PO-CH/NL/0844 PART B

Chex Lawson

PART B

SECRET

(Circulate under cover and notify REGISTRY of movement)

PO -CH /NL/~~0102~~ 0844

PART B

DD: 25 years

Begins: 9/1/85

Ends: ~~8/5/85~~ 15/3/85 (CONTINUED)

1985 PUBLIC EXPENDITURE SURVEY (PES): PARTICULAR PROGRAMMES

PO -CH /NL/~~0102~~ 0844 PART B

See Mr Tebbit's comments below, as well (just arrived)

FROM: **N MONCK**
DATE: **9 January 1985**

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Bailey
Mr Battishill

EMPLOYMENT EXERCISE AND MR KING

You are seeing Mr King tomorrow after Cabinet. He will no doubt want to know your view about his document on Employment and the measures in chapter 5 and 6 which he favours. He will in particular hope for your support on expanding the Community Programme (CP). I believe he puts extending YTS well below CP in his order of priorities because of its very large potential cost and the considerable dead weight involved.

Points to Make

2. One aim will be to get Mr King to accept, in advance of the Prime Minister's meeting on Monday, that you should mention any measures in the Budget speech. (I confirm that there are precedents for this in previous Budgets and indeed in the last Autumn Statement. Fuller statements and press releases can be made on the same day or later by the Secretary of State).

3. You will want to be cautious about the case for a White Paper. You could acknowledge that Mr King's draft is in line with your strategy but say that it is too early to decide whether the risks for the Government outweigh the benefits. The criteria are tough: a White Paper has to be impressive

outside Government as well as inside, but it must not look like a change of course or expose the Government to new criticisms. Moreover it has to contain sufficient new measures. The first thing is to settle these.

4. Such decisions must be taken in the context of the Budget because of the competing demands. It cannot be sensibly done at the Prime Minister's meeting on Monday. The procedure you propose is to talk to Mr King about Employment and Training Measures and also to Mr Fowler and him about NICs after the Prime Minister's meeting on Monday and before any later meeting she may hold on employment between now and the Budget Cabinet on 14 February.

5. You will not, however, wish to commit yourself about specific measures at this stage. You could acknowledge the political case for action and the cost-effectiveness of expanding the Community Programme which Mr King has long planned to propose; but say that this does not remove the public expenditure problem, given the many pressing claims on the reserve.

6. On the timing of the White Paper you could agree with Mr King that if there is one, it would make sense for it to come out close to the Budget. Mr King probably does not envisage publishing as early as Budget Day or the day after, so you may need to press him on this. There is clearly a strong link between the Budget and the macro-economic content of a White Paper as well as the public expenditure, tax and NIC measures, which are in any case all a natural part of the Budget speech.

7. In discussing the timing of the White Paper you might ask Mr King who he envisages would present the White Paper if there is one. There are precedents for a White Paper

being presented by more than one Minister (for example the Training White Paper). You could use this topic to make it clear that you are not seeking to add your own name to Mr King's. He can have any glory from a White Paper provided you can mention the measures in the Budget Speech.

8. If there is time you might ask about relaxing Employment Protection, about which the draft document says very little. This might lead on to the question whether the Budget speech should mention measures with no extra costs such as abolition or reform of Wages Councils as well as Employment Protection.

9. There is one problem relevant to the timing of the White Paper which we have not yet thought about. If a White Paper presented by Mr King came out on Budget Day, there could be acute difficulties about Budget security.

10. I will be sending you a separate brief for the Prime Minister's meeting.

NM

N MONCK

SECRET

Ch.

For however read the first two minutes in this folder

FROM: **N MONCK**
DATE: **11 January 1985**

CHANCELLOR

Rl 11/1

cc Sir P Middleton
Sir T Burns
Mr Bailey
Mr Battishill

EMPLOYMENT EXERCISE: MEETING WITH THE PRIME MINISTER

You have spoken about this to the Prime Minister and Mr King. Mr Tebbit's minute of 9 January raises some major points on a White Paper and should help you tactically. My note to you earlier today about financing DE employment measures is also relevant to the meeting: the figures are large and are a major threat to public expenditure control and hence a major claim on the fiscal adjustment available between now and 1987/88. Part I of the brief covers the main points. Part II contains comments on the content of the White Paper and individual measures which you may or may not need at the meeting.

see below

I. Aims

2. All this will be discussed at Chevening. Subject to that, your aims at the Prime Minister's meeting will be:

a) to confirm that if there is a White Paper it would come out on Budget Day or very soon after; and that any new measures involving public expenditure or tax should be in the Budget Speech. (Preferably also employment protection and Wages Councils.)

b) It follows that you should initiate the next step towards decisions on measures: you will consult Messrs Fowler and King and then talk to the Prime Minister over the weekend of 26-27 January. A collective meeting under her may not then be needed before the Budget Cabinet on 14 February;

c) you will not want the meeting on Monday to reach any firm decisions either on the desirability of a White Paper or on individual measures.

3. So your answer to the three questions posed at the end of Mr King's minute to the Prime Minister are:

a) Mr King's draft as the basis for a White Paper? Too early to decide: first need to settle measures consistent with maintaining strategy and being seen to do so by markets and others and also with political requirements; and then to reconsider whether a revised document would or would not help the Government;

b) timing of a White Paper? On Budget Day or very soon after;

c) new measures? Consider later but soon in Budget context; public expenditure proposals a major threat to control totals - come back to them when you have got further on tax and NIC options (see 2(b) above.

4. Mr Tebbit's minute and Cabinet Office advice to the Prime Minister supports these aims. But I understand the Policy Unit's advice to the Prime Minister is different. They are all for taking firm decisions on measures at this meeting

and believe that these can be financed by offsetting savings across the waterfront. I do not have details of these but experience of the survey suggests that they are unlikely to be attainable on a sufficient scale; and in any case if they are, they will, like the Fowler savings, be needed to offset other pressures on the planning totals in the forthcoming White Paper.

5. Part II of this note deals with the contents of the White Paper and points on specific measures in case they are raised by others, though it would be best if these subjects were not discussed at length at this stage.

II. Content of the White Paper

6. The whole White Paper drafting will need a thorough overhaul when decisions have been taken about measures: at present chapters 5 and 6 are not designed for publication but as a list of options. But there are other important points.

7. Mr Tebbit wants the document to stress the limited scope for Government action and the responsibility of other institutions and individuals for determining the level of employment. This is a central point about a strategy relying on a financial framework defined in nominal terms. It means that a White Paper cannot promise success on employment and unemployment and that, to put it in extreme terms, the Government's reply to critics is that the level of unemployment is the fault of the country's institutions and people. If they do not change their behaviour, the outlook is bleak. This is a difficult message at this stage of the Government's second term.

8. The draft already argues that the Government is doing and will do what it can and that there is evidence of change to justify hope. But the paper probably needs to spell out more of the Pay and Jobs argument for changed behaviour, as indeed the DE/Treasury paper will be doing for the February

NEDC. It might also argue in effect that the role for traditional "solidarity" now is not to maintain past union behaviour while criticising the level of unemployment but to change that behaviour in a way that will actually help the unemployed.

9. The draft might also argue that it is bound to take a long time to unlearn the inflationary habits which have been acquired in the post-War decades. At the same time there might be some reference to paragraph 49 of the 1944 White Paper on Employment Policy:

> "Action taken by the government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable. This is of vital importance to any employment policy, and must be clearly understood by all sections of the public. If we are to operate with success a policy for maintaining a high and stable level of employment, it will be essential that employers and workers should exercise moderation in wages matters so that increased expenditure provided that the onset of the depression may go to increase the volume of employment".

10. Even though the Government is in its sixth year and unemployment is still high, the document might insist more on the long term nature both of the problems it is dealing with and with the benefits of its policies. The economic history of the UK since the War can be seen as a long series of false dawns. It would be easy enough to engineer another one but fatal to the aim of the strategy of changing deeply ingrained habits of behaviour, if the nominal framework gave way.

11. There is also a difficult question of tone. I have heard that the Prime Minister thinks the draft lacks punch and that Mr Tebbit found it boring. More could certainly be done to make it persuasive - in favour of a change in inflationary behaviour. But I doubt if it would be helpful to the Government for the document to lose its flavour of

objectivity and become too strident.

12. Some of these suggestions are already in the text to varying degrees but there would be scope for highlighting them and certainly adding more about pay and jobs on the lines of the Odling-Smee/Culpin drafts.

Measures

13. **Costs.** The YTS costings have risen by £70 million since my note earlier today. This makes the full year public expenditure costs of YTS extension on the "CBI basis" about £375 million and the PSBR cost about £500 million. Taken with the Community Programme, the total public expenditure and PSBR cost would be about £670 million. The 1985-86 public expenditure cost would still be about £150 million.

[illegible]

14. **Passport.** Mr King may not press this if there are sufficient tax and NIC changes. If he does, he may propose a pilot scheme limited to firms with less than 20 employees. Eligibility for it would start when eligibility for YTS runs out and be available to people up to the age of 20, subject to a net wage limit or perhaps £50 a week (equivalent to £63 gross). It might just be possible to introduce this half way through 1985/86 if there were a Finance Bill Clause exempting young people from PAE and possibly statutory sick pay. Primary legislation is not needed for exemption from NICs or employment protection. The scheme would not add to public expenditure but there would be a net Exchequer cost as a result of loss of revenue of around £25 million. About 30,000 people might be covered and the employment register might go down by 8,000. The net Exchequer cost per person off the count would be about £2,800 compared with about £1750 for a Community Programme.

15. The major objection to this scheme, which leads the Inland Revenue and DHSS to opose it, is that the early working experience of people covered by it would encourage the habit

of non-payment of tax and NICs. The Revenue cost of this might build up considerably over time and you are bound to take this risk seriously, apart from the relatively low cost-effectiveness of the scheme.

16. **Voluntary Projects Programme.** The existing VPP provides temporary opportunities for the unemployed in a variety of voluntary projects. Participants continue to draw benefit and so remain on the unemployment count. But it is suggested in paragraph 6.20 of Mr King's paper that participants be paid a training allowance and therefore come off the unemployment count.

This is a dubious proposition on a number of grounds. First, it would probably be interpreted as little more than re-labelling people in order to reduce the unemployment count. Secondly, it is far from clear that projects would be able to provide training in the generally accepted sense; the concept of a training allowing could therefore be discredited (with possible consequences for YTS). Thirdly, even the MSC has admitted that the aims of some existing VPP sponsors are out of line with those of the programme; this could only become more prnounced in a greatly expanded scheme. And finally, DE figures suggest that the net Exchequer cost per person off the count of the redesignated programme could be around £2000, more than CP or the proposed charity-based scheme.

NM

N MONCK

cc FP file

From: A T O'Donnell
11 January 1985

1. MR LANKESTER see note below
2. CHANCELLOR

TL 11/1

cc: Financial Secretary, Economic Secretary
Mr Cassell
Mr M Hall
Mr R Allen
Mr D Jones
Mr O'Donnell

STAMP DUTY ON EQUITIES

Thanks. Still a significant sum of money. Are we in a position to introduce X in the 1985 Budget? N.

You asked about the possibilities of estimating how much extra capital gains tax would be payable as a result of the increase in share prices arising from the halving of stamp duty in the 1984 Budget.

2. On the basis of econometric work which has been agreed with the Bank and Inland Revenue, we have estimated that the value of turnover in the equity market will be 30% higher than it would otherwise have been during 1984-85. In the long run, which in this case means after about 3 years, the value of transactions may be 50% higher than it would have been.

3. The reduction in duty increases the liquidity of shares and should therefore raise their prices. It is estimated that the halving of the stamp duty rate raised prices by around 10%. If we assume that the distribution of these capital gains was similar to the average distribution, this will have generated increased capital gains tax of around £45 million.

4. However, as the Bank have pointed out in the attached note, there are two further revenue offsets resulting from the cut in stamp duty. The increased turnover will raise brokers'and jobbers' income resulting in higher VAT payments in 1984-85 and increased income tax receipts in 1985-86. The Revenue accept that these offsets will occur but in their submission to the Financial Secretary they made no attempt to quantify them. The table below summarises estimates agreed between ourselves and the Bank of these effects.

/ Table:

Note on [illegible]

Table: Revenue Effects of the 1984 Reduction in Stamp Duty on Equities

		1984-85	1985-86	£m
1	Reduced stamp duty receipts (i.e. from halving the rate)	-200		
2	Effect of increased value of transactions	+ 60		
3	Additional VAT on brokers' commissions	+ 15		
4	Additional capital gains tax	+ 45		
5	Brokers' and jobbers' income tax		+ 40	
	Net effect on Exchequer revenue	- 80	+ 40	

A further halving of the rate would increase the value of transactions rather less because stamp duty now accounts for a smaller proportion of total transactions costs. Our best guess (agreed with the Inland Revenue) is that cutting the rate from 1% to ½% would increase the value of transactions by about one third.

A. O'Donnell

A T O'DONNELL

Unlike the Revenue who are luke-warm on this, we and the Bank would favour a further reduction of ½ percent (or even ¼ percent) if the revenue can be found. This would help to maintain the impetus to bring London's dealing costs close into line with New York's (stamp duty now accounts for the whole of the difference in net costs for institutional bargains).

The IR's costing (£170m) of a ½ percent reduction is on the high side. It only takes account of 1 and 2 in the above table - i.e. it ignores extra CGT, extra VAT and extra income tax. Taking into account these other effects, our best guess is that the net cost would be £130 million in 1985/86 plus extra revenue of £30 million in 1986/87.

TL 11/1

AN ASSESSMENT OF THE EFFECTS OF CHANGES IN STAMP DUTY

1 Work has been carried out in both the Bank and HMT to assess the impact of the 1984 cut in stamp duty on turnover in the equity market and on Exchequer revenue. The likely effect of a cut in stamp duty, to 1/2%, in 1985 and of an extension in the tax to closings within the account has also been assessed. The questions which were addressed were as follows:-

(a) What effect did the halving in stamp duty to 1%, in 1984, have on equity turnover?

2 Equations estimated in the Bank early last year (using data covering the 1963 and 1974 stamp duty changes) suggested that the halving in stamp duty could have a very substantial impact on turnover in the equity market. In value terms, turnover in the equity market, in the year following the stamp duty change, might be expected to be 30% higher than it would otherwise have been and the long run effect could be 50% or more. Further research carried out in recent months by Treasury economists appears to have confirmed these results for the earlier stamp duty changes and has also indicated that the effect of the 1984 change was very similar.

(b) What was the effect of the 1984 stamp duty change for equities on Exchequer revenues?

3 The cost, in 1984/85, of the 1984 stamp duty change was put at £450 million in the Red Book - £160 million of which reflected the equity component. This figure assumed that there would be a 20% increase in the value of transactions within the year. Using the figure of 30% indicated by work in both the Bank and HMT, the cost of the equity change would be around £140 million. However, a very large part of this would have been offset by additional Exchequer revenue from other sources. The substantially higher equity turnover following the cut in stamp duty would have led to higher brokers' commissions (perhaps around £95 million) and also higher

revenue for jobbers. This would have led to higher VAT receipts (around £15 million) in 1984/85 and will lead to higher income-tax receipts from brokers and jobbers (perhaps £40 million) in 1985/86. In addition, the stamp duty change may have raised equity prices by as much as 10% (HMT estimate) giving rise to additional capital gains tax receipts (around £45 million) in 1984/85. Putting these figures together suggests an overall effect on Exchequer revenue from the 1984 stamp duty change for equities as follows:-

	1984/85	1985/86
Reduced stamp duty receipts (equity)	- £140mn	
Additional VAT on brokers' commissions	+ £15mn	
Additional capital gains tax	+ £45mn	
Brokers' and jobbers' income tax		+ £40mn
Effect on Exchequer revenue	- £80mn	

(c) The effect on equity turnover of a cut in stamp duty to 1/2% in 1985.

4 On the basis of the research carried out in both the Bank and the Treasury, an increase in equity turnover of as much as 20% could be expected after the first year and 30% in the long-run. The turnover for the year could be expected to be 15% higher on average.

(d) How much additional revenue would be raised by the application of 1/2% stamp duty to trades closed within the account?

5 Trades within the account currently amount to around 10% of total equity transactions, somewhat less than was the case before the Budget. If the application of stamp duty to these trades left the volume unaffected, the additional revenue would amount to around £20mn. However, it would be much more plausible to assume that the taxation of transactions within the account would lead to a substantial reduction in short-term profit-taking, reducing the additional revenue to a fraction of this amount.

6 Research carried out by the Bank indicates that stamp duty has a very substantial effect on turnover in the equity market, a view that appears to be confirmed by recent Treasury research. Equity transactions, in value terms, are likely to be 30% higher (on average), in the year following the 1984 Budget, than they would otherwise have been. The effect of this additional equity turnover on a number of sources of Exchequer revenue could well bring the net cost of the stamp duty change for equities down to around £80mn in 1984/85. A halving in the duty, to 1/2%, in the 1985 Budget would also be likely to lead to an increase in turnover, but on a smaller scale - perhaps 20% by the end of the year and 30% in the long-run. On this basis a 50% reduction in stamp duty on equity transactions, reducing the rate to 1/2%, might be expected to cost of the order of £ 150 million if allowance is made for both direct and indirect Exchequer effects.

Bank of England
9 January 1985

BUDGET - SECRET

DRAFT

FROM: N MONCK
DATE: 18 January 1985

For 2.15 mtg

CHANCELLOR

~~Draft~~
cc Mr Byatt
Mr Battishill
Mr Monger
Mr R Allen
Mr G Smith
Ms Seammen
Mrs Lomax - personal
Mr Green
Mr Corlett } I.R.

EMPLOYERS' NICs, PENSION FUNDS AND FINANCING YTS

1. This is a first report on various options affecting NICs which you wanted explored as possible contributions to a jobs theme. The options include:

a) a revenue neutral conversion of employers' NICs into a payroll tax with a de minimis limit, perhaps combined with ending tax deductibility for NICs;

b) a cut in employers' NICs financed by a tax on pension schemes with no phasing in;

c) minimising the public expenditure cost of extending YTS by allowing employers to reduce their NIC liability by part of the cost of each second year place they provide.

2. Separate papers are coming from Mr Corlett on Taxation of Pensions and from Mr Byatt on Pensions and Savings ..., though these are not

for discussion on Monday.

3. This note and the annexes (listed on page) are limited by the very few days available since Chevening and by our inabilit~~ies~~y to discuss the options with DHSS. The figures and the judgements, particularly about the practicability of a payroll tax and the cost of a de minimis limit, are highly provisional. There has not been time to invent or test ways round some of the many difficulties described. The papers are longer than they would have been with more time.

4. There is, however, a list of questions at the end of this note which you could treat as an agenda. Because time is so short, you need to aim at a number of decisions at least on next steps, especially:

a) which options should be discarded or pursued (the discard~~d~~s may need to be replaced with new options and the runners ~~made~~ may need to pre-empt many of the available people eg if ~~the~~ a Green Paper on NICs is needed);

b) what papers and proposals to put to Messrs King and Fowler when you meet them (separately) on Wednesday next week.

Background on the National Insurance Fund and SERPS

5. Employers' contributions, employees' contributions and the Treasury Supplement finance~~d~~ public expenditure on benefits from the ~~NIS.~~ National Insurance Fund ~~The reason~~ existence of the NI~~S~~F as a separate accounting entity imposes certain constraints which are on the whole useful to the Treasury. The main one is that the ~~Community~~ Cumulative working balance should not go below ~~16th~~ one sixth of a year's benefit expenditure; this recommendation by the Government Actuary

BUDGET SECRET

has been endorsed by the Government and the PAC. However, this is purely an accounting constraint, and could be overcome by accounting changes. To the extent that revenue from employers' contribution is lower, the same benfefit expenditure could be financed:

a) by running down the balance (which would finance a cut of about 1 percentage point in employers' NICs (or 1½ per cent if the UEL was simultaneously abolished for employers); or

b) by an increase in the Treasury Supplement.

6. Neither of these changes in themselves affects the PSBR which only alters when contributions (or of course (benefit expenditure) ~~alters~~ alter. A cut of 1 per cent in employers' NICs in 1986-87 would cost ~~some~~ about £1.4 billion. But of this about £450 million would, with claw back, be a reduction in public expenditure so the net PSBR cost would be about £1 billion.

7. There are two different rates of employer NIC. The lower one is for employers who have chosen under the Statutory Earnings Related Pension Scheme to provide a guaranteed minimum pension to their employees through an ~~private~~ occupational pension scheme. These employers receive a contracting out rebate of 6¼ percentage points. This rebate represents the actuarial cost to them of providing the statutory minimum benefits through a funded scheme. Contracted in employers pay the full rate of 10.45 per cent of earnings.

A Payroll Tax

8. Any restructuring of NICs would require primary DHSS legislation and would be a major administrative ~~options~~ operation both for employers and for Governmnt departments. The earliest that such

a change might be done would April 1986. Between now and then a consultation document, legislation and a massive reprogramming of computers would have to be fitted in. Ideally a consultation document ought to come out at Budget time.

9. The ~~FB~~ FP paper in Annex A suggests that this might just be possible if a decision was taken to build on the NIC system. But we need to confirm both the practicability of a payroll tax and the timing with DHSS.

10. Annex A discusses the choice between an exemption and a threshold which costs more. The (uncertain) estimates in the table at the end of Annex A [Mr Scotter's table] suggests that ~~as~~ an exemption for pay bills of £35,000 or less (5 employees) implies a NIC rate barely lower than the present 10.45 per cent. If there were no exemptions, the contribution rate might be about 9.75 per cent. ~~Does~~ FP he think this might be ~~feasible~~ workable, but this too needs longer confirmation.

11. A payroll tax on this basis would raise the costs of employing people earning less than the LEL and more than the UEL and reduce the cost of employing people with earnings between those limits. Annex B estimates that the result would be an overall reduction in employment. However this might be consistent with a reduction in unemployment as registered full time workers replaced former part time workers.

12. A payroll tax may be criticised on ~~employments~~ employment grounds by those who favour a "twist" either in one of the ~~Layards~~ Layard versions or in Mr Byatt's milder "threshold" version. This applies inside the Government as well as outside. Messrs King and Fowler and Lord Young have seen DE estimates but a Layard twist might produce 100,000 jobs.

13. The argument in favour of a payroll tax, apart from doubts about the reliability of the estimated benefits of Layard, is that whereas Layard might increase ~~their~~ distortions, a payroll tax would be a big move towards neutrality. It would remove the artificial subsidy in favour of part-timers

BUDGET

in a way that would help ful-timers earnings between the LEL and UEL. This would be much more in line with the spirit of your tax reforms. You will need to consider the strength of the arguments on either side.

Ending the Tax Deductability of NICs

14. The Inland Revenue note at Annex C suggests that this would allow the nominal rate of the payroll tax to be reduced by about a quarter. But it points to a PSBR cost in the first year because the increased tax would be paid in the financial year following the first year of the reduced rate. [The transitional PSBR cost would be about £2½ billion, net of the public expenditure savings of about £1.3 billion.]

?

[~~15.~~ It should, however, be possible to avoid this problem by announcing this year that NICs paid in 1985/86 would be disallowed to an extent that offset the revenue effect of reducing the nominal rate of NIC in 1986/87.] 15 These changes would produce little net effect, though there might be some gain for non-tax paying employers and some loss for taxpayers. However some employers might nevertheless respond to a reduction in the NIC rate despite the offset from non-deductibility. The nominal rate in 1986/87 might be of the order of [7½ to 7¾] per cent.

?

16. Annex B stresses the probability that there would be constant pressures, after the initial introduction, for restoration of tax deductibility. It would also be a further precedent for disallowing other kinds of business expenditure to which a future Government might take exception (like advertising)

17. Finally making employers' NICs non-deductible would be odd if Ministers at the same time made part of self-employed NICs deductible.

Financing a cut in NICs by a Tax on Pensions

18. Annex ~~E~~ D suggests that there is little ~~scope~~ ~~but~~ hope that a tax on pension funds could finance a NIC cut in 1985/86 or 1986/87. The main reasons for this is that it would almost certainly be ~~unable~~ unavoidable [and may also be legally obligatory] to increase the rebate on NICs for contracted out employers. The argument would be that the levy on investment income (and probably on capital gains as well) would reduce the funds' assets and require contributions to be higher than they otherwise would be. ~~if~~ Otherwise the funds' assets ~~were to~~ would not match ~~its~~ their benefits obligations. On this basis, even if the remedying of the funds "backlog efficiency" resulting from the new tax were spread over 20 years, there would be a PSBR cost of £200 to £400 million a year as a result of higher rebates. To make this good would require a rise in the contracted ~~tra~~ in NIC of the order of 3¼ per cent.

[19. The only way of avoiding this result would be either to legislate, as Mr Corlett explains in his separate note, to permit employers and fund managers to rewrite ~~an~~ existing contracts in order to keep funds solvent by reducing benefit levels; and/or to bring SERPS to an end much earlier than is at present expected. That would remove the need for rebates for the contracted out, let alone for increasing them. The contracted out NIC would rise and the former contracted in NIC rate would fall. The employer with a pension fund would, ~~however,~~ be hit twice: he would face the choice between reducing benefits and paying more into the fund than would otherwise be necessary; and his compulsory NIC rate would rise. It may be that such employers and their funds could bear this in the present circumstances and also 1986/87, but we do not have the data to demonstrate it and it is inherently unlikely that their position is uniform~~ly so~~.]

20. Either of these solutions would be retrospective and controversial and

you will wish to consider whether ~~the~~ any gain, which we have not yet quantified, would be sufficient to justify pursuing such a course. The Government would presumably argue that, as with employment measures and social security reductions, it was taking~~g~~ away resourc~~c~~es from actual and future pensioners in order to help employment now by means of a reduction in the NIC.

21. If you do not wish to pursue these options, you may nonetheless wish to consider using part of the fiscal adjustment to reduce~~d~~ NICs either in the autumn of 1985 or in April 1986 despite the risks that this would leak into pay. This would be in addition to all the frictions and distribution effects of ~~the changes~~ a NIC restructuring.

Converting the Exchequer cost of YTS from Public Expenditure to Revenue loss

22. Annex E contains a costing and an explanation of how this could be done by allowing employers to offset part or the cost of second year YTS places against their NIC liability. In theory ~~its~~ this approach, because it is so close to the statutory sick pay (SSP) scheme, could enable YTS to be extended while achieving public expenditure savings. The gain from this is entirely presentational: it makes no~~t~~ different to the PSBR cost, which is mainly affected ~~by~~ by the share of the costs assumed by ~~the~~ employers

23. ~~The~~ One argument~~s~~ against it ~~are~~ is that it would raise the same definitional problems as SSP which no scores as public expenditure in the White Paper, though it does in the National Accounts. Treasury can (just) continue to defend this against criticism from TCSC and others. But an attempt to extend this treatment, risks SSP being forced back into public expenditure, adding about £650 million in 1985-86 and over £1 billion by 1987-88. So the presentational trick could rebound. Another argument is that it would look like a ~~[illegible]~~ training levy that could be received by those who spend enough on training

24. Whether or not you wish to pursue this, it ~~seems~~ is probably premature

to put it to Mr King or to Mr Fowler whichever. It will weaken your negotiating position in keeping control of the fiscal adjustment, in seeking savings from Mr Fowler on social security and from Mr King on the YTS. If you are not going to resist ~~that~~ YTS, the main way to reduce the Exchequer cost is to get it agreed with colleagues that employers should bear a larger proportion of the cost than Annex E or the enterprise unit has so far assumed though we must not go so far that the Government has to provide expensive Mode B places. We should see ho~~o~~w far we can get in MISC 107 before playing the NIC card with colleagues if ~~that is what~~ you want to ~~do.~~ go further despite the disadvantages

Questions

Payroll Tax and ending NIC Deductability

25. a) do you want to pursue the payroll tax in place of employers' NICs?

    b) do you want to end deductability?;

    c) if yes, would April 1986 be the target date for implementation?

    d) if yes to (a), do you want a de minimis limit although it ~~reduces~~ raises the revenue ~~in~~ neutral rate? Do you agree that payroll tax should build on the NICs system?

    e) if yes to (b), do you want to end deductability ~~and~~ in respect of 1985/86 sufficiently to prevent the PSBR loss in 1986/87 that lowering the NIC rate then would otherwise produce?

    f) do you agree that these changes would have to be explained as a reform that would improve neutrality and remove an unjustified subsidy for part-timers rather than a way of increasing employment? (You ~~can~~ could add that it might switch from unemployed into full-time jobs at the expense of some part-timers.)

g) do you want a note prepared for Mr Fowler covering (a) to (f) as well as practicability, timing, consultation and legislation? should the same note go to Mr King? (And Lord Young. who has asked to join in?)

A Cut in NICs financed by Tax on Pension Funds

h) it appears that there would be a PSBR cost in 1985/86 and only ~~a~~ modest net revenue in 1986/87. Is it worth doing further work on ~~either or one~~ earlier abolition of SERPS and/ or (ii) legislating to alllow rewriting of contracts between employers and/or funds and their members, without which the broad picture in Annex D seems unlikely to change enough to finance a NIC cut;

i) if ~~there is an~~ a sufficiently early yield from the tax cannot be made realistic, do you want to pursue a cut in NICs in ~~1985/86 ie~~ the autumn of 1985 or in April 1986

j) do you want a note on (h) and (i) for Mr Fowler or will you deal with them, if at all, orally?

Financing an Extended YTS

k) do you want to pursue the conversion of the Exchequer ~~costs~~ cost into revenue loss by allowing employers to offset part of the cost against NICs liabilities despite classification difficulties query?

l) even if yes, do you agree it would be premature to mention this to Mr Fowler or Mr King next week?

N MONCK

BUDGET SECRET

ANNEXES

A. A payroll tax - practical aspects (FP)

B. Employment effects of the payroll tax (EI)

C. Tax deductability of employers' payroll tax (Inland Revenue)

D. PSBR effects of taxation of pension schemes with no phasing in (ET)

E. Extension of YTS: the NIC option (IAE)

Sir PM

From: P M RAYNER

Date: 18 January 1985

CHANCELLOR

1 What increase has there been in the health output + employment in the NHS – someone to work out for the NEDC purposes.
2. Increase the Health Service annual report

cc: Chief Secretary
Sir P Middleton
Mr Bailey
Mr Anson
Mr Watson

+ DESK to speak to Allegra + Bailey

PRIMARY CARE SEMINAR

I attach a brief. Numbered Annexes are attached to this brief. Lettered Annexes are those attached to my brief for the previous (aborted) seminar which you read over Christmas. Annex 1 also fulfills our remit to let you have a note on proposals for developing the Harrow Health Centre approach. Annex 3 is an aide-memoire on other topics which might conceivably come up in discussion.

will attach this for you on Monday night DB 18/1

2. Your aims at the seminar should be to get the show firmly on the road. This means:

(a) a firm commitment to a radical Green Paper - there is still far too much pussy-footing in some parts of DHSS (not excluding Ministers);

(b) a firm timetable - I suggest:

- end-February - a report to the Prime Minister on the policy issues which still need to be covered - dentistry, community health service, Pharmaceutical Price Regulation Scheme, pharmacists, 'topping-up',

- end-March - a first draft of a written-up Green Paper to the Prime Minister. there may be some gaps but there will be enough material to see how it is fitting together and how the crucial presentational issues are being tackled. A meeting may be needed to discuss this and should be fixed now,

- end-April - final draft to H Committee for approval

(c) agreement that the Green Paper will present positively the Brave New World scenario for general practice of HMO-style organisation/100% capitation/drug budgetting;

12/18/1

(d) raising the conflict between this approach and manpower controls - this may mean that manpower controls can only be considered as part of the Green Paper exercise, and not separately as DHSS now propose.

3. You should also ensure that it is agreed that Treasury (ie me) remain clearly and firmly involved in the further work.

P M RAYNER

SEMINAR ON PRIMARY HEALTH CARE SERVICES

The paper falls into 2 main sections. Section I is mainly background, discussing the strengths and weaknesses of present primary care services, and setting out the action taken so far. Section II gives the Review Team's proposals for improving primary care. You should avoid any lengthy discussion of Section I: I suggest it is taken as read, and simply referred back to as appropriate. The important thing is Section II.

Note that at this stage you are only considering the merits of the proposals. Their presentation - which will require very careful handling - should be left for the actual drafting of the Green Paper. Even so, many of the changes will be difficult to negotiate with the professions.

Section I

There are a few points worth commenting on:

> Paragraph 2.1 The price comparisons are correct (though the NHS figures ignore community health service costs), but it is arguable that patients get a higher quality and more attractive and convenient service. Dr Goldsmith thinks it is possible to provide a Harrow-type service at no greater cost than the NHS service - see Annex 1.

> Paragraph 2.2 There are signs so far as GPs are concerned that averaging is becoming less effective. Reasons for this are not entirely clear, but it is not, for example, proof against secular changes.

whens

> Paragraphs 3.1 These surveys should be treated with caution. There is a tendency amongst many patients to have too healthy a respect for doctors and not to complain unless things are badly wrong.

Paragraphs 3.3-3.5 There is a reverse side to all these points. Independent status can easily lead to inertia. Patients may stay with the same doctor (whatever his faults) because of the difficulty of transferring elsewhere. Much screening work is either non-existent or poorly managed. Health visitors are not well integrated with GP practices.

Paragraphs 5.1-5.3 This suggests we need an attempt to set up a comprehensive framework for output measurement, on the lines of the Korner exercise for the HCHS (see below).

Paragraph 6.d This review, though completed, is in practice a dead letter, and has been overtaken by the more radical Green Paper thinking.

Paragraph 6.n This review should not necessarily be taken as read. In our view the organisation and management of the community health services (CHS) needs radical change in the light of the Green Paper proposals for GPs. The issue is the best way to achieve this - see on Section II below.

Section II

The proposals in this section have been developed by the Review Team in collaboration with us and the No 10 Policy Unit. If fully implemented, they offer a blueprint for general practice (including drug costs) which is more effective, cost-controlled and consumer-oriented, with the option of the consumer choosing (and paying for) a higher quality service if he wishes. We recommend you to support the inclusion of all these ideas in the Green Paper. Annex 2 sketches out the characteristics of the kind of GP service that might emerge in, say, ten years' time.

The presentation in the paper is not always as clear and committed as it might be. In part this reflects compression. But we also know that DHSS politics have led to some watering down from earlier versions we have seen - hence the pussyfooting tone in some places.

There are a number of omissions from the proposals - 'topping up' (the possibility of patients paying a supplement for a higher quality of service), the community health service, dentistry and the Pharmaceutical Price Regulation Scheme (PPRS). These are discussed in the brief.

Short-Term Improvements/Ideas

Paragraphs 1-3

These proposals are designed to encourage GPs to provide a more efficient and effective service which meets the needs and wishes of consumers. The problem is to find a way of bringing GPs generally up to the standards of the best, and to get them to provide additional services as medical practice changes without the NHS having to pay extra. At the moment there are no penalties on out-of-date or lazy practitioners, and a dissatisfied patient finds it very difficult to change his GP. On the other hand, to define closely what services and standards of service a GP is expected to provide could mean that GPs would not provide better or more services without extra payments. At present item of service payments are the only way of getting GPs to provide extra services. Their use since 1968 means that we are still paying GPs extra for providing services (eg contraception and cervical cytology recall) which would nowadays be regarded as a routine part of general practice.

Maybe we don't want this.

The ideas are:

(i) medical audit to improve quality and coverage, with financial incentives within existing remuneration levels;

(ii) education, to keep GPs up to date on medical and organisational developments;

(iii) greater consumer awareness of what is available, patient feedback, the option for patients to vote with their feet, and a better complaints procedure.

In addition we need a framework for measuring output. Korner has provided this for the hospital service, but there is nothing comparable for primary care.

Note that the proposals do not explicitly mention commercial advertising. This should be considered as a possibility, though tactically it may be too radical for short-term introduction. But it should be allowed if HMOs (see below) are introduced.

Paragraph 4

At present (except in over-doctored areas) any suitably qualified GP can set up in practice anywhere and continue to practise indefinitely. Given the present payments system, this generates substantial costs to the NHS even before he sees a patient. So the more GPs, the greater the cost to the NHS. In the short term,
? manpower control is an obvious answer, but will take time to have a significant effect. In the longer term, a 100% capitation - based payments system (see below) would do the job better; and in an HMO-type system (see below) manpower controls would be counter-productive.

There is a danger that short-term manpower controls could put at risk longer term objectives. This depends on precisely what controls are introduced and how they are to be presented. Compulsory retirement is probably sensible anyway. Immigration controls could well be dangerous (once stopped, immigration could probably not be restarted. Legislation to control entry to contract would need careful thought. The short-term alternative would be
! faster and more radical action on a move to 100% capitation (see below).

Paragraph 5

In our view (and the Review Team's) the way forward is a change to a 100% capitation basis for GP remuneration. (The present remuneration system is described in Annex C to the brief prepared for the last seminar.) 100% capitation is considered below, but probably requires pilot studies before it can be introduced across the board. So in the short term it is sensible to increase the
True? capitation element. It will tend to encourage GPs to take on more patients, and thus increase competition and ~~(coupled with manpower control)~~ contain costs.

? ?

Possible problems:

(i) difficult to negotiate - GPs might see it as a reversion to the pre-1965 system;

(ii) argued that it encourages GPs to maximise income at expense of patient care - hence the importance of the proposals in paragraphs 1-3 above. The idea that doctors might take on too many patients is a nonsense in the scheme we envisage;

(iii) could lead to patient/GP pressures for higher fees to allow higher standards. This misunderstands what we have in mind. Doctors would act as small businessmen and borrow to finance capital items. Higher standards would be paid for either by greater efficiency or attracting more patients (and therefore more capitation fees).

Whats the tax cost?

In the short term, we think an increase in the capitation element (say by reducing basic practice allowance to half its present level) is more attractive than manpower controls.

Paragraph 6

It is sensible that funds should be deployed where they can be used most cost-effectively. It is arguable, for example, that GPs should carry out more minor surgery and paediatric surveillance, thus releasing hospital resources. But this would require pump-priming funds, since it would take time to reduce hospital facilities. Possible sources of funds are drug bill and/or community health savings (see below); or borrowing (see above).

NB There is a risk of expensive duplication of hospital facilities (eg diagnostic and X-ray facilities).

Paragraph 7

Charging policy is one of the weak areas where more work needs to be done. The treatment in the paper is hopeless. Clearly something must be said about charging. Equally a discussion of all sorts of possible charges in isolation would be counter-productive: it will simply look like Government money-grabbing. The sensible thing seems to be to try to develop a philosophy of charging against the background of FPS demands for resources. Possible philosophies are simple money-raising (unattractive): or more reasonably that consumers should pay a share of costs to encourage consumer awareness, discourage extravagant use of services etc (the John Redwood argument). Against this philosophy we can examine issues: those mentioned in the paper are possibles, as is exemptions. Drug budgets (see below) will allow discussion of prescription charging - form, rates and indeed whether it should continue at all. Changes in GP payment will allow discussion of eg consultation charges (which might be worth considering, with very limited exemptions, as a replacement for prescription charges).

Tackled in this way, the Green Paper enables us to wipe the sheet clean of pledges.

You will wish to consider how much detail you wish to go into on particular charges at the seminar. We suggest it should be fairly limited.

NB. The tactics in Annex E to the brief prepared for the last seminar have been overtaken by events and should be ignored. But the material on possible charges is still relevant.

Long-term improvements/ideas

Paragraphs 8-10 contain the guts of our vision for the general medical service and drug costs over, say, the next decade (see also Annex 2). They would result in a de facto cash limit for these areas. It is probably convenient to take the paragraphs in reverse order, since we see these proposals as an integrated package. But the drug proposals could be pursued separately.

Paragraph 10

For GPs, the key point is the application of a modified HMO structure to primary care (see Annex 1 and Annex A to the brief prepared for the last seminar). The idea is to set up practices (like the Harrow Centre) which would offer within the NHS a full range of primary patient care, compete with each other and contain costs. It would be necessary to ensure that practices could not save money by pushing more patients on to the hospital service.

Paragraph 1(a) would involve radical changes in the community health service (CHS - district nurses, midwives etc). We suspect there are substantial efficiency gains to be made. It was a mistake to give the CHS to health authorities in 1974, and has been compounded by recent DHSS ministerial assurances that this is how things will remain. Having CHS staff as integral parts of GP practices will mean an abrupt change of DHSS policy and will probably upset both professions and health authorities. The trick is to try and change thinking. The review of nursing (see above) may be the answer, but it will need very careful handling.

Paragraph 1(b) is in our view an essential part of the system - for the reasons set out in discussing capitation above. It is necessary to give the competitive spur, and to control costs. Since the total number of patients is (roughly) fixed, a 100% capitation system with the capitation fee fixed annually in advance and set to cover all costs (including drug costs - see below) would produce a de facto cash limit. The present remuneration system would be drastically simplified.

Annual capitation fees could be set nationally by an independent body (eg the DDRB), or by negotiation, by local negotiation (with FPCs) or possibly by competitive tender.

The arrangements could allow for 'topping-up' ie patients paying a charge for a higher level of service. but practices would not be allowed to discriminate against patients only requiring the

Towards your scope

basic service. Any investment needed for a higher level of service would be met by borrowing, serviced by efficiency savings or attracting larger numbers of patients.

Paragraphs 8-9

Action on drug costs is a necessary concomitant of 100% capitation. Otherwise the greater patient mobility between doctors it would bring could lead patients refused particular drugs by one doctor on cost grounds to shop around until they found a doctor who would prescribe these drugs.

Unlikely

In our view the right approach is on the lines of drug budgets - for 3 main reasons:

- it is universal ie covers all drugs,
- it produces a de facto cash limit, while leaving a doctor's freedom to prescribe in particular cases untouched,
- it acts on doctors' prescribing habits and will doscourage wasteful as well as expensive prescribing.

To be effective, the penalties and incentives will have to be the full cost of any excess/saving. In practice it may be best to treat the funding as part of the capitation funding. But this will be a longer term development because it will entail integrating a pharmacist into the practice.

Must be a waste

We think that the other alternatives are best considered as possible short-term solutions. Indeed this may be an area where the Green Paper will wish to come to a firm conclusion to introduce drug budgets after evaluating them against the alternatives. This means that at least the bones of a workable scheme need to be ready for when the Green Paper is published.

Within this framework it might be possible to abolish or reduce prescription charges. This should not be rejected out of hand. Prescription charges (including season tickets) currently raise only £124m (1984-85 England). Potential drug bill savings should greatly exceed this. And in policy terms a consultation charge might be more attractive (a 25 pence charge with no exemptions would raise about £45 million). An alternative would be cost-related charges (perhaps at a lower level than present, but with narrow exemptions).

NB. The paper says nothing about possible changes to the PPRS. A small Treasury/DHSS group is looking at possible alternatives. We are attracted by a market approach - competitive tenders from suppliers, coupled with direct negotiation for branded drugs - which would fit well with drug budgets. Further work is needed, but you should indicate that the Green Paper needs to discuss this issue. Incidentally DHSS need to staff up better to deal with this. You might press Mr Fowler to allocate a bright principal to this work.

ND

Dentistry

This is the one major omission not discussed above. But neither we nor the Review Team can see any self-evidently sensible ways forward. Some ideas are discussed in Annex B to the brief prepared for the last seminar.

The basic trouble is that no one is sure how much the general dental service has contributed to the improvement in dental health since 1948. There has undoubtedly been an improvement. But how far is it due to fluoridation, fluoride toothpaste (now 95% of sales), less sugar consumption and greater awareness of dental health, rather than the work of dentists (remembering that dentists are paid mainly for repair work rather than prevention)?

There are serious doubts about the present item of service pay arrangement for dentists. It undoubtedly encourages unnecessary treatment and to some degree fraud. If we think dentists' main role is in repair work, and that the need for this will be limited by exogenous improvements in dental health, there is much to be said for no NHS dentistry for non-exempt groups, coupled with

Sir Adam
~~Mr~~ Ridley's teeth maintenance organisation approach. If we think dentists have a major role in prevention, then there are attractions in a capitation approach, though it could be expensive.

Further work is needed. But perhaps the best we can hope for in the Green Paper is to float the kind of issues discussed above.

ANNEX 1

PROPOSALS FOR EXPERIMENTAL PILOT STUDY OF PRIMARY CARE

Dr Goldsmith's paper (summary attached) outlines two possible models for an experimental pilot study applying the basic principles of the Harrow Health Care Centre (HHCC) within the NHS. Both models share three key features:

(i) the basic income would derive from patients' capitation fees, set at the average FPS level. An essential point is that such fees must be "portable" - patients being free to change GPs at will; ?

(ii) the new centre would itself pay for and dispense drugs, mostly using generics as at the HHCC. This gives the practitioners a strong incentive to economical prescribing, while patient needs would be protected by the risk of them leaving the system altogether;

How ?

(iii) while the capitation fee would provide basic services equivalent to those available through the FPS at present, patients would also be able to buy extras like X-rays, minor operations and physiotherapy (all of which currently require a visit to hospital) by paying either a supplementary lump sum fee or on an item of service basis.

2. The first model would set up a practice with salaried GPs giving direct provision very similar to the HHCC. Under the alternative second model, a group of GPs would set up their own partnership and Dr Goldsmith's company would undertake a management contract for them. The first is obviously more radical, but is closer to the Health Maintenance Organisation concept. The second may be easier to introduce since it involves less disturbance of the existing arrangements.

3. The basic ideas underlying Dr Goldsmith's proposals reflect our own thinking on possible reforms of the FPS, and we are encouraging DHSS to respond positively to them. In particular, greater emphasis on capitation fees, freedom of movement for

patients and some way of allocating the drugs bill to practices are all important elements of our Green Paper strategy. A pilot project of the sort suggested would provide an excellent opportunity for testing these ideas in practice. Indeed, if Dr Goldsmith's models do not get under way, we might want to see a similar kind of pilot study undertaken within the NHS, without involving his company.

4. Dr Goldsmith's specific proposal is that his company should set up one of the models in a deprived inner city area (perhaps Hackney). Some of his detailed figuring needs further work, and we are in touch with him on this, and some of his ideas - for example the suggestion that GPs should no longer get civil service type pensions but should purchase their own schemes - may be too radical and too likely to arouse professional hostitility to be worth pressing at this stage. Setting up in an inner city area has advantages and disadvantages. On the one hand, the inner city areas are those most disadvantaged under the present FPS system and improving the level of health care would have greatest impact there; on the other hand, and for the same reason, it would be easy for opponents to attack the scheme on the grounds that anybody could improve patient care in an area where it is already way below national average.

5. Dr Goldsmith's suggestions will certainly come up at the seminar (Mr Willetts has been closely involved in their formulation). We suggest that you should press DHSS Ministers to be as positive as possible in responding to Dr Goldsmith, emphasising that the main features of his proposals follow very similar lines to those which might go into the Green Paper. At the same time, setting up a pilot project through Dr Goldsmith's company could be a politically attractive way of involving the private sector directly in improving the NHS.

SUMMARY OF DR GOLDSMITH'S PAPER OF 20 DECEMBER 1984

The paper proposes an experimental pilot study of primary care applying the principles of the Harrow Health Care Centre (HHCC) within the NHS. The general advantages sought include greater commercial involvement in the provision of primary care, improved quality and cost-effectiveness of care, greater freedom of patient choice and more competition. The immediate aims of the pilot study are identified as a highly visible improvement in the quantity, quality and cost-effectiveness of care; operation of the scheme in a deprived inner city area; avoiding the need for legislation; and giving the medical profession a chance to observe the project so as to reduce professional resistance to the concept.

2. The paper puts forward two alternative models for the pilot study. Both models would be funded through patients' capitation fees, set at the current average cost to the FPS of providing these services for an individual. The first model would involve creating a health care centre, employing GPs and other staff directly to provide basic NHS services. Patients would have the option of paying sums in addition to their capitation fees for extras like X-rays, physiotherapy and minor operations. Drugs would be paid for and dispensed by the centre, making use largely of generics as at the HHCC.

3. The paper notes that, while the model would offer the advantages of the HHCC within the NHS, it might provoke adverse professional reaction; and that it would not itself save the NHS the other elements of GP remuneration apart from capitation fees.

4. Partly to deal with the first of these drawbacks, the paper suggests an alternative model under which GPs would continue as now but would form a partnership which would employ Dr Goldsmith's company as management contractors. This would be less disruptive as compared with existing arrangements, while enabling the company to demonstrate its ability to deliver better and more cost-effective care. One drawback with this model would

be the appearance of there being private sector profits accruing out of what is basically a similar organisation to the existing FPS.

5. The Appendices to the paper show detailed cost estimates for the operations of both models in an inner London location.

6. Finally, the paper raises a number of other issues which are not covered in the detailed elaboration of the two models but which it suggests should be considered in the context of a possible further extension of the study's principles. These include:

(i) the treatment of GP pensions. The paper suggests that a civil service type arrangement may no longer be appropriate and that GPs should instead purchase their pension schemes;

(ii) the importance of securing free movement for patients between doctors is stressed;

(iii) the appointment of an independent inspectorate of primary health care to audit and control the workings of GPs;

(iv) the case for home visiting charges;

(v) the difficulty of cost comparisons between private and public sector because of different accounting practices. This is particularly true of the treatment of capital costs and depreciation, but there are other differences also;

(vi) the possible reintroduction of sales of practices to increase doctors' incentives to raise their standards.

ANNEX 2

Brave New World - General Practice Ten Years Hence

We envisage 2 key changes. The first affects the role of the GP. He will no longer be a detached professional, virtually guaranteed a reasonable living by the state once he puts his plate up. Instead he will be more of a small businessman, concerned about 'selling' a package of services to his customers. Although money will not pass directly from patients' to doctors' pockets, patients will be free to vote with their feet, and the number of patients on a doctor's list will directly and wholly determine his income. At the extreme, no patients, no income.

Of course there will be very rural areas where doctors may continue untroubled by competition. But for the majority of the population there will be a choice - and not only between existing practices. New practices - perhaps financed by commercial organisations as with the Harrow Health Centre - will be free to set up provided they do not cost the FPC more on capitation rates. They will be able to offer patients wider services, or higher levels of service. Without control of doctor numbers, there are likely to be surplus doctors available to staff such incentives. Practices which cannot keep up with the competition will wither.

All this will make practices more cost conscious. A check will be needed to prevent practices making savings by transferring their patients unnecessarily to the hospital service. They will need to keep costs down to be able to put the money into better services and equipment. Capital would be borrowed on the markets, serviced by savings or more patients. No longer will doctors be able to carry out routine work that can be done by nurses or receptionists.

Which leads in to the second change. Doctors will not be able to prescribe without regard to the financial consequences. The state will not simply pick up the bill. Doctors will have drug budgets, with incentives for savings and penalties for overspending. And of course savings will ratchet down the budget for the next year.

ANNEX 3

HEALTH: OTHER CURRENT ISSUES

A number of other current issues may be raised at the seminar in addition to the future of the FPS. We do not ourselves suggest that the Chancellor initiate discussion on any particular point; and in any case several of them are more relevant to the Prime Minister's meeting with Mr Paige. But a brief aide memoire might be helpful.

Limited List

2. This is the most topical current issue in the light of the ABPI/BMA campaigns against the list. The consultation period on the details of which drugs should be included is still running. Thus far, both the Prime Minister and DHSS Ministers have remained robust in the face of heavy ABPI/BMA lobbying. But public pressure on DHSS to water down their original proposals will certainly persist. The Chief Secretary has already warned DHSS that he is expecting the full £100 million of promised savings from the introduction of the limited list to accrue in 1985-86, and it may be worth repeating this message.

Pharmaceutical Price Regulation Scheme (PPRS)

3. As well as campaigning against the limited list, the pharmaceutical industry has been complaining more generally about Government cutbacks in their profit margins. The present target rate of return on capital employed on NHS business for the industry is 21% (down from 25% previously), and this is due to be reduced again to 18% with effect from the next financial year. There are voices in the industry already muttering about the possibility of pulling out of the PPRS (which is a voluntary arrangement) and/or delaying or stopping some investments in this country. Our view remains that there is scope for further savings, for example by further reductions in allowable expenses on publicity. Meanwhile, officials are conducting a thorough review of the scheme, and one of our objectives in that review is to analyse thoroughly the possibility of operating by direct negotiation and market forces instead of through a PPRS (see also main brief on drug costs).

Charges

4. Following the 1984 Survey, Mr Fowler has agreed to significant increases in most charges for 1985-86 - with prescriptions due to go up from £1.60 to £2.00, and proportionately larger increases in dental charges. He has however been reluctant for political reasons to announce these increases although we were originally expecting them to be made public around the time of publication of the Public Expenditure White Paper. We do not think he is contemplating reversing his earlier agreement, but we consider that there would still be advantage in early announcement of the increases - to fend off speculation and avoid the risk of being boxed in by adverse political circumstances. Charging policy itself is of course a subject for inclusion in the Green Paper.

NHS Estate

5. A number of improvements in the management of the NHS estate are in train. Following last year's survey, DHSS are looking for substantial sales of residential property to help fund their capital programme. The Service has embarked on a programme of information collecting about the extent and condition of the estate; and work is in hand to introduce notional rents for districts whose estate is either unnecessarily large or in below average condition, as recommended by the 1982 Ceri Davies report. The Association of Health Service Treasurers has also completed a report on asset accounting, which recommends the introduction of full scale depreciation accounting in the NHS. We are actively involved in all these initiatives which are designed to improve the management of, use of and accounting for capital in the NHS.

Competitive Tendering

6. The programme of competitive tendering for support services was initiated in 1983. Some authorities have been slow to implement it, necessitating follow up from the DHSS. Others (eg Cambridge) appear to have done so badly, without proper regard for the maintenance of service standards. Generally the programme has been a very useful part of efforts to improve cost effectiveness and efficiency: but it is important to stress that standards must be maintained or the whole programme could fall into disrepute.

Meanwhile, a number of authorities have experimented with contracting out at higher levels, including the performance of operations - so far, this has been successful, and Ministers are encouraging its extension.

Griffiths Report

7. This will obviously be primarily for discussion with Mr Paige. The latest position is that all the regions except East Anglia have appointed General Managers, although it looks as if Yorkshire will have to reappoint now that their General Manager has resigned. East Anglia are expected to appoint an outsider, the first region to do so. Following Mr Paige's appointment, the main outstanding central post to be filled is that of NHS personnel director. The DHSS organisation - particularly the Medical Divisions - will need close scrutiny post-Griffiths.

Sir PM

Jobs in health

DB 21/1

TABLE A 10

EMPLOYMENT IN PROFESSIONAL AND MISCELLANEOUS SERVICES, DISAGGREGATED DETAIL, USA, 1973, 1979 AND 1983

	Employment (1) 000's 1973	1979	1983	Change in employment, 1973-83 Number 000's	% p.a.
"Services" (2) of which:	12650	16829	19279	+ 6629	+ 4.3
Hotels etc	802	1009	1065	+ 263	+ 2.9
Personal services	915	934	965	+ 50	+ 0.5
Business services	1893	2790	3403	+ 1510	+ 6.0
Auto repairs, garages	422	583	576	+ 154	+ 3.2
Miscellaneous repair services	202	280	266	+ 64	+ 2.8
Motion pictures	192	222	202	+ 10	+ 0.5
Amusement & research services	489	665	752	+ 263	+ 4.4
Health services	3573	4906	5894	+ 2321	+ 5.1
Legal services	286	445	586	+ 300	+ 7.4
Educational services	1035	1151	1300	+ 265	+ 2.3
Social services	541	1070	1218	+ 677	+ 8.5
Membership organisations	1413	1523	1522	+ 109	+ 0.7
Miscellaneous services	673	926	1058	+ 385	+ 4.6

Source: US Bureau of Labour Statistics 'Employment and Earnings'

(1) March each year

(2) This category roughly corresponds to UK "professional and scientific services" and "miscellaneous services"

entitlement claim~~ants~~ getters

BLE A11

OCCUPATIONS WITH THE LARGEST ABSOLUTE INCREASE IN EMPLOYMENT BETWEEN 1973 AND 1983: USA

	Employment (1) 000's		Change in Employment	
			000's	Percent
	1973	1982		
Professional & Technical Workers				
Accountants	750	1193	443	59
Computer Specialists	287	751	464	162
Engineering & Science technicians	850	1114	264	31
Engineers	1094	1574	480	44
Health technologists & technicians	330	657	327	99
Lawyers	344	630	286	83
Physicians, dentists	639	869	230	36
Registered nurses	823	1415	592	72
Managers and administrators				
Bank officials	509	731	222	44
Restaurant, cafe, bar managers	494	768	274	55
Salesworkers				
Sales reps, wholesale	748	1020	272	36
Clerical workers				
Bank tellers	326	561	235	72
Bookkeepers	1661	1968	307	18
Cashiers	1048	1683	635	61
Computer operators	216	588	372	172
Receptionists	445	672	227	51
Secretaries	3066	3847	781	25
Transport equipment operatives				
Truckdrivers	1549	1841	292	19
Non-form labourers				
Stockhandlers	723	972	249	34
Service Workers				
Building interior cleaners	660	926	266	40
Cooks	928	1396	468	50
Guards	460	685	225	49
Waiters	1149	1496	347	30

Source: US Bureau of Labor Statistics, 'Employment and Earnings'

(1) Annual averages

Briefing for NEDC: Where Will the New Jobs Be?

Health

There will undoubtedly be pressures for more resources to be devoted to health care. The main ones are:

demography - the increasing proportion of the elderly and very elderly in the population,

medical advances - the ability to treat conditions more effectively, or to treat presently untreatable conditions,

economic growth - leading people to expect higher standards of health care.

The pressures could be met by:

greater efficiency in the NHS
greater private provision
increased NHS resources.

Only the latter two would lead to increased jobs. It is not possible to guess at present what mix of the three alternatives will actually result.
(N.B. The idea of greater private provision is perfectly consistent with the NHS remaining the major provider of health care.)

Defensive Points

1. The US experience
It is dangerous to try to draw parallels between the US and the UK. The institutional arrangements are very different. The US insurance-based system means that many more people are engaged in administration of health care than in the UK. And the virtual lack of primary care arrangements mean that there is not the check against unnecessary and/or expensive treatments that GPs provide in the UK.

2. NHS manpower cuts

Between 1979 and 1982 NHS manpower increased by 7.1% (66910 WTE), predominantly staff directly involved in patient care. The recent 'cuts' - which are simply intended to bring manpower <u>growth</u> back on target - are ½% (4800 WTE).

2 1 JAN 1985 9.67

SECRET

Sir PM

FROM: MISS M O'MARA

DATE: 21 January 1985

cc PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Bailey
Mr Anson
Mr Monck
Mr Byatt
Mr Battishill
Mr Monger
Mr Jameson
Mr Scholar
Mr Watson
Ms Seammen
Mr Cropper
Mr Lord

Sir P M
x please
D 21/1

F PES. periodic

PS/CHIEF SECRETARY

HOUSING BENEFIT REVIEW

x The Chancellor read over the weekend Mr Watson's submission of 9 January. He has commented that he trusts we will strongly oppose recommendation (i) in paragraph 3. He has noted that it is wholly undesirable, as even the IFS has pointed out, that the state should pay 100 per cent of anyone's housing costs which, he assumes, is what is being suggested. He considers it an open invitation to abuse and to excessive public expenditure. He agrees with integrated treatment but believes that the percentage should be less than 100.

MOM

MISS M O'MARA

14

CONFIDENTIAL F: PES: particular progs.

From: P M RAYNER

Date: 21 January 1985

MR BAILEY

cc: Sir P Middleton
Mr Anson
Mr Watson

PRIMARY CARE SEMINAR

A couple of comments on your minute of today.

2. I would not necessarily be averse to manpower controls. But we must remember that even if they were introduced quickly, they would only have any effect in the medium to long-term. So I would want to be sure that the kind of manpower controls envisaged would not put at risk a 100% capitation-based approach. We do not want to shoot ourselves through the foot. Without seeing a more detailed working-up of the DHSS proposals, I cannot really comment further at this stage.

3. On capitation, I have perhaps been guilty of over-compression. The trouble with present arrangements is that over 50% of remuneration, plus expenses, is not paid on a capitation basis. So without manpower controls, the greater the number of doctors, the greater the expense. The point about 100% capitation (which would embrace expenses as well as remuneration) is that the total number of patients is for practical purposes fixed. Once a capitation fee for the year is set (and let us for simplicity assume it is a single national figure, though it probably would not be), total GMS expenditure is fixed at capitation fee times total number of England patients. If the number of doctors increases, then their average remuneration will simply go down. So this creates a de facto cash limit. So far as the DDRB is concerned, ~~this~~ it is not a necessary part of the new system. But if it were retained, then it would either set the capitation fee in isolation, or if it were thinking in remuneration terms, it would set it in the form of average list size times capitation fee, and would thus be setting the capitation fee by another

route. The whole point of the change is that there would be net gainers and losers, and the only way of compensating them would be to ease in the changes gradually.

4. On the Drugs Bill, I agree with what you say. But it is important not to lose sight of the fact that allocating out the Drugs Bill to GP practices gives us the ability to control in-year the fastest-growing part of FPS expenditure. It is an essential component of the de facto cash limit approach.

P M RAYNER

PSC 21 JAN 1985

CONFIDENTIAL

FROM: A. M. BAILEY
21st January, 1985.

MR. RAYNER

c.c. Sir P. Middleton
Mr. Anson
Mr. Watson

PRIMARY CARE SEMINAR

Two immediate comments on your briefing of 18th January for tomorrow's seminar:

(i) You present manpower control, and increase proportion of remuneration by capitation fee, as alternative for FPS. I think we should go for both (ie legislation to control entry to contract, as well as compulsory retirement -though not perhaps any separate immigration control, which would be misunderstood and as you say difficult to reverse). Higher capitation fees might help competition and value for money (though this depends on patients actually switching, which I would not expect to see much affected by measures in IF such as notices in surgeries). But it would do nothing directly to limit costs - on the contrary, I would expect "gainers/losers" pressures on the Review Body to go the other way. So long as the Review Body goes on fixing fees aimed at a given average income per GP, the only way of limiting GMS costs is to limit the number of GPs (which has risen by 16% in the last decade). I do not understand your remarks about a "de facto cash limit" (pp 6 & 7).

(ii) On the drugs' bill, though the Green Paper can perhaps do no more than discuss options (including cost-related charges), as you say, we should draw attention to the 60% cost-terms increase (to about £1½ billion) over the last decade, and try to stiffen DHSS on current measures ("limited list" and reduction of return on capital to 18%) - paras 2 & 3 of your Annex 3).

AMB

A. M. BAILEY

024/24

CONFIDENTIAL

FROM: H G WALSH
DATE: 21 JANUARY 1985

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Peretz o.r.
Mr Cropper
Mr Lord
Mr H Davies
Mr Hannah

I take it this is on the basis of the likely £5 outturn, not the £3bn under new target.

Must be - only outturn figures here - no forecast

Thanks

MONETARY PROSPECTS : FUNDING

... As requested I attach a table (Mrs Lomax's minute of 20 January), prepared by Mr Hannah, which shows cumulative overfunding over the financial year to date on both calendar quarter and banking month bases.* The most up-to-date information relates to banking months - firm figures for the October-December calendar quarter will not be available for some time. Banking month data are

... also shown plotted on the attached chart. (a very revealing chart; better to show PSBR & funding separately)

2. As the table shows the comparison between banking month and quarterly data is reasonably close if seasonally adjusted data are used for the months to September. There is however a substantial difference between the unadjusted banking month and quarterly figures. This mainly reflects the PSBR "surge" in the last two weeks of calendar March 1985. Using the unadjusted banking month data for April-September, which includes the "surge", there is cumulative underfunding of £3.2 billion. The calendar quarter cumulative figures for April-September, however, which exclude the "surge", show only £1.8 billion of cumulative underfunding.

3. The difference between the seasonally adjusted and unadjusted banking month figures reflects the fact that the main tax gathering season is yet to come.

* For convenience the usual signs have been reversed so that overfunding is represented by positive, and underfunding by negative, numbers.

4. Financial markets track funding progress in terms of banking month data, rather than those for calendar quarters. The Mansion House Speech referred to the objective of funding the PSBR "over the year as a whole", but without making a more exact reference.

H.W.

H G WALSH

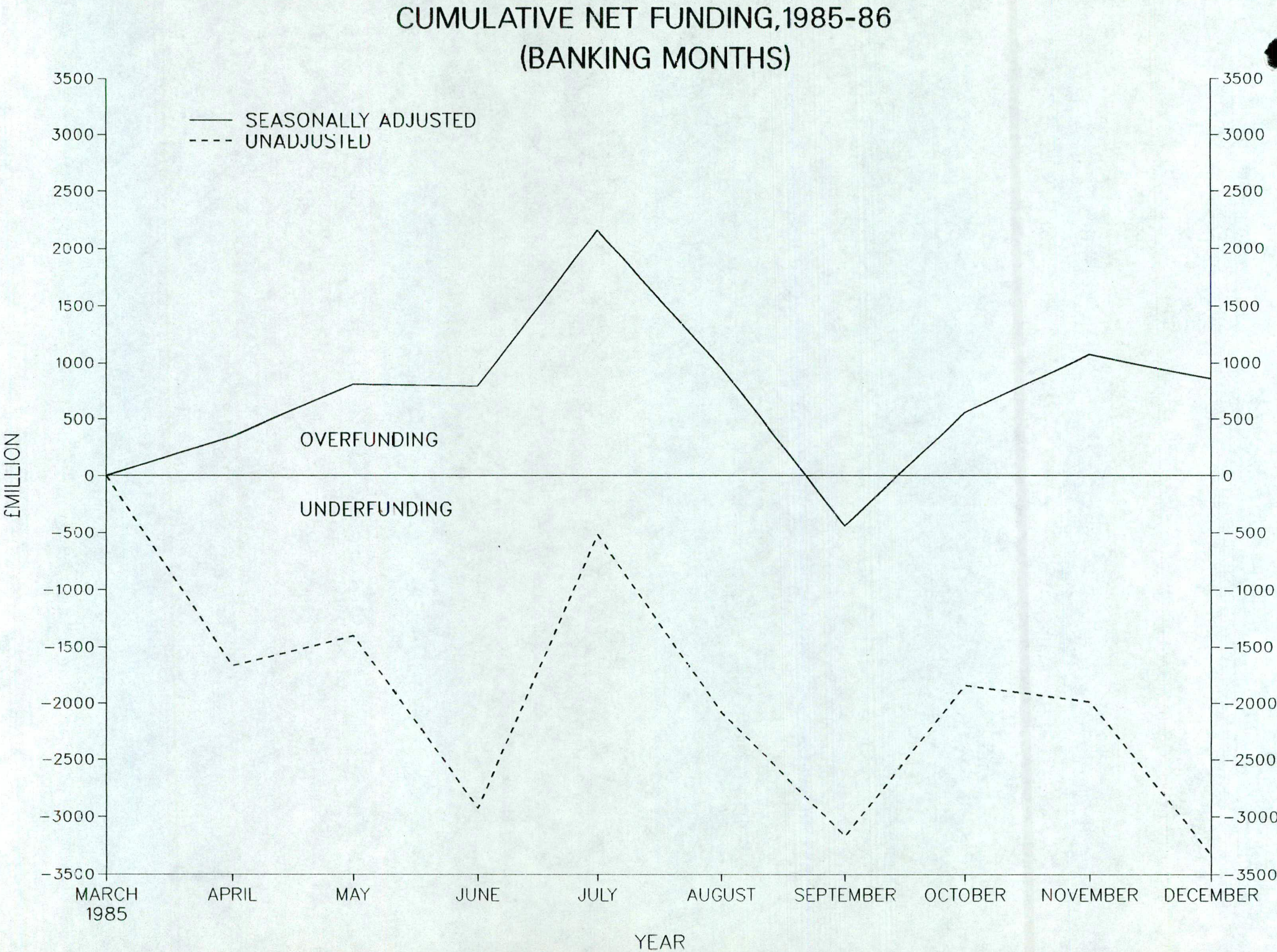
CONFIDENTIAL

CUMULATIVE NET FUNDING, 1985-86

£ billion, seasonally adjusted
(unadjusted data in brackets)

	Banking months		Calendar quarters		
April	+ 0.4	(- 1.7)			
May	+ 0.8	(- 1.4)			
June	+ 0.8	(- 2.9)	+ 0.9	(- 0.2)	Apr-June
July	+ 2.2	(- 0.5)			
Aug	+ 1.0	(- 2.1)			
Sept	- 0.4	(- 3.2)	- 0.7	(- 1.8)	Apr-Sept
Oct	+ 0.6	(- 1.8)			
Nov	+ 1.1	(- 2.0)			
Dec	+ 0.9	(- 3.3)			

Note: Overfunding = +
Underfunding = -


CUMULATIVE NET FUNDING, 1985-86
(BANKING MONTHS)
SEASONALLY ADJUSTED
UNADJUSTED
OVERFUNDING
UNDERFUNDING
£MILLION
3500
3000
2500
2000
1500
1000
500
0
-500
-1000
-1500
-2000
-2500
-3000
-3500
MARCH 1985
APRIL
MAY
JUNE
JULY
AUGUST
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
YEAR

N 1985

10 DOWNING STREET

CH/EXCHEQUER
REC. 25 JAN 1985
ACTION MR P RAYNER
COPIES TO CST
SIR P MIDDLETON
MR BAILEY

(F) Sirkin PES: partic progs.

From the Private Secretary

24 January 1985

Dear Steve

REVIEW OF PRIMARY HEALTH CARE SERVICES

The Prime Minister held a meeting at 9.30am on 22 January to discuss the Review of Primary Health Care Services. The Chancellor of the Exchequer, Chief Secretary, and Minister of State (Health) were present. Sir Kenneth Stowe, Dr Acheson, Mr Rayner, Sir Peter Middleton, Mr Bailey, Mr Gregson, Mr Redwood, and Mr Willetts were also present. The meeting had before them the DHSS document of January 1985.

Opening the discussion, your Secretary of State said the review of the FPS had two main themes; controlling and reducing the costs of the service; and improving the service given to customers. On costs your Secretary of State reported on the work on drugs and GP manpower, which could be implemented on a tighter timetable than the other parts of the Review. The proposals for limited-list prescribing which had already been announced were a sensible and discriminating way of dealing with the problem of rising drug costs. Together with the reforms of the PPRS already agreed, there would be a full year saving of about £130m. It was essential not to lose these savings, but he thought that it would then be necessary to offer the drug industry a prospect of stability for some time.

He would also be bringing to H Committee proposals for controlling GP numbers. The Binder Hamlyn Report had shown that the cost of Family Practitioner Services was driven upwards by increasing numbers of doctors. There were three areas for action: immigration controls, compulsory retirement at 70, and reductions in the numbers being trained. The Prime Minister expressed particular interest in limiting immigration of doctors.

The discussion then turned to the proposals for improving Family Practitioner Services in Section II of the DHSS paper.

The Minister of State described his proposals to encourage competition and provide greater consumer satisfaction. The Prime Minister strongly supported the theme of improving service to the customer. Making it easier for patients to change doctors was particularly important here. She asked, however, if medical audit would involve extra non-professional interference in the work of GPs. The Minister of State explained that it would be peer group review by fellow professionals, and likely to be welcomed by the more enlightened GPs. He also assured the Prime Minister that the measures to improve consumer information would not involve excess bureaucracy and paperwork for GPs and Family Practitioner Committees. It was noted that increasing the proportion of remuneration provided by capitation fees would help to stimulate competition and increase responsiveness to patients. This would be difficult to negotiate as the BMA sought to move in the opposite direction.

The Prime Minister regretted that the Review did not appear to have been radical enough. She set out the wider political themes which should be put over strongly in the draft Green Paper. The key objective was to find a middle way between a service financed entirely from public expenditure, and an exclusively private sector beyond the pockets of most people. Enabling patients to top up on the basic public sector provision was the only way to meet the problem of rising costs of acute medical care. It would open up to many more people the prospect of contributing a little extra to get a service rather better than the basic NHS provision. The Minister of State feared that the basic NHS level of provision would cease to be popularly acceptable, and pressures would intensify for further public expenditure to raise the level of free NHS provision. In addition, doctors and the drug industry might find it easier to increase their remuneration. But it was agreed that a portable capitation fee was an interesting possibility, which should be discussed in the Green Paper.

Your Secretary of State said the consideration of higher prescription charges plus extensive exemptions was becoming increasingly unfair. It would be difficult to increase the finance raised by charges while the exemptions remained, but getting to a position when the Government would be free again to rethink policy would be very tricky. To raise this issue in the Green Paper could cause other issues to be swamped. Alternative ways of controlling drug costs and levying prescription charges were then discussed. The Prime Minister thought this was another area where it should be possible for the state to provide a contribution to the costs of drugs which individuals then topped up. A drugs budget for GPs was also a possibility, though it was pointed out that this idea needed further work. The Prime Minister asked also about the possibility of cost-related prescription charges, with more limited exemptions. She recognised that this conflicted with the pledges at the last Election, but believed that the issues on prescription charges and the cost of drugs needed to be floated in the Green Paper well in advance of the next Election. The political message should be that lavish drug prescribing and wasteful procurement deprived patients of the acute health care which could only be provided by the NHS.

It was agreed that work should urgently be set in hand in preparing a draft of the Green Paper which should be circulated to colleagues during March.

I am copying this letter to Rachel Lomax (H M Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Steve Godber, Esq.,
Department of Health and Social Security

b/f for mtg with Mr King

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

CH/EXCHEQUER
REC. 1 - FEB 1985 1/2.
ACTION Mr Monck
COPIES TO CST, FST, MST, EST
Sir P. Middleton,
Mr Bailey, Sir T. Burns, Ms Seammen,
Mr Mercer, Mr Cropper, Mr Lord.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

31 January 1985

Dear Nigel,

I was glad to have the opportunity to talk to you last week about our employment and training measures. As we agreed, our officials are now working on the detailed costings of the various options for a 2 year YTS, for expanding the Community Programme and for the introduction of related schemes. I have now received some further figures which I thought you and the Prime Minister might like to see at the earliest moment. I emphasise that they are still being worked on, but they do give a broad picture of relative costings and their impact on unemployment.

I appreciate that you will need to take a number of factors into account of which the employment situation is only one. But it is one of the most serious and today's figures showing that unemployment has increased by 150,000 over the last year underlines this. To be seen to reverse this trend is clearly crucial for our future prospects. The growth of the economy can certainly do much to check it but on its own I simply do not believe that it can bring about a significant decline. To achieve that we will need an enhanced programme to reduce unemployment significantly and we need to announce it now if we are to get the results in time.

Raising tax thresholds, reform of NICs, and deregulation together with special measures constitutes precisely this sort of programme. I emphasise the importance of including special measures because, while the other changes will have the greatest effect in the long term, their short-term impact on the unemployment register is bound to be uncertain and hard to quantify.

The virtue of the special measures is that they are cost-effective and predictable, both in their effect and the timing

SECRETARY OF STATE FOR EMPLOYMENT

of their impact. They can achieve a sizeable reduction in unemployment within quite a short period, and at the lowest cost of any of the options. They are also consistent with our wider aims. The Youth Training Scheme greatly improves the skills of young workers, while at the same time restraining their wages. The Community Programme helps the long-term unemployed back into the labour market, and at the same time is focused on some of the most depressed areas.

If such a programme is to achieve its objective it must be sufficiently large to be proof against unforeseen variations in employment, and to make a real impact on public perceptions of the trend in unemployment. I attach a chart which shows how a programme could build up to half a million off the unemployment count by 1987. The cornerstone of this package is a 2 year YTS under which unemployment would no longer be an option for school leavers under 18. However, the first entrants cannot be in their 2nd year before April 1986 and it will be the following September - eighteen months away - before there is any appreciable effect on unemployment. To fill this gap I firmly believe we must press ahead with an expansion of the Community Programme. If we start this Summer, we get an immediate impact on unemployment which builds up to some 170,000 by September 1986.

Discussions about the costs of a 2 year YTS, are not yet complete in MISC 107. But there is no extra cost in 1985-86 and in my view the full cost might be between £360 million and £600 million net by 1987-88. The net cost of expanding the Community Programme and related schemes would build up from £69 million in 1985-86 to around £550 million in 1988-89.

I think this package of special measures is essential if we are to meet the growing pressures on us for action, without undermining our overall economic strategy. January's unemployment figures show that we can expect those pressures to intensify. We should I am sure take the initiative now rather than wait until later when we might be forced to act in a much less orderly and cost-effective way.

I am sending a copy of this letter to the Prime Minister.

Tom

Tom

SECRET

	Additional net cost** (gross costs in brackets) - £m, cash prices				Additional effect on unemployment count at end financial year			
	85/86	86/87	87/88	88/89	85/86	86/87	87/88	88/89
1. Community Programme - increase from 130,000 to 260,000 in 12 months and to 390,000 in 30 months from start date - June 85	62(136)	245(703)	360(1054)	420(1194)	96	197	234	234
2. 2 year Youth Training Scheme* (with removal of SB) additional 200,000 places by 1987/88	NIL*	250-500* (360-555)	350-595* (500-765)	360-630* (520-800)	NIL*	200*	200*	200*
3. Charity-based community work scheme 50,000 places in 24 months : start Dec. 1985	2(5)	31(76)	62(151)	72(187)	7	29	45	45
4. Enhanced Voluntary Projects Programme with a training element 50,000 places in 24 months : start Sept. 1985	5(12)	33(81)	59(146)	62(154)	13	34	45	45
TOTAL COST OF PACKAGE	69(158)	559-809 (1220-1415)	831-1076 (1851-2116)	919-1184 (2055-2335)	116	460	524	524

** Excludes administrative costs

* These figures are still being worked on by MISC 107 and are very provisional.

SECRET

– 1 FEB 1985

Sir P M

SECRET

FROM: E P KEMP
1 February 1985

MR WATSON

F

PES: pension progs

cc Sir Peter Middleton
Mr Bailey
Mr Byatt
Mr Monck
Mr Battishill
Mr Scholar
Miss Seammen

SOCIAL SECURITY REVIEWS

Thank you for your note of 30 January.

2. I entirely accept that the "technical difficulties" in the notion of capping index linking of public service pensions needs to be thrashed out. As you say, this is not for Mr Fowler, but for the Superannuation side of the Treasury. Presumably Ministers' decisions following Miss Seammen's submission and attachment of 29 January will include an indication of whether they want the idea further pursued, and if so whether in the context of MISC 111 and the proposed Green Paper, or otherwise. As you know I very much hope they agree that it should be pursued. In fact in one sense this ia almost bound to happen, because the OP(PS) work which amongst other things looked at this Manifesto commitment is at least in theory only on the back burner pending the outcome of the Fowler reviews, and we shall presumably have to bring it forward again in due course; at that time - as previously - the option of capping would be looked at, if not earlier. What this does mean, however, that unless Ministers were prepared to take a deep breath, so to speak, and to short circuit the OP(PS) work so as simply to decide that the Manifesto commitment could and should be dealt with by way of a cap on index linking, then leaving aside political and other desirabilities either way it may in fact be simply not possible to include such a proposal in the Green Paper.

3. On the substance, I must say I am not clear that a capping proposal would in principle be as difficult or as <u>generally</u> unpopular as you suggest. Certainly it not be welcome to present or former public service employees whose potential or actual pension might be affected. But numerous as we are, we are still I think out-numbered by the rest of the population who rightly or wrongly do not seem to

SECRET

16

like us having the perk of automatic index linking. And even the public services themselves, although they would indeed be indignant, might not be all that much so; they know there is a Manifesto commitment to do something about index linking, and they know we were seriously looking at an increase in employee contributions; they would not be all that surprised, I would have thought, if the Government chose to interpret the commitment by way of a capping proposal, especially if an increase in employee contributions had been informally canvassed and, as would certainly be the case, protected. (I appreciate that this argument would only apply in the case of future pensions, not including people at present in service; but it may be that Ministers would want to maintain full index linking for existing pensioners anyway.) There is also the thought that we have to look at the pension regimes for the public services as a package, and there are a number of improvements in other areas which the unions are seeking; one would not rule out the possibility if not of a trade-off, at least finding a change in the opposite direction, which we might have had to make anyway, which could sugar the pill a bit. I very much hope that Ministers will not give up the idea of doing something about index linked pensions, possibly by way of the proposed cap, too easily.

EPK

E P KEMP

404.48

1 FEB 1985

SECRET

FROM: J ANSON
1 February 1985

F

MR WATSON

cc PPS
PS/CST
PS/MST
PS/EST
Sir Peter Middleton
Mr Bailey
Mr Byatt
Mr Jameson
Mr Scholar
Mr Battishill
Ms Seammen
Mr Cropper
Mr Lord

PES: particular programmes

(as discussed at housing policy meeting)

HOUSING BENEFIT REVIEW

Thank you for your minute of 25 January about the tapering of housing benefit, to which we referred briefly when we were discussing the housing policy review on Wednesday.

2. My minute was intended to raise the general principle of people making some contribution to their housing costs (and hence bearing some part of any increase in such costs). I would certainly not want to exclude extending this principle to SB recipients as well, if you believe this could be done in a cost-effective fashion, without incurring costly additions to the general SB level. I am glad you feel that this possibility is worth exploring.

3. There will of course be a dilemma. If the principle is extended to SB recipients, the effective contribution which can be demanded of them may turn out, as you say, to be relatively modest. But one would not then want to be restricted to seeking only that modest level of contribution from those higher up the income scale. Some form of tapering of the proportion which they contribute seems therefore likely to be essential if market pressures are to be introduced as effectively as possible.

JA

(J ANSON)

SECRET

14

56.10

pmp

Mr ST Allan

SECRET

FROM: M C MERCER

DATE: 4 February 1985

1. MR MONCK note at end

2 CHANCELLOR

What measure is the scheme/proposal?

cc Chief Secretary
Minister of State
Sir P Middleton
Mr Bailey
Ms Seammen
Mr Battishill

MEETING WITH LORD YOUNG, 5 FEBRUARY 1985

You are seeing Lord Young tomorrow to discuss the proposed expansion of YTS.

2. A paper on the costs of the expansion will be taken at MISC 107 on Wednesday. The figures are still up in the air and depend very largely on how much employers can be induced to contribute and the related balance between Mode A and Mode B places. The following table is based on what we now believe to be the most realistic assumptions. These are:

(i) that employers contribute £1500 to the cost of a second year place;

(ii) that 22 per cent of places are Mode B (the same as the existing YTS).

3. The figures are subject to constant revision and may not tally exactly with those in the latest Budget scorecard.

£ million cash

	1985-86	1986-87	1987-88	1988-89
Gross public expenditure	25	510	690	715
Net public expenditure	15	365	395	430
Net Exchequer Cost	15	455	520	650

4. It is important to note that the net exchequer cost is significantly higher than the net public expenditure cost.

5. Lord Young will recognise these figures (they are from the latest MISC 107 paper) but argue that his preliminary consultations with the CBI point to considerably lower costs. The CBI is said to have suggested that it is ready to seek support for a scheme requiring an employer contribution of 60 per cent of the allowance costs in years 1 and 2. Lord Young has interpreted this offer as applying not only to additional places but also to those which would have been provided under the existing YTS. On this basis the net exchequer cost in 1987-88 might be around £310 million rather than the £520 million shown above.

6. It is difficult to envisage the CBI (or at least its members) going this far. A sizeable employer contribution in respect of incremental places is plausible (especially as almost half of them are likely to be filled by employed rather than unemployed youngsters). But to combine this with a cut in the block grant for existing places seems very optimistic. Some employers are even now making noises about the inadequacy of the block grant.

7. It is important that judgements about cost should relate not to some abstract notion of an ideal scheme, but to a scheme that has a realistic chance of being delivered. There is a world of difference between what employers ought to contribute on an objective appraisal of costs and benefits, and what they are likely actually to contribute. An optimistic assessment would be self-defeating if the result were merely to create a disproportionate need for Mode B places.

8. Until now the costs of an expanded scheme have been estimated on the assumption that independent entitlement to SB is withdrawn from youngsters while they are eligible for a place. This assumption makes a considerable impact. A YTS place costs around £2700 a year, three times as much as a 16 or 17 year old receives from SB. And denial of SB would increase both the number of entrants to the scheme and their average length of stay.

9. Calculations by the MSC suggest that the retention of SB entitlement would reduce the gross expenditure cost of the expanded scheme by about £240 million in 1986-87 and £370 million in 1987-88. The net expenditure reduction would be lower - about £60 million and £250 million; and, as with the Community programmes the flowbacks could not be harvested as a discrete cut in DHSS provision.

10. However, there is an obvious trade off between the political advantage of withdrawing SB and its cost. It might also be the case that retention of SB would strengthen the Government's hand in pressing for the maximum employer contribution. In crude terms, the

existence of an alternative form of income support reduces the need to ensure that places are available for all-comers.

11. In conclusion, you might therefore wish to:

(i) tell Lord Young that, given the sums at stake, it would be very risky to base estimates on an optimistic assumption of employer contribution;

(ii) reserve your position on whether the advantages of withdrawing SB can be justified by the potential cost.

M C MERCER

There is a strong case on expenditure grounds for not withdrawing SB, though it weakens the political appeal (since unemployment would remain an option) and the downward pressure on pay. SB is cheaper than a YTS place (see para 8 above) and keeping it would put us in a much stronger position to squeeze up the contribution from employers: the Government would not be obliged to provide expensive Mode B places if the employers don't provide enough YTS places, provided the 'guarantee' is expressed fairly narrowly.

I attach a separate note by Mr Mercer on the charity bond scheme.

4th Feb.

CHARITY-BASED PROGRAMME

This note briefly describes and assesses a charity-based variant of the Community Programme (CP). As envisaged by Mr King, the new scheme (CBP) would run alongside an expansion of CP as part of a major increase in the provision of job-opportunities for the long-term unemployed. However, the new scheme might equally serve as an alternative to the extension of mainstream CP.

2. CBP would aim to attract sponsors from charities and voluntary bodies that are unable or unwilling to mount projects under CP (which has fairly strict and specific rules concerning eligibility). The new scheme would differ from CP mainly in the following ways:

(i) it would be funded on the basis of a standard block grant rather than by differential reimbursement of eligible costs

(ii) provided sponsors met the basic condition of employing those who would otherwise have been benefit recipients they would be free to use this block grant as they wished. There would be no prescribed wage levels;

(iii) the definition of "community benefit" might be loosened to include (eg) projects of an international character;

(iv) there would be less explicit emphasis on improving the employability of participants.

3. In short, sponsors would face fewer adminsitrative hurdles than under CP. In exchange for this the block grant would be lower than the average gross unit costs of CP. Comparative unit costs, based on a block grant of £70 a week, are:

£:1985-86 prices

	Gross cost per participant	Net exchequer cost per person off the unemployment count
CP	4370	1520
CBP	3650	1400

The figures of net cost assume that deadweight and substitution might be around 10 per cent, compared with 7.5 per cent in CP.

5. DE officials believe that projects would be sponsored by:

(i) bodies such as Dr Barnados, Church Action and the NSPCC which have shied away from CP because of red-tape and (in some cases) the need to pay wages at the going rate

(ii) international charities (OXFAM, VSO) which cannot satisfy current rules on the domestic community benefit of projects;

(iii) individuals or voluntary groups who organise "parish-pump" projects too small to be practicable under CP.

6. It is also thought that the new scheme might re-package and attach an explicit employment objective to some of the existing Government funding of charities and voluntary bodies.

7. On this basis DE estimate that a scheme launched in December 1985 would build up to 50,000 places after two years. Cost and coverage would be as follows:

		1985-86	1986-87	1987-88	1988-89
Gross public expenditure cost	) £million) cash	5	76	155	197
Nt Exchequer costs	)	2	31	60	75
Number of places	) by) end-March	8	32	50	50
Effect on unemployment Count	)	7	29	45	45

Pros and cons

8. The scheme's main attractions are:

(i) its relative cheapness (gross unit cost 15 per cent lower than CP);

(ii) erosion of the principle that project based schemes should pay the rate for the job;

(iii) the possibility of presenting it as a flexible response to the needs of charities and voluntary bodies, thereby enabling them to take over more work currently performed by the public sector;

(iv) the opportunity it might give for re-directing existing Government resources, especially in the light of pressures stemming from the abolition of the metropolitan authorities;

(v) the adoption of a funding mechanism which could become a model for CP as a whole.

9. On the other hand:

(i) the estimated number of places and/or rate of build up could be optimistic;

(ii) some CBP projects might replace CP projects rather than add to the total stock;

(iii) even if DE's estimates were correct the maximum impact on the unemployment count (45,000) would not be achieved until March 1988. A comparable expansion of CP (ie 50,000 places) would proably achieve much the same impact by the summer of 1986;

(iv) relaxed rules could mean higher deadweight and substitution than allowed for by DE (with correspondingly higher net costs and lower unemployment effect).

Conclusions

10. The balance of these factors is difficult to judge. However, informal discussions with the Voluntary Service Unit at the Home Office suggest that the scheme might well be a runner. Much would obviously depend on the way in which it was packaged and marketed. If Ministers wanted to pursue the idea, there should be further inter-departmental discussions before anything was said publicly; and close consultation with the voluntary sector before the details of the scheme were set in concrete. The launch of the existing CP went off half cock because the ground was inadequately prepared.

SECRET

Sir PM

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 5 FEBRUARY 1985

1. MR BLYTHE [initials] 5/2

2. CHANCELLOR OF THE EXCHEQUER

(F) - PES: partic. progs

MISC 111(85) FIRST MEETING: 6 FEBRUARY 1985
MEMORANDUM BY THE SECRETARY OF STATE FOR SOCIAL SERVICES

1. The Annex to the Secretary of State's Memorandum sets out his proposals for the reform of social security. This note provides briefing on three specific issues in which we have an interest, viz Family Credit (Appendix 4 of the Annex), National Insurance Contributions and Income Tax (Appendix 12) and the integration of the tax and social security systems.

Family Credit

2. Our comments on the family credit scheme were set out in Mr Blythe's minute of 7 January (copy attached).

3. Appendix 4 paragraph 5 of the Secretary of State's Memorandum suggests that as a result of the scheme "about 300,000 earners would be effectively taken out of tax". But we have argued (paragraph 3 of Mr Blythe's minute) that family credit cannot be presented as an effective increase in tax thresholds.

cc Chief Secretary
Financial Secretary
Minister of State
~~Sir~~ P Middleton
Mr Bailey
Mr Byatt
Mr Monck
Mr Kemp
Mr Battishill
Mr Scholar
Mr Watson
Ms Seammen
Mr Cropper
Mr Lord
Mr Isaac
Mr Blythe
Mr Mace
PS/IR

74

4. Paragraph 5 of Appendix 4 takes credit for the fact that the scheme would reduce all marginal rates in the poverty trap below 100%. But it omits to make clear that

(a) the number of families facing marginal rates over 60% could double;

(b) that the family credit scheme would extend much further up the income distribution than FIS, leading, potentially, to an awkward overlap with parental contributions to student grants.

5. If the family credit scheme were to go ahead, these issues would need very careful handling.

National Insurance Contributions

6. Appendix 12 proposes changes to National Insurance Contributions which would

(a) lower the LEL to about £20 per week and convert it to a threshold;

(b) abolish the UEL.

7. There are two main points here.

8. On the LEL, substantially lowering the starting point for employees' NICs would have implications for employers' compliance cost and for administrative costs in the Revenue. More employees would be brought within the scope of the NIC charge. This would

(a) add to the burdens of employers who already operate NIC and PAYE schemes;

(b) oblige some employers to begin operating NIC for the first time. The rise in the number of employers making remittances and returns to the Revenue would add to our administrative costs.

9. On the UEL, there is the familiar problem that abolition for employees would mean either

(a) raising the top marginal rate on earnings from 60% to 69% or

(b) if the higher tax rates were adjusted to compensate for (a), the top rates on pensions and investment income would be reduced from 60% to 51% with large gains going to those with the highest incomes.

10. Reducing income tax higher rates as a means of compensating for the abolition of the UEL has the additional problem that there is no means of helping those million or so taxpayers in the "kink" between the UEL and the onset of higher rates (who would be substantial losers) other than by very expensive reductions in the basic rate.

Integration of tax and social security

11. You will want to consider how far the Government should go in holding out the prospect of major change here. Paragraph 36 of the main Annex suggests that closer integration - however defined - should be pursued only "where real administrative improvements will result". That could be an important qualification to get on record. The inter-relationship with your own possible proposals for personal income tax reform could be awkward.

BA Mace

B A MACE

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

From: R A BLYTHE

Date: 7 January 1985

1. MR ISAAC note below.

2. CHANCELLOR OF THE EXCHEQUER

CHILDREN AND YOUNG PERSONS' REVIEW

In Miss O'Mara's minute of 27 December you asked for our views on the DHSS preferred presentation of the family credit as an effective increase in tax thresholds.

2. The proposal is that the new family credit - a more generous form of Family Income Supplement at a net extra cost of some £m300 to 350 - should be delivered by employers through the pay packet in addition to the beneficiary's net wages after tax and NIC. In the majority of cases the credit will simply reduce and be set off against the tax and NIC otherwise due. For the rest - about one-third of beneficiaries - the credit will exceed the tax (if any) - and for a smaller number the NIC too - and so be paid as an addition to gross wages.

3. Clearly the credit cannot be presented as an effective increase in tax thresholds. As Ms Seammen says, the great majority of the families concerned will still be taxpayers in the sense that they will remain on our books and be subject to the tax effects of changes in their circumstances or in rates and thresholds etc. Moreover, for about 300,000 of the one million

cc Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Bailey
Mr Anson
Mr Monck
Mr Byatt
Mr Monger
Mr Watson
Ms Seammen
Miss Noble
Mr Cropper
Sir Lawrence Airey
Mr Isaac
Mr Blythe
Mr Painter
~~Mr Mace~~
Mr Calder
PS/IR

beneficiaries the credit is more generous than a threshold increase extinguishing any liability to tax and giving them a net addition to their pay.

4. It is true however that the credit will be perceived by its recipients as reducing or extinguishing their tax and NIC liability. Put another way, it will increase the wage level at which the recipient moves into a position of having a net deduction of tax and NIC. It thus has something in common with the concept of a tax credit and could, if wished, be presented as such. Indeed DHSS see this as a positive advantage for the following reasons:-

- it could be a first step towards more fundamental integration of the tax and social security systems

- it would go some way towards reversing the change from child tax allowances to child benefit and towards restoring to the wage packet the full role of income support for the family

- it would prepare the ground for a more selective system of child support in the future.

5. These objectives raise some crucial and sensitive political issues - certainly as the Chief Secretary suggests, the proposal if presented in this way would be seen as further encouragement to the advocates of a full tax credit scheme. On the other hand, it would be possible to play down these wider implications and present the scheme as giving more generous support to less well-off families and the mechanism as simply a better and more immediate form of delivering it.

6. I should like finally to draw your attention to one aspect of the scheme. As Ms Seammen says, it should eliminate marginal rates of over 100%, taking just tax, NIC and income-tested ~~[illegible]~~ social security benefits together. But it does this at the cost of doubling the number of families subject to marginal rates of 60% or more and of raising the income level at which the benefit runs out to about £6500 for a one child family and £11,500 for a four-child family.

Some people towards the upper part of this range could also be liable to make contributions towards a student grant and face an additional marginal rate of contribution equal to 14%.

7. You may wish to consider whether it is sensible for these high marginal rates to extend to so many people so far up the incom scale - even to the point when the same family could be receiving state support for its younger children whilst contributing to the higher education of an older child.

R A BLYTHE

PS. 1. The points in paragraphs 5 to 7 are important.

2. In the 1970s the poverty trap grew largely out of the desire to give more help to families more selectively - in a rather unco-ordinated way. And it is now being questioned whether the cure was not worse than the disease.

3. The prospect now is of withdrawal of family credit, plus possibly housing benefit, plus possibly student grant, coinciding with income tax and NIC, to produce potentially high marginal rates of tax/withdrawal much higher up the income scale. It might be worth pausing to consider - perhaps with the help of the economic advisers - the broader implications and in particular the implications for the "tax profile" and incentives generally.

A J G ISAAC

56.11

SECRET

3/18

PMSP

FROM: M C MERCER

DATE: 5 February 1985

MINISTER OF STATE

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Bailey
Mr Monck
Mr Lovell
Mr Scholar
Ms Seammen
Mr Faulkner
Mr Shaw
Mr G M White
Mr Cropper
Mr Lord

c/ More expansion of the point raised by Mr Fowler - see particularly §20f
MOM
5/2

Relevant to Working N.

MISC (107): MEETING ON 6 FEBRUARY 1985

There are three papers:

(i) Costs of an Education and Training Initiative (Enterprise Unit)

(ii) An In-Service Teacher Training Programme (DES).

(iii) Draft Report to E(A) (Enterprise Unit)

2. The attached brief deals only with the first paper, which gives estimates of financial year costs on a range of assumptions. The brief describes the difficulty of fixing precise assumptions, but suggests that you apply a corrective to the optimism which characterises Lord Young's approach.

3. At the time of writing we have seen nothing of the other two papers. We will prepare a separate brief when they arrive.

4. As you know, the Chancellor is seeing Lord Young today. We suggest that your Private Secretary should arrange for you to be briefed on the outcome before MISC 107.

M C Mercer

M C MERCER

SECRET

COSTS OF AN EDUCATION AND TRAINING INITIATIVE

Agreement is needed on the main costing assumptions, notably:

(i) the appropriate level of employer contribution

(ii) the number of Mode A and Mode B places.

2. The Group can then move on to assess the likely cost to Government (including the net exchequer cost) and to employers (taking account of the savings they will derive from the scheme).

3. Even on the most optimistic assumptions the new places are likely to involve:

- gross additional expenditure of some £470-500 million in a full year (1987-88);

- net additional expenditure of around £200 million;

- a net exchequer cost of up to £350 million.

4. The cost could be significantly reduced if eligibility to SB were not withdrawn from 16 and 17 year olds (paragraph 20 below); and the paper also invites discussion of an option under which there would be no major increase in places until 1977-78.

5. There is an important general point to bear in mind. Lord Young is clearly determined that the report to E(A) should present the figures in the best possible light. As a result the Enterprise Unit in drafting the paper has been under pressure to bring out the more favourable assumptions and to place an optimistic interpretation on the outcome of recent discussions with the CBI. Because of this some of the estimates in the paper (especially those in the text rather than the table) have not been endorsed by Treasury or DE officials.

6. You should emphasise that the Group must not allow its judgement of cost to be influenced by some abstract notion of what an ideal scheme would look like; its judgement must be based solely on a realistic view of what can actually be delivered.

SECRET

SECRET

Key assumptions

(a) Coverage

7. The estimates in the paper are reasonable and you should resist possible attempts to shade them down. The credibility of any decision to withdraw SB entitlement depends on provision being sufficient for all-comers. At the same time, it is worth looking at a break-down of the client group because it reveals the character of the new scheme and shows how sharply it differs from the existing YTS.

8. YTS currently offers the equivalent of 270,000 full year places; the majority (around three quarters) are occupied by unemployed youngsters, and the scheme therefore scores well in terms of its cost-effectiveness as measured by net expenditure per person removed from the count. The new scheme would offer almost 290,000 additional places, around half of them for youngsters who would have been employed anyway. The obvious conclusion is that unless employers can be induced to make a substantial contribution the Government would end up paying a lot more than it currently does for a given reduction in the unemployment count.

(b) Employer contribution

9. This is the crucial issue and the paper does not deal with it in a particularly helpful way. The table adopts three possible levels of contribution to the cost of allowances in the second year - £600, £1050 and £1500. A figure as low as £600 can probably be dismissed; even those DE officials who are pessimistic about the response of employers believe that something higher is feasible. The following table shows how total costs might be distributed between employers and the Government under the two alternative levels of contribution.

		Contribution of £1050	Contribution of £1500
1987-88			
Gross PE	)	765	690
Net PE	) £m	470	395
Net Exchequer	)	595	520
Expenditure per incremental place	£		
a) Government			
- gross PE		2660	2400
- net exchequer		2070	1865
b) Employers (gross)		610	870

SECRET

10. The figures are incomplete because they ignore:

(i) the savings which employers would make by getting the work of trainees more cheaply than that of young employees.

(ii) the fact that even the current YTS grant falls short of meeting employers full costs.

11. The savings at (i) are likely to be around £200 million a year, or £700 per incremental place. The costs at (ii) are currently being assessed as part of a YTS providers survey. Initial evidence suggests a figure of about £500 per place.

12. On this basis the net cost to an employer of an incremental place would be less than £700 assuming that he contributed £1500 to the second year allowance; the net exchequer cost would be little short of three times higher (£1865).

13. The question is whether it is possible to improve on this ostensibly unreasonable distribution of total cost. The paper reports the outcome of preliminary consultations in which the CBI said they were ready to consider seeking their member's support for a scheme requiring an employer contribution of 60 per cent of the allowance costs in both the first and second years.

Considerable uncertainty surrounds the precise nature of the CBI offer and you should press Lord Young to elucidate.* He has apparently interpreted the CBI as saying that the 60 per cent contribution would apply to places that would otherwise have been provided under the existing YTS as well as to new places. The paper estimates (paragraph 12) that this would reduce the cost of the extension by up to £200 million a year. Our calculations indicate that the respective contributions to the cost of an extra place might then be:

		£
a)	Government	
	- gross PE	1670
	- net exchequer	1080
b)	Employers	
	- gross	2000
	- net	1800

14. This is clearly a more reasonable distribution. But is it realistic? Frankly, we are in uncharted waters and must rely heavily on the judgement of those who would have to deliver

* A note of the CBI meeting has now been circulated (your PS has a copy); it is not particularly informative

e scheme. DE officials are inclined to interpret the CBI offer as applying only to additional places - in which case it is hardly more generous than the £1500 contribution discussed above. You will wish to seek Mr Morrison's views (and perhaps to place rather more weight on them than on those of Lord Young). Two points in particular need to be teased out:

(i) some employers have already grumbled about the inadequacy of the existing YTS block grant. Is it plausible that they would be prepared to see it cut at a time when they were being asked to lay on additional places as well?

(ii) the figures in paragraph 12 of the paper appear to assume that employers somehow contribute in respect of all places, not just those which they provide themselves under Mode A.

(c) The Mode A/Mode B split

15. In briefs for earlier meetings we have said that beyond a certain point a squeeze on employers could be a false economy because the MSC would have to make good any shortfall in Mode A places by laying on expensive Mode B ones. Further work has led us to modify this view. It is certainly the case that the more employers are asked to pay the fewer Mode A places they will be prepared to offer. But, as a result, the overall size of the scheme would be smaller, and the additional cost of Mode B places would therefore be offset to some degree. Ironically, a smaller scheme might also be more cost-effective because the "lost" places would have gone largely to employees. We think you no longer need make too much of the point that a high employer contribution might be self-defeating. It is, after all, arguable that the objective of the extended scheme is not to bring in as many young employees as possible but simply to provide good quality training as an alternative to unemployment.

16. However, it is still necessary to reach agreement on the likely number of Mode B places. The table in the paper takes alternative assumptions of 22 and 17 per cent. The former is the current proportion, but the latter underlies most of the figures in the text. We believe that 17 per cent is too low for the reasons mentioned in paragraph 16 of the paper. The counter-arguments in paragraph 17 are somewhat specious. It is said in effect that because Mode B is not a suitable vehicle for second year training youngsters will transfer to Mode A. But this is to confuse supply and demand. There may be a preference for Mode A places amongst potential trainees; however, this will not guarantee their availability.

17. We advise you to take the line that it would be inherently implausible to assume both a significant employer contribution and a proportion of Mode B places lower than the 22 per cent on the existing scheme.

Conclusions on the main assumptions

18. Two quite separate considerations attach to the question of employer contribution:

(i) how much they ought to pay on an objective assessment of costs and benefits;

(ii) how much they are likely to pay in reality.

19. The CBI offer as interpreted by Lord Young is reasonable in terms of (i) but looks optimistic in terms of (ii). In our view it could be imprudent to base calculations on an assumed contribution higher than the £1500 case discussed above. At that level, something like the present proportion of Mode B places seems reasonable.

Supplementary benefit entitlement

20. Until now the costs of an expanded scheme have been estimated on the assumption that independent entitlement to SB is withdrawn from youngsters while they are eligible for a place. This assumption has a substantial effect. A YTS place costs around £2700 a year, three times as much as a 16 or 17 year old receives from SB. And denial of SB would increase both the number of entrants to the scheme and their average length of stay.

21. Annex 2 of the paper (paragraph 26) contains MSC calculations which suggest that the retention of SB entitlement would reduce the gross expenditure cost of the scheme by about £240 m in 1986-87 and £370 m in 1987-88; and the net cost by some £60 million and £250 million respectively.

22. The withdrawal of SB has political and presentational advantages, and would maximise the scheme's downward pressure on wages. However, it is clear that these advantages carry a large price tag. Moreover the retention of SB would strengthen the Government's hand in pressing for a substantial employer contribution. The continued existence of an alternative form of income support would permit a relatively modest guarantee to be applied to the availability of places. As a result there would be less need to provide a significant number of Mode B places in the event of employers defaulting.

23. As you know, the SB question is likely to be discussed at the Chancellor's meeting with Lord Young today. You will wish to judge from the outcome of the meeting whether to reserve your position in MISC 107, or to push the financial case for retaining SB.

Delayed introduction?

24. The paper raises the possibility of delaying the scheme's introduction by a year (ie the first cohort eligible for a second year would be those who left school in 1986 rather than 1985). This would have no impact on full year costs, but expenditure in 1986-87 would not be significantly greater than under the existing scheme.

25. The merits of delay could have as much to do with the nature and quality of the scheme as with expenditure considerations. There has been much vague talk about the desirability of the scheme leading to recognised qualifications and meshing in with other forms of education and training provision. If this is to mean anything, a great deal of work is needed both on the design of YTS courses and the structure of existing qualifications. Geoffrey Holland will no doubt have views on whether this is possible by 1986-87. There are those in MSC and DE who think it is not.

Ch/
To see, copies
the summing up
RL
12/2

PUSP

CH/EXCHEQUER
REC. 11 FEB 1985
ACTION Mr Cassell
COPIES TO Sir P. Middleton
Mr Robson.

11/2

10 DOWNING STREET

From the Private Secretary

8 February 1985

Dear Michael

BNOC AND OIL PRICES

The Prime Minister held a meeting today to discuss developments in the oil market. Present were the Foreign Secretary, the Chancellor of the Exchequer and the Secretary of State for Energy. The Prime Minister summarised the points which had emerged from the various discussions that had taken place during the course of the week.

First, it was clear that OPEC would react sharply to an announcement by BNOC that it was setting its January price at the average of realisations in the month, with the price for February and March being set at the previous official price. They would regard the lower price for January as providing a discount. Secondly, OPEC did not object to a reduction in BNOC's participation agreements. They appeared to recognise the argument that, by offering higher prices, BNOC was actually encouraging production. Thirdly, it was agreed that the Government should take its royalty oil in cash rather than in kind. Fourthly, OPEC were arguing that excessive liftings could damage reservoirs and that, in consequence, it would not be difficult to persuade the oil companies to reduce their North Sea production. Finally, OPEC had reported the view of the Mexican Government that it could sustain a $1 per barrel fall in the price but that a $3 fall would damage the financial stability of the country which in turn would damage the US banking system.

In discussion, it was agreed that care should be taken in interpreting a number of these arguments as they clearly reflected OPEC self-interest. Nevertheless, although OPEC's view of a lower BNOC price for January was irrational (since what was at issue was a reduction in the buying price and BNOC was already selling at lower prices) the likelihood of retaliatory action had to be taken seriously. It was not necessary for BNOC to commit itself immediately to a price for March. The opportunity to scale down BNOC participation agreements should be taken; this could be a step towards the eventual winding up of BNOC. The Petroleum Bill proposed for the next session could provide a legislative vehicle for this as well as for introducing a mechanism which would allow the transition from royalty in kind to royalty in cash to be effected without a cash flow loss to the Government.

Summing up the discussion, the Prime Minister said BNOC should set its prices for January and February at the previous level. She invited the Secretary of State for

Energy to prepare a paper setting out proposals for BNOC's withdrawal from participation contracts; considering whether the Petroleum Bill should provide for the winding up of BNOC; and examining how a move to royalty in cash could be achieved without a cash flow cost. The group should meet again when the paper was ready.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office) and Rachel Lomax (HM Treasury). I would be grateful if it could be shown only to those who strictly need to know if its contents.

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Michael Reidy Esq
Department of Energy

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon the Lord Young of Graffham PC
Minister Without Portfolio
Enterprise Unit
Cabinet Office
Whitehall
London

EXCHEQUER
REC. 22 FEB 1985
ACTION Mr Mercer
COPIES TO CST, FST, MST, EST
Sir P. Middleton
Mr Bailey
Mr Monck
Mr Lovell Mr Cropper
Mr Scholar Mr H. Davies
Ms Seammen Mr Lord
Mr Faulkner
Mr Shaw
Mr G. White

✓ 22/2

21 February 1985

Dear Minister,

MISC 107: REPORT TO E(A) COMMITTEE

As you will know from our discussion on 19 February I warmly welcome the proposal emanating from MISC 107 for a two year training scheme for 16 and 17 year olds and am sure it is a very worthwhile new development.

I would, however, like clarification of one specific aspect of the costing of the proposal which causes me concern, and which I think it desirable to put on record before we consider the proposal in E(A) Committee. It is important to prevent this particular problem leading to difficulties in implementation of the scheme or avoidable political opposition to it.

We do not have in Scotland the relatively extensive off-the-job private training agencies that exist in England and Wales; the private agencies that are operating successfully here offer only a limited choice of courses. It is not possible to argue that private training agencies in Scotland offer a viable alternative to the extensive use of further education colleges for off-the-job training. We will therefore be heavily dependent upon the full co-operation of local authorities if we are to be able to deliver the scheme.

We encountered considerable difficulties with local authorities last year over the subsidy they claim they are forced to provide for YTS training under the present scheme. The rate for off-the-job YTS training recommended by the Convention of Scottish Local Authorities to its members reflected a discount for Mode A trainees; it is however higher than the rate agreed in England and Wales, and the CBI considered it too high. Managing agents and sponsors are free to make their own individual arrangements, and there is some evidence that cost-cutting is achieved by reducing the length of off-the-job training in colleges which is in fact provided rather than by reducing the hourly rate.

The position in relation to YTS is thus, difficult enough but will be made much more difficult if the scheme is expanded to two years and a substantial number of 17 year old trainees join the scheme. My responsibilities for education and training in Scotland, which include direct policy responsibility for the activities of the MSC albeit without full financial control, conflict sharply on this issue with my policy of reducing local authority expenditure. If the additional cost to local authorities of providing the training is not fully covered by MSC grant and thus by the hourly rate paid by the managing agent the difference between the rate paid and the full cost would be an addition to local authority expenditure at a time when I am very critical of any increase in their expenditure. In addition, there is at present no allowance for this in relevant expenditure for rate support grant purposes and, if that continued to be the position, authorities increasing their spending to meet the Government's training objectives could find themselves facing rate support grant penalties for exceeding their current expenditure guide-lines. In principle Scotland is no different from England and Wales in this except that, as I point out above, the effects may be much more marked because of the smaller private sector.

Any suggestion that, under the proposed scheme, the Scottish local authorities should provide 2 years of guaranteed off-the-job training for trainees at less than the economic cost is therefore likely to be strongly criticised, and is potentially embarrassing for me. At the very least, an increase in relevant expenditure provision to reflect any additional cost is required. This is of course touched on in your report in the context of the costs incurred by FE colleges in providing for second year trainees, but the full implications for increased expenditure are not, I believe, adequately analysed or acknowledged,

I am sending copies of this letter to colleagues on E(A).

Yours sincerely

E S GOWANS
Private Secretary
Approved by the Secretary of State
and signed in his absence

56.4

for [illegible]

c/
Letter just arrived from Mr Young (below). We'll get comments on Monday if any are necessary.
[illegible] 22/2

CONFIDENTIAL

FROM: M C MERCER

DATE: 22 February 1985

I agree
[illegible] 22 Feb

1. MR MONCK
2. CHANCELLOR

cc Mr Byatt
Mr Battishill
Mr Lovell
Mr Scholar
Mr Odling-Smee
Ms Seammen
Mr Shaw
Mr Faulkner
Mr Folger
Mr Cropper
Mr Lord
Mr Davies

Copies attached for

Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Bailey

E(A), 25 FEBRUARY 1985

EDUCATION AND TRAINING FOR 14-18 YEAR OLDS

There are two papers on this item:

(i) E(A)(85)8, Memorandum by Lord Young;

(ii) E(A)(85)9, Report by MISC 107.

2. The first is essentially a summary of the second, but indicates that Lord Young is prepared to be flexible on such things as the launch date of a new scheme and the nature of any undertaking on the availability of places.

3. The main recommendation is for a scheme aimed at providing two years of job-related training for 16 year olds and one year for 17 year olds. It would lead to recognised qualifications and start in 1986 (when 1985 school leavers would progress to their second year). Implementation could be phased or delayed. Up to half the new places might go to young people who would have been employed in any case.

of cost of Mode A

SR 717.30
CB 76.85

4. There are subsidiary recommendations concerning additional resources for in-service teacher training, and a review of educational qualifications. Lord Young believes both are important components of an initiative which seeks to give 14-18 year olds a coherent menu of opportunities.

5. Costs are inevitably uncertain but have been systematically crawled over in MISC 107. The main assumptions behind the figures quoted in the body of the report are outlined at Annex A to this brief. The key ones are that 16 and 17 year olds retain their independent entitlement to SB: and that employers make a substantial contribution to scheme costs - equivalent to 30 per cent of first year trainee allowances and 60 per cent of second year. The DHSS has reserved its position on the former, though it is not integral to Mr Fowler's reviews; and DE and MSC believe the latter might be optimistic. But with these stated assumptions the estimated costs of a scheme which started in 1986 are as follows:

	Gross public expenditure	Net public expenditure	Net exchequer cost
1986-87	150	70	160
1987-88	310	150	280
1988-89	410	250	370

6. The figures are on top of existing YTS costs of around £750 million a year. Whether you can accept additional expenditure on this scale depends on how the other elements of a possible employment package, and of the Budget generally are shaping up. You may want to be reasonably forthcoming, but to stop short of unconditional approval. This would put you in a good position to secure satisfactory decisions on outstanding issues.

LINE TO TAKE

7. The issues are discussed in Annex B attached. Some are raised in paragraph 5 of Lord Young's memorandum and, in summary, the line to take on these is as follows:

(i) SB entitlement must be retained, at least initially. Its removal would more than double the public expenditure cost of the scheme and weaken the Government's hand in negotiations with employers. Lord Young seeks to placate Mr Fowler by suggesting that SB withdrawal could be reconsidered once the scheme is established. You can go along with this;

£350m
-£450m

(ii) consultations on funding arrangements must be carefully planned. You can agree that the publicly stated aim should be a contribution from employers equivalent to 60 per cent of allowance costs in both years (ie higher than assumed in paragraph 5 above). But a clear statement of the ground rules is necessary, as is a procedure for reporting back during the course of the negotiations;

bargain

(iii) a guarantee of places ~~is not needed if SB remains, and~~ could not be given because of the necessarily conditional terms in which the scheme would be announced. The stated aim should simply be to provide as many places as possible within available resources. Something more specific could be considered after the detailed consultations.

(iv) starting date. Until other elements of the Budget have been settled the possible need to postpone full implementation by a year cannot be ruled out. You can agree to go ahead provisionally on the basis of a 1986 launch, subject to DE and MSC being satisfied that enough second year places can be laid on by them;

8. There are four other issues, not explicitly raised in the papers, on which you should make your position clear:

(i) the (Budget) announcement will have to indicate that:

- resources are being set aside subject to the satisfactory outcome of consultations on employers' contribution, the level of trainee allowances, and the quality of training;

- public funds are being committed simply to get the ball rolling in the right direction. The scheme will succeed only if employers recognise the commercial value of investing in training - as do their counterparts abroad.

(ii) the Young Workers Scheme (YWS) should be abolished when extended YTS is introduced. The costings assume this and take account of savings worth £35 million a year. Mr King might float the idea of operating YWS end-on to the new scheme (ie for 18 year olds). You should try to nip this in the bud. It could cost a great deal more than £35 million a year - because there are more 18 year olds than 17 year olds in employment. And the Government could end up chasing its own tail by helping 16 and 17 year olds partly at the expense of older workers, and then spending more to repair the damage. Note that 18 year olds are already eligible both for CP and the MSC's adult training schemes; 1986-87

If YWS survives, new £m for CP (70,000 not 100,000)

(iii) in-service training. The Minister of State has reserved his position on the recommendation in paragraph 41 of the report that £10 million in 1985-86 and £25 million in 1986-87 should be set aside to support in-service training, and various TVEI-related measures. The money for the later year is within the costings; that for 1985-86 is regarded by DE and DES as a bid on the Reserve.

again, trade-off with UP

You could argue that the lessons of TVEI are not yet clear; it is premature to consider an expansion of related in-service training; and the estimate of additional resources for the scheme should therefore be reduced by £25 million in 1986-87. You might then be prepared to fallback to the extent of accepting the X £25m (or some part of it), subject to (a) no further increase in overall costs as a result of the consultations; and (b) any expenditure on in-service training in 1985-86 being met, as the report says, "from within existing resources".

(iv) monitoring. The objectives of the scheme (paragraph 18 of the report) are too imprecise to permit detailed monitoring and evaluation. We can deal with this at official level, but you might like to put up a marker.

9. There are no particular Treasury points on the planned review of vocational qualifications, though you can welcome it. The peripheral proposal (paragraph 45 of the report) that the MSC should develop as a National Training Agency need not detain E(A); it is the subject of a paper for NEDC on 6 March.

M. C. Mercer.

M C MERCER

I hope you can avoid the fall back at X above. If you do adopt it, there would be a further cost in 1987-88 which is not shown in the paper. NM

ANNEX A

COVERAGE AND COSTS: THE MAIN ASSUMPTIONS

All figures in this section are on the basis that SB is retained.

(a) **Coverage**

2. As well as the second year for 16 year old school leavers the new scheme would extend existing YTS elgibility to:

(i) employed 17 year olds

(ii) under 18s who become unemployed after a year or more in a job.

3. Around 160,000 new full year places would be needed in 1987-88, on top of 265,000 for the existing YTS. At this level the new scheme would cater for about 80 per cent of unemployed 16 and 17 year olds and half of those who might otherwise have been employed.

(b) **Costs**

4. It is assumed that:

(i) 78 per cent of places are directly sponsored by employers under Mode A, and 22 per cent are assembled by the MSC under Mode B. This is the same balance as in the current scheme. Because Mode B places cost about 1½ times more than Mode A ones the estimates one sensitive to relatively small changes in the assumed balance (a variation in Mode B of 5 percentage points affects total costs by £30 million)

(ii) employers contribute 30 per cent of first year allowances and 60 per cent of second year (costs on a range of alternative assumptions are given in Annex 2 of the report).

In cash terms the 30/60 formula is equivalent to a contribution per incremental place of about £1800. So the total cost to employers might be around £225 million a year (78 per cent of 160,000 places times £1800). Against this, employers will make savings, which could amount to £200 milion a year, by getting the work of trainees more cheaply than that of young employees.

(iii) the trainee allowance (1984-85 prices) is £26.25 a week for the first year and £30 for the second year. There is nothing sacrosanct about these figures and they do not have to be endorsed at the meeting.

ANNEX B

This note gives a bit more detail on the main outstanding issues referred to in paragraphs 6 and 7 of the brief.

(a) **SB entitlement**

2. The withdrawal of entitlement would greatly increase the cost of the scheme; deprived of income support more young people would join and they would stay for longer. The premium average cost of a place is almost three times higher than the annual SB entitlement of a 16 or 17 year old; the impact of withdrawal on overall scheme costs is therefore very significant.

3. Retention of SB is now generally favoured, but it is possible that the Prime Minister and Mr Fowler will probe. Apart from cost, the main arguments are:

- removal of SB would take the gloss off an announcement by raising the spectre of "compulsion"; it could put at risk the necessary co-operation of trade unions and others;

- employers are unlikely to take unwilling recruits. Hence more expensive Mode B places might be needed;

- the political precondition of removal would be a comprehensive guarantee.

4. The Government could say that it would reconsider the question when the scheme was established. But the issue has already been postponed once and it sounds a little unconvincing to put it off again. Better perhaps to say nothing publicly.

(b) **A guarantee**

5. Nothing specific should be said in the announcement about the availability of places. This is important both for operational reasons (not promising more than can be delivered); and because the employers are much less likely to play ball if they know the Government is committed to the provision of places come what may.

6. We have been giving preliminary consideration to the form of the announcement and think that the section on the number of places might be along the following lines: *

"The main aim of the scheme is a better qualified workforce and more realistic pay levels for young people. But a scheme along these lines would also be a major step towards ensuring that no one under 18 need be unemployed. I hope we would reach that position within a year or two of the scheme getting fully underway. But progress depends crucially on the contribution which employers, trade unions and trainees themselves are prepared to make. Moreover the first year of the new scheme is bound to be one of transition. So it would be wrong to make any firmer commitment at this stage.

7. There is a reasonable chance that Lord Young and Mr King would agree to something like this. But they may well argue for a more specific undertaking to be given when consultations are complete. You need not dissent; but should make clear that the new scheme would be subject to a cash limit and so cannot be completely demand-led.

(c) **Young Workers Scheme**

8. YWS currently covers 63,000 17 year olds but its impact on the unemployment count is only 12,000. High deadweight (which is endemic) means that the net cost of the scheme per person off the count is around £2400, half as much again as the average for special measures.

9. MISC 107 has assumed that YWS would be abolished when the new training scheme is introduced. Savings of £35 million a year have therefore been taken account of in the costings. No-one is likely to argue that YWS should remain in its present form. But Mr King could put up a marker to the effect that he is attached in principle to a new YWS for 18 year olds. He may suggest a study as part of the forthcoming annual review of special measures.

10. We cannot prevent such a study. But you might want to leave Mr King in no doubt that further expenditure on 18 year olds is not on. As you know, they are already eligible for CP after only 6 months of unemployment. YWS for 18 year olds would be more costly and complicated than the existing scheme. At this age people move on to adult rates and it would be very difficult to decide on the appropriate wage ceiling; and the potential client group would be larger because there are more 18 year olds than 17 year olds in employment.

* I have shown this draft to DE and Enterprise Unit officials.

NM

Timing

11. Final decisions will have to be left until Ministers consider the outcome of consultations. If there were severe pressure on funds in 1986-87 the scheme might still begin in that year by offering two year places to 16 year olds and one year places to unemployed 17 year olds. This would probably mean additional expenditure in 1986-87 of only £10-20 million compared with existing YTS provision. There would then be no second year places in 1986 for those who left school in 1985; and employed 17 year olds would not be eligible for the scheme until 1987-88.

(d) **In-service training**

12. The Report (reserving Treasury Ministers' position) recommends that the Government:

'should consider providing resources for TVEI-related in-service teacher training.'

13. It proposed £10 million in 1985-86 (though Annex 2 says 'up to £15 million') and £25 million in 1986-87, to be administered by the MSC. The money for 1985-86 'would have to be met from within existing resources'. Since however both the MSC and the DES programmes for 1985-86 are already fully spoken for, this is by implication a bid on the Reserve. The 1986-87 figure is included within the total costing of the MISC 107 package in Annexes 2 and 3.

14. No allowance is made for any additional funding for 1987-88 and later years. This is because H Committee are considering separately proposals for Sir Keith Joseph for a new system of in-service training grants starting in that year. But these proposals (which the Chief Secretary is resisting, but other H Members favour) are about machinery, not resources. There will no doubt be strong pressure in due course for the MISC 107 funding proposals, if agreed for the first two years, to be rolled forward.

15. The report also says (paras 38-39) that the lessons of the TVEI pilots should be applied to schools and colleges more widely 'as these become clear' and that 'some extra resources will be needed though not necessarily on the scale of the existing pilots.' No allowance is made for these extra resources in the costings in Annexes 2 and 3.

16. You might make the following (essentially defensive) points:

- TVEI is still in its infancy. It is too early to judge the results, to identify best practice, and to assess the resource implications of spreading the approach more widely. Equally, it is premature to be considering an expansion of related in-service training, or of TVEI itself;

- it would be sensible therefore for next steps on TVEI to be considered in slower time, and for any proposals for additional funding to be pursued through the normal Survey machinery;

- meanwhile you note that the Report proposes £10-15 million of in-service training expenditure in 1985-86 'from within existing resources'. Even if you were persuaded of the merits of this, you would not agree to a bid on the Reserve.

10, DOWNING STREET,
WHITEHALL S.W.1

Secures Hart's position. Issue is whether a satisfactory scheme is negotiable within these parameters. Norway has been in force with Iceland —

With the Private Secretary's

Compliments

also had some initial doubts.

RC

28/2

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

27 February 1985

Dear David.

MISC 107: 14 - 18s

Lord Young came to see the Prime Minister yesterday evening before his departure for China. He put to her a revised proposal for the extension of YTS. This is summarised in the attached note. The Prime Minister was generally content with this approach.

I think the next step is for this proposal to be set out in a paper for further discussion in E(A). The meeting will also need to take decisions on the other recommendations of MISC 107 which were not discussed at Monday's meeting.

I am copying this letter to Private Secretaries to other members of E(A) and to Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

(ANDREW TURNBULL)

David Normington, Esq.,
Department of Employment.

CH ER
REC. 27 FEB 1985
ACTION M ST
COPIES TO Mr March

CONFIDENTIAL

CONFIDENTIAL

14 - 18s: KEY POINTS FOR STATEMENT

1. Government wishes to see establishment of two-year training scheme and is prepared to fund up to £150 million in 1986/87 and £310 million in 1987/88 - provided satisfactory scheme can be worked out.

2. Government has decided that SB entitlement for 16 and 17 year olds will be withdrawn. This reflects scheme's ability to provide training places for all unemployed who so wish. Young people not in education, employment or training will be eligible for waiting allowance of half the training allowance, say £13 per week.

3. Timing of withdrawal must be dependent on MSC's ability to deliver a 'guarantee' of a place on the scheme to all unemployed. MSC to consult CBI on timing.

4. Scheme must be cost effective. Therefore:

(a) employers should bear major part of extra costs. Indicate publicly Government's belief that employers should fund 60% of both first and second year allowance costs (perhaps £1,700);

(b) Mode B places should be limited to one year and Government announce public target of reducing ratio from 22% to, say, 15% of total places;

(c) no public commitment on level of allowance: matter for consultations. But emphasise relationship between scale of allowance and number of places that can be funded within resources (i.e. lower allowance, more places).

—

CONFIDENTIAL

COPY NO 1 OF 20

SECRET

forwarding (forecasts) 7/3. 4pm.

PSP

bf 7/3/85

FROM: HUW EVANS

28 February 1985

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Cassell
Mr Battishill
Mr Lankester
Mr Odling-Smee
Mr Scholar
Miss Peirson
Mr Riley
Mr Cropper
Mr Lord

Ch.
See Miss Peirson's letter note on CGBR(O) enclosed.
Predominantly better news on 84/85.
RL
4/3.

PSBR FORECASTS

Margaret Peirson and PSF have been reviewing the forecasts for public finance. The figures in this note are broadly consistent with the draft forecast I submitted on 26 February. As usual, all numbers are still liable to change before the budget. The details of the public finances are set out in Part 6 of the FSBR, a draft of which is scheduled to be circulated tomorrow.

only h

1984-85

2. The indications now are that the PSBR will be around £11 billion, or 3.3 per cent of GDP. Changes since the January forecast are set out in table 1 attached.

3. The calendar February outturn could change our views: the first estimate of the CGBR(0) will be available on Monday, though very little of the detail. Other information may also change the forecast.

1985-86

You recall that (Mr Penton) said that £2bn was too much for 1985-86; the £6½bn assumes it is [illegible] likely allocated.

4. The post-Budget forecast takes account of the Budget package as it was on 27 February, but not of the full £2 billion addition to the Reserve. The forecast incorporates central estimates of the individual elements of the planning total, rather than imposing the £2 billion increase. The resulting changes since the January forecast are set out in table 2 attached: the forecast produces a PSBR of £6½ billion. After allowing for the package, this is about £½ billion more than the January forecast, reflecting amongst other things some carry-over of lower corporation tax receipts from 1984-85, and the downward effects on revenues of higher interest rates. !?

The Planning Total

5. Our present forecast for the planning total in 1985-86 is about £133.6 billion. This is lower than in the January forecast (£133.9 billion), despite the effects of the package. The changes are set out in table 3.

6. The new forecast is £1.4 billion above the PEWP figure plus package, ie on our central forecast we would need a reserve of of £4.4 billion. This is still £0.6 billion less than the £5 billion reserve you decided was appropriate to publish.

7. On our central forecast of a PSBR of £6½ billion in 1985-86, there would be a little margin within the MTFS figure of £7 billion. This margin could be taken up with higher expenditure on the planning total: adding £0.6 billion to expenditure would bring the planning total to £134.2 billion and the PSBR to £7.1 billion, ie 2.0 per cent of GDP.

8. The planning figure to be shown in the FSBR Part 5 and implicit in the borrowing figures in Part 6 is in part a matter of presentation and expenditure control. If you decided you wanted to show a planning total of £134.2 billion, ie a full £2 billion (plus package) above the PEWP, then we could find items of expenditure to which to add further overspends. This may involve some presentational difficulties eg we may not wish to suggest too much LA capital overspending. One possibility is to leave some of the extra £2 billion on the planning total unallocated. GE will be putting up a note on the presentational options.

Risks

9. As usual there are substantial risks involved in the PSBR estimates even for 1984-85, as experience of the 1982 and 1983 FSBRs reminds us. Since then we have improved our monitoring and collection of data, especially on central government expenditure, but we could still be making sizeable errors in many other areas, particularly local authorities. The average error quoted in table 3.10 for the PSBR in the current year is £1 billion. Outside forecasts are generally at least £1 billion lower than our £11 billion.

10. For 1985-86, it may be helpful to set down some of the main risks on the PSBR:

(i) **coal strike uncertainties**: end of dispute; end of extra oil burn; and coal (and electricity) board finances.

(ii) **EC refunds**: we have assumed (and shall want to publish) a full refund in 1985-86. There must be a risk of slippage into 1986-87.

(iii) **local authorities**: the sharp reduction in the cash limit on capital spending should produce a sizeable fall in borrowing. But higher current spending, financed by extra drawing on balances (which scores as borrowing), is one possibility; another is some slippage of borrowing from this financial year into 1985-86.

(iv) **North Sea taxes**: changes in oil prices and/or production could easily, as in the last few years, shift revenues by £1 or 2 billion.

(v) **ECGD**: further deterioration beyond that already allowed for in the forecast.

(vi) Other revenue

Outside assessments

11. It is worth asking how a PSBR of £7 billion would be seen by outside commentators. The forecast reduction from £11 billion to £7 billion would at first sight be regarded as optimistic. But on reflection:

i) the extra £1½-2 billion public expenditure planning total,

ii) the extra on debt interest payments compared with the PEWP,

iii) the not very ambitious North Sea oil revenues,

iv) the gains from the end of the coal strike

should help convince commentators that a PSBR of £7 billion was a feasible and central estimate. Most other forecasters - with the somewhat erratic exception of the National Institute - would concur.

12. There will be further information next week, on the February CGBR, which could influence our estimate of the 1984-85 outturn and perhaps carry over into 1985-86. Apart from that, you will want to firm up the overall PSBR numbers soon, leaving us to take account of late information on individual items but not on the total.

VH.

pp. H P EVANS

ENCS

Table 1

PSBR, 1984-85

	Revenue	£bn Expenditure/ Borrowing
CGBR(O)		
January forecast		7.2
Subsequent changes:		
Corp. tax (shortfall in January)	- 0.2	
PRT (lower estimate)	- 0.1	
Nat.Ins. Fund surplus (revised employment data showing higher proportion self-employed)	- 0.1	
VAT (extra receipts in February)	+ 0.1	
ECGD (Yugoslavia refinancing agreement)	+ 0.1	
Resulting CGBR(O)		7.4
LABR unchanged since January		2.4
PCBR		
January forecast		1.3
Subsequent changes:		
Lower estimated nat. industries' external finance		- 0.1
ROFs' repayment		- 0.1
Resulting PCBR		1.1
PSBR - new forecast		10.9
- as % of GDP (ie would round to 3¼%)		3.34%
- change since January		+ 0.05

PSBR, 1985-86

Table 2

£bn

	Revenue	Expenditure/ Borrowing
CGBR(O)		
January forecast (before fisc. adjustment)		4.0
Subsequent changes:		
Provisional package (net of soc.sec. effects)	- 0.7	+ 0.1
Corp. tax - shortfalls in 1984-85 carried thro' ?	- 0.3	
- less rosy view of profits and divis in 1984 and 1985	- 0.2	
North Sea tax (after ACT set-off)	+ 0.3	
Expenditure tax (lower growth in consumers' exp in 1985, partly because higher int.rates)	- 0.3	
Nat.Ins. Fund surplus (revised employment data - see 1984-85)	- 0.1	
? Interest receipts & payments (higher int rates and overfunding + improvements in model)	+ 0.3	+ 0.4
Resulting CGBR(O) (inc. package)		5.5
LABR		
January forecast		1.6
Subsequent changes:		
Higher estimated rate income (new information from DOE)	+ 0.1	
Resulting LABR		1.5
PCBR		
January forecast		- 0.3
Subsequent changes:		
Delay in privatising BA (causes continued negative EFL)		- 0.2
Resulting PCBR		- 0.5
PSBR		
January forecast (before fisc adjustment)		5.3
New forecast		
(i) excl package		5.7
(ii) incl package, but based on planning total of £133.6 bn		6.5
(iii) incl. package and based on planning total of £134.2 bn		7.1
(iii) as % of GDP		2.0%

Table 3

Public expenditure planning total, 1985-86

	£bn
January forecast	133.9
Subsequent changes:	
Provisional package (net of soc.sec. effects)	+ 0.1
British Airways (delay in privatisation, hence more negative external finance)	- 0.2
Housing Corporation net lending to housing associations (correction of error - does not affect PSBR)	- 0.4
CG expenditure (revised estimate)	+ 0.2
Resulting forecast	133.6
1985 PEWP + package + £2 bn on Reserve	134.2
Difference	0.6

PSP

CONFIDENTIAL

FROM: MISS M E PEIRSON
DATE: 4 March 1985

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Cassell
Mr Battishill
Mr H Evans
Mr Lankester
Mr Scholar
Mr Collinson
Mr Peretz
Mr Devereux
Mr Powell
Dr Webb
Mr S Webb

What other forecasters are the latest estimates for the PSBR for 1984-85 - 7 10¾? (I assume no change for 1985-86)

CGBR(O) IN FEBRUARY 1985, AND FORECASTS FOR 1984-85 AND 1985-86

1. The first provisional estimate of the CGBR(O) in calendar February is a surplus of £0.5 bn, compared with a forecast deficit of £0.2 bn. The difference results from:

£0.3 bn overshoot on Inland Revenue receipts

£0.3 bn overshoot on Customs receipts

£0.5 bn undershoot on supply issues

partially offset by

£0.2 bn undershoot on Nat. Insurance Fund (small deficit instead of small surplus)

and other small changes.

2. The provisional cumulative total CGBR(O) since 1 April 1984 is thus £5.1 bn.

3. The above changes in February, plus the end of the coal strike, suggest that the forecast CGBR(O) put to you last Thursday may possibly need downwards revision by around £0.2 bn in 1984-85 and £0.1 bn in 1985-86, with a partially offsetting

£0.1 bn increase in the PCBR in 1984-85. The reasons are explained below. But this is very provisional and the figures will be considered further as more information comes in.

4. The overshoot in Inland Revenue receipts may be at least partly on Corporation Tax, which undershot in January, and IR are inclined to revise up slightly their forecast outturn for the year, and to carry through this revision to 1985-86. However, there is an offsetting reduction in 1985-86 in forecast PAYE because of a reduced wages bill. The overshoot in Customs receipts is probably largely on VAT on imports, and Customs are inclined to revise up further their forecast outturn for the year, but not to carry through the revision to 1985-86, because there are grounds for thinking the overshoot temporary.

5. The undershoot on supply is not likely to affect the forecast outturn this year (or next), because the F10 returns from Departments have confirmed the earlier forecast. The undershoot in February (partly due to yet another delay in grant to the Coal Board) means a higher surge in March (though still not unduly large in comparison with earlier years). The undershoot on the National Insurance Fund does call into question the forecast surplus for the year, which may have to be revised down slightly.

6. The ending of the coal strike is estimated to bring forward about £0.1 bn of payments from 1985-86 into 1984-85. The Coal Board will borrow initially to finance the payments. This reduces the CGBR(O) in 1985-86 and increases the PCBR in 1984-85.

7. The provisional total CGBR in February is a surplus of £0.1 bn, compared with a forecast deficit of £0.4 bn. (See Mr Devereux's table attached.) CG on-lending to LAs and PCs was higher than forecast, partly because of the delay in grant to the Coal Board.

MEP

MISS M E PEIRSON

CONFIDENTIAL

CENTRAL GOVERNMENT TRANSACTIONS[1]

£ million

	Inland Revenue taxes(2)	Customs and Excise	Net Lending		Other	CGBR
			(i) LAs	(ii) PCs[3]		
Financial year to 28 February 1985 - outturn[4]	+45,259	+32,630	-2,561	- 193	-83,004	- 7,869
Financial year to 29 February 1984 - outturn	+41,517	+28,689	-3,103	- 633	-76,914	-10,444
% increase on last year	9.0	13.7			7.9	
FSBR Forecast for 1984-85	+50,500	+35,000	- 4,400	- 1,300	-90,900	-11,100
% increase on last year	9.9	11.3			6.3	
Calendar month of February 1985 - outturn[4]	+ 4,548	+ 3,685	- 390	+ 16	- 7,744	+ 115
- difference from forecast in PSBR note of of 15/2/85	+ 268	+ 325	- 115	- 122	+ 142	+ 498

(1) + indicates a receipt, net receipt, or difference which reduces the CGBR
- indicates a payment, net payment, or difference which increases the CGBR

(2) Excludes National Insurance contributions

(3) Includes PDC issues and issues under Section 18 of the Iron and Steel Act 1975

(4) Preliminary estimate, subject to revision.

35/25

SECRET

Sir Dm

8 MAR 1985

FROM: MS D J SEAMMEN
DATE: 7 March 1985

1. MR BAILEY
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Evans
Mr Watson
Miss Noble
Mr Hall

F: PES: partic progs.

SOCIAL SECURITY UPRATING

You asked about options for uprating other than by the RPI, and in particular whether switching to uprating by the pensioners' prices indices (PPI) might reduce expenditure. This submission is based on material from Mr Hall.

2. The present position is that the vast majority of benefits are uprated by the RPI; supplementary benefits are uprated by the RPI less housing, to reflect the fact that housing assistance is given separately; and the housing benefit needs allowance is uprated by a formula based partly on the RPI less housing and partly on movements in rent and rates.

3. The social security Acts do not refer to a specific measure of inflation, and changing from the RPI might therefore not require new legislation. Much depends on lawyers' interpretation of the phrase "the general level of prices... during the period under review", inserted in section 125 of the Social Security Act 1975 by section 1 of the Social Security and Housing Benefits Act 1983. If there were legal doubts, and the decision were taken quickly to switch, an amendment might be made to the current Social Security Bill.

4. But the main argument against changing to the present PPIs (there are separate indices for single person and 2 person households), or to a new composite PPI, is that it would run

ounter to the statements made in recent years by Ministers and officials that movements in the RPI were the more representative measure of price inflation. To change now, at a time when it was clearly advantageous to the Government would be embarassing.

5. On the merits of the case there must be considerable doubt as to whether the PPIs are an adequate measure of movements in the general level of prices, even as this affects pensioners. For example, they exclude housing costs as it is very difficult to make proper allowance for the receipt of housing benefit in assessing pensioners' housing costs. The PPI is designed only for poor pensioners (ie where ¾ of income comes from the state) and such households comprise only 2/5 of all pensioners. For the majority of pensioners the index would be inappropriate.

6. The likely FSBR forecasts of the RPI, RPI less housing and PPIs for the Survey period are shown in the following table:

	RPI (all items)	**RPI less housing ("Rossi index")**	**PPI (1 person household)**	**PPI (2 person household)**
May 1985	6	4½	4	4
May 1986	4¼	4½	4½	4½
May 1987	3	3	3	3

8. The savings on the state retirement pension and public service pensions from moving to a PPI would be roughly as follows:

UPRATING BY PPI

			£m
	1985-86	**1986-87**	**1987-88**
State retirement and widows pension only (pe)	- 90	- 260	- 250

Public service pensions pe	- 14	- 40	- 38
Public service pensions non pe	- 16	- 44	- 42
Total savings	- 120	- 344	- 330
(of which pe)	(- 104)	(- 300)	(-288)

9. The potential savings are considerable (social security savings would be roughly doubled if the PPI were applied to all benefits). The actual savings would of course depend on the accuracy both of current forecasts of relative movements in components of the RPI and the overall level of prices.

10. The most important consideration, however, is whether it is worth taking the risk of changing from a generally accepted measure of inflation to one which is likely to be viewed much less favourably by the general public. Against the likely short term expenditure savings should be set the following risks:

(a) that Parliament or the courts (or both) would insist on the use of the RPI;

(b) that public opinion would not accept the PPI, just as it failed to accept the TPI;

(c) that in the uncertainty following such a change pressures for a return to an earnings uprating, or for the use of specific indices for individual benefits, might increase significantly;

(d) that the Government's pledge to price protect pensions and linked long-term benefits would be devalued; and

(e) that the PPI could prove more expensive than the RPI in later years. (In the longer-term one would expect relative price movements to even out. Indeed if real interest rates were to decline markedly in 1986 and 1987 the RPI could be considerably lower than the PPI.)

11. In most circumstances the strategic benefits of keeping with the RPI would considerably outweigh the possible short term gains from changing to the PPI.

MS D J SEAMMEN

SOCIAL SECURITY BENEFITS: UPRATING

	PLEDGED		UPRATING PRACTICE	1984-85 EXPENDITURE £m	UNPLEDGED		UPRATING PRACTICE	1984-85 EXPENDITURE £m
Statutory Price Indexation	1. Retirement Pension	C	RPI	15397	12. Unemployment Benefit	C	RPI	1597
	2. Widows Pensions	"	"	794	13. Sickness benefit	"	"	268
	3. Invalidity Benefit	"	"	2074	14. Maternity Allowance	"	"	157
	4. Industrial Disablement Benefit (b)	"	"	382	15. Guardians Allowance	"	"	) 2
					16. Child's Special Allowance	"	"	)
	5. Industrial Death Benefit	"	"	56	17. Child Dependency Additions to contributory and non-contributory benefits (a)	C&N	"	/166/ (a)
	6. Attendance Allowance	N	"	568				
	7. Invalid Care/Allowance	"	"	11				
	8. Severe Disablement Allowance	"	"	232				
	Total			19514 (a)	Total			2024
No Statutory Price Indexation	9. Non-contributory Retirement Pension	N	RPI	40	18. Christmas Bonus	C&N	None	110
	10. War Pensions	"	"	544	19. Death Grant	C	None	17
	11. Supplementary Pension	"	Rossi etc	871	20. Mobility Allowance	N	RPI	361
					21. Supplementary Allowance	"	Rossi etc	5496
					22. Child Benefit	"	RPI	4272
					23. One Parent Benefit	"	"	122
					24. Family Income Supplement	"	"	131
					25. Maternity Grant	"	None	18
					26. Housing Benefit (c)	"	Rossi etc	2778(c)
	Total			1455	Total			13305
	Grand Total			20969(a)	Grand Total			15329(d)

(a) £166m of child dependency additions (unpledged) are included in relevant benefit, as follows: RP £12m; WidowP £49m; IVB £97m; Ind Death Ben £2m; ICA £1m; SDA £3m; and UB £2m. As all these benefits save UB are pledged, the pledged total is therefore reduced by £164m, from £20,969m to £20,805m.

(b) Includes other industrial injuries benefits.

(c) The quoted figures include only rent rebates and rent allowances. There are also £1,378m of rate rebates which are not public expenditure.

(d) If rate rebates and child dependency additions are included the total unpledged is £16,871m.

LEGEND: C = Contributory (National Insurance) Benefit; N = Non-contributory (voted) benefit.

UPRATING PRACTICE

1. In 1984 all benefits were uprated by reference to the RPI (all items index), except:

(a) Supplementary Benefit (Pensions and Allowances) (i) needs allowances - RPI less housing (Rossi index)
(ii) additional requirements - main RPI or relevant part, eg heating additions uprated by fuel costs component.

(b) Housing Benefit (i) needs allowances - formula is: Supplementary allowance long term scale rate + 40% GB average weekly LA rent and average rates + average weekly water rates.
(ii) dependants deductions etc - mainly RPI less housing.
(iii) earnings disregard - dependent on tax and NICs rates and single person's tax allowance.

(c) Christmas Bonus, Death Grant and Maternity Grant - not uprated.

RETAIL PRICES AND PENSIONERS' PRICES INDICES SECRET

A. Percentage increase on the Previous Year (Q2 on Q2)

	RPI	RPI excluding housing	PPI single	PPI couple	RPI-PPI couple	RPI-RPI excluding housing
1978 Q2	7.7	8.2	8.3	7.8	- 0.1	- 0.5
1979 Q2	10.6	9.2	8.9	9.2	+ 1.4	+ 1.4
1980 Q2	21.5	20.2	18.8	18.8	+ 2.7	+ 1.3
1981 Q2	11.7	10.8	11.4	11.4	+ 0.3	+ 0.9
1982 Q2	9.4	8.6	10.4	10.0	- 0.6	+ 0.8
1983 Q2	3.8	4.4	3.7	3.8	-	- 0.6
1984 Q2	5.2	4.7	5.8	6.0	- 0.8	+ 0.5
1985 Q2*	6	4½	4	4	+ 2	+ 1½
1986 Q2*	4½	4½	4½	4½	- ¼	- ¼
1987 Q2*	3	3	3	3	-	-

B. Cumulative Percentage Increases

	RPI	RPI excluding housing	PPI single	PPI couple	RPI-PPI couple	RPI-RPI excluding housing
1978 Q2 to 1984 Q2	79.2	72.8	74.6	74.9	+ 4.3	+ 6.4
1984 Q2 to 1987 Q2*	13.8	12.5	11.9	11.9	+ 1.9	+ 1.3

C. Increase in Retirement Pension (single person) Nov 78 to Nov 84 compared with increases in indices over same period (Q4 '78 to Q4 '84 for PPIs).

Retirement Pension	RPI	RPI less housing	PPI single	PPI couple
83.6	77.2	69.8	72.6	72.5

* forecasts

SECRET

mp

FROM: **N MONCK**
DATE: **7 March 1985**

CHANCELLOR

cc Mr Bailey
Mr Mercer

YTS AND CP: POST SCRIPT

As the discussion has been postponed until this evening, I can remedy the omission of one important point from my hurried note of this morning.

2. It is possible that your colleagues will favour announcing the withdrawal of SB with public expenditure figures that assume it will be retained. I recommend you to resist this firmly. You will be on good ground in insisting that the announced public expenditure figures must realistically match the announced policy. If you give way on that, your negotiating position in resisting any statement about abolishing SB (except perhaps one that permitted a delay of three years or so) would be hopelessly weakened. The same goes for your position in resisting Mr King's pleas for 100,000 CP places.

NM

N MONCK

Pwp.

FROM: **N MONCK**
DATE: **7 March 1985**

CHANCELLOR

cc Mr Bailey
Mr Mercer

YTS AND CP

I attach a table prepared by Mr Mercer on the lines you have asked for. We regard line 2a and the minimum cost within the realistic zone. Line 2b is more central and underlies the figures in your paragraphs of Mr King's paper. These assume that employers would make a lower contribution and receive a higher subsidy per place so that they could be induced to provide an extra 100,000 places.

2. To provide those places for the money in line 1 employers would have to raise their contributions from the assumed 30 per cent and 60 per cent of the trainee allowances in Year 1 and Year 2 respectively to either 50/100 or 60/90 or 70/80. Instead of an average of 45 per cent, there would be an average of 75 per cent. Mr King may quote these figures.

3. If the Prime Minister can be persuaded to agree that the announcement itself should not mention the abolition of SB in return for an unannounced agreement that abolition would take place in 1987-88 (or 1988-89), our provisional view is that you would have to announce public expenditure increases close to those in line 1. In other words the announced figures would correspond to the announced policy (though in answering questions Ministers would no doubt say that the abolition of SB in due course remained their aim). If you announced higher figures corresponding to the unannounced policy of abolishing SB, they would finance

a larger subsidy to employers than would be necessary, since the plausible number of YTS places needed would be so much lower with SB retained.

Trade-off with CP

4. The lower part of the table shows that even 50,000 CP places produces a net addition of £35 million in 1987-88 assuming that YTS costs were as in line 2b. There would be a bigger net increase of £80 million in 1988-89. If YTS costs were lower, as in line 2a, 70,000 CP places would produce a similar result. Since we regard line 2b as more realistic if SB is abolished, I recommend you to stick at 50,000 CP places.

5. As you know, the different timing of the CP and YTS proposals gives you savings in 1985-86 and 1986-87 of £35 million and £115 million respectively. The only way of giving these back to Mr King without further increasing total net expenditure in 1987-88 and 1988-89 is to assume a taper in 1987-88 in CP places. But you do not regard that as politically realistic.

Nm

N MONCK

	1987-88			1988-89		
	Gross PE	NET PE	NEC	Gross PE	NET PE	NEC
1. Original MISC 107 figures: SB retained: Employers contribute 30/60	310	150	280	410	250	370
2. Treasury estimate assuming announcement of SB removal(1)						
a) 30/60 contribution	540	250	380	700	410	530
b) lower contribution(2)	600	310	440	760	460	580
c) 60/60 contribution	490	200	330	580	290	410

(1) Assumes SB would be removed in September 1987. Were it removed in April 1987 costs would be as follows:

a) 30/60	660	370	500	As above
b) lower contrib.	720	430	560	
c) 60/60	540	240	370	

(2) The lower contribution is assumed to be midway between 30/60 and 0/65 (the other case examined by MISC 107). This is the assumption in your brief for E(A) and in your section of the paper.

INTERACTION WITH CP - NET PE COSTS OF YTS AND CP

	1985-86	1986-87	1987-88	1988-89
A. Original proposition				
YTS as at line 1 above	-	70	150	250
100,000 CP places	75	235	250	260
Total	75	305	400	510
B. Revised proposition				
50,000 CP places	40	120	125	130
YTS as at 2(b) above	-	70	310	460
Total	40	190	435	590
C. Alternative proposition				
70,000 CP places	55	170	175	180
YTS at 2(a) above	-	70	250	410
Total	55	240	425	590

SECRET

FROM: MS D J SEAMMEN

DATE: 8 March 1985

1. MR BAILEY
2. CHIEF SECRETARY

cc PPS
Sir P Middleton
Sir T Burns
Mr Anson
Mr Watson O/R
Mr Jameson
Miss Noble

MISC 111

We spoke, and you suggested the Chief Secretary might put in a paper on housing benbefit for next Wednesday's meeting. I attach a draft. We shall need to warn Mr Fowler's office of what we are about.

2. I understand that Mr Jenkin may be briefed to support this line.

MS D J SEAMMEN

DRAFT MISC 111 PAPER FROM CHIEF SECRETARY

I have seen Norman Fowler's paper and in particular his savings options on housing benefit. I would like to suggest a further option for discussion.

2. I believe there is a good case for less than 100% assistance with rent. It would tend to reduce the public expenditure costs of a move to more economic rents, both in the private and public sector; it would lessen the scope for abuse; and it would help with our general supply-side objectives for greater mobility of labour.

3. But I think there may be a better case for greatly reducing the assistance we give with rates. As Patrick Jenkin has said, we need to increase the accountability of local councils to their electorate. We can only do this if all electors pay a really significant proportion of their rates. I do not believe that any of the options Norman Fowler has put before us makes enough of an impact here.

4. I recognise the dilemma. We must avoid a situation in which the impact of our proposals on supplementary benefit recipients is so severe that we are forced to build in greater protection for them. This would not only tend to nullify the objective of making people pay a substantial part of their housing costs: it would also reduce substantially the potential for savings.

5. I therefore suggest that we should consider seriously the option of concentrating on a significant reduction in rates help. This would mean maintaining 100% assistance with rents, but reducing the rates percentage to 65%. We should, at the same time, adopt the combined taper for rent and rates suggested by Norman Fowler.

6. As I understand it, the effects would be (compared with the current scheme)

(i) an expenditure reduction of £780m split £490m as to tenants and £290m as to owner-occupiers;

(ii) a reduction in case load of 2.0 million, split 400,000 as to tenants and 1,600,000 as to owner-occupiers;

(iii) gainers and losers as follows

Gainers	Losers (total)	0-£2	£2-5	£5+
550	7,475	4,250	2,750	475

(iv) Losers by economic status

Pensioners	Earners	Other	Total
4,050	1,240	2,180	7,475

(v) Losers - supplementary benefit recipients

No	HB Losses £2-£5	£5+	HB and SB Losses over £5 '000s
3,150	830	under 40	400

In terms of the overall expenditure reduction, and in the effect on recipients, this is not very different from Norman Fowler's option of 90% help on rents and 90% help on rates. Owner occupiers lose relatively more than tenants, but not significantly so, compared with his option.

7. The advantage of this option is that it genuinely exposes voters to the consequences of their voting preferences. Average rates are £6 per week; thus each rate payer would on average pay £2.10 per week out of their own resources. And the effect of rent rises would be immediately brought home on their pockets.

8. If we are to take this route, then it follows we should leave rents assistance at 100%. We shall need to be assured

[illegible] Norman Fowler that he has, or will have, at his disposal means to thwart any abuses which may arise as a result.

1 kt
2 pmf

√ 12/3

10 DOWNING STREET

cc Mr Culpin

11 March 1985

From the Private Secretary

Mr Gilmore Mr Battishill
Mr Watson Mr Cropper
Mr Lord

Dear Janet,

Employment Related Policy Announcements

The Prime Minister held a meeting this morning to discuss the various employment related policy announcements which are to be made over the next two or three months. Present were the Lord President, Chancellor of the Exchequer, Secretary of State for Education and Science, Secretary of State for the Environment, Secretary of State for Trade and Industry, Secretary of State for Employment and Secretary of State for Social Services. Also present were Mr Gregson, Mr Ingham and Mr Redwood.

The Prime Minister said it was important to ensure that the various policy announcements were properly coordinated. It would also be helpful if, as far as possible, they could be produced in a common format. It was agreed that the group of announcements should be launched in the Budget; there would then follow a number of detailed announcements; and the Employment White Paper would then follow before Easter to draw together all the various themes. The outcome of the meeting is summarised in the attached schedule.

On the various measures the following points were made:

(i) The Budget would make the first announcement of the switch to engineering. The details, including the allocation of funds to individual universities, would follow around 3 April.

(ii) The Chancellor would also make the first announcement of the Government's views on wages councils and employment protection. The Secretary of State for Employment said that the Consultative Document on Wages Councils should be presented in the wider context of how jobs were created rather than being presented on its own, with a danger that it was regarded negatively, as a withdrawal of employment rights rather than as a stepping-stone to more jobs. This pointed to bringing out the Consultative Document alongside the Employment White Paper.

(iii) The Secretary of State for the Environment said he would shortly be issuing a further circular on planning. This too would achieve a better reception in the context of measures to promote the creation of jobs.

(iv) No mention was made of Urban Policy so this has been entered in the schedule at the date suggested in the letter of 8 March from the Minister without Portfolio's Office.

The discussion then turned to the content of the Employment White Paper. It was noted that even publication of such a document could foster the belief that the Government could create jobs and were thereby responsible for high unemployment. It was important, therefore, that the text should be carefully drafted to counter this point. It was important to stress that Government action could only be effective in supporting action by other people. The text should also deal with deep-seated cultural attitudes especially in the trade unions which obstructed the generation of jobs. The emphasis should be positive, ie on the creation of new businesses and wealth which in turn would lead to the creation of jobs, rather than dwelling on the problems of unemployment. It would also need to counter the argument that jobs could be created only if the State took more of people's money and spent it where it thought appropriate rather than allowing people to retain and spend the money themselves.

Summing up this part of the discussion, the Prime Minister said further work was needed on the text. A further meeting would be held after the Budget to look at a revised text.

I am copying this letter to Rachel Lomax (HM Treasury), Elizabeth Hodkinson (Department of Education and Science), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), Callum McCarthy (Department of Trade and Industry), David Normington (Department of Employment), Leigh Lewis (Office of the Minister without Portfolio) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

Miss Janet Lewis-Jones
Lord President's Office

SCHEDULE OF EMPLOYMENT RELATED MEASURES

Date	Measure	Statistical Releases
March		
Tue 19	BUDGET + Press Notice on Employment measures + Initial announcement of the "Switch".	
Wed 20	Budget Debate - Chief Secretary	Earnings index
Thur 21	Budget Debate - SS/Employment	RPI
Sat 23	Central Council Speech	
Mon 25	Budget Debate - SS/Trade and Industry REPACKAGING OF DTI SUPPORT MEASURES (Initial announcement)	
Tue 26	SCHOOLS WHITE PAPER	
Thur 28	EMPLOYMENT WHITE PAPER + Consultation document on Wages Councils	
Fri 29	DEREGULATION SCRUTINY REPORT	
April		
Tue 2	14-18's WHITE PAPER	
Wed 3	SWITCH TO ENGINEERING (Detail) DTI SUPPORT MEASURES (Detail)	

Date	Measure	Statistical Releases
April cont		
Thurs 4		Unemployment
Sun 7	Easter Sunday	
Wed 17		Earnings index
Fri 19	URBAN POLICY - Regional launch	RPI
May		
Thu 2		Unemployment
Tue 7	SOCIAL SECURITY REVIEWS	
June and July		
	DEREGULATION - GOVERNMENT RESPONSE	

No date fixed - Housing Improvement; Private Rented Sector; E(CP) Competition Initiative; Planning Circular.

**

CONFIDENTIAL AND PERSONAL

I wd in any case prefer not to forecast to the nearest £¼ bn, if that can be avoided. NL.

FROM: MISS M E PEIRSON
DATE: 11 March 1985

Is it really likely that the PSBR in March will be as high as £3.3 billion, which is what this implies? Might not £10½ bn for the year as a whole be a better bet?

1. MR CASSELL
2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Battishill
Mr Lankester
Mr Devereux
Dr I Webb
Mr Wells - CSO

PSBR IN FEBRUARY

1. The first provisional outturn for the PSBR in February is for a surplus of £0.3 bn. Market expectations are for net borrowing of £¼-1¼ billion, with an average of about £½ billion.

2. For the first eleven months of 1984-85 the PSBR was £7.5 bn. That is £2.2 bn higher than the Budget profile, and £0.3 bn above the Budget forecast for the year as a whole. (Details are attached, including comparisons with last month's forecast.)

3. There seems little reason to change the forecast PSBR for 1984-85 as a whole from £10.8 bn, as implied by my note of 4 March:

(i) the undershoot on the CGBR(O) in February (see paragraph 4 below) seems likely to be largely made up in March, leaving a small reduction in the year's forecast from £7.4 bn (in Mr Evans' note of 28 February) to under £7.1 bn;

(ii) The overshoot on the LABR in February is particularly uncertain, since it includes an estimate for the GLC (on which we may get further information tomorrow), but it suggests that the LABR for the year, previously forecast at £2.4 bn, may be nearer £2.5 bn;

(iii) the overshoot on the PCBR in February seems likely to be reversed in March, but the ending of the coal strike pushes up the estimate for the year, from £1.1 bn as at 28 February to nearly £1.3 bn.

4. Central government own account was in surplus in February by £0.7 bn, compared with forecast borrowing of £0.2 bn. This outturn is a slightly larger surplus than reported in my note of 4 March, mainly because of later information about bank deposits, which rose by £0.1 bn; however these deposits are likely to fall again in March. Expenditure was £0.4 bn lower than forecast, partly because of slippage on defence procurement payments and a further delay in grant to the Coal Board (see PCBR below); again, this shortfall is expected to be largely made up in March. Inland Revenue receipts were £0.3 bn higher than forecast, probably on corporation tax, and Customs receipts were also £0.3 bn higher than forecast, partly because of a greater effect from the change in VAT on imports. Both these have some effect on the forecast for the year as a whole. On the other hand the National Insurance Fund showed a small deficit instead of the expected surplus, and the forecast surplus for the year has been revised down.

5. Local authorities borrowed £0.4 bn in February (subject to the doubt about the GLC), £0.1 bn more than forecast last month. Public corporations showed a small net repayment in February, a slightly smaller repayment than forecast last month, mainly because of non-receipt of grant by the Coal Board.

6. The excess of the PSBR over the Budget profile so far is accounted for mainly by local authorities and public corporations (see table attached).

7. The monthly note, presenting updated estimates of outturn for February and forecasts for March consistent with the FSBR forecasts for the whole year, will be circulated next Friday, before the outturns are published on Monday 18 March, the day before the Budget, at 2.30 pm. As usual we shall send you a copy of the draft press briefing at the same time.

MEP

MISS M E PEIRSON

CONFIDENTIAL & PERSONAL

£ billion

	February 1985			April-February 1984-85			April-February 1983-84
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn*
CGBR(O)	- 0.7	0.2	- 0.9	5.0	4.7	0.3	6.7
LABR	0.4⌀	0.3	0.1	1.4	0.2	1.2	0.2
PCBR	-	- 0.1	0.1	1.2	0.4	0.8	0.6
PSBR	- 0.3	0.4	- 0.7	7.5	5.3	2.2	7.5
			March 1985	3·3	1·9	1·4	

* New definition

⌀ Including estimate for GLC

CONFIDENTIAL & PERSONAL

TOTAL COPIES 18

SECRET

COPY No. 4.

(P-P)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

12 March 1985

D J Normington Esq
Private Secretary to the Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

CH/EXCHEQUER
REC. 13 MAR 1985
ACTION Mr Monck
COPIES TO CST, FST, MST, EST
Sir P. Middleton
Mr Bailey
Sir T. Burns
Mr Battishill
Mr Culpin
Mr Lord
Mr Cropper

√ 13/3

Dear David,

EMPLOYMENT WHITE PAPER

I understand that amendments to the White Paper should be with you by Wednesday, and am therefore writing to let you have a number of points.

2 My Secretary of State attaches a considerable importance to the document stressing that the steps necessary to combat unemployment are not the sole responsibility of Government. Rather the Government can take initiatives, but the success or otherwise of those initiatives will be determined by the response of others - managers, shopfloor workers or entrepreneurs. Although the draft paper on occasions acknowledges this - the last sentence of para 1.5, for example - there are other passages where the strong impression is given that the principal responsibilities lie with Government. My Secretary of State would particularly like chapter 4 to be looked at again with this in mind; and for chapter 5 to be expanded to give much more emphasis to the response expected of people in the UK, rather than the actions falling on Government (paras 5.6 and 5.7 in particular require recasting in this way).

3 My Secretary of State would also like to see a section explicitly setting out why the Government rejects particular alternatives often advanced as means of combatting unemployment. It would be useful to have a section explaining why the Government does not believe reflation will work; why inflation is a cause of rather than an alternative to unemployment; why tax cuts generate jobs; or why infrastructure spending for its own sake wastes resources. Although many of these points are touched on in the present draft, there is a case for pulling them together.

4 My Secretary of State's other general concern is with chapter 7, which stylistically fits somewhat oddly with the more direct chapters elsewhere in the paper. He believes it would be useful

JH4AWP

SECRET

to look again at the drafting of this chapter, to see whether it too can be made crisp and less academic.

5 I am attaching a number of detailed drafting points, of which the most important relates to para 8.3. Copies of this letter go to Andrew Turnbull (No 10), Janet Lewis Jones (Lord President's Office), Rachel Lomax (Treasury), Elizabeth Hodkinson (DES), John Ballard (Environment), Steve Godber (DHSS), Leigh Lewis (Minister without Portfolio), and to Richard Hatfield (Cabinet Office).

Yours ever

Callum

M C McCARTHY
Private Secretary

JH4AWP

EMPLOYMENT WHITE PAPER - DETAILED COMMENTS

Paragraph 2.2 second sentence

The statements in this sentence are inaccurate. A correct statement would be: "Exports are equivalent to around 30 per cent of GDP, among the highest ratios for comparable major economies.

Paragraph 2.3

The clause "and to do this at least as well as it is done abroad" makes the sentence logically faulty because this is not a necessary condition for the creation of jobs. Either omit this clause or add "if we want to emulate their standards of living".

Paragraph 2.4 4th inset

'Our industrial relations record shamed us around the world'. It is doubtful whether this statement could be supported from objective evidence such as strike statistics.

Paragraph 3.2

Figure 5 lacks clarity.

Paragraph 3.11

The clarity of the opening sentence has suffered from excessive compression.

Paragraph 3.15 second sentence

The implication that rising productivity reduces employment is unfortunate. This deserves more explanation.

Paragraph 5.6 1st inset

"often finds" is arguably an overstatement: "may find" would be better.

Paragraph 5.6 2nd and 3rd insets

These are repetitions of previous statements.

Paragraph 7.7 fourth sentence

"What matters for competitiveness is unit labour costs" - could be read as a serious over simplification.

Paragraph 8.3

Question whether the table should be retained in view of the extremely approximate nature of the figures and of the unexplained disparities between them.

SECRET & PERSONAL

FROM: MISS M E PEIRSON
DATE: 12 March 1985

CHANCELLOR

Thanks. Clear & sensible. N.

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr II Evans
Mr Lankester
Mr Devereux
Dr I Webb

PSBR IN FEBRUARY AND 1984-85

1. You enquired about the probability of the PSBR in March being £3.3 bn.

2. We have considered further, and feel we can justify a forecast of £3.0 bn for March and hence £10.5 bn for the year instead of £10.8 bn. We propose to work to £10.5 bn from now on, for the FSBR: ie 3.2% of GDP.

3. The CGBR(O) is the chief cause of the high forecast PSBR in March. Yesterday we put it at £2.1 bn, compared with £1.5 bn in each of March 1983 and March 1984. There are good reasons for its being higher this year:-

(i) Expenditure in the year as a whole is forecast no higher (an 8% increase in total supply, the same as in 1983-84), but relatively there is a rather bigger March surge (the forecast increase between March 1984 and March 1985 is 14%), partly because of the strike. However, the forecast March surge is no higher than the average for the last 3 years, and the recent Departmental F10 returns confirm the forecast (to ± £200 m) with no apparent bias. (In their first year of operation, last year, the F10s were very accurate.) Thus, supply expenditure in March is expected to be £10¼ bn, £1¼ bn higher than March 1984.

(ii) Despite heavy oil payments in March, there is no comparable March surge in tax receipts. IR and Customs receipts, plus oil royalties, are forecast to rise by over 11% both in the year and March on March, ie by only £¾ bn March on March. Customs receipts are actually forecast lower in March 1985 than March 1984 (because of the distorting effects of the change in VAT on imports, the slightly later date of the Budget, and an effort by Customs to get VAT paid earlier in the year), though they may be underestimated by perhaps £0.1 bn or so.

Taken together, (i) and (ii) indicate an increase of £½ bn in the CGBR(O) between March 1984 and March 1985.

4. However, we have looked again at some minor receipts, where it is very difficult to say exactly what our central estimate should be; and Inland Revenue have raised their forecast by £0.1 bn since yesterday (taken into account in (ii) above). As a result we feel we could justify a CGBR(O) in March of £1.9 bn, £0.2 bn lower, giving a CGBR(O) for the year of £6.8 bn.

5. The LABR is also forecast high in March: yesterday we had £1.1 bn. It has been remarkably stable in the last 5 Marches, almost always £1.0-1.2 bn. On the one hand, DOE fear an end-March surge in expenditure, but that could affect borrowing in April, instead of March, as it did last year. On the other hand, the DOE's estimate for the GLC in January and February could be a little too high (DOE have no further information). £2.4 bn for the year is probably as likely as £2.5 bn.

6. The PCBR in March is forecast at £0.1 bn, and we do not wish to change that. It is based on the estimates of external finance, grant and borrowing, and is strike-influenced. The PCBR for the year is thus forecast at £1.3 bn.

7. All told, we can justify £10.5 bn. I should emphasise that we have in the past been wrong at this stage by as much as £1½ bn. We think we are now a bit better-informed on the CGBR(O), but even if we are, the LABR and PCBR could easily be wrong by considerable amounts. However, given that market expectations are below £10 bn, and will be encouraged down by the February outturn, it may be better on this occasion not to overdo the estimate.

MEP

MISS M E PEIRSON

SECRET

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

The Rt Hon Tom King Esq MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON SW1

13 March 1985

CH/EXCHEQ
REC. 13 MAR 1985
ACTION Mr Monck
COPIES TO CST, FST, MST, EST
Sir P. Middleton
Mr Bailey
Sir T. Burns
Mr Battishill
Mr Cropper
Mr Culpin
Mr Lord

✓ 13/3

Dear Tom,

EMPLOYMENT WHITE PAPER

Your Private Secretary's letter of 6 March asked colleagues to let you have detailed comments on the draft of a possible White Paper on Employment.

2. I have a number of specific concerns about the document. As you know, MISC 107 has consistently emphasised the links between education and training and the need for greater coherence of provision at 14 to 18. The Group has also confirmed that the aims of developing training provision for this age group are essentially longer term and related to developing our human infrastructure, rather than short-term responses to unemployment. These messages do not seem to emerge clearly from your document.

3. Second, I note that the discussion of deregulation in paragraphs 7.14 to 7.18 is substantially in terms of employment policies rather than burdens more generally. I think the text needs looking at carefully to make sure that it does not seem to pre-empt wider decisions about follow-up to the recent scrutiny.

4. Third, the summary of Government decisions and proposals in Chapter 9 includes a number of somewhat disparate items, for which in some cases there is little preparation in earlier chapters. Again the presentation seems to need further attention.

SECRET

SECRET

5. I understand a further meeting is to be held after the Budget to look at a revised text when we can discuss these issues rather more fully. Meanwhile I should make clear that in my view it is essential that the White Paper on 14 to 18s which colleagues endorsed in my absence earlier this week should issue before, rather than after, any Employment White Paper. This is entirely consistent with the general intention that the group of announcements launches in the Budget should be followed by a number of detailed announcements; the Employment White Paper would then follow, drawing together various themes. Ideally, I think it should eappear in close association with Keith Joseph's White Paper on Schools. There is significant common ground between the two documents, including specifically support for in-service teacher training, and some of the main themes should be mutually reinforcing. I will be discussing this further with Keith. It clearly makes no sense at all to defer publication until the following week.

6. I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Environment, Health and Social Security, Trade and Industry and Employment, and to Sir Robert Armstrong.

Yours,

David

SECRET

SC

SECRET

13/3

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

Miss Judith Rutherford
Private Secretary to the
Secretary of State for Employment
Caxton House
Tothill Street
London SW1H 9NF

13 March 1985

Dear Judith,

EMPLOYMENT WHITE PAPER

I attach a note of comments on the draft White Paper circulated by David Normington on 6 March. The most important relate to some apparent confusion between the unemployment and poverty trap.

I am copying this to Andrew Turnbull (No 10) and Rachel Lomax (Chancellor's Office).

Yours sincerely
Stephen

S H F HICKEY
Private Secretary

SECRET

COMMENTS ON DRAFT WHITE PAPER ON EMPLOYMENT

Paragraph	Comment
5.6	The unemployment trap does not "often" affect unemployed people, as claimed. Better to say something like "A person with a family taking a low-paid job may find..." And annex 4 does not illustrate the unemployment trap, only the poverty trap (see comment on that annex)
6.9	There may be a danger of over-egging the YTS pudding, if it is to be covered here, in the Budget and in a separate White Paper
7.1	The welcome for early retirement as helping to ease unemployment is at odds with the social security Green Paper, which will argue against earlier retirement as job-creating, citing recent French experience
7.11	This repeats the error in 5.6 about the unemployment trap "often" affecting people
7.12	The trailer for the social security Green Paper should be omitted as a hostage to fortune
9.3	Similarly, if the reference to tax/benefit reforms to ease the poverty and unemployment traps (fourth indent) is meant to look forward to possible social security Green paper proposals, it should be softened or omitted
Annex 2	Under "mobility" the reference should be to "personal" (not "portable") pensions. And there should be a mention of the Social Security Bill provisions to protect the pension rights of early leavers and to give them the right to a transfer value
	Subject to the reservation on 7.1, this annex should also mention the help given to people who want to retire from the labour market early by enabling men over 60 to get the long-term scale rate of supplementary benefit and to qualify automatically for NI contribution credits - in each case without having to pretend to be in the labour market by signing on
Annex 4	This illustrates only the poverty trap - not the unemployment trap, of which the heading should make no mention.

DM/A6

 For Lord b/f 19/3 pl.

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Mr Battishill
Mr Cropper
Mr Lord

✓ 15/3

The Rt Hon Lord Young of Graffham
Minister without Portfolio
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

14 March 1985

Dear David,

EMPLOYMENT WHITE PAPER

Thank you for your letter of 13 March.

We shall certainly take into account your general comments on the draft Employment White Paper in the redrafting which is now going on. If you have specific and detailed comments, we should be grateful for them as soon as possible so that they can be incorporated in the next draft of the document before the weekend.

On the question of publication I do not agree that the 14-18's White Paper should precede the Employment White Paper. I have of course a direct interest in the 14-18's paper because the vast majority of it is concerned with policies within my own responsibility. I am, therefore, particularly anxious that it should dovetail properly with the Employment document. The thinking behind the timetable attached to Andrew Turnbull's letter of 11 March was that the Employment White Paper would pick up and draw together the employment related aspects of the Budget and that there would then be a series of subsequent papers and announcements (eg on deregulation and 14-18's,) expanding on the White paper. That timetable was agreed after a full discussion with colleagues most closely concerned on 11 March and it represented the general view on the best way of proceeding. I do not, therefore, see any advantage in reopening the issue and am strongly of the view that we should stick to what has been agreed.

I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer, the Secretaries of State for Education and Science, Environment, Health and Social Security, Trade and Industry and to Sir Robert Armstrong.

We have since spoken about this and I hope you can let us have any detailed comments on the White Paper as quickly as possible.

[illegible]

[illegible]

SECRET

b/f 19/3 pl.
For ERW

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

14 March 1985

The Rt Hon Tom King MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

CH/EXCHEQUER	
REC.	15 MAR 1985
ACTION	Mr Monck
COPIES TO	CST, FST, MST, EST
	Sir P. Middleton
	Mr Bailey
	Sir T. Burns

Mr Battishill
Mr Cropper, Mr Lord

✓ 15/3

Dear Tom,

EMPLOYMENT WHITE PAPER

Thank you for your letter of 14 March.

For the reasons given in my letter of 13 March, I remain of the view that the 14-18's White paper should precede the Employment White paper. Nevertheless I can appreciate the point of view which you put forward and I am quite content to leave this as a matter for colleagues to decide.

I understand that there is likely to be a further meeting to discuss the Employment White paper immediately after the budget. No doubt we can consider the issue of timing at that meeting .

I am copying this letter to recepients of yours.

Yours,
David

SECRET

MC/B26

pu Kldw b/f 19/3 pm

SECRETARY OF STATE FOR EMPLOYMENT

✓ 18/3

SECRET

PRIME MINISTER

EMPLOYMENT WHITE PAPER

I received helpful comments from Norman Tebbit, Keith Joseph, Norman Fowler and David Young, as well as from Treasury officials, on the draft of the Employment White Paper which I circulated on 6 March. I have sought to reflect these in substantial amendments to the latest version, which I enclose. There are one or two minor points I may want to check or reflect on further, and a few passages which cannot be properly fleshed out in advance of the Budget speech. But the document now is substantially as I should like to see it published. I hope you will feel, as I do, that it is a timely and effective statement of our view. I am in no doubt that it will be widely and strongly welcomed by our supporters, in the House and in the country.

I am sending copies of this latest version to the Lord President Nigel Lawson, Keith Joseph, Patrick Jenkin, Norman Fowler, Norman Tebbit, David Young and Sir Robert Armstrong. I should be grateful if they would let me know very quickly if there are any specific points still needing change.

TK
15 March 1985

3.34

COVERING CONFIDENTIAL AND PERSONAL

cc Miss Peirson
Mr Cassell

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

15 March 1985

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew

MONTHLY NOTE ON PUBLIC SECTOR BORROWING

.. I enclose this month's note on the PSBR. As usual the main points are summarised on the first page.

The press notice giving the outturn figures for February will be published at 2.30pm on 18 March. (The following day, with the Budget, a forecast will be given of the PSBR outturn for 1984-85 as a whole.)

Yours sincerely,

Margaret O'Mara

for RACHEL LOMAX
Principal Private Secretary

C. Any comments on Q and As needed by first thing Monday.

FROM: MISS M E PEIRSON
DATE: 15 March 1985

PPS/CHANCELLOR

cc Mr Cassell

MONTHLY NOTE ON PUBLIC SECTOR BORROWING, AND PRESS BRIEFING

1. Later today I will send the latest monthly note on the PSBR to the Chancellor. As usual, it will be accompanied by an additional copy for you to forward to No 10.

2. A draft covering letter for you to send to Andrew Turnbull is attached. The note should reach No 10 this evening.

Done.

3. I also attach the draft press briefing. The aim is to circulate it to List A recipients by 10.30 am on Monday. Any comments which the Chancellor might have can be taken on board provided you can let Mr Clark(ext 3093) have them before 9.30 am on Monday, earlier if possible.

MEP

MISS M E PEIRSON

M. Eyre

DRAFT LETTER FROM PRINCIPAL PRIVATE SECRETARY

Andrew Turnbull Esq

To: Private Secretary

10 Downing Street.

MONTHLY NOTE ON PUBLIC SECTOR BORROWING

1. I enclose this month's note on the PSBR. As usual the main points are summarised on the first page.

2. The press notice giving the outturn figures for February will be published at 2.30 pm on 18 March. (The following day, with the Budget, a forecast will be given of the PSBR outturn for 1984-85 as a whole.)