

Part A

**SECRET**

(Circulate under cover and  
notify REGISTER of movement)

Begins: 1/9/82  
Ends: 7/2/83.



PO -CH /GH/0021



PART A

Chancellor's (Howe) papers:

DEPARTMENTS FIVE YEAR  
FORWARD LOOK PROGRAMMES

PO -CH /GH/0021

PART A

Disposal Directions: 25 Years

*[Signature]*

24/7/95.

COVERING CONFIDENTIAL

FROM: M E CORCORAN  
DATE: 1 SEPTEMBER 1982

PS/CHANCELLOR

CC PS/CST  
PS/FST  
PS/EST  
PS/MST(C)  
PS/MST(R)  
PS/Sir Douglas Wass  
PS/Mr Burns  
PS/Sir Kenneth Couzens  
All Treasury Under  
Secretaries  
PS/Customs & Excise  
PS/Inland Revenue  
PS/DNS

CABINET OFFICE:"FORWARD LOOK"

In his letter of 4 August, Mr Buckley of the Cabinet Office asked for details of business likely to come forward between September and Christmas.

2. I attach a draft reply covering domestic matters. Sir Kenneth Couzens' office has been conducting a parallel exercise on defence and overseas matters.

3. Finally, I apologise for this late return. This was due to the number of Under Secretaries on annual leave which resulted in the late entry of submissions. I have contacted Mr Hilary at the Cabinet Office and informed him of this delay.



M E CORCORAN



COVERING CONFIDENTIAL

~~Pl. type~~  
✓ 3/9

DRAFT LETTER FROM: PS/CHANCELLOR

TO: D H J HILARY ESQ  
Cabinet Office  
Whitehall  
LONDON SW1A 2AS

CC M S BUCKLEY ESQ  
Cabinet Office

"FORWARD LOOK"

I enclose our return showing details of business likely to come forward between the Summer and Christmas recesses, as requested in Mr Buckley's letter of 4 August.

2. I apologise for the delay but, as you ~~are aware~~ <sup>have already been told</sup>, this has been due to the number of officials who have been on annual leave.

JR



cc PS/CST  
PS/FST  
PS/EST  
PS/MST (C)  
PS/MST (R)  
PS/Sir D Wass  
PS/Mr Burns  
PS/Sir K Couzens  
All Treasury Under Secretaries  
PS/C+E  
PS/IR  
PS/DNS

2/39

COVERING CONFIDENTIAL



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

3 September 1982

D H J Hilary Esq.  
Cabinet Office  
Whitehall  
LONDON  
SW1

*Dear Mr Hilary,*

"FORWARD LOOK"

... I enclose our return showing details of business likely to come forward between the Summer and Christmas recesses, as requested in Mr Buckley's letter of 4 August.

I apologise for the delay but, as you have already been told, this has been due to the number of officials who have been on annual leave.

*Yours sincerely,*

*Jill Rutter*

JILL RUTTER  
Private Secretary



## CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Macro-economic discussion	Cabinet	21 October	All	-	-
Nationalised Industries Quarterly Monitoring Report (end June)	E(NI)	Early September	All Nationalised Industries Sponsor Departments	-	-
Nationalised Industries' 1982 Investment and Financing Review	E	End September	All Nationalised Industries Sponsor Departments	Follow-up to E(82)55	This may need more than one discussion
Investment Appraisal in the Nationalised Industries	E(NI)	October	All Nationalised Industries Sponsor Departments	-	-
Nationalised Industries Performance and Corporate Reviews: 1982 Programme	E(NI)	October	All Nationalised Industries Sponsor Departments	-	-
Checklist of desirable changes in Nationalised Industries' financial statutes	E(NI)	November	All Nationalised Industries Sponsor Departments	-	-
Nationalised Industries' Quarterly Monitoring Report (end September)	E(NI)	Late November	All Nationalised Industries Sponsor Departments	-	-
Privatisation-sustaining the momentum	E(DL)	Late September	All Nationalised Industries Sponsor Departments	Follow-up to Prime Minister's minute (M6/82)	-





CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Privatisation-1983-84 Target	E(DL)	Late September	All Nationalised Industries Sponsor Departments	-	May combine with Privatisation- sustaining the momentum
Contracting out in the Nationalised Industries	E(DL)	Mid November	All Nationalised Industries Sponsor Departments	-	-
Contracting out of Public Sector functions	E	End November	All	Follow-up to Chancellor's letter of 11 August	-
"The Longer Term" (Economic consequences of planned levels of public expenditure in the period to 1990-91. Papers by the Chancellor covering two reports by officials and an associated paper by the CPRS).	Cabinet	9 September	All	-	To precede related discussions in October on the 1982 Public Expenditure Survey
"Public Expenditure Survey 1982" (Paper by the Chief Secretary making proposals for public spending in the years 1983-84 to 1985-86 Possible related paper on the economic back- ground / the Chancellor	Cabinet	21 October (with probable overflow to 28 October)	All	Cabinet on 15 July (CC(82) 38th Conclusions)	Final Cabinet decisions needed by 11 November at latest to permit announcement in Autumn Statement in early December



CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Pay and Cash Planning: the treatment of public service pay in drawing up the cash public expenditure plans for 1983-84 onwards	Cabinet	30 September	All	E Committee discussion on 1 July (E(82)53 - Pay in the coming year)	-
End year flexibility for cash limits covering capital and equivalent expenditure	Cabinet	21 October	All with large capital and equivalent programmes, especially MOD	Cabinet 15 July -paper circulated (C(82)29)- End year flexibility for public expenditure programmes)- but not discussed	-
Taxation of Husband & Wife	E	Late October	DHSS and DEm	-	Need to clear with colleagues the publication and broad terms of a White Paper toward the end of 1982



CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
<p>The Chancellor undertook to submit a paper to MISC 14, in consultation with the Secretary of State for Trade, on the Wider Responsibilities of Financial Institutions flowing from their large financial holdings, following concern expressed by the Secretary of State for the Environment that these wider responsibilities were not being properly discharged</p>	<p>MISC 14</p>	<p>After the Recess</p>	<p>DOT, DOE, Bank and DOI</p>	<p>Commissioned at MISC 14 on 29 July</p>	<p>DOE have been asked to set out their Secretary of State's concern in more detail</p>
<p>Review of regional Economic Policy (being conducted by an inter-departmental group under Mr Quinlan's chairmanship)</p>	<p>MISC 14</p>	<p>December</p>	<p>Primarily DOI, DOE, DEm, and the regional departments</p>	<p>MISC 14 (82)3rd meeting, 29 July</p>	<p>The terms of reference of the Review called for a first substantive report by the end of the year</p>
<p>Megaw- Report to Ministers from official group (MISC 84) on the 'core' recommendations of the Megaw Report</p>	<p>MISC 83 (Probable further discussion in Cabinet)</p>	<p>Late September</p>	<p>Treasury/MPO and major employing departments</p>	<p>MISC 83, 1st meeting</p>	<p>Further discussions likely (eg on other Megaw recommendations such as merit pay, negotiating tactics with unions and treatment of the 1982-83 round )</p>



CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Single outside analogue grades-treatment of links this pay round	E(PSP)	September/October	Treasury, MOD, DHSS and other employing departments	-	Industrial Grade "Trade Raters" may also need to be discussed
Civil Service London Weighting Award	E(PSP)	September/October	Treasury, DEm - other employing departments	E(PSP) 3rd meeting	E(PSP) may need to reconsider decision to go to arbitration
Role of Comptroller & Auditor General	E	After Parliament resumes, before the end of 1982	DOI, DEn, DT, MPO, Lord President	E(82) 4th meeting	Informal discussions with back-benchers currently taking place as agreed by E Committee. Treasury Ministers will almost certainly wish to discuss the outcome with E





## CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Macro-economic discussion	Cabinet	21 October	All	-	-
Nationalised Industries Quarterly Monitoring Report (end June)	E(NI)	Early September	All Nationalised Industries Sponsor Departments	-	-
Nationalised Industries' 1982 Investment and Financing Review	E	End September	All Nationalised Industries Sponsor Departments	Follow-up to E(82)55	This may need more than one discussion
Investment Appraisal in the Nationalised Industries	E(NI)	October	All Nationalised Industries Sponsor Departments	-	-
Nationalised Industries Performance and Corporate Reviews: 1982 Programme	E(NI)	October	All Nationalised Industries Sponsor Departments	-	-
Checklist of desirable changes in Nationalised Industries' financial statutes	E(NI)	November	All Nationalised Industries Sponsor Departments	-	-
Nationalised Industries' Quarterly Monitoring Report (end September)	E(NI)	Late November	All Nationalised Industries Sponsor Departments	-	-
Privatisation-sustaining the momentum	E(DL)	Late September	All Nationalised Industries Sponsor Departments	Follow-up to Prime Minister's minute (M6/82)	-



CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Privatisation-1983-84 Target	E(DL)	Late September	All Nationalised Industries Sponsor Departments	-	May combine with Privatisation- sustaining the momentum
Contracting out in the Nationalised Industries	E(DL)	Mid November	All Nationalised Industries Sponsor Departments	-	-
Contracting out of Public Sector functions	E	End November	All	Follow-up to Chancellor's letter of 11 August	-
"The Longer Term" (Economic consequences of planned levels of public expenditure in the period to 1990-91. Papers by the Chancellor covering two reports by officials and an associated paper by the CPRS).	Cabinet	9 September	All	-	To precede related discussions in October on the 1982 Public Expenditure Survey
"Public Expenditure Survey 1982" (Paper by the Chief Secretary making proposals for public spending in the years 1983-84 to 1985-86 Possible related paper on the economic back- ground by the Chancellor	Cabinet	21 October (with probable overflow to 28 October)	All	Cabinet on 15 July (CC(82) 38th Conclusions)	Final Cabinet decisions needed by 11 November at latest to permit announcement in Autumn Statement in early December



CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Pay and Cash Planning: the treatment of public service pay in drawing up the cash public expenditure plans for 1983-84 onwards	Cabinet	30 September	All	E Committee discussion on 1 July (E(82)53 - Pay in the coming year)	-
End year flexibility for cash limits covering capital and equivalent expenditure	Cabinet	21 October	All with large capital and equivalent programmes, especially MOD	Cabinet 15 July -paper circulated ((C(82)29)- End year flexibility for public expenditure programmes)- but not discussed	-
Taxation of Husband & Wife	E	Late October	DHSS and DEm	-	Need to clear with colleagues the publication and broad terms of a White Paper towards the end of 1982



CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
<p>The Chancellor undertook to submit a paper to MISC 14, in consultation with the Secretary of State for Trade, on the Wider Responsibilities of Financial Institutions flowing from their large financial holdings, following concern expressed by the Secretary of State for the Environment that these wider responsibilities were not being properly discharged</p>	<p>MISC 14</p>	<p>After the Recess</p>	<p>DOT, DOE, Bank and DOI</p>	<p>Commissioned at MISC 14 on 29 July</p>	<p>DOE have been asked to set out their Secretary of State's concern in more detail</p>
<p>Review of regional Economic Policy (being conducted by an inter-departmental group under Mr Quinlan's chairmanship)</p>	<p>MISC 14</p>	<p>December</p>	<p>Primarily DOI, DOE, DEu, and the regional departments</p>	<p>MISC 14 (82)3rd meeting, 29 July</p>	<p>The terms of reference of the Review called for a first substantive report by the end of the year</p>
<p>Megaw- Report to Ministers from official group (MISC 84) on the 'core' recommendations of the Megaw Report</p>	<p>MISC 83 (Probable further discussion in Cabinet)</p>	<p>Late September</p>	<p>Treasury/MPO and major employing departments</p>	<p>MISC 83, 1st meeting</p>	<p>Further discussions likely (eg on other Megaw recommendations such as merit pay, negotiating tactics with unions and treatment of the 1982-83 round )</p>





CONFIDENTIAL

TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
Single outside analogue grades-treatment of links this pay round	E(PSP)	September/October	Treasury, MOD, DHSS and other employing departments	-	Industrial Grade "Trade Raters" may also need to be discussed
Civil Service London Weighting Award	E(PSP)	September/October	Treasury, DEm - other employing departments	E(PSP) 3rd meeting	E(PSP) may need to reconsider decision to go to arbitration
Role of Comptroller & Auditor General	E	After Parliament resumes, before the end of 1982	DOI, DEn, DT, MPO, Lord President	E(82) 4th meeting	Informal discussions with back-benchers currently taking place as agreed by E Committee. Treasury Ministers will almost certainly wish to discuss the outcome with E





16 SEP 1982  
 Mr REEF  
 GT  
 HT  
 ET  
 MTD

10 DOWNING STREET

THE PRIME MINISTER

16 September 1982

Mr. Giddens - (JMS)  
 W. J. ... - (HMS)  
 W. Johnson - (MS)

ALL/US  
 Mr. ...  
 W. ...  
 W. ...  
 P. ...  
 Mr. ...

Mr. ...  
 Mr. ...  
 Mr. ...  
 Mr. ...  
 Mr. ...

Mr. ...  
 Mr. ...  
 Mr. ...  
 Mr. ...  
 Mr. ...

Dear Willie

At the meeting of the Cabinet on 29 July I asked each Minister in charge of a Department to arrange for the preparation of a report on a "forward look" at the Department's programmes for the next five years, and to send me the reports not later than Friday 24 December 1982.

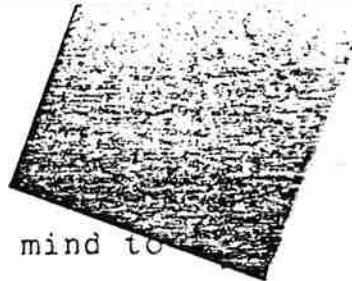
It may help colleagues if I set out what I had in mind in making this request. My hope was that this exercise would provide each Minister with material drawn from the ideas and experience of his Department on which he could consider what plans and proposals to suggest as an input into our collective thinking, not only about the commitments to be fulfilled and major decisions likely to be required during the rest of this Parliament, but also about a positive and coherent strategy for the next Parliament. With this in mind I envisaged that the reports should cover:-

- what major commitments with which the Government entered office in 1979 will still remain to be met in the next Parliament;

1620

/ what major





- what major new proposals are in mind to forward in the next Parliament initiatives and reforms started in this Parliament (for instance, privatisation proposals);
- what major new initiatives are in contemplation, of a kind which would require significant legislation or structural change, whether in pursuance of the Government's major political objectives or in order to adapt to changing economic and social circumstances.

In each case it would be helpful that the "forward look" should indicate possible timings, and should also indicate expenditure and manpower implications, so far as those can now be foreseen.

Each Minister will want to decide, in consultation with other Ministers within the Department and the Permanent Secretaries, how the work of preparation can best be done in his Department; but I ask each of my colleagues to take a close personal interest in the shape and contents of the eventual report.

I am copying this letter to all members of the Cabinet and Sir Robert Armstrong.

*Yours*  
*Ray*



D / (d. copy as per  
BAG file)

M E CORCORAN  
5 October 1982

MR. RIDLEY

27/10

cc Mr R I S Allen,  
Mr Hargrave  
Miss Deyes

GOVERNMENT ACHIEVEMENTS

*This note seems right*

I now attach material on management achievements in the Chancellor's departments.

2. The material on manpower savings and money equivalents is based on the two annual reports on Civil Service Manpower. You should note that I have adjusted the figures to take account of the reorganisation of the central departments.

3. The material on expenditure savings is disappointing and I tried a couple of approaches in an attempt to come up with a useable figure.

4. The first was a cost terms comparison between 1978-79 and 1982-83: this in fact showed an increase in expenditure - which is not entirely surprising given, eg the large increases in the pay bill in 1979-80 and 1980-81. This is interesting in its own right but also points to a danger in defining savings as the difference between a planned figure and what might have been - one could be setting oneself up for a tedious argument about assumptions and measurement.

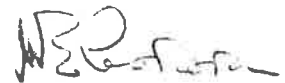
5. I also looked specifically at the figures on the computer for pay and for GAE, again comparing 1978-79 with the plans for the present year. This shows an overall saving on pay of about £60-70 million and an increase in GAE of around £30 million (at 1982-83 prices after uplifting the 1978-79 figures by factors which reflected the actual movement in prices for years in which volume ruled and by the cash limit factors for 1981-82 and 1982-83). But I think it would be inadvisable to use these figures because I am doubtful about their validity. The intervening years have seen a complicating mix of policy and classification-type changes as well as the move to cash planning.





As the Customs and Excise noted: "Valid comparisons of changes in administrative expenditure between 1979 and 1982 cannot realistically be made because movements in the RPI bear little relation to the Departmental mix of administrative expenditure. A further complication has been the change from Allied Service arrangements to repayments on services provided by HMSO, CCTA, Government Chemist etc".

6. Be that as it may be, there is I think quite a lot of usable material in the attached.



M E CORCORAN



## ACHIEVEMENTS IN THE C.H. LEVY'S DEPARTMENTS

### A. Administrative Expenditure Savings

The two Revenue departments account for over 80 per cent of expenditure by the Chancellor's departments. Last year they produced savings in administrative expenditure (ie excluding salary and salary-related costs) of well over £10m.

### B. Manpower Savings and Money Equivalents

Between 1 April 1979 and 1 April 1982 staff in post fell by over 12½% (over 10,000) in the Inland Revenue and by 9% (over 2,500) in the Customs and Excise.

In each of the last two years, staff numbers in the Chancellor's departments have fallen by over 4,000. Taken together, these reductions give a cash saving of around £50 million in a full year.

(Note: these figures are after having adjusted for the recent reorganisation of the central departments.)



C Law Enquiries Filled

The Property Advisory Panel has been abolished (a Treasury Council) and also the Board of References.

D Rayners scrutinies put in hand and completed

Inland Revenue

Of the 8 Rayner reviews completed, the recommendations of 7 have been implemented and a staff savings achieved. Staff savings had already been achieved from five of the reviews by July 1982 as follows:

	Staff Saved
PAYE Movements procedure	350
PAYE deductions cards	700
Accounts Registers	190
Schedule D procedures	770
Repayment procedures	330

TOTAL 2,340

3 scrutinies are scheduled for 1982. Two are already in progress (PAYE end of year procedures and Review of visits to public) and the third (a review of instructions to Tax and Collection Offices) began in September.

Customs and Excise

(a) Since 1979, Rayner reviews of the London Collections, Distillery and associated Warehouse controls, Government statistical services, Customs attendance at ports and airports, Official forms, and VAT registration and deregistration procedures identified savings totalling 753 staff, of which 320 (included in the answer to question 7 above) had been achieved by 31 March 1982. Additional Rayner reviews of the processing of Customs Entries, and Personnel work were recently commenced, but no recommendations have yet been made.

(b) Savings from Staff Inspections, Management Service Reviews, and general improvements in efficiency have also been made.

(c) Additional savings have been identified from a review of provincial Collections and of Messengerial services, which will be processed in the near future.



## CISCO

Review now complete. (CISCO numbers have fallen from 1808 on 1 April 1980 to 1446 on 1 September 1982.)

## Department for National Savings

Scrutinies have been carried out on handling and answering of correspondence with the public, and review of PSE conversion exercise. The recommendations of these two reviews have been implemented and a saving of 20 staff made. A scrutiny on the investigation of post office accounting errors has been completed and recommendations are being implemented with 22 staff saved to date. A review of terms and conditions of DNS securities completed spring 1982. Report is before Ministers. A scrutiny to improve the quality of Post Office service to DNS is almost complete.

## Treasury

Reviews have been made of paper handling and registry systems; the role of supply divisions with particular reference to FIS; role of UK Treasury and supply delegations and role of Rating of Government Property Department. So far savings of 45 staff have been achieved. The review of typing and secretarial services is complete: substantial staff savings being sought.

## E. Other exercises relating to elimination of waste

### Inland Revenue

The Department has a continuing program of staff inspection, management services reviews. Savings from these have contributed to those outlined in A. and B. above.

### Customs and Excise

Savings from staff inspections, management service reviews and general improvements in efficiency are included in the answers to questions A. and B. above.





### Department for National Savings

Staff inspection has achieved a reduction of 470 posts between July 1979 and August 1982. Organisation and method studies have contributed to the general reduction in the level of manpower in the Department.

### Treasury

The diagnostic review of Messenger services, and a review of operational sectors in Treasury is in progress.

### Royal Mint

The Royal Mint operates as a commercial organisation, and as such continues to keep under review its efficiency in order to keep down costs. In particular an in-depth review of the functions of all non-industrial staff was completed in January this year. This produced manpower savings which are reflected in the figures at B. above.

### F. Reduction in form filling

Inland Revenue, Customs and Excise and DNS are involved in the Rayner review of official forms. They are currently reviewing all their forms to ensure that they are clear, intelligible and relevant to those who receive them. The exercise will aim to identify ways in which all their forms might be improved, as well as trying to cut down the number of forms which are issued.

### G. Removal or simplification of controls

Some savings in the Inland Revenue are accruing from relaxation of controls - most of them as a result of Rayner scrutinies.

Customs and Excise have ceased to operate exchange control. Staff savings from this and changes in the boarding procedures for ships, relaxation of Customs checks, reviews of control procedures, reductions in VHE control and visiting work are included in the answer to question B. above. In addition DNS benefited from the ending of exchange control and save 20 staff: the Treasury benefit both from this and from the abolition of dividend control.



#### H. Contracting out

This is not of major relevance to the Chancellor's Departments, although some contracting out of cleaning work has been done. In addition, the Royal Mint have stopped using Ministry of Defence auditors and now use auditors from Coopers and Lybrand. They are also experimenting with contracting out of site plant maintenance, work formerly done by PSA.

#### I. Sale of assets to the private sector

None of the Chancellor's Departments are affected.



## FORWARD LOOK

This note considers, first, the Government's achievements in relation to its "Treasury" commitments and aspirations before the 1979 election; and then sketches out the major (and sometimes new) proposals or initiatives which Treasury Ministers and / departments may have in mind for the next Parliament, whether firmly or tentatively.

### UNFINISHED MANIFESTO TASKS

2. The list of commitments honoured is very extensive. The note "Major Achievements" at Flag A (prepared in September for slightly different purposes) gives a useful and near-comprehensive record. Most of the areas of failure, or at least non-achievement, are rather broadbrush. But several of them are extremely important. They can be summarised as follows (brackets give Manifesto page references).

3. (a) In the macro-economic area, there was a fundamental commitment (p.8) to cut the burden (i.e. GDP share) of taxes, and public spending and borrowing. Only the latter has been fulfilled so far.

*For discussion:*  
Yes? || Question. Should one reiterate the same commitments for taxes and spending?

(b) The key-note of tax strategy (p.7) was to "restore incentives". That has largely been done in relation to capital taxes, and the upper rates of income tax; partly in relation to NIS. But, arguably, barely at all for the ordinary person, particularly when employee NICs are taken into account as well as income tax. As part of this commitment we promised (p.27) to "reduce the poverty trap", which in fact has if anything increased.



Question. Presumably we commit ourselves still more firmly to these objectives. But how vaguely and timelessly? *Very*

- (c) In the no-man's-land between this Department and DHSS we spoke (p.27) of moving "towards the fulfilment of our original tax credit objectives", albeit with prudent caveats over computers and cash. We have in fact scarcely moved at all.

*NIC 17 etc*

Question. Is this still a relevant objective? *Not as such?*  
If it is, how do we frame it? If not, what do we say instead?

- (d) In several areas, particularly VAT and capital taxes (p.14) we spoke of introducing greater simplicity. Indeed the same thought is implicit in the Manifesto section on Social Security (p.27). There are some credits to be notched up here, but equal or greater debits, however good the reasons (e.g. CGT).

Question. Presumably we stand by the theme. But in relation to what, and achieved how and when (e.g. PAYE computerisation).

- (e) In two more specific areas there is still little to report, viz. relating to regional assistance to jobs (p.15) and eliminating the earnings rule (p.27).

Commitment to Questions / Cost-per-job criteria in regional assistance / can perhaps be dropped. But what about the earnings rule?

- (f) Finally there is a partly specific, partly general commitment to more informed and responsible pay-bargaining (p.12). At the detailed level there is as yet little to report on Megaw or NHS (nurses) pay, and

*Defends a  
Quintia:  
affects many  
depts. But  
we want  
cost efficiency*

*NESI*





nothing on seeking "no-strike agreements in a few essential services".

*PLUS* Question. Prime facie we could keep all this in, modifying the detail appropriately. But could this not all be treated quite differently - e.g. wrapped up in a new message about the responsibilities of employers (participation, communication and all that)?

*PLUS SWPs, EDCs etc?*

4. There are other areas in the Manifesto of Treasury interest, where there has been non-achievement, such as reforming the EC Budget (p.30). Doubtless we could round up half a dozen.

*✓* However it scarcely seems worth doing so in a vexatious concern for completeness.

#### PROPOSALS AND INITIATIVES FOR THE FUTURE

5. If one moves away from those areas where there has been evidence of a clearish failure to implement Manifesto commitments, it is helpful, at least when considering subjects such as Taxation, to distinguish between future attitudes to

- Manifesto commitments which have been honoured but where continuing work is probable or possible;
- other areas of *proposals* [study and possible] action.

6. If one were to follow rigorously the No 10 terms of reference, one would wish to consider in each case, and perhaps indicate

- Over need, surely, is to distinguish between*
- ① Fin. Bill stuff
  - ② The rest: almost always feasible
  - ③ Any special for us?

- whether legislation is needed, and if so whether it would be lengthy or contentious;
- whether it would take a long time to enact or then to implement;



- staff implications; ✓
- [whether formal consultation or informal preparation of public opinion is required;
- whether early "declaration of intent" is necessary or desirable.]

*These negative things  
low in v.  
important*

TAXES

*We need to distinguish between:  
1) The intentions w/ moral principle  
(e.g. not to exclude borrowing  
or VAT tax)  
2) Policy making  
pledges*

7. Turning to honoured Manifesto commitments where continuing progress can be envisaged, a large number of detailed issues call for consideration:

*No thinki*

(1) Income Tax. What commitments about thresholds or rate? Any target for less tax than under Labour [now 42p for the average family in the £ as against 38½p then, with families enjoying over £587 per week the only ones to pay a higher burden!]. Do we pledge abolition of IIS? *No thinki??*

*DS? no make  
as state  
as we start*

(2) Employee share ownership, Wider ownership and "incentives to save and build up capital". Current discussions are clearly relevant. Presumably it would be wise to promise something on these themes without quite knowing what.

*Simplification.  
Remove or amend  
?? self-assessment?*

(3) Reducing Tax Bureaucracy. Can we promise more than falling IR and C&E numbers? Talk of Computers? Raynerism? ✓

(4) Taxing Unemployment and Sickness benefit. Any more to go for here? *Or any comparable?*

*To be quietly forgotten.  
CS? no advice on  
'capping'; ind. rates relief*

(5) Rates. Does "cutting income tax" (still) take priority for the time being over the abolition of the domestic rate system? What about industrial and commercial rates and revaluation?

*No*

(6) CTT & CGT. Simplification apart(?), do we rest on our very complicated laurels? *But general pledge - no  
doubt + stability*



8. Then there are other areas of major study and possible action where the position is usually clearer.

(1) Taxation of Women.

White/Green Paper due 1983. Subsequent consultations probably two years. Implementation affected by PAYE computerisation. Legislation necessary.

*Study. Weekly  
to give reviews to  
colleagues.*

(2) International Business Taxation.

Consultations in progress. Legislation needed and perhaps not possible pre-election.]

(3) Corporation Tax.

Further responses to Green Paper awaited. [Legislation seems unlikely.] Self-assessment exercises proceeding. Some latitude for vagueness over deadlines if needed.

*Study.  
All these papers  
show how  
unstable they  
are: all to be  
under an  
general fiscal bill  
umbrella*

(4) Enforcement Powers/Black Economy.

Keith Committee report expected in two parts: first part by end-1982, second part early 1983. Probably will give rise to legislation after period of consultation and therefore in next Parliament. Action on Black Economy more obscure matter?

(5) North Sea Oil Regime.

Consultations continuing with UKOOA. [Legislation seems unlikely.]

(6) Income Tax.

Unless NICIT remains an option, work required on burden not on structure. Elimination/  
buying-out of minor personal allowances probably candidate for first Budget of new Parliament.

*Undisputed.*

*A7* Work on definition of self-employed and Schedule D.

(7) Poverty Trap

Awaiting Meacher Committee. Probably legislative action, if any, on rates and thresholds rather than on structure.



(8) National Insurance.

Continuing study of NICIT. If agreed could require major legislation in conjunction with DHSS. When do Ministers say what?

(9) Capital Transfer Tax.

No structural changes envisaged. Further reduction in burden evidently depends on revenue available.

(10) Capital Gains Tax.

Existing structure probably now accepted (even though ought not to be?). *What mean?*

(11) Investment Income Surcharge.

Proposal to abolish when revenue available. *State - do don't disclose Option has to be kept open*

(12) [Fringe Benefits.

Some further work but no major structural changes.]

(13) Small Business Measures.

✓ Extension of existing BSUS probably pre-Election.

✓ Extension of coverage of BSUS could be partly pre-partly post-Election. Other possibilities under study:

✓ conversion of debt into equity, interest rate subsidies,

✓ etc., and future of Loan Guarantee Scheme.

(14) VAT.

Widening of base now abandoned: *No*

(15) Stamp Duty.

✓ Consultative document due early 1983. Modest measures could be in either Parliament.

(16) [Mortgage Interest Relief.

After MIRAS no structural changes. Continuing debate on level.] Other building society legislation possible - in conjunction with DoE.





(17) LAPR.

*Decision probably  
need to be  
Options then:  
not further.*

Possible action in next Parliament. But need to consult and could be much delayed by strong vested interests. On balance probably less rather than more likely to go ahead.

(18) Pensions.

*?*

Major legislation possible on transferability and/or disclosure. Formally more a matter for DHSS.

[ (19) Cars and Perks

Anything envisaged or to be said? ]

NON-FISCAL POLICIES

9. Moving away from taxation, one finds the agenda lighter and the issues vaguer, unglamorous or often both. They can be sketched out as follows:

10. In the macro-economic area:

and colleagues

*keep ✓  
Yes*

(1) The MTFs. Observers/will be very interested in whether the Conservative Party makes continuation of the MTFs a Manifesto commitment; how it reasserts a policy of monetary targets; and what targets are set for still lower inflation in a possible second term. ] *Not a major issue*

*Keep under review*

(2) Monetary Control techniques, Gilt selling, DNS.

Probably not a major issue. But conceivably the monetary base could surface again. And EMS, banking supervision etc.

(3) Indexation. Not one subject in its own right, but obviously several. Given the controversies of the 1979 election, and current concerns, some thought



must be given to handling this.

*Keep over options for ending - had to be complete*

- (4) International Institutions. The EC apart, there may be important if unglamorous objectives to note such as
- more IMF quotas, and any British initiatives
  - international banking supervision
  - World Bank and IDA development
  - problems of countries in debt crisis not to mention trade issues and World Economic Summitry
  - progress with the OECD consensus on limiting export assistance and other export credit matters.
- (5) Debt Repayment. Do we wish to go on repaying international debts and if so to say so?
- (6) Unemployment. The issue here could be as much what line Ministers feel they must take about its level and prospects in public as on policies to combat it.

*Not in this exercise?  
P. 10 to 10*

*We do need to consider*

11. In the domain of Public Spending policies there are a few big questions, and a number of less glamorous but untrivial matters of internal management.

(1) Targets.

- as discussed earlier in section 3(a), should there be an objective that the GDP share of public spending should fall?
- what more specific objectives might be agreed for programmes? [In the 1979 Manifesto and in opposition the useful formula was: more on Defence, and Law and Order; stick to Labour's plans for the NHS; and find economies elsewhere. This could ultimately be a useful model.]

*Lower*

*Paraphrase*

(2) Future of the Long-Term Public Spending Exercise.

How this is to be handled is self-evidently important



both for internal planning and external relations.

(3) Cash limits and related expenditure disciplines.

- the main issue with the limits themselves is probably whether they should or will be extended further
- associated with their mode of operation are the proposals for end-year flexibility, carry-forward etc.

*Priority*

*Needs further study*



- if capital under-spending remains an intractable phenomenon, changes in planning and control may become an issue.

(4) Nationalised Industries .

Presumably the priorities for the next few years are, privatisation and related issues apart, to continue to implement the nexus of proposals for improved control following from the CPRS report and associated initiatives. However there may be further and distinct Treasury-related initiatives to consider such as the promotion of "value-for-money" audits; the role of the Comptroller and Auditor-General; and systematic follow-up of MMC reports.

*4-7: all clearly important.*

*1) Lot huge + experience base into court & all other colleagues*

*2) Probably not divs, identify candidates, exchanges*

*3) make clear own own business activities & for all*

(5) Disposals.

Responsibility for them is obviously shared somewhat awkwardly with Departments. But as stage-manager for the exercise via E(DL), it is for the Treasury to define the objectives for the sums to be raised, and to draw the details together into a continuing strategy.

(6) Contracting-Out, etc.

Initiatives in this area are also part of the E(DL) programme, and again straddle departmental boundaries.



The overall strategy is clearly part of the Treasury's responsibility for seeking greater efficiency in the provision of Government services.

(7) Financial Management Initiative.

Now launched, this may call for 'mere implementation'. But there may be developments of this which call for comment.

12. In the area of former CSD responsibilities:

(1) Scott Report and Public Service Pensions

There are two issues here: final decisions and announcements on civil service pensions, strictly defined; and measures to secure comparable treatment of other public service pensions. *To be considered.*

*We know what we're going*

(2) Megaw and other Public Service Pay and Management issues.

Implementation of Megaw is likely to take some time, even on the narrow front of collective pay negotiation. In addition there are associated management issues of merit pay etc, though these are perhaps mainly an MPO responsibility.

(3) Computing, Information Technology etc.

Computerisation of PAYE apart, there could be noteworthy initiatives of at least a minor kind, though many will be more a matter for other Departments than the Treasury.

13. Turning to the Chancellor's other Departments:

(1) Registry of Friendly Societies.

There are important proposals for up-dating the legislation covering the Building Societies.

(2) The Royal Mint.

One must note at the least politically delicate issues

*Or more. What's clearly announced? Politics in mind -10-*





of the new £1 coin, demonetisation of the ½p, and there may be others.

(3) DNS.

✓ Any plans for computerisation, new facilities or other important developments?

14. Finally one must consider two slightly anomalous bodies, Parliament and the Bank of England.

(1) Parliament

Are there developments to note in relation to

- the Procedure Committee Report
- the various reports of the Treasury Select Committee in as far as they touch on matters of Parliamentary procedure
- the PAC
- the C & AG.

Supplementary  
Provision Bill

(2) Bank of England

In a sense measures involving the Bank could (or even should) be subsumed under § 10 (1) & (2) above dealing with monetary policy and control. Particular topics of importance might include:

- final stages in implementing the Banking Act
- the outcome of the "one-year-after" consultations into the new system of short term money market operations
- issue of international banking supervision
- further developments in relation to the Issue Department [cf. recent NI/LA borrowing changes] .

No doubt the Bank could lengthen the list greatly, and not all of their items would be of purely technical interest.



15. Moving away from a Departmental approach, one might also consider whether there are:

- further controls under review (cf. exchange, price, dividend controls)
- any developments in publicity, comparable to the move to the new Autumn Statement, release of the Treasury model for outside use.



MR RIDLEY

BFG

1111

2/11/82.

cc Mr R I G Allen  
Mr Norgrove  
Miss Deyes

GOVERNMENT ACHIEVEMENTS

I believe Mr Norgrove spoke to you today about this. I am sending you now the sections on "Major Achievements", "Fulfilment of Manifesto Commitments" and "The Government's Record - Taxation".

2. I apologise for the delay - we have had to consult widely and there has been the further complication of the expansion in the number of the Chancellor's departments.

3. This latter fact has made for particular difficulties in finalising the section on administrative and manpower savings. In fact last year's section dealt mainly with the Revenue and Customs and Excise, which made up the bulk of costs and savings. <sup>and was quite complete as presented.</sup> We may need to revert to that presentation but I should like to try for completeness.



M E CORCORAN



## MAJOR ACHIEVEMENTS

### A. GREATER FREEDOM

1. Pay controls abolished.
2. Dividend controls abolished.
3. Price Commission abolished.
4. Exchange controls abolished (750 staff saved in Bank of England).
5. Hire Purchase controls abolished.
6. Office Development Permits abolished.
7. Industrial Development Certificates suspended sine die.

### B. SOUNDER ECONOMY

1. Medium Term Financial Strategy published in 1980: Government maintaining consistent and responsible monetary and fiscal policies.
2. Inflation down from about 22 to 8 per cent and still falling.
3. Interest rates falling.
4. External debt reduced from \$22 bn in May 1979 to under \$13 billion in August 1982.
5. Current account of balance of payments in sizeable surplus.

### C. LESS BUREAUCRACY, SMALLER STATE

1. Civil Service manpower reduced by 73,000 since coming to power.
2. Local authority manpower reduced by [50,000] since coming to power.
3. Privatisation:
  - (a) BP share sale
  - (b) New Town assets
  - (c) NEB shareholdings
  - (d) Motorway Service Areas
  - (e) British Aerospace
  - (f) British Sugar Corporation
  - (g) Suez Finance Company
  - (h) Cable and Wireless
  - (i) National Freight Company
  - (j) Amersham International





4. Contracting out by NHS, local authorities and Government Departments encouraged.

#### D. FINANCIAL AND MONETARY

1. Indexed National Savings Bonds made available for purchase by all.
2. Restrictions on indexed gilts lifted - now available to all investors.
3. Successful operation of new arrangements for monetary control introduced in autumn 1981.
4. Tax treatment of zero coupon and indexed bonds clarified - way clear for issues by companies.
5. Signs of new life in debenture market - important for sound company financing.
6. Deposit Protection Scheme under Banking Act implemented.

#### E. PUBLIC EXPENDITURE

1. Memoranda circulated on division of responsibilities between central and spending departments - and important clarification of responsibilities which is intended to improve financial and expenditure controls.
2. Treasury reply to PAC (White Paper 1981) - reaffirming current PAC and Exchequer and Audit Department responsibilities for expenditure control.

#### F. POLICY REVIEWS, INQUIRIES

1. Ryrie group on nationalised industry financing reported.
2. Treasury Select Committee: Treasury evidence for inquiries on Budgetary reform and reply to Committee report; papers on indexation; international monetary arrangements and other matters.
3. Megaw inquiry complete; discussions to start.
4. Financial management initiative in Government departments launched.



G. EUROPE

Agreement in May 1982 to further Budget refund of some £500m, bringing refunds negotiated by this Government in respect of the 3 years 1980 to 1982 to about £2 billion.

H. NATIONALISED INDUSTRIES

Steps taken to tighten the financial framework, improve efficiency and performance and introduce market disciplines where possible.

I. MISCELLANEOUS

Enterprise Zones - 11 more announced, making 22 in all.

?

*budget more of this, in type  
of CPAS etc*



## FULFILMENT OF MANIFESTO COMMITMENTS

Treasury commitments in the 1979 Manifesto, apart from broad strategic commitments such as maintaining monetary discipline were to:-

- cut income tax at all levels: all rates have been reduced;
- encourage savings and wider ownership: new National Savings instruments have been introduced, concessions for profit-sharing have been introduced, and capital tax reforms encourage savings;
- simplify taxes: single VAT rate; reduced rate band abolished; mortgage interest relief at source;
- cut higher marginal rates of tax: done;
- unemployment and sickness benefit to be taxed: UB taxable since July 1982; short term sick pay taxable from August 1983;
- reduce investment income surcharge: thresholds raised;
- reform capital transfer and capital gains tax: done;
- review 714 certificate system: done;
- give CTT relief on assets supporting heritage property and set up National Heritage Fund: done;
- restore tax relief on employer-employee medical schemes: done;
- honour increases in retirement pensions promised by Labour: done;
- continue Christmas bonus: done;
- exempt war widows' pensions from tax: done.

*Kenny's list*



THE GOVERNMENT'S RECORD - TAXATION

The Government has:

1. Implemented its policy commitment to switch the emphasis from taxes on earning to taxes on spending. Real value of excise duties broadly maintained since 1979.
2. Reduced all the Income Tax rates and cut back the incidence of CTT and CGT.
3. Simplified a number of taxes (close company rules, including abolition of apportionment; Development Land Tax; payment of Insurance Premiums net of tax effective 1979-80; Mortgage interest relief at source from 1983-84; single rate VAT).
4. Reduced the discrimination against savings income and encouraged employee share ownership.
5. Introduced a number of tax reliefs dealing with specific social needs.
6. Greatly improved the tax reliefs for charitable giving, worth £30 million a year.
7. Launched a massive enterprise package. *Specific*
8. Improved and codified the Heritage tax reliefs.
9. Reduced the number of personnel in the revenue departments by 14,000 and advanced the plans for computerisation of PAYE.





Income Tax: achievements since May 1979

Basic rate 30 per cent (33 per cent).

Top rate on earned income 60 per cent (83 per cent).

Top rate on investment income 75 per cent (98 per cent).

Investment Income Surcharge threshold £6250 against £1,700.

Fairer tax treatment of fringe benefits and large golden handshakes.

Unemployment and sickness benefit being brought into taxation.

Social Measures

War Widows' pension completely relieved from tax.

Mobility Allowance completely relieved from tax.

Widows' extra tax allowance in year of bereavement.

Gallantry awards - wider ranges qualifying for tax relief on pension additions.

Medical insurance premiums paid by employers for staff earning up to £8,500 to be tax free.

Blind persons income tax allowance doubled.

Earnings limit raised from 75p to £2 a day, without affecting eligibility for unemployment benefit, to encourage unemployed people to work for voluntary organisations.

VAT zero rating extended to ambulances and wheelchairs given to hospitals, to cars adapted for disabled drivers or to carry disabled passengers, and to aids bought by charities for disabled.

Charity Reliefs:

Minimum covenant period reduced from seven years to four years.

Higher rate tax relief for payments under Deeds of Covenant up to relief on payments of £3,000 a year.

Increase from £100,000 to £250,000 in CTT exemption limit for transfers to charities.

Exemption of charities from development land tax on disposal of land.

Tax relief for businesses for expenditure of a charitable nature incurred 'wholly and exclusively' for purposes of the trade.

Stamp duty exemption for transfers to charities.

Corporation Tax:

Small companies rate 40 per cent (42 per cent). Upper limit now £225,000 (£100,000).

Stock Relief redesigned, with elimination of claw back.



Green Paper on broad Corporation Tax issues issued January 1982.

### Capital Taxes:

Some 2/3 of CGT cases taken out of liability: 3/4 of CTT cases.  
Thresholds indexed.

*Check*

### Capital Gains tax:

Significant changes to make tax fairer/less oppressive.  
Indexation allowance introduced, to take account of inflation from March 1982. Annual exempt amount for individuals increased from £1,000 to £5,000; and an annual exempt amount for trustees introduced. Complete roll-over relief for gifts.

### Capital Transfer Tax

Threshold raised from £25,000 to £55,000, and indexed.  
Annual exemption £3,000 (£2,000).

Reduced rates on lifetime transfers (these rates apply also to the 10-yearly charge on discretionary trusts.)

Lifetime cumulation replaced by ten year cumulation (1981 Finance Act).

CTT relief on let farm land.

### North Sea Taxation

New arrangements instituted to simplify the structure of North Sea taxation while broadly maintaining the level of the Government's take.

### Development Land Tax

Single rate 60 per cent; replacing 662/3 per cent previously. Relief for 'own use' industries. Advance certain reliefs for housebuilders. Advance to remove uncertainties impeding development



## Enterprise Package

Enterprise Zones set up in 22 locations, with sweeping reliefs and exemptions covering liability to rates and development Land Tax, together with generous investment allowances etc.

Venture Capital Scheme (losses on investment in new venture offsettable against other income).

Business Start-Up Scheme introduced 1981, improved 1982, giving income tax relief on sums up to £20,000 a year invested in certain classes of new business.

Loan Guarantee Scheme: nearly £167 million already arranged for nearly 5,000 borrowers.

VAT thresholds raised in line with inflation.

Small Company Corporation Tax rate reduced from 42 per cent to 40 per cent.

Better tax reliefs on self employed provision for retirement.

Provision of equity for unquoted trading companies encouraged by changes in tax when companies buy back own shares.

Small industrial workshops scheme (introduced 1980) extended for very small premises until 1985.

## National Heritage

National Heritage Fund established, and tax reliefs for heritage purposes improved and codified - eg Maintenance Funds.

## Taxation of the Family

A consultation Green Paper on taxation of husband and wife has been circulated and responses are being considered.



### Tax Administration

Keith Committee established, to enquire into the enforcement powers of the Revenue Departments.

### Employee Share ownership

Profit sharing tax reliefs significantly improved and new reliefs introduced for share option schemes.

### Mortgage interest

New scheme to give tax relief at source from April 1983 - simplifies PAYE, and changes in interest rates will be taken into account automatically.

### Vehicle Excise Duty

Steps to bring taxation of heavy lorries more closely into line with road costs.

### National Insurance Surcharge

Cut by 1 per cent in 1982-83.

### Excise Duties

Real value broadly maintained; regular revalorisation is now the presumption, making an important contribution to the balance of the Budget.





C

SECRET

D.12 Other  
MR KERR

to see  
ju

FROM: ADAM RIDLEY  
2 November 1982

CHIEF SECRETARY  
FINANCIAL SECRETARY  
MINISTER OF STATE (C)  
MINISTER OF STATE (R)

cc w/o attachments

Mr Kemp

w/box

FORWARD LOOK: PREPARING THE TREASURY'S REPLY

Hand. ✓  
EST

As agreed at the Chancellor's 9.00 a.m. meeting this morning, I am now circulating the papers, on which the Chancellor is seeking comments by Monday December 6. My covering minute to the Chancellor of December 1 outlines the issues. The note at the back entitled "Forward Look" is the document on which your views are sought.

2. In commenting on the points raised in that note there are several considerations you will want to bear in mind.

- (1) It is not at all obvious what line to take about some broadbrush issues. In such cases I have posed questions, or hazarded tentative and incomplete judgements.
- (2) In other areas, particularly Taxation, the list of topics and their status is probably fairly firm. But even so the precise nature of Treasury Ministers' commitment and the wording used will need careful scrutiny.
- (3) In other areas still there are certainly important omissions which you may be able to remedy, for example in monetary and public spending policy and notes on "old CSD" business.
- (4) There are some points which are clearly very sensitive and which we may not wish to include in the final report. You will want to say which are or could be in that category in your view.

3. While we are not yet at the stage of preparing a final draft the more you are able to suggest precise amendments to the



SECRET

wording, the better.

4. As mentioned at this morning's meeting, Mr Kemp and I will be arranging for officials in the Treasury and the Chancellor's other Departments to be consulted about the parts of this exercise which concern them.

AR

A N RIDLEY



SECRET

D.12 Other

FROM: ADAM RIDLEY  
1 December 1982

CHANCELLOR

cc Mr Kemp (or)  
Mr Norgrove  
Mr French  
Mr Harris

FORWARD LOOK: PREPARING THE TREASURY'S REPLY

Flag **A**

You will recall the Prime Minister's letter to you of September 16, asking for a response from you by Christmas. Mr Kemp and I have discussed this at some length, and I have prepared this minute and the attached note after consulting him, Mr Norgrove, Mr French and Mr Harris. If the Christmas deadline is to be met without too much complication, we need your early guidance. For while the principles of this exercise are clear enough, responding to it in practice will not be at all easy.

2. I should remind you that the penultimate paragraph in the PM's letter says "I ask each of my colleagues to take a close personal interest in the shape and contents of the eventual report". In helping you to discharge this task, there are three broad matters which need to be considered:

(i) What are your general feelings about the character, detail, and scale of the paper which you wish to submit? And how will you wish to handle confidential or speculative issues?

(ii) It is clear that a number of senior officials in the Treasury and your other Departments will need to be consulted in order to check the detail of what goes forward, to fill in the gaps, and also to identify a number of matters which they may know about, but you and others may not. In this connection, there is at least a possibility of associating the kind of trawl required with the next routine stocktaking exercise.

✓ No ?

(iii) While this trawl is going on, you and perhaps your Ministerial colleagues will wish to consider carefully a number of tricky issues which are identified in the attached note. You may wish to arrange a meeting for this, or at least some kind of systematic circulation of the papers to elicit Ministers' comments in good time and in a suitable form.



SECRET

3. We need to bear in mind the time-table. If we can get ahead quickly now, it might just be possible to hope to consult Departments and senior officials and to obtain answers by December 10. If Ministers are able to carry on their own discussions in parallel with that, one might envisage the preparation of a first draft of your paper to the Prime Minister by the end of the next week, Friday December 17. That in turn would permit the preparation of the final draft for submission during the week of December 21.

4. We have thought hard about the nature of the three requests made by the Prime Minister on the bottom of page 1 and the top of page 2 of her letter. On the first issue of Manifesto commitments still to be honoured, the attached note makes it clear that, while most of the election commitments have been honoured, there are a limited number of very major and often intractable ones which have yet to be implemented. Some of these come up, of course, under the PM's later questions. The second and third parts of her request - major new proposals in mind, and major new initiatives in contemplation, are difficult to dissociate from one another, all the more so since the second category is somewhat curiously qualified by the thought of requiring "significant legislation or structural change", but not the first! We feel they are best treated together, in order to preserve a coherence of subject matter, and that it would then be possible within that rational framework to indicate degrees of confidence or importance ad hoc.

5. In preparing the material for your final paper, you will, I think, need to ensure that five questions are asked about most of the important entries. These are recorded briefly in paragraph 6 of the attached note, and relate to:

- legislation
- timing of enactment or implementation
- staff implications
- need for public consultation or preparation of opinion
- whether a public "declaration of intent" is necessary or desirable.

6. In seeking official input to this exercise, one will want to bear in mind not only the need for speed, but also the matter of





SECRET

clearance with other Departments. I think that this can, almost without exception, be avoided subject to the notable exception of (possibly) the Bank of England. But clearly it could delay things a little. In seeking such input, my feeling is that you will probably wish to involve Permanent Secretaries or Heads of Department fairly personally, particular because they may well have interesting and important "gleams in the eye" which they ought to lay before you, however tentatively, at this stage even if many of them are not likely to survive into your final draft. Some of these things may not be of any great political importance, indeed they may be part of the classical routine business of Government. Nonetheless it may be relevant to have them on the record so that one can get an impression of the planned intentions of each Department "in the round".

*bottom paper.*

7. The attached note "Forward Look" represents a first effort of my own to explore the ground your paper will want to cover. In some areas you will find that the items raised are followed by a fairly fundamental question or questions; in others there is simply a suggestion of the kind of planning or thinking which might be in progress, or an indication of areas in which it may be appropriate for you or your Departments to come to some kind of agreed position in due course. In preparing this note, I have drawn on very useful work by Central Unit on the "Government's achievements" in the Treasury area, and on a reworking undertaken by Douglas French of the short tax agenda note which was prepared some weeks ago now. As a result, I am reasonably confident that the analysis of Manifesto commitments and the description of tax objectives is fairly comprehensive. However the rest of the paper has been prepared without very systematic consultation or the benefit of good sources, and you will certainly find much in it which you or others will wish to modify.

Action Required

8. In order to stick to something like the fairly tough timetable outlined at the beginning of this minute, it would be most helpful to have your guidance at the earliest possible stage so that consultations with officials can be undertaken on an appropriate basis. And in addition you will want to decide how to handle



SECRET

further consideration of the more political issues at Ministerial level. As mentioned earlier, some at least of this "trawling" exercise can be related to the routine stocktaking review.

AR

A N RIDLEY



D.12 Other

FROM: ADAM RIDLEY  
3 December 1982

CHANCELLOR

cc Mr Kemp

FORWARD LOOK - PREPARING THE TREASURY'S REPLY

You have had my notes of the 1st and 2nd December about this, and you are now awaiting comments from your Ministerial colleagues. Meanwhile we have been thinking further about how to consult officials, in order to be sure you are fully provided with the raw material from which your report will be drawn.

2. <sup>No - at De Staff ✓</sup> At the end of the day, of course, you will want to consider the content and handling of your return to No 10 with other Treasury Ministers. But to make sure that nothing important is overlooked for consideration, not least the odd "gleam in the eye" which may be around somewhere and also to avoid duplication of effort, one might relate any request for official advice on the "forward look" to the current stocktaking review. As you will recall, this is carried out twice a year to ascertain work in progress over the fairly short term and let you and other Ministers know what is going on.

3. Central Unit have in any case been planning to submit the next stocktaking note for you before Christmas. Requests for returns are being sent out to Under Secretaries in the usual way, for return by the end of next week.

4. For the "Forward Look" we would suggest that your Private Office should send a minute on the lines of the attached self-explanatory draft to those listed in the Annex. As it makes clear we have a choice as to how widely to consult. The minimum would be the senior treasury officials listed in Section 1 of the annex. Mr Kemp and I both feel that it would also be important to bring in Sir Laurence Airey and Sir Douglas Lovelock, since so much important tax policy is at issue. A case can be made for extending the coverage still further to cover those in charge of the CCTA, the Mint, the DNS, HMSO and the Registry of Friendly Societies. Mr Kerr doubts whether this is wise or necessary, and points out that Mr Monck could speak for the money-related departments, Miss Brown for the CCTA, and Mr Le Cheminant for HMSO. No doubt you will indicate

*Not beyond what we know about? (e.g. Budget Digest). On reflection, I think it wd be worth asking them for their 2 or 3 highest hopes for the next 5 years - a v. serious, honest, basis*



CONFIDENTIAL

which alternative you prefer.

5. Mr Kerr and I also suggest that one should dispatch to each recipient an extract from the long note I submitted to you on December 1st setting out the items or issues we have so far identified, suitably bowdlerised. This would be particularly helpful for the tax departments, but I would commend it for all recipients.

6. At yesterday's prayer meeting you said you would be looking carefully over the week-end at the extensive material I submitted to you on December 1st. Any guidance or reactions you may form then will be of great interest to Mr Kemp and myself. In pondering on all this you will no doubt also form some views about such matters as what subjects - if any - call for consultations with colleagues or other Departments, as well as the more obvious issues of confidentiality, sensitivity, degree of commitment and the rest.

If so, we have time  
to do so now. And,  
when its up, will  
probably do it  
anyway? To have  
no identity then  
which are missing,  
do need for  
castles.

✓ AC

A N RIDLEY

✓

✓





CONFIDENTIAL

DRAFT MINUTE FOR PRINCIPAL PRIVATE SECRETARY

FORWARD LOOK

I attach a copy of a letter of September 16 from the PM to the Chancellor. We are now starting to put together the raw material out of which the Chancellor's return will be drafted. The purpose of this minute is to ask for your help.

2. The Chancellor would be grateful to have from you (copied to Sir Douglas Wass, Mr Ridley and Mr Kemp) notes of work or possible work in your area of interest under the two headings set out at the top of page 2 of the Prime Minister's letter (we are dealing separately with the point at the foot of page 1). These are, we think, fairly self-explanatory, and fairly clear. However there will naturally be some overlap between them and little would be gained from sticking precisely to the distinction between them if it does not apply in your area. What are wanted now are brief notes on each of the possible developments that you know of, of the sort the Prime Minister is referring to, in your area of interest. At this stage the Chancellor would be grateful to have not just firm ideas but also a brief indication of any important "gleams in the eye" for the latter part of this decade - provided they are not patently impossible. Where possible it would help greatly to note how far each point might involve legislation, roughly when it might be enacted and/or implemented, major staff implications and whether significant public consultations might be required. Developments which

to arrange

✓  
✓  
know what  
all this means



CONFIDENTIAL

could involve other Departments should be included, but not developments other Departments have in mind but where the Treasury is not in the lead. (For this purpose the fact that ideas other Departments may have in mind could involve additional public expenditure or reduced tax receipts does not normally mean the Treasury has a direct interest.)

3. In preparing these returns it may be helpful for you to know that Treasury Central Unit are currently asking for material for the usual half-yearly stocktaking of items for Ministerial attention. That stocktaking note of course does not look nearly as far ahead as the No 10 return requires, but you may find it helpful to be reminded of it, since otherwise the two exercises could well involve some duplication of effort.

4. Returns please by Friday 10 December.

5. As a starting point for this exercise you may find it helpful to refer to the attached note which sets out a few of the longer term issues which would appear prima facie candidates in your area of interest.



CONFIDENTIALPOSSIBLE RECIPIENTS OF PRIVATE SECRETARY MINUTE ON FORWARD LOOK1. TREASURY

Sir A Rawlinson

Sir K Couzens or Mr Littler

Mr Burns

Mr Bailey

Mr Le Cheminant

Mr Middleton

? Miss Brown

Mr Monck

? Mr Gilmore

2. REVENUE DEPARTMENTS

Sir L Airey

Sir D Lovelock

3. CHANCELLOR'S OTHER DEPARTMENTS

CCTA

DNS

Registry of Friendly Societies

Mint

HMSO

No!



SECRET



FROM: JOHN GIEVE

DATE: 3 December 1982

MR RIDLEY

cc PPS  
FST  
MST(C)  
MST(R)  
EST  
Mr Kemp

FORWARD LOOK: PREPARING THE TREASURY'S REPLY

The Chief Secretary has a number of comments on your draft note on the Forward Look; these are recorded on the attached sheet.

2. His two main comments are on public expenditure:

- a) Para.3,a etc. on the major achievements do not reflect this year's survey and the planned downturn in spending between 1982-83 and 1983-84; and more fundamentally,
- b) more needs to be said about future spending patterns. The long-term expenditure exercise should be designed to enable future falls in public expenditure as a percentage of GDP and the Chief Secretary thinks that that aim should be stated in this document (without specifying the figure or precise timescale).

JG

JOHN GIEVE

SECRET





## FORWARD LOOK

Para. 3,a - Replace "latter" by "last".

Para. 3,e - He would not drop the concept of making regional assistant more job-effective. No doubt the Quinlan report will explain how it can be done!

Para. 3,f - This is out of date on Megaw and nurses. The Chief Secretary would not be specific about no-strike agreements now.

Para. 7,1 - The Chief Secretary thinks there should be no commitment at all other than to seek to make further progress.

Para. 7,3 - He agrees that this should be included.

Para. 7,5 - Certainly cutting income tax should take priority over the abolition of the domestic rate system. He notes that revaluation is about to happen.

Para. 8,16 - He suggests that "possible" should be replaced by "probable"; surely further legislation is very desirable.

Para. 8,19 - "Envisaged - probably; said - certainly not".

Para. 10,1 - The Chief Secretary thinks it essential to make the continuation of the MTFS a Manifesto commitment. However, he sees no points in setting specific monetary or inflation targets.

Para. 11,1 - Surely the formula now should not specify programme priorities - that might clash with the long-term expenditure exercise - but rather talk of changes in priorities designed to encourage capital expenditure.



- Para. 11,3 - Progress in extending cash limits is desirable but is likely to be incremental.
- Para. 11,4 - Certainly we should go for "value-for-monry" orders.
- Para. 11,7 - There probably will be developments on this calling for comment, but not until mid-1983.



SECRET



FROM : A P HUDSON

DATE : 6 December 1982

PRINCIPAL PRIVATE SECRETARY cc PS Chief Secretary  
PS Financial Secretary  
PS Economic Secretary  
PS Minister of State (C)  
Mr Ridley

FORWARD LOOK : PREPARING THE TREASURY'S REPLY

1. The Minister of State (Revenue) has seen Mr Ridley's 2 December note with attachments.
2. Three updates could be made to the paper on Government Achievements - Major Achievements. In paragraph B2, the inflation rate is down below 8 per cent. Britoil could be added to the list of privatised bodies in C3. The recent changes to the National Insurance Surcharge could be added to the final page of that paper.
3. The Minister's comments on specific paras of the actual Forward Look paper are as follows.
  - (a) Paragraph 8(1). There are dangers in referring to this subject as the Taxation of Women. It should be the Taxation of Husband and Wife, or under the more general heading of Taxation of the Family, as it appears on page 4 of the paper on The Government's Record - Taxation.
  - (b) Paragraph 8(2). Subject to the Prime Minister's view, we are intending to publish draft legislation on the Taxation of International Business soon, with

SECRET



SECRET

a view to legislating in 1983. Obviously, decisions on this will depend on the response to the Consultative Document, but it may be misleading to say that legislation is "perhaps not possible pre-election".

(c) Paragraph 8(3). To say "Legislation seems unlikely" on Corporation Tax is not quite accurate. Present indications are that there will not be a major upheaval in the tax. But this is in accordance with industry's representations, and there is likely to be some legislation in response to specific comments and proposals from the representative bodies. It might be better to say "Major legislation seems unlikely". The reference to self-assessment may merit a sub-paragraph of its own, which could stress that some progress has been made here, with the field test on Corporation Tax, and work done on Schedule D income tax, though on the latter less has been said in public and the work is at an earlier stage.

4. The Minister wonders whether it is worth saying anything about the Treasury stance on Accounting Standards, and Inflation Accounting. The Department of Trade is, of course, in the lead on this, but Treasury Ministers did agree a line in the summer, that these issues were ones for the profession, but that the Government supported the broad principle of adjusting accounts for inflation.



A P HUDSON  
Private Secretary





RESTRICTED



FROM: M E DONNELLY  
DATE: 6 December 1982

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Mr Kemp  
Mr Ridley  
Mr French  
Mr Harris

FORWARD LOOK

The Financial Secretary considers that more stress could be laid on the area of Tax Simplification (see para 3(d) and (e)). It might be worthwhile making a further pledge to continue simplification of the tax system.

*MED*  
M E DONNELLY

Handwritten mark

CLASSIFICATION AND CONTROL



EXEMPT FROM AUTOMATIC  
DOWNGRADING AND  
DECLASSIFICATION  
EXCEPT AS SPECIFIED  
HEREIN

EXEMPTION CODE

EXEMPTION AUTHORITY

This document is exempt from automatic  
downgrading and declassification  
because it contains information  
the disclosure of which would  
be injurious to the national  
defense.

SECRET

SECRET



FROM: PS/Minister of State (C)

DATE: 6 December 1982

PS/CHANCELLOR OF THE EXCHEQUER

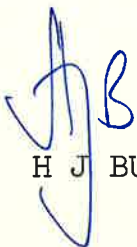
cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (R)  
Mr Kemp  
Mr Ridley

FORWARD LOOK: PREPARING THE TREASURY'S REPLY

The Minister of State (C) has seen Mr Ridley's minute of 2 December and its attachment. His current concern that, like Winston Churchill's pudding, ~~there does not seem to be much of a theme to the paper and our general approach:~~ <sup>there does not seem to be much of a theme to the paper and our general approach:</sup> ~~there does not seem to be much they seem to be~~ <sup>evolving work:</sup> the emphasis should be on projecting a strategy which carries some hope of increased growth and improved job prospects.

In addition, the Minister has a number of detailed points on Mr Ridley's Forward Look paper:

- para 7 (i): surely it is higher income families who have a reduced burden of taxation.
- para 7 (iv): if the abatement of unemployment benefit is not restored in the spring of 1983 it will need to be dealt with here.
- para 7 (v): the Minister thinks that we are vulnerable to being seen as ineffective on rates and that we need to have convincing proposals - or excuses.
- para 10 (vi): the Minister feels that we shall need a much more positive approach on unemployment as the Election draws closer.
- para 12: the area of former CSD responsibilities could put more emphasis on efficiency, improved management, the Financial Management Initiative and the continued reduction of Civil Service numbers generally.

  
H J BUSH

SECRET



The general points below are probably not exhaustive. They underline the need for  
you to be able to  
the  
(+ know how) ed. to work



John

As you'll see, I understand  
your broad approach.

I've commented in detail,  
having

But having done so,

I've reached some quite  
impartial general conclusions,  
specific to our role in 1997.

We need to do it.

Use all those things  
we need cheerfully to do;  
& those areas where we  
want to pass that to do;  
& to prevent a return

Wledge; avoid commitment  
to independence; to follow  
real mission in resources  
or NNS - or whatever);  
areas where we need to  
focus on our freedom &  
management (UAT context;  
LAPR etc)

Some (most) of them  
(the most important) are  
heavily not for public  
consumption. Note  
of them can be discussed  
outside + No 11 / No 10 axis.  
So we need to be clear that  
one doc goes only to  
No 10 (or have 2  
collegial or doc.)



Further thoughts: then  
an area where we -  
as tax administrators -  
need to retain our  
freedom to make  
headway (often  
unpublicized, even  
unpopular: health care;  
black economy; petrol;  
company cars). In  
general, I don't think  
we do it what we  
- unless we need to do  
so (which may, in fact,  
need to do quite often)  
to prevent our system from



I do not think  
w/ or required,  
for this, to  
list our achievements?  
Or hv. I missed  
something?

No.  
Yours  
Sikh  
S.K.

SP



C.

I am worried about it. A minute along the lines of the one I'm invited to send won't help: it doesn't define what's wanted, and is much too diffuse.

I also think the exercise is much too one-bladed. We don't want something like the (pretty useless because so variegated) stock-taking exercise. Still less a rag-bag that also includes "gleams in the eye" from all levels.

This is a political exercise, and the PM wants to know what gleams are in your eye. I'm certain that she doesn't want an enormous rag-bag. ~~etc.~~

You have asked Ministers to comment on the CU and ANR tests.

each area, possible projects, are to be included in the report. Following that meeting the CU (or ANR) ~~will~~ but best of

✓ think of its <sup>the best</sup> no CU would send individual specific minutes, ~~the~~ [covering outline drafts] to individual

✓ Treasury under-see's ~~fun~~ to work up. It would be for Riddell/Downe to send to IR and C+E. The major tax stuff.

We haven't much time left, and if you agree we'll

✓ a) happy Timithers for comment

✓ b) set up the meeting guide.

We could have <sup>planned</sup> done the ~~work~~ <sup>less</sup> centrally-directed, dirigiste route ANR recommends 11 weeks ago.

We can't think now: it's a recipe for total confusion in a week's time (when we shall have

✓ only one full week left to pull things together, and will be Today!)



C.

May I have these papers back  
in the morning. I think that  
I shall, after all, have to  
copy Adam's draft to the  
officials attending the meeting  
- otherwise they'll be lost.

And I think I perhaps  
ought also to minute your  
general points. (Unless  
you'd rather save 'em for up?)

Bob, / min



SECRET



FROM: C D HARRISON  
DATE: 6 DECEMBER 1982

MR KERR

cc Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (R)  
Mr Kemp  
Mr Ridley  
Mr French  
Mr Harris

FORWARD LOOK: PREPARING THE TREASURY'S REPLY

Here are the Economic Secretary's comments on the "Forward Look" document attached to Mr Ridley's minute of 2 December.

Paragraph 3

- (a) The Economic Secretary thinks that the commitment to reduce the burden of public spending should be reiterated; but he would be more cautious about taxes, as a generalised commitment to cut the burden of taxation might not carry easy conviction.
- (b) Restoration of incentives and reduction of the poverty trap: commitments here should be both vague and timeless.
- (c) Fulfillment of tax credit objectives; this depends on plans about NICIT. ] →
- (d) The Economic Secretary thinks it is important not to lose sight of the fact that the only foolproof form of tax simplification is abolition; which applies with particular force to items such as the IIS.
- (e) The Economic Secretary would be strongly opposed to dropping the commitment to improved job creation from RDGs, as the present system seems to him to be ludicrously wasteful and lacking in cost-effectiveness. But he personally would have much fewer qualms about dropping the commitment to abolition of the earnings rule, which he always thought was a mistake.



(f) The Economic Secretary hopes that the commitment on non-strike agreements can also be dropped, which he thinks was again an error.


Paragraph 7

(1) "Yes" to a pledge of abolition of the IIS - if the Treasury so dares.

(2) Employee share ownership, etc: this is all tied up with LAPR. But the objective of encouraging personal savings and investment should be restated.

(3) Reducing bureaucracy: emphasis should be on continuing progress on numbers.

(4) Taxation of benefits: ~~invalidity benefits etc should be included.~~

(5) Income tax cuts should still take priority over rates reform, not least because the prospects of major worthwhile rates reform do not look good. But perhaps something on capping commercial rates. 

(6) "Yes" to resting on laurels on CGT. But "no" on CTT; the aim should be lower rates, particularly with an eye to unquoted companies.

Paragraph 8

(1) On the taxation of women, the daunting administration costs of ITTA should not be lost sight of.

(2) Surely stealth is necessary on international business taxation - which should therefore not be mentioned in the Manifesto.

(3) Corporation tax: self-assessment should be an open objective, however cautiously presented.

(4) There should be no mention of action on the black economy in the Manifesto.





(6) The main concern on income tax should again be to avoid making excessive commitments on the tax base.

(8) The Economic Secretary doubts whether anything more than broad generalisations on NICIT will be possible for the manifesto - if that.

(12) On fringe benefits, the important thing here will again be to avoid making cramping commitments.

(13) On small business measures, the possibility of interest rate subsidies should not be included.

(14) VAT: it must be remembered that some widening of the base (construction, possibly advertising, newsagencies) is either in the pipeline or threatened by the EC commission).

(16) Building society legislation is a possible candidate for the manifesto although not particularly attractive politically. ]s

(17) The Economic Secretary does not think that the possibility of action on LAPR should be included in the manifesto. ]

(18) Pensions: transferability would be a good card for the manifesto if anything is ready.

(19) Cars and perks: again, options should be kept open - no reference in manifesto.

#### Paragraph 10

(1) The Economic Secretary does not think that there is any obligation to give specific commitments on the MIFS; but failure to reassert a policy of monetary targets would certainly be noticed.

(5) Intentions about repayment of international debt should be kept under wraps; there may be times when it is attractive to incur additional debt, just as times when it may be attractive to reduce it.



Paragraph 11

(1) The crucial Treasury interest in public expenditure is to keep "pledges" to the absolute minimum - not excluding defence.

Paragraph 14

While this may be delicate, the highly important area of Bank/Treasury relations is not mentioned. The Economic Secretary thinks that the paper could mention the need for a much better flow of information from the Bank to the Treasury on companies in "intensive care", and banking exposure.

Finally, another omission, wherever it might be fitted in: which is the aim of legislation providing for a new structure for the TSBs (either for the present Parliament, if it lasts long enough, or perhaps early in the next one, before more controversial legislation is ready).

CHH

C D HARRISON



SECRET



FROM: J O KERR  
7 December 1982

MR RIDLEY

cc - Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Douglas Wass  
Mr Moore  
Mr Kemp  
Mr French  
Mr Harris  
Mr Norgrove

FORWARD LOOK: PRIME MINISTER'S MINUTE OF 16 SEPTEMBER

It may be helpful to you, and copy addressees, to see before today's meeting at 4.15pm the following account of the Chancellor's general reactions to your minute of 1 December, and the papers you attached.

2. The Prime Minister's minute envisaged that departmental reports would cover:-

- a. major commitments outstanding from 1979;
- b. major new proposals to carry forward initiatives - eg privatisation - started in this Parliament; and
- c. possible major new initiatives not so far promised or initiated, which might be appropriate to the next five years.

The Chancellor accordingly concludes:-

- a. that part (a) of the exercise is clearly one for Special Advisers and Ministers; but that the help of officials is needed on parts (b) and (c).
- b. that for both parts we should stick to major, strategic issues, and need not drag in the kitchen sink. Like the MST (C), he thinks that our report needs a theme.





- c. given (b) above, the exercise should be quite separate from that of the preparation of the - very variegated - "stocktaking note".
- d. (b), and the fact that the report is to be with No 10 before Christmas, suggest that the scope of the report needs to be decided centrally, and soon. That is the purpose of today's meeting. He would hope that the Central Unit could subsequently be in touch with specific Under Secretaries on non-fiscal passages, and that Mr Moore would undertake the same task vis a vis the Revenue departments.

3. The Chancellor also has it in mind that the report should distinguish between areas where we envisage positive action by us; areas where we wish to be in a position to press others to take positive action; and areas where our aim should be to rein others in. Examples of the third category might be MOD's enthusiasm for extending the NATO 3 per cent pledge; general enthusiasm for new commitments to indexation; and pressure for new pledges, for example on the NHS. Some or most of these areas are plainly not for public consumption; and I am seeking to confirm with Mr Scholar that we can be sure that our report will not be circulated beyond No 10. If there is a risk that it might, we may have to submit a two part report.

4. The Chancellor is inclined to think that there may also be points which we would not wish to make even in a document which will not go beyond No 10. His thought is that there are areas where we, as tax administrators need to retain our freedom to make changes, some of which would be unpopular. If of course we see a risk that this freedom might in a particular area be pledged away, we shall have to show our hand to No 10 now: but there may be areas where the most prudent course is to keep our heads well down. (Some of these issues have of course been identified in the questions set out in the note you submitted.)





SECRET



5. The Chancellor has read with interest Mr Corcoran's 2 October notes on "Government Achievements" which you attached. He finds them useful, not least in helping to identify themes for the report. But it seems from the Prime Minister's minute that we are not asked to report in this exercise on what we have done, but only on what we have not yet done - a task which you have in hand - and on what we plan to do - the subject of this afternoon's meeting.

*JOK*

J O KERR

SECRET



COVERING SECRET



IMMEDIATE

FROM: M E DONNELLY  
DATE: 7 December 1982

PRINCIPAL PRIVATE SECRETARY

*Useful info*

cc Chief Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Mr Kemp  
Mr Moore  
Mr Norgrove  
Mr Ridley  
Mr French  
Mr Harris

FORWARD LOOK

Following this afternoon's meeting, the Financial Secretary has as suggested put down his ideas on particular themes in note form.  
... These are attached.

MEJ  
M E DONNELLY

11  
C



1954-55

1954-55  
Public Accounts  
(1) 1954-55  
(2) 1954-55  
1954-55  
1954-55  
1954-55  
1954-55  
1954-55

1954-55

1954-55

1954-55

1954-55

A. More general themes

1. Privatisation and contracting out.
2. Control of public spending - lower taxes.
3. Capital owning society.
  - Sale of council houses
  - Personal portable pension trusts
  - Share ownership scheme.

B. To make businesses prosper so that we can have more genuine jobs

1. Incentives for people - simplify and reduce tax burden on workers, improve poverty and unemployment traps.

Actions NICIT

Simplify PAYE

Simplify share scheme and options.

2. Incentives for small enterprises - make it easier for people to go self-employed, to start their own businesses, to expand them, and to keep the fruits thereof.

Actions BSS extension (? and cheap loans link)

Sch D/Sch E work

Simplify PAYE

[NICIT]

Capital tax reform NIS

IIS

? Tempt them out of the Black Economy.



3. Incentives for investors - to tilt the advantage more in favour of productive investments, and a against institutional saving.

Actions LAPR work

IIS

Superannuation relief work -  
portable pensions

BSS extension

Capital taxes reform.





FROM: J.O. KERR  
7 December 1982

Pwp



cc: Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Douglas Wass  
Mr. Moore  
Mr. Ridley  
Mr. French  
Mr. Harris  
Mr. Norgrove  
I would

MR. KEMP

C.

Top 2 new. (This record  
is on signatory Cab office  
lines, since it contains  
a number of points which  
I would  
be to admit, if pressed, were not  
extensively discussed. But the terms were

FORWARD LOOK : PRIME MINISTER'S MINUTE OF 16 SEPTEMBER,  
agreed with Kemp & Poon, who are  
getting the show on the road. JIN

At the Chancellor's meeting at No.12 today it was agreed that:-

- (a) the scope of the Chancellor's reply to the Prime Minister's minute should be very much narrower than that of the discussion paper previously circulated by Mr. Ridley.
- (b) In particular, it should not cover areas of policy where other Departments have primary responsibility.
- (c) But we should be ready to offer comments on other Departments' proposals, e.g. where they would involve bids for additional public expenditure.
- (d) The reply should include a passage warning the Prime Minister against new pledges, and the renewal of old, and uncomfortable, ones.
- (e) The reply should start with a general passage [CU to draft] stating, briefly, our broad general aims - the maintenance of responsible fiscal and monetary policies, and hence low inflation and interest rates; and the reduction of public expenditure.
- (f) A short section on outstanding 1979 Manifesto commitments, particular to the Treasury, would follow. [Mr. Ridley to draft.]

S E C R E T



(g) The fiscal policy section would be written round a (small) number of themes, along lines suggested by the Financial Secretary. It would not contain a comprehensive catalogue of all possible fiscal changes; but specific examples would be included to illustrate each general theme. (Thus, for example, a theme on the simplification of capital taxes might be illustrated by a CGT/CTT example.) [FP to draft.]

(h) The non-fiscal policy section [CU to draft] should be short, and should be limited to major strategic issues.

2. On procedure, it was agreed that:-

(a) The fiscal section should be prepared in consultation with the Inland Revenue and Customs and Excise.

(b) While drawing up the outline of the non-fiscal section, you should give the Chancellor's other Departments an opportunity to put forward individual proposals.

3. Given the urgency, it would be helpful if drafts of the introduction and all three sections could be submitted before the weekend.

A handwritten signature in dark ink, appearing to be 'J.O. Kerr'.

J.O. KERR

E P LIP  
21 December 1982

MISS THIBBY  
MR LAVELLE

Copy to each

c Mr Norgrove  
Mr Kerr (for information)

#### FORWARD LOOK EXERCISE

As you know for my sins I am wrestling with the Chancellor's input into the Prime Minister's Forward Look exercise - I trawled Under Secretaries recently for contributions.

2. Perhaps surprisingly we now seem to be starting to get copies of other Ministers returns. I say surprisingly, because the Chancellor certainly has no intention of sending his return all round Whitehall! Nevertheless it is useful that we are beginning automatically to see other colleagues returns, because the Chancellor does regard it as important to know what is being said elsewhere, and we are anyway starting to devise underhand means of getting copies of them. What the Chancellor wants to see them for, of course, is to ensure that they do not suggest new commitments, or the re-illumination of unattractive old commitments, of a kind which might militate against his general monetary and fiscal strategy, notably, of course, of a kind which might lead to additional public expenditure or reduce tax revenues.

3. The first two returns we have seen copies of are from Mr Whitelaw in respect of the Home Office and Mr Pym in respect of the Foreign Office. You have the appropriate copies. I should be grateful if you would get those returns looked through and perhaps let me have a note - it seems best if I continue to co-ordinate this - of any points which strike you as unattractive in Treasury terms, or indeed just plain odd from any other point of view and which we should point out to the Chancellor.

4. It is a bit hard to put any timing on this. Since the returns were not asked for until Christmas Eve, I do not suppose we shall see many of them until after Christmas. I think we shall probably work to pull together a concerted view for the Chancellor on all these returns by around the end of the year. So could I ask for your comments by, say, close of play on



Thursday week, 30 December. Having said that, however, and to explain the purpose of the red flag on this minute, the Chancellor is in fact having a meeting with some of us this afternoon on his own return, at 4.30; if there is anything really horrific in what Mr Whitelaw or Mr Fym is suggesting it would be very convenient if you could let me know - by telephone if necessary - before that, because I am sure it could be relevant to the meeting.



E P KEMP



From: P Mountfield  
Date: 22 December 1982

*✓*  
PS/CHANCELLOR

*✓*  
Checks.

*Pl. work +, what  
is right.  
John*

cc -

PS/Chief Secretary  
Sir Anthony Rawlinson  
Mr Wilding  
Mr Hart - w pps  
Mr King

"FORWARD LOOKS"

Mr Wilding has just sent me a copy of the Home Secretary's report to the Prime Minister, dated 18 December, containing the Home Office 'Forward Look'. Officials have, of course, contributed to the preparation of the Treasury reply.

2. But the Treasury has particular interest in the replies from other Departments, which contain both long term expenditure and long term manpower proposals. Many of these are highly relevant to the work on the long term public expenditure operation, and to the review of manpower targets after 1984. For example, the Home Office proposals include additional police expenditure of the order of £50 million, and 3000 additional prison staff.

3. Mr Kemp told me earlier that arrangements would be made for copies of all departmental replies to come to the Chancellor; and that you in turn would see that officials had a chance to look at them. At some stage, I suspect the Chancellor will turn to us for an appraisal of the expenditure and manpower implications of the Ministerial replies. So could you please see that I get a copy of all of them, so that we can maintain a complete set?

*RM*

P Mountfield





John, you have the papers. M.

EXCHEQUER

23 DEC 1982

W123Xii

Mr Kemp

CST, FST, EST,

MST<sup>c</sup>, MSTR

Sir J Wood

Sir A Rawlinson,

Mr Wadding

Miss Kelley

Mr Mountfield,

Mr Ridley

Mr French

Mr Harris

CONFIDENTIAL

PRIME MINISTER

FORWARD LOOK

I attach a report on the "forward look" at this Department's programmes for the next five years.

I am sending a copy of the report to Cabinet colleagues and to Sir Robert Armstrong.

*NA v. Kemp or  
encouraging thing  
a -> extend +  
work on cost etc  
control*

*KJ*

22 December 1982

*Can we identify a min (? (57))  
+ a SLA (? R4) no effort?  
Ar \* \* \* \* \* is the beginning  
of an idea, which deserves expansion  
on lines of some IEA / Fems handled*



## CONFIDENTIAL

FIVE-YEAR FORWARD LOOK  
DEPARTMENT OF EDUCATION AND SCIENCE

1. The central commitments to education with which this Government entered office in 1979 were:

"We must restore to every child, regardless of background, the chance to progress as far as his or her abilities allow. ... We shall seek to ensure that the excellence (of much of higher education in Britain) is maintained."

Fulfilment of these commitments is a continuing process. This paper therefore combines the first two of the three subheadings suggested by the Prime Minister, commitments from 1979 and initiatives that will carry forward into the next parliament.

A.+ B. MAJOR COMMITMENTS FROM 1979 TO BE MET IN THE NEXT PARLIAMENT;  
PROPOSALS TO CARRY FORWARD IN THE NEXT PARLIAMENT INITIATIVES  
STARTED IN THIS

i) Schools and teachers

2. a) The initial teacher training system is to be restructured, starting from the autumn of 1983: significant change in the content of courses is intended, combined with a shift of the balance towards Post-Graduate Certificate of Education courses and towards courses in the universities.

b) Efforts will continue, in conjunction with the employers of teachers, to maintain the quality and effectiveness of the teacher force as it contracts in response to demographic and financial pressures. Main aspects of this action include the provision of in-service training, with emphasis on the training of head teachers; the relationship between the qualifications and training of individual teachers and the teaching they undertake; the salary structure; and arrangements for retirement, redeployment and redundancy.



CONFIDENTIAL

c) The Secretary of State will review in the autumn of 1983 the school curriculum policy of every LEA by reference to a statement of policy made by him in 1981: the aim is to ensure that schools offer a sufficiently broad curriculum which is at the same time more practical and more relevant to adult life and work, at every level of ability.

d) A development programme to improve the education of the least academic will begin in the autumn of 1983.

e) New guidelines are to be developed and published from 1983 onwards for the curriculum in mathematics, science and modern languages.

f) The existing system of examinations at 16+ and 18+ is to be improved.

g) New opportunities will be created for pre-vocational education for those who have completed their period of compulsory education.

h) Fresh impetus will be given to the development of technical and vocational education under the aegis of the MSC scheme.

j) As many school-leavers as possible are to be offered a record of achievement, including (but not limited to) success in public examinations and, it is hoped, graded attainment tests in the case of those for whom public examinations are not designed.

k) The "Parents Charter", as embodied in the Education Act 1980, provides that in due course (with some minor exceptions) every school should have its own governing body and that each such body should have elected parent (and teacher) representatives. So far the Secretary of State has laid down no time-table for bringing these provisions fully into effect; and the process could not now in practice be completed until the next Parliament.



CONFIDENTIAL

1) In all these matters an important consideration will be to protect and restore the esteem of teaching as a profession and a career, so that the schools can recruit and retain the share of able and suitably qualified people that they need for the future.

ii) Further and higher education

3. The contribution of the education service to overall provision for the 16-19 age group will be further developed. Besides the arrangements for the more academic (see para 2.f), steps are actively in hand to secure the introduction of appropriate courses in schools and colleges with an associated qualification (perhaps to be called "Certificate of Pre-Vocational Education"), for numbers of the less academically able who wish to stay on in full-time education. With many youngsters post-16 in the MSC's Youth Training Scheme, links between that Scheme and the education service are being reinforced, and suitable educational provision ensured for participants in the Scheme. Explicitly vocational types of study are being evolved continuously, especially under the auspices of the Business and Technician Education Councils (soon to be merged into a single Council).

4. The Secretary of State intends to push ahead with an increase in continuing education. Subject to review, the DES programme encouraging mid-career provision by education to meet the needs of industry and commerce (PICKUP") will be sustained. We hope to bring fully on stream the Education Counselling and Credit Transfer Information Service, which will promote study through life for qualifications in ways best suited to individual needs.

5. In higher education, the aim is to restructure all sectors in the interests of greater cost-effectiveness, while ensuring their sufficient contribution to the output of the highly qualified manpower required by the economy and to fundamental research, with attention particularly to


a) a continued shift of emphasis towards science and technology;





b) ensuring the necessary educational input to adequate provision for the new technologies, especially information technology;

c) ensuring the necessary pattern of staffing to achieve quality in research and teaching; and

d) changes in the central management of the system (University Grants Committee and the National Advisory Body for Local Authority Higher Education (NAB)) as a consequence of institutional and funding changes.

e) pruning by the NAB of weak courses of low relevance in local authority higher education.

iii) Inspection

6. The impact of HM Inspectorate on the quality of education has been strengthened by the decision to publish all formal reports from 1 January 1983 and to continue the programme of inspections of whole LEAs. Both publication and systematic follow-up by DES will have a cumulative effect on all providers and all parts of the system, and will enable the system's clients to extend a more informed influence upon it.

iv) Science

7. The Secretary of State will continue to foster the constructive involvement of the higher education system and the Research Councils in overall civil science policy. An initiative has just been taken to increase the availability in the system of able young lecturers and researchers. An enhanced role is being developed for the Advisory Board for the Research Councils: the incoming Chairman will give more time to the Board than did his predecessor and there will be closer collaboration with the Advisory Council for Applied Research and Development.



v) Relations with local government

*What does it  
this mean?*

8. In conjunction with Treasury and DOE Ministers, the cash planning and Rate Support Grant systems require to be developed in directions which will encourage systematic planning and effective management in education as well as exercising pressure on spending totals. Within such a framework, the search for better management and "value for money" should continue in all sectors of education. The Secretary of State should acquire an ability to foster developments to which he attaches particular importance through a limited power of direct financial support for specific purposes.

C. MAJOR INITIATIVES REQUIRING LEGISLATION

i) Schools

9. If the Secretary of State's proposals for vouchers and open enrolment are agreed, the next Parliament could see the introduction of a national scheme, fortified by the experience of pilot projects, for enabling more parents to secure for their children either a place at an independent school or at the maintained school of their choice.

ii) Further and higher education

10. Proposals are being developed to introduce loans to replace part of the maintenance support now provided by mandatory student grants. If these are agreed, the new regime could be legislated into being early in the new parliament.

11. Alternative patterns of tuition fees for higher education are being studied. Some changes may be practicable without legislation, but change on a substantial scale, involving re-allocation of responsibilities for the payment of fees, could necessitate legislation.





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*

The Rt Hon Margaret Thatcher MP  
10 Downing Street  
LONDON  
SW1

23 December 1982

FIVE YEAR FORWARD LOOK

Your letter of 16 September to Willie Whitelaw asked Ministers in charge of Departments to send you a "forward look" of the Department's programmes for the next five years. I enclose a forward look for this Department.

I am sending a copy to Sir Robert Armstrong.

NORMAN FOWLER



FIVE-YEAR FORWARD LOOK

I THE DEVELOPMENT OF HEALTH AND PERSONAL SOCIAL SERVICES

CURRENT COMMITMENTS

1. The Government came into office with three broad objectives:
  1. to maintain spending on the National Health Service and to make better use of the resources available by simplifying and decentralising the service and cutting back bureaucracy;
  2. to encourage the growth of private provision;
  3. to improve services for the old, the sick, the handicapped and the deprived and to do more to help people to help themselves and families to look after their own and to encourage the voluntary movement and self-help groups working in partnership with the statutory services.

RESOURCES AND ORGANISATION - THE CURRENT POSITION

2. The record in this area is impressive. The main points are:
  - Health services have grown by more than 5½ per cent since 1978/79 to meet pressures; part of this has been found from efficiency savings.
  - The Service has been reorganised, cutting out two tiers of management, so that the proportion of expenditure spent on 'management' will be reduced by 10 per cent by 1985.
  - The Service has been for the first time made properly accountable through the introduction of annual Regional Reviews, chaired by Ministers, and resulting in an agreed action plan. These are followed up in each Region in District Reviews.





- A new manpower planning and control system has been introduced. Manpower targets related to service plans will have to be approved by the Department and Ministers and the national aggregate with Treasury. There will be a quarterly census of NHS manpower.
- The general arrangements for improving accountability and efficiency are now backed by Rayner scrutinies, development of performance indicators, development of audit including the use of private firms, the establishment of the Supply Council headed by a businessman to improve purchasing and more use of investment appraisal in capital projects and design advice to reduce costs, eg through energy conservation.

#### RESOURCES AND ORGANISATION - FUTURE WORK

3. Health services need to grow at over 1 per cent a year just to keep pace with the growing number of old people (especially the very old) and to enable the NHS to make more widely available new treatments which save lives and relieve pain and handicap (dialysis and transplants, hip operations are important examples). Not all of these demands will be met by the public sector and I look below at ways of improving the contribution of the private sector. But containment of costs will be a major issue in both sectors.

4. The top priority in the public sector will be to build on the work already done and carry through a number of new initiatives to improve accountability and efficiency.

5. The main new projects are:

- To establish the manpower management enquiry, headed by an industrialist, to help drive through the new arrangements for planning and controlling manpower and improving its efficiency.
- Carry through our proposals to require health authorities to get contractors in to provide a whole range of house-keeping services using competitive tender.



- To mount a major scrutiny of the Works organisation in the NHS and in the Department.
- Act upon the report of the review which has just been completed into under-used and surplus land and buildings, arrangements for disposal and estate management.

6. Work is needed on long term pay arrangements and handling of industrial relations generally in the National Health Service. The immediate task after the settlement of pay for 1982/83 and 1983/84 is the establishment of a review body for nurses, midwives and other professional staff. We have to consider also the arrangements for and content of the discussions promised on long term arrangements for determining pay of other staff.

7. The pay issues are directly linked with management and efficiency. Ministers will be directly involved with both. The recent appointment of a number of new Chairmen of health authorities with wide management experience will assist us with these tasks. Our assumption is that we will be able to carry through these tasks within the structures now established. Indeed the National Health Service urgently needs a period of stability to make the best use of its resources.

8. There are no immediate legislative implications and the manpower costs of the work - including the use of outside people - will be met within our administrative budget. The setting of objectives for staff involved and monitoring progress will be an important element of the Financial Management Initiative in this Department. The resource implications of the new review body for nurses and the discussions on long term arrangements for other health service staff cannot be foreseen but will be handled through the normal machinery.

#### ENCOURAGING THE PRIVATE SECTOR ON HEALTH CARE

9. We have made important progress. The first commitment was to loosen statutory controls and in particular to reverse the previous Government's policy of taking pay beds out of NHS hospitals. That was done in 1980. We have partially restored tax relief on private medical insurance. Hospital consultants' contracts have been made



more flexible so as to facilitate their undertaking some private work and we have encouraged health authorities to take account of private sector provision in planning their services and capital projects. Over the last three years the private sector has grown quite rapidly so that, for example, over 4 million of the population now have health insurance cover and there are about 15 private hospitals currently under construction. NHS expenditure on private health facilities is now about £30 million.

10. All this is encouraging, but we need to do more. The greatest priority is to achieve much better co-operation between the National Health Service and the private sector. I have asked Arnold Elton to chair a small Party Working Group to look at the scope for co-operation between the public and private health sectors. I shall also be discussing with health authority chairmen practical ways in which they could make wider use of non-NHS facilities. This is an area in which Ministers will be closely involved and where I want to see significant progress over the next two to three years. There are no immediate legislative or resource implications. The Inland Revenue will be looking also at the scope for further tax concessions. This would require legislation and would entail some loss of tax revenue.

#### THE OLD, THE SICK, CHILDREN AND THE HANDICAPPED

##### Personal Social Services: Voluntary and Self-help

11. It is a hard challenge to reconcile the need to restrain total local authority spending with our drive towards improved care in and by the community. Within the overall economic policy we have encouraged effective support of the old, the sick, children and the handicapped both by the statutory services and by promoting the voluntary and self-help sector:

- (i) encouragement of voluntary giving by tax reliefs;
- (ii) more direct aid to voluntary bodies: the 'opportunities for volunteering' scheme aimed at the unemployed has been successful and the voluntary bodies are seeking further aid;



(iii) emphasis on care in the community: we have stepped up by 35 per cent to £96m the value of cash transfers from the NHS for local social services projects (the 'joint finance' schemes);

(iv) we have legislated to improve the safeguards for the mentally ill; the first such legislation since 1959;

(v) we are acting in this Parliament to help strengthen community and primary care, and safeguard the elderly in residential homes (the Health and Social Services and Social Security Adjudications Bill).

#### LOOKING AHEAD

12. The pressures on resources will not remit, and we shall be pressed for higher standards of care. Our policy must be directed at securing these standards through a return to the idea that the supply of social care should be effectively harnessed and co-ordinated by local authority social service departments, but need not be exclusively provided through them. Their social workers' functions need to be developed accordingly. We should be able to pursue these policies without major structural changes or major legislation. There will be a place for centrally funded initiatives such as those now in train (1983/84 planned spend):

- improved primary care in cities (£3m)
- improved action on juvenile offenders (£3m)
- moving mentally handicapped children out of hospitals (£3m)
- demonstration services for elderly people suffering from mental disorder (£2m)
- 'care in the community' schemes (£6m)
- fresh voluntary projects for under-fives (£2m)
- pilot projects with drug abusers (£2m)





13. Prevention of ill-health and related social problems should receive increased attention in our programmes for Government action: immunisation rates, for example, are too low, and other countries are much better than us in this and other aspects of preventive policies.

14. We must pay special attention to the needs of children especially those without a secure family base. We should reject the Labour approach which is to provide creches for every mother who wants to go out to work. Our own policies should focus on supporting mothers who are forced to cope single-handed, by, for instance, revising the conditions of child-minding, which would require legislation in the next Parliament. Further support should be via voluntary sector, rather than state-provided facilities. Also, I expect that the House of Commons Social Services Committee will add weight to the Law Commission in seeking changes in the laws relating to parental responsibilities, and children in care. This may require us to make some carefully balanced plans for legislation.

15. A massive challenge is the growing numbers of elderly people. By year 2000, the group of 75-84 years old will be up one-quarter, from 3.1m to 3.8m; the over 85 group by over one-half from 0.5m to 0.8m; and the incidence of disablement, especially dementia, increases with age. The challenge can be met by our care in the community approach, but only if we can supplement increases in public provision with imaginative new developments. These should call on the support of industry as well as the traditional voluntary bodies. More kinds of residential projects should be tried, for the old to move out of their over-large houses into groups of individual homes rather than into a final "old people's home". We should look to the development of employer-employee funded schemes of old age care, and to more commercial support of local voluntary effort. These are issues we shall be discussing in the Family Policy Group.

## II THE DEVELOPMENT OF SOCIAL SECURITY

### CURRENT COMMITMENTS

16. We have an impressive record on the specific commitments and



objectives with which we came into office:-

(a) we have maintained the value of pensions in real terms, and protected the standard of living of the most needy, on supplementary benefit;

(b) we have brought unemployment benefit into tax (although the restoration of the 5 per cent abatement of it in lieu of taxation has still to be decided) and changed the repayment of tax refunds during unemployment. We have taken vigorous and highly cost-effective action against fraud and abuse. All these measures have improved incentives to work;

(c) we have brought in a statutory sick pay scheme, transferring to employers the responsibility for making payments during the first eight weeks of sickness;

(d) we have introduced a new supplementary benefits scheme;

(e) we have introduced a new housing benefit scheme to unify the separate systems of help from supplementary benefit and local authority rent and rebate schemes;

(f) we have maintained the value of child benefit at the level set in November 1980 (although we have not fully made good its loss in value from April 1979 to November 1980); we have more than maintained the value of one-parent benefit;

(g) we have continued the Christmas bonus and legislated to make it permanent;

(h) we have reorganised the social security Regional Organisation, from 12 Regions to 7, saving 1,000 Regional staff;

(i) we have reorganised social security audit and are introducing budgetary control of administrative expenses from April 1983.



In all this we have reduced public expenditure on social security by £1.5 billion; and, despite increases needed for rising unemployment, we have reduced staff numbers by 9,000 to date. We are on course for a reduction of 16,000 by April 1984.

17. This leaves outstanding as major commitments:-

(i) the phasing out of the earnings rule for retirement pensions during this Parliament, which has been precluded by financial constraints. Pressure on this point has eased, perhaps because of high unemployment. But there is provision in PESC for phasing the rule out over two years, starting in 1984/85 (£30m in 1984/85, and £132m in 1985/86). Legislation will be needed: there will eventually be a minor staff saving;

(ii)<sup>o</sup> our aim to provide a coherent system of cash benefits for the disabled. We said in the manifesto this would depend on the strength of the economy; and we have not, in the event been able to make significant progress in this Parliament;

(iii) our review of the national insurance contribution and pension position of the self-employed. We have reviewed this with representatives of the self-employed as we promised, but found no agreement among them about the reforms needed. The only prospect for change seems to lie outside social security, in tax relief on the employer's element of their NI contribution, on which I am in touch with the Chancellor.

#### FUTURE WORK

18. We have a substantial programme of work already in hand in several Ministerial and official groups:-

##### Pensions

We are considering with the Treasury the future policy on:-



(a) the future development of the new pensions scheme, on which the Government Actuary recently published a report on his Quinquennial Review of the national insurance scheme;

(b) flexible retirement age, on which the Select Committee on Social Services has reported constructively.

#### Family support, poverty trap and work incentives

We are already studying in the Family Policy and other groups possible changes in:-

(a) provision for unemployment in the national insurance and supplementary benefit schemes (eg early retirement, higher disregards on earnings);

(b) child benefit, including the idea of a taxable second tier;

(c) family income supplement, including changes in scope, and encouragement of take-up.

A decision has still to be taken on the future of death grant, following a recent consultative document; and we are committed to reviewing again maternity benefits and maternity pay.

#### Benefits for the disabled

We are considering:-

(a) the industrial injuries scheme, on which we published a White Paper earlier this year;

(b) replacement of the war pensions vehicle scheme with a mobility allowance;





(c) a comprehensive survey of the extent of disability in the population, to update the "Amelia Harris Survey" of 1969 (published in 1971/2);

(d) offsetting in full state benefit against compensation which an employer may be liable to pay;

(e) simplification and rationalisation of the procedures for medical adjudication and appeals;

(f) reorganisation of the artificial limb service to instil competition between suppliers and greater response to customer needs.

#### Simplifying operations and making them more efficient

We shall also be pursuing vigorously during the next Parliament the Operational Strategy proposals which I published in September, to modernise our operations by extensive use of new technology. Building on the largest computer centre in Europe at our Newcastle Central Office, which handles our central recording of contributions and payment of pensions and child benefit, we look to computerise our local offices. Some 14 projects over 15 years, investing some £700m on top of the £900m we shall need to replace existing computers, should give us a return of some £2bn and 20-25,000 staff savings in DHSS and DE. The objectives are

- a better service for the public
- savings for the taxpayer
- more worthwhile jobs for the staff

#### Equal treatment of men and women

We shall have to make some changes in social security legislation and regulations before the end of 1984 to comply with the EC directive, so as -



- to enable women to claim supplementary benefit and FIS in their own right;
- to remove discrimination against housewives in Non-Contributory Invalidity Pension.

## LOOKING AHEAD

19. Looking further ahead, we shall have to plan our strategies on:-

### Further contracting-out of State provision

This principle has already been adopted successfully for substantial slices of pension and sickness provision, with public expenditure and civil service manpower savings. Could it be extended further (eg to the rest of sickness benefit)?

### Disability benefits

What steps can we take, within available resources, to develop the system of benefits for the disabled so as to make it more coherent?

### Further review of supplementary benefits

Will it be necessary to consider further ways of simplifying the supplementary benefit scheme, to adopt it more effectively and economically to its mass role and contain its rising manpower costs? (Well over half our local office staff are now engaged on paying out only 15 per cent of total benefit expenditure.)

### Tax credits

We set this as our long-term aim in the last manifesto. The cost has risen since the 1972 scheme was devised, and any progress must await comprehensive computerisation in



the Inland Revenue and the DHSS towards the end of the decade. The objectives of the tax credits approach were

- to bring equal help to families above and below the tax threshold - this has been largely achieved by child benefit;
- to bring unemployment and sickness benefit into tax - this has been achieved for UB, and the new sick pay scheme will have the same effect for short-term sick pay;
- to supersede various forms of means-tested help by a coherent system integrating tax and benefits - a start has been made in our new housing benefit.

We shall need to consider what further progress is feasible towards these objectives.









## ARTS AND LIBRARIES: FORWARD LOOK

The Government took office in 1979 with a firm commitment to set up the National Heritage Memorial Fund. This has been achieved and had been extremely successful. Apart from this there was a broad commitment to give as generous support to Britain's cultural and artistic life as the country could afford. Some weight was attached to the incidental benefits expected from tax reductions.

Since the election, in spite of real public expenditure cuts, we have kept the arts at a reasonable level. The major national and regional companies have been kept going although there are plenty of financial problems. We have implemented Public Lending Right and authors will receive their first payments next year. We will have started the Theatre Museum before the election. We shall also have made a start on the new British Library building and brought into operation some impressive new museum buildings outside London such as the National Museum of Photography in Bradford, as well as major improvements to the national museums, such as the opening of the Henry Cole building at the V & A. Before the next election we shall have changed the V & A and Science Museums into trustee bodies. We have launched a very successful campaign to encourage private and business sponsorship of the arts.

The next Government's aim should be to maintain this creditable record. We should not aim for expansion in the arts on any scale but we must keep going at a reasonable level the great national and regional organisations, eg the British Museum, the Royal Opera House and the Halle Orchestra. It will be difficult to do this unless arts funding remains roughly constant in real terms. We must continue our efforts to increase value for money and explore further expansion of private and business sponsorship - perhaps through tax changes.

The area which seems to offer the greatest scope for private sector participation is the British Library. The development



of some of the Library's services to business and industry, particularly those using new technology, may offer attractive opportunities for the introduction of private capital and initiative. The first exploratory steps are being taken now. The next Government should put in hand a vigorous exploitation of whatever possibilities are found to be open. Meanwhile the campaign to increase business sponsorship of the arts should continue and be reinforced by strenuous efforts to maximise the benefits of tax concessions. To the extent that the Treasury's programme makes further tax concessions possible the effects should be disproportionately helpful.





(PWP)

23/12/82,

cc CST  
FST  
EST  
MSTC  
MSTR  
Sir D Warr  
Mr Bailey  
Mr Little  
Mr Middleton  
Mr Quill  
Mr Moore  
Mr Ridley  
Mr French  
Mr Norgrove

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

PRIME MINISTER

FORWARD LOOK

Mr Corcoran  
Mr Painter (R)  
Mr Howard  
(C+E)

In your letter to Willie Whitelaw of 16 September you asked for the preparation of Departmental reports on programmes for the next five years. I now attach my report for the Treasury and the other Departments for which I am responsible.

2. I should like to add four points:-

- i. As you asked, the report covers only major matters. It should not be taken as an exhaustive list of everything which might be initiated from within my Departments over the next 5 years!
- ii. Second, it deals for the most part only with matters which are the direct responsibility of my Departments. But the areas of responsibility of other colleagues can - and frequently do - impinge on our overall economic objectives - and the Treasury often has a co-ordinating role. It is important that colleagues should not propose ideas which cut across our overall objectives, eg by involving new public expenditure commitments. I should therefore like to see copies of the other reports to you, though, given the sensitivity of some of the material in it, I am sending out no copies of mine!

/Third





- iii. Third, it is important for our prospects over the next 5 years that none of us should now close options unnecessarily, or create new pledges, or renew old and troublesome ones. We have seen the trouble we have had with (for example) our commitments on health and social security, on defence spending, and our undertakings in respect of Clegg. Particular options that I want to keep open in my own field concern the VAT base, mortgage relief ceilings, life assurance premium relief, fringe benefits and perks, and the abolition (as distinct from reduction) of any significant tax. But other colleagues will have other subjects, possibly more important in political and economic terms, where commitments, negative or positive, ought if possible to be avoided - or at least given only after very careful consideration.
- iv. Finally, as you will see from my response I have not restricted myself solely to "good news", but have also included other initiatives which, although worthwhile and necessary, may not be particularly popular. Examples of these are my proposal to review life assurance premium relief and the taxation of the pensions industry, and to examine the relationship of the personal tax system with the National Insurance Contribution system. I think this approach is in keeping with what you want from this particular exercise, though something different might be necessary in other contexts. We should want in other words, to retain freedom to act in both areas, but not in any way to proclaim our intentions.







3. If you would like to discuss any of this, I should be delighted.

A handwritten signature in black ink, appearing to be "G.H." with a stylized flourish.

G.H.  
23 December 1982



SECRET

FORWARD LOOK

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

This note responds to the request set out in the letter to the Home Secretary of 16 September 1982.

2. It covers the Treasury and other Departments for which I am responsible. It does not cover matters where the primary responsibility lies with other Departments, but it is possible that I shall wish to comment on some of the suggestions put forward in other Ministers' responses.

Broad objectives

3. The broad aims of my Departments over the next 5 years should be to develop and build on the groundwork laid over the past  $3\frac{1}{2}$  years. During that period we have introduced prudent and responsible financial policies encapsulated in an authoritative Medium-Term Financial Strategy, made major structural changes in the tax system designed to encourage enterprise, started to bring public expenditure under control, and begun to remove a large number of controls and rigidities which inhibit our economic performance and frustrate personal choice.

4. Our task over the next 5 years will be to carry forward and develop these policies so as to secure a sustained recovery in the economy, bringing with it improved standards of living and above all a lasting reduction in the level of unemployment.

5. So far as my Departments go, this should be achieved principally through:-

- continuing our responsible monetary and fiscal disciplines so as to secure further reductions in inflation and interest rates;
- containing and restraining public expenditure;
- reducing the total tax burden so that businesses and individuals may prosper;



SECRET

- further reducing the size and improving the efficiency of the public sector, including the Civil Service, the NHS and Local Government.

6. These lie mainly within my present responsibility. But we shall also continue to take a very close interest in progress in certain other important areas, including:-

- continued pursuit of privatisation and contracting-out, with a view to encouraging competition, efficiency and choice;
- the pensions system, including in particular transferability of pension rights, solvency of pension funds and reconciling both with the need to ensure that undue burdens are not placed on future generations.
- further action to reduce rigidities in the social and industrial structure, with particular reference to Trade Union reform; and the encouragement of deregulation where appropriate in all its forms;
- development of regional policy to shift the emphasis away from capital investment towards employment creation;
- easing so far as possible of the effects of transition on those adversely affected, notably the unemployed;
- continued regard for the needs of the family as an essential element of social cohesion.

Detailed response

7. A note on progress on our 1979 commitments is attached.



SECRET

8. So far as major new proposals and major new initiatives go, the main field in which I have direct responsibility is that of taxation. In most other fields the formal initiative lies with other Departments, though we shall continue to take a strong interest in their overall economic affect. For present purposes, I set out below matters relevant to immediate Treasury responsibilities, divided between non-taxation matters and taxation matters.

Non-taxation matters

9. We should look to the following major developments or initiatives over the next 5 years :-

a. Public spending and the public services.

To help achieve the goal already described of containing public spending and reducing its share of GDP, particular attention will be paid to the new targets for the reduction of manpower; promotion of efficiency; contracting-out suitable services to the private sector; and the further improvement of financial management in Government Departments. I foresee significant manpower savings in all this, and little legislation.

b. Civil Service pay and public service pensions.

We need new and stable long-term arrangements for determining the pay of the Civil Service (both industrial and non-industrial), and implementation of decisions on pensions following Scott. These should be generalised throughout the public sector, which will be no easy task. Manpower implications should be minimal, though legislation might be needed.

c. Building Society reform.

New legislation is needed to give building societies more scope, within prudential limits, to extend home ownership by increasing the range of flexibility of the housing finance services they are able to provide. Expenditure and manpower implications are not expected to be significant.





d. NEDC

I would like to find ways of developing NEDC and its sector Committees into a more effective apparatus for promoting practical measures to improve industrial performance. Some SWPs are achieving useful results, but the Council needs to give them a stronger lead and a better framework for their efforts. There are no manpower or expenditure effects.

e. International Finance

We face a difficult and perhaps long process of world-wide recovery from recession. We need to promote international action and influence other major countries, to stave off some dangers and encourage robust recovery. The first and major initiative will be the intended IMF replenishment package (a substantial increase in quotas, accelerated implementation and enlarged General Arrangements to Borrow). Other developments will be needed to strengthen and deepen the cooperation between the IMF and other international institutions, leading creditor countries, and countries in difficulties, during the period of transition from high inflation. We shall also wish to influence the development of economic policies in all leading countries, in the balanced way best calculated to open up prospects for recovery, whilst making secure the gains which we are achieving and aiming for in reducing inflation. There are no manpower implications but some modest legislation will be involved in 1983 to cover IMF and related developments, including contingent liabilities for loan assistance. So long as it lasts, my own position as recently-elected Chairman of the IMF Interim Committee will provide valuable opportunities in all these fields.

f. European Community Budget

We need to continue the hitherto unsuccessful search for a durable solution to the problem of imbalance in the British contribution to the EC budget, through wider restructuring of the Community's expenditure patterns and financing system; we shall also seek improvements in the present unsatisfactory divisions and conflicts of



authority in the Community between Parliament, the Commission and the Council.

Taxation matters

10. Initiatives in this field will develop the aims set out in paragraph 5 above. Thus we must :-

- a. Further reduce the inhibiting effects of taxation on workers, managers, investors and wealth creators.
- b. Spread the burden of taxation as fairly as possible over all the different groups in our society.
- c. Make the system as simple and intelligible for the taxpayer, and as cheap to administer, as possible.

11. The main specific objectives are as follows :-

a. Incentives for people

- i. Reduce the burden of income tax and also reduce the poverty and unemployment traps in the first instance by raising thresholds (which will also help to reduce staff numbers) and then, as resources permit, by further reducing tax rates.
- ii. Ensure a proper balance between taxes on earning and taxes on spending.

b. Incentives for enterprise and risk taking

- i. Reduce the general burden of tax.
- ii. Further develop measures to promote a healthy and expanding small firms sector - in particular the Business Start-Up Scheme, insofar as it is not developed further in this Parliament.



SECRET

- iii. Further ease the burden of capital taxes.
- iv. Move towards abolition of the Investment Income Surcharge.
- v. Encourage the spread of profit sharing and employee share schemes.
- vi. Encourage the individual saver to invest directly in equities rather than to save through institutions. To this end, review life assurance premium relief and the taxation of the pensions industry.
- vii. Encourage "portable pensions" by tax sanctions if appropriate.

c. Incentives for business

- i. Move towards abolition of the National Insurance Surcharge.
- ii. Continue to review and to adapt Corporation Tax to meet the changing needs of business. [Note: the main structure may be settled in this Parliament.]
- iii. Keep under review the burden on business of indirect taxes, and also their impact on individual incomes.
- iv. Keep under review the North Sea fiscal regime to ensure that it continues to provide sufficient incentives for new developments while securing a fair share of revenues for the Exchequer.

d. Simplification of the tax system

- i. Implementation of computerisation of PAYE by 1988 will improve efficiency, with staff savings of several thousands, and facilitate possible future changes in the administration of personal tax.



SECRET

- ii. Further examine the scope for simplifying the personal tax structure, including its relationship with the National Insurance Contribution system.
- iii. Depending on progress in current trials, introduce more economical methods of collecting taxes from companies, including the possibility of self-assessment for Corporation Tax.
- iv. Consult on reform of arrangements for taxing the self-employed, partnerships and unincorporated businesses, so possibly opening the way to income tax self-assessment.

e. Fairness in the tax system

- i. Ensure a balanced approach to countering abuse in the tax system and the burden of compliance on the taxpayer, taking account of the recommendations of the Keith Committee.
- ii. Bring forward proposals on the taxation of husband and wife.

12. The timing of fiscal changes must depend on developments in the economy over the next 5 years. In some cases specific manpower implications are noted; in general the Revenue Departments' manpower objectives over this period will be considered in the context of the Government's manpower objectives for the Civil Service as a whole. Most of the measures mentioned above will require legislation, generally in Finance Bills.





## PROGRESS ON OUR 1979 COMMITMENTS

Our fundamental aims were to reverse our relative economic decline, restore the health of the economy and sound growth, and to master inflation. Our policies were almost all means to those ends. This note covers all our significant 1979 commitments.

Relative decline

2. No firm view is yet possible; but our output performance this year and next - probably as good as or better than the OECD average - could be a harbinger of success.

Restoration of the economy

3. The rot has been stopped and most adverse trends reversed. But there is still some way to go :-

- inflation and inflationary expectations are dramatically down, with further progress still possible;
- output is poised for gentle if fragile growth;
- productivity is rising fast and wage claims are still moderating;
- but unemployment remains disturbingly high and is still rising;
- competitiveness is about 20 per cent better than its worst but still weak by past standards;
- real profitability is rising but still very low;
- many encouraging "supply-side" responses with overall private sector investment still very high and rising despite weakness in the manufacturing sector;



SECRET

Major policy objectives

4. Our record is patchy in fulfilling most major specific policy objectives :

- Public Sector Borrowing, Expenditure and Taxes

We have cut the GDP burden of public borrowing, but not prevented the shares of spending and taxes from rising, despite major economies.

- Incentives

The cuts in higher income tax rates and changes in Capital Gains Tax, Development Land Tax and Capital Transfer Tax have transformed incentives for entrepreneurs, managers, self-employed and the better paid. But we have had no resources to raise thresholds, or simplify the tax/social security tangle. The poverty and unemployment traps remain serious problems. And although we have much simplified some taxes, shortage of resources has forced us to hedge many concessions with further legal complexity.

- Pay bargaining

A start has been made with Megaw and the NHS, abolition of Clegg, liaison with employers, cultivation of public awareness, and employment legislation. But we have not moved to negotiate "no-strike agreements in a few social services".

- Regional assistance

Is not yet related to jobs created.

- The Earnings rule

Is not yet eliminated, though we were pledged to do so by the end of this Parliament.

- The EC Budget

Still calls for lasting reform.





EXCHEQUER	
30 DEC 1982	
REC'D	Mr Kitcatt M304
FILED	EST, Sir D Wass
Pl. copy also - Sir A. Rudd Mr Kemp.	
3/i.	

*Important miss  
her. Now  
how to discuss  
in Nov?*

MO 8

PRIME MINISTER

FORWARD LOOK

In your letter of 16th September to the Home Secretary you asked each Minister in charge of a Department to arrange a "forward look" of that Department's programmes for the next 5 years. I attach my personal contribution. It contains my own political judgement; it has not been formally put to the Chiefs of Staff.

2. The Ministry of Defence does not, of course, primarily conduct its affairs through legislation, and I have not attempted to detail all of the individual equipment programme decisions which we will face over the next 5 years. Instead, I thought it would be helpful if I discussed in some depth the key issues of the future of the Alliance and of our approach to defence expenditure which will determine the balance of the defence programme in the longer term.

3. I am sending copies of this minute and the attached note to other members of the Cabinet and to Sir Robert Armstrong.

Ministry of Defence  
24th December 1982



SECRET

DEFENCE POLICY AND THE DEFENCE PROGRAMME

- THE NEXT FIVE YEARS

Manifesto Commitments

1. Our manifesto commitments were to meet the NATO aim on defence spending, rectify deficiencies, restore pay comparability for the Services and maintain the effectiveness of the deterrent.

The Experience of Office

2. Our conviction of the need for a strong defence policy has been confirmed by our experience of office; the view now is more sombre than it was in 1979. The Russians' military power has continued to grow and they have demonstrated in Afghanistan their willingness to use it. The last three years have shown a remarkable qualitative advance in Soviet defence technology. Instability and violence are endemic throughout the Middle East and The Third World and the Falklands experience has shown how the unexpected may still demand balanced national forces and what damage can be done by a medium size power with some modern equipment.

Our Record

3. Our record is excellent. We have demonstrated our firm commitment to the NATO Alliance while at the same time reacting with outstanding success to the unexpected challenge posed by the Argentine invasion of the Falklands. The campaign was our most notable operational achievement but there are others to our credit as well. What we said in our manifesto we would do, we have done.





SECRET

Pay comparability has been restored and as a result there have been welcome improvements in recruitment, retention, and morale. Because retention has been high we have been able to use our equipment much more efficiently - for instance we have increased the number of manned and operational tanks by 25% in Germany purely because we have the men. We have declared our commitment to the NATO aim of 3% per annum increases to 1985/86 and come some of the way to meeting it (1979/80: 2.9%; 1980/81: 2.8%; 1981/82: 1.4%). We have preserved the main defence programme from the consequences of the Falklands campaign by providing money on top of the 3% for the costs of the campaign, the replacement of lost equipment and the extra costs of the garrison. We have completed the Chevaline programme, re-motoring of Polaris is underway, and we have taken vital decisions on Trident. We have authorised improvements to equipment, increases to our reserves and strengthening of the defences of the UK Base. With the reshaping of the programme last year, we have matched the defence programme to the available resources to provide the most effective force structure.

4. Defence has played its full part in the drive for increased efficiency and productivity in the public service, accounting for some 46% of the total reductions in Civil Service numbers. The top Ministerial and Service management of the MOD has been reshaped, and we have played our full part nationally and within the Alliance in promoting policies and techniques to improve efficiency and economy and to exploit civilian resources.



SECRET

The Future

5. The drive to produce better equipment for the Services and higher efficiency throughout the MOD and the Services will continue. But important though greater efficiency will remain, it is not the fundamental issue that could confront the Government in its second term of office - it concerns the Alliance and the scale of our defence effort.

The Alliance

6. Since the last war, the major military threat to this country has been posed by the Soviet Union. Our response has been first to bring about and then to maintain a firm American commitment to the defence of Europe, within an Alliance which also accommodates the growing economic and military power of the FRG. NATO has been central to our defence policy.

7. But much has changed since NATO was created and some difficult questions arise as a result. The Alliance is currently under strain. This has happened before but the present strain has its roots in a basic difference of view as between Americans and Europeans about how to deal, politically, economically and militarily, with the Soviet Union: and the degree of strain has been sharply increased by:

- a. shifts in the balance of power as between the United States and the Soviet Union, and, within the Alliance, as between the United States and its European allies;



SECRET

- b. weakening confidence in the quality of American leadership dating initially from Vietnam;
- c. a growing consensus among different groups in the United States arrived at from a mixture of motives that the US should devote less to the defence of Europe (the Europeans could and should do more) and more to their interests in the rest of the world;
- d. the growth of anti-nuclear sentiments in Western Europe and the United States (and of anti-Americanism in the former as a result);
- e. a period of sustained and severe economic recession and the divisive influence that such recession generates.

Just how heavy is the resulting strain? Is it heavy enough potentially to bring about an unravelling of the Alliance? If it is, what if anything can be done to ease it? Or is an eventual unravelling inevitable?

8. If our defence policy has to date been based on the Alliance and fundamentally on the American commitment and if there is a risk - to put it no higher than that - that the Alliance might unravel what alternative policies are there? There are two:



SECRET

- a. one that involves European allies but without the direct support of the US;
- b. the other constitutes a purely national defence policy with such US support as we can secure.

Neither of these alternatives is free of cost and neither can be considered in isolation either from each other or from the policy we follow at present.

9. Thus the prospect of partial US withdrawal from the defence of Europe might bring about a determined European attempt to arrive at a credible alternative collective security arrangement. But it might also - and much more probably - lead instead to individual attempts by some European Governments including the FRG to seek accommodations with the Soviet Union. In any case the massive US contribution to European defence would be lost.

10. Similarly, if either the FRG or ourselves were seen to be seeking purely narrow national defence arrangements continued American support either for us or for the rest of Europe could not be assumed. We should lose the contribution of our Allies to the forward land and air defence of this country on the continent of Europe. And our contribution to the collective defence of the West is under 10% of total NATO defence spending. Over 90%, overwhelmingly devoted to our security in Europe, is spent by our NATO Allies.

11. In either of the alternative options postulated, our present forces would be seriously inadequate for the defence of this country. I conclude that whatever the current strains on the Alliance may be -





and whatever the deficiencies of the Alliance - there is no serious alternative to trying to preserve it.

12. Notwithstanding all the powerful arguments against a switch either to a European or to a national defence policy, it is right nevertheless to face the possible implications of such a switch for the structure of our forces. Membership of the Alliance has a major influence on the shape and deployment of our forces. We have not worked through what the other options would imply but it is right to consider them : should we go further in our planning? This poses an immediate dilemma. Defence lead times are very long, up to 20 years from concept to in-Service date of major equipments. Thus major re-structuring in response to a change in policy could only be put into effect too late. But any attempt to deal with the lead time problem by anticipating such a change might precipitate it in an uncontrolled and very dangerous way. In the past we have faced this dilemma, accepted the implications of Alliance membership, and consistently optimised our capabilities for the roles required of our forces by an Alliance strategy. We have to be clear whether with current strains on the Alliance that remains our approach.

#### The Scale of our Defence Effort

13. We are committed until 1985/86 to the 3% per annum increase in real terms in defence spending called for by NATO. I believe that the present planned defence programme is in broad balance with this increase in resources; but there are still grave weaknesses in our capability and I have argued (C(82)33) that the increase in defence spending should be sustained - as NATO



proposes - until 1988. If we conclude that it should and we continue the drive for greater efficiency and cost effectiveness in administration, then it may provide the opportunity to cure areas of weakness. In that event, we would have to consider which area to choose, taking account of the dilemma I have described in paragraph 12.

14. In practice the choice would not I believe prove too difficult. There are two of our four main roles common to any defence policy (i.e. a NATO, European or national one). We have already taken the decisions necessary to preserve one (nuclear deterrence) and have set in hand improvements to the other (home defence). There are nevertheless areas in the latter which are still much weaker than they should be but where a strengthening would also serve clear Alliance as well as national needs. In particular I single out UK air defence, the control of the seas immediately round our shores, and the strengthening of Reserves, for service on the continent or in this country. These should be our priority areas for additional resources.

15. There remains the other possibility, so far as resources are concerned, that is we should conclude that the NATO aim<sup>of 3% annual real increases</sup> is not for us and that sustained growth in defence spending is not tolerable. In that case weaknesses in one of our roles could be rectified only by making savings in another; and, if real equipment cost escalation proved greater than we now forecast, there could similarly be very hard choices to be made. In making such choices, I would reject savings in our nuclear forces and those for the UK base, for the reasons already given. The choice would therefore



lie between our maritime forces and those stationed on the continent. Given the importance to Britain of sustaining the Alliance and the unique political and military contribution to its cohesion made by our forces on the continent, I do not see how they could be cut. It follows that any future cuts would have to fall on our maritime forces - and the process started in Cmnd 8288 would have to be carried a stage or stages further.

### Conclusion

16. I conclude that:

- a. the fundamental issues that could confront the Government in its second term of office concern the future of the Alliance and the scale of our defence effort;
- b. the Alliance is under serious strain and we need to consider the consequences for our defence policy of its possible unravelling;
- c. if the Alliance were to fail, our present forces would be seriously inadequate for the defence of this country under the remaining European or national defence policy options. There is therefore no serious alternative to trying to preserve the Alliance;
- d. as to resources, if we sustain the 3% real aim to 1988 there should be scope for force improvements -



SECRET

these should primarily be directed to the defence of the UK base;

e. if growth in defence spending is not sustained, hard choices could be necessary. Cuts would have to fall on our maritime forces.







P

FROM: MISS M O'MARA  
DATE: 30 December 1982

MISS KELLEY

cc Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Sir A Rawlinson  
Mr Wilding  
Mr Pestell  
Mr Monger  
Mr Mountfield  
Mr Ridley  
Mr French  
Mr Harris

Mr Kemp

LORD CHANCELLOR'S DEPARTMENT: FORWARD LOOK

The Chancellor has seen a copy of the Lord Chancellor's minute of 22 December to the Prime Minister. He has asked for some briefing (which might come from the Lord Chancellor's Department itself) on the point which Lord Hailsham makes in paragraph 6 that unless Government time can be spared or some special legislative procedure can be devised there is a danger that valuable law reforms will be lost. He suggests this could be used to support the case he is making for a Supplementary Finance Bill to Mr Higgins and others.

On Land (registration (paragraph 11)), the Chancellor agrees that the failure of the Land Registry to complete its task is a public scandal. He wonders whether there is scope for a Rayner scrutiny here and whether land registration is an activity which could be handled by a trading fund or even privatised. He would also be grateful if the Chief Secretary would consider, in the context of the present exercise which he is undertaking with the Solicitor-General, whether there is scope for a major review of the current legal aid and advice schemes (paragraph 13).

MOM

MISS M O'MARA



CHANCELLOR

Knows

SENSITIVE INDICATORS etc.

I have had a slightly delicate request from Lord Lawson at Celo. The PM wants a compendium of the usual things prepared by Celo as background to decisions about an election date. It is to cover the familiar timetable of statistical announcements, important events (e.g. Autumn Statement, LAD report, Immigration Rules in force etc etc) and the timetable of our familiar indicators, viz RPI, unemployment, trade balance etc etc.

We have already furnished all this twice, ~~but~~ and, tho' tis a bother, we could do so again. But before doing so obviously your judgement is needed. Surely the material is, shortly, classified, it might be best if I simply offered Celo some essentially verbal views of my own which conveyed the key considerations, noting that No 10 could pursue more detailed chapters were with us direct ask when needed. Or is there a case for our preparing something rather fuller for the Chairman, given his Ministerial pin - in which case I could redo the last note I did for you?

I am not required to produce anything for the end of next week, but would appreciate your views a bit before then!

PS. I am at home tonight, wed. call in at 8.35 tomorrow if that wd. help. M 7/2  
You wish to see.



FROM: ADAM RIDLEY  
7 February '83

D.12 Other

CHANCELLOR

FORWARD LOOK ETC.

Your meeting at 8.45 a.m. tomorrow will be in practice concerned with how best to weave together three separate strands of activity - forward look work, policy group reports and manifesto preparation - and how to fit it all into the calendar for the next three months or so. As a background to this, I have noted some of the more important points which one needs to bear in mind in relation to each of these three exercises, and tried to fit them very loosely into a hypothetical timetable.

FORWARD LOOK

2. The forward look reports from Departments are important in four different ways. First and self-evidently, they provide a good deal of raw material for an election manifesto. Second, they indicate many important points about the political background and priorities for an election campaign. Much of the thinking in the reports will be important when one comes to consider how to handle "questions of policy", difficult issues such as the future of indexation, and many other controversial matters which will almost certainly not be dealt with very explicitly in the manifesto, or perhaps at all. Third, there may be important lessons for the handling of the next public expenditure survey. Fourth, there may be other lessons about areas where policy work lies awkwardly between two or more Departments and needs coordination, or where issues are falling between stools. Mr Kemp and I, with the assistance of officials, will have to hand material dealing with the public expenditure issues, coordination problems and lacunae during this week, and should be able to serve up something by around February 16th. Mr Cropper has been asked to think about the more political matters, and may also be in a position to offer up something by roughly the same time. You and the Chairman may be able to consider these two assessments at some time during say, the week of February 21st. This could then lead to some preliminary judgments about an election manifesto and campaign priorities; and, possibly, a number of important particular issues which you may by then see as needing to be pursued with colleagues. Arguably there is little point in commissioning a

*You will of course be reporting to the PM around then, presumably*



## PERSONAL AND CONFIDENTIAL

rough manifesto draft until you have considered these assessments, and found yourselves in a position in which to lay down the broad guidelines and themes.

3. Obvious points for consideration here are whether such a timetable would suit the PM; whether you would wish to submit to her some kind of report on your deliberations after your (hypothetical) consideration of the two assessments in the week of February 21st; and whether any other colleagues should be involved in this process.

### POLICY GROUP REPORTS

4. The reports are due to be delivered to you at the end of March, which will probably mean that most or all come to hand on Wednesday or Thursday (March 30th or 31st), just as Parliament rises for the Easter recess. This would mean that if you wished to provide for some sort of discussion on the first week-end after Easter, just before the recess ends, (April 9th and 10th), there would be time for only the quickest assessment of each of the nine reports. For example it might be possible for me to prepare, in consultation with you, a very short note on the most important features of each report, with some degree of cross-reference to the forward look studies - but little more than that.

5. If one aimed for something like that, the question would then arise as to what to do next. One possibility would be to submit the reports with a short covering note to the PM. Another non-exclusive alternative would be to circulate the reports to those colleagues interested in a given subject. Clearly there will be much press interest in them by then, the Chairman will be keen to know who kind of action is envisaged, and it would in any case be sensible for the colleagues to see the reports if they are, before long, to have sight of some kind of manifesto, or at least those sections of the draft manifesto which concern them directly.

6. An altogether different approach which I do not favour would be to let the colleagues see the Policy Group reports and react to them before you and the Chairman mull them over and consider what relevance they may have to the draft manifesto. This would both deny you a degree of editorial control which you would probably wish to have, and would, in addition, hold back the





business of preparing the manifesto by a significant amount at a time when there is little room for manoeuvre.

THE MANIFESTO

7. It is here that the key dates, deadlines and constraints are most obvious. I start from the assumption that it would be appropriate, for obvious reasons, that there should be a near-final draft ready in galley by the week-end of May 7th/8th. This could, if appropriate, be given a final scrutiny on May 9th, and sent off to be printed and launched as quickly as may be. [You may recall that in 1979 the crucial confidence vote was lost on the Wednesday, the manifesto text was agreed on Friday, and back from the printers in time for launch during the following week. There were great advantages in so swift a programme, all the more so since the Labour party's document came so late, and was only available initially in photo copy!]. The case for having a near-final draft ready by the week-end of May 7th/8th is all the stronger when one is contemplating the problems of preparing and agreeing it for a government. Ministers will be far busier than they were when they only held Shadow positions given their Departmental duties; and in all probability they will both have stronger views about what should or should not be in the manifesto, and probably more complex ones too. If we work back from that final deadline, then a number of other conclusions follow straight away.

8. First, <sup>the</sup> that/near-final draft which is to be agreed on May 9th would have ideally to have been circulated sometime before, perhaps on May 2nd. It would also, if past experience is anything to go by, be immensely advantageous if by that week the preparation of a brief on the manifesto were already well advanced - it would be a more important document, I think, than it was in 1979. Circulation on May 2nd of the near-final draft could mean that there were some three weeks - those beginning on April 11th, 18th and 25th - in which there could be intensive consultations and discussions with colleagues either on relevant manifesto sections, or if appropriate on the whole text. And time to work up the Welsh and Scottish versions.

9. At this point one should note an important question. There are broadly two ways in which one could imagine a manifesto being put together. The first would be to ask each colleague to list



PERSONAL AND CONFIDENTIAL

the points he wants included (classifying them by degree of importance), to suggest suitable forms of words, and for editors then to put these fragments together into a draft. The draft could then be circulated in the normal way and the usual discussions follow. The second approach would be for an editorial team to prepare the first draft, to show relevant sections to each colleagues to ask for comments, additions, amendments, and a note not only of the things which must be in, but also those which might with advantage be included.

10. The second approach is, I am sure, a far better one. Not only does it make possible a degree of editorial coherence; it is far better suited to the rather tight timetable which you are likely to be faced with. Provided you put the three last weeks of April to good use, it would be possible to operate this system and to give all the colleagues a fair crack of the whip, to an extent which has not always been experienced in the past!

11. If you adopt the second approach as I would recommend, then I think one could work back to the following timetable for the initial stages of manifesto drafting. At your hypothetical meeting on the week-end April 9th/10th you would wish to have to hand a relatively crude manifesto draft as well as the Policy Group reports. Following on from that discussion, it would be possible to redraft the manifesto and submit it to the PM during the week of April 11th, with a view to the redraft or sections of it then being circulated to colleagues for comments in the weeks of the 18th and 25th. Ideally that crude draft which you considered at your week-end summit should not be totally unfamiliar to you. You could well envisage commissioning a first draft sketch of it in the last weeks of February, once you and the Chairman have considered the assessments of the forward look exercise. Indeed you could have a first consideration of a draft manifesto in the weeks March 21st or 28th, once the Budget is over, which would mean that the document you considered at the April 9th/10th summit will already be getting near a usable form, even if it were still very speculative in many respects, particularly the detail of policy.



TIMETABLE AND FUTURE ACTION

12. I have very tentatively noted in the enclosed timetable a programme of action on the lines of what has been so far suggested. In our meeting you may to some extent wish to raise these questions with Mr Parkinson, and you will presumably wish tentatively to agree some of the more important dates and deadlines, so that suitable preparations can be put in hand immediately. I would single out the following actions for early consideration and agreement:

- (i) Forward look assessments. Are you happy for Messrs Kemp, Cropper and Ridley to attempt to produce their various assessments by some time around Wednesday, February 16th? Should one then provide for a meeting to consider them sometime in the week of February 21st?
- (ii) That meeting completed, would it then be sensible to consider commissioning the first very rough draft of a manifesto, for consideration by yourself and Mr Parkinson at some point in either the weeks of the 21st or 28th? Would you want to involve any other colleague in that consideration?
- (iii) Would you then wish to arrange, if it is feasible, a "Summit" meeting on April 9th/10th to jointly consider the Policy Group reports and the second crude manifesto, a redraft of which could then be submitted to the PM?
- (iv) Though it may be a little premature, you may also wish to consider with Mr Parkinson the editorial arrangements for drafting the manifesto. Mr Cropper is, I know, very busy and doubts whether he will be able to provide a great deal of detailed input himself, though of course he ought to be associated as closely as possible with the exercise.
- (v) It is not too early, judging by experience in 1978 and 1979, to consider the mechanical and logistical questions for the design and printing of the manifesto. First, one needs to form a view as to how quickly it could be set up, corrected and printed. Second,

N.T.N.L. D.M



PERSONAL AND CONFIDENTIAL

one needs to find out whether a suitable designer will be available at the necessary time (Elwyn Blacker was used with great effect last time). Then there are also questions of cover design, layout and the rest, which can waste a great deal of time and effort if not resolved well in advance. It is also important at some stage that people consider other seemingly minor questions like whether or not there is to be a very short summary of the manifesto, a leader's message, etc. etc.

RELATION TO PARTY PUBLICITY

13. There is one important respect in which our position now is rather different to what it was in 1978 and 79. At that time, the general drift which party publicity should take and its relation to manifesto campaigning themes generally was clear. On this occasion, however, we know already <sup>that</sup> there will be a substantial publicity effort being launched in March and April, whose themes and character will be increasingly firm as the weeks go by. This seems to me to be an argument for getting ahead with thinking about at least the general character and shape of the manifesto at a relatively early date. Otherwise we shall run the risk of reaching the middle or end of April, then discovering a whole host of issues which need to be researched, turned into PEBs, supported by leaflet campaigns and posters, or whatever it may be - and all a time when film producers are busy, poster sites are booked, and there is very simply no time!



A N RIDLEY





POSSIBLE TIMETABLE

Week beginning Monday	Major Events	Forward Look (FL) & Policy Group work (PG)	Manifesto (MFO)
February 14th		Treasury & CRD complete FL assessment	
21st		GH & CP consider FL assessments	Earliest feasible date for commissioning first MFO draft?
28th		[Consideration of FL consequential queries with colleagues]	
March 7th			
14th 15th	Budget		
21st			} GH/CP consider first crude MFO draft?
28th 31st	Parl. Rises	Deadline week for PG reports	
April 4th	} Easter Recess	PG reports considered? W.E.9/10	2 <sup>nd</sup> crude draft MFO ready
11th		PG reports to interested colleagues?	MFO redrafted in light of discussion, for circ'n to PM & ?
18th		Colleagues reaction to PG reports	} Consultation with colleagues on relevant MFO sections, & perhaps whole text
25th			
May 2 <sup>nd</sup> 5th	Local Elections		Near-final draft MFO circulated (? in Galley). Draft brief in preparation.
9th			Final draft MFO agreed, printed and if need be launched.
16th			

