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SECRET.

1987 BUDGET.

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SCOTTISH OFFICE

Confidential

SCOTTISH OFFICE: PS/MR RIFKIND - 9 JANUARY

Six areas of concern.

North Sea Oil

The Secretary of State for Scotland supports measures for additional PRT relief for

(a) research expenditure

(b) development expenditure on "new fields" by way of cross field allowance.

Concessions have been agreed on (a) (starter 159) and agreed on (b) (starter 129).

Whisky industry: maturation stock relief allowance

Mr Rifkind supports the Scotch Whisky Association's call for an allowance to reflect the legal requirement to mature whisky for a minimum of three years.

The maturation allowance is a special form of stock relief geared up to the circumstances of the whisky industry. The Government's success in reducing inflation has rendered stock relief, an expensive and distorting relief, unnecessary. It would not make sense to reintroduce it particularly for one industry only.

BES

Mr Rifkind wants hotels and tourist attractions to qualify. Financial Secretary has considered and, while personally sympathetic, rejected any move (Mr Williams' minute of 5 February) since it could only be achieved in the context of more general relaxation of lands and buildings test. This is not an attractive option.

Agriculture

Mr Rifkind supports a number of the representations made by the Scottish Landowners' Federation (SLF). The Financial Secretary met with the SLF in November. Their proposals covered broadly CGT, CT and IHT. Current proposals on IHT thresholds, rates and bands and interests in possession should find favour.

Furnished Holiday Lettings

Mr Rifkind calls for shorter qualification period for tax reliefs.

The short holiday season in some parts of the country was fully taken into account in framing the qualifying conditions which must be satisfied if proprietors of furnished holiday lettings are to claim the tax reliefs associated with treatment as a trade for tax purposes. The original proposal, which was drawn up after consultation with the tourism industry, was that accommodation should be available for letting for 180 days a year and actually let for 90 days. However, to meet this problem, these were subsequently relaxed during the passage of the 1984 Finance Bill to 140 and 70 days respectively. Additionally, the requirements were amended so that holiday lettings at any time of the year (eg winter sports lettings in Scotland), not just in the summer season could count towards the number of days let.

The qualifying conditions are intended to target the relief on genuine holiday letting businesses and there is a danger that any further relaxation in the rules would enable second home owners to benefit from the legislation. Most genuine businesses should be able to satisfy the 70-day requirement and, indeed, there must be some doubt about the viability of those that can not. We have seen no evidence to suggest that this particular condition is causing significant problems in Scotland, or anywhere else.

Vehicle Excise Duty and duty on petrol

Mr Rifkind calls for no increase in petrol duty and VED or certainly no more than revalorisation, because of dependence on private cars for essential transport in rural areas such as Scottish Highlands.

Differences between urban and rural petrol prices is much smaller than it used to be and depends on competitive conditions rather than consistent urban/rural differentials. More miles-per-gallon in rural driving means petrol consumption compares to that in urban areas.

k/f with advice p)

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

A C S Allan Esq
Principal Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
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CH/EXCHEQUER
REC. 09 JAN 1987
ACTION MR WALTERS 9/1
COPIES TO CST, FST, EST, MST
SIR P. MIDDLETON
MR CASSELL
MR SCHOLAR
MISS SINCLAIR
MR M. WILLIAMS
MR BONNEY PS/IR
MR CROPPER PS/C&E
MR ROSS-GOOBEY

9 January 1987

Dear Alex

1987 BUDGET

1. In previous years at about this time, we have submitted issues for the Chancellor of the Exchequer to consider in preparing his Budget proposals. I list below several issues which Mr Rifkind would like to draw to the Chancellor's attention across the wide range of subjects covered by the Scottish Office.

North Sea Oil

2. The Scottish economy is very substantially dependent upon North Sea developments and the oil price drop is having very damaging effects - job losses in 1986 alone could exceed 10,000. My Secretary of State recognises that there is limited scope for the Government to mitigate the impact but he strongly commends the measures which the Chancellor has discussed with the Secretary of State for Energy - on cross-field allowability and research costs - which are aimed at increasing the level of activity and improving prospects. The Government are under great pressure in Scotland on this issue. My Secretary of State believes these measures will provide a much needed stimulus to new activity and will also strengthen the Government's position politically.

Whisky Industry

3. The Chancellor will be aware of the strong representations which have been made by the whisky industry, mainly through the Scotch Whisky Association, about the way in which stocks are treated for Corporation Tax and about duty deferment. The Association proposes that a statutory maturation stock relief allowance be introduced to reflect the legal requirement to mature whisky for a minimum of 3 years. While only going part of the way to meet the problems encountered by the industry my Secretary of State believes this to be reasonable and thinks it could be defended politically if it were introduced in the next Budget.

Business Expansion Scheme (BES)

4. My Secretary of State is concerned by the effect of certain changes made in the 1986 Finance Act on hotel and tourism developments. The changes were designed to exclude low risk property developments by stipulating that eligible companies seeking to raise more than £50,000 share capital under BES must initially hold no more than 50% of their net assets in land and buildings.

RSM00721

5. Hotel and certain leisure developments, such as ice rinks and tourist attractions, are regarded as high risk investments by financial institutions and as such are entirely appropriate recipients for BES support. These businesses have heavy capital requirements, but bring in lower returns on investments compared with office, or similar property developments, which it was felt should not receive BES support, and were the main target of the Finance Act changes. My Secretary of State would be grateful if the Chancellor would consider excluding hotels and tourist attractions from those provisions of the 1986 Finance Act in order to relieve the tourist industry of this unfair disadvantage.

Agriculture: Tax Measures

6. Mr Rifkind considers that there is a variety of tax measures which could benefit rural employment and the countryside, principally through treating land owing as business and thus encouraging the supply of farms to let. The Scottish Office Minister responsible for agriculture, Mr MacKay, wrote to the Financial Secretary in October commending a number of suggestions made by the Scottish Landowners' Federation. My Secretary of State hopes that the Chancellor will consider adopting some of those or similar proposals.

Furnished Holiday Lettings

7. Tax reliefs on furnished holiday lettings are allowed under the Finance Act 1984 subject to certain conditions. One condition is that accommodation must be (a) available for commercial letting to the public generally for at least 140 days in any 12 month period and (b) actually let for 70 days.

8. Unfortunately, this does not lead to equitable treatment throughout the UK. For example, the season in Scotland is generally shorter than the south of England and very often suffers from a cold and wet start. The result of this is that bookings for holiday accommodation suffer, many providers of furnished holiday lettings fail to achieve the required 70 days, and thus lose out on relief. My Secretary of State considers that a modest concession by the Chancellor to reduce the requirement from 70 to 60 days would be helpful.

Vehicle excise Duty and Duty on Petrol

9. These are both sensitive issues in Scotland where, because of our particular geographical terrain, many who live in the country depend on their private cars for essential transport. Indeed a fair number of people already spend a higher than average proportion of their income on car and travel costs. While my Secretary of State recognises that these considerations apply in all rural areas they are particularly significant in the Scottish Highlands. We would therefore hope that increases can be avoided and certainly that they should not be above normal valorisation levels.

10. These are the issues which my Secretary of State wishes to bring to the Chancellor's attention at this stage. He would be happy to discuss any of them with the Chancellor should he so wish.

Yours sincerely

Robert Gordon

ROBERT GORDON
Private Secretary

RSM00721

CONFIDENTIAL

from: J MACAUSLAN
date: 15 JANUARY 1987

1. MR ~~GRAY~~ RLEG 15/1/87

2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Mr FER Butler
Mr Anson
Mr Monck
Mr Burgner
Mr Turnbull
Mr CC Allan
Ms Noble
Mr S Davies
Mr Stern
Mr Cropper
Mr Tyrie
Mr Ross Goobey

RESTART

I attach a note agreed between Treasury and DE officials about the net public expenditure costs of the proposed extension of Restart. This submission recommends next steps.

2. The Chancellor agreed with Lord Young (see the Chancellor's letter of 19 December) on:

-extension of pilot Restart programme for 6 months unemployed
-"perpetual" Restart (6 monthly interviews for 18-36 months unemployed)
-extension of the new Job Training Scheme
-guaranteed YTS places for unemployed 17 year old leavers
-expansion of EAS

on condition that there would be

(a) no net addition to public expenditure as a result
(b) only minimal increases in running costs
(c) no employment measures in or around the Budget

3. We expect a letter from Lord Young tonight — not yet received proposing an announcement at the end of the month (the sort of timing proposed by the Chancellor) on all 5 items. A few issues remain to be agreed before any such announcement can go ahead. Your office will if you agree fix either a telephone conversation or a meeting with Lord Young on Monday morning. We will provide briefing for the weekend.

4. Net costs of Restart If Lord Young's letter shows that he has stuck to the agreement to find sufficient savings for the other items, only Restart needs discussion. Gross costs of about £50m a year will be offset to some extent by benefit savings. Officials have not been able to agree what the net benefit savings will be. The attached note shows two estimates. DE favour the more optimistic estimate (1). We think estimate (2) more reasonable, leaving £30m to be found by DE in 1987-88. We recommend that you aim to persuade Lord Young to find savings of £30m in 1987-88 to cover this deficit, and that you insist on no less than £20m. DE has £4 billion from which to find savings; and it had been agreed that there should be a cautious estimate of benefit savings.

5. DHSS will only have net benefit savings to release to DE for Restart and the new JTS to the extent that there is a reduced unemployment assumption for the 1987-88 Estimates. On the lower estimate of benefit savings from Restart, it will reduce the count by some 10,000 in 1987-88; on the higher estimate, 30,000. The new JTS reduces the count by some 80,000 in 1987-88. Mr Davies will be sending a separate submission to the Chancellor on a revised unemployment assumption, taking these effects into account. If the assumption is reduced in this way, we could claim that it covered these effects and the savings can be released without difficulty.

X 6. Any announcement would have to make clear that there was no addition to public expenditure, and would have to be cleared with the Treasury.

7. We recommend that you insist that in 1987-88 at least £15m of the running cost increase (£35m for Restart and £10m for the new JTS) is met by running costs savings. Without offsets, the DE group running cost increase in 1987-88 over 1986-87 would rise from 5.6% to 10.7%; the civil service increase from 4.5% to 4.9%.

8. In summary, we recommend that you speak to Lord Young on Monday to agree that he find extra savings to cover the gross costs and that he find some running cost savings.

9. This submission has been agreed with GE, ST and RCM. If you disagree with the line we suggest please let us know. Otherwise we will submit a brief for the weekend on these lines.

J MacAuslan

J MACAUSLAN

CONFIDENTIAL

NET EXPENDITURE EFFECTS OF RESTART EXTENSION

At a meeting on 19 December, the Chancellor and the Secretary of State for Employment agreed that the pilot Restart interviews for those unemployed over 6 months could be extended, and regular 6 monthly Restart interviews instituted for those unemployed between 12 and 36 months, on condition that there be no net additions to public expenditure as a result on a cautious estimate of benefit savings.

2. Officials were asked to discuss on that basis whether and how these proposals could be soundly financed. Any savings required for 1987-88 to finance the proposals should be identified now and reflected in Main Estimates. The Chief Secretary would want to be satisfied that switches between programme and running costs were kept to the essential minimum.

3. The table below shows a range of possible net changes to public expenditure in 1987-88 and 1988-89 which might result from implementing these proposals from April 1987:

	Gross costs (of which: running costs)		Benefit costs		Net effect	
	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89
1	+51 (35)	+51 (35)	-54	-76	-3	-25
2	+51 (35)	+51 (35)	-20	-16	+31	+35

4. The estimates are necessarily very uncertain. There are two areas of difference in assumptions between the estimates:

Substitution in the 6 month Restart programme Some of those leaving the count will do so at the expense of other people ("substitution"). 1) assumes 10% substitution, (implying that 90% of those leaving the count either cease claiming without changing their behaviour in ways that affect the economic activity of others, or fill jobs that represent a net increase in employment); 2) assumes 40%

Effect of repeated interviews Under the proposal, all the unemployed will be given not only tougher availability tests when they first claim, and Restart interviews at 12 months, but similar Restart interviews at 6 monthly intervals. Second and third interviews are likely to have a smaller percentage effect than the original interview, but there is no evidence as to the scale of these diminishing returns. We have estimated that a net additional 5% of those eligible for a first interview at the 12 month point leave the count. On this basis, 1) assumes that 3.5% will leave on their second time round, 3% on the third, and 2.5% on the fourth. 2) assumes 1.5% on the second, 0.75% on the third, and 0.375% on the fourth.

5. The different effects on 1987-88 and 1988-89 reflect two main factors. Not all of the savings resulting from the 1987-88 programme fall in 1987-88; some benefit 1988-89. On the other hand, the interviews given in 1988-89 will include more cases where the same person is being interviewed for the second time; and some cases where the same person is being interviewed for the third, fourth or fifth time.

DE/TREASURY

14 JANUARY 1987

MK/D6

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REC. 16 JAN 1987

ACTION CST

COPIES TO

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Great George Street
LONDON SW1

16 January 1987

Dear John,

Nigel Lawson wrote to me on 19 December, following our meeting on the same day to discuss my proposals for new training and employment measures. We agreed that I should implement my proposals for extending Restart, introducing a new Job Training Scheme and guaranteeing a YTS place for every unemployed 17 year old school leaver, subject to their requiring no net increase in public expenditure and to the switches between programme and running cost expenditure being kept to the essential minimum. Nigel also suggested that I consider whether EAS could be expanded within existing provision. Our officials have now discussed the likely cost of these proposals.

RESTART EXTENSION

The first proposal is the extension of Restart to provide interviews for the unemployed at 6 monthly intervals up to three years of continuous unemployment. I understand that there is a disagreement between our officials on the extent of the likely benefit savings. My officials have no doubt that the benefit savings will more than cover the cost of interviewing. The view Treasury officials take of the effectiveness of Restart seem far too pessimistic. You will recall that similar doubts were expressed before Restart was launched last spring and they have been proved to be unfounded. Restart has reduced the count by some 50,000 over the last five months of 1986. There is every indication that these people will remain off the unemployment count (and off benefit) for at least 40 weeks.

SECRET

SECRETARY OF STATE FOR EMPLOYMENT

There is of course, room for argument - in the absence of any hard evidence - about the extent of any substitution this involves and about the cumulative effect of availability testing plus Restart interviews at six monthly intervals. I am convinced, however, that Restart's current performance can be much improved and I am taking steps to ensure this. Moreover, as you know, there are other changes I propose to make at the outset of the next Parliament which will greatly enhance the effectiveness of Restart (and other programmes) in detecting those who are not genuinely unemployed. I need to have as much as possible of the new structure in place before then so that these changes can take effect rapidly.

The first note attached to this letter sets out the DE and Treasury estimates of the net cost of extending Restart as I propose. My officials estimate that there would be a net saving of £3m in 1987/8 (the figure would be higher but for the fact that some savings achieved in 1987/8 fall in the next year) and £25m in 1988/89. Your officials estimate a net cost of £31m in 1987/8 and £35m in 1988/9, largely because of the very gloomy view they take of substitution and of diminishing returns from repeated interviews.

There is, however, a simpler way of looking at it. Given the gross costs I quote in the attached note what movement of the count do we need for Restart as a whole to break even? The answer turns out to be only 8,600 a month. I would be astonished if extended Restart did not achieve that when we are currently getting 10,000 a month off the count with 12 month Restart alone.

NEW JOB TRAINING SCHEME

Restart is of course the gateway to the whole range of our employment and training measures for the unemployed and in particular to the second of the new initiatives I wish to announce: the new Job Training Scheme.

As I indicated when we met on 19 December, I would like to announce a Job Training Scheme of 110,000 places with an annual throughput of 232,000 trainees. With the continuing growth in employment and the more favourable trend in unemployment, the emphasis of our measures for the unemployed should now be on training rather than the provision of temporary work. The new Job Training Scheme is a major step in that direction.

... The costs are set out in the attached table. Part of the cost can be met by switching money from DHSS as we agreed. For the rest, I can make savings of £37m and £40m in the next 2 years on adult training programmes. The administrative costs associated with paying the training allowance (£12m both in 1987/8 and in 1988/9) can be met from the expected underspend on the New Workers Scheme.

SECRETARY OF STATE FOR EMPLOYMENT

That leaves £65m and £90m to be found in 1987/8 and 1988/9 respectively. This I will find within existing MSC resources mainly through cuts in the Community Programme as the new JTS builds up as the main programme for the six month unemployed under 25s who would then no longer be eligible for CP. I do not want, however, to specify publicly in the announcement precisely when the savings will be found because of the inevitable uncertainty about the rate at which the Job Training Scheme will build up and, most important, because any suggestions at this stage of cuts to CP could cause major problems with the Commission and other groups which would not only put at risk the JTS build up but also the current CP provision. This would have immediate and serious effects on the unemployment count which we must avoid. I would however make it clear to the Commission that the new programme was to be financed from their existing resources and seek their advice on where the savings should be found, and I guarantee to you that the new JTS will be developed within the existing financial provision.

YTS GUARANTEE FOR 17 YEAR OLD SCHOOL LEAVERS

On the extension of the YTS guarantee there is, I think, no problem. I am confident that the cost of any additonal places which may be required for 17 year old school leavers will be small and it can almost certainly be accommodated within the existing YTS budget. If additional resources for YTS were needed to meet the new guarantee I would find them from elsewhere in the MSC budget.

EAS

Finally, I would like to announce a modest expansion of EAS to 110,000 entrants in 1987/8. As you know EAS is a highly successful scheme and very cost effective. I believe it is important to balance the other elements in my announcement with a measure that is clearly designed to promote enterprise and self-employment. Again, like JTS, I will ask the Commission to finance this expansion by switching rescoures from other programmes (probably CP), and if they are able to reach the 110,000 target I would encourage them to make further switches to build up EAS.

I would like to announce these four measures on Wednesday 28 January. The Manpower Services Commission are due to discuss the new JTS next week and therefore the longer an announcement is delayed the greater the risk that news will leak out in ways that can be distorted by the Opposition.

As I have indicated in my minute to the Prime Minister, I believe this package of measures will be seen as a further indication of our determination to tackle unemployment and promote enterprise while at the same time laying the

SECRETARY OF STATE FOR EMPLOYMENT

foundations for the new range of programmes to which we are all agreed we should move in the next Parliament.

I am sending a copy of this letter to Nigel Lawson.

Yours,

David

NEW JTS: FUNDING IMPLICATIONS OF A 232,000 ENTRANT SCHEME

Net Public Expenditure Cost of New JTS	1987/88 Prices	
	1987/88	1988/89
	£m	£m
1. Payments to Managing Agents and Travel Allowances	90	110
2. Training Allowances	116	145
3. Total Programme Cost (excluding UBS admin costs) = (1)+(2)	206	255
4. Net DHSS Transfer: Benefit savings to DHSS allowing for a deduction for substitution etc. of £12m in 1987/88 and £20m in 1988/89	104	125
5. Offset from reductions in Adult Training programmes	37	40
6. Net Funding Gap = (3)-(4)-(5)	65	90

Remaining Item

9. UBS/DHSS Admin. Costs	12	12

CONFIDENTIAL

NET EXPENDITURE EFFECTS OF RESTART EXTENSION

At a meeting on 19 December, the Chancellor and the Secretary of State for Employment agreed that the pilot Restart interviews for those unemployed over 6 months could be extended, and regular 6 monthly Restart interviews instituted for those unemployed between 12 and 36 months, on condition that there be no net additions to public expenditure as a result on a cautious estimate of benefit savings.

2. Officials were asked to discuss on that basis whether and how these proposals could be soundly financed. Any savings required for 1987-88 to finance the proposals should be identified now and reflected in Main Estimates. The Chief Secretary would want to be satisfied that switches between programme and running costs were kept to the essential minimum.

3. The table below shows a range of possible net changes to public expenditure in 1987-88 and 1988-89 which might result from implementing these proposals from April 1987:

	Gross costs (of which: running costs)		Benefit costs		Net effect		
	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89	
1	+51 (35)	+51 (35)	-54	-76	-3	-25	(DE)
2	+51 (35)	+51 (35)	-20	-16	+31	+35	(Treasury)

4. The estimates are necessarily very uncertain. There are two areas of difference in assumptions between the estimates:

Substitution in the 6 month Restart programme Some of those leaving the count will do so at the expense of other people ("substitution"). 1) assumes 10% substitution, implying that 90% of those leaving the count either cease claiming without changing their behaviour in ways that affect the economic activity of others, or fill jobs that represent a net increase in employment; 2) assumes 40%

Effect of repeated interviews Under the proposal, all the unemployed will be given not only tougher availability tests when they first claim, and Restart interviews at 12 months, but similar Restart interviews at 6 monthly intervals. Second and third interviews are likely to have a smaller percentage effect than the original interview, but there is no evidence as to the scale of these diminishing returns. We have estimated that a net additional 5% of those eligible for a first interview at the 12 month point leave the count. On this basis, 1) assumes that 3.5% will leave on their second time round, 3% on the third, and 2.5% on the fourth. 2) assumes 1.5% on the second, 0.75% on the third, and 0.375% on the fourth.

5. The different effects on 1987-88 and 1988-89 reflect two main factors. Not all of the savings resulting from the 1987-88 programme fall in 1987-88; some benefit 1988-89. On the other hand, the interviews given in 1988-89 will include more cases where the same person is being interviewed for the second time; and some cases where the same person is being interviewed for the third, fourth or fifth time.

DE/TREASURY 14 JANUARY 1987

DM/4

PRIME MINISTER

EMPLOYMENT AND TRAINING MEASURES

I thought I should let you know that I am planning to make a major announcement shortly on employment and training measures. The date I have in mind is 28 January. The announcement will take the form of a statement in both Houses and a press conference.

There will be four main elements in the announcement

(i) an extension of the the Restart programme, to provide compulsory interviews at six-monthly intervals from the first six months of unemployment;

(ii) under the new Restart programme a new Job Training Scheme for the six-month plus unemployed, which will provide an average of six months training on and off the job with a benefit level allowance for all under 25;

(iii) an expansion of EAS to support 110,000 people in 1987/88;

(iv) an extension of the YTS guarantee to all 17-year-old school leavers so that no young people under 18 need to be unemployed.

SECRETARY OF STATE FOR EMPLOYMENT

This package of measures represents a substantial increase in opportunities for young people and the long-term unemployed through a refocussing of DE/MSC expenditure. The Chancellor of the Exchequer (with whom I have discussed my plans) has said that he has no objection to an early announcement, provided that there is no net addition to public expenditure and that the necessary switches between programme and running costs are kept to a minimum. My plans have been drawn up on that basis. I am writing to the Chief Secretary about the details of the costs of the new measures and how we will find the money.

below

The Job Training Scheme and the extension of Restart should have a significant additional impact on the unemployment count (people on the Scheme will move from claiming benefit to a training allowance at the same level). I envisage both taking effect as soon as practicable and I hope that the Job Training Scheme will reach its target of 100,000 or more places by early Autumn with almost as big an impact being made on the count.

Taken together, these new measures should be seen as a further indication of our determination to tackle unemployment, building on the encouraging trend of recent months.

This will mark a further step in the transition of the Jobcentre network from a Public Sector Employment Agency to an integral part of the benefit system. The structural changes will follow at a more convenient time.

SECRETARY OF STATE FOR EMPLOYMENT

I attach the greatest importance in the longer-term to moving the emphasis of employment programmes away from the provision of temporary work at the rate for the job towards job-related training paid at benefit level, with an accompanying drive to rid the unemployment count of those who are not genuinely unemployed.

I believe this package of measures is an important step in that direction.

I am sending copies of this minute to the Lord President, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Chief Secretary.

16.1.87

Rps [illegible] PAWSP

We have tried to keep the length of briefing on a number of complex issues to a minimum; but will be on hand for an oral briefing before Lord Young arrives if you would find that helpful.

PRCG 16/1

CONFIDENTIAL

from: J MACAUSLAN
date: 16 JANUARY 1987

1. MR GRAY

2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Mr FER Butler
Mr Anson
Mr Monck
Mr Burgner
Mr Turnbull
Mr CC Allan
Ms Noble
Mr S Davies
Mr Stern
Mr Cropper
Mr Tyrie
Mr Ross Goobey

EMPLOYMENT MEASURES

You are meeting Lord Young on Monday morning to discuss his letter of today (below). He has also today written to the PM. He proposes (as foreshadowed in my note of 15 January):

- extension of pilot Restart programme for 6 months unemployed
- "perpetual" Restart (6 monthly for long term unemployed)
- extension of the new Job Training Scheme to 110,000 places
- guaranteed YTS places for unemployed 17 year old leavers
- expansion of EAS from 100,000 to 110,000 entrants

Objectives

2. The Chancellor agreed with Lord Young (the Chancellor's letter of 19 December) (below) that these could go ahead on condition of:

(a) no employment measures in or around the Budget

(b) clearance of any announcement with the Treasury

(c) no net addition to public expenditure as a result

(d) only minimal increases in running costs; and that

(e) savings should be identified now and if possible shown in Main Estimates

3. Your objective is to ensure these conditions are met. Thus:

- Lord Young should find savings of £30m in 1987-88 to cover the costs of the Restart extension;
- that £30m must include £20m running cost savings to offset the £47m running cost increase from Restart and the new JTS. £10m of those running cost savings would flow painlessly from the effect of the reduction in the unemployment assumption on the UBS;
- these savings and those for the new JTS and EAS must be identified before Lord Young announces them in public or to the MSC; if they include CP cuts, DE should take credit only for the resulting net public expenditure savings
- the announcement should make clear that there would be no net addition to public spending: details to be given in Main Estimates
- savings must be found in the PES years on an equivalent basis (although the details can await PES 1987)

4. DE officials say that Lord Young may also press for an earlier start to the extension of the new JTS, using up some £2-5m of the 1986-87 underspend. You will want to resist that. You have stipulated as a condition of more publicity expenditure in 1986-87 that all remaining underspends be surrendered not switched.

Handling

5. The plan is for the meeting to start à deux; but officials will be on hand if needed for detailed discussions.

6. You could open the meeting by welcoming the drift of Lord Young's proposals. The task of the meeting is not to discuss their merits but to ensure that they are in line with the terms agreed at the Chancellor's meeting of 19 December. You could quote 2(a)-(b) above, hoping to gain immediate agreement to them; and set the agenda by setting out your conditions as in paragraph 3 above. These raise three contentious issues. You may not want to agree to any of the proposals until those issues are resolved.

7. The first is the financing of the Restart extension. The issue is whether the Restart extension generates such benefit savings (on the social security programme) as to pay for itself. The note by officials under Lord Young's letter does not settle the question. But our view is that there is likely to be a deficit of up to some £30m. This must be covered by DE savings. Speaking notes are at Annex A. (NB there is no dispute about the benefit savings from the new JTS).

8. There is scope for technical argument on this (see Annex A). But you might prefer to stick to the high ground: there must be no risk of an increase in public expenditure; hence the agreement that we take a cautious estimate of benefit savings; and, within the range of estimates in the note by officials, that means something close to estimate 2.

9. The second issue is running costs. You have just announced 1987-88 figures in the PEWP. Lord Young proposes to add £47m (£35m for Restart and £12m for the new JTS). This would raise the DE Group increase in 1987-88 from 5.6% to 10.9%, and the civil service total from 4.5% to 4.9%.

10. You need to consider how far to insist these dramatic effects are offset within DE Group running costs rather than allowing Lord Young to switch on this scale from programme spend. We suggest you argue for £20m running cost offset (giving 8.6% DE and 4.7% civil service increase) and fallback no further than £15m (9.2% and 4.8%). Speaking notes are at Annex B.

11. The third issue is when the savings for the new JTS, EAS, and Restart are identified, and how and when the proposals and the savings are announced. Your aims are as in paragraph 3 above. Lord Young will want to show nothing in Main Estimates, on the grounds that he does not want to specify savings that might later (if there is underspend in 1987-88) turn out to be unnecessary. His position seems incoherent and improper; and it is in the Treasury's interests not to agree new programmes without specific agreement on savings. Speaking notes are at Annex C.

Conclusion

12. You can probably insist on your objectives. The conditions represent no more than was agreed with the Chancellor; the need to control public spending and running costs is clear; and if Lord Young appealed to colleagues they would probably understand your case.

13. As a fallback, you could reduce the total savings required to £25m (including £15m running costs). Lord Young will say his officials now have evidence that benefit savings from the 6 month Restart pilots are higher than assumed in the note by officials. We have not had the opportunity to test that properly. But even if so, it only has the effect of reducing the net deficit on our estimate from £31m to £27m.

14. You might say that you will need to clear any agreement with the Chancellor; in particular because the DHSS savings for the new JTS and Restart cannot be released until the Chancellor has considered in the next few days proposals to reduce the unemployment assumptions on which benefit spending is estimated. (A separate submission on this will be coming from EA early next week). You might also say that you will write immediately to confirm the outcome of the meeting.

J MacAuslan

J MACAUSLAN

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SPEAKING NOTES ON NET COSTS OF RESTART EXTENSION ANNEX A

Main positive points

* Essential to demonstrate firm grip on public expenditure after increases in Autumn Statement and sceptical reception of PEWP. Commentators watching out for increases in 1987-88. Difficult at my press conference last week to put across message that 1987-88 totals will stick. Cannot afford to have any policy changes unless can demonstrate they are within existing totals.

* Hence Chancellor's agreement with you that proposals must be assessed on basis of cautious estimate of benefit savings. Note by officials presents a range; caution must imply the low end of that range (ie estimate 2)

* Extension of Restart will not pay for itself. Restart is a good programme whether or not it covers its own costs. But not surprising if repeated interviews have some diminishing returns.

* Your letter said that Restart was now getting 10,000 off the count per month, and the extension only needed to get 8,600 off to break even. But not remotely surprising that effect will be smaller: there will be no more interviews per month under the extension than there are now; and 3/4 of the 6 month interviews will be after an availability test; all the "perpetual" interviews will be the second time round for the interviewee and half will be the third; and we need to take into account that the extension will reduce the effectiveness of the agreed 12 month programme.

Technical positive points

* Estimate 1 in the note by officials is based on implausible assumptions:

-Substitution could not be 10%. 40% more likely. Substitution will be nearly 100% for those going into jobs; and will also exist where people are frightened off the count and have to take steps to restore the income lost as a result. Best estimates of substitution in 12 month pilots were at least 25%. 6 month programme likely to have higher substitution than 12 month, since more likely to go into jobs.

-Repeated interviews could not have such a large impact as in estimate 1 (assumes a third interview has 60% effect of first). Interviews are the same, with the same sanctions. Our officials agreed that on a 2nd interview only one sixth as many people switch to another benefit, because most will have been sorted out at the first interview. Same logic applies to those frightened off the count: few extra will leave, because those who can be frightened off will already have been so. Some extra people will be frightened off or get new jobs: estimate 2 allows for that

* Even estimate 2 is in some ways more generous than the evidence warrants:

-allows average duration of 40 weeks off the count; but no evidence yet suggests more than 35 weeks

-makes no specific allowance for substitution for the perpetual programme; there will be substitution; officials have agreed that it is not clear whether adequate allowance has been made

-makes no allowance for fact that some people leaving the count and switching to other benefits may have been on credits only, so that Restart actually increases benefit expenditure

Defensive: for use only if pressed

[* Your officials claimed after papers submitted to us that new evidence showed weekly benefits savings for 6 month Restart were £45 not £37.50. Not yet examined by officials, so not agreed estimate. But even if were agreed, only alters estimate 2 by £4m: net cost is still £27m. So still need £30m savings on rounded basis]

[* If conceded 25% substitution, net cost would be £25m; or if conceded effect of 2nd interview was half that of first (ie was 2.5%), would be £22m]

[* DE cannot claim availability savings: already used to reduce public expenditure total in Autumn Statement and PEWP]

[* Short term improvements to Restart performance claimed in Lord Young letter (improvements in procedures against those failing to attend) valuable but only negligible effect on benefit savings; improvements for next Parliament cannot be taken into account now for 1987-88]

SPEAKING NOTES ON RUNNING COSTS

ANNEX B

(i) Have already increased your running cost and manpower provision for 1987-88 by 9% and 7% (not counting transfers from DHSS).

(ii) Percentage increase in DE Group running costs from 1986-87 to 1987-88 already 5.6% compared to 4.5% for civil service as a whole (as shown in PEWP). Increases of £35m (Restart) and £12m (JTS) raise DE increase to 10.9% and civil service overall to 4.9%. Totally unacceptable to announce running cost limits in 1987-88 Estimates on this basis - will undermine policy have just stressed in launching the PEWP.

(iii) Therefore must have substantial running costs offsets to bring DE figure to acceptable level. Must press for £20 million reduction - and even that leaves DE increase at 8.6% (and civil service at 4.7%).

(iv) For you to identify offsets. But eg:

(a) Further reductions in UBS costs will arise out of reductions in unemployment produced by these new initiatives. A total reduction in unemployment assumption (3.05m. GB narrow in the PEWP) of say 200,000 should yield savings of at least £10 million.

(b) Savings can be made in administrative costs of Community Programme. A reduction of 300 staff here could save £5 million.

SPEAKING NOTES ON SAVINGS AND ANNOUNCEMENT   ANNEX C

* Announcement must say that there is no addition to public expenditure and must be cleared with the Treasury

* No need to specify in the announcement precisely where savings have been found (top of page 3 of Lord Young letter)

* But must identify savings between ourselves before I can agree that there is announcement in public or to MSC. Must avoid any impression of pre-electoral risks with public finance. So must be in a position to say that savings have been identified; can tell inquirers to await details in Main Estimates

* Must include new proposals and savings in Main Estimates. Involve significant new policies and a switch between DE Vote (which covers CP) and MSC Vote. To prepare Estimates on a false basis would be deceiving Parliament. Obviously implausible to say there was no time between a 28 January announcement and Budget day to make changes to Votes.

* DE can take credit only for net public expenditure gain from CP cuts. But even so only need about 30,000 fewer places to cover the savings needed in 1987-88 for new JTS, EAS, and Restart. New JTS replaces CP for under 25s; that must presumably be announced. So should be no problem in revealing CP cut in Main Estimates

* Cannot rely on underspends for savings. If you think underspends are likely, the MSC estimate must have fat in them which I should cut out now. If underspends emerge in-year, should be surrendered to Treasury.

* Savings must be found for PES years on equivalent basis (but the details can await the next Survey)

Defensive

* The "if possible" qualification to the stipulation in the Chancellor's letter that changes be shown in Main Estimates applied only if the timing of the announcement was later than this

* including best assessment of savings in Main Estimates does not preclude adjustments in a subsequent Supplementary

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Cx FST EST MST
Mr F. Butler
Mr Anson
Mr Monck
Mr Burgner
Mr Turnbull
Mr C Allan
Mr Gray
Ms Noble
Mr S. Davies
Mr J MacAuslan
Mr Stern
Mr Cropper
Mr Tyrie
Mr Ross Goobey

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

John Turner Esq
Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 4QJ

20 January 1987

Dear John,

EMPLOYMENT MEASURES

Your Secretary of State discussed his letter of 16 January with the Chief Secretary.

Following an à deux discussion between Lord Young and the Chief Secretary, the Chief Secretary opened saying that there was no dispute whatever on objectives. This meeting aimed to fulfil the agreement reached at Lord Young's pre-Christmas meeting with the Chancellor to resolve the technical details of the public expenditure implications of Lord Young's proposals. The Chief Secretary thought there were three broad headings to discuss:

(a) the switches to be made and how they related to the Estimates timetable;

(b) the figures;

(c) the running cost implications.

Switches

Your Secretary of State explained that he did not wish to announce the source of the savings immediately. He envisaged that the MSC meeting on Thursday would recommend a 55,000 place training scheme financed with £35 million savings from adult training. He would then propose to write back on the day of his announcement saying that he would hope the MSC would implement an 110,000 place scheme.

He would make clear that this would be met within existing resources. Estimates would be published at Budget time on that basis.

The Chief Secretary said he attached great importance to Lord Young stressing that the new scheme would be financed within existing resources. So recently after publication of the Public Expenditure White Paper it would be very bad to give the impression that there was anything that could be interpreted as an expansion of resources. He was sympathetic to Lord Young's tactical points on how to handle the first two weeks. But he thought it important that the source of savings be identified in private before he announcement was made. He had no difficulty with the proposal that they should not be revealed in public until Estimates were printed for Budget Day. That would give time for the Commission to have a further meeting in February before the source of savings were publicly known. He asked your Secretary of State where savings were likely to come from. Your Secretary of State said that 90 per cent would come from the Community Programme or adult training. He was likely to be looking for much more fundamental restructuring of employment programmes post Election including a shift in the distribution of places towards areas of high unemployment and in its nature, and changes in Skillcentre provision; these changes would generate significant savings. He did not anticipate coming back and asking for more money from the Treasury for DE programmes in the future. Mr MacAuslan pointed out that DE could only take credit for the net public expenditure savings. It was confirmed that the figures had been worked out on this basis and was agreed to proceed as discussed.

Costings

Your Secretary of State referred to the discrepancy in costing of the six month Restart scheme arising from the different assumptions made by the Treasury and DE. Although he accepted that the Treasury had moved toward DE in accepting that time off the count was now 40 weeks, (he himself thought that further evidence would show that this too was an underestimate), there was still a severe discrepancy on the assumptions about substitution and the effect of repeated interviews. He believed there was a need for close monitoring in order to be able to improve the estimates. He thought the Treasury figures unduly pessimistic. His expectation was that repeated Restart interviews would be effective as case histories of difficult cases built up, and each Restart interview would become progressively tougher. The Chief Secretary pointed out that a lot of the easy cases would be eliminated at the first Restart interview. He thought it was right to err on the side of caution. Lord Young suggested that against the background of uncertainty it might be best simply to split the difference between the Treasury costing and his own which would give a net deficit to be found from other DE programmes of £10 million in 1987-88. Any net deficit to the PES years would be estimated on an equivalent basis; but savings need not be identified by officials until PES 1987.

Running Costs

The Chief Secretary explained that while he was well aware of Lord Young's concerns on running costs he faced two difficulties. The first was that he faced bids for running costs from other colleagues who had substantially less strong cases.The second problem was the public sensitivity of running costs. Lord Young's proposals would mean an increase from a 5.6 per cent year on year increase

CONFIDENTIAL

for DE to 10.9 per cent and would bring the average for the civil service as a whole up from 4.5 per cent to 4.9 per cent. That did pose considerable difficulties for him. Your Secretary of State said he would be prepared to issue a supportive statement to explain that staff intensive programmes like Restart inevitably increased running costs for very good policy reasons. The Chief Secretary said he would prefer this issue to be low profile. He was anxious that officials should do all they could to identify running costs offsets to reduce these percentage increases. Mr Dawe mentioned that the Commission would need to be told the staff numbers that they could have to implement "perpetual Restart." It was agreed that this might be better done not in the main letter but in a private letter from Mr Dawe to Mr Holland.

Summing up the Chief Secretary said that he was anxious that officials should work quickly to identify ways of reducing the running cost bid, reporting back before the announcement. He was however prepared to agree with Lord Young's compromise proposal of £10 million savings to be found from DE for the extension of Restart, on top of the switches to finance the proposals on JTS, EAS and YTS. Similar principles should apply to the latter years. The Chief Secretary stressed that he would wish in both 1986-87 and subsequent PES years to claw back any underspend - there could be no question of it simply being left within DE programmes. Officials should look now at the expenditure implications for 1986-87 of immediate preparatory work on JTS. The Chief Secretary wished to see the terms of Lord Young's letter to the Chairman of the MSC and the side letter on staffing and the terms of the proposed announcement.

Yours,

Jim

JILL RUTTER
Private Secretary

pmp

c/ ~~The plan is for Lord Young to announce this tomorrow (Wed)~~

Caxton House Tothill Street London SW1H 9NF

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JR 27/1

Ms Jill Rutter
Private Secretary to the
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

26 January 1987

Dear Jill

EMPLOYMENT MEASURES

Following Lord Young's meeting with the Chief Secretary on 16 January, you wrote to me on 20 January to say that the Chief Secretary wanted to see the terms of Lord Young's House of Lords statement and the letters which would be sent to the Manpower Services Commission. I am therefore enclosing a draft statement, a draft letter for Lord Young to send to the Chairman of the MSC and a side letter for Roger Dawe here to send to the MSC Director about staffing levels. The statement to the House of Lords has been drafted personally by Lord Young.

On current plans, Lord Young will be making his statement on Wednesday 28 January and I should be grateful if you could arrange for the drafts to be cleared by the close of play tomorrow, 27 January.

CHIEF SECRETARY	
REC.	26 JAN 1987
ACTION	Mr MacAuslan
COPIES TO	CC FST EST MST
	Mr Butler Mr Monck
	Mr Burgner Mr Gilmore
	Miss Peirson Mr Scholar

Mr Turnbull Mr Gray
Mr Culpin Mr Cropper
Mr Tyrie

Yours sincerely

John Turner

J TURNER
Principal Private Secretary

1 of 2

SECRET

Draft Statement

Draft Statement on Enterprise and Training Measures

My Lords, unemployment has fallen for five consecutive months and is now down by more than 100,000. Vacancies are standing at their highest levels this decade. Our unit costs are now rising slower than the rate of inflation and beneath that of our principal competitors. We shall shortly enter our seventh successive year of economic growth.

All this, building on the firm foundation of the million new jobs the economy has created since 1983, can only be good for employment. But with skill shortages already emerging and unemployment at its present level there is no time for complacency. The Government has therefore reassessed the scope and direction of the employment, enterprise and training measures. And as a result I am writing to the Chairman of the Manpower Services Commission to ask the Commission to undertake further measures that will give priority to our task to motivate and train unemployed people, particularly the younger generation, to fill the jobs that are now becoming available.

First, Restart is a success. By the end of March this year the Manpower Services Commission staff should have interviewed all the one and a quarter million people who will have been out of work for over a year. This has been an enormous task. I would like to pay tribute to our staff in the MSC, not only for the forty thousand interviews a week that they have undertaken but for the enthusiastic and sensitive manner in which they are completing their assignment.

We can see already that this programme, which operates to bring help and assistance to the long term unemployed, has had a marked effect. In the latest figures long term unemployment fell by 7,000 [at the same time last year it rose ...] [at a time when we would have expected it to rise] by 25,000. This improvement will be maintained.

My Lords, no other industrialised nation even attempts to provide help to each and every long term unemployed person. But even this is not enough.

Last October, my Noble Friend and Lord President of the Council announced to your Lordships House that the MSC would pilot, in nine areas, Restart interviews being offered to those out of work for six months or more. We thought that the earlier the help was received the more effective it would be. The results of these pilots have convinced us to extend the Restart counselling in two ways.

First there will be an additional earlier interview. From the end of March everyone who becomes unemployed for more than six months will be invited to attend a Restart interview. But we have decided to go further and our second extension is to offer a Restart interview at regular six month intervals for at least the first three years of unemployment. In the future there will be regular contact between Manpower Services Commission staff and unemployed people to help them, at different times and in different ways, back to work.

The counselling interview is, of course, only the first step - although a vitally necessary one - in the process of getting the unemployed back into work. This brings me to the second of the new measures I am announcing today.

Last October my Noble Friend also indicated to your Lordships House that the Manpower Services Commission would commence piloting an entirely novel training scheme designed specifically to meet the needs of those who have been out of work for 6 months or more. My Lords, this scheme has three essential elements. It applies to those who have been out of work for the requisite period, it takes place on employers premises and it must lead to recognised vocational qualifications.

The Manpower Services Commission has considered the pilots and last week the Commission endorsed the report of a working party on the shape of the new scheme. I wish to accept their recommendations in full.

My Lords, the Commission is concerned that quality be pre-eminent and I agree completely. They are further concerned that quality dictate the speed of any extension and I again agree, as I agree that qualifications from recognised examining and validating bodies must be part of every individual programme. Indeed these will be conditions of the Job Training Scheme which will be available for people who come to their first six month Restart interview.

My Lords, the reskilling of Britain is vital if we are to maintain our current economic progress and achieve the decline of unemployment. We have therefore decided that the new Job Training Scheme should be expanded on a national basis to coincide with the extension of the Restart Programme from March this year provided that the Manpower Services Commission can maintain quality in each area. With that very important proviso we will ask the Manpower Services Commission to provide up to 110,000 places by September of this year. This will mean that in a full year nearly a quarter of a million unemployed people will be given high quality training in skills that will enable them to compete, and to compete successfully, for jobs in today's labour market. This will offer a fresh start to the under 25s. They must be our priority.

My Lords, I have visited too many areas with high unemployment and heard too often many employers complain that they cannot find people with the right skills. I hope that this new training measure will play a major part over the next few years to provide the skills necessary to maintain our place in the world. It will, if the Manpower Services Commission can maintain the necessary quality of provision. I have every confidence that they can achieve that.

My Lords, the Job Training Scheme is for adults. My third announcement concerns young people. We are already ahead of most other countries in the steps we have taken in the last four years to train school leavers but there is a further step that I can announce today. The successful introduction of a 2 year YTS last year enabled us to guarantee a place to every 16 year old school leaver. Indeed, my Lords out of 475,000 school-leavers only 2,376 were still awaiting the offer of a place on this training programme by Christmas.

I propose to extend the guarantee of a place to every unemployed 17 year old school leaver. This will mean that each and every unemployed young person under the age of 18 is now guaranteed high quality training leading to a recognised qualification. This guarantee is unequalled by any of our principal competitors. For the first time, from this Easter there need be no unemployment under 18.

Finally, my Lords, there will be a further increase in the Enterprise Allowance Scheme. Over the last three and a half years more than 200,000 unemployed people have started to work for themselves under this programme. Self-employment is rapidly increasing in all parts of the country. Far from a North-South divide the increase since 1979 has been greatest in Yorkshire and Humberside - 77% - than it has been in any other region. The 43% increase in Northern region is close to the 46% increase in the South East.

We are presently expanding the Enterprise Allowance Scheme towards an annual target of 100,000 unemployed people setting themselves up in business. Next year that target will be increased to 110,000 - an expansion of 10% but here again I shall be asking the Manpower Services Commission to pay attention to quality and to the amount of help the new businessmen will have to help them succeed.

My Lords, the measures I have announced today constitute a major redirection of our labour market programmes to help the unemployed back into real jobs. Unemployed people need practical help to get back into work, not empty promises to create millions of jobs on local authority payrolls. They need help and training to compete successfully for the jobs which are already becoming available. We need to have a workforce with tomorrow's skills to compete in tomorrow's world. That is what these new measures will help accomplish and I commend them to your Lordships.

END.

26 January 1987

DM/C76

Bryan Nicholson Esq
Chairman
Manpower Services Commission
236 Grays Inn Road
LONDON
WC1X 8HL

Thank you for your letter of 22 January.

I am delighted at the success of both the pilot Restart and JTS schemes. Their success reflects enormous credit on the Commission and its staff and I am very glad to have this opportunity to record my gratitude and appreciation for the efforts of everyone concerned. The impact you have achieved through both these new schemes and the continuing success of EAS and 2 year YTS have made it possible for me to announce to Parliament this afternoon expansion in all four of these programmes of the Commission.

As you will see from the attached text of my statement in the House of Lords today, I accept in full the Commission's recommendation for extending the Job Training Scheme. I share the Commission's belief that the quality of the training provided must be the top priority. Provided that quality can be safeguarded, I agree that the scheme should be extended to all MSC areas and to all parts of the country. On this basis, the Government is providing the resources for training allowances for up to 110,000 people in places in the new scheme by September this year.

I note what you say in para 5 of your letter about the continuing eligibility for CP of 6-12 month unemployed aged under 25. However, I hope that it will be possible to move as quickly as possible to a position where the new JTS is the main programme for this group who need the quality training and qualifications it will provide to help them find jobs.

Turning to other programmes, it is clearly sensible that the Restart interviews should be the normal gateway to the new Job Training Scheme, since they enable your staff to assess the individual needs of unemployed people. I am therefore asking you to press ahead with the nationwide extension of the Restart Programme for 6 month unemployed people from the end of March when the interviewing of the existing "stock" of 12 month unemployed people is completed. This means that you will be able to retain all the additional staff you recruited last year for the Restart Programme. In addition, I would like you to go further than this and provide counselling interviews at six monthly intervals for every person who remains continuously unemployed at least to the point where he or she has been out of work for 36 months. Extra staff will be provided to the Commission to enable you to take on this new work.

I have no doubt that this further strengthening of the Commission's staff who deal directly with unemployed people is fully justified. Restart has demonstrated how effective individual counselling can be in getting the long term unemployed back into employment. As you know, in the third quarter of last year long term unemployment fell by 7,000 when in the same quarter of the previous year it rose by 25,000. I have every confidence that we shall see that improvement maintained and I pay tribute to the enthusiasm and sensitivity with which the Commission's staff have tackled the enormous task of interviewing some 1¼m of the long term unemployed.

Turning to young people under 18, when I met Commissioners on 15 December they urged me to extend the YTS guarantee to all 17 year old school leavers. I agree that, now Two Year YTS has been successfully launched, it is right to take this further step. I have therefore accepted your advice and I am asking you to take the necessary steps to ensure that sufficient places are available to extend the YTS guarantee as you have proposed, starting with this year's school-leavers.

Finally, I am asking you to increase the target for the Enterprise Allowance Scheme to a rate of 110,000 a year by April 1988. This has been a highly successful scheme and I am sure that it is right to keep up the momentum of expansion which you have achieved so successfully.

The MSC will be provided with additional resources to meet the full cost of extending Restart and a total of £102m for the costs of the allowances on the expanded Job Training Scheme. The existing provision for YTS should be sufficient to cover the cost of extending the guarantee of a place to all unemployed 17 year old school leavers. I welcome the decision of a majority of the Commission to switch £37m in 1987/8 and £40m in 1988/9 from existing adult training funds to finance some of the training costs of the expanded Job Training Scheme and I should be grateful for your advice on how the Commission's existing provision, including the programmes which you administer as my agent, might be redeployed to meet the remaining cost.

With the range of expanded programmes I am announcing today the Commission will be able to provide more help in assisting long term unemployed people back into work and in promoting enterprise and self employment and will be able to guarantee YTS places to all unemployed school leavers under 18 so that young people under 18 need no longer be unemployed. This amounts to a major new challenge for the Commission but one I am confident you will meet, as you have met so many others in the past.

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch

Lord Young's Budget reps got short shrift @ Overview meeting. Sympathy towards objective behind enterprise companies, but only answer seems to be new pullouts done to promote BES in regions. Need Lord Y's help for that.

AA

13/2

CHANCELLOR OF THE EXCHEQUER

C

Lord Young would like to have a short political chat with you about the Budget.

I have provisionally arranged this for 10.30am on Friday 13 February at No 11.

Content? — yes

Ch

Is this rather early — the day after Economic Cabinet?

AWK

D
6/2

035/81

CONFIDENTIAL

From: P R C GRAY

Date: 27 January 1987

CHIEF SECRETARY

cc Chancellor
FST
EST
MST
Mr F E R Butler
Mr Monck
Mr Burgner
Mr Turnbull
Miss Peirson
Mr Scholar
Mr C C Allan
Miss Noble
Mr Culpin
Mr Finnegan
Mr MacAuslan
Mr Stern
Mr Cropper
Mr Tyrie

It is essential that the 2 pts @ X (para 4) are fully met. I gather LdY has undertaken to the CST that they will be, but we must check the comparable revised draft. N.

EMPLOYMENT MEASURES: LORD YOUNG'S PACKAGE

IN? Lord Young's private secretary's letter of 26 January supplied the draft text for tomorrow's announcement and other associated pieces of paper. This minute provides comments on that, gives an updated report on our detailed exchanges with DE/MSC and provides a draft letter for you to send to Lord Young.

Running Costs and Manpower

2. We have now finalised the numbers. As you requested (Mr Felstead's minute of 23 January) we have held out for a £17 million offset to the running cost increase, and DE/MSC have now accepted this. So the net increase over the PEWP figures is £30 million in 1987-88, giving a year on year increase of 8.7 per cent. Although it does not significantly affect the year on year figures, we have also taken the opportunity to strip out most of the double counting of running costs between DE and MSC (to follow on the elimination of double counting between the Employment Group and DHSS you authorised last year), and this new approach will be reflected in the figures in the 1987-88 Main Estimates.

3. On the parallel issue of manpower numbers, I reported in my minute of 22 January that DE's gross bid was for an extra 3,500 posts at 1.4.88, and that we could be faced with an eventual net increase of 2,500. We have now got this down to 1965, and I recommend you to accept this as the minimum attainable figure. As warned in my earlier minute it will, however, contribute to major difficulties over the total 1.4.88 figures.

Lord Young's Statement

X

4. We see 2 main problems with the draft statement. First, there is no mention of the fact that the net cost of the package is being contained within existing net departmental spending plans (the increase in DE/MSC being offset by lower numbers for social security spending). Second, Lord Young is continuing to stress that the whole of the reduction in numbers of long term unemployed is due to Restart.

5. I attach a copy of the draft statement with manuscript amendments designed to remedy these main points and a number of other minor points. If you are content, I suggest your office should speak to Lord Young's office to register the points. The comments could then be spelled out in your letter to Lord Young (see below). There are also some related comments on the letter Lord Young proposes to send to the MSC Chairman (manuscript amendments also attached), which I suggest could be dealt with in the same way.

Letter to Lord Young

6. Pending the outcome of our detailed discussions with DE/MSC, you have yet formally to respond to Lord Young's letter of 16 January. I suggest you should now do this, recording the detailed points that have been agreed and including comments on the draft statement. A draft for this purpose is attached.

J MacAuslan

pp P R C GRAY

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DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

Write to: Secretary of State for Employment

EMPLOYMENT MEASURES

Following your letter of 16 January, we had a helpful discussion on 19 January and officials have since then been following up a number of detailed points. Your private secretary's letter of 26 January enclosed a draft of the statement you wished to make and of the letter you wish to send to Bryan Nicholson.

2. It may be helpful if I record first the agreements reached between us. We have agreed that provision will be made in the 1987-88 Main Estimates for the increased expenditure required for Restart, the new JTS and the Enterprise Allowance Scheme; and that offsetting reductions will also be shown. The text of the Estimates will also mention the various new initiatives, referring to your announcement, and will include a sentence to the effect that changes may be proposed later.

3. Compared with the detailed figures underlying the 1987 PEWP, the agreed changes with DE/MSC programmes are (£m):

UBS	+1.5
EAS	+10
Restart	+48.5
New JTS	+206
Jobclubs	-14
Old JTS	-23
WOTP	-14
NWS	-20
NWS Admin	-0.2
CP	-72
CP Admin	-2
JRS	-2
	+118.8

4. This net addition will be offset by reductions in the social security programme, reflecting a lower unemployment assumption than included in the PEWP.

5. Within the new total figures for your programmes, the agreed provision for running costs in 1987-88 is now £939.916 million, an addition of £30 million since the PEWP and an 8.7 per cent increase over 1986-87. There will be no change in the manpower ceiling for the Employment Group for 1 April 1987, but I can agree to an increase of 1965 posts for 1 April 1988, bringing your ceiling for that date to 61208.

6. We have also agreed that preparatory expenditure towards the new JTS can begin in 1986-87 so that the first trainees can be in place by April 1987, on condition that the expenditure incurred in 1986-87 is limited to no more than £2 million. I must emphasise that all remaining underspends in 1986-87 must be surrendered and the same must apply to any net underspending that comes to light during the course of 1987-88.

7. The mechanics of the adjustments to your programmes for years after 1987-88 can be settled for the beginning of the 1987 Survey. Officials are sorting out these details.

8. Turning to your draft statement, I have two main concerns. First, it is imperative for you to emphasise that the new initiatives are being financed within the existing departmental plans set out in the 1987 PEWP. Some doubt has been cast by commentators on the credibility of those plans, and they will be on the look out for any evidence that purse strings are being

relaxed. So I must insist that you make explicit mention of this point in the statements to both Houses and in the press release. If pressed as to where the savings are to come from, I suggest that we take the line that they will come in part from lower expenditure on social security benefits, and in part from savings on DE Group programmes including adult training; the details will be published in main Estimates on Budget day. I note that you are not planning to say anything about running costs or manpower in your statement; again, if pressed you might want to say that details will be in Main Estimates.

9. Second, it would be most unfortunate to give the impression that the **whole** of the improvement in the unemployment figures in recent months is due to Restart. Of course Restart is playing an extremely valuable role. But we also need to emphasise the improvements that are feeding through from economic performance.

10. I attach copies of your statement, and your letter to Bryan Nicholson, marked up in manuscript with amendments designed to make these and other points. Copies of the side letter to Geoffrey Holland (which has just arrived) and of the press notice (which has not yet) will also be returned as soon as possible, marked up as necessary with suggested amendments.

SECRET

Draft Statement

Draft Statement on Enterprise and Training Measures

My Lords, unemployment has fallen for five consecutive months and is now down by more than 100,000. Vacancies are standing at their highest levels this decade. Our unit costs are now rising slower than the rate of inflation and beneath that of our principal competitors. We shall shortly enter our seventh successive year of economic growth.

All this, building on the firm foundation of the million new jobs the economy has created since 1983, can only be good for employment. But with some skill ~~shortages already emerging~~ needs not being met and unemployment at its present level there is no time for complacency. The Government has therefore reassessed the scope and direction of the employment, enterprise and training measures within existing departmental spending allocations. And as a result I am writing to the Chairman of the Manpower Services Commission to ask the Commission to undertake further measures that will give priority to our task to motivate and train unemployed people, particularly the younger generation, to fill the jobs that are now becoming available.

First, Restart is a success. By the end of March this year the Manpower Services Commission staff should have interviewed all the one and a quarter million people who will have been out of work for over a year. This has been an enormous task. I would like to pay tribute to our staff in the MSC, not only for the forty thousand interviews a week that they have undertaken but for the enthusiastic and sensitive manner in which they are completing their assignment.

been contributing to an improvement.

We can see already that this programme, which operates to bring help and assistance to the long term unemployed, has ~~had a marked effect~~. In the latest figures long term unemployment fell by 7,000. ~~[at the same time last year it rose ...] [at a time when we would have expected it to rise] by 25,000.~~ This improvement will be maintained as the economy continues to strengthen.

My Lords, no other industrialised nation even attempts to provide help to each and every long term unemployed person. But even this is not enough.

Last October, my Noble Friend and Lord President of the Council announced to your Lordships House that the MSC would pilot, in nine areas, Restart interviews being offered to those out of work for six months or more. We thought that the earlier the help was received the more effective it would be. The results of these pilots have convinced us to extend the Restart counselling in two ways.

First there will be an additional earlier interview. From the end of March everyone who becomes unemployed for more than six months will be invited to attend a Restart interview. But we have decided to go further and our second extension is to offer a Restart interview at regular six month intervals for at least the first three years of unemployment. In the future there will be regular contact between Manpower Services Commission staff and unemployed people to help them, at different times and in different ways, back to work.

The counselling interview is, of course, only the first step - although a vitally necessary one - in the process of getting the unemployed back into work. This brings me to the second of the new measures I am announcing today.

Last October my Noble Friend also indicated to your Lordships House that the Manpower Services Commission would commence piloting an entirely novel training scheme designed specifically to meet the needs of those who have been out of work for 6 months or more. My Lords, this scheme has three essential elements. It applies to those who have been out of work for the requisite period, it takes place on employers premises and it must lead to recognised vocational qualifications.

The Manpower Services Commission has considered the pilots and last week the Commission endorsed the report of a working party on the shape of the new scheme. I wish to accept their recommendations in full.

My Lords, the Commission is concerned that quality be pre-eminent and I agree completely. They are further concerned that quality dictate the speed of any extension and I again agree, as I agree that qualifications from recognised examining and validating bodies must be part of every individual programme. Indeed these will be conditions of the Job Training Scheme which will be available for people who come to their first six month Restart interview.

My Lords, the reskilling of Britain ~~is~~ has a vital role to play as we ~~if we are to~~ maintain our current economic progress and ~~achieve~~ continue the decline of unemployment. We have therefore decided that the new Job Training Scheme should be expanded on a national basis to coincide with the extension of the Restart Programme from March this year provided that the Manpower Services Commission can maintain quality in each area. With that very important proviso we will ask the Manpower Services Commission to provide up to 110,000 places by September of this year. This will mean that in a full year nearly a quarter of a million unemployed people will be given high quality training in skills that will enable them to compete, and to compete successfully, for jobs in today's labour market. This will offer a fresh start in particular to the under 25s. They must be our priority.

My Lords, I have visited too many areas with high unemployment and heard too often many employers complain that they cannot find people with the right skills. I hope that this new training measure will play a major part over the next few years to provide the skills necessary to maintain our place in the world. It will, if the Manpower Services Commission can maintain the necessary quality of provision. I have every confidence that they can achieve that.

My Lords, the Job Training Scheme is for adults. My third announcement concerns young people. We are already ahead of most other countries in the steps we have taken in the last four years to train school leavers but there is a further step that I can announce today. The successful introduction of a 2 year YTS last year enabled us to guarantee a place to every unemployed 16 year old school leaver. Indeed, my Lords out of 475,000 school-leavers only 2,376 were still awaiting the offer of a place on this training programme by Christmas.

I propose to extend the guarantee of a place to every unemployed 17 year old school leaver. This will mean that each and every unemployed young person under the age of 18 is now guaranteed high quality training leading to a recognised qualification. This guarantee is unequalled by any of our principal competitors. For the first time, from this Easter there need be no unemployment under 18.

Finally, my Lords, there will be a further increase in the Enterprise Allowance Scheme. Over the last three and a half years more than 200,000 unemployed people have started to work for themselves under this programme. Self-employment is rapidly increasing in all parts of the country. Far from a North-South divide the increase since 1979 has been greatest in Yorkshire and Humberside - 77% - than it has been in any other region. ~~The 43% increase in Northern region is close to the 46% increase in the South East~~.

We are presently expanding the Enterprise Allowance Scheme towards an annual target of 100,000 unemployed people setting themselves up in business. Next year that target will be increased to 110,000 - an expansion of 10% but here again I shall be asking the Manpower Services Commission to pay attention to quality and to the amount of help the new businessmen will have to help them succeed.

My Lords, the measures I have announced today constitute a major redirection of our labour market programmes to help the unemployed back into real jobs. Unemployed people need practical help to get back into work, not empty promises to create millions of jobs on local authority payrolls. They need help and training to compete successfully for the jobs which are already becoming available. We need to have a workforce with tomorrow's skills to compete in tomorrow's world. That is what these new measures will help accomplish and I commend them to your Lordships.

END.

26 January 1987

DM/C76

Bryan Nicholson Esq
Chairman
Manpower Services Commission
236 Grays Inn Road
LONDON
WC1X 8HL

Thank you for your letter of 22 January.

I am delighted at the success of both the pilot Restart and JTS schemes. Their success reflects enormous credit on the Commission and its staff and I am very glad to have this opportunity to record my gratitude and appreciation for the efforts of everyone concerned. The impact you have achieved through both these new schemes and the continuing success of EAS and 2 year YTS have made it possible for me to announce to Parliament this afternoon expansion in all four of these programmes of the Commission.

As you will see from the attached text of my statement in the House of Lords today, I accept in full the Commission's recommendation for extending the Job Training Scheme. I share the Commission's belief that the quality of the training provided must be the top priority. Provided that quality can be safeguarded, I agree that the scheme should be extended to all MSC areas and to all parts of the country. On this basis, the Government is providing the resources for training allowances for up to 110,000 people in places in the new scheme by September this year.

within existing departmental allocations

I note what you say in para 5 of your letter about the continuing eligibility for CP of 6-12 month unemployed aged under 25. However, I hope that it will be possible to move as quickly as possible to a position where the new JTS is the main programme for this group who need the quality training and qualifications it will provide to help them find jobs.

Turning to other programmes, it is clearly sensible that the Restart interviews should be the normal gateway to the new Job Training Scheme, since they enable your staff to assess the individual needs of unemployed people. I am therefore asking you to press ahead with the nationwide extension of the Restart Programme for 6 month unemployed people from the end of March when the interviewing of the existing "stock" of 12 month unemployed people is completed. This means that you will be able to retain all the additional staff you recruited last year for the Restart Programme. In addition, I would like you to go further than this and provide counselling interviews at six monthly intervals for every person who remains continuously unemployed at least to the point where he or she has been out of work for 36 months. Extra staff will be provided to the Commission to enable you to take on this new work.

I have no doubt that this further strengthening of the Commission's staff who deal directly with unemployed people is fully justified. Restart has demonstrated how effective individual counselling can be in getting the long term unemployed back into employment. [~~As you know, in the third quarter of last year long term unemployment fell by 7,000 when in the same quarter of the previous year it rose by 25,000. I have every confidence that we shall see that improvement maintained and~~] I pay tribute to the enthusiasm and sensitivity with which the Commission's staff have tackled the enormous task of interviewing some 1¼m of the long term unemployed.

Turning to young people under 18, when I met Commissioners on 15 December they urged me to extend the YTS guarantee to all unemployed 17 year old school leavers. I agree that, now Two Year YTS has been successfully launched, it is right to take this further step. I have therefore accepted your advice and I am asking you to take the necessary steps to ensure that sufficient places are available to extend the YTS guarantee as you have proposed, starting with this year's school-leavers.

Finally, I am asking you to increase the target for the Enterprise Allowance Scheme to a rate of 110,000 a year by April 1988. This has been a highly successful scheme and I am sure that it is right to keep up the momentum of expansion which you have achieved so successfully.

The MSC will be provided with additional resources to meet the full cost of extending Restart and a total of £102m for the costs of the allowances on the expanded Job Training Scheme. The existing provision for YTS should be sufficient to cover the cost of extending the guarantee of a place to all unemployed 17 year old school leavers. I welcome the decision of a majority of the Commission to switch £37m in 1987/8 and £40m in 1988/9 from existing adult training funds to finance some of the training costs of the expanded Job Training Scheme and I should be grateful for your advice on how the Commission's existing provision, including the programmes which you administer as my agent, might be redeployed to meet the remaining cost.

With the range of expanded programmes I am announcing today the Commission will be able to provide more help in assisting long term unemployed people back into work and in promoting enterprise and self employment and will be able to guarantee YTS places to all unemployed school leavers under 18 so that young people under 18 need no longer be unemployed. This amounts to a major new challenge for the Commission but one I am confident you will meet, as you have met so many others in the past.

Offsetting savings elsewhere mean that there will be no addition to the total of departments' public expenditure allocations.

CONFIDENTIAL

from: J MACAUSLAN
date: 27 JANUARY 1987

MR CULPIN

c/ see also papes below

CR271

cc
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr FER Butler
Mr Anson
Mr Monck
Mr Burgner
Mr Judd
Ms Peirson
Mr Scholar
Mr Turnbull
Mr Gray
Ms Noble
Mr G White
Mr Hoare
Mr Tyrie

EMPLOYMENT MEASURES

DE Ministers are to make announcements in both Houses tomorrow, with a press release, about a new package of employment measures:

(a) national extension of the pilots of the **new Job Training Scheme**, up to 110,000 places (quality permitting)

(b) national extension of the pilot **Restart** interviews for those unemployed 6 months; and repeated interviews every 6 months for at least the first 3 years of unemployment (at present only the 12 month unemployed get interviews)

(c) a guaranteed **YTS** place for unemployed 17 year old school leavers (as foreshadowed in eg Cmnd 9482 para 29)

(d) an extra 10,000 entrants pa to **Enterprise Allowance**

2. I **recommend** that you explain to all callers that there is **no addition to public expenditure** totals, and no raiding of the Reserve. The cost of the measures will be met from within existing public expenditure totals [if pressed: partly from savings on social security expenditure, and partly from savings on DE Group programmes including adult training; details will be published in Main Estimates on Budget day]. **Other questions** should go to DE.

J MacAuslan

J MACAUSLAN

PUP

CONFIDENTIAL

from: J MACAUSLAN
date: 28 JANUARY 1987

MR CULPIN

cc Chancellor
Chief Secretary
Sir P Middleton
Sir T Burns
Mr FER Butler
Mr Anson
Mr Monck
Mr Burgner
Mr Turnbull
Mr Gray
Ms Noble
Mr Tyrie

EMPLOYMENT MEASURES

Further to my note of yesterday, the Chief Secretary agreed this morning with Lord Young that the line on the public expenditure implications of the measures should be that **they are financed within existing departmental programmes.** The Chief Secretary has asked that you should follow this line in dealing with the press.

2. Since there are switches between DHSS and DE, you will have to explain if pressed that the phrase means "within the total of existing Departmental programmes" as shown in Cm 56; the individual programmes are not unchanged; but the changes are offsetting. The Reserve has not been drawn on.

3. The substantive meaning is exactly the same as in my note of yesterday.

J MacAuslan

J MACAUSLAN

ps2/23R

CONFIDENTIAL

Rup

FROM: CATHY RYDING
DATE: 28 January 1987

PS/CHIEF SECRETARY

cc FST
EST
MST
Mr F E R Butler
Mr Monck
Mr Burgner
Mr Turnbull
Miss Peirson
Mr Scholar
Mr C C Allan
Miss Noble
Mr Culpin
Mr P R C Gray
Mr Finnegan
Mr MacAuslan
Mr Stern
Mr Cropper
Mr Tyrie

EMPLOYMENT MEASURES: LORD YOUNG'S PACKAGE

The Chancellor has seen Mr Gray's minute to the Chief Secretary of 27 January.

2. The Chancellor has commented that it is essential that the two points in paragraph 4 are fully met. The Chancellor gathers that Lord Young has undertaken to the Chief Secretary that they will be, but we must carefully check the revised draft.

CR

CATHY RYDING

CONFIDENTIAL

pvP

FROM: A C S ALLAN

DATE: 30 January 1987

MR McGIVERN - INLAND REVENUE

cc PS/Financial Secretary
Mr Cassell
Mr Monck
Mr Scholar
Miss Sinclair
Miss Evans
Mr Cropper
PS/IR
Mr Painter - IR
Mr A J Walker - IR

LORD YOUNG'S BUDGET REPRESENTATIONS

At the overview meeting on 26 January, the Inland Revenue were asked to provide a note on the proposal to put onto a statutory basis the extra statutory concessions for expenses for training costs.

2. The Chancellor wonders whether it might not be possible to widen this a little, without going as far as Lord Young proposed. Mr Walker's note of 22 January explained that for an employee, relief is allowed for expenses incurred in attending a full time course of training related to his present job; and that an employee is not assessed on training cost paid or reimbursed by the employer, provided the course is necessary for his <u>current</u> employment. For the company which pays for the employee's training, the expenses would normally be deductable for corporation tax provided they were of benefit to the employee's employment.

3. The sort of case the Chancellor has in mind which might not be relieved under these rules is one where an employee wishes to undertake some training primarily for his own benefit, but the company can itself see some benefit from it and so pays for, say,

half. Would the employer be able to deduct these expenses under the existing corporation tax rules? And would the employee be relieved under the existing concession from being assessed on the employer's contribution (assuming he was "higher paid")?

4. If the answer to either of these questions is "no", would your note please discuss the implications of widening the concessions to cover this sort of case.

5. There is also the issue of tax relief for the employee's own share of the training costs. It would be helpful if your note could discuss whether a concession here could be ring-fenced, or whether it would run into the same problems as Lord Young's wider proposals for "learn as you earn".

pp A C S ALLAN

MR 10/105

CONFIDENTIAL

b/f with response (on 26/2) P

FROM: A W KUCZYS
DATE: 17 February 1987

MISS SINCLAIR

cc: Mr Byatt
Mr Scholar
Mr G P Smith
Mr Cropper
Mr Isaac
Mr Mace
Mr Martin
Mr Weeden
IR
Miss Noble
Mr Hudson

1987 BUDGET: LORD YOUNG

When Lord Young came to see the Chancellor recently, he left with him the attached paper by his officials. The Chancellor would be grateful for an analysis and commentary on this as soon as possible.

2. The Chancellor has asked whether any work has been done on the effect of turning the personal allowances into tax credits? (That is, instead of the first £X of income being exempt from tax, the first £Y of tax would be waved.) The Chancellor would be grateful for a short note on this too.

A W K

A W KUCZYS

2-10

Confidential

LORD YOUNG

OK

DRAFT LETTER FROM THE CHANCELLOR

To: Rt Hon Lord Young of Graffham
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

we discussed the

~~It was helpful to discuss~~ at our meeting on 13 February the ~~proposed~~ enterprise measures ~~set out~~ you proposed in your letter of 17 December and ~~that from~~ in David Trippier's of 15 December.

One of the areas which we covered was the promotion of BES for local investment. You will know from the Peat's report that investment in BES companies broadly reflects the pattern for the creation of new companies across the UK as a whole. Nevertheless I share your view that more could and should be done to promote the use of BES for local investment in smaller expanding companies.

Despite the overall success of the Scheme, I suspect that many directors of small companies are hesitant about using it because they do not understand it properly. And potential investors may be worried about investing in small companies about which they know little or nothing. So there is a role for an intermediary to explain the Scheme and bring interested parties together. ~~No doubt~~ In some cases, this happens already, for example through Chambers of Commerce, Local Enterprise Agencies and, of course, the regional offices of your Department and the DTI. The St Helens Trust is a splendid example of what can be achieved through local initiatives, but ~~perhaps~~ I am sure that more could be done, especially by the LEAs. And it may be worth looking at the training given to Small Firms Service counsellors to ensure that they have an adequate understanding of the Scheme.

As we discussed at our meeting,

~~If you agree,~~ I suggest that officials from the Treasury, Revenue, DEm and DTI should look closely at the scope for stepping up our promotion effort and make some recommendations.

I have already asked the Revenue to prepare for publication some time after the Budget, a revised leaflet on BES and to circulate a draft at official level.

I also said that I might be able to do something on the existing extra-statutory concessions ~~for~~ on training costs. We are still examining this, as well as the points you raised on extending the concessions.

I am copying this letter to Paul Channon.

[NL]

DRAFT

Andrew

Have you seen pps on this?

N

Nigel

No. I'm getting this in my personal capacity, at this stage, but would be very grateful if somebody could get Mr Scotter's minute for me.

No hurry.

AH

CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House
FROM: B A MACE

DATE: 23 FEBRUARY 1987

MISS SINCLAIR

1987 BUDGET: LORD YOUNG

1. I have seen Mr Scotter's - if I may say so, admirable - note to you of 18 February which seems to deal with the questions raised here very thoroughly.

2. I would add only a couple of small points.

A tax exempt band

3. I recall looking at this idea before and our analysis was very much the same as Ian's. The cost would clearly be enormous. We have estimated that even such a modest proposal as extending the age allowance (and its associated withdrawal feature) to all taxpayers would probably cost nearly £2 billion; Lord Young's proposal would be much more expensive.

Tax Credits

4. I am sure Ian is right to say that what the Chancellor has in mind here are non-refundable tax credits: these are essentially a mechanism for giving personal reliefs at the basic rate only. We have estimated that the additional revenue from credits (allowances) at the basic rate only would be about £600 million but quite a bit of this comes from the effect of pulling more people into higher rates, as Ian's analysis shows.

---

cc Mr Byatt
Mr Scholar
Mr G P Smith
Miss Noble
Mr Hudson

Mr Mace
Miss Dyall
PS/IR

5. It is true that our manpower requirement would rise if more people were brought into higher rates as a result of a change to non-refundable tax credits. But I doubt whether there would be much, if any, extra work for those below the tax threshold; the change for them would be more of form than substance. What might be needed, however, is a fairly major recasting of the way PAYE codes work. We have put some work in hand to see what is involved here (it is relevant for the Labour and Alliance proposals). But if such a change was needed I would guess that it could take a minimum of about 18 months to 2 years to design, agree with employers and then implement.

BA Mace

B A MACE

From: J ODLING-SMEE
25th February 1987

CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton
Sir Terence Burns
Mr Culpin
Mr Riley
Mr Franklin

IFS GREEN BUDGET

You may be interested in the attached report of the conference at which the IFS presented its annual Green Budget. I also attach the Table of Contents and the three summary pages from the report.

2. This is the first Green Budget since Bill Robinson took over as Director. The macro-economic discussion in Part I and the assessment of the Government's financial position in Part II both seem fairly sensible although naturally not exactly the same as ours.

Thanks. My main worry is the difficulty we will have in standing up the estimate of 1987-88 PSBR we publish, in the FSBR [illegible] explaining PX figures [illegible] our [illegible] forecasts [illegible] other than [illegible] our approach [illegible] back [illegible] PSBR undershoots.

Rob O-S

J ODLING-SMEE

4030/026

Copies for T.B. Mr C. Smith Mr Scholar

FROM: MARK FRANKLIN 170/2

DATE: 20 February 1987

MR ODLING-SMEE -45/2

cc Mr Sedgwick
Mr Bottrill
Mr S Davies
Mr Mowl
Mr Riley
Mr Bredenkamp
Mr Kelly
Ms Turk
Mr Cooper

IFS GREEN BUDGET

I attended a morning conference on 13 February at which the IFS presented its annual Green Budget. The IFS team comprised Bill Robinson, Duncan Squire, Mike Devereux and Andrew Dilnot. The Chairman was Dick Taverne.

2. Opening the Conference, Bill Robinson said there were three reasons for supposing the 1987 Budget to be more "Macro" in emphasis than in previous years.

- revenue bouyancy implied that the fiscal adjustment in the 1986 FSBR could not be taken for granted

- the balance of payments had re-emerged as a constraint on policy

- several microeconomic options had been ruled out.

3. Going on to discuss the Macro Background and the Budget Judgement he pointed out that there was broad consensus that the underlying world background was favourable. In the UK, the financial background provided a welcome conjunction of low inflation and a lower exchange rate. Looking to 1987 the prospect was of balanced growth with consumption continuing to be driven by real earnings growth; exports aided by improved competitiveness, and investment promoted by high company sector profits. However, there are some risks:

- broad money growth is rising above its target range

- the exchange rate has fallen sharply

- the balance of payments has deteriorated

- the PSFD shows a looser fiscal stance than the PSBR. — So what? Bound to if there is privatisation.

4. These factors were, he said, well summarised by a single statistic: short term interest rates, which showed that the premium required by investors to hold sterling assets widened in 1984 and again in Jan 1985 since when it has been maintained.

5. Concluding his section Dr Robinson cited a speech made by Nigel Lawson in 1980 in which the case was made for a 'stepped' PSBR profile: not changing much as a proportion of GDP in recession years but falling fairly sharply in non-recession years. As well as being justified on grounds of fiscal prudence, cutting the PSBR might lead to a reduction in interest rates which would lead to an improvement in RPI inflation at least in the short term.

6. Duncan Squire then reported on the <u>Government's Financial Position</u>. Looking at the fiscal arithmetic in 1986/87, he suggested that the PSBR end year outturn was rarely higher than the 9 month total: £4.5 bn in the current financial year with exceptional items such as £0.5 bn from the privatisation of BA still to come. Interpretation of revenue receipts was made difficult by structural changes. The IFS view of 1986/87 was summarised in the following table:

RECEIPTS AND EXPENDITURE IN 1986/87

Summary of Main Changes compared with the Red Book.

<u>Effect on PSBR</u>		£bn
Lost North Sea Revenue		+1½
Extra Public Spending		+1½
Non-North Sea Revenues		-5
of which:		
Income Tax	- ½	
Corporation Tax	- ½	
Other taxes on income	- ½	
VAT	-1	

Other taxes on expenditure	-1
Rent, interest, dividends	-1
Public corporations receipts	- ½

PSBR effect	-2

The prospects for 1987/88 were summarised as follows:

RECEIPTS AND EXPENDITURE IN 1987/88

Summary of Main Changes compared with the Red Book.

	£bn
Extra Public Spending	-5½
Extra Income	+6½
Change to fiscal adjustment	+1

7. The IFS expect income and expenditure tax revenues to remain bouyant in 1987/88, with corporation tax receipts slowing due to the lagged effect of lower oil prices.

8. Compared with the Red Book fiscal adjustment of £2 bn, the IFS Green Budget thus arrives at a total fiscal adjustment of £3 bn. This, it was argued, might be allocated in the form of £2 bn of tax cuts and a £1 bn reduction in the PSBR from £7 bn to £6 bn.

9. The next speaker was Mike Devereux on <u>Tax and the Corporate Sector.</u> He explained some of the detail behind the Institute's projections of corporation tax and the implications of the changes introduced in the 1984 Budget. The basic message was that most of the revenue-increasing effects of the 1984 changes were probably over. I am circulating a separate note on the Institute's detailed calculations of corporation tax receipts.

10. Turning to the prospects for this year's budget Mr Devereux thought that further structural reforms were unlikely. Changes to the non-NS CT regime would probably be needed in the longer term but the Chancellor would lose credibility by additional changes

so soon after the 1984 reforms. Changes to the oil tax regime were unlikely given the recent firming of oil prices which had relieved some of the pressure on new fields.

11. The final session on <u>Personal Taxation</u> was presented by Andrew Dilnot. He began by summarising the grounds for reducing income tax by raising allowances compared with cutting the basic rate. He argued that raising allowances was an inefficient way of alleviating the poverty and unemployment traps and that the progressivity of tax allowances would be reduced by the Fowler reform of social security. Thus the balance of arguments pointed towards cuts in the basic rate.

12. As to other possible tax changes in the 1987 Budget, much had already been ruled out: widening of the VAT base; changing the tax treatment of pension funds: reform of personal allowances and reform of the structure of NICs. But Mr Dilnot said that the present Chancellor had something of a reputation for producing interesting Budgets so further changes were likely. Mr Dilnot suggested four possibilities:

- introduction of tax relief on profit-related pay;

- further expenditure on special employment measures;

- a cautious approach to indexation of specific duties on alcohol, tobacco and petrol;

- revenue-neutral changes to higher rates of income tax, to reduce marginal rates while holding average rates roughly constant. Two ways of achieving this would be to abolish higher rate relief for mortgage interest or to convert tax allowances into tax credits evaluated at the basic rate.

13. Questions and comments from the audience were rather scarce. Rosalind Levacic asked whether the panel could think of any reason for cutting taxes other than the proximity to an election. Bill Robinson replied that higher-than-expected tax revenues implied that some private sector agents were losing spending power. Peter

Norman of the Wall Street Journal thought that the recent US tax reforms made action on higher rates more probable given the international mobility of high income earners. Unidentified questioners asked the panel about empirical evidence on tax rates and incentives (little data existed on the very well off) and the cost of increasing mortage interest relief (uncosted because so improbable).

14. I attach (top copy only) the Green Budget report which sets out the contributions of the IFS team in more detail.

Mark Franklin

MARK FRANKLIN

CONTENTS

SUMMARY OF MAIN POINTS OF PART 1

- The world economy should continue to grow at some 2½ to 3 per cent this year with inflation remaining moderate.

- Last year's fall in the oil price has given a significant boost to real incomes and the consumer boom still has some way to go.

- The fall in the exchange rate should ensure a recovery of exports, while investment should also respond to the strength of demand and continued buoyancy of (non-oil) profits.

- Domestic output is starting to respond to the strong demand conditions and the resulting fall in unit costs will moderate the rise in inflation.

- The balance of payments will be in deficit.

- The Government will be judged not just on the current economic situation but on its record over two terms of office.

- It would like to show that growth has occurred spontaneously, not through covert reflation.

- The sterling M3 overshoot, the fall in the exchange rate and the revised public spending plans all point to a boom that is engineered rather than spontaneous.

- The present policy stance does not inspire confidence in financial markets, as evidenced by the exceptionally high real rate of interest demanded by those holding sterling assets.

- The perception of risk is heightened by the consumer boom and the slide into current account deficit.

- An expansionary Budget would add to these risks, and leave the Government vulnerable to a financial crisis in the pre-election period.

- If possible, the Government will therefore seek to present the Budget as fiscally conservative by reducing the announced PSBR target.

- It would hope in this way to reduce interest rates and hence also improve its inflation record.

SUMMARY OF MAIN POINTS OF PART 2

- Since revenue grows more rapidly than nominal GDP, while spending grows more slowly, the 'fiscal adjustment' (which provides the scope for tax cuts and/or for a reduction in the PSBR) tends to grow through time.

- The PSBR in 1986/87 could come in £2 billion below target (despite lost oil revenue and a public spending overrun) because corporation tax and expenditure tax receipts are extremely buoyant.

- A detailed analysis of corporation tax receipts, based on the IFS disaggregated model, suggests that revenues will remain high, though the recent rapid growth may soon come to an end.

- This buoyancy of revenues in 1987/88 means that, despite the large upward revision to the public spending planning total, there may be room for a fiscal adjustment of £3 billion rather than the £2 billion anticipated at Budget time last year.

- We expect only £2 billion of this to be allocated to tax cuts, so the authorities can announce a PSBR target of £6 billion.

- These projections, as always, are highly sensitive to oil revenues, of which we assume the Government will make a cautious projection based on a $15 price.

- If it assumes a higher price, we would expect it to announce a correspondingly lower PSBR rather than to spend the extra revenue on tax cuts.

SUMMARY OF MAIN POINTS OF PART 3

- The Government's strategy for reducing income tax has swung back from action on real tax allowances to cutting the basic rate of income tax, and we expect another penny or two off the rate in March.

- The poverty trap arguments for increasing allowances were never strong, and are even weaker since recent reforms of the social security system. We expect no more than conventional inflation indexing.

- There is some chance of a reduction in higher rates of tax, provided that the obvious political objections are spiked by simultaneous abolition of higher rate mortgage relief or by treating allowances as tax credits.

- The Government has largely ruled out changes to corporation tax, to value added tax and to the tax treatment of pension funds during the life of this Parliament.

- Changes to the tax treatment of North Sea oil, to increase the incentives for new exploration and development, are less likely now that the oil price has begun to recover.

- We expect the usual indexation of excise duties on alcohol, tobacco and petrol, although the Government is likely to be cautious because of the impact on retail prices.

- Further expenditure on special employment measures is an attractive option, since it can reduce the numbers unemployed at low cost. Additions and/or extensions to the existing range of schemes cannot be ruled out.

MR 11/83

UNCLASSIFIED

FROM: CATHY RYDING

DATE: 2 March 1987

MR ODLING-SMEE

cc: Sir P Middleton
Sir T Burns
Mr Culpin
Mr Riley
Mr Franklin

IFS GREEN BUDGET

The Chancellor was grateful for your minute of 25 February.

2. The Chancellor has commented that his main worry is that we will have difficulty in standing up the 1987-88 PSBR we published, because of sceptisism over the public expenditure figures. He sees no solution other than indicating our conservative approach to revenue forecasting, backed by our track record of PSBR undershoots.

CR

CATHY RYDING

Pup

COPY NO 4 OF 8

FROM: A P HUDSON
DATE: 3 March 1987

MR CULPIN

cc Mr Scholar
Miss O'Mara
Mr Allan
Mr Tyrie
Mr Ross Goobey

SPEECHES IN BUDGET WEEK

You were asked at yesterday's Overview meeting to set out the bull points from the Budget.

2. I have been giving some thought to how the more obvious themes might be split between Ministers for speeches in the week following the Budget. As you will know, the Chief Secretary has a meeting to discuss his speech on Friday (6 March).

Wednesday 18 March

3. The Chief Secretary's speech will follow that of Roy Hattersley. This looks to me an occasion for a vigorous rebuttal of Labour attacks, contrasting their policies and record with the Government's, and giving a new figure for Labour's spending plans. The Chief Secretary wanted to talk about pensions, and the Government's record on pensioners; no doubt this can be woven in.

4. I assume the Financial Secretary will wind-up on Wednesday. Perhaps he could say something about wider share ownership, setting out the results of the survey, though this is not strictly a Budget item.

Thursday 19 March

5. Ministers have agreed that the non-Treasury Ministers in the Budget debates should be Mr Clarke and Mr Channon.

6. We get unemployment figures on 19 March, which suggests that Mr Clarke should speak then and talk about jobs, and perhaps PRP.

7. Either the Economic Secretary or the Minister of State will wind-up that day. If it is the Minister of State, he might want to talk about PRP and/or the VAT measures.

Friday 20 March

8. On the Friday, we get the RPI, and the Chancellor is speaking at the Conservative Central Council meeting in Torquay. This speech will be an upbeat, party-orientated version of the overall message of the Budget.

Monday 23 March

9. The CBI Monthly Enquiry is published on the Monday.

10. Assuming Mr Channon speaks that day, he could talk about the success of the company sector and the Government's record both on tax and on other measures for business.

11. The Chancellor already has a news item for his wind-up speech. He could also look back to the Healey Budget of ten years ago, and, no doubt, restate the Government's overall message.

Conclusion

12. If you think this sort of breakdown is useful, perhaps we could incorporate it in the list of bull points.

APH

A P HUDSON

psl/6A

CONFIDENTIAL

FROM: A C S ALLAN

DATE: 3 March 1987

MISS SINCLAIR

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Odling-Smee
Mr Scholar
Miss C Evans

Mr Wilmott - C&E

PS/IR
Mr Calder - IR

DIRECT EFFECT OF BUDGET CHANGES

The Chancellor would be grateful for further advice on Tables 1.1 and 4.1 of the FSBR.

2. Last year, it was decided to change the presentation to show second year changes from a "non-indexed base". This was the result of considerable discussion - and from the back papers I can discover, several changes of tack.

3. The presentation adopted inevitably gives a rather larger change than that shown in the Scorecard, which measures the change from an "indexed base". The Chancellor is considering switching the presentation to that used in the Scorecard, but would first be grateful for a short note setting out the arguments for and against the various presentations.

ACSA

A C S ALLAN

ps2/25R

cc: CST
FST
EST
MST
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Bonney
Mr M Williams
Mr Walters
Mr Cropper
Mr Ross Goobey

PS/IR
PS/C&E

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

3 March 1987

Robert Gordon Esq
Private Secretary to
the Secretary of State for Scotland
Dover House
LONDON
SW1

Dear Robert,

1987 BUDGET

Thank you for your letter of 9 January to Alex Allan in which you set out your Secretary of State's Budget representations.

You will not expect me to respond point by point but the Chancellor does find it extremely valuable to have the comments and suggestions of his colleagues at an early stage.

Yours sincerely,

Cathy Ryding

CATHY RYDING

ps2/27R

CONFIDENTIAL

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Wilson
Mr Monck
Mr Scholar
Miss Sinclair
Mr D N Walters
Mr MacAuslan
Mr Cropper
Mr Tyrie
Mr Ross Goobey
PS/IR
Mr Walker - IR

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

3 March 1987

1 Catts
2 Reg

Rt Hon Lord Young of Graffham
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

Dear David

At our meeting on 13 February we discussed the enterprise measures you proposed in your letter of 17 December and in David Trippier's of 15 December.

One of the areas which we covered was the promotion of BES for local investment. You will know from the Peat's report that investment in BES companies broadly reflects the pattern for the creation of new companies across the UK as a whole. Nevertheless I share your view that more could and should be done to promote the use of BES for local investment in smaller expanding companies.

Despite the overall success of the Scheme, I suspect that many directors of small companies are hesitant about using it because they do not understand it properly. And potential investors may be worried about investing in small companies about which they know little or nothing. So there is a role for an intermediary to explain the Scheme and bring interested parties together. In some cases, this happens already, for example through Chambers of Commerce, Local Enterprise Agencies and, of course, the regional offices of your Department and the DTI. The St Helens Trust is a splendid example of what can be achieved through local initiatives. But I am sure that more could be done, especially by the LEAs. And it may be worth looking at the training given to Small Firms Service counsellors to ensure that they have an adequate understanding of the Scheme.

As we discussed at our meeting, I suggest that officials from the Treasury, Revenue, D/Em and DTI should look closely at the scope for stepping up our promotion effort and make some recommendations. I have already asked the Revenue to prepare for publication some time after the Budget, a revised leaflet on BES and to circulate a draft at official level.

CONFIDENTIAL

I also said that I might be able to do something on the existing extra statutory concessions on training costs. We are still examining this, as well as the points you raised on extending the concessions.

I am copying this letter to Paul Channon.

Yours ever
Nigel

NIGEL LAWSON

1925/8

FROM: S H WOODALL
DATE: 5 MARCH 1987

CHANCELLOR
MRS LAWSON o/r
MR T LAWSON
MR P LILLEY MP
MR A ALLAN
MISS C ASH
MR A WOOLEY
MR F LONG
MR A BOBSIN

cc Mr Culpin
Mr Porteous

BUDGET DAY: DEPARTURE FROM NO 11

Last year, the arrangements for the departure from No 11 could have been smoother. One of the main difficulties was that a photographer from the Financial Times was positioned in the hall inside No 11. I have therefore informed the FT that this facility will not be available to them this year.

2. I attach a detailed operational note which, hopefully, will ensure that the departure goes without a hitch this year!

3. If anyone sees any difficulties please let me know.

S H WOODALL

1925/8

OPERATIONAL NOTE: DEPARTURE FROM NO 11

1. Between 2.45pm and 2.50pm **Cindy Ash** and **Arthur Wooley** leave No 11 to be ready to open the car doors for the Chancellor and Mrs Lawson when they depart for the House.

2. At 2.55pm **the Chancellor, Mrs Lawson, Tom, Alex Allan and Peter Lilley** gather in the upstairs hall with **Simon Woodall.**

3. At 3.01 pm they make their way to the downstairs hall in the following order: **the Chancellor with Mrs Lawson** on his left, followed immediately by **Peter Lilley** (behind the Chancellor) with **Tom** and **Alex Allan** to his left.

4. **NB** The party will come into camera range as soon as they enter the downstairs hall.

5. As the party enters the downstairs hall **Fred Long** will open the front door and the party will walk through the hall (without stopping). **NB** The security guard should position himself on the far side of the hall out of range of the TV cameras.

6. Immediately the party enters Downing Street **Fred Long** will close the front door.

7. **Alex Allan** and **Tom** will immediately move to the near side of the Chancellor's car. **Arthur Wooley** will open the door and **Tom** will sit in the centre of the rear seat. **Alex Allan** will then wait in the government car on the far side of Downing Street. **Peter Lilley** will remain behind and to the right of the Chancellor.

8. After posing for the photographers **the Chancellor** and **Mrs Lawson** will move to the car. **Cindy Ash** will open the off-side door for the Chancellor and **Arthur Wooley** the near-side door for Mrs Lawson. **Peter Lilley** will move to the government car on the far side of Downing Street.

9. **Cindy Ash** should switch on the car headlights for the journey to the House.

MR 4/88

BUDGET CONFIDENTIAL

PWP

FROM: A P HUDSON
DATE: 6 March 1987

MR ROMANSKI

cc: PS/CST
PS/FST
PS/EST
PS/MST
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Miss O'Mara
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Ross Goobey
PS/IR
PS/C&E
Mr Jefferson-Smith - C&E

BUSINESS AND THE BUDGET

The Chancellor has seen Mr Judge's 5 March minute.

2. He agrees with the Minister of State: we should not give Mr Blair the credit. But he will claim it, and we need not controvert him.

APH

A P HUDSON

1925/8

FROM: S H WOODALL
DATE: 5 MARCH 1987

CHANCELLOR
MRS LAWSON o/r
MR T LAWSON
MR P LILLEY MP
MR A ALLAN
MISS C ASH
MR A WOOLEY
MR F LONG
MR A BOBSIN

cc Mr Culpin
Mr Porteous

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2. I attach a detailed operational note which, hopefully, will ensure that the departure goes without a hitch this year!

3. If anyone sees any difficulties please let me know.

S H Woodall

S H WOODALL

192576

OPERTIONAL NOTE: DEPARTURE FROM NO 11

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9. **Cindy Ash** should switch on the car headlights for the journey to the House.

4468/15/PN

BUDGET SECRET

COPY NO 1 OF 4

FROM: MISS C E C SINCLAIR
DATE: 5 March 1987

MR A C S ALLAN

cc Mr Scholar

DIRECT EFFECT OF BUDGET CHANGES

Paragraph 22(a) of my submission of 4 March says that I will be passing to you a copy of Table 1.1 on the Scorecard basis, so that you can show the Chancellor what it would look like.

2. It has since emerged that there was some misunderstanding as to what was meant by "the Scorecard basis" (last year it meant showing just two columns measured against an indexed base). What Mr Scholar and Sir Peter Middleton are suggesting is a three column presentation, as last year, but with the second year shown against an indexed base, rather than against a non-indexed one. I think it would be more helpful to show the Chancellor a table on this basis. It is attached.

CAROLYN SINCLAIR

TABLE 1.1 THE BUDGET MEASURES[1]

Tax proposals	£million 1987-88 Changes from an indexed base	1987-88 Changes from a non-indexed base	yield(+)/cost(-) 1988-89 Changes from an indexed base
Income tax basic rate[2]	-2200	-2200	-2820
Income tax			
- allowances	- 10	- 705	- 10
- thresholds	+ 40	- 65	+ 80
Excise duties			
- oils (net of bus fuel grants)	- 240	-	- 260
- vehicle excise duty	- 90	+ 5	- 90
- tobacco	- 105	-	- 110
- alcohol	- 105	-	- 110
- on-course betting duty	- 20	- 20	- 20
- gaming machine licence duties	+ 20	+ 20	+ 20
VAT			
- partial exemption rules	+ 300	+ 300	+ 400
- small business package	- 115	- 115	- 60
- other	- 5	- 5	+ 20
Inheritance tax	- 70	- 85	- 160
Corporation tax	- 20	- 20	+ 240
Profit related pay	*[3]	*	- 35
Pensions	*	*	- 65
Other tax measures	- 5	- 10	+ 85
Total tax measures	-2625	-2900	-2895

-[illegible]35

-2920

1 These measures and the basis of the costings shown, are described in detail in Chapter 4.

2 Figures include the effect of the consequential change in the rate of advance corporation tax.

3 Negligible.

27

From: SIR PETER MIDDLETON

Date: 5 March 1987

CHANCELLOR

cc Financial Secretary
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Scholar
Miss Sinclair
Miss C Evans

PS/IR
Mr McGivern) IR
Mr Calder)

Mr Wilmott - C&E

I agree, on balance, with Mr Scholar: we still want to show 1987-88 on both bases, & 1988-89 on an indexed basis only. I see no difficulty in explaining this as a further improvement in our ever-improving presentation. 2. Re Lloyd's etc, I am content with Miss Sinclair's proposal in 22(b).

DIRECT EFFECT OF BUDGET CHANGES

Miss Sinclair's attached minute.

2. In logic, the scorecard approach using an indexed base seems to be the right one for year 2. This was the conclusion we came to on the merits last year. But there will be occasions when it makes the Budget effects in year 2 look tiny. I think Mr Scholar is right in guessing that we switched to a non-indexed base at the last minute because the column would have been full of nils and negs on an indexed base.

3. We clearly cannot switch between an indexed and a non-indexed base according to which suits our presentation in any particular year. And the fact that we used a non-indexed base on last year is itself relevant: we have to explain the change if we make it. The alternatives are therefore to stick to the non-indexed base and have a relatively large second year effects or to switch to an indexed base which is better this year but which may not always suit us and which we should have to say we shall stick to from now on. I think I rather prefer the first option, but not with any great conviction.

pp P E MIDDLETON

4468/9/PN

BUDGET CONFIDENTIAL

I agree, but with one reservation. I think we must continue to have three columns in both tables, and that 1987-88 should be shown on a non-indexed as well as an indexed basis. 1988-89 would be on an indexed basis alone. I doubt whether we would be much criticised for this. But our answer (Miss Sinclair's valiant efforts in para 15) to the criticism that we change the presentation whenever it suits us is pretty threadbare.
MCS 4/3

FROM: MISS C E C SINCLAIR
DATE: 4 March 1987

1. MR SCHOLAR ✓
2. SIR P MIDDLETON
3. CHANCELLOR

cc PS/Financial Secretary
Sir T Burns
Mr Cassell
Mr Odling Smee
Miss Evans

PS/Inland Revenue
Mr McGivern - IR
Mr Calder

Mr Wilmott - C&E

DIRECT EFFECT OF BUDGET CHANGES

You asked for further advice on Tables 1.1 and 4.1 of the FSBR. You said that you were considering switching the presentation to that used in the Scorecard, but wanted first to be reminded of the arguments for and against the various presentations.

2. I also promised you a note about the treatment of Lloyd's in the FSBR following your decision not to propose phasing at the outset. This is also discussed below.

TABLE 1.1 AND TABLE 4.1

Present basis

3. The presentation adopted for last year's FSBR was the same for both Table 1.1 and Table 4.1. First year costs were shown against both an indexed and a non-indexed base. Second year costs were shown against a non-indexed base only.

or you may not!

4. You may recall that you decided on this presentation after considering Table 4.1 on a Scorecard basis ie with costs shown against the indexed base only in both years 1 and 2. It is not * now entirely clear why this decision was reached; but you may have been concerned that presentation against an indexed base only did not bring out the immediate cash cost eg of increases in allowances.

✓ I think * was it because 1987-88 on an indexed basis looked very odd last year - all nils and negs? MCS

? Also bit odd to have too much "indexation" when MTFS stressed cash.

Previous basis

5. Before 1986, Table 1.1 was presented on 4 bases: indexed and non-indexed for both the first year and the 'full year' (you will recall that we switched from 'full year' to second year last year). But Table 4.1 showed the effects for first year and full year against a non-indexed base only (with the cost of indexation shown in footnotes).

Scorecard basis

6. This would involve showing first and second year costs in both Table 1.1 and Table 4.1 against an indexed base only. This would be simpler compared with the three column approach adopted last year.

Arguments for

7. The main argument for putting the presentation in these tables on the same basis as that in the Scorecard is that this would be consistent with the forecasting assumptions which underlie the FSBR (including the inflation assumptions published in it). This is why the indexed presentation is used in the Scorecard.

8. A second important point for Ministers is that they would only need to familiarise themselves with one set of figures for the total direct revenue effects of the Budget.

9. Presentation against an indexed base substantially reduces the cost of increasing income tax allowances. It also reduces the yield from increasing excise duties. This can be helpful.

Arguments against

10. There could be times when it would be helpful to highlight the effect of figures measured against an unindexed base, for example, if it had not been possible to index tax allowances fully; or a change was proposed to the structure of tax which was designed to avoid cash losers (this is the obverse of the first point in paragraph 9 above).

11. Presentation of the figures measured against an indexed base will mean that when excise duties are unchanged, a "cost" is shown in each year (this is the obverse of the second point in paragraph 9 above). Such "costs" could appear paradoxical to the uninitiated.

12. A switch in emphasis to an indexed presentation might appear odd at a time when inflation is low.

Comment

13. None of the arguments against the Scorecard presentation are particularly telling. Indeed, we came very close to presenting the tables this way last year. Paragraphs 9 and 10 bring out the gamble involved in choosing one presentation rather than another.

14. You will want to consider the possible reaction to two changes of presentation in two years. Last year's change in the Tables aroused no public comment. It was of course part of a wider change in the FSBR, including a more accessible version of Chapter 4.

15. If the change to Scorecard presentation in the Tables did provoke questions, we could say that it was a further refinement of the change introduced last year, when we began to show second year figures rather than notional 'full year' ones. We could say that we had decided, on reflection, that the indexed presentation sat better with the forecasting assumptions underlying the rest of the FSBR. We cannot guarantee that there will be no discomfort on the point eg if someone asks what the second year figures would be measured against an unindexed base. But we do not think the risk is very great. In fact, some commentators may welcome the new presentation, recognising that it sits better with the rest of the FSBR. On balance we see no reason to advise you against using the Scorecard presentation. Inland Revenue and Customs would support this.

PRESENTATION OF LLOYD'S MEASURE IN FSBR

16. At your meeting on 27 February it was agreed that phasing of the proposed change in the tax treatment of Lloyd's RIC would not be mentioned either in the Budget speech or in the FSBR. Phasing, or even an opening adjustment for the first year, would be concessions to be kept up our sleeve pending the outcome of detailed discussions with Lloyd's due to start immediately after Budget Day. In the Budget Speech you are proposing to say that the yield from the change will depend on the precise details of the new treatment.

17. The question is what we should now put in Table 4.1 and the Annex to that Table. (The entry for the Lloyd's item in the main chapter itself is not a problem - see Annex A for current text).

18. Although there are uncertainties about the size of the yield on any basis, Revenue's best estimate of the effect of the change, without phasing or an opening adjustment, is:

1987/88		**1988/89**
	£m	
Nil		+35

You may remember this figure from earlier versions of the Scorecard.

19. At your meeting you said that the Finance Bill should contain a clause making the necessary changes but without either an opening adjustment or phasing. You may only want to decide exactly what to include in the Finance Bill as published when you know how the detailed discussions with Lloyds are progressing. Once a firm decision on legislation has been reached, it would be usual to give figures of yield eg in Notes on Clauses. Meanwhile you might prefer not to show any yield figures in the FSBR.

20. If you do wish to keep open your freedom of manoeuvre in this way, we would propose the following treatment in Table 4.1 and the Annex.

		1987/88	1988/89
15	Legislation on Lloyd's reinsurance to close.	-	†

† Details of measure subject to consultation, so no cost/yield estimates possible at present. See Note 15 in Annex.

Note 15 in the Annex would read:

"The tax treatment of Lloyd's reinsurance to close will be made consistent with the treatment of provisions for outstanding liabilities made by insurance companies and similar provisions made by other financial traders. The legislation will first take effect for Lloyd's 1985 Account which closes at the end of 1987. This is assessable for the year 1985-86, the tax for which does not become payable until 1 January and 1 July 1989. The estimate of receipts depends on the details of the new arrangements, which are still to be established."

This presentation would avoid any yield figures being shown in the FSBR, including the eventual annual yield estimate of £30 million.

21. The new presentation of Table 4.1 does not lend itself easily to daggers and footnotes and you had expressed a desire to get away from them. But in the circumstances, this seems the best treatment.

CONCLUSIONS

22. It would be helpful to know

(a) Whether, in the light of paragraphs 3-15 above, you wish to present Table 1.1 and Table 4.1 on a Scorecard basis ie with first and second year costs shown against an indexed base only (I am passing a copy of Table 1.1 on this basis to your Private Secretary so that you can see what it would look like);

attached

(b) Whether you agree that the entry for Lloyd's in Table 4.1 should have a dagger and a footnote, with no yield figures shown in the FSBR;

CAROLYN SINCLAIR

ANNEX A

FSBR CHAPTER 4

LLOYD'S: REINSURANCE TO CLOSE

Legislation is proposed to bring the tax treatment of members of Lloyd's into line with the normal tax treatment of provisions for outstanding liabilities made by ordinary insurance companies and of similiar provisions made by other financial traders. These proposals would affect the tax treatment of Lloyd's reinsurance to close and will first apply to premiums paid for the 1985 Lloyd's account closing at 31 December 1987.

CONFIDENTIAL

Prey

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 March, 1987.

Ch
You asked about sending Budget Speech to PM. Past practice seems to have varied: Andrew Turnbull remembered you discussing it at a bilateral in the week before the Budget. Michael Scholar thought she got it the day before the Budget

one year! Could do middle of next week? Or w/e box?
AA

Dear Alex,

BUDGET PROPOSALS

The Prime Minister has seen the Chancellor's minute of 5 March which set out his proposals for this year's Budget. As you know, the Prime Minister and the Chancellor have discussed the majority of these at bilaterals in recent weeks, and the Prime Minister is content. She has noted that the Chancellor will be minuting separately about his proposals for monetary targets and PSBR.

Yours,
David

(David Norgrove)

CH/EXCHEQUER
REC. -6 MAR 1987
ACTION
COPIES TO Sir P Middleton
Mr Cassell
Mr Scholar

Alex Allan, Esq.,
HM Treasury.

I shall aim to have it for the w/e box. [illegible]

CONFIDENTIAL

BUDGET SECRET

Copy No 2

FROM: F CASSELL
6 March 1987

ECONOMIC SECRETARY

The only potential problem looks to be x: at 1st sight

cc CHANCELLOR
Chief Secretary
Financial Secretary
Minister of State
Sir P Middleton
Sir G Littler
Sir T Burns
Mrs Lomax
Mr Peretz
Mr Scholar
Mr Hall
Mr Ilett
Miss Sinclair
Mr Haigh
Mr Cropper
Mr Ross Goobey
Mr Tyrie
Mr Painter) IR
Mr Johns)
PS/IR
Mr Jefferson Smith, C&E

IMPACT OF THE BUDGET ON THE FINANCIAL SECTOR

I attach a paper, prepared in consultation with the Revenue and the Bank, on the likely impact of the Budget measures on the financial sector.

F CASSELL

FINANCIAL SECTOR

This note assesses the likely effects of Budget proposals on the financial sector.

2. Taken as a whole the Budget is not likely to have a major impact on the financial sector. But particular measures will affect a few particular parts of it. Two proposals will be seen to be directed specifically at financial instititutions:

(i) action to restrict relief on foreign lending

(ii) action to restrict Lloyds' end-of-year provisions ("reinsurance to close")

3. In addition some changes of wider application may have significant effects on the sector, directly or indirectly. Some of these will be adverse:-

(i) charging corporate capital gains at full corporation tax rates

(ii) alignment of corporation tax payment dates at 9 months after the company's year-end

(iii) action on dual resident companies

(iv) changes to the VAT partial exemption rules.

Others will be favourable:-

(v) the new personal pension arrangements and free standing AVCs;

(vi) stamp duty exemption for gilt warrants to be issued by City institutions in the Euromarket;

(vii) CGT treatment of OTC options and futures in the hands of non-dealers (ie not trading) who could include banks, pension funds and life assurance companies. They would get some small benefit in terms of increased flexibility to hedge. Options disposed of at a loss would no longer be treated as wasting assets.

4. It is also worth mentioning one item which will <u>not</u> be in the Budget. No legislation is proposed to extend tax relief on foreign exchange differences. The Revenue issued a Statement of Practice on 17 February setting out their view of existing law and indicating, in particular, that new foreign currency "roundabouts" may in future be subject to challenge. The impact of this (on banks) will depend on the extent that they can show matching between their foreign currency assets and liabilities. At the same time, the Revenue are starting discussions with the interested bodies with a view (but no commitment) to legislation next year. It is clear that the main interest groups (including the main financial sector representative bodies) will be satisfied with nothing less than legislation.

5. This note does not generally attempt to quantify the overall tax cost of these measures to the sector. Apart from the considerable uncertainty surrounding many of the figures, the effects in many cases will fall unevenly between different parts of the sector (or between individual companies), and in some cases raise questions of effective incidence - how far will the costs stick with the financial institution rather than being passed on to the customer?

A. SPECIFIC MEASURES

<u>**Double taxation relief on foreign lending**</u>

6. The proposal will allow credit for foreign withholding tax (actually paid or deemed to be paid) only against the UK tax attributable to the margin on the loan in question. At present

banks in the UK can set this credit against <u>any</u> profits taxable in the UK (including purely domestic UK profits). This is more generous than the treatment in our main competitors, and the Budget proposal would put our regime closer to theirs.

7. It will reduce the tax credit available to banks in the UK by some £60m at the present 6% rate of $LIBOR. The full yield will not come in before 1989-90 because a year of grace is proposed for existing loans. In some cases, the cost will probably be passed on to borrowers under the terms of existing loans. But where the tax ultimately falls will be determined by competition and most of the cost is likely to be borne by the banks as a reduced net-of-tax margin.

8. This is bound to make some business less attractive to London banks - particularly loans to countries, such as Brazil, with a high withholding tax. Many of these loans are long-term, and the withdrawal of relief is likely to be criticised on two counts:

- It will discourage lending to Brazil and other LDCs.

- The period of grace for existing loans is much too short.

The first charge would hardly carry much conviction in present circumstances (though it will no doubt be made). The second has perhaps more to it. In the light of the reaction to the measure it might be worth considering a longer grace period.

9. About 30% of the reduction in tax credit would be attributable to UK banks (including the clearers, although for them this is not a substantial proportion of their business); and the remaining 70% to UK branches, subsidiaries and consortia of foreign banks.

10. The effect of this is likely to be the loss of some business to banks in the UK, but this is business that only comes to London at present because of an effective subsidy.

Lloyd's end-of-year provisions

11. The proposal will allow the Revenue to challenge the "re-insurance to close" deductions in the accounts of Lloyds' names to reduce them into line with the deductible provisions allowed to corporate insurers. This will be announced in the Budget. There will subsequently be discussions between the Revenue and Lloyd's on the detailed implementation of the proposal. This could affect the size of the yield, and consequently no yield figures are being shown in the FSBR. (The Revenue's current estimate is that the change would produce a once-for-all yield of £150 million, with a continuing annual yield thereafter of £30 million.) The effect of the proposal would be spread over about 30,000 names.

B. GENERAL MEASURES

Charging corporation capital gains at full CT rates

12. The proposal will charge capital gains of companies (less indexation allowance) at the full 35 per cent corporation tax rate (or at the small companies' rate where applicable). At present these gains are effectively charged at 30 per cent.

13. Life companies (both the mutual offices and the others) will face higher tax bills as a result of this change (although on the Revenue's reckoning this should be supportable) and will complain that the new treatment damages their competitive position vis-a-vis authorised unit trusts and approved investment trusts who are exempt from tax on their gains. However, personal pensions, free-standing AVCs and the proposed "no-frills" occupational pension schemes are all potentially attractive new products opened up for the life offices.

14. Pension funds are exempt from tax on their gains. Banks, building societies and dealers will be unaffected to the extent that their turn on transactions in financial assets is already treated as trading profit.

Alignment of CT payment dates at 9 months

15. This proposal will have no systematic effect on the financial sector: the effect will vary between firms according to their individual status as pre- or post- 1965 companies and in many cases will vary between individual members of a single group of companies. Not surprisingly, however, many of the larger financial institutions contain pre-1965 companies which will face accelerated payment (many will have substantial parts of their business in such companies). For the financial sector as a whole - apart from building societies - about a quarter of the total corporation tax is due from companies with a payment gap of more than nine months, and will be advanced by an average of about five months.

16. For 3 of the big 4 clearing banks, their main UK banking activity will be affected by the change. UK branches of foreign banks, by contrast, will be wholly unaffected.

17. Building societies are a special case: most societies - including the very largest - pay more quickly than 9 months after their year-end at present and so will gain from the change. Out of 140 societies with assets over £1m. over 70 (including the Halifax, Abbey National, Nationwide, Leeds and Woolwich societies) gain; 15 are unaffected; and 53 lose - but of these 44, including the largest societies in this group, face an acceleration of 3 months or less.

Dual resident companies (DRCs)

18. Legislation to match the US action against the double deduction for DRCs has already been announced. In the short-run, companies affected may lose little more from legislation in both the UK and the USA than they would in any event have lost from legislation in the USA alone. The response to consultation on the UK legislation has, consistent with this, been resigned on the principle of the legislation. (Important technical points have been raised, however, on which the Revenue will be minuting shortly). About 170 groups have used the device, about two thirds

of them UK-based. Very few of these are in the financial sector, but those that are involve very large figures. It has been argued that loss of the DRC loophole may mean a loss of financial business to the UK on the basis that DRCs have brought lending and treasury business here: but there is little reason to think this significant. Even if it is, the US action will have substantially reduced the attractions of using DRCs.

VAT: partial exemption rules

19. Our general intentions in this area were already announced in December. Pure financial sector businesses are generally likely to be little affected. Since their business is wholly or largely VAT-exempt, they are already effectively dealt with by the existing partial exemption rules. The firms affected will be those carrying on an exempt business as a relatively small subsidiary to a larger business subject to VAT: this includes in particular those with a finance or insurance sideline. Despite this involvement with the financial sector, the main business of firms affected will generally fall in other sectors.

20. There is one particular aspect of the proposals which will affect the financial sector. This concerns new capital issues, including Eurobonds. As issues of securities are VAT exempt, the issuing company's right to deduct tax on services supplied in connection with new issues will be restricted by the Budget proposal. Customs have carried out a consultation on this point. Their proposal is to reduce the amount of sticking VAT which the issuing companies will have to bear, by exempting underwriting and the management expenses of new issues. This, however, has the consequence that those providing such services will be able to deduct less input tax themselves. The exemption cannot be extended to legal and accountancy advice, as that would be contrary to the EC Sixth Directive on VAT.

21. There have been criticisms that this measure will cause firms to organise their capital issues from a non-EC base (eg Channel Islands). This could happen for two reasons:

(i) That the partial exemption changes themselves, coupled with the fact that we cannot exempt legal and accountancy services, will increase the VAT directly borne by companies making new issues in London.

(ii) That since the ability of those providing financial services to deduct input tax will be less than it is now, their charges to the issuing companies will go up.

For both these reasons companies making new issues could find it cheaper to use offshore facilities. The Bank of England think that this risk may be significant. But at this stage we cannot see how an exception can be made without knocking a major hole in the partial exemption package (which brings in £300-£400 million of revenue). X

Personal pensions

22. Financial institutions - insurers, banks, building societies and unit trusts - should gain from the introduction of personal pensions (possibly in January 1988) and have generally welcomed the tax proposals already announced. It is estimated that up to 750,000 people could take out personal pensions, with perhaps a further 500,000 people joining occupational schemes, starting in early 1988. The addition of freestanding AVCs will also be welcome.

Building societies

23. Apart from the alignment of CT payment dates, which will generally mean a cash flow gain for societies, they will also benefit from a package of relaxations to the composite rate regime allowing payment of interest gross on

- certificates of deposit between 1-5 years' maturity

- foreign currency time deposits; and

- deposits by the society's own subsidiaries.

A fourth candidate for gross payment on solicitors' general client deposits remains under consideration.

Conclusions

24. Building societies, and small companies in the financial sector, should gain from the Budget (although some in both groups will lose overall). Life offices, banks doing tax-withheld foreign lending business, and Lloyds names will be consistent losers. Apart from these sub-groups, it is difficult to discern any clear pattern. Losers from other measures will be scattered more or less randomly across the sector. Some firms will lose from more than one of these measures. It is possible to identify characteristics which increase the risk of multiple loss: large, diverse and sophisticated firms are more likely (for example) to be both "pre-65" corporation tax payers, and users of the dual resident company device. But these correlations are not strong.

25. There may be some loss of business to London - partly because of the withdrawal of relief on foreign lending (though this lost business would be difficult to justify on economic grounds) and partly because the side-effects of the changes in VAT partial exemption rules might divert some new issues off-shore.

psl/21A

BUDGET CONFIDENTIAL

PMP

FROM: A C S ALLAN
DATE: 6 March 1987

SIR P MIDDLETON

cc PS/Financial Secretary
PS/Economic Secretary
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Scholar
Miss Sinclair
Miss C Evans
PS/IR
Mr McGivern - IR
Mr Calder - IR
Mr Wilmott - C&E

DIRECT EFFECT OF BUDGET CHANGES

The Chancellor was grateful for your minute of 5 March, Miss Sinclair's of 4 March and Mr Scholar's manuscript comments.

2. He feels, on balance, that we should move to showing 1987-88 on both bases, and 1988-89 on an indexed basis only. He sees no difficulty in explaining this as a further improvement to our ever-improving presentation.

3. On Lloyd's RIC, he is content with Miss Sinclair's proposal in paragraph 22(b) (ie a dagger and a footnote, with no yield figures shown in the FSBR).

ACSA

A C S ALLAN

Inland Revenue

Policy Division
Somerset House
FROM: B A MACE

DATE: 6 MARCH 1987

Copy no 1 of 16

1. MR ISAAC 6.3

2. CHANCELLOR OF THE EXCHEQUER

Thanks
2. I have made a number of comments passim
3. I agree that Tables 7B, 8B, 10B & 11B should be dropped.
4. I think the graphs will need approval

BUDGET 1987: MAIN INCOME TAX PRESS NOTICE

1. I attach a first draft for the press notice on the main income tax changes. This is still work in progress, to some extent, as we have not yet quite finished tidying up the text and tables. But we thought you might like this early opportunity to see how the release is shaping, in case you have any comments at this stage. We are proposing, this year, that we should drop the tables showing contracted-out national insurance contributions; it would be helpful to have your views on this point as soon as possible (see paragraphs 4 and 5 below).

2. In the main, the text of the press notice follows its traditional form with the opening paragraphs attempting to highlight the main presentational points. The attached set of tables is the same as last year with the addition of two new tables (Tables 4B and 6B) to show the effect of the new level of age allowance for those aged 80 and over. As usual, the increase in earnings ($6^1/2$ per cent) between 1986-87 and 1987-88 used in the "dynamic" tables (Tables 9 to 12) is in line with the working assumption given to the Government Actuary at the time of the Autumn Statement for the Social Security uprating.

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cc Financial Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Cropper
Mr Isaac
Mr Lewis
Mr Calder
Mr Beighton
Mr Eason
Mr Mace
Dr Keenay
PS/IR

3. The text and tables have been produced using a new laser printer operated directly from a micro computer. This provides high quality printing and is much more flexible than the old machinery which we have used in previous years.

Contracted-out Tables

4. Although we have included Tables 7B, 8B, 10B and 11B showing the combined effect of changes to income tax and contracted out national insurance contributions in the attached set we would propose to drop these tables this year. The reasons for this are:

i) The tables provide little additional information compared with the corresponding contracted-in tables; the main feature of interest: - the column showing the percentage changes in income - is virtually identical in each case:

ii) No doubt because of this, little use is made of the tables. None of the press published them last year, though the Financial Times reproduced nearly all the other tables.

iii) With the addition of the new tables for those aged 80 and over there would be a total of 18 tables if the contracted-out ones were retained. This would be getting a bit unwieldy and our Press Office could not produce the Release in the convenient booklet form used last year. Dropping the contracted-out tables would reduce the number of tables to 14 and make the task of printing more manageable.

iv) The main focus of the press release is income tax changes. Some coverage of NIC and child benefit is also desirable but without a considerable increase in complexity in the tables we cannot hope to give a full picture of the effect of the combined income tax and NIC changes. (You may like to see the attached charts which show the difficulty of covering income tax and NIC adequately compared with income tax alone).

5. We are normally reluctant to make significant changes in the coverage of tables from year to year because this could lead to charges of inconsistency, or suspicions that, because a particular table is not published, the Government has got something to hide. We do not think, however, that the contracted-out tables would be missed and we should be grateful to know, therefore, whether you are content for them to be dropped.

B A Mace.

B A MACE

This follows the usual pattern and - I agree - is clear enough.

The 'dynamised' tables (9 and subsequent) reflect the Budget decisions on thresholds etc, with the result that the tax burden tends to increase, between this year and next, both at the bottom and at the top end of the income distribution.

[signature] 6.3

phl.40

PA

BUDGET SECRET

Copy No 10 of 10.

b/f 12/3 P

FROM: A W KUCZYS

DATE: 9 MARCH 1987

MR MACE

cc Financial Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Cropper
PS/IR

BUDGET 1987: MAIN INCOME TAX PRESS NOTICE

The Chancellor was grateful for your minute of 6 March, and the draft press notice. As we discussed;

a. The Chancellor agrees that Tables 7B, 8B, 10B and 11B should be dropped.

b. You confirmed that the graphs would not form part of the press notice.

c. You also confirmed that in Tables 5 and 11A the figures would be given for incomes upto £600 a week (& that that will indeed show that the figures don't go on rising).

d. You explained that the "kink" at £95 a week in Table 8A is caused by the increase in the NIC threshold.

e. You would consider whether there was any scope for reducing the repetition of paragraph 7 of the press release in the annex.

f. The Chancellor was pleased to note the use of a laser printer operated directly from a micro-computer.

A W KUCZYS