PO-CH/NL/0389
PART A

PO -CH /NL/0389

PART A

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PART A

1988 BUDGET CHANCELLORS PAPERS ON TREASURY AND CIVIL SERVICE COMMITTEE

DD's 25 years NA 3/3

30.9.88

C

MICHAEL COLVIN MP + NULV:
WED. 4 FEBRUARY

You have agreed to see Michael Colvin + 4 representatives of the NULV on Wednesday 4 February at 4.30pm.

They are not on the core list to be seen by you and could be left to the MST (given the pressure on your diary).

Are you content to see them?

D
29/1

yr-

CHANCELLOR OF THE EXCHEQUER

C

NATIONAL UNION OF LICENSED VICTUALLERS: 4 FEBRUARY

You and the MST are both free on Wednesday 4 February at 4.30 - 5.00 pm.

Shall I confirm a short meeting at that time? In ~~HMT~~?

Yes

D
19/1

Copy 1 of 13

FROM: N I MACPHERSON
DATE: 4 JANUARY 1988

JM 4/1

1. MR McINTYRE

2. CHANCELLOR OF THE EXCHEQUER

Mr Macpherson: No further work needs to be done on this.

cc. Chief Secretary
Financial Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Peirson
Mr Riley
Mr Cropper
Mr Tyrie
Mr Mace - IR

NICS AT THE LOWER END - LEL ABOLITION

You asked for a note on Mr Moore's suggestion that the lower earnings limit (LEL) be abolished. As explained below, our conclusion is that abolition would have considerable disadvantages and little in its favour.

2. Abolition of the LEL would give the following structure:

	Employees % rate		Employers % rate	
£ per week	now	proposed	now	proposed
0-41	0	5	0	5
41-70	5	5	5	5
70-105	7	5	7	7
105-130	9	5	9	9
130-155	9	7	9	9
155+	9 (to 305)	9	10.45	10.45

3. Around 3 million additional employees would be brought into NICs, increasing NIC revenue by around £100 million in 1988-89 and £250 million in 1989-90. If the LEL is abolished for SERPs purposes also, the increase in contributions would be more than offset by an increase in rebate expenditure of £460 million in 1988-89 and £1.24 billion in 1989-90. (This is because the rebate for contracted out employees would be calculated on all earnings up to the UEL rather than earnings over £41 a week).

4. The advantage of abolishing the LEL is that it would abolish the biggest step, £2.10 at £41 a week, for both employers and employees. The National Insurance system would become more comprehensive. All employees would be brought into contributory benefits, reducing dependence on means tested benefits and, at first glance, strenghtening the contributory principle.

5. The major drawback is the large number of people brought into NICs. This has a number of consequences. First, the number of losers from the tax reform package would be increased by 3 million. Since the LEL is below the single person's allowance, few of those brought into NICs will benefit from the rest of the package. Of course, most of those earning under £41 a week are part-time married women, whose husbands will generally be benefiting. However, that still leaves 800,000 heads of tax units earning~~s~~ less than £41 a week who are less likely to have well paid spouses to fall back on. Their take home pay would be cut by up to £2.05 a week, and their dependence on means tested benefits increased.

6. Employers will also lose and, since employer NIC rates above the LEL are being left unchanged, their overall NIC burden will increase. In addition there would be a very large increase in employer compliance costs as a result of 3 million additional employees brought into the NIC system. Abolishing the LEL would mean that employers would have to deduct NIC from employees' earnings, however small, and pay the amounts over to the Inland Revenue. The extra administrative burden might not be particularly noticeable for a large organisation, but it would be a severe burden for small businesses and for domestic employers who may have someone working for them for only a few hours a week. Around 700,000 people earn less than £5 a week; the combined monthly NIC charge on such people will be no more than £2. The cost to a firm or individual, of ensuring that this money reaches the Inland Revenue (if it is the only payment to be made) may be as much as the NIC charge itself. Depending on what decision was made about Class 2 (see below), there could be pressure from employers to encourage those working for them to move into self employment or into the black economy.

7. The staffing implications for the Inland Revenue could be considerable. Many of the 3 million people who would become liable for NICs are likely to work for employers not currently on the Revenue books. Arrangements would have to be made to bring these employers into the system so that any NIC deducted could be paid over by the employer to the Revenue each month. This could mean a large increase, possibly several hundred thousand, in the number of employers that the Revenue has to deal with. Each additional 100,000 employers would have a staff cost in the region of 40-50 in the Revenue. The additional work (liaising with employers, dealing with end of year returns etc) would be very unproductive, bearing in mind the small additional NIC yields which would result. In practice enforcement would often be very difficult for small employers. Creating a large number of small and difficult to collect liabilities would decrease the efficiency of the tax/NIC system.

8. Abolishing the LEL will result in a major change to the social security system. Since Beveridge, entry into contributory benefits has required a minimum payment. Until 1975 this took the form of a flat rate stamp; since 1975, it has taken the form of the NICs paid on earnings up to the LEL. Part of the reason for this has been the desire to avoid the anomaly of someone getting a higher pension in retirement than they earned in their working life. The present Government has supported the 'minimum subscription' principle, arguing when the qualifying period for unemployment benefit was raised that some unemployed had been getting benefit on the cheap. With abolition of the LEL, entitlement to contributory benefits could be bought for virtually nothing. For example, the combined employer/employee contribution for the working life of someone earning £5 a week would be less than £1000. A basic retirement pension paid over twenty years is worth over £42,000. Such weakening of the contributory principle would call into question the point of maintaining the distinction between contributory and means tested benefits.

9. Class 2 and 3 would have to be reassessed, since both are based on the 'minimum subscription' principle. Class 3 could be abolished, since as a voluntary contribution paid by those earning below the LEL it would no longer be necessary. Anything short of outright abolition of Class 2 would give rise to complaints from the self employed, who could point to employees getting entitlement to benefit on the basis of minimal contributions. Since abolition would result (at least until Class 4 is restructured) in the self employed being taken out of contributory benefits, the solution might be a minimal Class 2 rate, say 10p a week. However, this would cost around £400 million in a full year, and after an initial welcome would soon give rise to complaints about burdens on business.

10. The impact on SERPS and the contracted out rebate depends on whether the LEL is abolished outright. If it is, 9 million contracted out employees would be 82p a week better off. The NIC system would be simplified; a firm would be able to contract out all its employees rather than just those earning over £41 a week. Contracted out employers and employees would face a smooth NIC rate schedule. For example, a contracted out employee earning £200 a week would no longer pay 9 per cent on his first £41 and 7 per cent thereafter; he would pay 7 per cent on all his earnings. However, as pointed out in paragraph 3, the cost would be considerable, the net cost of LEL abolition being over £200 million in 1988-89 and £1 billion in 1989-90. The alternative is to keep a LEL for SERPS purposes, just as the UEL is being maintained. The problem with this is that the main benefit of abolition, simplification, would disappear.

N. I. Macpherson

N I MACPHERSON

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

RA 20/88
COPY NO. 3 /22

BUDGET SECRET:TASK FORCE LIST

FROM: B H KNOX

DATE: 21 January 1988

ECONOMIC SECRETARY

cc. Chancellor
Chief Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr Byatt
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Michie
Mr Cropper

TCSC: LIST OF ZERO RATES COVERED BY NEITHER GOVERNMENT PLEDGES NOR INFRACTION PROCEEDINGS

1. I attach the list requested by the Committee Chairman. The Chancellor has asked to see it before it is sent. If you are content, the list should be forwarded to Miss Evans: the draft text of a note for her to send to the Committee Clerk is also attached.

Internal Circulation: CPS, Mr Jefferson Smith, Mr Finlinson, Mr Allen, Mr G Taylor, Mr Cockerell

2. You will see that some of the items are at least as sensitive (indeed possibly more so) than books and periodicals. Presentationally, however, our options are limited by the way in which the request was framed.

grammer!

3. The list omits any reference to Group 1 Schedule 5 "Food", and thereby gives a wide definition of the Government's pledges in relation to this item. This could be potentially troublesome if future changes were made to the coverage of Group 1, increasing (if only at the margins) the area of standard-rating. But since a proportion of foodstuffs are already taxed at the standard rate, we could reasonably argue that the pledges refer to basic foodstuffs only, and not to those areas of discretionary expenditure of which a proportion already bear VAT. (The main areas of such expenditure we have identified would include cold take-away food, savoury snacks and fancy biscuits, untaxed confectionery and, less certainly, beverages). A modest extension in the area of confectionery could therefore be defended as not conflicting with the pledges and justified on the grounds that it was a commonsense rationalisation designed to adapt the scope of the tax to new circumstances. ~~However~~ Moreover, any attempt to clarify the pledge in the response to the TCSC, (for example, by way of footnotes to the list) would be bound to give rise to intense speculation; indeed probably to the assumption that whatever areas of zero-rated "food" were excluded from the pledge, were under immediate threat.

Bryce Knox

B H KNOX

DRAFT TEXT FOR INCLUSION IN COVERING NOTE TO TCSC CLERK

I also attach the list of zero rates requested at question 92. The Economic Secretary agreed to provide this in his answer to question 94

In his evidence before the Committee on [ ] Jan, the Economic Secretary undertook to let the Committee have a list of those items which are currently zero-rated, which are not covered by [any] cases currently before the European Court and which have not been covered by specific pledges by Ministers that zero rating will not be removed. (Questions 92 to 94). I attach a list of the zero-rating groups which meet these criteria. It is possible that future cases before the European Court, or the need to make borderlines more rational (perhaps as a result of the introduction of new products), could require relatively minor changes to be made to the groups.

ZERO-RATED ITEMS COVERED BY NEITHER ELECTION PLEDGES NOR EC INFRACTION PROCEEDINGS

Value Added Tax Act 1983
Schedule 5 (zero rating)

GROUP NO:	DESCRIPTION*
part of 2	Sewerage services and water <u>other</u> than supplies to industry.
3	Books, newspapers, etc.
4	Talking books for the blind and handicapped and wireless sets for the blind.
part of 8	Construction of buildings etc supplied to final consumers 'within a social policy'
8A	Protected buildings
9	International services
10	Transport
11	Caravans and houseboats
12	Gold
13	Bank notes
14	Drugs, medicines, aids for the handicapped, etc.
15	Imports, exports etc.
16	Charities, etc
part of 17	Protective clothing and footwear <u>other</u> than that supplied to employers

*A more detailed description may be found in the relevant Groups of Schedule 5 to the Value Added Tax Act 1983.

FP9

BUDGET SECRET: TASK FORCE LIST

COPY NO 1 OF 4 COPIES

FROM: ROBERT CULPIN
DATE: 22 JANUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton
Mr Scholar

TCSC: LIST OF ZERO RATES COVERED BY NEITHER GOVERNMENT PLEDGES NOR INFRACTION PROCEEDINGS

Paragraph 3 of Mr Knox's note of 21 January reflects a point I raised with Customs. I should like to put it more bluntly.

2. The TCSC will assume that the list he attaches covers <u>everything</u> to which you could theoretically extend VAT. The list does not include chewy bars (or related ~~c~~junk). Yet you are being advised to extend VAT to them. So you risk being accused of bad faith.

3. Customs think you could slide off this. They may well be right; and the alternative of highlighting chewy bars and co is unattractive. But you need to be quite sure you can live with this before you let anything go to the TCSC.

4. And if you want to keep <u>any</u> door open on cold sandwiches etc, we have got problems.

(not necessary.

RC

ROBERT CULPIN

Ch
Could get round by amending covering note – see my scribble
AA

List OK as amended by me and with [illegible] the covering note as amended by AA as amended by me [illegible]

53/2/LPD/3749/47

b/c to Alex with PP. 26/1

CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

FROM: P D P BARNES
DATE: 25 January 1988

PPS

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr Byatt
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Michie
Mr Cropper

Mr Knox - C&E
Mr Jefferson Smith - C&E
Mr P R H Allen - C&E
PS/C&E

Ch
Do we need to be this helpful? Certainly don't agree till you've seen & cleared revised list -
AA

NBW:

TCSC : LIST OF ZERO RATES COVERED BY NEITHER GOVERNMENT PLEDGES NOR INFRACTION PROCEEDINGS

We spoke.

2. Subject to the Chancellor's agreement, the Economic Secretary would like to add an extra two columns to the list being sent to the TCSC, one to show those zero rates which are covered by Government pledges, and one to show those zero rates which are subject to infraction proceedings. I have spoken to Mr Knox who is arranging for the list to be provisionally revised on this basis.

PB

P D P BARNES
Private Secretary

CONFIDENTIAL

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

PS get hold of X. What is project 6?

FROM: P JEFFERSON SMITH

DATE: 25 January 1988

PS/ECONOMIC SECRETARY

M

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Jenkins
(Parly Counsel)

EXTENSION OF THE VAT BASE

We agreed that the matters discussed in my submission of 22 January to the Economic Secretary needed a code-name, for titles of minutes. We settled on "Project 6". I would be grateful if all recipients would note this and use it.

P JEFFERSON SMITH

Internal distribution:	CPS	Mr G Taylor
	Mr Knox	Mr Allen
	Mr Nissen	Mr Chilver

309/1/88

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

I am content to omit cover note. But I am not sure that lists are correct. Re list B, the addition is that the pledge relates to electricity, & not gas & other fuels. Re list C, why have spectacles been omitted? N.

phoned through

FROM: B H KNOX
DATE: 26 January 1988

ECONOMIC SECRETARY

cc. Chancellor
Chief Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr Byatt
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Michie
Mr Cropper
Miss Evans
Mrs Burnham

Ch/ list revised with EST's proposed 2 extra sections. Persuaded by Customs reservations about your redraft of cover note?
MPW 27/1

TCSC: LIST OF ZERO RATES COVERED BY NEITHER GOVERNMENT PLEDGES NOR INFRACTION PROCEEDINGS

1. You suggested that the list might look somewhat less bare if it were accompanied by separate lists of the zero rates covered by Government pledges and subject to infraction proceedings.

2. I attach the relevant lists. I am also enclosing a further copy of the original list, revised as the Chancellor has suggested.

Internal circulation:	CPS	Mr Cockerell
	Mr Jefferson Smith	Mr Allen
	Mr Finlinson	Mr G Taylor
		Mr Oxenford

3. We have a number of reservations about the draft text for inclusion in the covering note to the TCSC clerk attached to Mr Allan's note of 25 January. First, the list for which we were asked did not relate to "any cases currently before the European Court" (lines 4/5 of the draft text) but specifically to the infraction case about UK zero ratings. The latter is a tighter definition and the one to which we have worked in compiling the list.

4. Our other main concern is with the final sentence of the draft text. We wonder whether in answering the Committee in this very full way we may not, in fact, encourage further questions about future European Court cases or borderline VAT liability changes. In any case, minor changes as a result of either of these events could potentially occur in any zero rate group. More fundamentally, we feel that in going this far to protect ourselves from criticism in the event of future minor liability adjustments we may be constructing an edifice that would enhance criticism if major liability changes took place. Our preference, therefore, would be just to provide the three lists without further comment. I attach a draft note to the TCSC clerk on this basis.

Bryce Knox

B H KNOX

In his evidence before the Committee on 13 January, the Economic Secretary undertook to let the Committee have a list of those items which are currently zero rated, which are not covered by the infraction proceedings on UK zero ratings currently before the European Court and which have not been covered by specific pledges by Ministers that zero-rating will not be removed (Questions 92-94). For convenience I am also enclosing separate lists of (a) zero rated items covered by the infraction proceedings and (b) items covered by Ministerial pledges not to remove zero rating.

A

ZERO-RATED ITEMS COVERED BY NEITHER ELECTION PLEDGES NOR EC INFRACTION PROCEEDINGS

Value Added Tax Act 1983
Schedule 5 (zero rating)

GROUP NO:		DESCRIPTION*
part of	2	Sewerage services and water <u>other</u> than supplies to industry
	3	Books, newspapers, etc.
	4	Talking books for the blind and handicapped and wireless sets for the blind.
part of	8	Construction of buildings etc supplied to final consumers 'within a social policy'
	8A	Protected buildings
	9	International services
	10	Transport
	11	Caravans and houseboats
	12	Gold

	13	Bank notes
	14	Drugs, medicines, aids for the handicapped, etc.
	15	Imports, exports etc
	16	Charities, etc
part of	17	Protective clothing and footwear <u>other</u> than that supplied to employers

*A more detailed description may be found in the relevant Groups of Schedule 5 to the Value Added Tax Act 1983.

B

ZERO RATED ITEMS COVERED BY GOVERNMENT PLEDGES

- Food

- Young children's clothing and footwear

- Electricity, gas and fuel

(OR 7.7.87 Col. 192)

ZERO-RATE

ITEMS SUBJECT TO ZERO-RATE INFRACTION PROCEEDINGS

* animal feedstuffs, seeds, live animals yielding food for consumption - (all supplies)

* sewerage services and water - (supplies to industry)

* news services - (all supplies)

* fuel and power - (supplies other than to final consumers)

* construction, buildings etc - (supplies other than to final consumers "within a social policy")

* protective clothing and footwear - (supplies to employers).

CHANCELLOR OF THE EXCHEQUER
HONI SOIT QUI MAL Y PENSE

Treasury Chambers, Parliament Street, SW1P 3AG
01-930 1234

Ch/

Three issues here — 2 of content, 1 of format.

1) You queried pledge on fuel. Customs point out that PM did say this, in the House (flag A behind). It was left out of the OD(E) list on the logic that some fuels already subject to VAT (eg hydrocarbons) so did not make sense as pledge. But Customs point out that PM's words could be taken as pledge to defend existing zero-rated fuels — eg coal and peat.

Fuel left in on latest draft. Shall we drop or not? OK — KHP [initials]

Treasury Chambers, Parliament Street, SW1P 3AG
01-930 1234

2) Spectacles – Customs point out that this infraction case is about exemption and not zero-rate. They will amend title to clarify. Right –

3) Format — you have reserved judgement on EST's proposed 2 extra columns. Are you content?

OK –

MPW
29/1

Inland Revenue

Policy Division
Somerset House

Many thanks, 2. What do the Americans mean by 'short-term' & 'long-term'? Also what is the base date for CGT in the US? N.

Copy No 1 of 15.

FROM: M F CAYLEY
DATE: 29 January 1988

1. MR ISAAC ver u

2. CHANCELLOR

US PRESIDENT'S PROPOSALS ON GAINS

1. You may like to be aware that, according to recent US press reports, President Reagan is likely to be asking Congress to reduce the US tax burden on capital gains. It is not clear what figure he may have in mind.

2. Part of the recent US tax reform was to tax long-term gains at the same effective rates as short-term gains and as income.

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cc. Financial Secretary
Sir P Middleton
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Houghton
Mr Pitts
Mr Cayley
Mr Michael
PS/IR

3. The reports suggest that the President will argue that CGT reductions <u>increase</u> revenue because they lead to more disposals. The indications are that many US experts would question this - especially in the present climate, and that the suggestion of a cut in the tax on gains is likely to run into stiff opposition in Congress, both on grounds of principle ("wrong to give gains preferential treatment over income") and because of worries that it would increase the Federal deficit.

4. Any cut in US tax would almost certainly not extend to short-term gains, which were taxed at the same rates as income even before the recent reform.

5. Even if the US rate on long-term gains is reduced, the effective CGT burden in the UK is still likely to be lower than in the USA for the vast ~~majorities~~ majority of individuals and trusts because the Americans have no equivalent of either our high annual exemption or indexation: and rebasing will of course reduce the UK burden further.

6. If there is serious debate in the USA on presidential proposals for a CGT cut, this is almost certain to be referred to in discussions of the Task Force CGT package - and in particular of the proposal to bring gains within the higher rate. We shall endeavour to monitor American developments.

Michael Cayley

M F CAYLEY

mif PRIAA

Y 2913
502/3

then GCE
5170

'88-01-29 10:29 C&E PARLY UNIT NKBH

PS/Economic Secretary

A draft of the TCSC list in 4 column format follows. Could you please copy it to PS/Chancellor, PS/Paymaster General, Sir Peter Middleton, Mr Culpin and Mr Michie.

Richard Allen

29/1/88

VAT ZERO RATE SCHEDULE

A GROUP NUMBER	B DESCRIPTION*	C *ITEMS SUBJECT TO GOVERNMENT PLEDGES	D ITEMS SUBJECT TO INFRACTION PROCEEDINGS	E ITEMS NOT COVERED IN COLUMNS C AND D
1	Food	Food	animal feedstuffs,seeds live animals yielding food for consumption (all supplies	-
2	Sewerage services and water	-	Sewerage services and water supplied to industry	Sewerage services and water other than supplies to industry
3	Books,newspapers, etc	-	-	Books, newspapers,etc
4	Talking books for the blind and handicapped	-	-	Talking books for the blind and handicapped and wireless sets for the blind
6	News services	-	News services (all supplies	-
7	Fuel and power	Electricity, gas and fuel	fuel and power (supplies other than to final consumers)	-
8	Construction of buildings, etc	-	Construction of buildings etc (supplies other than to final consumers "within a social policy")	Construction of buildings etc supplied to final consumers "within a social policy"
8A	Protected buildings	-	-	Protected buildings
9	International services	-	-	International services

* A more detailed description may be found in the relevant Groups of Schedule 5 to the Value Added Tax Act 1983

VAT ZERO RATE SCH DULE

A GROUP NUMBER	B DESCRIPTION*	C ITEMS SUBJECT TO GOVERNMENT PLEDGES	D ITEMS SUBJECT TO INFRACTION PROCEEDINGS	E ITEMS NOT COVERED IN COLUMNS C & D
10	Transport	-	-	Transport
11	Caravans and houseboats	-	-	Caravans and houseboats
12	Gold	-	-	Gold
13	Bank notes	-	-	Bank notes
14	Drugs,medicines aids for the handicapped, etc	-	-	Drugs, medicines, aids for the handicapped, etc
15	Imports, exports etc	-	-	Imports, exports etc
16	Charities, etc	-	-	Charities etc
17	Clothing and footwear	Young children's clothing and footwear	Protective clothing and footwear (supplies to employers)	Protective clothing and footwear other than that supplied to employers

* A more detailed description may be found in the relevant Groups of Schedule 5 to the Value Added Tax Act 1983

VAT ZERO RATE SCHEDULE

A GROUP NUMBER	B DESCRIPTION*	C ITEMS SUBJECT TO GOVERNMENT PLEDGES	D ITEMS SUBJECT TO INFRACTION PROCEEDINGS	E ITEMS NOT COVERED IN COLUMNS C & D
10	Transport	-	-	Transport
11	Caravans and houseboats	-	-	Caravans and houseboats
12	Gold	-	-	Gold
13	Bank notes	-	-	Bank notes
14	Drugs, medicines, aids for the handicapped, etc	-	-	Drugs, medicines, aids for the handicapped, etc
15	Imports, exports etc	-	-	Imports, exports etc
16	Charities, etc	-	-	Charities etc
17	Clothing and footwear	Young children's clothing and footwear	Protective clothing and footwear (supplies to employers)	Protective clothing and footwear other than that supplied to employers

* A more detailed description may be found in the relevant Groups of Schedule 5 to the Value Added Tax Act 1983

Inland Revenue

Policy Division
Somerset House

This is a v. important presentational point when comparing the UK & US ~~systems~~ regimes, esp pre-Budget.

Copy No of

FROM: M F CAYLEY
DATE: 1 February 1988

PS/CHANCELLOR

US PRESIDENT'S PROPOSALS ON GAINS

1. Your note of 1 February following mine of 29 January asks two questions -

(i) What counted as short-term gains in the USA, and hence were taxed at the same rates as income even before the recent American tax reform? The answer is, broadly, assets held less than a year (and the short-term gains regime was widely circumvented by holding onto assets for slightly over a year) - but there were three recent years in which the period was six months;

(ii) What is the US base date for capital gains taxation? There is no formal base date in the US legislation, but the Americans have been taxing gains since 1913 and have never rebased. So gains accrued over up to 75 years are taxable.

Michael Cayley

M F CAYLEY

---

cc.	PS/Financial Secretary	Mr Battishill
	Sir P Middleton	Mr Isaac
	Mr Culpin	Mr Painter
	Miss Sinclair	Mr Pitts
	Mr Cropper	Mr Beighton
		Mr Houghton
		Mr Cayley
		Mr Michael
		PS/IR

SECRET

53/2

C — You were asking about this yesterday
Rc 4/3

FROM: MS A M MUNRO
DATE: 2 FEBRUARY 1988

MR CULPIN

cc Mr Riley
Mr Sparkes

UNLEADED PETROL

You asked for advice on the estimates of the 1991-92 market share of unleaded petrol.

This all makes 1.9% what show on existing differential look v low.

2. From October 1990, all new cars must be tuned to run on unleaded petrol. Since new registrations account for about 10% of the stock of private cars each year, this means that by 1991-92 at least 10% of cars will be able to run on unleaded petrol with no additional expense by the car owner. In practice the figure is likely to be more than 10% if announcement of a larger duty differential encourages manufacturers to start producing cars to run on unleaded petrol before October 1990.

3. For this sector of the market, it is probably safe to assume that they will purchase unleaded petrol, provided that

- unleaded petrol is widely available

- they perceive that unleaded petrol is cheaper. The fact that unleaded fuel is 2% less efficient means that the effective price differential will only be 1½p rather than 5p a gallon.

4. Mr Sparks' minute says that two thirds of the existing car fleet can be retuned to run on unleaded petrol. By 1991-92 we would expect less than a quarter of the stock to be unadaptable to unleaded fuel.

5. The main area of doubt in estimating the market share of unleaded petrol therefore arises for the remaining sector - up to two-thirds of the market - who will have to pay about £15 to adapt their cars. With an effective price differential of 1½p per gallon, they would have to travel about 30,000 miles to justify the £15 expense. This is about 3-4 years worth of average mileage.

6. To get to a figure of 25% for the total market share of unleaded petrol, about a quarter of these people would have to make the £15 investment. Subject again to the provisos in paragraph 3 above, this does not seem an unreasonable assumption.

7. I must say that I was rather surprised that the cost of conversion was as low as £15, but Customs tell me that this is the sort of figure currently being charged by garages. Obviously if garages charge much more than £15 the proportion who will find it worthwhile to make the adjustment could be considerably reduced.

8. To sum up, as long as we are fairly optimistic about the availability of unleaded petrol - which in turn will depend on suppliers assessment of the likely demand - and people's perceptions of the effective price differential, it seems likely that at least 10-15% of the market will go to unleaded petrol by 1991-92. My guess would be that people would see the price differential as at least 1½p, rather than less. It is not unreasonable to assume that the market share could be increased by a further 10-15% by people adapting their cars, as long as the cost is only £15. So on this basis the 25% figure looks plausible.

Alison Munro

ALISON MUNRO

Inland Revenue

Policy Division
Somerset House

FROM: J H REED
DATE: 4 FEBRUARY 1988

1. MR McGIVERN
2. FINANCIAL SECRETARY

See note at end. 4/2.

COPY NO. 2 OF 20.

INCENTIVES FOR INCORPORATION: BUSINESS

This note looks at the effect of the various changes Ministers are considering on the choice by an individual whether to run a business directly or through a company. It also looks at a number of related questions, in particular

a. the choice between <u>retaining profits</u> within a company or <u>paying out profits</u> as remuneration or dividends;

b. the choice between remuneration or dividends as a means of extracting cash from a company.

2. Because of the inevitable complexity of the analysis, the results are presented in the form of stylised numerical examples in Annexes 1-4 below. On the basis of these examples Annex 5 sets out the tax and NIC gains or losses arising from incorporation. Annex 6 summarises the gains or losses arising from a company paying dividends instead of remuneration. While the results are interesting we do not think that there is anything in them which should cause Ministers to reconsider your provisional decisions on the shape of the main Budget package.

3. We shall soon be sending you a separate note looking at the effect of the changes on the choice whether to hold <u>investments</u> directly or through a company. In particular, it

cc	Chancellor	Mr Isaac
	Economic Secretary	Mr Painter
	Mr Monck	Mr Beighton
	Mr Scholar	Mr McGivern
	Mr Culpin	Mr Lewis
	Miss Sinclair	Mr Mace
	Mr Riley	Mr Weeden
	Mr Cropper	Mr Reed
	Mr Tyrie	PS/IR
	Mr Call	

NB will consider the possibility of abolishing the close company apportionment legislation. But the potential tax loss is large and the measures that could be taken to reduce this are not straightforward. So we shall not be recommending making any changes in the coming Finance Bill.

Factors affecting choices and assumptions made

4. In analysing the decision whether or not to incorporate we make a number of simplifying assumptions. We assume that the business or company is effectively owned and run by one person. We also ignore non-tax factors affecting the choice, for example, differences in legal or accountancy fees from setting up or running the business directly or through a company.

5. We assume the choice whether or not to incorporate depends on the total tax and NIC liability of the individual (plus, where the business is incorporated, the tax and NIC liability of the company) at a given level of profit before remuneration. This total liability has three components:

i. Income tax. Tax liability depends on the tax status of the individual and tax rates to which he is subject. We assume that he is entitled to the married man's allowance (at this year's level) and has no other income.

ii. NICs. Liability depends on whether the individual is self employed and whether, if a company director, the profits are taken out as remuneration. Liability also depends on whether the individual is contracted in or out of SERPS. If the individual is "employed" both employee and employer NICs will be payable.

iii. Corporation tax. Tax liability depends on the level of profits, assumed throughout to lie below the small companies limit, and on whether profits are distributed or not, and in what form.

6. An important assumption is whether or not the individual saves for retirement. We examine the effects of two polar assumptions: no saving for retirement (Annexes 1 and 3), and "maximum" saving for retirement (Annexes 2 and 4). The "maximum" is defined by the retirement annuity/personal pension limits on contributions (normal pension contributions could be higher).

7. A further assumption in all the examples is that some remuneration will be paid. The reason for this is that the incorporated businessman may well feel that it is worth paying himself sufficient remuneration to obtain entitlement to the basic NI benefits. At current NIC rates, he would have to draw remuneration of at least £39 a week (£2,030 a year) and this is what is assumed in the relevant examples. If he chose to take no remuneration this would not make much difference to the figures in Annex 1. Assuming that the dividends were increased accordingly, the net effect would be to reduce the total tax and NIC liability by between £145 and £175.

8. Inevitably, the assumptions are somewhat arbitrary and different assumptions would produce different results. Furthermore, the amount remaining after tax and NICs is all in the hands of the owner in some examples but split between him and the company in others. And there are various complications (like CGT), which are described in Annex 7. Nevertheless the examples give a useful indication of the overall effect of the various different tax and NIC results.

The incentive to incorporate under the present tax system

9. If the effect of NICs could be ignored, ie if the comparison were simply between self employment (subject only to IT) and incorporation (subject to CT and/or IT) then the decision whether or not to incorporate would depend only on relative tax rates. As the small companies rate of CT has been set at the same level of the basic rate of IT since FA 1984, there would be no incentive one way or the other, with one exception. The exception would be the higher rate self employed who would have an incentive to incorporate. This

factor perhaps helps to explain why only about 10 per cent of the self employed pay higher rate tax. Many of this group (such as accountants, solicitors or doctors) will be unable to incorporate anyway, so it is likely that most of those who could incorporate will already have done so.

10. Annex 1 indicates the effect of adding NICs to the comparison. In the case of incorporation where all the profits are taken out as remuneration (section 1 of table) versus self employment (section 5), there is a strong incentive not to incorporate because NIC liability is very much higher for the employee than the self employed - primarily because of employer NICs.

11. This incentive is, however, fully offset if the company director extracts profits as a dividend (plus minimum remuneration) alone. The tax and NIC liability is calculated in section 2 of Annex 1. In this case, paying a dividend reduces NIC liability for the company director below that for the self employed man.

12. However, it seems that businessmen have been slow to react to the 1984 business tax reforms (which cut the main rate of CT and abolished investment income surcharge and so increased the attractiveness of dividends) and it may be that they would be equally slow to react to this year's changes. Part of the explanation may lie in the fact that it is possible to achieve an equivalent NIC advantage by paying benefits in kind. For example, at the extreme we have seen a case where a bonus of over £200,000 has been paid in the form of gilt-edged stock, saving NIC of over £40,000. Nevertheless, in the long run it seems likely that an increasing number of small companies will pay out some of their profits as dividends (we estimate that in 1986 out of about 900,000 companies only 25,000 paid dividends, excluding dividends paid within a group of companies). This would be more complicated where a company was not owned and run by one person, or one family. But it would be possible to reward employees by preference shares, and as a refinement the

dividend would be related to the performance of the company (so replicating a bonus or profit-sharing scheme). No doubt if the tax/NIC saving is large enough this will happen.

13. Finally Annex 1 (sections 3 and 4) looks at the position where half the profits are retained, and half paid out (either as remuneration or dividend). Retention of profit tends to reduce total liability, because this avoids the payment of higher rate tax. In the remuneration case, it also avoids the payments of NICs.

The effect of the main package on the incentive to incorporate

14. For the purpose of this note the main changes are assumed to comprise the following

- a rate of 25% on the first £20,000 of income and 40% thereafter

- small companies rate at 25% and an ACT rate of 25/75ths

- everything else remains the same.

15. Annex 3 is on the same basis as Annex 1, except for the tax and NIC changes. Although the combined tax/NIC liability is lower in every case, the overall pattern is fairly similar. The main change is that dividends have become a bit more attractive in comparison with remuneration, particularly at higher profit levels. The self-employed have also gained in comparison with the company paying out its profits as remuneration, particularly at higher profit levels. The reason for these relative changes is of course that in the remuneration case the employer NIC liability on remuneration reduces the taxable income of the businessman and so produces a smaller benefit from the income tax cuts. As with the present system, whether or not some profits are retained there is an incentive to incorporate and make any pay out in the form of dividends.

The effect of retirement saving

16. So far we have assumed no retirement saving by the individual, except to the extent that he pays "minimum" remuneration to obtain entitlement to the basic NI retirement pension and other benefits, or contributes to SERPS by paying out profits as remuneration in excess of the minimum level (it should be borne in mind when looking at annexes 1 to 4 that the different NIC liabilities are to some extent compensated for by increased NI entitlements).

17. The effect of (private) retirement saving is to reduce total tax and NIC liability in all cases. Under the "maximum" assumptions, where the owner of the business saves up to retirement annuity limits, the tax reduction can be substantial (there is also a continuing tax advantage in that there is no tax liability while income and capital gains arise in the pension fund and when they are paid out any lump sum is free of tax). However in practice most do not fully exploit the limits, so the "maximum" assumptions might be regarded as an extreme case. Because of the possibility of "loanbacks" the individual may of course have access to at least part of the funds saved if he wishes to expand the business.

18. Annex 2 is similar to Annex 1 except that it uses contracted out NIC rates and assumes for the self-employed businessman the maximum permitted contribution to a retirement annuity and for the company a broadly equivalent pension contribution. The amount of these contributions is therefore directly related to the amount of the profits of the self-employed businessman and the amount of remuneration paid by the company. (In the case where a company retains profits the amount retained is assumed to be reduced by the amount of the pension/retirement annuity contribution.) This change of assumption significantly reduces the variation in the total amounts of tax and NICs payable.

19. The main effect of retirement savings, comparing Annex 1 with Annex 2, is that self-employment becomes more attractive than incorporation unless income is high and profits are

retained. This results from the assumption that a self-employed person can pay higher pension contributions than a company director receiving most of his income from dividends. In most cases this changes the balance of advantage away from incorporation and payment of dividends towards self employment. However at high income levels this advantage can be outweighed for those wishing to retain profits by the ability of a company to retain money and pay only flat rate CT compared with having to pay higher rate taxes if the individual were self employed.

20. I now compare the existing regime and the main package where pension contributions are made (Annex 2 and Annex 4). Here too the combined tax/NIC liability is lower under the main package in every case. The payment of dividends has become more attractive relative to the payment of remuneration but where the profits are high and are all paid out the difference is negligible. Self-employment remains more attractive than incorporation unless income is high and half the profits are retained. And it is now more closely in line with the cases (sections 3 and 4) where the company retains half its profits.

21. Annex 5 presents a summary of the gains and losses from incorporation on the basis of the variables looked at in Annexes 1 to 4. It compares the tax and NIC liability of the self-employed with that of the incorporated business (assuming that the pay-out from the company is in whichever of remuneration or dividends produces the lowest liability).

22. Annex 6 provides a summary of the gain or loss for a company from paying dividends instead of remuneration. In most cases dividends are preferable to remuneration. The only exception is when income and pension contributions are high and there is low retention of profits. In this case the larger pension contributions paid under the remuneration option outweighs the disadvantages of the extra NIC payments.

Conclusion

23. Overall the package tends to reduce tax distortions affecting the choice whether or not to incorporate a business. But some remain. If businessmen do not wish to make large pension contributions they should incorporate. This is so even though the higher marginal income tax rates would have been removed. In this case profits should be retained in the business rather than paid out, but if paid out they should take the form of dividends. If they do wish to make large pension contributions,self-employment is attractive unless they have high profits and wish to retain a substantial proportion of them in the company. In this case incorporation, with any pay-out taking the form of dividends, is more favourable.

24. Under the new regime, self-employment will be a more attractive way of extracting profits than taking remuneration from a company. It will be more attractive than taking dividends if substantial provision is made for retirement but slightly less attractive if it is not. At higher profit levels, if the businessman wants to save some of the profits or reinvest then he would do better to incorporate and pay dividends to extract the profits he wants to spend, even if he makes substantial savings for retirement.

25. The 1984 CT reform was followed by a subsequent reform in 1985 permitting the self employed NICs to be partly offset against IT. At present it is planned to review with DHSS the structure of self employed NICs following the Budget. However in this paper no account has been taken of any NIC reforms which would need to be considered in a further note.

Financial Secretary.

I agree with the conclusions which Mr Reed draws from this helpful analysis. There are a number of variables here but there seems nothing which would cause Ministers to rethink the emerging budget package. [illegible] 4/3.

[signature]

J H REED

PRESENT TAX SYSTEM: NO PENSION CONTRIBUTIONS

INCORPORATED

	Profits before remuneration (£)		
	15,000	30,000	50,000
1. All paid as remuneration			
CT	–	–	–
Income Tax	2640	7170	16545
NIC	2640	4220	6110
	5280	11390	22655
2. All paid as dividend or minimum remuneration**			
CT	3475	7525	12925
Income tax*	(480)	910	6395
NIC	205	205	205
	3200	8640	19525
3. Half retained, half paid as remuneration			
CT	2025	4050	6750
Income tax	835	2640	5210
NIC	1240	2640	3745
	4100	9330	15705
4. Half retained, half paid as dividend or minimum remuneration**			
CT	3475	7525	12925
Income tax*	(480)	(480)	(25)
NIC	205	205	205
	3200	7250	13105

5. UNINCORPORATED

	Profits (£)		
Income tax	2935	8315	19180
NIC - Class 2	200	200	200
- Class 4***	655	675	675
	3790	9190	20055

* There is a repayment of the tax credit on the dividend to the extent that this is covered by the MMA.

** "Minimum remuneration" is £2,030, the lowest amount on which Class 1 NICs are payable (see paragraph 11)

*** Half of the Class 4 contributions are deductible from income for the purposes of income tax.

PRESENT TAX SYSTEM: PENSION CONTRIBUTIONS

INCORPORATED

	Profits before remuneration (£)		
	15,000	30,000	50,000
1. All paid as remuneration			
CT	-	-	-
Income Tax	2170	5505	12840
NIC	1690	2990	4580
	3860	8495	17420
2. All paid as dividend or minimum remuneration**			
CT	3365	7415	12815
Income tax*	(480)	815	6260
NIC	205	205	205
	3090	8435	19280
3. Half retained, half paid as remuneration			
CT	1650	3305	5435
Income tax	885	2760	5765
NIC	955	1980	3060
	3490	8045	14260
4. Half retained, half paid as dividend or minimum remuneration**			
CT	3365	7415	12815
Income tax*	(480)	(480)	(25)
NIC	205	205	205
	3090	7140	12990

5. UNINCORPORATED

	Profits (£)		
Income tax	2280	6000	14220
NIC - Class 2	200	200	200
- Class 4***	500	675	675
	2980	6875	15095

Footnotes - see Annex 1

MAIN PACKAGE: NO PENSION CONTRIBUTIONS

INCORPORATED

	Profits before remuneration (£)		
	15,000	30,000	50,000
1. All paid as remuneration			
CT	-	-	-
Income Tax	2445	6345	13590
NIC	2640	4220	6110
	5085	10565	19700
2. All paid as dividend or minimum remuneration**			
CT	3220	6970	11970
Income tax*	(440)	475	3475
NIC	205	205	205
	2980	7645	15645
3. Half retained, half paid as remuneration			
CT	1875	3750	6250
Income tax	770	2445	4710
NIC	1240	2640	3745
	3885	8835	14705
4. Half retained, half paid as dividend or minimum remuneration**			
CT	3220	6970	11970
Income tax*	(440)	(440)	(275)
NIC	205	205	205
	2980	6730	11895

UNINCORPORATED

	Profits (£)		
Income tax	2720	7345	15345
NIC - Class 2	200	200	200
- Class 4***	655	675	675
	3575	8225	16225

Footnotes - see Annex 1

MAIN PACKAGE: PENSION CONTRIBUTIONS

INCORPORATED

	Profits before remuneration (£)		
	15,000	30,000	50,000
1. All paid as remuneration			
CT	-	-	-
Income Tax	2010	4895	10910
NIC	1690	2990	4580
	3700	7885	15490
2. All paid as dividend or minimum remuneration**			
CT	3115	6865	11865
Income tax*	(440)	410	3410
NIC	205	205	205
	2875	7480	15480
3. Half retained, half paid as remuneration			
CT	1530	3060	5035
Income tax	820	2560	5090
NIC	960	1980	3060
	3305	7595	13185
4. Half retained, half paid as dividend or minimum remuneration**			
CT	3115	6865	11865
Income tax*	(440)	(440)	(275)
NIC	205	205	205
	2875	6625	11790

5. UNINCORPORATED

	Profits (£)		
Income tax	2115	5310	11910
NIC - Class 2	200	200	200
- Class 4***	500	675	675
	2810	6185	12785

Footnotes - see Annex 1

ANNEX 5

GAINS FROM INCORPORATION (1)

£ per annum (as a % of profit after tax and NIC)

	£15,000	£30,000	£50,000
Present system			
No retentions			
No pension contributions	590 (5.3)	550 (2.7)	530 (1.8)
Max pension contributions	-110 (-0.9)	-1560 (-6.7)	-2325 (-6.7)
Retention of half of profits			
No pension contributions	590 (5.3)	1940 (9.3)	6950 (23.2)
Max pension contributions	-110 (-0.9)	-265 (-1.1)	2105 (6.0)
Main package			
No retentions			
No pension contributions	595 (5.2)	580 (2.7)	580 (1.7)
Max pension contributions	-65 (-0.5)	-1295 (-5.4)	-2695 (-7.2)
Retention of half of profits			
No pension contributions	595 (5.2)	1495 (6.9)	4330 (12.8)
Max pension contributions	-65 (-0.5)	-440 (-1.9)	995 (2.7)

(1) Assuming that the company pays out profits either as remuneration or dividends depending upon which produces the lowest overall tax and NIC liability.

ANNEX 6

GAINS FOR COMPANY FROM PAYING DIVIDENDS RATHER THAN REMUNERATION

£ per annum (as a % of profit after tax and NIC)

	£15,000	£30,000	£50,000
Present system			
No retentions			
No pension contributions	2085 (21.4)	2750 (14.8)	3130 (11.4)
Max pension contributions	770 (6.9)	65 (0.3)	-1855 (-5.7)
Retention of half of profits			
No pension contributions	895 (8.2)	2085 (10.1)	2600 (7.6)
Max pension contributions	400 (3.5)	905 (4.1)	1265 (3.5)
Main package			
No retentions			
No pension contributions	2110 (21.3)	2920 (15.0)	4055 (13.4)
Max pension contributions	825 (7.3)	405 (1.8)	5 (0)
Retention of half of profits			
No pension contributions	905 (8.2)	2110 (10.0)	2810 (8.0)
Max pension contributions	430 (3.7)	970 (4.3)	1390 (3.8)

ANNEX 7

Supplementary points relevant to Annexes 1 to 5

1. Inevitably, the full picture is less clear than the one shown by Annexes 1 to 5. Looking first at tax, retaining profits will increase the potential CGT liability on a sale of the shares, although this is unlikely to be an important consideration in the minds of most businessmen.

2. There is also the question of what use can be made of the retained profits. If these are merely invested, the excess of the investment income over any dividends could be apportioned to the shareholder and taxed as his income. But apportionment does not apply if the income is required for the purposes of the company's business (eg, saving for a future investment). In practice, either because of this exclusion or because the company pays sufficient dividends to cover the investment income, apportionment does not usually apply to trading companies. Of course, the businessman may eventually wish to take the money out of the company - if so, an income tax liability will then arise.

3. There are various other tax differences but these are unlikely to be significant in choosing between the various options, although the different treatments of benefits in kind for a company and an unincorporated business may have some relevance.

PARLIAMENTARY UNDER SECRETARY OF STATE

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: B/M/PSO/30672/88
Your ref:

29 February 1988

Dear Peter,

UNLEADED PETROL

You are familiar with my view that it is crucial to increase the duty differential in favour of unleaded petrol in the next Budget.

/ You may nevertheless be interested to see the attached exchange of letters with John Patten enclosing Oxford City Council's representations to the same effect. It illustrates the interest and enthusiasm we have been generating among relevant organisations - yet with all this we still have a market penetration of around 0.05%! The duty differential really is the key - only by combining an increased differential with our educational efforts will we begin to see meaningful progress towards our declared policy objectives.

Yours ever,

Colin

COLIN MOYNIHAN

ECONOMIC SECRETARY	
REC'D	07 MAR 1988
ACTION	Mr McGuigan
COPIES TO	PS/Chancellor
	CST, FST, PMG
	Mr Scholar
	Miss Sinclair

Mr Michie
Mr Cropper
PS/C+E

Peter Lilley Esq MP

PARLIAMENTARY UNDER SECRETARY OF STATE

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: B/M/PSO/30672/88
Your ref:

29th February 1988

Dear John,

Thank you for your letter of 21 January to John Belstead enclosing this one from Mr A Fenn, City Environmental Health Officer, Oxford City Council.

I am absolutely delighted to learn of the initiatives the City Council is considering taking to promote the use of unleaded petrol. The circulation of information about unleaded petrol would be invaluable, and in converting its own vehicles to run on unleaded petrol the City Council would be setting a fine example. As you may know, the CLEAR campaign has my full support. I intend to take some part personally in the Oxford 'Lead-Free Petrol Week'.

I note the Council's views that there should be an increase in the duty differential in favour of unleaded petrol. As you may know, the Chancellor of the Exchequer has undertaken to reconsider the size of the differential before the Budget, and a number of organisations have made representations to him on this issue. I am sending a copy of this correspondence to Peter Lilley at the Treasury for his information.

Yours ever,

Colin

COLIN MOYNIHAN

John Patten Esq MP

100%

advice pl
Mr Sanders
for PS/CH

PS/Mr Moynihan

HOUSE OF COMMONS
LONDON SW1A 0AA

21st January, 1988

Dear John,

I shall be grateful if you will give the enclosed communication from A. Fenn, Esq., your attention and send me a reply which I can forward to my constituent.

Please acknowledge.

With best wishes,

JOHN PATTEN

Ack. sent
26/1.

The Rt. Hon. Lord Belstead,
Minister for the Environment Countryside
& Water,
D.O.E.

HC 91B

OXFORD CITY COUNCIL

Environmental Health Department

City Environmental Health Officer
Anthony Fenn

The Old Rectory,
Paradise Square,
OXFORD OX1 1QH.
Telephone (0865) 249811

My ref	Your ref	Please ask for	Telephone ext
RPA/JAT/39L		Mr. Atherton	2551

15th January, 1988.

Dear John,

A 'Lead Free Petrol Week' in Oxford

The City Council, in conjunction with CLEAR (Campaign for Lead Free Air) is intending to promote a 'Lead Free Petrol Week' in Oxford sometime during the Spring/early Summer of this year.

I enclose a copy of the report that was considered by the City Council's Pollution Control Sub-Committee. One of the suggestions within the report was to lobby the Government to encourage the unleaded petrol market by making an improvement in the duty differential between leaded and unleaded petrol in this year's Budget.

The Sub-Committee asked me to write to you to promote this suggestion and if Press statements regarding the formulation of the Budget are correct, it would seem that this is the appropriate time to be lobbying the Government.

I should be grateful if you could promote this suggestion on behalf of the City Council.

Yours sincerely,

Tony Fenn

City Environmental Health Officer

John Patten, Esq., MP,
House of Commons,
LONDON, SW1A OAA.

OXFORD A NUCLEAR FREE ZONE

CLASSIFICATION	WARD(S) AFFECTED
Policy	Citywide

OXFORD CITY COUNCIL

HEALTH AND ENVIRONMENTAL CONTROL COMMITTEE - 8TH DECEMBER, 1987.
HEALTH AND ENVIRONMENTAL CONTROL (POLLUTION CONTROL) SUB-COMMITTEE - 16TH DECEMBER, 1987.

REPORT BY THE CITY ENVIRONMENTAL HEALTH OFFICER

A 'LEAD FREE PETROL WEEK' IN OXFORD

Introduction

1. CLEAR (Campaign for Lead Free Air) is to spearhead a three-year programme of local 'Lead-Free Petrol Weeks' as its contribution to the achievement of its environmental objective - the elimination of lead from petrol. A copy of CLEAR's current tabloid newspaper explaining the programme will be available at the meeting.

Purpose

2. The aim of the exercise is to persuade all motorists whose cars will run on unleaded petrol, or can be modified to run on it, to use it in order that environmental lead levels can be reduced as quickly as possible.

3. The Lead-Free Petrol Weeks will involve local publicity activity by environmental and other voluntary organisations, a series of motoring 'Any Questions' evenings, local media publicity of the availability of unleaded petrol, and a special emphasis on publicity about the cars that can already use the product.

The situation in Oxford

4. Currently there is only 1 petrol station within the City selling lead-free petrol and that is Esso at Oxpens Service Station, although Mobil are currently rebuilding their roundabout service station on the A40 and when it re-opens in January 1988 it will stock lead-free petrol.

5. I have written to 8 of the major petrol retailers seeking their company's policy with regard to the supply of lead-free petrol and whether they have any proposals for providing outlets for lead-free petrol within the Oxford area. Replies from 5 companies are attached to this report.

6. BP have plans to make a site in Oxford capable of selling unleaded petrol next year. Conoco (Jet) currently do not sell any unleaded petrol in the United Kingdom but say they can supply within a matter of a few weeks of the market developing. Kuwait Petroleum (Ultramar) intend to start supplying lead-free petrol from 1st July, 1988, but, as yet, cannot provide addresses of the outlets in the Oxford area. Burmah currently does not supply but they have stated that when the market or legislation so dictates they will 'quickly' introduce lead-free petrol into their network.

Discussion

7. Clearly the supply of lead-free petrol can be seen as a classic 'chicken and egg' situation. Currently it is believed that 10-15% of cars on the road will run on unleaded petrol now, and substantially more cars will run on it with only minor modification. General availability of lead-free petrol is not actually required by law until 1989. Yet availability is the crucial issue. Nationally only 2.5% of retail outlets supply lead-free. Motorists will only convert and use lead-free petrol when they know the product will be available when they need to buy it.

8. CLEAR believe Local Authorities have a key role to play in the success of promoting 'Lead Free Petrol Weeks', both in their endorsement of the project and their willingness to facilitate the spread of information within their own areas.

9. Locally, we could:-

   (i) Circulate information via Council departments, libraries, the Information Centre, Community Centres, etc.

   (ii) Publish information in the Healthy Oxford 2000 Tabloid.

   (iii) Convert the City Council's fleet of petrol vehicles to run on unleaded petrol.

   (iv) Lobby the petrol retailing industry to supply lead-free petrol in Oxford.

Nationally, we could lobby the Government (via our MPs) to encourage the unleaded market by making an improvement in the duty differential in next year's budget.

Recommendations

10. The Health and Environmental Control Committee are requested to:-

   (i) State whether they support, in principle, a 'Lead-Free Petrol Week' in Oxford, and if they do, request:-

   The Health and Environmental Control (Pollution Control) Sub-Committee to:-

   (ii) Consider what initiatives the City Council should implement in connection with this campaign.

City Environmental Health Officer

RA/JAT/39L
24th November, 1987.

BUDGET CONFIDENTIAL

HM Customs & Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ

01-382 5044
(GTN 2019 5044)

From: P R H ALLEN
Date: 4 March 1988

PS/CHANCELLOR

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Mr Riley
Miss Sinclair
Miss C Evans
Mr Cropper
PS/C&E

Ch
(As you suspected) the effects of a 5p widening of differential look pretty implausible (though base case of no widening looks pretty low).
AA
(see also [illegible]'s note below)

UNLEADED PETROL

1. You asked for a note setting out past and forecast figures for consumption and revenue yield on leaded and unleaded petrol. (Your minute dated 4 March.)

2. Duty on petrol will yield over £6 billion this year, about 99.9 per cent of which will come from leaded petrol. In previous years, effectively 100 per cent of the revenue from petrol duty has been from leaded petrol.

Internal circulation: CPS, Mr Knox, Mr Jefferson Smith, Mr McGuigan, Ms French, Mr Boardman, Mrs Hamill

3. We have consulted with the Department of Environment and have agreed forecasts of the market share of unleaded petrol under a range of alternative assumptions about the duty differential. The relevant figures are:

Assumed market share (%)

	Duty differential	
	ie 5p	ie 10p
	As now	As proposed in 88 Budget
1988-89	0.2	3.0
1989-90	0.6	9.0
1990-91	1.1	15.0
1991-92	1.9	25.0

4. The growth in the total market is based on the usual equation in the Treasury model. Given the forecast growth and the forecast market share, our revenue forecasts are as follows:

£m

	Leaded	Unleaded	Total
1988-89	6440	180	6620
1989-90	6580	590	7170
1990-91	6670	1060	7730
1991-92	6410	1930	8340

5. The Scorecard figures represent the difference between these forecasts and the forecasts based on the assumption of revalorisation of both leaded and unleaded duties. Revalorisation of both duties would imply no increase in differential and therefore a lower market share for unleaded petrol. The Scorecard figures are:

	Leaded	Unleaded	Net
1988-89	-85	+165	+80
1989-90	-495	+545	+50
1990-91	-965	+980	+15
1991-92	-1830	+1775	-55

6. On a non-indexed base, the increase in revenue resulting from the Budget proposals will be £275m in 1988-89: £110m from leaded petrol and £165m from unleaded petrol. For unleaded petrol the revenue effect is the same (+£165m) whether measured from an indexed or a non-indexed base. This apparently odd result arises because if the duty differential were unchanged, the revenue yield from unleaded petrol would be negligible.

RA.

P R H ALLEN

ps7/1L **BUDGET CONFIDENTIAL**

Thanks. All of this seems to be wrong. But @ this late stage with ... changing Budget ... unleaded.

FROM: A A DIGHT

DATE: 7 March 1988

1. MR A C S ALLAN
2. CHANCELLOR

I got them to do this because I didn't believe Customs' claim @ X

AM

CONVERSION FROM LEADED TO UNLEADED PETROL

A little bit of market research was carried out by the registry to find out how much it would cost to convert a car from using leaded petrol to the unleaded variety.

2. We picked six garages at random from the Yellow Pages and put the following question to them:

> "How much would it cost to convert my car from using leaded petrol to unleaded petrol. I have a Ford Sierra 1600 GL A Registration." (Average family car).

3. Four of the garages were not in a position to give us a quote for this work as they did not know how to carry out the conversion.

4. The fifth garage said they would be able to carry out the work and the cost would be somewhere between £50-£300 (Ford garage) - they would be more precise after they had seen the engine of the car (but not less than £50).

5. The last garage said they had not received any instructions from the manufacturers on how to carry out this kind of conversion, and had no immediate plans to find out how to do so, as there were very few petrol stations supplying unleaded petrol. They also mentioned that cars made to run on unleaded petrol could not run on leaded petrol at all.

Sarah Murphy

PP. A A DIGHT

FP6

BUDGET SECRET: TASK FORCE LIST

COPY NO 1 OF 18 COPIES

FROM: MISS M HAY
DATE: 8 MARCH 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Monck
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Ilett
Miss C Evans
Mr Cropper
Mr Tyrie
Mr Call
PS/IR

MEETING WITH LORD YOUNG

As requested I attach an aide-memoire for your meeting with Lord Young this afternoon at 5.30pm. It covers the Budget proposals on company residence and migration, the Business Expansion Scheme generally, BES relief for private renting, Lloyd's reinsurance and the abolition of capital duty and unit trust instrument duty.

2. Whether or not you decide to leave the aide-memoire with Lord Young, you will want to ask him to observe the rules of Budget security and not divulge any of the information further without first contacting your office. You may wish to stress that the Section 482 changes are particularly sensitive, since advance warning of the Budget proposals could lead to forestalling by companies who could take the opportunity of making pre-emptive applications under the existing rules.

MISS M HAY

COMPANY RESIDENCE AND MIGRATION (SECTION 482)

Existing rules require Treasury approval for migration backed by criminal sanctions for non-compliance. Rules only purpose now relates to tax compliance/anti avoidance. As such criticised as anachronistic.

To be replaced by objective residence rules: Company resident in UK for tax purposes if incorporated here or, if foreign incorported company, if centrally managed and controlled here. (5 year transitional period for UK incorporated companies not currently resident under exisiting rules).

Migration no longer to require Treasury approval, but migrating companies must pay accrued tax (including Capital Gains Tax) first. New arrangements will put UK on all fours with other EC countries.

In addition, form of general consents to be revised. This will reduce compliance burden on companies.

BUSINESS EXPANSION SCHEME

Venture capital industry in UK now much larger than in 1983. No longer any need to give BES relief for companies making relatively large (often public) issues.

Propose to focus relief where most needed by imposition of £½ million ceiling on total BES investment in any one company in one year. Higher ceiling justified for ship chartering companies. They will be subject to a £5 million ceiling on BES investment in any year.

In addition, small change to rules governing relief for investment in approved BES fund. Investors to be given relief by reference to closing date of fund rather than (later) date when fund invests in companies. Will allow funds taking advantage of surge of BES investment in February/March more time for investment appraisal.

BES RELIEF FOR PRIVATE RENTING

Following discussions with Nicholas Ridley, new tax relief to be given to provide kick-start to the deregulation of the private rented sector.

BES relief to be available for investment in companies specialising in letting residential accommodation on basis of new style assured tenancies under the Housing Bill subject to £5m ceiling on annual BES investment in any company. This extension of BES to run for 5 years.

LLOYD'S REINSURANCE

1987 reinsurance to close (RIC) legislation to be modified to give relief from its effects to Lloyd's members leaving a syndicate at end of underwriting year and to produce more equitable treatment for those continuing in syndicate membership. This meets Lloyd's only representation on the 1987 RIC legislation. General rules for determining tax deductibility of RIC premiums will not be affected.

Changes to be made to administrative arrangements for assessing and collecting tax from members of Lloyd's. These will simplify rules, cut down on compliance costs for Revenue and Lloyd's and speed up payments and repayments of tax.

Proposed package follows extensive discussions with Lloyd's further consultation to be held on detail.*

ABOLITION OF CAPITAL DUTY AND UNIT TRUST INSTRUMENT DUTY

The 1 per cent duty on formation of company or increase in its capital and the ¼ per cent duty on property put into unit trust to be abolished with effect from midnight on Budget Day. (Capital duty discriminates against risk capital compared with loan finance).

Abolition will be welcomed by Industry. Intend to make it clear that benefits expected to reach investors. Unit trust managers will have to react quickly to adjust their systems given overnight abolition.

* RIC changes to take effect for 1985 underwriting year. Revised assessment/collection arrangements apply from 1986 underwriting year.

BUDGET SECRET : AND PERSONAL

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MtgPM

SECRET AND PERSONAL

SCORECARD

COPY No 3 **OF** 17 **COPIES**

FROM: A TURNBULL
DATE: 28 SEPTEMBER 1988

CHIEF SECRETARY +1

[Too meeting

Discussion with CST. Aide-memoire for him & me, but no note for PM.

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Odling-Smee
Mr Luce
Mr Sedgwick
Mr MacAuslan
Mr Gieve
Miss Walker
Mr Call
Mr Tyrie

MEETING WITH PRIME MINISTER: 3 OCTOBER

You and the Chancellor are meeting the Prime Minister on 3 October to review progress on the Survey. Mr Parkinson will also be present. The objectives of the meeting will be:

i. to consider the position reached in the bilaterals and to take view on the policy issues which have emerged, on where pressure should be applied and where settlements sought;

ii. to consider the programmes to be referred to Star Chamber and to discuss possible membership;

iii. to review likely outcome of Survey.

2. In preparation for the meeting we would welcome the views of yourself and the Chancellor on the issues you want to cover and on whether you want to send the Prime Minister a note in advance of the meeting, and/or to take with you an aide memoire.

3. I attach a draft of an all purpose note which could be adapted for either use, with or without the detailed annex. Given the speed with which the detailed position changes, our inclination would be not to send a note in advance, but to have one with you in a form which could be handed over if you felt it right at the end of the talk. At the end of the week we can bring

the notes on each programme up to date and we will also be sending you the latest scorecard.

4. You will want to consider how much to say to the Prime Minister and Mr Parkinson about the expected outcome of the Survey. It would be possible to provide a summary of the scorecard showing forecast outcomes for each programme and for departmental programmes in aggregate, use of reserves and hence forecast changes in the planning total. There are drawbacks to this, however. First there is still a good deal of uncertainty, compounded by the problem of the inflation assumptions - see below. Secondly, you will be addressing different audiences. With the Prime Minister you will not want to suggest figures which are too low, with the risk that she will be disappointed with the outcome. But for Mr Parkinson you will want to suggest ambitious figures in order to fire him up for Star Chamber. This suggests that you handle the issue qualitatively, giving only broad magnitudes.

5. We would particularly welcome views on whether anything should be said to the Prime Minister at this stage about the inflation prospects for this is emerging as the most difficult issue we have to confront. The meeting to discuss the internal forecast and the version to be published in the Autumn Statement will not take place until 21 October. Nevertheless, it is worth considering our approach should further increases in inflation projections be necessary. If that did happen the possibilities are:

i. say nothing until the final Cabinet and then argue that colleagues must absorb. This is not feasible for DSS, who need to know sooner in order to recalculate the Social Security figures;

ii. inform DSS and the four or so other departments most directly affected (DH, MOD, ODA, and because of student awards, DES) and try to secure agreement allowing some adjustment if necessary. But could we hold the line?

iii. issue revised assumptions generally - but can this be prevented from becoming a general invitation to revise bids and reopen settlements?

6. Our preliminary view - which we will mull over before giving more considered advice - is that (ii) would be best. We would let each of the departments know in the last week in October what the revisions were, and try to settle with each individually. We would then tell the other Departments about the revised assumptions later (perhaps at the November public expenditure Cabinet), but resist any reopening of settlements. We might have to concede the principle of some claims on the Reserve in 1989-90.

7. The note includes a reference to the issue. It would not invite decisions but would alert the Prime Minister to the fact that there is an issue here to be resolved.

AT

A TURNBULL

ProgRep

SECRET AND PERSONAL

PROGRESS REPORT ON PUBLIC EXPENDITURE SURVEY

Objectives

At Cabinet in July we set ourselves a dual objective:

i. to keep as close as possible to the existing planning totals;

ii. that share of public spending in national income should continue to decline steadily over 3 Survey years.

On (i) did not specify how close is close but (in present circumstances must) ~~should~~ certainly mean doing significantly better than last year's increases of £2½ and £5½ billion. On (ii), the ratio must continue to decline from the level ~~where~~ likely to be reached in 1988-89. This is a demanding objective as slow growth of public spending this year (an undershoot of £½ billion or more) and rapid growth of GDP means that the ratio could already be down to 40¾ per cent, the lowest level since [year].

Bilaterals

2. Bilaterals held on all programmes and second round meetings on a number. Position reached as in Annex A. Have settled ODA, DEn departmental programme, Northern Ireland [and PSA]. Should soon settle DES, HO, LCD, OAL, DTI and maybe DE, MAFF, DTp, DH, DOE, FCO. Expect more difficulty on MOD, Wales, Scotland, and a couple of specific issues on Social Security.

Star Chamber

3. Likely referrals	Defence Wales Scotland Social Security
Possible	Health FCO Transport DOE Housing
Unlikely but possible	Employment

Membership of Star Chamber could comprise:

Mr Parkinson
Mr Wakeham
Mr Major

plus two or three from

Mr MacGregor
Mr Ridley
Mr Clarke
~~Mr Rifkind~~
Mr Fowler

4. Establishment of Star Chamber does not require further reference to Cabinet since was anticipated in July. The Chief Secretary will minute the Prime Minister, copied to colleagues saying (without identifying particular departments) that he has reached agreement on some programmes, expects to on a number of others but will definitely need to refer others to colleagues. The Prime Minister can reply in correspondence thus avoiding the need to raise public expenditure at Cabinet on 6 October.

Likely Survey Outcome

5. In first year is a reasonable prospect of containing increase in planning total to £1½ billion and maybe a little lower. For the second year we should aim to hold the increase to £4 billion but the position is strongly influenced by the prospect for inflation - see below. GGE/GDP ratio has fallen steeply from 46¼ per cent in 1984-85 to perhaps 40¼ per cent in 1988-89. Should be possible to bring it to just below 40 per cent by 1990-91, a level not seen since the 1960s. But [given the sharp reduction since 1984,] the profile over the Survey years is thus bound to be very flat, and will probably only just show a year to year reduction in figures rounded to ¼ per cent. This indicates that we can meet Cabinet's objectives but with no leeway. Essential to press hard

wherever we can as any slip back could end up showing a rising ratio. Real danger of that in last year (1991-92).

Inflation

6. Overhanging Survey outcome is prospect for inflation. Have already adjusted GDP deflators up by 1 per cent in 1988-89 and ½ per cent in 1989-90 to produce 5½/4½/3½/3. Has enabled ? colleagues either to modify bids or adjust their negotiating positions. Treasury will reach conclusion on Autumn forecast in late October. Possible that may need to publish still higher figures in Autumn Statement. If so, all more crucial to minimise public expenditure additions. Need to find way of limiting concessions needed if colleagues seek to reopen settlements. May be best to communicate revisions when decided only to those whose programmes (Defence, Health, Student Awards, Aid, Social Security) are most directly affected, with a view to modest additions if necessary. This would mean telling other colleagues at November public expenditure Cabinet, and seeking to contain any bids to reopen settlements, on grounds that essential for fight against inflation.

Some key outstanding issues

7. i. Extent to which Defence can absorb bids by achieving 2½ per cent efficiency savings promised at Prime Minister's VFM seminar. Need to avoid setting an artificial floor like 4 per cent of GDP.

ii. Welsh claim that its block should receive extra funds to offset adverse formula consequences of large English housing receipts.

iii. Whether population adjustment should be pursued with Scotland this year. Should block bear part of costs of slower Dounreay closure as the Prime Minister concluded E(A) ? thought right.

iv. How whether far child benefit should be uprated, or frozen this year. Whether action on overseas pensions can be [deferred again this year.] afforded, justified?

v. Need to keep additions to gross capital spending of local authorities to the minimum, so that net savings are maximised and extraordinary growth rate of local authority capital spending is restrained.

vi. How far we can find savings on near market research in MAFF and DTI to finance DES bids for basic science, as E(ST) agreed.

SECRET AND PERSONAL

ANNEX A

PROGRESS IN INDIVIDUAL BILATERALS

Defence: discussion proving difficult and a large gap between us remains. If most of 2½ per cent a year efficiency gain on non-procurement (to which MOD committed themselves at VFM meeting with Prime Minister) is set against Mr Younger's bid and some savings are made on lower priority procurement expenditure, existing defence commitments can be met with modest additions to defence budget. Mr Younger attaches importance to holding defence budget over 4 per cent of GDP. But if falls below will be consequence of growth of economy not cuts in defence. May not be settled bilaterally.

Overseas aid: additions agreed of 30/55/80. Will probably allow aid programme to stay around present percentage of GDP. Mr Patten has agreed to find money for War Service Credit for pensions of former colonial servants from within additions.

FCO Diplomatic Wing: negotiations proving difficult though gap (approx 20 a year) not large in total Survey terms. Main issue is bid for new initiatives, eg scholarships and information. Hope to settle.

MAFF: sums at issue not large but hotly disputed. Relate to R&D savings and ADAS charges. Hope to settle but may need to refer R&D savings which will go to meet Mr Baker's science bids to meeting of E(ST) on [18/19?] October.

additions in Survey period is achieve

Energy: programme settled (though effect of longer term savings on fusion and fast reactor ~~is to add to spending in Survey period.~~) EFLs for electricity and coal still to be set. Hope to get below baseline despite need to begin reductions in coal price.

Transport: agreement likely on transport industries but on roads programme are substantial bids reflecting rise in construction prices and Department of Transport's wish to begin building road programme up to a higher level, as suggested in Roads Review.

They argue that the Manifesto commitment for new build - 450 miles by 1989-90 - and target for motorway renewal are threatened. Department also has a large bid for local authority roads which Treasury argues can in large part be met from use of receipts. Bids have some merit but must avoid accommodating rising tender prices. A bilateral settlement may be possible but so far Mr Channon has made no concessions.

Housing: huge increase in estimates of receipts. Treasury arguing that should add to gross spending no more than required to do under existing arrangements, leaving a large net saving, in effect to be ploughed into other programmes. Mr Ridley accepts some net saving but seeks much larger increase in gross spending. Gap remains very large.

Other environmental services: an addition of £120-150 million needed in 1989-90 for community charge start-up. But again much higher receipts should cover most of this plus small additions to urban spending. Expect to settle.

Trade & Industry: settlement not yet reached. Main issue outstanding is extent of R&D savings.

Home Office: large additions for new prisons and running costs to staff them inevitable. Still a gap in later years but agreement should be possible.

Education & Science: Mr Baker's initial bids were enormous but have been scaled down. Main remaining issue is bid for science. Hopeful of settlement.

Employment: Treasury arguing for major savings to reflect improvement in unemployment. An agreement which protects commitments on YTS and ET should be possible.

Health: bids huge but being discussed constructively. Main disputed issues are provision for service improvement and size of capital programme. Bilateral settlement may be possible. Will need to resolve basis on which provision is made for future pay, extent to which money for Review initiatives is included or held back for announcement of Review outcome; whether a cut in employers' superannuation costs required by Government Actuary is brought into figures now or later.

Social Security: discussions narrowed down to two main issues which are likely to be referred to colleagues. Baseline incorporates only partial uprating of child benefit. Mr Moore wants to restore full uprating; Treasury to move to full freeze. Mr Moore wants to expand reciprocal agreements on overseas pensions. Treasury argues that not a high enough priority given other pressures in Survey. Have got agreement that action on poorer pensioners will need to be considered next year and that rapidly rising disability benefits must be reviewed.

Territories: agreement reached with Mr King but discussions on Wales and Scotland most difficult of all bilaterals. Mr Walker has dug in on issue of formula consequences on housing which he says disadvantage Wales relative to England. With receipts high in England, outcome is likely to be higher gross spending but a reduction in <u>net</u> provision. A corresponding reduction in net provision in Wales will require reduction in <u>gross</u> provision as receipts there are not buoyant. Mr Walker has demanded that his programme should be compensated in full for shortfall of receipts. Treasury has offered partial compensation, arguing that full compensation is unreasonable as Mr Walker will get consequentials of higher spending on other programmes such as health and transport which net savings on housing are permitting. Offer made would provide larger addition to block than in any recent year. For Scotland, Treasury's bid for adjusting the population formula remains on the table but is hotly disputed by Mr Rifkind. Scottish Office not yet responded on housing receipts but may well do so (particularly if Mr Walker is accommodated). Mr Rifkind still disputing conclusion of E(A) that Scottish block should bear part of costs of slower run-down at Dounreay. Danger that settlement for Wales and Scotland could cause Northern Ireland settlement to unravel.

chex.md/mw/48 SECRET AND PERSONAL

FROM: MISS M P WALLACE
DATE: 30 September 1988

MP

MR TURNBULL

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Odling-Smee
Mr Luce
Mr Sedgwick
Mr MacAuslan
Mr Gieve
Miss Walker
Mr Call
Mr Tyrie

MEETING WITH PRIME MINISTER: 3 OCTOBER

The Chancellor and Chief Secretary discussed your minute of 28 September. They concluded that they would not provide a note for the Prime Minister, but that they would like to take with them ... an aide memoire, as you suggest. I attach (for you only) the Chancellor's manuscript comments on the "all purpose draft" you provided, which you may wish to take on board in your revised version.

MPW.

MOIRA WALLACE

ProgRep

SECRET AND PERSONAL

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