete royalty returns): this puts considerable strain on companies' administrative resources.

The industry's original bid was for an extension of the time limits for both PRT 1s and PRT 2s to three months. In subsequent discussions it emerged that their real concern was with the present time limit for the PRT 1s. (On PRT 2s they seem satisfied - at least until Keith implementation - to let the matter rest on the basis that the OTO will be prepared, where field circumstances justify it, to wait until accurate figures are available and not take precipitate penalty proceedings against responsible persons who miss the 1 month deadline.

In discussion we drew UKOITC's attention to the cashflow consequences of what they propose - deferring PRT 1s would mean a corresponding deferral in tax payments. Though specifically invited to do so, UKOITC have been unable to come up with a scheme which would permit an extra month for submitting PRT 1s but at the same time preserve the present profile of Government cashflow. They have therefore now proposed an extension of just 7 days, with payment dates moving with the return itself.

Finance Bill 1986 legislation?

It would seem that UKOITC are genuinely concerned about the administrative difficulties they have in complying with the present timetable on PRT 1s - their suggested extensions are not simply a ploy to defer tax payments. And, looked at from their own administrative point of view, it does seem that 7 days would provide a valuable addition to the time available under the present rules. Providing that the cashflow consequences that would result from such a limited extension (see below) were acceptable, it would thus seem there is a good case for legislating to give the industry the extra 7 days they are asking for. Such an extension would, we think, require only a few lines of Finance Bill space.

On the other hand there are, even without the cashflow consequences, there are considerations which point to not including this item in the 1986 Finance Bill. First there is some indication that if a 7 day extension were conceded this year, the industry might still continue to press for a further extension in following years. More particularly we get the impression that UKOITC have not really thought through their 7 day proposal, both in terms of what it means for the timing of tax and interest payments and how it links with the other administrative changes currently under consideration. Against this background we think there would be merit in allowing time for the detailed implications of their latest proposals to be discussed with the industry.

Second this issue cannot be really be considered in isolation. As UKOITC themselves recognise, there are links between the time limits for PRT returns and some of the Keith recommendations, eg on penalties for late filing. Equally, it is just possible, as the previous section of this Annex indicates, that item f. - the amount of tax withheld on appeal - will also interact with the return timetable. These factors suggest that the time limit for returns is best dealt with - if it is dealt with at all - in the 1987 Finance Bill.

Revenue effects

The PRT payment system has been so designed to produce a pattern of receipts which result in a smooth and early cashflow to the Exchequer. It comprises of three elements: payments on account (due twice yearly at the same time as the PRT 1 returns); monthly instalments (calculated by reference to the amount shown in the return, with the first instalment due with the submission of the return itself); and the tax payable (or in some cases repayable) under the assessment.

If the PRT 1 return were itself delayed for a 1 month then - unless the present payment scheme were changed - some or all PRT payments would also be deferred for 1 month. It may also be necessary to defer similarly the date for calculating interest on PRT generally. This would delay cashflow and involve an Exchequer loss in respect of the interest on the receipts so delayed. On the assumption of an interest rate of 11 1/2% a year, and with PRT payments at expected 1986/87 levels, this interest loss would - at its maximum - be about £m50. In addition it would mean shifting the payment on account and instalment which at present comes in March to the next financial year, involving a further transitional PSBR cost. The total amounts which would thus be moved from one financial year to the next would, on present profiles, be around £m500.

A 7 day deferral on the other hand would not affect the monthly profile of receipts or the financial year totals. The only difference would be that some payments would be received on the 8th or 9th (when they would then coincide with the bulk of the VAT receipts), rather than on the 1st or 2nd day of the relevant month. UKOITC have not specified precisely which payment they see as being deferred if PRT 1s were themselves deferred, but we think only the payments on account and first instalment in each chargeable period need be affected. On that basis the annual interest cost to the Government would be around £m3 (£m10 if <u>all</u> payments were deferred for 7 days).

H. TIME LIMITS FOR MAKING A "SPREADING" ELECTION

<u>Point at issue</u>

Paragraph 9, Schedule 3 OTA 1975 allows a participator to elect have relief for certain expenditure spread over a period rather than allowed immediately. Under paragraph 9(5) participators are given 3 months after the end of the relevant chargeable period in which to make such an election.

<u>Discussions with the industry</u>

This was one of the aspects of the rules on expenditure claims which UKOITC highlighted in their representations on Keith. They argued that the 3 months time limit for making a "spreading" election was far too tight, particularly as the assessment date for PRT had (by virtue of Schedule 19 FA 82) now itself been put back 2 months.

In response to these representations an Extra Statutory Concession (I 3) was issued in November 1984. This extended the statutory 3 month time limit to 5 months. In fact since this ESC was issued, only one spreading election has been made.

Finance Bill 1986 legislation?

The intention at the time this ESC was introduced was that it would be enshrined in legislation when the Keith recommendations on PRT were being enacted (Mr Pitts' 29 October 1984 note). Now these Keith recommendations have themselves been deferred until 1987, there would seem no strong reason for legislating on ESC I 3 in Finance Bill 1986.

DS

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

BR

HM TREASURY - MCU
30 DEC 1985
FP
cc APS CHX PS/CST, PS/FST, PS/EST
PS/MST, Sir P Middleton, Sir T. Burns,
Sir G Littler, Mr Bailey, Mr Anson, Mr Monck, Mr Cassell,
Mr Monger, Mr Jameson, Mr Burgner, Mr Scholar, Mr Turnbull,
Mr Culpin, Miss Sinclair,
Mr Cropper, Mr Lord, Mr H. Davies
CHX
13393/85.

December 1985

Dear Nigel,

BUDGET 1986

I should like to put to you a number of taxation points affecting DOE policy areas. I start, as I think you do, from the stance that we want taxation incentives and disincentives to help our objectives where they can, and be neutral everywhere else. Futher, I see strong attractions in concentrating any concessions where they will help us in rolling back the frontiers of the state, and reducing the burden of public expenditure.

Private Rentals

The future burden of over 4 million rented dwellings in the public sector is an appalling prospect. We saw some of the potential costs emerging in the last PESC round. The bulk of the people in these properties will not be able to buy homes of their own in the foreseeable future. I regard reducing the role of the public sector in this field as an essential aspect of our drive on urban housing renewal. Co-operatives and trusts will play a part, but a much larger privately-owned rented sector offering a proper return to investement is the sine qua non.

We have put off fundamental reform of rents and landlords' incentives until the next Parliament. We cannot leave all encouragement of private landlords until then. I would therefore urge, in the strongest terms, that both corporate and personal landlords of domestic property be allowed to offset their repair and loan costs against all income from whatever source. This is the most potentially effective proposal now available to us. (Annex A).

I know this has been discussed before. But if we are going to free this market, measures on these lines are essential. John Patten and I would be glad to come over in January to talk with you about these issues if that would help.

Charitable Giving

I support the Home Office proposals for encouraging charitable giving. I do not share David Young's view that more private giving is likely to increase the pressure for state aid. It seems to me essential that we encourage people to match private giving and real needs in the flexible, local and cost-effective way that voluntary effort can manage, and so divert those who see a need from thinking of the state as the only universal provider. Precisely how this is done seems to me less important than making progress with it.

Petrol Duty - Unleaded

It would be ludicrous to have a price differential in favour of pollution, particularly now when we have secured agreement in Europe for the introduction of unleaded petrol. Doubtless you are considering revalorising or raising road fuel duties in this Budget. I ask you not to do so for unleaded fuel.

This proposal would be effectively cost-free in 1986-87 because the market for unleaded petrol will be very narrow. Once the option of differentiation is established, it would not prejudice your future ability to raise revenue. The other side of the coin is that if the differential is not put in place in this Budget, we would hand an effective campaign theme to the lobbyists. If you foresee any difficulty about this, again it would be worth our meeting to discuss it.

Forestry

We have maintained a very favourable tax regime for forestry. Amending it to give less to coniferous woodlands, and therefore relatively more to broadleaved planting, would work in the right direction environmentally; and probably save public expenditure at the margin by reducing the need to compensate some would-be afforesters of sites of special scientific interest (Annex B).

VAT Coverage

Rationalising VAT coverage has some attractions, but Patrick Jenkin put up a strong marker last year on the need for our officials to be consulted if there were any proposals to extend the coverage of VAT in construction. We were grateful for your forthright words then, but I am aware that this question is still pending in the European courts. I must repeat Patrick Jenkin's request, and add that any proposals to extend coverage over water, the heritage or sport could be equally sensitive.

Other Help Towards Our Objectives

You will have had other representations on stamp duty. Two useful proposals from the housing viewpoint are set out in Annex D. Moving to the 'slice' basis of tax is preferable in principle, but moving the threshold might provide low cost help to home buyers.

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A further popular very low cost proposal is to extend the 'douceur' concession on sales of national heritage property to a few large bodies such as the RSPB. We have never understood how this narrow proposal could 'open the floodgates'. (Annex E).

Yours

KENNETH BAKER

1 Fall.

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ANNEX A

ALLOWANCE FOR LANDLORDS' REPAIR COSTS

Proposal

1. Offset landlords' repair costs against all income rather than just rental income.

Commentary

2. Landlords are all taxed on rental income, either through income tax at the marginal rate or through corporation tax depending on their status. They offset against tax on rental income the actual amount of all repair and maintenance expenditure, as well as interest on loans for acquisition and improvement. A greater incentive would be given by enabling repair costs to be offset against all income, not just rental income. This would be of particular help to smaller landlords with perhaps one or two properties, the income from which is limited by rent controls. As the rules presently stand it can be many years before such landlords can enjoy the full benefit of tax relief on their expenditure on repair, maintenance and improvement. Many landlords in this position are likely to find it uneconomic at the moment to incur such expenditure and it is therefore not surprising that the private rented stock, much of which was built before 1914, is in such poor condition. The inter-departmental Improvement Policy Review Group regarded this proposal (which carries with it very little financial or administration cost) as a very useful initiative (the Inland Revenue members of the Group dissenting).

There is, moreover, a broader policy reason for accepting this proposal now. Private landlords were severly disappointed by the Government's decision not to bring forward proposals to deregulate the private rented sector until after the next Election and their confidence in the Government has been shaken. The position has not been helped by the recent House of Lords' judgment in the case of Street v Mountford, the general effect of which has been to make it more difficult to let outside the provisions of the Rent Act. Many landlords must now be seriously considering whether it is economic for them to remain in the business of private renting.

Action in the 1986 Budget to help private landlords would therefore provide a much needed boost to their confidence. It would enable the Government to give them a positive sign, during the lifetime of this Parliament, reaffirming its commitment to the private rented sector and would help to fulfil two other key objectives of the Government's housing policy, that of making the best use of the housing stock by helping to ensure that it remains on the market, instead of being allowed to lie vacant, and that it is kept in good repair.

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FORESTRY

Proposal

To amend the election options on tax schedules so as to favour broadleaves more, by reducing the tax benefits to conifers.

Commentary

1. Forestry activities in the private sector result in losses of tax revenue and are supported by grants for planting. Moreover the economics of firestry combined with these incentives tend to encourage the planting of softwoods (conifers). The effects of this on the environment are often judged to be harmful both directly (for example in terms of impact on visual amenity and habitat) and indirectly (for example in terms of changes in water quality) (1.a. Indeed William Wilkinson of the NCC has commented (25/11/85) "We believe that the present regulations concerning grants and tax inducements..... are being exploited beyond reasonable limit.")

2. Generally, there is a fairly strong environmental case for incentives for broadleaves. The arguments for subsidies to conifers are much less compelling.

3. A proposal to reduce the incentives to conifer planting would therefore seem to be advantageous in that

(i) it would increase revenue or save expenditure;

(ii) it would have positive (relative) incentive effects on broadleaf planting at a time of falling returns to agriculture and falling land prices; and it would reduce the incentive to plant environmentally less desirable conifers;

(iii) as a consequence of (ii) it would reduce the potential cost of site safeguard through management agreements where conifer afforestation of SSSIs was threatened.

4. The present incentives, it should be noted, are generally haphazard in their impact; the tax incentives deriving, at least in part, from a loophole; and have been criticized on this ground by the PAC in 1981.

5. Detailed proposals would be for Revenue officials to work through, with a selected DOE official advising on the environmental aspects.

ANNEX C

CONFIDENTIAL

UNLEADED PETROL

Proposal

That duty on petrol be raised only on the sale of leaded supplies.

Commentary

1. Unleaded petrol can be sold from January 1986, but probably will not be sold in large quantities for some time.

2. The estimated increase in the cost of a gallon of unleaded petrol is estimated to be in the range 4-5 pence. The proposal is thus put forward in terms of increasing duty in the budget only on leaded petrol. This would have virtually zero budgetary cost in 1986/87. It could at the same time be presented as a far-sighted, clear and substantial environmental policy.

3. Once differential rates of duty had been established, the Chancellor could set the level of the duty in future years to yield whatever total revenue he wished. His power to raise revenue would not be reduced. If the change is left to later years, it will be a less effective environmental signal, and it will become more difficult to establish the differential at virtually nil revenue cost.

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STAMP DUTY

ANNEX D

Proposal

i) Impose duty only on the portion of the price which is above the threshold (the 'slice' basis of tax) rather than the whole price;

ii) Raise the threshold for exemption from duty to at least £35,000.

Commentary

1 In the 1984 budget stamp duty was substantially simplified. Duty is now payable only on purchases over £30,000 at the rate of 1% of the whole of the purchase price. The lower rate of duty (½% between £25,000 and £30,000) and the higher rates (1½% between £35,000 and £40,000 and 2% above £40,000) were abolished.

2 Change to 'slice' basis.

The simplification of the duty in 1984 will have removed some of the irritation caused by the higher rate thresholds which led to higher rates of duty applying to the full purchase price, not just the portion over the threshold. However there is still the anomaly that a house sold for £30,000 incurs no duty but that one sold for £30,001 is charged £300. Limiting duty payable to 1% of the excess of the house purchase prices over £30,000 would be popular, but would cost £300 per sale - approximately £150m pa. The cost could then be offset by an increase in the rate of duty; even at 3%, buyers paying up to £100,000 would be better off from such a change. The burden on commercial property transactions would however be substantially increased.

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3 Increasing the threshold.

House prices increased at an annual rate of just over 8% in the first half of 1985/6. A corresponding increase in the threshold would suggest a figure of £32,500. The aim should be to reduce the number of buyers liable to pay the duty. We estimate that 20% of first time purchasers currently pay more than £30,000. The figure is much higher however in London and the South East at 48%. An increase to at least £35,000 in the threshold would leave 12% of first time buyers within the scope of the duty; but 28% of purchasers in London and the South East. Those excluded would receive a benefit of between £300 and £350. The cost of increasing the threshold to this level might be £40m in respect of house purchasers, but there would be further foregone duty on commercial transactions.

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NATURE CONSERVATION

Proposal

Sales of heritage standard property to specified bodies benefit from the 'douceur' tax concession, to the advantage of both vendor and purchaser. The proposal is to extend the list enjoying this concession (Finance Act 1975, Schedule 6, para. 12) to private treaty sales of heritage land to national voluntary bodies approved by the Nature Conservancy Council.

Commentary

1. The proposition is not new. The former Secretary of State, Mr Heseltine, was persoanlly in favour of extending para. 12 to include the RSPB, but Treasury have always rejected the proposition on the grounds that it would open the flood gates to requests from other voluntary organisations both in the field of nature conservation and other areas of activity.

2. In practice, only 3 bodies would be involved, the RSPB, the Royal Society for Nature Conservation (incorporated by Royal Charter as the national association of 44 County Nature Conservation Trusts) and the Woodland Trust (a registered charity established in 1972 which has become one of the country's largest non-commercial woodland owners). The NCC's proposal is to amend its own entry in the para. 12 list to read "The Nature Conservancy Council or body approved by NCC", with the proviso that the NCC's approval of individual bodies would be subject to Treasury agreement.

3. The three bodies mentioned all currently fulfil the same role as the NCC in purchasing land of outstanding scientific interest (LOSI) to safeguard it for the future. However, although such land qualifies for outright CTT exemption if sold by private treaty to the NCC, there is no such concession on sales of similar quality land to the voluntary bodies concerned. Extension of the douceur to such sales would encourage more landowners to offer LOSI to conservation bodies initially rather than advertising them on the open market, would reduce demands on the NCC to acquire vulnerable sites; would eliminate the possible need for continuing

compensation payments under management agreements in respect of sites acquired by the voluntary bodies; and would transfer the burden of ownership and future management of "conservation - acquired" sites from the public to the private sector.

4. The bodies concerned have a large membership and stability and the use of funds by such bodies is checked by the Charity Commissioners. Two are incorporated by Royal Charter and it is highly unlikely that land acquired by them with the benefit of CTT exemption would subsequently find its way onto the open market. However, undertakings could be obtained to cover such a possibility with any breach giving rise to a charge to tax.

5. The proposition that only bodies approved by the NCC (with approvals subject to Treasury agreement) would be eligible for Para. 12 status should provide an effective means of drawing the line.

6. There are at present two bodies on the list which are concerned with historic buildings (the Historic Churches Preservation Trust and the National Trust). The NCC is the only listed body which is exclusively or even predominantly concerned with nature conservation.

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cc Mr Cassell

Ch/ You may like to tell this to P Cropper - if you haven't already. He was rather het up about this point, for some reason. RL. 9/1/86.

Chancellor.

I trust Rees will be so: discussion of alternative sources!

I made myself unclear at yesterday's briefing meeting. All I was trying to say was this:

It would be dangerous for discussion of alternative revenue sources to broaden out in a way that allowed persons to go away from next Tuesday's meeting saying "Well, of course, the only way Nigel will actually be able to do it is by putting VAT on food ... or taxing lump sums, or what-not." If transferrable allowances came to be seen (next door) as involving an implied challenge to past undertakings given on these sensitive issues, then unhappiness might be further intensified.

7 Jan 86.

PAT

FROM: MRS R LOMAX

DATE: 6 January 1986

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Miss Sinclair
Mr G P Smith
Mr Cropper
Mr Lord
Mr Davies
Sir L Airey - IR
Mr Isaac - IR
PS/IR

MR BLYTHE

APPROACH TO THE 1986 BUDGET: OPTIONS FOR PERSONAL TAX CHANGES

The Chancellor has seen your minute of 19 December and the attached paper considering a range of possible options for changes in personal allowances and the basic rate in 1986-87. He would be grateful if you would extend the analysis to cover two further options:-

(i) A "main" option consisting of prices indexation (plus $5\frac{1}{2}$ per cent) and 2p off the basic rate.

(ii) A "target" option consisting of prices indexation and 3p off the basic rate.

2. The Chancellor has also asked how the PSBR costs relate to the revenue costs shown in paragraph 2.

3. He would be grateful if you could explain why basic rates involving fractions of 1p are not at present possible with COP (paragraph 3).

4. In general the Chancellor was not impressed by the argument in paragraph 7 that all options should include at least earnings indexation of the basic allowances. For one thing, he regards it as highly undesirable to entrench the 7 per cent figure. He has also noted that the arguments in paragraph 7 pay no attention to marginal tax rates. The same point applies to the final sentence of paragraph 35 which comments on the implications for average but not marginal tax rates of an option involving prices indexation plus 2p off the basic rate.

5. The Chancellor has noted in particular your observation in paragraph 37 that a number of provisions will need to be reconsidered if there is a change in the basic rate of tax in 1986-87.

6. One small point on annex 5; the Chancellor has asked whether the calculations take account of the new NIC taper.

7. It would be helpful if this further work could be circulated to all those attending the Chevening meeting by Thursday evening at the latest. To avoid confusion on the day, could you please provide full replacement pages for all the annexes and tables to include the two further options for which the Chancellor has asked.

RL.

RACHEL LOMAX

1-26

Pps A

CONFIDENTIAL

FROM: R PRATT
DATE: 7 JANUARY 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Butler
Mr Cassell
Mr Scholar
Mr Monger
Miss Sinclair
Mr Cropper

OK N

DATE OF THE BUDGET

Your Private Secretary's minute of 20 December indicated that you had confirmed March 18th as Budget day.

2. Apart from last year (when we announced the Budget day early in order to ensure that the timing of the sale of British Aerospace shares could take full account of the Budget timetable) it has been the normal course since 1980 to announce the date of the Budget in the first Business Statement after the Christmas Recess. If you wish to follow this precedent this year, the date of the Budget will be announced on Thursday 16 January (immediately after First Order Questions).

3. It is helpful for Budget planning purposes to have the date of the Budget firmly on record, and, given the practice of recent years, it is likely that, if we were to delay the announcement this year, the Leader of the House would come under increasing pressure in successive weeks to reveal the Budget date. It would seem sensible, therefore, to follow recent practice and announce the date of the Budget on Thursday 16 January.

... 4. If you agree, we will need to ensure that March 18th is still suitable for No 10, the Chief Whip's Office and the Leader of the House. I attach a draft letter which your Private Secretary might send.

Richard Pratt

RICHARD PRATT

1-26

CONFIDENTIAL

[DRAFT] LETTER FROM PRINCIPAL PRIVATE SECRETARY

P1 type for Rachel's sig

To: David Norgrove Esq
No 10 Downing Street
LONDON SW1

1986 BUDGET DAY

As you know, we have been planning on the assumption that Budget day this year will be on March 18th.

It has become customary to announce the date of the Budget in the first Business Statement after the Christmas Recess (although we departed from this practice last year in order to assist the planning of the sale of shares in British Aerospace). The Chancellor wishes, this year, to follow recent practice and this would point to an announcement during the Business Statement on Thursday 16th January.

I should be grateful for confirmation that the Prime Minister is content for us to announce, on January 16th, that Budget day will March 18th.

I am copying this to the Private Secretaries to the Lord Privy Seal and to the Chief Whip. If the Lord Privy Seal is content for an announcement to be made on 16th January, I would be grateful if the Whip's Office could make the necessary arrangements.

[RL]

013/2762

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

FROM: PAUL PEGLER
DATE: 8 January 1986

APS/CHANCELLOR

C/ To note.
Rns 8/1

cc: Mr Monger

What is the cost of this proposal?

BUDGET 1986

The Chief Secretary has seen Mr Baker's letter of 30 December to the Chancellor. He has some sympathy with the point made on the first page of the letter that corporate and personal landlords of domestic property should be allowed to offset their repair and loan costs against all income from whatever source. The Chief Secretary feels it would be very helpful both politically and tactically (from the Treasury's point of view) to give something in this area. It is his opinion that more incentives are needed in this area from the point of view of housing policy.

Paul Pegler

PAUL PEGLER
Assistant Private Secretary

CONFIDENTIAL

M/030

CONFIDENTIAL

b/f with response ~~21/1~~ ~~27/1~~ 28/1

FROM: A W Kuczys
DATE: 10 January 1986

PS/CHIEF SECRETARY

cc Mr Monger

BUDGET 1986

The Chancellor has seen your note of 8 January about Mr Baker's letter of 30 December. The Chief Secretary sympathised with the suggestion that landlords of domestic property should be allowed to offset their repair and loan costs against all income from whatever source. The Chancellor would be grateful if Mr Monger could look into the cost of this proposal.

AWK

A W KUCZYS

Chancellor

cc Sir P Middleton
Sir T Burns

PMP

This is the PA story I mentioned, reflected in today's Economist. We have protested. But Levinson is a menace, & I suspect loose talk from No 10.

R
10/1

FROM: R H AARONSON
DATE: 10 January 1986

MR CULPIN

PA STORY ON TAX CUTS

You asked me to look into the story that appeared in the PA news summary on 8 January, claiming that

> "Tax cuts in the Spring Budget are likely to be only half as large as originally planned, according to Whitehall sources, who point to declin ing oil revenues as the main reason."

2. I spoke to Steve Levinson, whose story this was. He said that it was not based on anything we had told him (he had spoken both to Mrs McKinney and to me earlier in the day; he tried to get me then to put an upper limit on the fiscal adjustment that was now thought feasible, but I refused). He claimed that the summary version which appeared on our tapes was not a fair reflection of his full story, which only attributed to official sources the view that tax cuts would be less than the £3½ billion envisaged last March. But he admitted having described a range of £1½-2 billion as "present thinking" (without specifying whose). He laid some stress on the fact that he had referred to "Government sources" (changed to "Whitehall sources" by the headline writers) and not "Treasury sources".

3. I reminded him of the TCSC dimension and said that for that reason alone no-one in the Treasury would have given hium a figure or even a range. Levinson replied that he had not simply made the story up and that he had received his information a week earlier. I concluded the conversation by re-iterating the fact that no decision had been taken and that it was not worth his while fishing for more information in advance of the Budget itself.

4. An unsatisfactory exchange, but at least I think Levinson will be wary of attributing such stories to the Treasury itself (after Chevening, for example).

R H Aaronson

R H AARONSON

But can anything be done about eg the Economist story today

RL

[illegible]

L/020

CONFIDENTIAL

p.s.

cc Sir P Middleton
Mr Scholar
Mr Pratt

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

David Norgrove Esq
No 10 Downing Street
London
SW1

10 January 1986

Dear David

1986 BUDGET DAY

As you know, we have been planning on the assumption that Budget day this year will be on March 18th.

It has become customary to announce the date of the Budget in the first Business Statement after the Christmas Recess (although we departed from this practice last year in order to assist the planning of the sale of shares in British Aerospace). The Chancellor wishes, this year, to follow recent practice and this would point to an announcement during the Business Statement on Thursday 16th January.

I should be grateful for confirmation that the Prime Minister is content for us to announce, on January 16th, that Budget day will be March 18th.

I am copying this to David Morris (Lord Privy Seal) and Murdo Maclean (Chief Whip). If the Lord Privy Seal is content for an announcement to be made on 16th January, I would be grateful if the Whip's office could make the necessary arrangements.

Yours ever
Rachel

RACHEL LOMAX

1986 BUDGET DAY

PRAYER

PRIVY COUNCIL OFFICE

WHITEHALL. LONDON SW1A 2AT

LORD PRIVY SEAL

13 January 1986

Dear David,

1986 BUDGET DAY

I have seen Rachel Lomax's letter to you of 10 January. This is to record that the Lord Privy Seal is content to make the announcement of the date of the Budget on 16 January.

I am copying this letter to Rachel Lomax and to Murdo Maclean.

Yours,

Alison

ALISON SMITH
Private Secretary

D Norgrove Esq
Private Secretary to the
Prime Minister

CH/EXCHEQUER	
REC.	13 JAN 1986
~~ACTION~~	Sir P. Middleton
COPIES TO	Mr Scholar
	Mr Pratt

14/1

CONFIDENTIAL

10 DOWNING STREET

CH/EXCHEQUER
REC. 13 JAN 1986
ACTION SIR P MIDDLETON
COPIES TO MR SCHOLAR
MR PRATT

13/1

From the Private Secretary

13 January 1986

Dear Rachel,

1986 BUDGET DAY

The Prime Minister has seen your letter to me of 10 January and is content for you to announce on January 16th that Budget Day will be March 18th.

I am copying this letter to David Morris (Lord Privy Seal's office) and Murdo Maclean (Chief Whips Office).

Yours ever
David

(David Norgrove)

Mrs. Rachel Lomax,
HM Treasury.

CONFIDENTIAL

SECRET

FROM: H J DAVIES
DATE: 20 JANUARY 1986

CHANCELLOR

cc CST
FST
MST
EST
Sir P Middleton
Sir T Burns
Mr Butler
Mr Monck
Mr Cassell
Mr Scholar
Mr Culpin
Mr Cropper
Mr Lord

BUDGET PRESENTATION

At Chevening last weekend you asked Sir Peter Middleton to prepare a note on the presentation of the Budget which could serve as the agenda for a meeting. This minute presents, in advance of his, some unsolicited thoughts of my own on the problem.

2. I can envisage (at least) six lines of attack on a Budget of the sort we were discussing at Chevening. I would characterise them as follows:

i) There has been a closet reflation already, masked by the use of privatisation receipts to reduce gross public expenditure and the PSBR. Both privatisation and North Sea oil revenues are once off benefits to the public finances and should be treated accordingly. Rather than cutting taxes now you should be reducing the PSBR as far as possible. We might call this the Bank of England line.

ii) Given the composition of the recovery personal tax reductions are not appropriate at the present time. Personal consumption is already expected to rise rapidly next year and does not need a boost. With more money to spend individuals will simply buy more imports. The Government should, instead, be promoting investment. This is a fairly standard line amongst the lefter City Young Turks.

iii) Excessive wage rises are the principal economic problem the country faces at the moment. Without an answer to that problem the recovery will continue to be unbalanced and its fruits unevenly spread. The Government strategy is seriously flawed in that it has not answer to the problem, and this Budget reveals that flaw more starkly than before. This is Mr Culpin's song.

iv) Unemployment is the top priority, particularly in the inner cities. Personal tax cuts will do nothing to bring down unemployment and are therefore tactically and morally wrong. Instead the Government should spend money on job creation schemes. Dr Owen has emphasised the moral side of this argument but perhaps the most important expression of it comes in the CBI Budget representation.

v) Even though it may be right to reduce personal taxation, to do so by a cut in the basic rate is the wrong way to go about it at the present time. The top priority is to do more to alleviate the poverty and unemployment traps. Basic rate reductions give away too much to the higher paid who already benefit excessively through mortgage interest relief etc. We might, a little unfairly, describe this as the Cassell thesis.

Yes!

vi) Although it may be right to reduce personal taxation, and it may even be better to do this by basic rate reductions than thresholds, 1986 is the wrong year for a major move. The key Budget electorally will be 1987. The events of the last couple of weeks make it more likely that the election will be later rather than sooner. There are risky times ahead, with an uncertain international economic prospect and a fragile oil price. In these circumstances it would be prudent to produce a neutral package and retain more scope for action next year. I would not wish to pin this 1986 v 1987 line on any particular individual.

3. I think (obviously) that there are good answers to all these points. And, since many of them are common ground, I do not propose to rehearse them all here. The question is how most succinctly to deal with the points in the presentation of the Budget itself and whether to make any attempt in the run up to head them off. Taking each in turn:

The Bank

4. Mr Riley's paper goes into the argument in some detail (attached to Sir T Burns' minute of 26 January). I think that we have managed to sell the Autumn Statement and the Public Expenditure White Paper reasonably effectively, and to combat the "selling the silver" and "disguised reflation" lines. The Chief Secretary's exercise last week based on "realism and credibility" has strengthened our position. It is important, as Sir Terence says, that the Bank should not use their quarterly bulletin to advance or hint at this case. It is also vital that we use the public expenditure White Paper debate as another opportunity to emphasise the Government's continence and self-control. In fact I doubt whether this will turn out to be the most popular or damaging line of criticism. There are relatively few in the House or in the press who take it very seriously. But we shall need to guard against an adverse market reaction. The worst outcome would be a rise in the mortgage rate in April which more than wiped out all the cash gains for over half the population.

Young Turks

5. The argument that personal tax reductions are not appropriate given the composition of the recovery is, I think, a slightly more serious point, though, again, not one which is very likely to attract a great deal of political support. In part it is a politico-philosophical point since it takes as given a situation in which the Government annexes a large proportion of people's incomes in tax, rather than assuming that people should spend what they earn unless there is a good reason for their not being allowed to do. But there is an economic element to it and it would

be worthwhile to marshal whatever evidence we can to combat the "sucking in imports" line. I think I am right in saying that the marginal propensity to import has not markedly increased in the last year or so. But there are others more competent than I am at manipulating statistics in this area.

The Culpin thesis

6. As you know I too attach importance to this argument. Once again it is not a populist cause but it does have some effect on commentators who influence opinion down the line. I think we should argue that personal tax reductions ought to moderate pay demands, even though as I understand it we can find relatively little support for the proposition that they do. In addition, I believe it would be helpful if we had something to say about labour market experiments, including perhaps a consultation paper on profit sharing, to demonstrate the Government's continued awareness of the need to make progress in this area.

The CBI

7. This could be a very delicate problem. There is little doubt that the CBI feel quite strongly, and certainly claim to be reflecting the views of their members. Sir James Cleminson has said to you that "he has never known such unanimity among his membership of any issue". It is clear that we have not convinced CBI members on the proposition that large scale public expenditure of the kind they propose cannot in the long term generate jobs. We have said it until we are blue in the face, but clearly we need to think of yet more novel formulations of the argument. It may be that you will need to make a bow in the direction of the CBI's contribution at some point if their reaction to the Budget is not to be too negative. You have, of course, already tried to warn them off, but further efforts in this area by you and other Ministers might still pay dividends. There will be the 'Lord Young' package which may offer some comfort, but its size is bound - whatever we are forced to concede - to be a disappointment to some.

Mr Cassell

8. We have already agreed that insofar as the rates versus thresholds debate takes place within the backbench party, there is merit in attempting to tone it down. Proponents of one or the other take up extreme positions and exaggerate the economic and social advantages of one or other option. There is a case for some inspired questions about the relative impact of changes in rates and thresholds of the same fiscal magnitude, and you have asked me and Mr Lilley to think further about it. I do not think we should try to go too far in this direction for fear of exciting inspired speculation, but exposure of numbers which revealed the relative neutrality of different varieties of tax changes would be helpful. In looking at the higher rate options we have been conscious of the presentational difficulties. If we can say that no-one is better off in cash terms than they would have been through the indexation of all allowances and bands that will be a great help.

at the top

1986 v 1987

9. There is little we can do about this line of possible criticism. It rests on guesses about the future and will not be proved right one way or the other until after the election. But we might wish to think further about the way to present reductions in taxation this year. We talked at Chevening about the possibility of reinstating 25p as an objective. Most people saw this as a dangerous hostage to fortune. But we do not wish to give the impression that this year we are doing all that is possible in this parliament.

The Budget Theme

10. There is a separate question about whether this year's Budget should have a stated theme or objective. Last year we talked about "a Budget for Jobs". I would not favour an attempt to repeat that line. And I am not sure that in the circumstances we would be right to choose one specific objective and to emphasise it above all others.

11. What I think we do need, however, is a clear and consistent tone. We need to emphasise that the Budget does represent progress towards the kind of economy and society which we as a party wish to see. We need to suggest that years of restraint on public expenditure and financial discipline generally has brought us to a position in which the Government can sensibly restore some spending power to the electorate. As we know from the opinion polls one major problem we face is that a large proportion of the electorate still does not recognise that the economy has been performing well over the last four or five years. We need to convey a sense of optimism about the economic prospect, without suggesting that we are out of the wood, or underplaying the gravity of the problem of unemployment.

12. If JWT had not suggested it first to British Rail I would propose the slogan "We're getting there". An alternative might be to talk of "sharing the fruits of recovery" or "harvesting the recovery". A safer option might be to emphasise that the Government is back on course towards further reductions in taxation, after a difficult period in which the country has had to tighten its collective belt. As an overlay there needs to be a forceful and convincing argument about the way in which reduction in taxation will bring benefits to the whole community and not simply the better off.

HJD

H J DAVIES

SECRET

MINISTER OF STATE TREASURY

FROM: M W Norgrove

DATE: 22 January 1986

PPS

A good idea. Per J do. M

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Scholar
Mr Culpin
Mr Cropper
Mr Lord
Mr H J Davies

BUDGET PRESENTATION

with your X

The Minister of State has seen Mr Davies' minute of 20 January and the following is his initial tactical comment on Budget presentation. The Minister has to speak to Peter Hordern's businessmen on 31 January and would be happy to address the CBI theme (including a Central Office press release) if that were felt desirable. He is always struck by the fact that the first half of the conclusions of the Shell/MIT study on job creation in the United States in the late 70s (the emphasis on small business as the creators) has become part of conventional wisdom; but not the second half, that the essential for small business success in job creation (beyond entrepeneurial and managerial skills) was that there should be sufficient money for the business's products or services in the pockets of the local community/relevant market to provide the fuel for the engine. The Minister has always assumed (applied to the CBI argument) that this works more slowly if the resources are in institutional hands than in private, partly because of the spending mechanisms but also because small business may find it harder to relate to institutions than to individuals.

MWN

M W NORGROVE
Private Secretary

Ch/ Any comments?
& Content for Michael
to circulate for the
Wider overview?

FROM: M C SCHOLAR
DATE: 28 January 1985

CHANCELLOR

cc: Sir P Middleton
Mr Pratt

RE.
28/1

BUDGET TIMETABLE

We (largely Mr Pratt) have worked out a timetable for the period between now and 18 March, covering preparations for the Budget and the Personal Tax Green Paper.

2. I think it would be useful to circulate it to those who attend the overview meetings, so that we have a common understanding of when are the last dates for various events. If you agree, I will attach the timetable (classified 'Budget Secret' because of the references to an alternative Budget) to the next scorecard.

MCS

M C SCHOLAR

PS8 delete all references to alternative Budget. ~~[illegible]~~ This can ~~[illegible]~~ be considered later if that proves to be necessary

Table1

Date	Chancellor's Diary & Parliamentary Timetable	Personal Tax Green Paper	FSBR + Budget	External Events
28 January	TCSC + Officials on PEWP			OPEC technical meeting
28 January	Local Authority Green Paper published			
29 January		Ministerial Group meets		
30 January			Winter pre-Budget forecast circulated. Papers for Overview 3	Unemployment stats
31 January		Revised draft to Chancellor		
1 February))W/E 2 February)				
3 February	TCSC + CST on PEWP. ?Debate on EC Supplementaries	) Draft circulated to Ministerial Group	Overview 3	OPEC Ministers meeting. US President presents Budget proposals
4 February		)	Forecast to PCC. MTFS outline and issues paper to Chancellor	Provisional money figures
5 February	NEDC	)		
6 February		)	Paper for EcoCab submitted to Chancellor. Papers for Overview 4 MTFS assumptions and fiscal prospects to Chancellor	
7 February		)	Speech outline to Chancellor EcoCab paper to PM for clearance (if necessary)	

Date	Chancellor's Diary & Parliamentary Timetable	Personal Tax Green Paper	FSBR + Budget	External Events
8 February))W/E 9 February)				
10 February		) Ministerial Group meets to) discuss revised text	Overview 4. Forecast and WEP on agenda? Paper for EcoCab circulated. Briefing on EcoCab to Chancellor	
11 February		)		
12 February		)		
13 February	1st Order questions	)	EcoCab. Papers for Overview 5	Full money figures
14 February		)		
15 February))W/E 16 February)				
17 February	ECOFIN PEWP debate sometime this week or next	Ministerial Group agrees revised text	Overview 5	
18 February				PSBR figures
19 February		Text circulated to Cabinet	WEP update completed	
20 February			Papers for Overview 6 First draft of MTFS to Chancellor	
21 February			1st draft of Budget speech to Chancellor Forecast update completed	RPI published

Date	Chancellor's Diary & Parliamentary Timetable	Personal Tax Green Paper	FSBR + Budget	External Events
22 February))W/E 23 February)				
24 February			Overview 6 considers whether to commission an alternative Budget First draft of FSBR Part 1 and Part 5 (public expenditure) to Chancellor & printer	
25 February		Deadline for Cabinet comments	First draft of FSBR Part 2 (MTFS) to Chancellor & printer First draft of FSBR Part 3 (forecast) to Chancellor & printer	
26 February			First draft of FSBR Part 4 (tax policy) and 6 to Chancellor and printer	
27 February	Building Societies Bill - end of Committee Stage		Papers for Overview 7	Unemployment figures
28 February		Text to printer	First proof of FSBR to Chancellor	
1 March))W/E 2 March)				
3 March			Overview 7 Last date for income tax, VAT & excise duty changes (on both main and alternative Budgets)	

Date	Chancellor's Diary & Parliamentary Timetable	Personal Tax Green Paper	FSBR + Budget	External Events
4 March		)		
5 March	NEDC	)		
6 March		) Final amendments and redrafting	Papers for Overview 8	
7 March		)		
8 March))W/E 9 March)		)		
10 March	ECOFIN	)		
11 March		)	Overview 8	Provisional money figures
12 March		Final text to printer		
13 March	H of L Debate on Husband & Wife taxation		Last day for choosing alternative Budget without presentational cost	
14 March			Final proof to printer	
15 March			Last day for choosing alternative Budget, accepting some deterioration in presentation	
16 March				
17 March	Audience with Queen		Read at Press	
18 March	----------BUDGET DAY----------			PSBR published

BR/3

FROM: MRS R LOMAX

DATE: 28 JANUARY 1986

PS/MINISTER OF STATE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Scholar
Mr Culpin
Mr Cropper
Mr Lord
Mr H J Davies

BUDGET PRESENTATION

The Chancellor has seen your note of the 22 January and agrees that it would be a good idea for the Minister to speak to Peter Hordern's businessmen on 31 January, as suggested.

RL

RACHEL LOMAX

LR2.18 BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 29 January 1986

MR SCHOLAR

cc Sir P Middleton
Mr Pratt

BUDGET TIMETABLE

The Chancellor has seen your minute of 28 January. He is content, subject to you deleting all references to alternative Budgets. We can think about it this later, if it seems sensible to do so.

RL.

RACHEL LOMAX

RR7.48

1 Tony 2 Philip 3 ...

This all looks fine. I have minor & few changes to 2(ii). Which parts of the memo @ 3 are discussed @ the 1st overview may depend on the state of progress; but other things equal I would be inclined to start with (ii) & (iii) which are very ~~...~~ consultants taxing, & rather when we're on ... (...) ... & the Bank ... rather than (i), which is more straightforward & does require consultants. Re para 6, I am content for the CST to ... at ... the ... but I think it would be better for the ... (...) when the FST) can discuss BBS.

CHANCELLOR

BUDGET: NEXT STEPS

With the first overview meeting next Monday, we need to get ahead fast. Michael and I had a post Chevening chat today, and will be discussing the result of today's labours with Sir Peter Middleton after PCC tomorrow. Then we would like to talk to you. We will also need to talk to Revenue and Customs during the course of the day and see how fast they can come up with further papers. If possible I think we should try and circulate - or at least agree - a provisional agenda during the course of tomorrow.

2. We should also try and circulate the following papers which Michael and I have been working on:-

(ii) Draft minutes of Chevening - concentrating as usual on the conclusions.

(ii) The check list of priorities for further work commissioned at Chevening.

3. Our preliminary view was that the most urgent things for the first couple of overviews might include:-

(i) Higher rate packages.

(ii) Pension fund surpluses.

(iii) Stamp duty package.

~~Tony~~

Pl speak to me about this (Debbie is fixing this up)

Andrew

(iv) Employment measures - unless there are snags in what was envisaged at Chevening, the first step is for the Chief Secretary to talk to Lord Young.

(v) And of course the usual scorecard.

4. You might like to glance through all this and let me have any strong views before I see Peter and Michael in the morning.

5. I have also drawn up a cast list for the overview meetings, based on last year's broad principles. Nick Monck is optional, but it might be sensible to have him.

6. Finally, Lord Young's office are asking about a meeting on the Budget (which I think you promised him). On the whole I see some merit in letting the Chief Secretary have a crack at him first. You also suggested at Chevening that the Financial Secretary might have a first go with him on the BES. What are your views please?

RL

RACHEL LOMAX

PS: Also enclosed are last years Chevening minutes and agenda notes (and cast list) for the first few overview meetings.

FROM: M W Norgrove

DATE: 3 February 1986

MR B H KNOX - C&E

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Lavelle
Mr Monger
Mr A J C Edwards
Miss Sinclair
PS/Customs & Excise

TAX APPROXIMATION: HIGH LEVEL GROUP ON THE REMOVAL OF FISCAL BARRIERS

The Minister of State was grateful for your minute of 29 January. The Minister assumes that he sees you often enough for you to keep him informed informally on progress, which will affect the UK Presidency; and your minute was a clear basis from which to start.

M W NORGROVE
Private Secretary

Inland Revenue

Policy Division
Somerset House

FROM: I R SPENCE

4 February 1986

PS/ECONOMIC SECRETARY

TRANSACTIONS IN SECURITIES - SECTION 469 AND 462 ICTA - LETTER FROM ARTHUR ANDERSEN

Mr D N Marks' 22 January letter is a follow up to Arthur Andersen's 12 November 1985 letter, in which they pressed (on behalf of a number of American Banks) for removal of the anti-bondwashing provisions of Section 469 and of Section 472, on the grounds that the introduction of the accrued income scheme had made them redundant. They ask whether there is to be any pre-Budget announcement on the future of Section 469 and Section 472, apart from the decision (already announced) to exempt sale and repurchase transactions in eurobonds and US Treasury stocks from the ambit of Section 469. They offer - without pressing it - to come in for discussions if that would be helpful.

As the Economic Secretary knows, our recommendation for this year's Finance Bill is to remove from these sections securities which are subject to the Accrued Income Scheme. This would not give them everything they want, since they

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cc PS/Chancellor
PS/CST
PS/FST
PS/MST
Mr Cassell
Mr Monger
Mr Peretz
Ms Sinclair
Mr Walsh
Mr Wood
Mr Lord

Mr R I McConnachie BoE

Mr Battishill
Mr Beighton
Mr Spence
Mr Skinner
Mr Templeman
Mr S W Jones
Mr A Bolton
PS/IR

1S-TS469.SUB

are looking for complete abolition of the sections (ie covering equities and preference shares as well as AIS securities). The Bank of England are arguing that action on both Sections should be deferred until next year, because of their concern about the developments of a non-regulated repos market. We have just had a note from the Bank on this and HF (in consultation with us) will be minuting you on it in the near future.

There is nothing substantive that can be said to the American banks (or indeed to the UK banks) for the time being but it would be tactically sensible, we think, if we have them in for a meeting in the fairly near future so that they can set out their stall - and will not be able to complain that their arguments for complete abolition have gone by default.

I attach a short draft letter for you to send to Mr Marks.

I R SPENCE

1S-TS469.SUB

Treasury Chambers, Parliament Street, SW1P 3AG

February 1986

D N Marks Esq
Arthur Andersen & Co
1 Surrey Street
LONDON
WC2R 2PS

TRANSACTIONS IN SECURITIES
SECTIONS 469 AND 472 INCOME AND CORPORATION TAXES ACT 1970

The Financial Secretary has asked me to thank you for your letter of 22 January. He is well aware of the arguments you have put forward for changes in Section 469 and Section 472, in addition to the point already covered by the 13 December announcement. However, he would be glad to arrange for you to meet his officials for further discussion of the points you have made, and the Revenue will be getting in touch with you shortly to arrange a meeting.

PS/ECONOMIC SECRETARY

1IS-AAM.LET

Arthur Andersen & Co.
Chartered Accountants
1 Surrey Street · London WC2R 2PS
Telephone: 01-836 1200 Telex: 8812711

ECONOMIC SECRETARY
REC'D 29 JAN 1986
Mr Spence - IR
PPS FST
CST MST
Mr Cassell
Mr Monger
Mr Perretz
Ms Sinclair
Mr Walsh
Mr Wood
Mr Lord
Mr Beighton - IR
PS / IR

22 January 1986

I. Stewart Esq. MP
Economic Secretary
HM Treasury
Parliament Street
London
SW1

Our ref: DNM/GRP

Dear Mr Stewart,

TRANSACTIONS IN SECURITIES
SECTIONS 469 AND 472, INCOME AND CORPORATION TAXES ACT, 1970

We read with interest the Inland Revenue press release of 13 December 1985, relating to "Repo" agreements as affected by Section 469 ICTA 1970. The text of your Parliamentary Question and Answer indicate that the anti-avoidance section is to be amended in respect of certain securities, and we look forward to the publication of the proposed legislation, which is to be included in the forthcoming Finance Bill.

With regard to the other matters which we raised in our letter of 12 November 1985, particularly relating to Section 472, we should be pleased to learn if any further announcements are to be made. If we can be of any assistance in your review of our representations with regard to these complex sections, we should be pleased to discuss them with you.

Yours sincerely,
ARTHUR ANDERSEN & CO.

D.N. Marks

Note to PS/EST & stand letter.

jm

SECRET

From: SIR PETER MIDDLETON

Date: 5 February 1986

SIR T BURNS

cc Mr Cropper
Mr H Davies
Mr Scholar
Mr Culpin
Mrs Lomax

PRESENTATION OF THE BUDGET

This is a first shot at the note I am due to write for Monday's overview but I should like to get it round on Thursday night. I should be most grateful for any comments - by lunchtime tomorrow please. I shall not be at all upset if anyone tells me this is completely off the rails. And suggestions for filling in obvious gaps will be most welcome.

K F Murphy
(private secretary)

pp P E MIDDLETON

DRAFT

Presentational issues will play a decisive role in this Budget. The Government's policy as expressed in money GDP terms will remain on the MTFS path, and there are to be no changes in the factors which influence operational decisions during the year. Changes of £1 billion or so in the fiscal adjustment or small changes in the fiscal stance are unlikely to have any noticeable macro-economic effects. Their main significance lies in their effect on perceptions and expectations - and these are very important indeed.

Background

2. Ministers will wish to consider three audiences:

(a) public opinion at large;

(b) the financial markets;

(c) their own supporters.

You will also wish to consider the reaction of particular groups.

3. A number of issues are of general relevance - some of which have arisen since Chevening:

(a) an unprecedented fall in the oil price - around 50% with the uncertainty which any such shock brings;

(b) the feeling of apprehension following the recent unemployment figures;

(c) a certain amount of disarray in the Government which might be a considerable factor though I doubt whether it is more than a marginal one.

Some points which come from the forecast:

(a) the seeming levelling out in inflation;

(b) the probable persistence of high real interest rates, accompanied by improved rates of return and profitability in the company sector;

(c) the possible persistence of relatively high wage settlements, the strong growth of real incomes of those in employment, and the risk which that implies for unemployment;

(d) the expectation that domestic consumption will assume the major role in contributing to growth.

4. The general prospect is a good one. If the fall in the oil price is no more than offset by a fall in the exchange rate we stand a good chance of avoiding inflationary risks while continuing to produce a satisfactory economic performance in a rather more soundly-based world growth. We do lose something from the decline in oil prices - this mainly shows up in the loss of revenue to the Government and a weaker current account. But the result for the PSBR is not so bad as most people imagine because of the buoyancy of non-oil revenues.

<u>Assessment</u>

5. (a) The mood of the country seems to reflect the first three factors in paragraph 3. It seems to manifest itself in a guilty feeling, about tax cuts when there are large numbers of unemployed (especially among those who have had the biggest pay increases); a feeling that unemployment should be relieved if not cured by more expenditure; a feeling that in a volatile oil market tax cuts could be both risky and short lived. I think I detect a general instinct for playing safe.

eg CBI

(b) The financial markets are currently behaving better than might be thought in the face of massive turbulence in the oil market. They will be impressed both by where the oil price has got to and by the downside risk of a further fall. But they will also absorb the other points in paragraph 3 - especially perhaps the inflation prospect and the increasing role of consumption. The more cautious you are on the fiscal side the better they will be pleased - a pleasure which will be reflected in a marginal benefit on interest rates and perhaps some scope for the authorities to manoeuvre. They will be pleased with this year's PSBR and the Chief Secretary's presentation of public expenditure. They are of course the main audience for the monetary side of the package and are thought to feel the need for the recreation of a target for broad money - a target which has been in abeyance since the Mansion House Speech. I doubt whether they will find what we do unwelcome - but a clearer exposition of policy than we can give in the MTFS will be required soon after the Budget.

(c) I am in no position to make suggestions about the mood in the Party etc. But I would hazard the view that their time horizon has lengthened a bit and they too have become more risk averse. I expect they will be particularly looking to measures which will directly impact on employment, enterprise and wider ownership.

6. Of the special interest groups, I believe the CBI are by far the most important. They will make a lot of this being Industry Year - and it is significant that we have done practically nothing

for which they have asked. And they are prominent - perhaps because of the high rewards which have gone to the top levels in the company sector - in those with guilt feelings about cuts in tax rates. On the other hand the situation has changed. Industry has a significantly lower real exchange rate and lower oil prices and the prospects look good.

7. This does not provide a decisive pointer to the sort of Budget you might most easily present. On the one hand, you would be pretty safe if you went to the cautious end of the scale - it would be widely understood and there would be some relief. On the other hand, if you could pull it off, a rather bigger package with the scope for a wider range of measures would have a correspondingly greater impact. So far as personal tax was concerned it would set a very determined path to the future. My own inclination is to give a lot of weight to oil and to provide the sort of Budget which offers the best chance of escape without further tax changes if the price falls further. I think we should be able to stand it perfectly well if the price on which the numbers are based turns out to be an under rather than an over estimate.

8. This is not a minute about how to present the Budget. We need another go at that. It is about presentational issues to be taken into account in forming a judgement. Ministers might think that three things stand out:

(i) The Budget must have an employment theme. It is best if it is set in the context of measures to encourage enterprise.

(ii) The employment theme must be consistent with further progress towards lower inflation.

(iii) The Government's reputation for sound finance must be maintained.

All this is against a background in which oil will inevitably dominate the economic presentation.

2793/42

SECRET

FROM: P J CROPPER
DATE: 6 February 1986

SIR P MIDDLETON

cc Sir T Burns
Mr H Davies
Mr Scholar
Mr Culpin
Mrs Lomax

Some of the practical suggestions at the end may have been anticipated. PJC.

PRESENTATION OF THE BUDGET

I do not think it is possible, at this juncture, to write a note on presentation of the budget. We just do not know what is going to be inside the wretched thing. That is a lament, not a criticism: events are moving too fast on a number of fronts. Yet decisions will have to be taken before very long.

2 You speak of your note as "about presentational issues to be taken into account in forming a judgment". It is a gallant attempt to make bricks without straw. I think we will actually have to address ourselves at the next overview to the twin questions of the budget judgment and the main decisions. Presentation follows later.

3 In reaching a budget judgment we will have to take account of:

1) The judgment we reached at Chevening.

2) The economic impact of subsequent events (mainly oil).

3) The question whether, in the light of recent political upsets, the Government should:

<u>either</u> run for cover and consolidate
<u>or</u> stride out boldly and defy the elements.

My own instinct, as colleagues will expect, is to go for consolidation. If the fiscal adjustment for 1986-87 looks like being nil on an MTFS basis, then so be it. Caution this year can only enhance the possibility of having something to "give away" next year. A gift horse at present would, I believe, be looked in the mouth.

4 A contrary case can be made. I have no respect whatever for the IOD view that a £10 billion PSBR and £4 billion tax cuts are the obvious central policy. But I would respect the Chancellor if he decided that taking a bit of a risk was the best thing to do in a sticky situation.

5 Having reviewed the central judgment on Monday, we would then have to address the central political decision: whether to cut the rate, raise the thresholds, or stand still. After that come the secondary decisions on specific issues, better not listed.

6 In your final paragraph you say that the Budget must have i) an employment theme, consistent ii) with further progress towards inflation. Yes, but what is it? Not the sort of theme Lord Young specialises in. On my scenario the clue lies in your iii), "the Government's reputation for sound finance must be maintained". Perhaps the theme should be to extol the merits of sound finance, stability, keeping the economy steady on an even keel in a rough sea; of doing all in our power to minimise the risks, fluctuations and uncertainties which make life difficult for business, deter the entrepreneur and induce a defensive mentality.

7 Ever since the war, Governments have been sailing the British economy too close to the wind. Proof of that lies in the volatility of interest rates, and latterly of the exchange rate. There is a limit to the amount of risk and uncertainty that businessmen can take. If the risk and uncertainty are too great in relation to the prospective profit, businessmen will take their resources out of employment-giving

siness and put them into land, antiques and comfort.

8 This Government has done a lot to restore profitability - mainly by curbing the power of the unions. I would argue that it should now see what it can do to reduce the degree of risk and uncertainty in the economy - by concentrating on sound finance.

9 I have not helped you to write a paper on "Presentation of the Budget". Maybe it cannot be done at the moment and we will have to change the agenda for this coming Monday. It might even make sense to cancel the big meeting and hold a different, smaller, one.

PJC

P J CROPPER

SECRET

From: SIR PETER MIDDLETON
Date: 6 February 1986

CHANCELLOR

Ch

For the overview, but relevant background to tomorrow's meetings.

RL 6/2

Pl. return for overview folder.

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies
Sir L Airey - IR
Mr Isaac - IR
Mr Battishill - IR
Sir A Fraser - C&E
Mr Knox - C&E

PRESENTATIONAL ISSUES AND THE BUDGET

Presentational issues will play a decisive role in this Budget. The Government's policy as expressed in money GDP terms will remain on the MTFS path, and there are to be no changes in the factors which influence operational decisions during the year. Changes of £1 billion or so in the fiscal adjustment or small changes in the fiscal stance are unlikely to have any noticeable macro-economic effects. Their main significance lies in their effect on perceptions and expectations - and these are very important indeed.

Background

2. Ministers will wish to consider three audiences:

(a) public opinion at large;

(b) the financial markets;

(c) their own supporters.

You will also wish to consider the reaction of particular groups.

3. A number of issues are of general relevance - some of which have arisen since Chevening:

(a) an unprecedented fall in the oil price - around 50% with the uncertainty which any such shock brings;

(b) an increased feeling of unease about unemployment following the recent unemployment figures;

(c) a certain amount of disarray in the Government which might be a consideration though I doubt whether it is more than a marginal one.

- And some points which come from the forecast:

(a) the seeming levelling out in inflation;

(b) the probable persistence of high real interest rates, though accompanied by improved rates of return and profitability in the company sector;

(c) the possible persistence of relatively high wage settlements, the strong growth of real incomes of those in employment, and the risk which that implies for unemployment;

(d) the expectation that domestic consumption will assume the major role in contributing to growth.

4. The general prospect is a good one. If the fall in the oil price is no more than offset by a fall in the exchange rate we stand a good chance of avoiding inflationary risks while continuing to produce a satisfactory economic performance in a rather more soundly-based world growth. We do lose something from the decline in oil prices - this mainly shows up in the loss of revenue to the Government and a weaker current account. But the result for the PSBR is not so bad as most people imagine because of the buoyancy of non-oil revenues.

Assessment

5. The **mood of the country** seems to reflect the first three factors in paragraph 3. It seems to manifest itself in a guilty feeling in some quarters (though not necessarily the great mass of people who would benefit) about tax cuts when there are large numbers of unemployed; a feeling that unemployment should be relieved if not cured by more expenditure; a feeling that in a volatile oil market tax cuts could be both risky and short lived. I think I detect a general instinct for playing safe and not being too ambitious.

6. **The Financial markets** reaction is always a complex one. They will be impressed by some things which cut no ice at all with the general public - the monetary section of the Budget and maybe asset sales.

7. They are currently behaving better than might be thought in the face of a massive upheaval in the oil market. And they are certain to look at the Budget in relation to where the oil price has got to and to the downside risk of a further fall. They will also be conscious of the other points in paragraph 3, perhaps giving a good deal of weight to the inflation prospect and the increasing role of consumption. On the other hand they will be pleased with this year's PSBR which will support the Chief Secretary's line in presenting public expenditure and generally be an added source of credibility.

8. There are some tricky issues of presentation still to be resolved on the monetary side. But the broad approach we shall adopt will, I believe, be both expected and credible - a target for M0, something convincing but less than a target for £M3 and broad money, and further words about taking the exchange rate into account. And the method of presentation we have decided - something short in the Budget Speech; a bit more in the MTFS where some difficult issues of numbering and words remain to be resolved; and a longer exposition in a speech shortly after the Budget - is clearly right.

9. But it cannot be denied that the credibility of what has become to be seen as a discretionary approach to monetary policy would be enhanced the more cautious you are with the published PSBR and with the fiscal adjustment. And though there are good points, the balance of the other arguments is likely to point the markets in this direction. Pleasing the markets does not however buy very much given the sums we are talking about - but it gives the authorities a bit more scope for manoeuvre and there might be a marginal benefit on interest rates.

10. I am in no position to make suggestions about the mood in your **Party** etc. But I would hazard the view that their time horizon has lengthened a bit and they too have become more risk averse. But they will also have their eyes on the local elections in May and the Fulham by-election which could come soon after the Budget. I expect they will be particularly looking to measures which will directly impact on employment, enterprise and wider ownership.

11. Of the **special interest groups**, I believe the CBI are by far the most important. They will make a lot of this being Industry Year - and it is significant that we have done practically nothing for which they have asked. And they are prominent - perhaps because of the high rewards which have gone to the top levels in the company sector - in those with guilt feelings about cuts in tax rates. And of course they will go on about high interest rates. On the other hand industry now has a significantly lower real exchange rate and lower oil prices. The prospects for the rate of return and profitability look good. These will all be points to emphasise

in the Budget Speech and in whatever exact response we make to the CBI. I doubt whether they are a serious problem whatever package you have. It will be a bit easier in my view if we are being generally conservative because they tend to fuss more about measures than amounts. But we shall have to flatter them with post-Budget attention in any event.

12. This does not provide a decisive pointer to the sort of Budget you might most easily present. You would be pretty safe if you went to the cautious end of the scale - it would be widely understood and there would be some relief. On the other hand, if you could pull it off, a rather bigger package with the scope for a wider range of measures would have a correspondingly greater impact and people do like to have their taxes cut. So far as personal tax is concerned the present package would set a very determined path to the future. My own inclination is however to give a lot of weight to recent developments in the oil market and playing safe. This would point to the sort of Budget which offers the best chance of escape without further tax changes if the price falls further. I think we should be able to stand it perfectly well if the price on which the numbers are based turns out to be an under rather than an over estimate.

13. I have confined myself to discussing some presentational issues to be taken into account in forming a judgement about this Budget. There will be much more to be thought about as it takes shape. Ministers might think that three things stand out:

(i) The Budget must be visibly aimed at the problem of unemployment. It is best if it is set in the context of measures to encourage enterprise. But we cannot just describe this Budget once again as a Budget for jobs - it will not be easy to build on this theme without exaggerating what we are doing.

(ii) The employment theme must be consistent with further progress towards lower inflation.

(iii) The Government's reputation for sound finance must be maintained.

All this is against a background in which oil will inevitably dominate the economic presentation.

14. The way to combine all these (if it remains true) might be to extol the merits of sound finance, stability, and the proven ability of this strategy to keep the economy on track in what everyone knows is a rough sea. That we must continue to minimise the risks and uncertainties which make life difficult for business, deter the entrepreneur and induce a defensive mentality. That the fall in the oil price is basically good news. It leaves the Chancellor a bit short of money; but thanks to the strong economy not so short as everyone thinks. Prices should continue to come down. The prospects for people and companies and employment are good for yet another year. And you have taken the most effective measures you could consistent with what you could afford and not distorting the economy to help the unemployed.

P E MIDDLETON

FROM: M C SCHOLAR
DATE: 6 February 1985

SIR PETER MIDDLETON

cc: Sir T Burns
Mr Culpin
Mrs Lomax
Mr Cropper
Mr H Davies

PRESENTATION OF THE BUDGET

You asked for comments on your draft note on presentation.

2. I agree that, with the current and prospective turbulence in the markets, anything but an obviously cautious budget, giving a lot of weight to oil, would not be understood by any of the groups you identify. This has implications not only for the size of the fiscal adjustment, but also for the novelty (as it would be seen) or otherwise of its deployment (ie for rates versus thresholds).

3. A less cautious budget would be particularly misunderstood if it were accompanied by a rise in mortgage interest payments which more than wiped out the cash gains for a large chunk of the population.

4. I agree with Mr Davies (his minute of 20 January) that we cannot again call the Budget a budget for jobs. But the Budget will have to be visibly aimed at what is perceived to be the biggest problem - unemployment (and thus the inner cities); indeed, the continuing high level of unemployment is thought by many normally sensible people to mean that there has been no recovery at all.

5. Whatever size fiscal adjustment we go for, we must therefore present the Budget as being aimed at unemployment and angle the measures accordingly. Some of those at present contemplated do not fit in with this very easily. But others do, or could be made to do so.

6. Your minute doesn't mention "selling the silver" at all. Perhaps you are right, and this line of criticism has entirely gone away. For myself, I think it would come back if we chose a set of numbers which lent any credibility to it. I think I agree with Mr Davies (paragraph 4 of his minute) that this would probably not anyway be a popular or damaging line of criticism. But it would be there, with the second of your groups - the financial markets - anyway.

MCS

M C SCHOLAR

PEM to CH/EX 6/2

SECRET

Good article — & Stock market reaction.

(Tradition of [illegible] (pre-[illegible]))

Theme 1987?

From: SIR PETER MIDDLETON

Date: 6 February 1986

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies
Sir L Airey - IR
Mr Isaac - IR
Mr Battishill - IR
Sir A Fraser - C&E
Mr Knox - C&E

PRESENTATIONAL ISSUES AND THE BUDGET

Presentational issues will play a decisive role in this Budget. The Government's policy as expressed in money GDP terms will remain on the MTFS path, and there are to be no changes in the factors which influence operational decisions during the year. Changes of £1 billion or so in the fiscal adjustment or small changes in the fiscal stance are unlikely to have any noticeable macro-economic effects. Their main significance lies in their effect on perceptions and expectations - and these are very important indeed.

Background

2. Ministers will wish to consider three audiences:

(a) public opinion at large;

(b) the financial markets;

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You will also wish to consider the reaction of particular groups.

3. A number of issues are of general relevance - some of which have arisen since Chevening:

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(d) the expectation that domestic consumption will assume the major role in contributing to growth.

much higher now

4. The general prospect is a good one. If the fall in the oil price is no more than offset by a fall in the exchange rate we stand a good chance of avoiding inflationary risks while continuing to produce a satisfactory economic performance in a rather more soundly-based world growth. We do lose something from the decline in oil prices - this mainly shows up in the loss of revenue to the Government and a weaker current account. But the result for the PSBR is not so bad as most people imagine because of the buoyancy of non-oil revenues.

Assessment

5. The **mood of the country** seems to reflect the first three factors in paragraph 3. It seems to manifest itself in a guilty feeling in some quarters (though not necessarily the great mass of people who would benefit) about tax cuts when there are large numbers of unemployed; a feeling that unemployment should be relieved if not cured by more expenditure; a feeling that in a volatile oil market tax cuts could be both risky and short lived. I think I detect a general instinct for playing safe and not being too ambitious.

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7. They are currently behaving better than might be thought in the face of a massive upheaval in the oil market. And they are certain to look at the Budget in relation to where the oil price has got to and to the downside risk of a further fall. They will also be conscious of the other points in paragraph 3, perhaps giving a good deal of weight to the inflation prospect and the increasing role of consumption. On the other hand they will be pleased with this year's PSBR which will support the Chief Secretary's line in presenting public expenditure and generally be an added source of credibility.

8. There are some tricky issues of presentation still to be resolved on the monetary side. But the broad approach we shall adopt will, I believe, be both expected and credible - a target for M0, something convincing but less than a target for £M3 and broad money, and further words about taking the exchange rate into account. And the method of presentation we have decided - something short in the Budget Speech; a bit more in the MTFS where some difficult issues of numbering and words remain to be resolved; and a longer exposition in a speech shortly after the Budget - is clearly right.

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in the Budget Speech and in whatever exact response we make to the CBI. I doubt whether they are a serious problem whatever package you have. It will be a bit easier in my view if we are being generally conservative because they tend to fuss more about measures than amounts. But we shall have to flatter them with post-Budget attention in any event.

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13. I have confined myself to discussing some presentational issues to be taken into account in forming a judgement about this Budget. There will be much more to be thought about as it takes shape. Ministers might think that three things stand out:

Emphasise so far done.

(i) The Budget must be visibly aimed at the problem of unemployment. It is best if it is set in the context of measures to encourage enterprise. But we cannot just describe this Budget once again as a Budget for jobs - it will not be easy to build on this theme without exaggerating what we are doing.

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P E MIDDLETON

JT

273/037

BUDGET SECRET
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F12

COPY NO 1 OF 5

FROM: SIR PETER MIDDLETON
DATE: 27 February 1986

Mr Sporer

CHANCELLOR

cc: Mr Scholar
Mr Culpin
Miss O'Mara

PRESENTATION OF THE BUDGET

You asked me to consider how responsibility for presenting the various aspects of this year's Budget might be distributed amongst your Ministerial team. Mr Culpin is discussing with you separately how requests for interviews etc should be handled.

2. I assume that you will want to cover the main macro issues yourself - the fiscal stance, the MTFS and monetary policy and the effects of the oil price fall.

3. For the remainder, it seems sensible to follow Ministers' existing responsibilities as far as possible, although in order to ease the burden on the Financial Secretary, I suggest the Chief Secretary might also cover the enterprise aspect of the Budget and the Economic Secretary CGT. You might consider allowing the Financial Secretary to take a leading role in explaining the personal tax Green Paper after its first exposure in the Budget, enabling you to come in at a later stage when we have been able to assess the initial response - I believe you are planning to give a major speech on the Green Paper in June.

4. This leads to the following division of labour - there will inevitably be some overlap since some measures serve more than one purpose and affect more than one group. In some cases, of course, Ministers will need to stand ready to defend no change:

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5. We are planning to circulate a copy of the first full draft of the Budget brief on Friday, 7 March. This will inevitably still be in a fairly rough and ready state and we should normally not expect Ministers to give it more than a cursory glance for that reason. However, it would be most helpful if you could discourage your colleagues from commissioning additional material until they have seen what the Budget brief already covers. Otherwise we risk duplication and dissipation of effort.

PEM

P E MIDDLETON

BUDGET SECRET
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Budget '86: Your guide to seven years of Tory rule

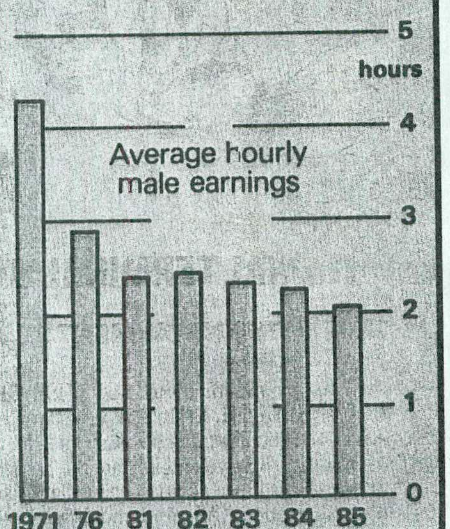
SOME of us will be better, some worse off after today's Budget. Score points in those arguments tonight by seeming to know what you're talking about. Edited by Michael Williams.

BUDGET BACKGROUND

Mrs Thatcher's performance since 1979

BUDGET BACKGROUND

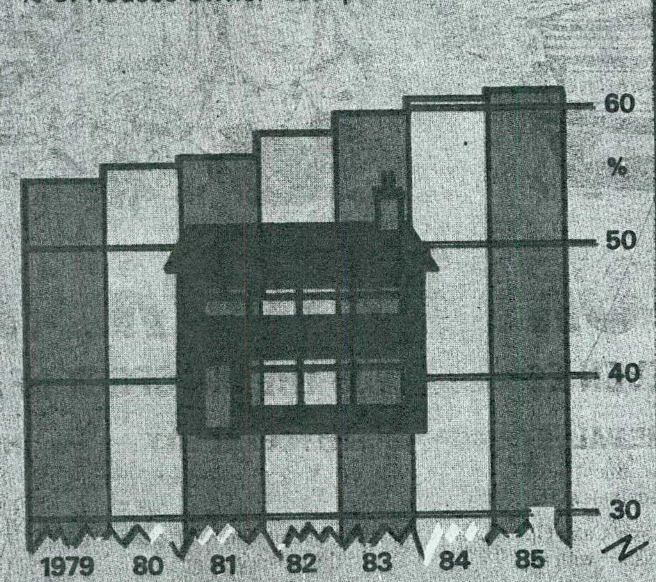
How long does it take to work to buy a bottle of scotch



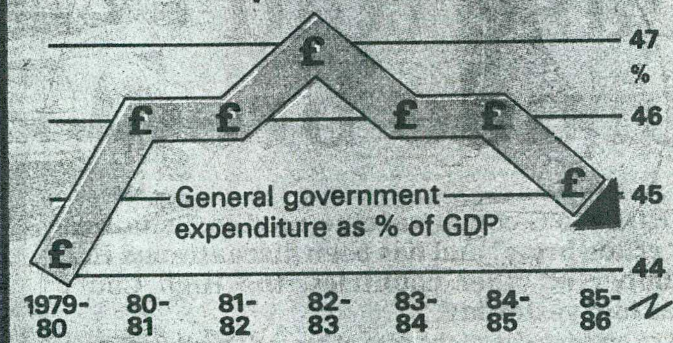
Sources: Department of Employment; HM Treasury

The growth in home ownership

% of houses owner-occupied

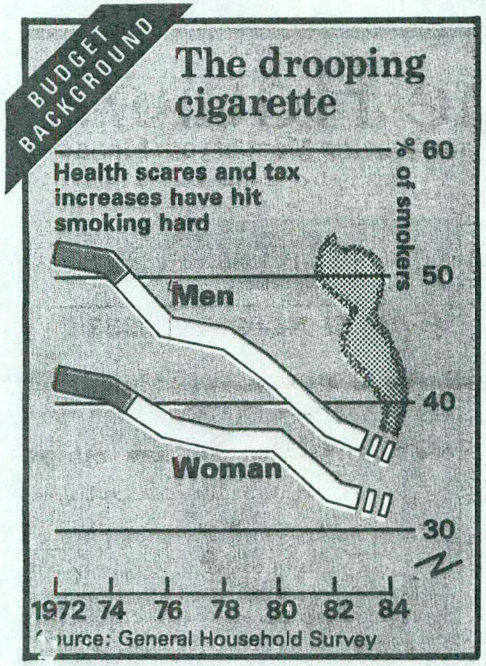


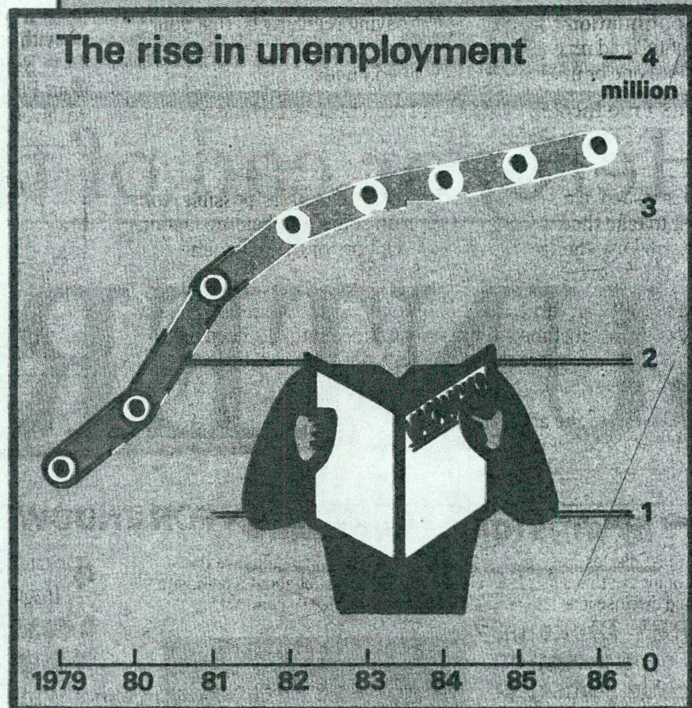
A brake on public spending?

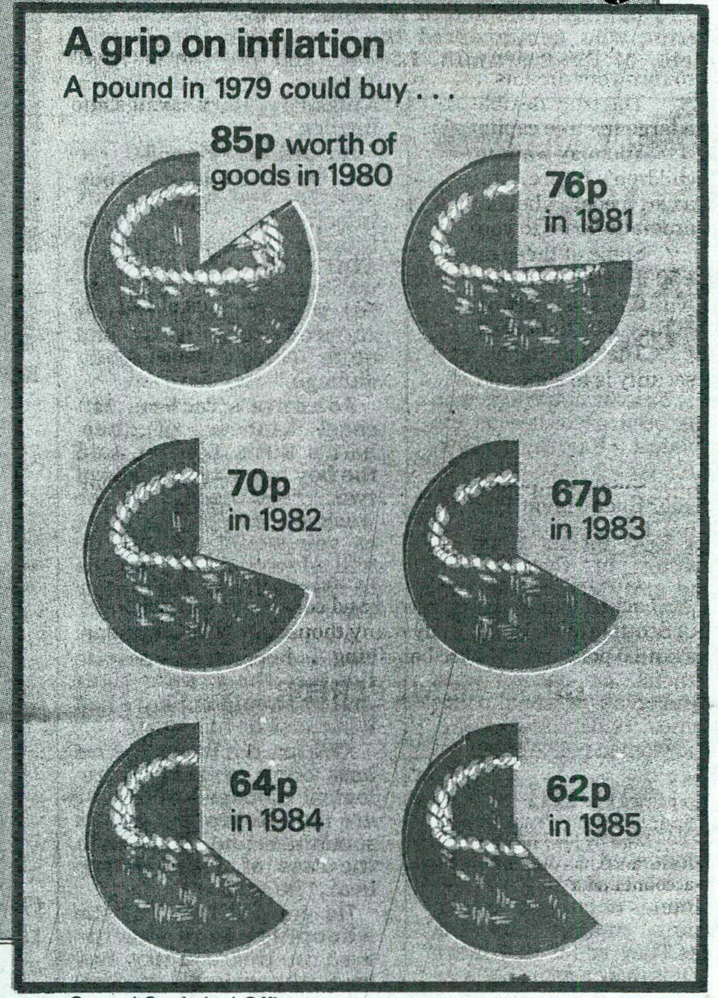


Cont....

Chancellor 12/2







Sources: Department of the Environment; Department of Employment; HM Treasury; Central Statistical Office

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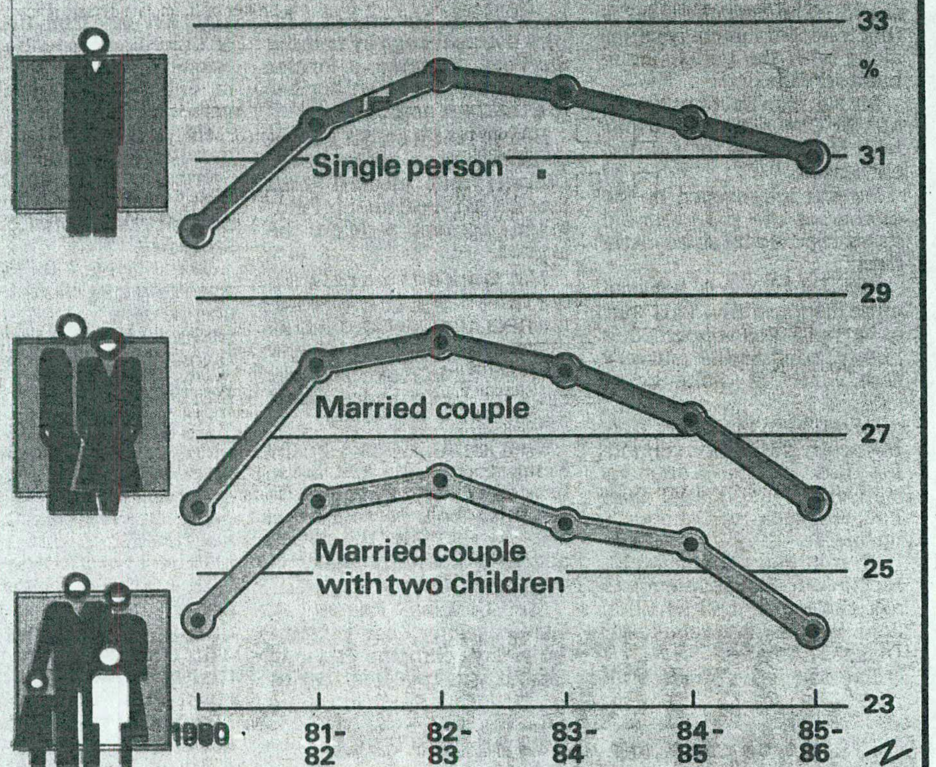
18/3/86

BUDGET BACKGROUND

Tax under the Tories

Percentage of income paid in tax and national insurance by people on average earnings

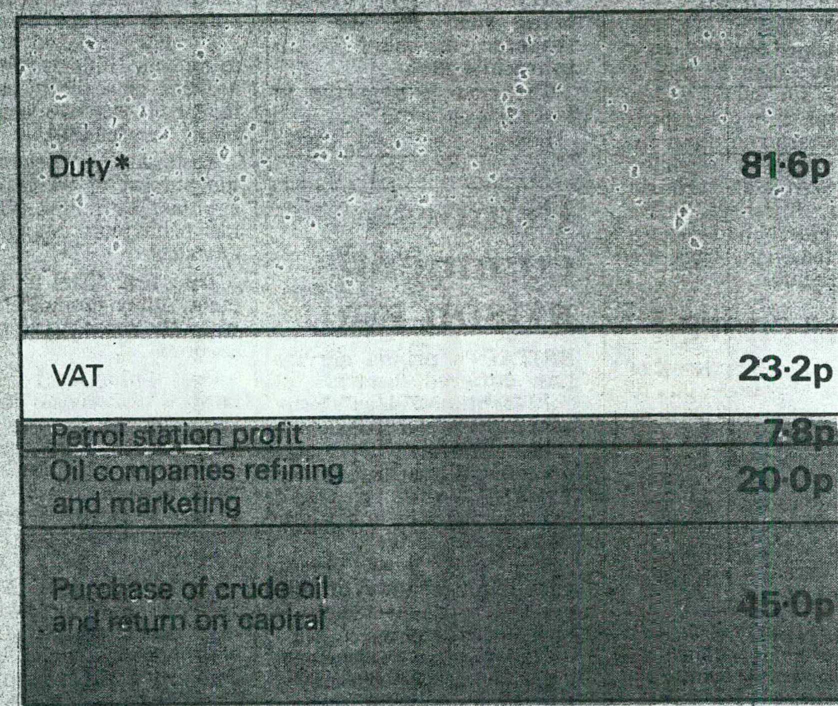


Source: Inland Revenue

BUDGET BACKGROUND

Breakdown of a gallon

Who gets what from a gallon of 4-star at 177·6 pence



*Pre-Budget

18/3/86

18/3/86

TODAY

Why Lawson must stop homes relief

30

PETER KELLNER, Political Editor, New Statesman

THERE is one tax reform that Nigel Lawson could announce in today's Budget that achieves almost everything a rational free-market Thatcherite could want.

It would save the Government money. It would remove a distortion in the financial markets. It would free more savings to be invested in industry. It would reduce the number of tax officials that the Inland Revenue needs.

The reform would be the abolition of tax relief on mortgages. What would be the result?

THE SAVINGS: The Treasury reckons that the relief costs the Exchequer £4,750m a year in forgone income tax. There are many useful things Mr Lawson could do with that sort of money.

He could reduce VAT to 10%. Or cut income tax by 4p in the pound. Or abolish the poverty trap by raising income tax allowances by 25% — so that a married man could earn £80 a week before he starts to pay income tax.

THE DISTORTIONS: Mortgage tax relief is one of those Government handouts that gives the most to those who have the most. Someone on average earnings with a £15,000 mortgage paying, say, 12% interest, receives £540 a year in tax relief.

BUT anyone paying a top rate of income tax —60% —with a mortgage of £30,000 receives four times as much relief: £2,160.

INVESTMENT: Housing not only attracts mortgage tax relief; it is exempt from capital-gains tax. It is also one of the safest investments around.

No wonder anyone with an ounce of sense buys the most expensive property, on the largest mortgage, that he or she can afford.

If Mrs Thatcher really wants "people's capitalism" to thrive in Britain, it seems odd that the tax system is so distorted against using savings for productive investment.

INLAND REVENUE STAFF: The recent introduction of mortgage interest relief at source has saved the need to change most peoples' tax codings every time the mortgage rate changes.

But for higher-rate taxpayers, the needless fiddling remains.

In terms of Mrs Thatcher's own ideology, the arguments for abolishing mortgage tax relief are overwhelming. Six years ago, when he was Environment Secretary,. Michael Heseltine broached the subject with her.

SHE told him to forget it. And every time she has been challenged, publicly or privately, since then, she has said that mortgage tax relief will stay.

Even so, there is one useful reform that would avoid her admitting to a complete U-turn. She could agree with Lawson to limiting tax relief to the 30% standard rate.

This would be fairer than the present system, save the Exchequer a modest but still useful £200m a year, reduce the degree of distortion in the savings market and cut down the work of the Inland Revenue.

AS Mr Lawson wants to make his name as a tax-reform Chancellor, and as the collapse in oil revenues means that he won't be able to dazzle us today with the size of his tax cuts, it is just possible that he will curb the subsidy that the present system offers to better-off homeowners.

If he does not, then the conclusion is clear: where the interests of Mrs Thatcher's friends clash with those of her ideology, she would sooner jettison her beliefs than reduce the handouts to her chums.

18/3/86

TODAY
COMMENT

One issue that cannot be pushed aside any more — the curse of unemployment

2

The biggest job of all

14

BRITAIN is a society of two nations — and they are growing further and further apart. One nation is the prosperous South, the lush Home counties and the bustling high streets of the silicon new towns mushrooming along the M1, the M3 and the M4.

The other nation lies in the North, in Scotland, in Ulster and especially in the decay of such once-great cities as Birmingham, Manchester, Liverpool and Glasgow. Obviously many who live in this 'nation' are prosperous, too, like their counterparts in the rich South. But the landscape of this land is bleak, blighted, scarred, desolate and derelict — as are the lives and the prospects of far too many of those who live within it. As our report on the Coughlin family on Pages 22 and 23 demonstrates, hope for too many good and decent families has now given way to a corrosive despair.

Unless some government — and very soon — demonstrates that the creation of jobs is the obsessive, over-riding priority of its task, no matter what the difficulties, that despair will turn to an anger so great that its effect will destroy the slow but undoubted improvement in the quality of British life that has occurred over the past 40 years.

cont...

TODAY 18/3/86

Harvest has not arrived

The principal economic problem facing Britain is unemployment. And that is what today's Budget should be all about. But Mrs Thatcher and Chancellor Lawson seem to inhabit a different world to the rest of us. For ordinary people, what matters are real, tangible things. We want jobs for ourselves and our children. We want decent houses, schools, hospitals, roads. We want to be able to look after our children when they are young and to look after ourselves in dignity when we are old.

The government claims to want the same things. But its actions contradict its claims. Nigel Lawson's attention is devoted to those mysterious symbols of good financial housekeeping, the money supply and the public sector borrowing requirement. If he can keep those in check, he believes, inflation will fall and everything good will follow.

But it hasn't. Inflation has come down, here as elsewhere in the world, but the promised harvest has not arrived. Instead, unemployment is up by almost 2½ million since this government came to power. That figure is vast. What we are talking about is 2½ million real people — individuals, young and old, men and women, black and white, on the dole for weeks or months or years, filled with impotence and despair. People like the Coughlins, scrimping and scraping to bring their children up, bursting with frustration, tempted by crime — people living the sort of lives we thought had vanished since the war and which those of us who are comfortably employed can scarcely believe still exist.

We cannot blame all the ugliness in our society on unemployment. But we cannot doubt that it plays a part — and a large part. Our housing stock is crumbling, our streets are violent and our jails are full. Who can fail to see some link in these? The unemployed turn to crime out of hopelessness when they could be working to make our country a better place in which to live. Unemployment is a double curse. It wastes energies that could be productive and it is a fecund source of misery and crime.

Billion or two to spare

So what should Nigel Lawson do now to get us back on the road to the recovery we so desperately need? All the buzz so far has been about tax cuts. If the Chancellor finds he has a billion or two to spare, he will use it to cut income tax. That is what he has said himself he would like to do. It would help a little with jobs. It would do more for the government's standing with some of its more wobbly voters. But it would not be the right thing to do and it would not be nearly enough. Whatever money the Chancellor has — and there is more to spare than he thinks — should go directly into job creation.

As it happens, the circumstances are ripe for more vigorous action. The fear of inflation was born with the huge oil price rises of the early Seventies, which set everybody's prices spiralling into the Eighties. That has now been reversed. Oil prices have plummetted. Interest rates are falling worldwide too. There is room for the Chancellor to be bold without fear of re-igniting inflation.

Here are four things he should do. First he should abolish the employers' National Insurance contributions — the tax on jobs. Economists reckon that alone would create a million and a half jobs over five years. Then he should spend heavily on public works. Our sewers and our public housing are a disgrace. Official estimates say we need to spend £20 billion on repairing houses alone.

The TUC and the CBI, if they agree on nothing else, both say we need to spend £2 billion more on roads. That kind of spending creates a lot of jobs quickly. Nor need it be as expensive as it seems. When the government takes people off the dole it saves spending on their unemployment benefits and it starts to rake in money from the taxes the re-employed will pay.

The nation will decide

Third, the Chancellor should commit himself to ensuring jobs for those who have been unemployed for more than a year. That could be done in several ways, through the Community Programme or in job subsidies to employers, for example. And finally, much more should be spent on training, for the young but for redundant miners and steelworkers too.

There are other things we would like the Chancellor to do, like making income tax fall more equally on men and women and cutting the tax on share-dealing to encourage more share ownership. But the nation will judge Mr Lawson today on what he does to stimulate employment and rid us of wasted lives and talents. And the nation will be right.

TODAY 18/3/86

Budget bid to cut the dole queue

2

AN EXTENSION of the Government's Job Start scheme, to help the long-term unemployed, will be announced in the Budget.

Ministers have become very worried at the rapid growth in the number of people who are out of work for more than a year.

A pilot scheme has been operating in nine areas, under which the Government pays a 'top-up' payment to any long-term unemployed person taking a job worth £80 a week or less.

Advice sessions are also held to help jobless find work or undertake training.

18/3/86

TODAY

Hot time for retail sales during 'big freeze'

31

by ANNE ASHWORTH

IN February Britain slipped into its thermals, turned up its central heating to the highest setting and stayed shivering indoors away from sleet and snow . . . or did it?

The factor that casts doubt upon the way we lived last month is the latest estimate for business in our stores during the big freeze.

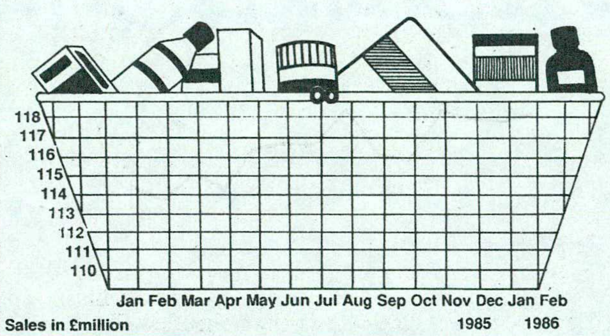
Experts were expecting a slump in the statistic but, instead, retail sales volume rose by 0.1% to an index of 117.1, following a fall of 0.3% in January.

This compares with a February '85 index of 112.8 and invokes the slogan which style-conscious Californians like to sport on their T shirts: "When the going gets tough, the tough go shopping".

The figure was described by Dan Bunting retail expert at stockbrokers Scrimgeour Vickers as a "blessed relief. We had all feared something grotesque. February was a pretty horrid month".

Boom in the high street

Volume of retail sales, seasonally adjusted



One of the reasons for the near record level of sales in our high streets is that wage increases continue to outstrip inflation. Real incomes are rising rapidly and those in work have money in their pockets.

Also contributing to the boom is the phenomenon that economists call "leakage from the housing market". When we change address, we tend not to put all our profit from the sale of our former residence into buying our new abode.

Some of the proceeds go to finance new furniture, including new wardrobes and items to hang therein.

The British have also lost their former distaste for being in debt. In 1984 the nation ran up a total of £2.85bn in consumer credit and we are expected to take a similar amount of tick this year.

If Chancellor Lawson proves parsimonious tommorow (the possibility of £3bn worth of tax give-aways now seems a pipe dream), analysts expect us to make good the deficiency by borrowing.

Even without a single penny in tax cuts, analysts calculate that consumer spending should rise by at least 3.5% in the year to come.

This news should bring a smile to shopkeepers, particularly those in the rag trade who have, until the good weather of the last fortnight, stood glumly by racks of spring and summer garments which seemed likely never to find owners.

Who wants cruise wear when its sub zero in the shopping precinct? Any shop canny enough to have kept in stock heavy duty woollens, thick socks and scarves that would have kept Captain Scott cosy, however, reported brisk trade.

Besides buying as many insulation garments as we could grab (a factor in the February boom), we also ventured forth for furnishings.

Next Interior, the homewear division of the upwardly mobiles chain, did better business than the usually highly successful line of ready matched separates that has made Next boss George Davies the retailer envied by all his peers.

TODAY 18/3/86

Holding back on EMS membership

29

MARY ANN SIEGHART

CITY EDITOR

THIS year, next year, sometime . . . or after the next election? Ten days ago, Mrs Thatcher reaffirmed that she wanted sterling to join the European Monetary System, but that the time was still not right.

But she is up against a formidable array of opponents. Alongside the SDP-Liberal Alliance are the Confederation of British Industry, senior bankers and many City economists who believe that the time has never been better to join the mechanism which ties eight European currencies together to try to smooth out movements in exchange rates.

The time is right, they say, because sterling, at DM3.30 and 73.7 on its trade-weighted index, is far more competitive than it was three months ago. And though it has undoubtedly been hit by oil jitters, these seem to be past their worst.

When oil fell from $15 to $12 a barrel, the pound hardly moved.

The idea is to iron out the peaks and troughs that have beset the pound over the last few years.

But joining the EMS is not necessarily a universal panacea to our economic ills. In a country like ours, which does not have controls on the movement of its capital, an economic shock — like lower oil prices — will have to be reflected either in the exchange rate or in interest rates.

But if the exchange rate is to be pegged, then the burden of volatility will tend to move to interest rates. Each time there is an external shock that would make currency speculators want to sell the pound, interest rates would have to rise.

The question is which is most harmful: a jittery pound or an unpredictable overdraft rate.

EMS supporters would argue that interest rates have been volatile anyway. In the last eighteen months, base rates have varied between 9½% and 14%. And that has hardly helped to keep the pound stable.

Joining the EMS, they claim, would do wonders for the Government's credibility in the foreign exchange markets. As a recent report by the Public Policy Centre says: "Markets have come to accept that the full members of the EMS take their commitments seriously."

Initially, at least, the Centre has a point. The fact that our interest rates are so much higher than most of our competitors' reflects the risk of holding pounds. With the Government not prepared to name a target level for the exchange rate and no cushion from the EMS, sterling is a risky currency to hold. So investors demand a higher interest rate in return.

In the EMS, the argument runs, investors would not demand quite high a risk premium because the currency would be more stable and would have the reserves not just of the Bank of England, but of the other European central banks, behind it.

That might have a one-off positive effect on investor psychology. But membership of the EMS is by no means a guarantee of lower interest rates. France, for instance, is now quoting one-month interest rates of 14%, 2 percentage points higher than ours.

And the other problem is realignment of currencies. The pound has slid so gently against European currencies this year that most people outside the City have hardly noticed.

Imagine, though, a crisis of confidence in an EMS-tied sterling just before the next election. The Government would be faced with a Hobson's choice of higher interest — and therefore mortgage — rates or a highly visible and news-worthy devaluation of the currency. Its reluctance to join is understandable.

TODAY

Demand for 1,500 more customs men

2

HOME Secretary Douglas Hurd was told last night to throw an extra 1,500 customs officers into the front-line battle against drugs.

The call to action followed TODAY's disclosure that government cuts have severely damaged customs morale.

The watch on docks and airports has been lowered by 1,100 staff at a time when heroin smuggling shows a near sevenfold increase.

SDP Home Affairs spokesman Robert Maclennan said he had written to Mr Hurd urging him to take on the Treasury ministers responsible for the customs service.

He said: "Britain is being invaded and the Government has withdrawn the front-line troops.

"The Home Secretary must overcome the reluctance of his junior Treasury colleagues to recruit 1,500 more customs officers to cover the most vulnerable entry points for drugs."

Customs officers at Heathrow and Gatwick airports are staging industrial action this week.

Five hundred staff at Heathrow were to start a three day strike this morning over staffing levels at the airport's fourth terminal. Staff at Gatwick will stage a one day stoppage on Wednesday. Unions threatened more action if staffing levels were not stepped up.

TODAY

Oil output stays high

29

BRITISH and Norwegian North Sea crude-oil output remained at high levels last month. Estimates put February output at an average of 2.72m barrels a day. Meanwhile at Geneva, the latest round of Opec talks are expected to resume today, following an adjournment yesterday to await an expert report.

Observers spoke of sharp divisions within the cartel on strategies to halt the decline in the oil price. According to the Egyptian oil minister Abdel-Hadi Kandeel, cooperation is the answer to Opec's problems.

CONFIDENTIAL

FROM: H J DAVIES
DATE: 3 MARCH 1986

CHANCELLOR'S MORNING MEETING

53rd MEETING

NOTE FOR THE RECORD

1 - R
2 - ~~JK~~
3 - ~~Debbie~~
4 Nigel - [illegible]

Present: Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Hon T Sainsbury MP
Mr P Lilley MP
Mr Cropper
Mr Lord
Mr Davies

1. PARLIAMENTARY

The prospect was for a quiet week in Treasury terms. On the backbenches expectations for the Budget were low. On balance the mood favoured thresholds rather than basic rates, if there were to be tax cuts, but the heat had gone out of the debate. Backbenchers were more pessimistic than the press about the fiscal adjustment. There had been recent discussion of NIC changes as a late runner in the Budget stakes.

2. BUDGET DEBATE

It was agreed that after the Chancellor's appearance on the first day of the debate, the Wednesday session should be opened by the Chief Secretary and closed by the Financial Secretary. On Thursday the Paymaster General should open and the Economic Secretary close.

Note. Paymaster General and Chancellor of Duchy now invited to speak, Replies expected tomorrow.

Rm 3/3

On the Monday the ideal solution would be for the Chancellor of the Duchy to open with the Chancellor of the Exchequer closing.

3. **POST-BUDGET PUBLICITY**

There was discussion of the various media bids. The conclusions will be recorded on a separate private office minute.

4. **INLAND REVENUE BRIEFING**

The Financial Secretary was asked to discuss the Inland Revenue's proposal to hold a briefing for specialists on Thursday after the Budget with Mr Battishill.

HJD

H J DAVIES

C

Various possible phone calls names and numbers below. I would suggest:-

<u>Before 5.30pm</u> Sir T. Beckett.

<u>After Lobby</u> (c.6.45?) Sir D. English

<u>After B. Broadcast</u> Sir J. Hoskyns

<u>and</u>. Sir N. Goodison.

Sir L. Lamb on holiday.

RO 18/3

1.	**Sir David English**	around 6.45pm	353-2809
		or	353-2626
2.	**Sir Larry Lamb**	ON HOLIDAY	-
	[Deputy - Lief McRandle	IF REQUIRED	583-7628]
3.	**Sir T Beckett (Cleminson unavailable)**	until 6pm	379-7400 x 2152
	"	6 to 6.30pm	379-6122
4.	**Sir J Hoskyns**	6 to 6.30pm	839-1233 x 300
	" or	after 7.15pm	(or Carphone 0836208936)
5.	**Sir N Goodison**	after 7pm	499-8289

RP? 78

BUDGET SECRET

CH/EX REF NO
COPY NO OF COPIES

FROM: MRS R LOMAX
DATE: 3 March 1986

SIR PETER MIDDLETON

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Sinclair
Mr Culpin
Mr O'Mara
Miss Noble
Mr Pratt
Mr Cropper
Mr H Davies
Mr Lord

Sir L Airey - IR
PS/IR

Sir A Fraser - C&E
PS/C&E

PRESENTATION OF BUDGET MEASURES

The Chancellor and other Treasury Ministers have ~~now agreed~~ discussed the allocation of Ministerial responsibility for co-ordinating the presentation of the Budget ~~and have agreed the division of labour~~; the agreed allocation is shown in the Annex ~~to this note.~~ ~~attached~~

2. Ministers will be overseeing the briefing in their particular areas. It is envisaged that as much material as possible will be incorporated in the main Budget brief; a first draft has already been commissioned and will be circulated by EB on Friday 7 March. Central Unit will shortly be ~~complying~~ compiling, for Ministerial consideration, a list of key contacts (institutions, Ministerial colleagues, backbenchers, press, individuals) to be approached in the period immediately following the Budget.

Budget and business (B)

- Final phase of 1984 corporate tax changes
- Mines and oil wells allowances
- North Sea tax regime (but not effect of oil price fall on North Sea tax revenue)

Minor starters of which Financial Secretary has so far been in charge

Economic Secretary

Savings and investment

- Stamp duty
- City revolution: tax consequentials
- Pension fund surpluses
- Capital Transfer Tax ~~and BES~~

Minor starters of which Economic Secretary has been in charge so far

Minister of State

Charities etc

- Higher rate relief
- Company giving
- Payroll giving
- VAT
- Abuses
- Pension relief for Nazi victims

Excise duties + VAT

- Petrol, derv and minor oils
- VED
- Alcoholic drinks
- Tobacco duty
- Increase in VAT threshold

~~VAT~~

~~VAT~~ and motoring

Minor starters of which
Minister of State has
so far been in charge

BUDGET SECRET

cpst

FROM: H J DAVIES
DATE: 3 MARCH 1986

PRINCIPAL PRIVATE SECRETARY

PRESENTATION OF THE BUDGET: ALLOCATION OF MINISTERIAL RESPONSIBILITIES

At Prayers this morning the following changes were agreed to the provisional allocation of responsibilities described on a Private Office note, ref. BR/25.

2. The Chief Secretary should take Income Tax (rates such as thresholds) from the Financial Secretary. The extent to which this needs handling will depend on the package selected.

3. The Financial Secretary will take i)final phase in 1984 corporate tax changes, ii)Mines and Oilwells allowances and iii) North Sea tax regime from the Chief Secretary. He will add Unitary Tax to his list and, provisionally at least, give Capital Transfer Tax to the Economic Secretary.

4. The Economic Secretary's allocation is unchanged aside from the acquisition of Capital Transfer Tax. But he will handle Pension Fund Surpluses (and the FST will do the savings plan).

5. No change to the Minister of State's allocation.

HJD

H J DAVIES

25:1

CONFIDENTIAL

Nigel
AWP.

FROM: MISS M O'MARA
DATE: 4 MARCH 1986

1, Tony
2 ~~AWP~~
3 ~~pmg~~

MR CULPIN
MR HAIGH
MR CROPPER
MR WALKER (IR)
MR BONE (C&E)

Spoke to Miss O'Mara
Backbench Finance Committee

Spk to Nigel

Debbie
Action for you at X
- pl discuss with Margaret if unclear.
RO 4/3

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monck
Mr Monger
Mr Scholar
Miss Sinclair
Mr Pickering
Mr Lord
Mr H Davies
A/41

PRESENTATION OF BUDGET MEASURES

You will have seen from Mrs Lomax's minute of 3 March that Ministers have decided upon the allocation of responsibility for co-ordinating the presentation of the Budget and that Central Unit have been charged with the task of compiling a list of "key contacts" to be approached in the period immediately following the Budget.

2. As I have already mentioned to you, I should be grateful for your help in compiling this list which, you will have seen, is to be a wide-ranging one - institutions, Ministerial colleagues, backbenchers, press and individuals. Could the Revenue and Customs both produce their contributions in consultation with FP, who I imagine will only have direct responsibility for the Personal Tax Green Paper.? Could Mr Cropper cover political contacts and Mr Culpin the press? Mr Monck sees no need for the Treasury to meet particular interest groups to discuss the employment measures but has pointed out that it would be wise for the Chancellor to discuss the Budget generally with the CBI.

3. Could you indicate in your contributions whether groups and individuals should be seen by the Chancellor or by a junior Minister. It would also be helpful to know of cases where you believe a meeting with officials should suffice.

4. No doubt, you will want to take as your starting point similar meetings which Ministers held last year, although there will obviously be additions and deletions this year. Could private offices try to identify last year's meetings and let the revenue departments know as appropriate, with a copy to me?

5. As we need to give the Chancellor a consolidated list by Thursday evening, I should be grateful if I could have all contributions by close of play tomorrow, 5 March.

MOM

MISS M O'MARA

BR/30

BUDGET - SECRET

Ref: 20J
Copy: 9 of 12

FROM: MRS R LOMAX

DATE: 4 MARCH 1986

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cropper
Mr Lord
Mr H Davies

BUDGET BROADCAST

... I attach the latest draft of the Budget Broadcast. The Chancellor would be grateful for comments from all Ministers and advisers by the end of this week.

Rl

RACHEL LOMAX

BUDGET - SECRET

RR3.61

STRICTLY CONFIDENTIAL

BUDGET - SECRET

BUDGET BROADCAST

By

THE CHANCELLOR OF THE EXCHEQUER

1st Revised Draft

By Antony Jay
21 February 1986

CHANCELLOR

CHANCELLOR TO CAMERA

This has been a quite extraordinary year. Extraordinary, because of two separate events which anyone might have expected to spell economic disaster for Britain. And it's quite interesting to look at them in turn and see what actually did happen.

The first of those two events was the eleven month coal strike which ended only last March. The loss of three quarters of Britain's coal production for virtually a whole year. In any other period since the war - perhaps this century - that would have meant a major financial crisis, a huge fall in output, and a long painful struggle back to normal. But what actually happened?

CAP I. GDP CHART 1970-86 ("OUTPUT")
Reveal bars as indicated by text

If you look at Britain's output since 1970 you can see how it had its ups and downs till the world recession of 1981, and since then it's been absolutely steady growth.

Highlight 1981-86 inc.

Two good years up to the 1983 election, and since then it has marched on to an all-time high.

BUDGET - SECRET

Highlight 1984/5/6	Those six years are the longest period of sustained growth that Britain has enjoyed for a generation. And those last three years since the 1983 election include the whole of the miners' strike. We just soared up through it.
CHANCELLOR TO CAMERA CAP. 2 EUROPEAN GROWTH LEAGUE	In fact that growth in output has been even more remarkable than it looks there. You can see that by a comparison with our chief European competitors. From 1973 to 1982 we were at the bottom of the European growth table. In 1983 we were top. Second equal in 1984. And in 1985, last year, we were back on top again.
CHANCELLOR TO CAMERA	Of course that growth might have been achieved at a great cost in rising inflation. If so, it would be short lived with a heavy price to pay later. But if you look at the figures for inflation over the same periods you see that the reverse is true.
CAP. 3 INFLATION 1970-86 Reveal bars as indicated by text. Highlight 1982-86	We had that terrible inflation under the Labour government in 1975, then the rising inflation we took over in 1979. By 1982 we'd got that under control, and since then we've had our lowest inflation rate for nearly a generation. That combination of rising output and falling inflation has been the dream of British governments for thirty years. Now for the first time it's a reality.

One of the most dramatic illustrations of this success is revealed by the improvement in manufacturing productivity. The curse of the fifties and sixties and seventies was the huge number of people it took us to produce anything.

CAP. 4 MANUFACTURING PRODUCTIVITY (only 1970-1981 revealed at first)

You can see from this chart how we staggered along, climbing up and slipping back all through the 1970s.

Reveal 1981 to end

Now see what's happened since the end of the 1981 recession. It's just a simple graph, but it tells the story of a nation that is at last rediscovering its old industrial vigour and manufacturing skill.

CHANCELLOR TO CAMERA

On top of that, exports are higher than they've ever been in our history. So is investment in business and industry. Britain today has all the signs of a strong and growing economy.

But can it last? How sound are the foundations? Is it all down to North Sea Oil? Well, I said there had been two separate events, and that brings us to the second: the spectacular collapse in the price of oil at the beginning of last month.

?CAPTION/GRAPH?

In a few weeks the price dropped by almost half - from around 30 dollars a barrel to around 15 dollars. If all this achievement had really been just the result of North Sea oil, that would have been a catastrophe.

BUDGET - SECRET

The pound would have collapsed. Interest rates would have gone through the roof. Investment plans would have been slashed. But instead, what happened? Virtually nothing. No crisis. No run on the pound. No scurrying to the IMF for an emergency loan. If anyone wanted proof of the true strength and the solid foundations of Britain's economic recovery, that sensational collapse of oil prices provided it. Of course it has meant a huge loss of tax revenue to the government, which is why I haven't been able to make any tax cuts this year, but as far as Britain's economy is concerned the benefits of lower energy costs will be very considerable. That's why the forecasts for the coming year are as good as ever. The only disappointment in the whole economic story is the stubborn refusal of the unemployment figures to come down. That's why the creation of new jobs - <u>real</u> new jobs - is the top priority, not just in Britain but in just about every industrial country. Because of course it's a world-wide problem. But it's a slow business. Even so, Britain has quite a story to tell in employment growth. If you look at the increase in the number of jobs in the rest of the Common Market since 1983, you'll see how small it is - under 50,000. If you compare that with the increase in Britain, you'll see how much quicker the new jobs are being created here.

CAP. 5 EMPLOYMENT SINCE 1983: UK/EEC.
(show EEC bar only at first)
(reveal UK bar on upward wipe)

BUDGET - SECRET

CHANCELLOR TO CAMERA

If unemployment doesn't come down, that's because new people are coming on to the job register as fast as the new jobs are created. And those jobs have come as a result of our policy of sustained control of inflation and of government expenditure. So the object of this Budget has been to preserve the sound foundations and steady growth which we have now achieved, and on which everyone's jobs finally depend.

SECTION ON BUDGET MEASURES TO BE INCLUDED HERE

We've come a long way in the seven years since you entrusted us with the job of governing Britain, but there's still a long way to go and a lot to do. People are full of bright ideas for crash programmes, but that's not the way. Crash programmes usually crash quicker than their inventors intended. The way forward is through solid and steady growth. It takes patience, and sometimes a bit of teeth-gritting, and it doesn't make the headlines.

But it has won us rising output and falling inflation, the prize which has eluded every other government for thirty years. This Budget is designed to build on that success.

END

BR/31

BUDGET - CONFIDENTIAL

FROM: MRS R LOMAX

DATE: 4 MARCH 1986

SIR PETER MIDDLETON

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Miss Sinclair
Mr Culpin
Miss O'Mara
Miss Noble
Mr Pratt
Mr Cropper
Mr H Davies
Mr Lord
Sir L Airey IR
PS/IR
Sir A Fraser C&E
PS/C&E

PRESENTATION OF BUDGET MEASURES

There is one addition to the allocation of Ministerial responsibility for co-ordinating the presentation of the Budget, attached to my note of 3 March: the Chief Secretary will be overseeing briefing on the question of rates versus allowances.

RL

RACHEL LOMAX

BUDGET - CONFIDENTIAL

2794/18

CONFIDENTIAL

FROM: P J CROPPER
DATE: 5 March 1986
(rec'd 6/3)

MISS O'MARA

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monck
Mr Monger
Mr Scholar
Mr Culpin
Mr Haigh
Miss Sinclair
Mr Pickering
Mr Lord
Mr H Davies

Mr Walker (IR)
Mr Bone (C&E)

PRESENTATION OF BUDGET MEASURES

You ask for the list of "key contacts" to be approached in the period immediately following the Budget.

2. Backbenchers. The Chancellor will see the Backbench Finance Committee. Backbenchers will also have been provided, through the Government Whips Office, with

1) A general brief on the Budget.

2) Particular short briefs on Saving, Family Taxation and Giving

Backbenchers and the Party organisation will receive the weekly Members' Brief towards the end of the week. The general budget brief will go to the Lords and to the Party Organisation.

3. Green Paper. Copies should be sent to:

Miss Emma Nicholson (CCO)

Dame Shelagh Roberts (c/o CCO)

Dame Joan Seccombe (c/o CCO)

David Knapp (Director CPC at CCO)

Sir Geoffrey Howe (FCO)

Mrs Marion Roe MP (House of Commons)

Ruth Lister ?(CPAG).

4. Investment Incentives. Maybe contact or send brief to:

Chairman, Stock Exchange

Wider Ownership Association

Lord Vinson (at House of Lords)

Philip Chappell (Morgan Grenfell)

Rt Hon David Howell MP (House of Commons).

5. Giving. Maybe contact or send brief to:

Charities Aid Foundation

Bishop of London.

6. Personal Contacts by Chancellor. Rt Hon T. Higgins; Chairman of Stock Exchange, maybe; Sir John Hoskyns and Sir James Cleminson maybe.

P J CROPPER

2796/4

BUDGET-SECRET

Copy 1 of 9 Copies

FROM: P J CROPPER
DATE: 5 March 1986

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr Lord
Mr Davies

PRESENTATION OF THE BUDGET: ALLOCATION OF SPECIAL ADVISER RESPONSIBILITIES

I attach a list allocating budget subjects among the Special Advisers.

X 2. Will Private Offices please make sure that Special Advisers are notified of Ministerial briefing meetings.

PJC

P J CROPPER

1 ~~Tony~~
2 ~~Philip~~
3 ~~Debbie~~ — pl note 'x'
4 Nigel.
5 PS/P

(confirmed with NF that I should hold this for now).

DL
6/3

PRESENTATION OF THE BUDGET: ALLOCATION OF SPECIAL ADVISER RESPONSIBILITIES

Mr Cropper

1. Final phase of 1984 Corporate Tax changes.
2. Mines and Oilwells allowances.
3. North Sea tax regime.
4. Agricultural buildings and minor business tax changes
5. Personal tax Green Paper
6. Capital Transfer Tax
7. Unitary Tax
8. Stamp Duty
9. City Revolution
10. Pension Fund Surpluses
11. Charities package
12. **Income Tax - Rates v Thresholds**

Mr Lord

1. Employment measures - Community programme
   Extension of counselling and Jobstart schemes
   New Workers Scheme
   Enterprise Allowance Scheme
2. Excise Duties and VAT - Petrol, Derv and minor oils
   VED

Alcoholic Drinks
Tobacco Duty
Increase in VAT thresholds

3. VAT and motoring

4. Minor Starters

5. Staffing implications of Budget

6. Effect of Budget on small and unincorporated businesses

Mr Davies

1. Macroeconomic issues - Fiscal stance
   MTFS
   Monetary Policy
   Effects of oil price fall

2. Profit Sharing

3. NICs

4. Savings Plan

5. Business Expansion Scheme

6. Loan Guarantee Scheme

B:15

BUDGET SECRET

from: SIR P MIDDLETON
6 March 1985

Ch.
The earlier you can give a steer on this the better. But you may feel you would like to talk about it with Ministers say at Prayers on Friday, before [illegible] our advice RL. 6/3.

COPY NO. 1 OF 3 COPIES

BP256

CHANCELLOR OF THE EXCHEQUER

BUDGET PRESENTATION

At the 5 March overview meeting you asked for advice on how we might handle presentation this year. I attach, as you requested, a copy of the 14 February 1984 note from your office which set last year's exercise in motion.

2. This year differs from 1984 in three respects:

(i) the individual tax changes are not as wide ranging,

(ii) expenditure measures and the public spending total are more important; and

(iii) we are starting work on presentation rather later: the Budget Briefing, for example, needs in effect to be finalised by Friday 14 March - 7 weekdays from now.

So we need to concentrate on the really important issues - on both overall strategy and the individual measures. And we should try to incorporate as much material as possible - positive or defensive - into the Budget Brief already being prepared, rather than commission additional free-standing material. Specially-tailored pieces may be needed, for example, to hand to the CBI or to use as speaking notes in talking to particular backbench or other groups; but that can be done in parallel.

Allocation of Ministerial responsibilities

3. To start you off, I attach at annex A a suggested division of labour based on present Ministerial responsibilities. In addition we want one Minister to bring together the themes on:

(i) tax reform

(ii) employment

(iii) companies

The last of these can be relatively simple this year as, with the possible exception of NIC's the measures do not have markedly different effects on different sectors. The Financial Secretary could perhaps take over the development of all three themes. That leaves him with quite a load - which could be alleviated by giving the capital taxes to either the Chief Secretary (as last year) or the Economic Secretary.

A lot of work needs doing on employment effects and the implications for different parts of the labour force of the measures. You might wish to add this to the areas over which the Minister of State has oversight.

Key issues

4. Annex B* lists some potential areas of presentational strength and weakness on the tax and NIC measures. Key issues on public spending have already been identified and Mr Bailey has in hand the task of working up the most positive presentation we can manage. Annex C*, prepared by FP1, may give useful pointers to particular interest groups who, in view of their pre-Budget representations, may be particularly pleased or disappointed.

Key groups to be seen

5. Mr Culpin is minuting separately ~~(not to all)~~ about arrangements for media engagements with TV, radio, the lobby and economic correspondents on Budget Day and the following few days. At Annex D is a sheet from Mr Davies on a possible programme of contacts with backbench groups, the Treasury Committee and so on, in the days following the Budget. The Special Advisers will also be sending you separate advice on this programme shortly. You might also wish to consider whether you want to use them to take on some of the load of speaking to the media and their role alongside Ministers in the kind of meetings discussed at Annex D.

6. At this stage it is difficult to identify particular journalists, interest groups or others who should be seen on specific issues in the days following 19 March. We need to get our messages straight before we decide on the target audiences. I suggest your colleagues might be asked to recommend, where it would be helpful, programmes for such contacts in their particular target areas.

Next steps

This is pretty vague

7. The main thing is for you to allocate responsibilities and send me back a note setting out your decisions, on the lines of last years minute by Mr Kerr. You will also wish to consider the programme for contacts with TCSC, backbenchers etc and Mr Culpin's note on the media so we can prepare a detailed game plan for Budget Day and immediately thereafter.

8. Material for the Budget Brief has already been commissioned. We plan to circulate a first draft on 11 March (and a second on 14 March). So in the course of next week I suggest the Ministerial team, with assistance from the Advisers, might aim for each key area to:

* Annexes B and C are forwarded under separate cover given their security classification.

BLO folder below

(a) ensure that those writing the next draft of the briefing understand the key points and the right messages to get across

(b) draw up, where these would be useful, programmes for post-Budget contacts with journalists and interest groups;

(c) commission, where necessary, specially tailored speaking notes for use in (b).

9. Ministers will also wish to consider the need for Press Notices and discuss the drafts with those concerned (several are already in hand and CU will circulate next week a checklist of possible Notices). Some Press Notices may inevitably span the responsibilities of several Ministers. (Any Treasury Notice on the benefits to jobs, for example, would need to cover the expenditure measures as well as the NIC changes - allocated illustratively to the Financial Secretary and Minister of State in Annex A.)

Resources

9. In the Treasury and in the Revenue Departments we shall as always need 110 per cent effort over the next few weeks. But the number of officials "in the know" is smaller than last year because of the new security arrangements. Despite recent good progress much still remains to be done on the Speech, the FSBR, the Finance Bill - and on some key measures. We shall need to husband resources very carefully, particularly over the next 10 days or so.

SIR PETER MIDDLETON

BUDGET SECRET

UNCLASSIFIED
MJH
6.3.85

CH/EX REF. NO. B(84)127

FROM: J O KERR
DATE: 14 February 1984

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Lawrence Airey - IR
Mr Fraser - C&E
Sir T Burns
Mr Cassell
Mr Monck
Mr Battishill
Mr Odling-Smee
Mr Monger
Mr Ridley
Mr Allen
Mr Folger
Mr Hall
Mr Norgrove
Mr Portillo

SIR P MIDDLETON

PRESENTATION OF BUDGET MEASURES

The Chancellor has discussed with Treasury Ministers how best to ensure in advance that the Budget measures now crystallizing make the best possible presentational impact on 13 March and in the immediately following period.

2. Presentation of the Budget overall, and the MTFS and LTPE, will of course primarily be for the Chancellor, assisted by the Chief Secretary. But, on particular groups of fiscal measures, it has been agreed that an individual Minister should commission and supervise work on the preparation of:-

i. a list of key themes on which supporting material would be needed at Budget time, leading to lists of positive and defensive points;

ii. a note on the past history of the measure being amended/abolished/introduced;

iii. advice on particular presentational pitfalls to be avoided in each area;

iv. advice on key groups to be approached, and how this might best be done, and when;

BUD~~GET SE~~CRET

UNCLASSIFIED

MJY

6.3.85

v. briefing for (a) Ministerial colleagues, (b) the backbenchers, and (c) particular journalists or parts of the press.

3. The following are the agreed groupings:-

<u>Chief Secretary</u> - Capital tax changes, tax expenditures, effects of the Budget on agriculture, housing and construction, and tax on the better-off. Relevant measures would be:-

CTT, DLT, stamp duty (land and buildings), MIR for the self-employed, IIS, foreign earnings deduction, foreign emoluments deduction.

<u>Financial Secretary</u> - Company tax reform, and effects of the Budget on companies (except housing and construction). Relevant measures would be:-

w/ N Sea C.J Sec

PAS, CT, capital allowances, stock relief, NIS, North Sea (including ACT repayments to oil companies), share options, VAT registration threshold, and small companies CT profit limits.

Also general oversight of presentation of how Budget improves <u>structure</u> of taxation on companies <u>and</u> persons.

<u>Minister of State</u> - Effects on persons, including distributional effects, and RPI effects. Relevant measures would be:-

stamp duty? (a pr

Excise duties, VAT base, income tax thresholds, car benefits scales.

<u>Economic Secretary</u> - Effects on the financial sector. Relevant measures would be:-

Credit licence duty, composite rate on banks, LAPR, stamp duty on share transfers, building societies CT

and the effect on the financial sector of the company tax/NIS/PAS changes.

UNCLASSIFIED

MJJ
6.3.85

4. The Private Offices of the Minister's concerned will be in touch immediately with the officials concerned with the measures in question. The first stage of the operation will be for each Minister to submit, by 24 February, a provisional presentation strategy covering his group of measures. The four papers will be for discussion at the 28 February "overview" meeting.

J O KERR

THIS YEAR

Annex A

BUDGET SECRET

A possible allocation of Ministerial responsibility for oversight of Budget presentation

Chief Secretary

1. Public spending
   - realism adjustments
   - general picture
   - revenue determines spending

Financial Secretary

1. NICs: self-employed, employer [and employee]
2. Capital taxes
   CGT, DLT, CTT
   heritage concession
3. Income tax
4. Capital allowances
5. "Enterprise" package
   BES, R+D, relief for self-employed NICs, share option schemes etc
6. Effects of Budget on business generally
   - companies
   - unincorporated
7. Effects of Budget on individuals, including incentives and the "traps" NIC's.
8. Tax reform sub theme, including Personal Tax Green Paper. and....
9. Inland Revenue taxes not elsewhere specified, including
   business — North Sea, taxation of pensions, stamp duty — tax reform

Economic Secretary

1. Monetary policy
   + MTFS
2. Tax changes relevant to savings and financial institutions eg
   - futures
   - Building Societies
   - banks acting for non-residents
   - financial market aspects of CGT/bondwashing

Minister of State

1. Employment measures
   - YTS
   to improve supply of skills and promote better supply side performance.
   - CP
   to provide jobs for those hard hit meanwhile
2. Customs taxes
3. VED
4. Manpower implications of Budget: Customs, Revenue, DHSS

NIC's straddles FST & MOS – as it impacts on individuals, in the first case, & as an employment measure in the 2nd. Main emphasis would probably be on the 2nd

ANNEX D

BUDGET PRESENTATION : SUPPORTERS

Group	Approach
BACKBENCH FINANCE COMMITTEE	Ministers meet Committee immediately post-Budget ?Chancellor to call Sir W. Clark (Other Ministers to call Committee Officers)
GOVERNMENT MEMBERS OF TCSC	Chancellor to see Terence Higgins
?BACKBENCH EMPLOYMENT COMMITTEE	?Jobs brief (Adviser or DE)
BACKBENCHERS (TOTAL)	'Whitelaw' Brief (Advisers) Briefing package
SPECIAL INTEREST MPs	
eg GRYLLS (Small Business)	FST to call
TIM SMITH (Keith)	" " "
BUDGEN (PES)	CST to call
etc	

F15

JT

276/010

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COPY NO 1 OF 15

FROM: M C SCHOLAR
DATE: 6 March 1986

CHANCELLOR OF THE EXCHEQUER

PRAYERS - FRI
(pr. full ac. mins?)

cc: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Monger
Mr Culpin
Miss O'Mara
Mr Pratt
Mr Cropper
Mr H Davies
Mr Lord
PS/Inland Revenue

BUDGET PRESENTATION

Mrs Lomax asked in her minute of 3 March for a list of key contacts to be approached in the period immediately following the Budget.

2. We suggest you yourself might on Budget Day have a private meeting with - or a telephone conversation with - Sir James Cleminson and Sir Terence Beckett. You will not want to meet the whole CBI team formally - it might in any case provoke them to make an unhelpful public statement. You will also be talking to the Backbench Finance Committee on Budget Day itself but you might feel it wise to have a private word with Sir William Clark too. You are unlikely to be able to do that on Budget Day itself but it would be better sooner rather than later as the radio and television are bound to approach him for his view. A brief meeting with Mr Higgins in the Budget week might also be a good investment. We suggest that the Financial Secretary might meet the IOD, formally or informally.

3. You may also want to speak to some of your Cabinet colleagues, explaining the shape of the package at greater

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length than will be possible at the Budget Cabinet. We suggest you and the Chief Secretary between you might like to have a word with some or all of the following: Mr Tebbit, Mr Ridley, Mr Fowler, Lord Young, Mr Baker, Mr Channon.

Rates/Allowances

4. You have asked the Chief Secretary to oversee the rates versus allowances issue which will clearly be a prominent one in public debate. As such, it will no doubt be covered in the major television and radio interviews which Ministers allocated at Prayers on 3 March (Mrs Lomax's minute of 4 March). We assume you will wish to arrange meetings on this and on the Budget as a whole with suitable groups of backbenchers (I believe you made yourself available to see CARE last year).

Personal Tax Green Paper

5. The Financial Secretary is covering the Personal Tax Green Paper in the immediate post-Budget period. He has already agreed to address a conference of Women Conservatives at the request of Emma Nicholson. Mr Cropper has made various suggestions of those to whom a personal copy of the Green Paper might be sent (at Annex A). Others could receive a letter from the Financial Secretary. He might also like to consider meeting Mrs Marion Roe and perhaps Ruth Lister of the Child Poverty Action Group. I understand he is making a number of speeches in the month after the Budget in which he intends the Green Paper should feature prominently.

6. I attach at Annex B a list of personal finance writers, provided by Mr Culpin. You, yourself, will, of course, be briefing the daily and Sunday lobbies immediately after the Budget. Ministers could decide in the light of the initial press reaction whether the rates versus threshold argument needed to be covered further by the Chief Secretary. At more leisure, the Financial Secretary might like to discuss the

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Green Paper with the heavy press (the proportion of women correspondents is quite large!) and perhaps with some more popular papers such as the 'Mail', 'Express' and their Sunday equivalents.

Savings and Investment and Business/Enterprise Packages

7. I attach at Annex C a list of business tax correspondents. The Financial Secretary and Economic Secretary could take the initiative with these people or respond to bids from them on the personal equity plan, pensions funds surpluses, Stamp Duty and CTT. The Financial Secretary might also meet Lord Vinson, Philip Chappell and perhaps Mr David Howell.

8. Lord Young will, presumably, be taking the lead on the employment and (some of) the enterprise measures in the Budget. The Chief Secretary will want to give further publicity to other aspects of the enterprise package.

9. You might like to see Sir Nicholas Goodison yourself for some of these issues - for example on Stamp Duty; alternatively, the Economic Secretary might see him. He might also meet the National Association of Pension Funds on pension surpluses (the Institute of Actuaries, the Association of British Insurers, DHSS and the Occupational Pension Board can all be met at official level) and perhaps the American Bankers Association on Stamp Duty and ADRs.

10. I understand that the Financial Secretary undertook at one of your morning meetings to have a word with the Revenue (Mr Battishill) about meetings they were planning to hold with some of these people.

Profit Sharing

11. There is quite a bit of ground to cover here. Someone should perhaps speak to Sam Brittan and one or two other key

journalists to help this get under way. Perhaps Sir T Burns might be asked to suggest an academic or two (Weitzman himself?) who might help.

Charities

12. The Minister of State will want to see the charities and might meet representatives of the Charities Aid Foundation, National Council of Voluntary Organisations and Charities VAT Reform Group. We have no strong recommendations for press contacts here and might wait to see how the package is received, although Mr Culpin has noted that we might try to influence the 'New Society' pull-out.

13. There are a number of other areas which might be covered - BES, CTT, capital allowance changes etc. (Customs tell us that there is nothing to be gained from Ministerial contact in their non-Charities areas). The Revenue think most of these subjects can either be dealt with at official level or in meetings arranged with Ministers after Easter, perhaps as a response to representations on the Finance Bill. But the Financial Secretary (or perhaps Messrs Battishill, Beighton and Davies) might perhaps meet representatives of the British Venture Capital Association before then.

MCS

M C SCHOLAR

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ANNEX A

GREEN PAPER

Sir Geoffrey Howe	
Mrs Marion Roe MP	House of Commons
Mr David Knapp	Director CPC at CCO
Miss Emma Nicholson	CCO
Dame Shelagh Roberts	c/o CCO
Dame Joan Seccombe	c/o CCO
(?) Ruth Lister	CPAG

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ANNEX B

PERSONAL TAX

FT	Michael Prowse Clive Wolman
Times	Sarah Hogg Lorna Bourke
Daily Telegraph	Anne Segall Richard Northedge
Guardian	Margaret Dibben
Daily Mail	David Lewis
Daily Express	Margaret Stone
Today	Mary Anne Sieghart
Sunday Times	Maggie Drummond
Observer	Joanna Slaughter
Sunday Telegraph	Roger Carroll
Mail-on-Sunday	Roger Nuttall
Sunday Express	John Bell
Economist	Frances Cairncross
Financial Weekly	
Investors Chronicle	
Spectator	
Money Which	
Taxation	
BBC TV	Money Programme
ITV (C4)	(Ros Bewe) Business Programme
BBC Radio	(Louise Botting) Money Box
	Vincent Duggleby Financial World Tonight
Freelance	Tony Hetherington

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ANNEX C

BUSINESS

FT	Will Dawkins
Times	Lawrence Lever
Daily Telegraph	Clifford German
Guardian	Hamish Macrae (more probably one of his deputies)
Daily Mail	David Lewis
Daily Express	Margaret Stone
Today	Mary Anne Sieghart
Sunday Times	Neil Collins
Observer	Jim Levi
Sunday Telegraph	Ian Watson
Mail-on-Sunday	Roger Nuttall
Sunday Express	John Bell
Economist	
Financial Weekly	Mihir Bose
Investors Chronicle	Margaret Reid
Spectator	Chris Fildes
BES Magazine	John Harrison (contributed article on BES to Sunday Times of 2.3.86)
BBCTV	Money Programme
ITV (C4)	(Ros Bewe) Business Programme
BBC Radio	(Louise Botting) Money Box
	Vincent Duggleby Financial World Tonight
Freelance	Tony Hetherington

LR1.4

CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 10 March 1986

MR CULPIN

cc Mr Scholar
Miss O'Mara
Mr Pickford
Mr Cropper
Mr H Davies

BUDGET BROADCAST CHARTS

The Chancellor was grateful for your minute of 6 March. He is content with the attached roughs of the Budget Broadcast Charts and specifically with the points mentioned in your paragraph 4(a)-(e). He would like to use the 4 country employment chart, revealing one country at a time. He thinks it unlikely that he will want additional charts.

2. The Chancellor has noted that we have a meeting planned to go over the script and near final graphics on Friday. He plans to have another look at the script himself before then.

RL.

RACHEL LOMAX

BUDGET CONFIDENTIAL

FROM: P WYNN OWEN

DATE: 12 March 1986

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Monger
Mr Scholar
Mr Culpin
Mr Cropper
Mr H Davies
Mr Lord

~~BUDGET PRESENTATION:~~

PROPOSED INLAND REVENUE POST-BUDGET PRESS BRIEFING

The Chancellor has seen your minute of 11 March and Mr Battishill's minute of the same day. He is content to be guided by the Financial Secretary and he is reassured that this will be in the safe hands of Mr Battishill. However, he thinks that for liaison purposes someone from FP (or, failing that, a tax-knowledgeable person from IDT) should be (silently) present.

Rs.

P WYNN OWEN

W 21

Presentation of the Budget: Allocation of Ministerial responsibilities

Chancellor

Macroeconomic issues	- Fiscal stance - MTFS - Monetary policy - Effects of oil price fall

Chief Secretary

Employment measures	- Community Programme - Extension of Counselling and Job Start Schemes - New Workers Scheme - Enterprise Allowance Scheme
Enterprise measures	- Loan Guarantee Scheme - Profit Sharing (Weitzman)
Budget and business	- Effect of Budget on small and unincorporated businesses - Final phase of 1984 corporate tax changes - Mines and oil wells allowances - North Sea tax regime (but <u>not</u> effect of oil price fall on North Sea tax revenue) - Agricultural buildings and minor business tax changes
Staffing implications of Budget	

Financial Secretary

Budget and individuals	- Personal Tax Green Paper - Income tax changes (whether any or none) - NIC changes (if any) - Savings Plan (or Economic Secretary) - Capital Transfer Tax - Business Expansion Scheme - Car and fuel benefits
Minor starters of which Financial Secretary has so far been in charge	

Economic Secretary

Savings and investment	- Stamp duty - City revolution: tax consequentials - ?Pension fund surpluses (<u>or</u> Financial Secretary)
Minor starters of which Economic Secretary has been in charge so far	

Minister of State

Charities etc	- Higher rate relief - Company giving - Payroll giving - VAT - Abuses - Pension relief for Nazi victims

Excise duties + VAT	- Petrol, derv and minor oils - VED - Alcoholic drinks - Tobacco duty - Increase in VAT threshold
VAT	and motoring
Minor starters of which Minister of State has so far been in charge	

COVERING CONFIDENTIAL

FROM: H J DAVIES

DATE: 14 March 1986

CHANCELLOR

cc Mr Culpin
Miss O'Mara
Mr S King
Mr Cropper

BUDGET BROADCAST

I attach a copy of the text with Mr Jay's amendments. We've agreed one or two other very minor changes. And there are two square-bracketed sentences which I think could be dropped if necessary.

2. The other comments from the FST and Mr Cropper fall away in the light of the redraft.

3. The Budget measures bit is submitted separately.

Rus.

HJD. H J DAVIES

BUDGET BROADCAST

By

THE CHANCELLOR OF THE EXCHEQUER

1st Revised Draft

By Antony Jay
21 February 1986

CHANCELLOR

CHANCELLOR TO CAMERA

The past few months have seen a quite extraordinary drama in the world's market place. The spectacular collapse in the price of oil was not only quite unforeseen. It was also amazingly sudden. But most of all it was a revelation - a revelation about the British economy. You see, for years people have been saying that our economy is dependent on North Sea oil. Well, one half of the value of that oil disappeared virtually overnight, something over five <u>billion</u> pounds worth a year. If we had been an oil-dependent economy, that would have been a catastrophe. The pound would have collapsed. Interest rates would have gone through the roof. Investment plans would have been slashed. But instead, what happened? Virtually nothing. No crisis. No run on the pound. No scurrying to the IMF for an emergency loan. In fact it's been business as usual. But to understand <u>why</u> we survived unscathed - just as we survived last year's 11 month coal strike - you have to look at Britain's extraordinary record of stability and growth over the past few years. It shows up in all sorts of different ways.

CAP I. GDP CHART 1970-86 ("OUTPUT") Reveal bars as indicated by text

Take our national output. If you look at Britain's output since 1970 you can see how it had its ups and downs till the world recession of 1981, and since then it's been absolutely steady growth.

Highlight 1981-86 inc.

Two good years up to the 1983 election, and since then it has marched on to an all-time high. Those six years are the longest period of sustained growth that Britain has enjoyed for a generation.

Highlight 1984/5/6

And those last three years since the 1983 election include the whole of the miners' strike. We just soared up through it.

CHANCELLOR TO CAMERA

In fact that growth in output has been even more remarkable than it looks there. You can see that by a comparison with our chief European competitors.

CAP. 2 EUROPEAN GROWTH LEAGUE

From 1973 to 1982 we were at the bottom of the European growth table. In 1983 we were top. Second equal in 1984. And in 1985, last year, we were back on top again.

CHANCELLOR TO CAMERA

Of course that growth might have been achieved at a great cost in rising inflation. If so, it would be short lived with a heavy price to pay later. But if you look at the figures for inflation over the same periods you see that the reverse is true.

CAP. 3 INFLATION 1970-86
Reveal bars as indicated by text.

Highlight 1982-86

We had that terrible inflation under the Labour government in 1975, then the rising inflation we took over in 1979. By 1982 we'd got that under control, and since then we've had our lowest inflation rate for nearly a generation. That combination of rising output and falling inflation has been the dream of British governments for thirty years. Now for the first time it's a reality.

One of the most dramatic illustrations of this success is revealed by the improvement in manufacturing productivity. [The curse of the fifties and sixties and seventies was the huge number of people it took us to produce anything.]

CAP. 4 MANUFACTURING PRODUCTIVITY (only 1970-1981 revealed at first)

Reveal 1981 to end

You can see from this chart how we staggered along, climbing up and slipping back all through the 1970s. Now see what's happened since the end of the 1981 recession. It's just a simple graph, but it tells the story of a nation that is at last rediscovering its old industrial vigour and manufacturing skill.

CHANCELLOR TO CAMERA

On top of that, exports are higher than they've ever been in our history. So is investment in business and industry. Britain today has all the signs of a strong and growing economy.

That's why that sudden extraordinary collapse in oil prices had none of the effects that the doom and gloom merchants had been prophesying. Of course it has meant a big loss of oil tax revenue to the government, but as far as Britain's economy is concerned the benefits of lower energy costs will be very considerable. That's one reason why the forecasts for the coming year are as good as ever. The only disappointment in the whole economic story is the stubborn refusal of the unemployment figures to come down. That's why the creation of new jobs - real new jobs - is the top priority, not just in Britain but in just about every industrial country. Because of course it's a world-wide problem. But it's a slow business. Even so, Britain has quite a story to tell in employment growth. If you look at the increase in the number of jobs in the rest of the Common Market since 1983, you'll see how small it is - under 50,000. If you compare that with the increase in Britain, you'll see how much quicker the new jobs are being created here.

CAP. 5 EMPLOYMENT SINCE 1983: UK/EEC.
(show EEC bar only at first)
(reveal UK bar on upward wipe)

CHANCELLOR TO CAMERA

If unemployment doesn't come down, that's because new people have been coming on to the job register as fast as the new jobs are created. [And those jobs have come as a result of our policy of sustained control of inflation and of government expenditure. So] the object of this Budget has been to preserve the sound foundations and steady growth which we have now achieved, and on which everyone's jobs finally depend.

SECTION ON BUDGET MEASURES TO BE INCLUDED HERE

We've come a long way in the seven years since you entrusted us with the job of governing Britain, but there's still a long way to go and a lot to do. People are full of bright ideas for crash programmes. Labour, for example, are committed to spending another £24 billion of taxpayers' money on their pet schemes. But we've been that way before. And crash programmes usually crash quicker than their inventors intended. The way forward is through solid and steady growth. It takes patience, and sometimes a bit of teeth-gritting, and it doesn't make the headlines.

But it has won us rising output and falling inflation, the price which has eluded every other government for twenty years. This Budget is designed to build on that success.

END