

PO-CH/NL/0847 PT A

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)



PO -CH /NL/0104
0847



PART A

BUDGET 1988 CHANCELLORS MEETINGS

NL/0104
0847

PO -CH

PART A

DD's 25 years NAZUS 10/8/95

2-3-88



NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY
AT 3.45PM ON FRIDAY, 15 JANUARY 1988

Those present

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Mr Gilmore
Miss Peirson
Mr Burr
Mr McIntyre
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill - IR
Mr Isaac - IR
Mr Corlett - IR
Mr Stewart - IR
Mr Mace - IR

**STUDENTS AND COVENANTS; REPLACING THE ADDITIONAL PERSONAL
ALLOWANCE (APA) AND TAX RELIEF ON CERTAIN MAINTENANCE PAYMENTS
BY INCREASED BENEFIT**

Papers: Miss Sinclair's annotated agenda of 14 January and papers listed; Financial Secretary's minutes of 14 January; PS/Paymaster General's minute of 14 January; Mr Cropper's minute of 14 January; Mr Cropper and Mr Tyrie's minute of 14 January



Students and Covenants

The Chancellor was grateful for the papers. These set out a range of options for compensating future students/parents for the loss of tax relief on new covenants. From the papers, he detected a growing consensus in favour of Option 3, with the revised parental contribution scale tapering out to zero and no re-introduction of the minimum grant.

2. The Economic Secretary suggested that an alternative approach might be for recipients to declare the amount of their grants and for that to be docked from their covenants. This approach would avoid any double benefits, and would not create actual losers. Mr Isaac said that the Economic Secretary's proposal would recreate the "earnings trap" for students. It would also require the Revenue to seek a considerable amount of information from students, and could thus postpone by several years the planned staff savings. This proposal would be more complicated for the Revenue to administer than Option 3 would be for the DES.

3. The Chancellor said that the Economic Secretary's option should be examined further. If, on examination, the administrative problems with it seemed less than at first sight, then it might be a useful fall-back if the DES saw great problems with the present Option 3. Subject to this, Option 3 with a taper should be pursued. The Chancellor said we should not approach the DES (and SED) until later. At that stage, Sir Peter Middleton should speak to Sir David Hancock, and the Chancellor would speak to Mr Baker and Mr Rifkind, rather than write.

4. Mr Gilmore did not expect DES to perceive a difficult interaction between these proposals and the separate proposals for student loans; indeed, the covenant proposals should, by reducing the size of the parental contribution, make student loans easier to accept. It was noted that there would be advantage in writing soon to the DES about student loans. The Chancellor said he would do



this in the light of the decisions on covenants, following the review of the Economic Secretary's proposal.

Covenants and maintenance

5. The Chancellor said it was necessary to compensate unmarried mothers for the loss of tax relief on payments to maintain children. The Financial Secretary's minute of 14 January summarised two main approaches: a radical package, involving abolishing tax relief for maintenance payments to children, abolishing the APA, and making a compensatory increase in OPB; and a narrower package which would limit abuse of the APA and maintain a degree of tax relief for payments to children of unmarried mothers, leaving OPB unchanged.

6. Mr Isaac said that the variants on the narrower solution implied the Revenue's drawing a line between those eligible for relief, and those who were not. This could give rise to difficult policing problems. Mr Culpin said that a way forward might be through the Revenue tapping into the DHSS monitoring system for OPB.

7. The Chief Secretary said that the radical solution was unattractive on public expenditure grounds. The thrust of this solution also ran counter to the Government's policy of reducing dependence on the benefit culture. For these reasons, he favoured the narrower approach as outlined in the Financial Secretary's minute (ie a combination of Option 2(a) in the joint DHSS paper and Option 4 in Mr Stewart's submission).

8. The Chancellor said that the main problem with the narrower approach was how to implement the co-habitation rule. Mr McIntyre suggested that, following the experience of DHSS, the main administrative effort could be restricted to a one-off exercise, thus limiting the cost. Mr Battishill said that the Revenue could implement the system itself, without reference to DHSS, by using



the National Tracing System. However, it would be important for any policing to be carried out with a light touch.

9. The Financial Secretary said that the wider option would involve abolition of the APA. This would fit well into a tax reforming budget. Mr Scholar agreed, noting that the wider approach would also enable the Government to remove all tax relief for children. The narrower option did not allow this. The Chancellor said that the narrower approach would, however, minimise disturbance and avoid difficulties while representing a step in the right direction. It might also be undesirable to give too high a profile to abolishing tax relief for children.

10. The Chancellor summing up, said that further work should be on the basis of the narrower solution. He invited the Financial Secretary to look further at the detailed options for maintenance payments within this narrower approach. The proposals should not be discussed with other Departments until the details had been finally agreed.

A handwritten signature in black ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR

18 January 1988

Distribution

Those present



FROM: P D P BARNES
DATE: 29 January 1988

NOTE OF A MEETING HELD IN ROOM 51/2, TREASURY CHAMBERS, PARLIAMENT STREET AT 11.15am ON THURSDAY 28 JANUARY

Those Present:

Economic Secretary
Mr Michie
Mr Jefferson Smith - C&E
Mr Taylor - C&E
Mr Chilver - C&E

X with
Ch?

CUSTOMS PROJECT 6

The Economic Secretary thanked Mr Jefferson Smith for his submission of 22 January. He said he wanted to discuss which items should continue to be zero rated if VAT were imposed on printed matter at the standard rate, where the boderlines should be drawn, and how the change might best be presented and defended.

Books

2. The Economic Secretary said that he started with the assumption that books should continue to be zero rated. He invited views on the presentation and operation of this proposal.

3. If zero rating for books were preserved, it would be necessary to justify this in terms which did not also apply to items which it was proposed to standard rate. Such a justification was likely to involve giving a pledge to preserve the remaining zero-rating for the remainder of the present Parliament. Customs said that their initial view was that a different VAT treatment for books and other printed matter could best be defended on the grounds that books were permanent repositories of information. Since it would be administratively impossible to accord different VAT treatment to different books according to their contents, the

exception would have to be made for all books, and the need for a practicable system could be deployed as a defence against the charge of giving relief to much that was undeserving.

4. Customs said that there were difficulties about using the argument relating to the additional cost which would fall on educational establishments if books were standard rated. This would be small, since public sector schools and libraries would be able to reclaim VAT. Universities and individuals would not. But arguments about the burden on different parts of the educated community would be understood only by people aware of the operation of VAT, and would not be of much force in defending VAT borderlines.

5. Customs said that it would not be desirable to define a book in law, but it would be necessary to publish guidelines on what counted as a book. The present guidelines did not distinguish between books and booklets, but a workable definition of a book might be: "a work produced by a printing process, bound either with a stitched binding or with a glued perfect binding, with a stiff cover thicker than the pages it contained." Even so, there were likely to be anomalies and borderline problems. A Bill (without a cover) would not count as a book, whereas an Act (in a stiffer cover) would do so. The treatment of, for example, ring binders would also be unclear.

6. The Economic Secretary asked whether it would be possible to set a broader boundary, and at what cost. Customs said that there would be some revenue cost, but this though unquantifiable, was not likely to be substantial. It would be difficult to draw the boundary between booklets and brochures or pamphlets because of the lack of a clear existing definition of these separate categories. However, it would be comparatively easy to draw a distinction between pamphlets (defined as several sheets of reading matter fastened or folded together) and leaflets (defined as a single sheet of paper no larger than A4 primarily intended to be held in the hand for reading, conveying information, and containing a significant proportion of text). To draw the borderline here would also avoid hard decisions about catalogues, the form of which

could vary, and for which a reference to content would otherwise remain necessary to decide the appropriate VAT treatment. On the other hand, retaining zero rating for pamphlets, for example, could make it harder to sustain the line that the printed matter for which zero rating was being retained were permanent repositories of information.

7. The Economic Secretary said that he would tentatively like to retain zero rating for books, booklets, brochures and pamphlets. He accepted that retaining zero-rating for further items would create pressure for even more exceptions. But he thought, again tentatively, that exceptions for maps, charts and sheet music should be made.

Learned Journals

8. The Economic Secretary thought that excluding learned journals from the intended standard-rating of journals and periodicals would help dampen the opposition from academics to the change. The question was how to achieve this. Customs suggested three criteria: a book test, a periodicity test, and a test for whether or not the publication was an "academic journal". Many cases could be dealt with by the periodicity and book tests alone (although the grounds for the latter test would be weaker, and its application harder, if zero rating generally was preserved for booklets and pamphlets as well as books). But there were likely to be problems over applying the "learned" criterion to borderline journals such as The European or The Historian. There was also a danger that the imposition of VAT at a standard rate could cause some journals, particularly those without a mass circulation and consequently no need for retail outlets, to move their printing overseas. (The harmonisation of EC postal rates meant that there would be no additional postage cost involved in doing so.)

9. The Economic Secretary said that he thought any kind of explicit borderline between learned and non-learned journals would be very difficult to draw and defend. He favoured a simple periodicity

test, to zero rate journals published no more frequently than six times a year. Customs said that they thought that they could, if necessary, take anti-avoidance powers to combat attempts to circumvent VAT by publishing two versions of what was effectively the same journal on alternate months. The Economic Secretary said that the proposal could be defended as the best rough and ready approximation to continuing the zero-rating of learned journals. He asked Customs to investigate what if any, unworthy publications would be zero-rated, and what putatively learned journals standard-rated, as a result of this. There would undoubtedly be complaints from arguably learned journals, such as the Lancet or the New Scientist, that they should also be zero-rated. But the Economic Secretary thought that such publications were effectively competing against weekly or monthly magazines, rather than against what were usually considered learned journals.

TV Licence Fees

9. Mr Jefferson Smith said that the probable maximum rise in the TV licence fee which would be necessary if section 20 relief were withdrawn would be £3. Nonetheless any increase in the licence fee which was seen to result from the withdrawal of this relief would be contentious. The Economic Secretary agreed that section 20 relief should not be withdrawn. Nonetheless, he thought there was a danger that there might be criticism of an anomaly between the treatment of BBC and ITN and other news services, which he agreed should all be taxed at the standard rate, and Q & A briefing would be necessary.

Conclusions

10. The Economic Secretary asked Customs to think further about his tentative conclusion that zero rates should be retained for books, booklets, brochures and pamphlets and for journals published not more frequently than six times a year. He would find it helpful to see how the suggested changes could best be presented and what anomalies or borderline problems arose as a result of them. The

TASK FORCE - BUDGET SECRET

Economic Secretary asked Customs to instruct Parliamentary Counsel
● draft legislation to standard rate printed matter with the
exception of the foregoing items, and of maps, charts, and music.
The legislation should also provide for the withdrawal of VAT relief
from news services.

RB

P D P BARNES
Private Secretary

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Mr Sinclair
Mr Michie
Mr Cropper

Mr Knox - C&E
Mr Jefferson Smith - C&E
Mr R Taylor - C&E
Mr Chilver - C&E
PS/C&E



Ch,

Mr Instone (LG) is attending the meeting, since it may cover grants etc. He is not privy to task force matters, and so has not seen all the papers. Should the meeting move on to the details of the tax package, he should be asked to leave.

JF

11/12



CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT	HOUSING: TAX TREATMENT OF PRIVATE RENTED ACCOMMODATION
DATE AND TIME	MONDAY 14 DECEMBER 11.30AM
VENUE	Chancellor's Room, Treasury / CONFERENCE ROOM / HOUSE of COMMONS
PAPERS	FST TO CHANCELLOR : 9.12.87 (TFS) SS/DOE TO CHANCELLOR: 2.12.87 PS/CH TO PS/FST : 23.11.87 (TFS) CASSELL TO CHANCELLOR: 19.11.87 (TFS) CASSELL OWEN PAINTER PAPER .
THOSE ATTENDING	CST FST EST SIR P. MIDDLETON SIRT. BURNS MR CASSELL MR SCHOLAR MR CULPIN MR CROPPER MR TYRIE MR GILL MR MCHIVERN } MR ELLIOT } (MR INSTONE ALSO ATTENDING) cc JMG TAYLOR.

CONFIDENTIAL



CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT	HOUSING (scribble)
DATE AND TIME	11.30AM MONDAY 14 DECEMBER
VENUE	Chancellor's Room, Treasury/No. 11/ Conference Room House of Commons
PAPERS	LIST TO FOLLOW.
THOSE ATTENDING	CST FST EST SIR P. MIDDLETON SIR T. BURNS MR CASSELL MR SCHOLAR MR CULPIN MR INSTONE MR CROPPER MR TURKIE MR CALL MR MCGIVERN } I.R. MR ELLIOT } cc. PMG MR PAINTER I.R. MR JMG TAYLOR.

Copy No. 1 of 18
 FROM: J P MCINTYRE
 DATE: 3 February 1988

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Kemp
 Mr Scholar
 Miss Peirson
 Mr Culpin
 Miss Sinclair
 Mr Gibson
 Mr Macpherson
 Mr Cropper
 Mr Tyrie
 Mr Call

MEETING WITH MR MOORE, THURSDAY 4 FEBRUARY: NICS AND APA

You will be seeing Mr Moore for a brief word after Cabinet tomorrow to let him know your decisions on NICS and the APA. The points you will want to mention to him are listed in the attached annex.

2. Mr Moore will welcome the decisions not to abolish the UEL and not to convert APA into benefit. But he may express concern about the NIF surplus in the context of your decision not to cut NICS at the lower end. The brief includes a line to take on this and also on Mr Moore's idea of abolishing the LEL which he mentioned to you before Christmas.

3. At some stage before the Budget, you may want to consider letting Mr Moore know your plans for ending tax relief for those paying maintenance, to unmarried mothers. A key element in the defence of this decision will be that, in the event of the courts reducing maintenance awards for this reason, poorer mothers would get increased help through social security. However, there is no need to go into all this with Mr Moore just yet, as no action on DHSS' part is required, and you may prefer not to raise this tomorrow.

J P

J P MCINTYRE

MEETING WITH MR MOORE: THURSDAY, 4 FEBRUARY

NICS

(i) UEL

You told Mr Moore before Christmas you were considering UEL abolition. You have now decided against.

(ii) Lower End

You and Mr Moore agreed that your proposal to enlarge the reduced rate bands should be pursued further by officials. But you have now decided against its inclusion in the Budget measures.

(iii) LEL

Mr Moore mentioned to you on 20 December the idea of abolishing the LEL, if you were also considering abolition of the UEL. Now that the UEL is not to be abolished, the symmetry of this approach falls away. In any case, there would have been considerable disadvantages eg it would have brought 3 million more employees into NICs and yet reduced net contributions by £1 billion - because of increased rebates to contracted out employees.

(iv) Treasury Supplement

Mr Moore told you before Christmas he was content for the Supplement to be abolished. At that stage, you both envisaged a fast track Social Security Bill, after the Budget, to effect this and UEL abolition from October 1988. ~~But a special Bill to abolish the Supplement alone would be harder to justify and attract undue attention. Officials should consult about the timing of legislation with a view to achieving abolition as soon as possible.~~

So include a Soc Sec Bill planned for 1988-89 session.

(v) NIF surplus: Line to take if raised

Decision not to proceed with UEL abolition is helpful on this score; it would have added £1.5 billion to the surplus in a full year. Abolishing the Treasury Supplement (£1.6 billion in 1988-89) will also help. Accept that other steps could be considered (eg increasing NHS allocation). Officials should consult.

Background

GAD report (likely to be published next week) to project a £1.8 billion NIF surplus in 1988-89, raising the balance in the fund to 34 per cent of outgo. Latest (unpublished) GAD estimates, reflecting lower unemployment and higher earnings assumptions, point to a higher surplus of £2.4 billion.

ADDITIONAL PERSONAL ALLOWANCE

You now propose to deal with the tax penalty on marriage by prohibiting unmarried couples, with two or more children, from each claiming an APA. The proposal to convert APA into benefit therefore falls away (and with it the unwelcome prospect of a £200 million addition to Mr Moore's programme).

CONFIDENTIAL

FROM: E P KEMP
4 February 1988

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Miss Peirson
Mr McIntyre

MEETING WITH MR MOORE AFTER CABINET

I do not imagine the Chancellor needs reminding, but I thought I would just comment on the point at paragraph (v) (NIF surplus) of the brief attached to Mr McIntyre's minute to the Chancellor of yesterday. Clearly it is right that arithmetically speaking the NIF surplus could, be reduced by increasing the NHS allocation. And in the health context it might, all other things being equal, just be managed so as to give some presentational value. But it would not of itself provide any more money for the Health Service which did not add to the public expenditure totals, and given the DHSS (and Mr Moore's) tendency from time to time to look to the NIF and the so-called "health stamp" for a way through in their difficulties, the Chancellor might be best advised to keep off this aspect completely in the context Mr McIntyre discusses.

EPK

E P KEMP

Oh for your meeting folder.

FROM: J P MCINTYRE
DATE: 5 February 1988

PS/CHANCELLOR (Mr Taylor)

cc Mr Gibson

5/2
Thank:-

NICS: CHANCELLOR'S MEETING WITH MR MOORE

We have now learnt that DHSS are making a firm bid for a Social Security Bill in the 1988-89 session. I attach the relevant page of the brief for the Chancellor's meeting with Mr Moore, amended to take account of this point.

JM

J P MCINTYRE

MEETING WITH MR MOORE: THURSDAY, 4 FEBRUARY

NICS

(i) UEL

You told Mr Moore before Christmas you were considering UEL abolition. You have now decided against.

(ii) Lower End

You and Mr Moore agreed that your proposal to enlarge the reduced rate bands should be pursued further by officials. But you have now decided against its inclusion in the Budget measures.

(iii) LEL

Mr Moore mentioned to you on 20 December the idea of abolishing the LEL, if you were also considering abolition of the UEL. Now that the UEL is not to be abolished, the symmetry of this approach falls away. In any case, there would have been considerable disadvantages eg it would have brought 3 million more employees into NICs and yet reduced net contributions by £1 billion - because of increased rebates to contracted out employees.

(iv) Treasury Supplement

Mr Moore told you before Christmas he was content for the Supplement to be abolished. At that stage, you both envisaged a fast track Social Security Bill, after the Budget, to effect this and UEL abolition from October 1988. A special Bill to abolish the Supplement alone would be harder to justify and attract undue attention. But the change should be included in the Social Security Bill, which DHSS are planning for the 1988-89 Session, with a view to abolishing the Supplement as soon as possible in 1989.

CONFIDENTIAL

FROM: MARK CALL
DATE: 8 FEBRUARY 1988*pyg*CHANCELLOR'S MORNING MEETING13TH MEETINGNOTE FOR THE RECORD

Present: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Lennox-Boyd, MP
Mr Forman, MP
Mr Cropper
Mr Tyrie
Mr Call

1. PARLIAMENTARY BACKGROUND

Mr Lennox-Boyd said there was growing unease among backbenchers about the current wave of industrial relations disputes. While the seamans' strike had not worried them, Ford was regarded as more serious. The Chancellor said it was inevitable that there would be strikes from time to time, but the Government should not allow itself to be knocked off course by them.

The forthcoming EEC Summit was also a source of some concern. The Chancellor pointed out that this time the Germans had made great efforts to get alongside the French, and the odds were against settlement. On the positive side it was likely that the British Abatement Arrangements would be renewed, and that there would be improvements in the CAP. Against that, it was likely that there would be an increase in the own resources ceiling.

2. HOUSING

Mr Tyrie's minute on housing would be discussed at a future meeting.

Mc

MARK CALL.



FROM: MARK CALL
DATE: 8 FEBRUARY 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cropper
Mr Tyrie

POST-PRAYERS MINUTE: 8 FEBRUARY

1. CAPITAL ALLOWANCES - DTI INITIATIVE

DTI were seeking favourable tax treatment for the new system of Capital Allowances for small companies in Development Areas. The Chancellor said the key question was whether this would make it more or less difficult for the Chief Secretary to take a hard line in the PES negotiations. The Chief Secretary would consider the proposal in that light. Mr Cropper felt that on principle discretionary grants should not qualify for tax relief. He would confirm whether or not there were any precedents in other fields for such a tax relief.

2. APA FOR MEN WITH INCAPACITATED WIVES

The Chief Secretary said that abolition of this allowance would be a very awkward juxtaposition with the benefits reform which would come into force with the Social Security Act in April. The Social Security Act would simplify disability benefits, abolishing a large number of minor allowances, and introducing a structured system of care for the disabled. In some case those qualifying for disability benefits after April would be materially worse off than with the old system. The Chief Secretary saw enormous presentational difficulties in abolishing the Incapacitated Wives APA on top of that. The Chancellor pointed out that disability should be treated through the benefits system, and not the tax system. Thus the possibility of converting the Incapacitated Wives APA into

a social security benefit, and removing it from the tax system, should be explored. The Financial Secretary would raise these points with officials.

3. ALLOCATION OF PRESENTATIONAL RESPONSIBILITIES

Ministers were content with the provisional allocation of responsibilities made by the Chancellor.

Mc

MARK CALL



H.M. CUSTOMS AND EXCISE
 KING'S BEAM HOUSE, MARK LANE
 LONDON EC3R 7HE

Please Dial my Extension Direct:
 Use Code (01)-382 followed by
 Extension Number 5023.....

C/ Interesting

CR 13/2

From: P G WILMOTT

Date: 13 February 1987

1. MR JEFFERSON SMITH
2. CHANCELLOR

- cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Mr Scholar
 Miss Sinclair
 Mr McKenzie
 Mr Cropper

*I have used a
 short note to
 explain the
 points at X.*

BREWERS' SOCIETY LETTER ON DUTY INCREASES

1. You asked for advice on Major-General Mangham's letter of 6 February about the figures on duty increases which the Brewers' Society quoted in their meeting with you that morning.

2. The figures were:

a.

	May 79	Mar 85	% increase
RPI	215.9	366.1	70
Duty: £/barrel @ 1037	21.490	52.074	142

b.

	May 79	Mar 86	% increase
RPI	215.9	381.6	77
Duty: £/barrel @ 1037	21.490	52.074	142
VAT - total	7.245	29.113	302
Total	28.735	81.187	183

The figures for excise duty and the RPI are correct, but of course the VAT figures depend on the assumption made about the price of a barrel of beer. However this superficial analysis does not tell the whole story.

3. The price of beer has increased since 1979 due to the combined effect of three factors:

- i. Increase in the rate of VAT from 8% to 15% in 1979.
- ii. Increases in the duty rate.
- iii. Increases in factor cost.

It is possible to analyse the Brewers' Societies figures to show the relative importance of these three factors.

4. On the basis of the VAT figures, it appears that the Brewers' Society have assumed that the price of a barrel of beer at 1037° rose from £97.808 in May 1979 to £223.200 in March 1986: an increase of £125.392. Had the rate of VAT stayed at 8%, a barrel of beer would have cost £209.614 in March 1986: £13.586 less. A further £33.031 is accounted for by the increase in duty (plus associated VAT at 8%). The balance, £78.774, is attributable to the increase in factor cost (plus associated VAT at 8%). Thus of the total price increase of £125.382 per barrel:

- i. 11% is due to the increase in the rate of VAT from 8% to 15% in 1979.
- ii. 26% is due to increases in the duty rate.
- iii. 63% is due to increases in factor cost.

X W Thus only about a third of the nominal increase can be attributed to changes in taxation, the rest being attributable to the Brewers themselves.

5. Looking at real increases gives a rather different picture. On the basis of the Brewers' figures, the price increased by 128% between May 1979 and March 1986. Over the same period the RPI rose by 77%. Thus the real price rose by 29%. Had the rate of VAT stayed at 8%, the real price would have risen by only 21%. If the real level of duty had also stayed constant then the real price would still have risen by 12% due to the increase in factor cost. Thus about three fifths of the increase in the real price is attributable to changes in taxation, and only two fifths to the brewers.

in review folder / 6. There is no inconsistency between these figures and those in my minute of 4 February. Changes in real values depend crucially on the RPI points chosen. So while the duty on beer rose by 142% between May 1979 and March 1986, the increase in the real value could be between 20% and 37% depending on how it is measured:

BEER DUTY: REAL VALUES SINCE 1979

	May 79	Mar 86	% increase
Duty £/hl @ 1030	10.65	25.80	142%
<u>Last submission:</u>			
RPI: financial year average for 78-79 to Sept 86*	201.6	387.8	92%
Real value: £/hl at 79 prices	10.65	13.41	26%
<u>Brewers' submission:</u>			
RPI: May 79 to Mar 86	215.9	381.6	77%
Real value: £/hl at 79 prices	10.65	14.60	37%
<u>Revalorisation:</u>			
RPI: Dec 77 to Dec 85	188.4	378.9	101%
Revalorised value	10.65	21.42	
Actual compared to revalorisation			+20%

* Proxy for financial year 86-87



P G WILMOTT

FROM: G MCKENZIE
DATE: 17 February 1987

- 1. MR WALTERS *10/12*
- 2. MISS SINCLAIR
- 3. MRS LESTER

cc PS/CST
PS/FST
Mr A Wilson
Mr Guy
Mr Tyrie
PS/IR
PS/C&E

BUDGET DEPUTATION: NATIONAL FEDERATION OF SELF EMPLOYED AND SMALL BUSINESSES

I understand that the Chancellor has asked for a response turning down the National Federation's further request for a meeting with Ministers.

- 2. Such a reply is attached.

G McKenzie
G MCKENZIE

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Mr Scholar
Miss Sinclair
Mr McKenzie
Mr Cropper
Mr Wilmott - C&E



Post

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

20 February 1987

Major General W D Mangham CB
The Brewers' Society
42 Portman Square
LONDON W1H 0BB

W D Mangham

Thank you for writing to me on 6 February with details of the figures mentioned at our meeting.

There is of course no dispute between us over the accuracy of the statistics. But, as we both know, different aspects of a set of figures can be highlighted to convey different messages. Your figures, for example, make an implicit assumption about changes in the price of a barrel of beer between 1979 and 1986 (because they quote VAT based on duty plus factor costs). It is a matter of simple arithmetic to separate the rise in the nominal price into its three components: duty, VAT and factor cost. This analysis shows that changes in factor cost account for some two-thirds of the rise, while only a third from duty and tax increases. I enclose an explanation of the calculation.

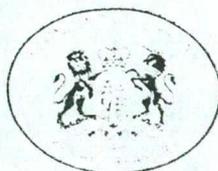
Nigel Lawson
NIGEL LAWSON

ENC.

On the basis of the VAT figures, it is assumed that the price of a barrel of beer at 1037° rose from £97.808 in May 1979 to £223.200 in March 1986, an increase of £125.392. If the rate of VAT had stayed at 8%, a barrel of beer would have cost £209.614 in March 1986, or £13.586 less. A further £33.031 is accounted for by the increase in duty (plus associated VAT at 8%). The balance, £78.774, is attributable to the increase in factor cost (plus associated VAT at 8%). The breakdown, in summary, is:

	(£)	(% share)
i. increase due to rise in VAT rate from 8% to 15%	13.586	10.8
ii. increase due to rise in excise duty (plus associated VAT)	33.031	26.4
iii. increase due to rise in factor cost (plus associated VAT)	78.775	62.8
	<hr/>	<hr/>
TOTAL	125.392	100

BUDGET CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
No. 10 Downing Street
LONDON
SW1A 0AA

PS/CHX
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr PRAT Allen CTE
Mr KNOX CTE
PS/CTE
PS/IR.

29 February 1988

Dear Paul

PRIME MINISTER'S MEETING WITH SIR JEFFREY STERLING, CBE

Sir Jeffrey Sterling rang me this afternoon to say that he would be meeting the Prime Minister later this week.

The Prime Minister may wish to know that Sir Jeffrey, in his capacity as one of the founders of the charity Motability, recently came to see the Economic Secretary to propose that vehicles intended for leasing to disabled people should be relieved from car tax. (I attach the minutes of that meeting, and the briefing prepared for it).

Similar proposals have been put forward in earlier years but rejected, principally because of the difficulty of ensuring that the benefit of car tax relief would be confined to disabled people. The Chancellor has decided not to include Sir Jeffrey's proposals in this year's Budget either.

The Prime Minister will wish to say only that she is aware of Sir Jeffrey's meeting with the Economic Secretary, and that Sir Jeffrey's proposals are being considered in the normal way in the run up to the Budget. But that Sir Jeffrey's proposals are a matter for the Budget judgement of the Chancellor, and Sir Jeffrey would not expect her to comment further at this stage.

Yours sincerely
Peter Barnes

P D P BARNES
Private Secretary

BUDGET CONFIDENTIAL



P2

NOTE OF A MEETING IN THE CHANCELLOR'S ROOM HM TREASURY
AT 11.30AM ON WEDNESDAY 2 MARCH

Present	Chancellor Financial Secretary Economic Secretary Sir P Middleton Sir T Burns Sir G Littler Mr Anson Mr Scholar Mr Odling-Smee Mr Peretz Mr S J Davies	Governor Deputy Governor Mr George Mr Fleming Mr Coleby
---------	--	---

The Governor said that his concerns about the draft had been alleviated by the amendments which had already been made to the second half of paragraph 2.09. But he was still concerned about the use of the words "the Government is committed to maintaining a stable exchange rate". He recognised that this was a quote from the Mansion House speech, but would much prefer something on the lines "the Government attaches particular importance to maintaining a stable exchange rate". He felt that use of the word "committed" in the MTFs could constrain monetary policy in a way that might be counter-productive. The Chancellor thought that the differences between his position and the Governor's were very slight. He was concerned that a departure from the Mansion House text might be seen as a weakening of the Government's anti-inflationary policies. He was prepared to accept the amendment proposed by the Governor, providing it was agreed that if there were any questions about whether there had been a change of policy since the Mansion House speech, the answer would be "no"; the Governor agreed.

... 2. After some further discussion, the attached redraft of paragraphs 2.09 to 2.13 was agreed, subject to final polishing.

A handwritten signature in blue ink, appearing to read 'ACSA'.

A C S ALLAN

2 March 1988

Distribution

Those present
PS/Chief Secretary
Mr R I G Allen

DRAFT OF PARAGRAPHS 2.09 TO 2.13 OF THE MTFS

2.09 Interest rate decisions are based on a continuous and comprehensive assessment of monetary conditions so as to ensure that inflationary pressures are not accommodated.

2.10 The Government attaches particular importance to maintaining a stable exchange rate, notably the rate against the deutschemark. This provides an important financial discipline, and is also helpful to industry. Sterling has remained stable against the deutschemark throughout the past year, following the Louvre accord in February 1987. The discipline of a stable exchange provides the underpinning for the declining path of money GDP growth and inflation. This means, in particular, that increases in domestic costs will not be accommodated by a decline in the exchange rate.

2.11 Achieving these objectives also requires a reduction in monetary growth over the medium terms. For M0, which has continued to be a reliable indicator of monetary conditions, the Government is setting a target range for 1988-89 of 1 to 5 per cent. This is the same as indicated in last year's MTFS. The ranges given in Table 2.2 for later years are illustrative, but show a steady fall consistent for the declining path for money GDP growth.

2.12 While, as last year, there is no explicit target range for broad money, the assessment of monetary conditions continues to take broad money, or liquidity, into account.

2.13 With the increasing overlap between activities of banks and building societies, it is sensible to concentrate on measures of broad money that includes deposits held with both. Equally, the authorities will seek to fund the net total of maturing debt, the PSBR, and any underlying change in foreign exchange reserves, by sales of debt outside the banking and building society sectors.