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Part A.

CONFIDENTIAL
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Begins: 24/10/80
Ends: 2/2/81

PO -CH /GH/0084
PART A

Chancellor's (Howe) Papers:

REPRESENTATIONS ON TAXES
AND INFLATION FOR THE
1981 BUDGET

Disposal Directions: 25 Years

26/7/95

Chartered Surveyors Established 1773
International Property Consultants

Richard Ellis

7-17 Jewry Street
London EC3N 2ND
Telephone 01-480 5633
Telex Rellis 8812751

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Top copy CH/EX 3/11 ACK

17171

CH/EXCHEQUER
REC. 31 OCT 1980
ACTION Mrs HEATON
COPIES TO Mr CROPPER

Our ref: DNIP/SGE

24th October 1980

Dear Geoffrey

I was delighted that you were able to join us for lunch last Wednesday.

As I mentioned, I have become increasingly concerned over the problems of raising finance in the Enterprise Zones for property development and also for the ever increasing large sums of capital that are necessary to rejuvenate areas of the country, be they town centre redevelopment schemes or large industrial complexes. I have had the opportunity of talking the problem over with a professional colleague Norman Bowie, a consultant with Jones Lang Wootton, to try and find ways in which the large capital injections that are necessary can be found.

The attached paper which he has prepared sets out some of the ideas that might be considered to attract groupings between institutions, pension funds and other fund sources.

The attraction would be a relief from any Government monies in such essential schemes and could provide the opportunity of hitherto untapped large funds becoming compatible and thus investing in worth-while schemes. The compatibility of funds and institutions together with development expertise would spread the risk element in the larger schemes and thus make the schemes more attractive for funds and institutions to have a share in the risk and profit. Such a spreading of the risk would bring into the development area a larger number of funds to compete in the important redevelopment of industrial and commercial areas.

cont.../

I hope this letter and the attached paper are of interest to you and should you wish to consider the matter further, Norman Bowie and I would be only too pleased to expand upon our views either at a meeting or by producing a more detailed paper.

Yours sincerely

Idris.

D.N. Idris Pearce

Rt. Hon. Sir Geoffrey Howe, QC.,MP.,
The House of Commons
Westminster
London SW1

3

. . W. Bowie, F.R.I.C.S.

103, Mount Street,
London, W1Y 6AS.

Telephone 01-493 6040

Finance for New Property Developments

1. There is an increasing volume of money available from insurance companies and pension funds for investment in new property developments.

2. Many new developments will be either

   a) of a size above which no single source will provide the money,

   b) of a size above which a sufficient number of funds will not be interested so as to provide the money on competitive terms,

   or

   c) in a location such as areas of urban renewal e.g. enterprise zones, where although funds may consider it desirable for social-economic reasons to invest restricted amounts of money, the size of individual holdings will either

      i) be unattractive, or

      ii) the total amount of money so made available will be insufficient to meet the needs of the promoting authorities.

3. The additional problem of the locations falling within para. 2(c) is that the prospects of rental income growth are often likely to be lower than elsewhere so that Trustees will be hesitant to make any large scale commitments.

4. The problem would be eased considerably if institutions were prepared to join together in the provision of funds. In the past some joint ventures have been created in the form of partnerships or trusts for sale but the experience has been unsatisfactory. In any event the solution has to be a vehicle into which many funds can subscribe. The Property Advisory Group in their Report to the Department of the Environment of February 1980 in para. 6.6 drew attention to the problem but provided no answer.

4

5. Pension Funds being tax exempt seek to receive rental income direct and to own real estate direct so as to be exempt from capital gains tax. Insurance companies pay lower income tax rates and, therefore, also prefer direct ownership.

6. The position described in para. 5 only had real application after the introduction of the corporation and capital gains taxes. Prior to that time both categories of funds invested freely in property companies - in fact their willingness to do so was a major contributor to the expansion of the property companies in the later 1950s and early 1960s. It was the activities of the property companies which made a major contribution to the restoration of war damage and subsequently assisted in the development of industrial estates and the modernisation of property.

7. An answer which could be a substantial contribution to the problems set out in para. 2 and 3 would be to exempt from corporation tax property investment companies, providing

   a) the property assets, when first acquired, were located in designated areas such as enterprise zones, inner city partnership areas, urban development corporations.

   b) no other fixed assets were held nor trading activities undertaken.

   c) some degree of liquidity was permitted to cover cash awaiting investment.

   d) shareholders were restricted to pension funds already approved by the Inland Revenue and insurance companies approved by the Department of Industry.

The loss of revenue to the State would be minimal as the tax treatment of the company would be no different from that prevailing if the real estate were owned direct by a pension fund or insurance company.

It would be an added attraction if exemption could be given to capital gains tax on a realisation by the company.

5

8. Property investment companies on these lines could them be formed to draw in small and large contributions from the numerous pension funds and insurance companies because it would draw together the various strands of investment into one compatible tax vehicle. This would mean that there would be a reduction in the requirement of contributions from the public sector both for urban renewal and the further development of property to meet industrial and commercial needs.

M W Morie

October 1980.

6

THE THEATRES' NATIONAL COMMITTEE

17287

Chairman: JOHN GALE

The Committee comprises representatives of:
The Society of West End Theatre
Theatrical Management Association/Council of Regional Theatre Ltd incorporating The Association of Touring and Producing Managers
The Association of Circus Proprietors of Gt. Britain

All Communications to be addressed to The Secretary

BEDFORD CHAMBERS
THE PIAZZA
COVENT GARDEN
WC2E 8HQ
01-836 0971/2/3

Telegraphic Address:
'THEMANAS' LONDON

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CH/EXCHEQUER
REC. - 4 NOV 1980
ACTION PS/IR
COPIES TO

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30th October, 1980

The Chancellor of the Exchequer,
11 Downing Street,
London, S.W.1

Dear Chancellor,

Following my letter to you of 26th February, 1980, we have followed up the question that we raised concerning tax benefits for private investors in the independent theatre. We have argued for a return to the position which existed, we believe, prior to the 1963 Finance Act when it was possible for investors to off-set losses sustained in theatre productions against the income which they may have derived from other businesses. We understood that this practice ceased as a result of measures in the 1963 Act.

After this year's Budget, one of our leading Members, David Conville, was present at an informal lunch with you and re-iterated our aims and was rather surprised when you mentioned that this had been catered for in this year's Finance Act. We decided to look into this and, with the good offices of Mr. John Whitaker (until recently, in the Office of Arts and Libraries), we had a very useful meeting last week with Messrs. John Bryce and Keith Deacon of the Inland Revenue. It became clear that the provisions contained in Section 37 of this year's Act could only benefit investors in the independent theatre if we radically restructure the way in which our industry operates. We pointed out to the Inland Revenue Officials that this could lead to potential abuses which could cause long term damage to our industry, not least in our carefully nurtured relationships with the Trade Unions. In short, it appears that the interests of the theatre are not catered for in Section 37, although Mr. Bryce very kindly stated that he would examine this matter more closely with particular regard to our assessment of the legal position affecting our investors.

Assuming that this analysis is correct, we would like to bring this matter to your attention at a very early stage to see if there is any possibility of our coming to talk to you or one of your Ministerial colleagues about this. We are very pleased to have reached a position with various Government Ministers where sympathy has been expressed with our problems (as exemplified by the statement by Lord Mowbray in the recent House of Lords debate). We believe this positive reaction is in response to the ambitious self-help programme which was launched this year by the Society of West End Theatre which will cost nearly £100,000 by the end of this year. Your Ministerial colleague, The Chancellor for the Duchy of Lancaster, has given us very welcome support and I am sure will verify what I have said.

cont ......

Cont......

We would appreciate the opportunity of entering into discussions which might enable us to help ourselves still further at very little cost, we believe, to the Nation's economy.

Yours sincerely,

John Gale

John Gale
Chairman

cc Minister of State (C)
' Caff
Mr Cropper
PS/Inland Revenue

8

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

15 December 1980

John Gale Esq
The Theatres National Committee
Bedford Chambers
The Piazza
Covent Garden
LONDON
WC2E 8HQ

Dear Mr Gale

Thank you for your letter of 30 October about tax relief for private investors in the theatre.

I have noted your comments about the suitability of the relief provided by Section 37 of the Finance Act 1980 to investment in the theatre. This relief was of course introduced with the much wider intention of encouraging the provision of venture capital in new businesses carried on by unquoted trading companies. This does not preclude the type of investment with which you are concerned in the theatre, but I fully recognise that the conditions for the relief to apply may not easily be adapted to the present pattern of financing in the theatre.

I have also taken note of your request for a meeting to discuss the possibility of introducing a specific income tax relief for investment in the theatre. You will recall that this matter was discussed with Mr Peter Rees at a meeting in September last year, when he emphasised that priority must be given to getting the economy right rather than to the introduction of fiscal concessions for the arts. You will of course appreciate that present economic circumstances put a severe constraint on fiscal concessions, and in those circumstances a meeting at this particular time might not be particularly helpful.

I am grateful to you for writing to me and I assure you of my continuing concern for the development of the independent theatre.

Yours sincerely

Geoffrey Howe

GEOFFREY HOWE

NATIONAL INFORMATION
71 Fleet Street
London EC4
01-583 9305 01-589 1945
Te[illegible]31 ComSerG

pa

THE UNION OF INDEPENDENT COMPANIES

19650

TOP CH/EX ACK LAY

FB 8/1

CH/EXCHEQUER

REC.	-7 JAN 1981
ACTION	MR ISAAC (IR)
COPIES TO	FST MST (C) MST (L) Sir Douglas Wass Mr Ryrie Mr Middleton Mr Battishill Mr Cropper PS IR

5th January, 1981.

Please find enclosed our response to the recent Revenue consultative document on stock relief.

May I wish you all the best for 1981.

NB *

on p.4

S.A. Mayo

National Chairman

NATIONAL
INFORMATION
71 FLEET STREET
LONDON EC4
01-583 9305 &
01-583 2148

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Please reply to:

Fleet Street

THE UNION OF INDEPENDENT COMPANIES

The Secretary
Board of Inland Revenue
Room 69, New Wing
Somerset House
London WC2R 1LB

17 December 1980

Dear Sir,

STOCK RELIEF - CONSULTATIVE DOCUMENT

We have pleasure in writing to you in response to the invitation from the Government to comment on the proposals contained in the consultative document issued by the Board of Inland Revenue on 14 November 1980.

In broad terms we welcome the document, which is both timely and practical, and we endorse the aim at simplifying the operation of stock relief in order to create a greater understanding of it and hopefully to limit the amount of abuse which has been possible under the existing provisions. Furthermore we welcome the implied discrimination in favour of smaller businesses in the proposals for the working of the credit restriction which will apply in the future to stocks in excess of £1 million.

It is encouraging to the commercial decision making process, on which all successful businesses must depend, that in future stock relief will no longer be given by reference to increases or decreases in the total value of stocks but only by reference to the effect of price rises on the value of stocks at the beginning of each period of account. We accept that in times of expansion this proposal will mean that the value of stock relief to the taxpayer does not increase in line with the pace of expansion. However, at the time of any downturn in the economy, the new proposal will be more beneficial than the existing arrangements.

We have noted, in particular, that there is the fundamental change that relief already obtained will generally no longer be clawed back as and when stock values decrease, but only when the business ceases or there is a permanent reduction in the level of trading. It is a matter of considerable regret that only now has there been recognition that the present recession has placed many businesses in the dilemma of wanting to reduce stock levels to try to maintain liquidity and yet, by doing so, they would lose substantial stock relief with the consequence of facing large tax bills.

Many of our members have been receiving professional advice that it is cheaper to maintain stock levels at existing volumes rather than risk paying the tax recovery charge simply because, even at current rates of bank interest, it is cheaper to meet this interest cost over possibly even a two year period than to meet a tax bill following the reduction of stock values. As a result of the failure to recognise fully this problem at the time of the 1980 Budget debate, there is little doubt that the length and depth of the present recession has been increased and consequently certain businesses will not survive which may well have had the opportunity to do so. It is clear that if companies had been able to destock more quickly, without the threat of substantial clawback of stock relief, not only would this have helped to reduce the level of private sector borrowing but also it may well have brought forward the date on which there is a return of business confidence and businesses generally commence rebuilding their stocks.

Basis of relief

We have no comment on the proposal that the relief will be based on the effect of price changes on the opening stock for each period of account. Effectively, this provides indexation to the opening stock values in calculating relief, regardless of whether opening stock values are greater or less than closing stock values. We accept that this is the simplest and most workable option bearing in mind that tax rules must be capable of application to all relevant taxpayers and to all types of business.

Furthermore we accept the need for a de minimis threshold of £2,000 in the level of stocks in order to reduce the administrative burden of dealing with very small claims. We are pleased to note that the previous profit restriction applied on the calculation of the relief has now been abolished.

The position of the opening stocks for the calculation of relief in the first year of a new business is not the subject of a firm proposal in the document. Bearing in mind that the aim to keep all proposals as simple and practical as possible, the suggestion to adopt a notional value, reflecting as far as possible the normal level of stockholding through the first year, would appear to involve a degree of subjective opinion on both sides which may not be easy to reconcile. We suggest, for the sake of simplicity and to give added encouragement to new businesses, that the exceptional step is taken to base the stock relief for the first year of a new business on the value of its closing stocks related to the index for the first year. We consider that the clawback proposals are more than adequate to meet any possible abuse relating to this proposal and it would enable new businessmen to plan the operations of the early period of trading in accordance with commercial principles.

Measure of inflation

We have noted the arguments put forward in the paper for the use of a special Government general index to measure the movement in the prices of all business stocks, rather than to rely on individual cost of sales adjustments in accordance with SSAP16 or to the various official CCA indices for particular industries. It may well be that this single "all-stocks" index will bear no relation to the inflation experience of particular businesses or to individual cost of sales adjustments under SSAP16, and in the circumstances is likely to give rise to anomalous results. In addition, it will mean that imported raw materials and finished goods will bear the average UK rate of inflation in determining changes in price levels, irrespective of the actual rate in the country concerned and the interplay of movements of foreign exchange rates. The only justification which is acceptable to support the proposal is the one of simplicity. In the light of the Government's intention to publish, at some future date, a wide ranging Green Paper on the structure of corporation tax and the implication of possible further changes to reflect more generally the effect of inflation on the calculation of business profits, the present proposal for measuring inflation is acceptable as an interim step forward prior to the Green Paper.

It is noted that apparently there will be a time lag of at least three months before the index figure for any particular month is published. This will inevitably give rise to consequent uncertainty as to the amount of relief which should be taken into accounts at any particular date and may well lead to difficulty in relation to consideration of other reliefs which may be available but whose utilisation depends in part on the level of stock relief available. We consider that greater effort should be made to reduce the period of time taken to publish the monthly index and that ways should be sought of publishing a provisional figure as quickly as possible at each month end; the final figure being published without undue delay.

Clawback of relief

The consultative document suggests that clawback will for practical purposes be abolished except in cases of cessation and "near-cessation". However there will apparently be a general rule that unrecovered relief for the previous six years will be clawed back if and to the extent that the closing stock for a period is less than that "unrecovered past relief". It appears that the onus will be on the taxpayer to show that any reduction of stock levels is not "permanent" and there is also the inference that the reduction must be "substantial" for clawback to arise. It is imperative that a proper definition is given of "substantial" in these circumstances and what constitutes a permanent reduction in the scale of operations. Whilst accepting that there is a need to guard against tax avoidance schemes in this area, full recognition must be given to the normal trade cycle which can adversely affect any business.

Cancellation of unused relief

Not only is the elimination of past unused relief from trading losses carried forward at the same time as it is "written off" for clawback purposes of uncertain effect, until clarification is made of the order of priority in which tax reliefs are to be regarded as utilised, but the proposal for such cancellation is considered to be unreasonable and not in accord with the concept of the relief. We do not consider that there is any justification to change the present position under which the taxpayer, in a tax loss situation, is enabled to carry forward unused stock relief as part of his trading losses. In our view this particular proposal should be reconsidered and amended in favour of the taxpayer.

The credit restriction

It is proposed that the total borrowings of a business will be pro-rated between stocks and other assets of the business to determine the extent to which stocks are financed by credit. For purposes of relief, the stock value will then be reduced by the amount of attributable borrowings. To limit the administrative burden, the credit restriction will apply only where the value of stocks (less the £2,000 threshold) exceeds £1 million, when relief will effectively be available by reference to the greater of £1 million and the value of stocks as reduced by the £2,000 threshold and the credit restriction. It is recognised, therefore, that the restriction will thus affect only the larger business but will in general penalise the highly geared company, although the removal of the profits restriction within the present arrangements could have a counter-balancing effect.

Although we accept the need for some restriction of relief given in relation to the extent to which certain companies use outside borrowings/credit to finance their stock values, we consider that the proposed basis of calculation of the restriction is arbitrary and does not recognise the developments which are taking place in this country in respect of corporate financing. For too long the banks have been only too willing to provide hardcore corporate financing by means of overdraft rather than by the provision of short and medium-term loans. Although this is the cheapest form of financing, it places too much power in the hands of the banks, as the facility can be withdrawn at will, and leads to short-term encouragement of a rapidly expanding business through the provision of increasing overdraft facilities which may suddenly be curtailed or withdrawn if the bank reconsiders the level of facility being provided. Recent banking developments, with the encouragement of the Government, have placed greater emphasis on the provision of loans for the purchase of fixed assets and hardcore working capital. There is now growing appreciation that overdrafts should be used primarily to finance short term working capital problems.

We consider that the Inland Revenue should be prepared, in framing proposals for the calculation of the credit restriction, to encourage this development in the funding of corporate finance and that the present proposals should be re-drafted to this effect. We suggest that any loan (not an overdraft) which can be directly identified with financing the acquisition of fixed assets, including goodwill, should be excluded from the credit restriction calculation together with the equivalent amount of the assets concerned. For example, a loan of £100,000 raised to purchase an asset of equivalent value and repayable equally over a period of ten years would be excluded from the amount of finance raised from third parties and at the same time the amount of the loan, which will reduce each year, will be deducted from the fixed assets of the company when calculating the credit restriction. In our opinion, this fundamental change in the current proposals is vitally necessary and we do not consider that it in any way invalidates the concept of the credit restriction which we support.

It is not clear precisely how, in the context of a group of companies, the aggregate group borrowings will be apportioned among members of the group. In addition, it would appear that a group company may be subject to a credit restriction even if it has itself no "credit financing", borrowings by other group companies are in no way related to the financing of stocks, or the businesses of the various group companies are totally dissimilar and independent. Whilst the position is not clear from the consultative document, it appears that a single fractional restriction based on the group calculation may be applied to the stock of each individual member of the group to determine its own entitlement to relief, regardless of the borrowings (if any) actually made by that member. Whilst we are not primarily concerned with large groups of companies, this whole position indicates to us the need for further review and discussion of the calculation and application of the credit restriction.

It is apparent to us that the proposals for a credit restriction may well be beneficial to smaller companies, insofar as it will be an advantage to those companies which will be subject to the restriction to use any surplus cash balances and other liquid funds at the end of their accounting year to repay creditors and short-term borrowings in order to ease the impact of the credit restriction for the following year. At the same time it may well encourage third party debt factoring as a way of reducing or avoiding the impact of the restriction.

It is also necessary to consider whether the proposal for a credit restriction will put pressure on companies to raise additional funds by issuing equity rather than loan capital and this could well affect the attitude of certain fast growing private companies, the owner/managers of which would be prepared to limit that growth rather than part with equity. This likely problem again highlights the need for ignoring any loans raised for the acquisition of fixed assets when calculating the restriction.

A similar problem arises insofar as the present calculation proposals would seem to encourage off balance sheet financing and leasing. For example a sale and lease back premises arrangement could generate cash to pay off loans and trade creditors. It is noted, however, that the consultative document indicates that "special consideration" will be given to leasing and it may be that leases will be capitalised for credit restriction purposes, with a corresponding notional increase in borrowings, thus negating the advantage of sale and lease back or of straight leasing. Yet again this highlights the need, in our view, not to take into account the financing of fixed assets in the calculation of the credit restriction.

Transitional arrangements

The proposed new measures will in general apply to periods of account straddling 14 November 1980 and to later periods, subject to the new credit restriction which will apply only to periods of account beginning after 13 November 1980. Insofar as periods of account straddle 14 November 1980, taxpayers may choose either to calculate the relief under the new rules or to calculate relief under the old rules, but excluding any increase in stock value since 14 November 1980. However, if the latter method is followed, the consultative document states that as a measure to eliminate marginal cases there will be a deduction of an amount equivalent to 25% of the relief which would be available under the new proposals.

The proposal for this 25% limitation is of great concern to us. It could well result in a company with relatively high stocks at 14 November and/or its next year end date actually paying more corporation tax in respect of this year than it would have paid under the current legislation. This will apply particularly to companies which have continued to maintain production, and to a certain extent built up stocks, rather than lay off members of their workforce. It is stated that the 25% limitation is designed to avoid placing a disproportionate administrative burden on the tax offices. However we are not satisfied that the application of such a limitation has been properly considered and, in our view, it is imperative that the application of the 25% limitation is eased in favour of the taxpayer. We suggest that the deduction concerned should be limited to the lower of 25% of the relief under the new rules and £10,000. In this way the administrative problems/costs of the Inland Revenue are recognised but at the same time the current burdens of British industry are also taken into account.

In making this proposal we are mindful of the fact that many companies have had to plan their operations since the 1980 Budget Statement in the knowledge of the need to avoid a substantial clawback of previously given stock relief if the businesses were to overcome the damaging effect on their cash flow which large tax bills would create. In addition we have noted that any clawback arising in a period of account ended before 14 November 1980 will apparently continue to be charged in accordance with the old rules. Although it may be possible to defer the clawback for one year so that any amount deferred will be charged in the following period, the fact that that period would otherwise fall within the new scheme will not apparently affect the clawback taking place.

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Imported materials and goods

Implicit in the new proposals is the fact that companies with higher than average rates of inflation in their stock values will lose out compared to those with a lower than average rate. Furthermore, companies which are obliged to maintain high levels of stock, in relation to their profitability, coupled with high gearing will also find the new proposals less beneficial, as also will the fast growing company due to the emphasis placed on the opening balance sheet position with regard to calculation of relief for the current accounting period.

In these circumstances we are not convinced that the system will assist in a greater part of the relief being directed towards manufacturing industry and we have already seen estimates by leading institutions that the new system is likely to benefit retailers more than manufacturers. At the same time, recognising the high cost to the Exchequer of stock relief, both under the current legislation (during normal trading conditions) and under the new proposals, we would wish to see the maximum encouragement to British manufacturing industry particularly at a time when there is such an urgent need to strengthen the industrial base of the country.

We recognise that the UK has certain obligations under international treaties, particularly the EEC and GATT, but we request that urgent consideration is given to exclude imported materials and goods from the benefit of stock relief. It appears to us wholly unreasonable that imports, which may not have been subject to the UK rate of inflation and indeed may be cheaper over a period of time as a result of the strength of sterling, should receive what amounts to a subsidy from the UK taxpayer. It may well be that international agreements only allow the promotion of exports, through tax incentives, rather than the encouragement generally, through tax incentives, of home industries. However we would welcome any encouragement which can be given to British industry in this way, at the same time involving a saving of revenue for the Exchequer. If stock relief were to be denied only to imported finished goods, rather than all imported materials, this in itself would accord with the aspirations and new spirit which are developing within that part of British industry which is surviving the recession and will hopefully emerge to respond to the opportunities that an upturn of world trade will bring.

We shall be pleased to provide any further information or explanation in connection with this submission which you may require.

Yours faithfully,

SA Mayo
National Chairman

16

PLEASE DO NOT REMOVE THIS COPY

CHANCELLOR OF THE EXCHEQUER

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

13 January 1981

Peter Viggers Esq MP

Dear Peter

You suggested to me recently that tax relief should be given for the cost of the wages of personal employees as a means of helping to reduce unemployment, and I undertook to let you have a note of our thoughts on this.

In the first place I think that the repercussions of giving such relief would be very great. It is a principle of our income tax system that relief is not given for personal expenditure, and this has been accepted by successive government This principle could not be breached solely for the benefit of those who employed domestic staff: people who incurred expense in doing the work themselves or engaged an outside contractor would consider that they should not be put at a tax disadvantage. And once relief was admitted for this sort of expenditure it would be very hard indeed to know where to draw the line. It would, for instance, be argued that if the voluntary costs of the wages of domestic staff qualified for relief, then relief could not be denied for such unavoidable costs as rent, heating and house maintenance. This would require a complete revision of our taxation system, and the revenue lost would have to be made up in some other way.

It is of course true that employing an individual in a personal capacity is a clear example of expenditure creating employment. But it is equally true that in the end nearly all personal expenditure creates employment for somebody, either directly or indirectly. There is also the point that any such scheme of relief would be less attractive when employment falls but that any fiscal concession, once made, would be very difficult to withdraw.

I am grateful to you for raising the point but I think that the provision of a subsidy through the tax system is not really the right way to deal with unemployment.

Love

GEOFFREY HOWE

Geoffrey

17

INLAND REVENUE
POLICY DIVISION P1/2
SOMERSET HOUSE

January 1981

PS 29/5·19/80

PS/CHANCELLOR OF THE EXCHEQUER

You asked for our advice on the suggestion put recently to the Chancellor by Peter Viggers MP that tax relief should be allowed on the cost of employing domestic staff as a means of alleviating unemployment. We attach a reply which the Chancellor may wish to send to Mr Viggers explaining the objections to such a proposal.

P Hart

MISS P HART

CHANCELLOR OF THE EXCHEQUER

BOARD
19 DEC 1980
INLAND REVENUE

18

23/1.

PRIVATE SECRETARY/INLAND REVENUE

PS.29/519/80

The Chancellor was approached by Peter Viggers MP yesterday. He argued that in order to help with the unemployment problem, tax relief should be given those who employ people to work in their house or garden. The Chancellor, recognising this as a fairly old chestnut, said that there were strong political and practical objections to it, but undertook to let him have a note. I would be grateful for advice accordingly please.

PSJ

P.S. JENKINS
18 December 1980

Mr Bitton
cc Mr Green
Mr Taylor-Thompson

From: The Rt. Hon. Sir Geoffrey Howe, QC MP

19

cc Mr Gordon R.
Mr Andren

HOUSE OF COMMONS
LONDON SW1A 0AA

CH/EXCHEQUER
REC. 15 JAN 1981
ACTION
COPIES TO Mr GORDON
Mr ANDREN

19911

14th January, 1981

Dear Mr. Thornton,

Your letter enclosing a copy of the letter which you wrote to The Times has already been acknowledged by my office on my behalf.

This is simply to say that I have read it with interest and shall certainly try to see that the lessons which you seek to draw are more widely understood.

Yours sincerely,

Richard Thornton, Esq.,
Park House
16 Finsbury Cricus
LONDON EC2

19720 20

PARK HOUSE
16 FINSBURY CIRCUS
LONDON EC2M 7DD
01-628 8131

CH/EXCHEQUER
REC. -9 JAN 1981
ACTION
COPIES TO

RCT/CBC

The Rt.Hon.Sir Geoffrey Howe, M.P.,
Chancellor of the Exchequer,
11, Downing Street,
LONDON W.1.

Dear Sir Geoffrey,

I trust that you do not mind my sending you a copy of a letter which I wrote to The Times, which they have apparently decided not to publish.

This was very fully vetted by our Economics Department in Hong Kong, who studied carefully the developments in Japan during the relevant period and who consider that Britain, with the reservations made in the letter, is well on the way to following the Japanese example.

I am sorry that The Times, for some reason, did not see fit to publish the good news and I hope that you and The Prime Minister will take some encouragement from what we perceive to be the satisfactory course of events.

Yours sincerely,

p.p. RICHARD C. THORNTON

(Dictated by Mr.Thornton by phone from Hong Kong and signed on his behalf in his absence)

C.c. The Rt.Hon.Mrs.M.Thatcher, M.P.
The Prime Minister

21

PARK HOUSE
16 FINSBURY CIRCUS
LONDON EC2M 7DD
01-628 8131

30th December, 1980.

Sir,

Much recent comment in the Press, including Michael Leapman's amusing piece "The Taming of the Monetarists", indicates that Mrs.Thatcher's polices have either failed or are in the process of doing so. I believe such comment to be extremely harmful by reason of its ability to persuade the untutored to believe this to be true. After all, most people believe what they read unless they have specialist knowledge to the contrary. In fact, with the notable exception of the control of M^3, itself a maverick benchmark which was always unlikely to hit its pre-destined target in the absence of strict central bank control of the monetary base, it seems to me that the Government's policy is pretty much on course.

My reason for believing this is that I perceive some close parallels between Mrs.Thatcher's policies and those pursued in Japan after the first oil crisis in 1973. As M^1 indicates, there has been an effectively tight monetary policy dating from approximately six months after Mrs.Thatcher came to power and the various effects already noted to result from such a policy in Japan are becoming apparent in Britain. The exchange rate has strengthened, the balance of payments has improved and the inflation rate has been dropping. In a similar manner exports are buoyant as manufacturers strive to maintain turnover against a pattern of reduced demand at home. Apart from these desirable results, the rise in wages has moderated, albeit at the cost of substantial unemployment, a feature also in Japan during 1974 and 1975 despite the defensive qualities of the life-long employment system in that country. There are other interesting parallels, notably a large increase in the number of bankruptcies but which were in Japan and are in England more than matched by the number of new enterprises starting up, which maintained a high level as the following table shows:-

	COMPANY LIQUIDATIONS:	COMPANY FORMATIONS:
1979	4,537	65,058
1980 (Jan-Sept)	4,666	50,472

SOURCE: Dept.of Trade and Industry Statistics.

As a specialist investor in Japan I have, perforce, had to pay particular attention to economic developments in that country and I find it encouraging that there are so many parallels resulting from the stands taken in 1973/74 by the government of Japan and in 1979/80 by Mrs.Thatcher's administration.

....2/

22

PARK HOUSE
16 FINSBURY CIRCUS
LONDON EC2M 7DD
01-628 8131

Of course, in many respects, the two economies are entirely different with a much lower proportion of GNP being devoted to public sector expenditure in Japan than in this country. Nevertheless, perhaps a trade off against this exists in the presence of North Sea oil. After all, the Japanese have had to double their exports in real terms over the past seven years to pay for the oil which they use.

The point at issue is that the Japanese programme against inflation took at least three years before achieving the success which has led to the prosperity which the Japanese people currently enjoy. Mrs.Thatcher has only been going for half that time and I think that people should wait to see how the whole programme turns out before they criticise what is, after all, an only half completed exercise.

Yours faithfully,

RICHARD C.THORNTON
Chief Investment Officer
G.T.MANAGEMENT LIMITED

The Editor,
"The Times",
Times Newspapers Ltd.,
New Printing House Square,
Gray's Inn Road,
LONDON WC1X 8EZ

23

10, DOWNING STREET,
WHITEHALL S.W.1

IB

Please book all three letters in and PA them all.

TAW 15/1.

With the Private Secretary's Compliments

Mr Wicks f/i
copy sent 15/1
NMW.

10 DOWNING STREET

From the Private Secretary 14 January 1981

I attach a copy of a letter the Prime Minister has received from Browns Agricultural Machinery Limited of Leighton Buzzard, together with a letter from David Madel, M.P.

I think that the easiest way to handle this correspondence would be for the Prime Minister to reply to Mr. Madel, sending a copy of that letter direct to the Company.

I should be grateful if you could let us have a suitable draft, to reach us here by Wednesday 28 January.

Since I see that Browns have sent a copy of their letter to the Chancellor, I am copying this correspondence for information to Richard Tolkien (HM Treasury). I think that the Prime Minister's reply could perhaps go on behalf of the Government as a whole.

N. J. SANDERS

J.D. West, Esq.,
Department of Energy.

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From David Madel, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

R14/1

13th January, 1981.

Dear Prime Minister,

I enclose a letter I have received from a firm in my constituency, Browns Agricultural Machinery, from which you will see that they have also written direct to you. I promised I would draw your attention to their letter.

Perhaps I might mention that this is not the first time that a firm in my constituency has raised with me the question of energy pricing, compared with their overseas competitors.

Yours sincerely

David

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
10 Downing Street,
London, S.W.1.

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Agricultural Machinery Co. Ltd.

Manufacturers of Farm Implements and Machines

Albany Works, Leighton Buzzard, Bedfordshire, LU7 8SB Telephone Leighton Buzzard 375157 Telex: 82259

Directors : A. G. BROWN, B. G. BROWN, A. W. G. BROWN, T. C. BOWSHER, T. J. FRANCIS

OUR REF. BGB/EMK/BAM YOUR REF. DATE 12th January 1981

D. Madel, M.P.
The House of Commons,
Westminster,
London,
S.W.1

PRIVATE & CONFIDENTIAL

Dear Mr. Madel,

In order to keep you informed of our views on the present policy of the Government's Energy Pricing Structure, we enclose herewith a copy of a letter and enclosures sent to the Prime Minister - also a similar letter has been sent to Sir Geoffrey Howe.

I hope you will do your best in getting a fair deal for British Industry.

Yours sincerely,

Bernard G. Brown
Director

encs.

c/- D. Madel, M.P.,

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Agricultural Machinery Co. Ltd.

Manufacturers of Farm Implements and Machines

Albany Works, Leighton Buzzard, Bedfordshire, LU7 8SB Telephone Leighton Buzzard 375157 Telex: 82259

Directors: A. G. BROWN, B. G. BROWN, A. W. G. BROWN, T. C. BOWSHER, T. J. FRANCIS

OUR REF. BGB/EMK/BAM YOUR REF. DATE 9th January 1981

The Right Hon. Mrs M.H. Thatcher,
10, Downing Street,
LONDON,
S.W.1

PRIVATE & CONFIDENTIAL:

Dear Mrs Thatcher,

We are one of the small manufacturers the Conservatives wish to encourage to enable us to expand. We employ fifty-three employees and make Farm Machinery. The Firm was founded 150 years ago by the present Directors' Great-Great-Grandfather.

Over the past 5-6 years we have invested over £266 000 in modern machine tools and equipment which has increased our productivity enormously.

We specialise in manufacturing Bale Handling machinery and have progressively increased our share of the home market, and thereby reduced the import of foreign-made Bale Handling Equipment which comes mainly from Holland.

In 1978 we decided to market our Bale Handling Equipment in the export market and started on a promotion drive in Eire and had a very successful sale the first year but last year, because of the difficult farming conditions in Eire, sales did not achieve the plan.

In 1979 France was our objective - but in order to be competitive with machines imported from other countries into France we had to cut our prices to the bone - but we made a start.

But - we do not see how we can expand our export business if we are handicapped by having to pay higher prices for our Energy than the rest of the world; Take gas for example, we converted all the heating of our factory from oil to gas five years ago. We in this country pay more than anywhere else in the rest of the world - yet it comes from our part of the North Sea (see details attached).

.../contd

BGB/BMK 9th January 1981 27

The Right Hon. Mrs M.H. Thatcher

Is this fair? Is this high price another form of Tax?

We can compete with the rest of the world if we are placed on an equal footing - but we shall never be able to if we are having to pay more for our Energy than other countries.

We do not want subsidies - or Government help. All we want is to be able to buy our Energy - Gas, Electricity and Road Fuel, at prices which are competitive to the rest of Europe.

Mrs Thatcher - be fair to British Industry, that's all we ask.

Yours faithfully,
for Brown's Agricultural Machinery Co. Ltd.,

Bernard G. Brown
Director

att:

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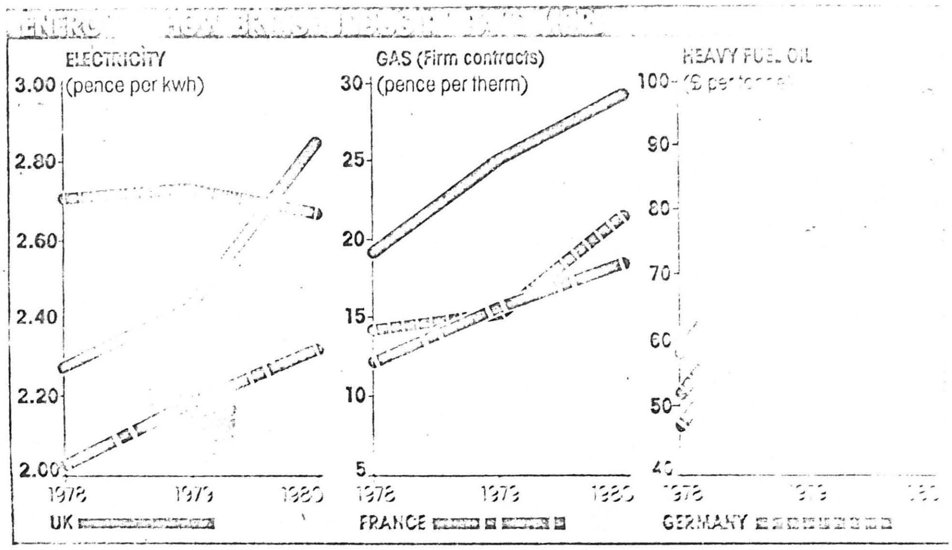
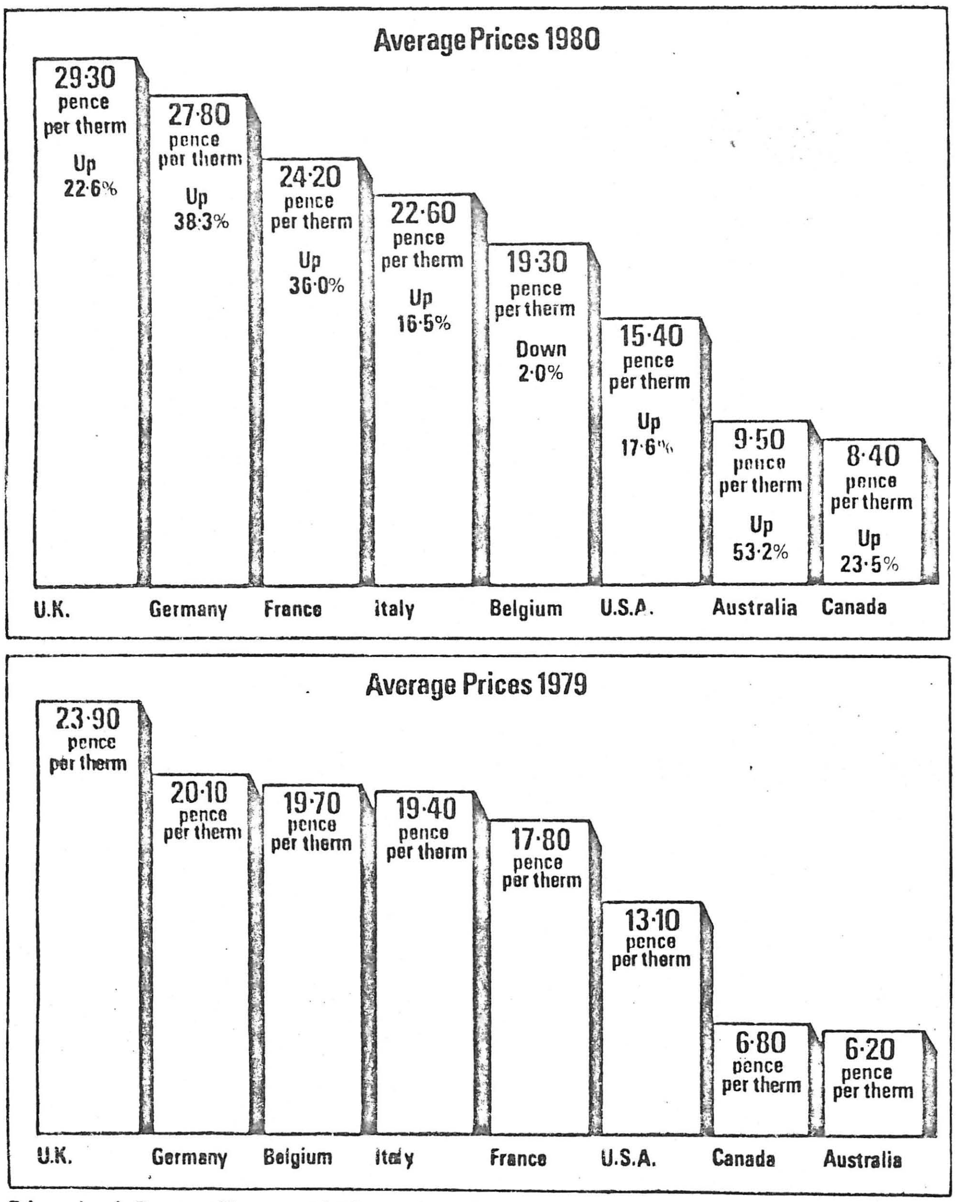

ELECTRICITY
(pence per kwh)
3.00
2.80
2.60
2.40
2.20
2.00
1978
1980
UK
GAS (Firm contracts)
(pence per therm)
30
25
20
15
10
5
1978
1979
FRANCE
HEAVY FUEL OIL
100
90
80
70
60
50
40
GERMANY

25

BRITISH FIRMS STILL PAY TOP WORLD PRICES FOR NATURAL GAS

The annual survey of international gas prices produced by NUS shows that British industry still pays by far the highest prices in the world for gas. For firm, i.e. non-interruptible supplies the consumer in Britain pays 5 percent more than in Germany, 21 percent more than in France, 90 percent more than in the USA, and 208 percent more than in Australia. For interruptible supplies British industry is charged an average of 27 percent more than its European competitors and pays almost twice as much as customers in the USA and four times the price as those in Canada.

NUS International Survey of Natural Gas Prices 1980/1979



Prices given in Pence per Therm as at 1st September. Firm supplies.

Half Million Gas Users

The survey was based on figures obtained from 550,000 energy-using locations in eight of the countries where NUS monitors energy costs. Gas costs were analysed in five different categories including interruptible supply and the figures apply to new and renewed contracts signed from 1st September, 1980. The survey excluded directly gas-oil-linked price contracts, where the unfortunate purchaser is currently paying up to 40p a therm more, i.e. a premium per therm of 10p or more. In four out of five categories British businessmen pay the most, usually by a substantial margin.

British Gas Price Increases Level Off

Gas prices in the UK rose on average by 22.6 percent in 1979-80, making Britain fifth in the rate of increase league, although still ahead of both Italy and Belgium. Australia leads the league with a 53.2 percent increase, although Australian industry still pays almost the lowest average prices, around one-third of the U.K. average.

Large UK Users Pay Penalty

The figures show that large UK industrial users of gas receive a poor deal by comparison with those of other countries and pay the highest prices of all: in fact British Gas pricing policy penalises large users by operating an inverse tariff structure.

British Gas could well consider reverting to internationally accepted pricing strategies which recognise volume and efficient use of gas, and which could pass on to its British customers the benefits of UK natural gas resources. ☐

Detailed statistics are available from NUS.

pa

CONFIDENTIAL

15/1/81

* The Ch/Ex wd. welcome any thoughts you might have on this miscellany of points (particularly 6+7). They could be aired on Monday. RT 16/1

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CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
MINISTER OF STATE (C)
MINISTER OF STATE (L)
MR NEWTON
SIR DOUGLAS WASS
SIR KENNETH COUZENS
SIR ANTHONY RAWLINSON
MR W S RYRIE
MR T BURNS
MR UNWIN
MR RIDLEY
MR CARDONA

cc Sir Lawrence Airey - IR
Sir Douglas Lovelock - C & E

Ian Stewart MP

~~cc Mr Middleton* Mr Monck~~ 16/1

I think we must take Tsy views on this subj. pronto after Ians - if poss. without too much toll.

CONSERVATIVE PARTY FINANCE COMMITTEE - 14 JANUARY 1981

An unscripted discussion took place, Mr Ralph Howell in the chair. Twenty members present.

1. Programme:

   i) Members hoped that the Chancellor would be able to meet the Committee before he went into Budget Purdah. [Now fixed for January 20th - PJC]

   ii) Members looked forward to meeting the new Chief Secretary.

2. Julian Amery: We all stand behind the government's policy of controlling government spending and the money supply and still they go on up. We are all in favour of high interest rates, but their level seems to be dictated by circumstances rather than held high deliberately. We would like to know what is going on.

3. Bill Benyon: Came intending to raise the question of rates, which do not 'control' anything. I am extremely worried. At the height of the German miracle they had low interest rates: you can't do anything with interest rates at this level.

4. Ray Whitney: The government must stop pussy-footing on monetary base control. They must either go for it or stop talking about it.

5. Michael Latham. Virtually all our problems are caused by the recession - nationalised industry losses, unemployment, etc.

It all adds to the borrowing requirement, so the last thing we want is a deflationary budget. We do not want to find ourselves on the election threshold at January 1st 1983 with 10 per cent inflation and three million unemployed.

6. Tim Eggar: We must be realistic. If we are all against higher taxation and lower expenditure, then we must accept a high PSBR: that means high interest rates.

7. Peter Tapsell: Wanted to take up Tim Eggar's point. Of course, there is a relationship between the PSBR and interest rates. But the correlation is often presented in an oversimplified form. At the present stage in the cycle we are likely to see a considerable contraction of bank lending to the private sector. That enables you to accept a higher PSBR. Furthermore, if the US prime rate falls very substantially we should be able to reduce MLR once, probably twice, before the budget, without causing strain on the money supply.

PJC

P J CROPPER
15 January 1981

B

RESTRICTED

32

Mr Ridley
I gather you discussed with Ch/Ex.
JW 19/1/81. 20/1

I.17

CHANCELLOR

cc Financial Secretary
Mrs Gilmore
Mr Cropper
Mr Cardona

?

PRESENTATION OF GOVERNMENT'S ECONOMIC POLICY

I have spoken to Mr Tolkien about this meeting, and we felt that something ought to be done about briefing. He will be asking Mrs Gilmore, as I understand, for some ideas. In the meantime you may find it helpful to consider the following points which occur to me as being of some importance, though of course I do not know whether they really deal with the issues which the Prime Minister may wish to discuss.

(i) Good news stories We have already written to Mr Pym, following a recent dinner with colleagues, emphasising the importance of his co-ordinating and distributing suitable material about the revival of enterprise, the creation of new firms, export and investment successes and the rest.

(ii) Radio and TV appearances by the colleagues As always, there is a compelling case for trying to induce the senior colleagues to repeat simple and similar messages on economic topics on radio and television - and perhaps some thought is needed now as to what those messages should be.

(iii) PPBs There has been very little action on this front recently. Present circumstances probably require some change of tone, and some thought about how the next year is to be played. As you know, Lord Thorneycroft likes to keep control as far as possible, but it may be nonetheless possible to have some kind of exchange of views with him about the programmes for the rest of the year.

(iv) The Budget Obviously you won't be able to say very much at this stage. But you may wish to stress at some point the need for very careful selling after 10 March.

RESTRICTED

(v) The plight of the Labour Party On the face of it, there would seem to be a strong case for spending a few minutes considering whether the time is not ripe for a fairly considered brief on what is implied by Labour's change of spokesman (vide Peter Shore's recent speeches), and the changing balance of power in the Labour Party.

No doubt you, for your part, will indicate whether you would like advice on any other matters; and the other recipients of this minute may be prompted to think of other helpful issues.

AR

ADAM RIDLEY
19 January 1981

From: Teddy Taylor, M.P.

TOP CH/EX LAY 20174

CH/EXCHEQUER

REC. 21 JAN 1981

ACTION PS/IR

COPIES TO CST, FST, MST(C)(L)
SIR D WASS
Mr RYRIE
Mr MIDDLETON
Mr BATTISHILL
Mr CORLETT
Mr UNWIN
Mr PICKERING

HOUSE OF COMMONS
LONDON SW1A OAA

19th January, 1981.

Dear Geoffrey,

You will have had plenty of advice on the Budget in March but Echo Instruments Ltd. who are one of the biggest employers in Southend and whose Associate, Echo Plastics, have some people on part time working, want me to advise you that they fully support Terence Beckett's letter to The Times.

I have explained to Mr. Thompson that any concession in this field will almost certainly have to be accompanied by increases elsewhere, but I promised to let you know his views.

Yours
Teddy

The Rt.Hon.Sir Geoffrey Howe, Q.C., M.P.
Chancellor of the Exchequer,
Treasury,
Parliament St. S.W. 1.

35

Southend-on-Sea
Essex
England SS2 6PS
Tel: Southend-on-Sea (0702) 330851
Telex: 99167 EKCO G

EKCO

Ekco Instruments Ltd

WET/RB

16 January, 1981.

Mr.Teddy Taylor,M.P.,
House of Commons,
London SW1A OAA.

Dear Mr.Taylor,

May I draw your attention to the attached photostat of a letter from the Director General of the C.B.I., to the "Times".

I endorse fully his plea for a reduction in the National Insurance Surcharge. (N.I.S.)

As a company, we export 60% approximately of our turnover. We are only maintaining our export business by accepting much lower profit margins. In turn, these lower profit margins mean lower investment and therefore lower efficiency in the future, compared to our European competitors.

Such a reduction in the N.I.S. would increase our cost competitiveness and our ability to invest for the future.

This company - indeed all companies - will be grateful for your assistance in reducing the N.I.S.

Yours sincerely,

Thompson

W.E.Thompson,
Managing Director.

Enc.

1976

Registered in London (516266)
Registered Office: Botanic House, 100 Hills Road, Cambridge CB2 1LQ
A Member of the Cambridge Electronic Industries Group

[illegible] 14 1981

LETTERS TO THE EDITOR

National Insurance burden on industry

From the Director-General of the Confederation of British Industry

Sir, It is encouraging to learn from your Political Editor (report, January 13) that the Chancellor intends to go for an "incentive" Budget strategy. It is less encouraging to gather that he has so far not been persuaded that the best incentive for all at this particular time would be a cut in the National Insurance surcharge (NIS).

When this tax was imposed as a "temporary" measure by the former Labour Chancellor, Mr Denis Healey, it was seen then by the Opposition for what it is: a tax on jobs. It affects exports but not imports, thus damaging our international competitiveness against foreign goods at a time when our ability to compete is affected by the strong pound. How "temporary" is "temporary"? And are not the solid reasons advanced against the tax when it was first imposed equally justified now?

No doubt the Chancellor likes it because it is a convenient tax and, on the surface, does not directly affect the retail price index. But only on the surface. In fact, because it raises costs overall, it infiltrates into all prices. If the Chancellor argues that abolishing the tax would cost too much money, then there are certainly good grounds for substantially cutting it as the first step towards phasing it out. A number of our industrial rivals overseas are doing this now—improving their competitiveness and raising employment by reducing the burden of labour costs on employers. We should not let them steal yet another march on us.

Nor should he believe those arguments that cutting the tax would merely put more money into the hands of the unproductive end of business. Our calculations suggest that of the total NIS burden on the private sector and the public corporations, taken together, over 70 per cent is now accounted for by business "in need" across the spectrum from manufacturing to constructing, from tourism to distribution and many more.

A two per cent cut in the charge could mean a balance of payments improvement, lower retail prices, and within two years perhaps 200,000 more jobs; most important of all, an improvement in profit levels and a consequent impact on investment.

Other Budgetary measures to help industry, such as a cut in the fuel oil duty and some measures to ease the burden of rates—both high on the list of CBI priorities—would be no substitute for imaginative action on the NIS. But if the Chancellor cannot do this then he should be generous elsewhere. Otherwise, the phrase an "incentive strategy" will be meaningless to our wealth creators.

Yours sincerely,
TERENCE BECKETT,
Confederation of British Industry,
Centre Point,
103 New Oxford Street, WC1.
January 13.

A

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I.17

CHANCELLOR

cc Chief Secretary
Financial Secretary
Mrs Gilmore
Mr Whitmore, No 10

MEETING WITH THE PRIME MINISTER, WEDNESDAY 21 JANUARY

PRESENTATION OF GOVERNMENT ECONOMIC POLICY

I spoke this morning to Lord Thorneycroft who indicated roughly what he wanted to achieve at tomorrow morning's meeting. He does not want to talk about the substance of policy, or about matters that are any particular concern of the Treasury's. His concern is the presentation of the Government's economic policy and achievements, or rather its absence, in the country at large. Responsibility for this obviously straddles Central Office and Government. Now that the offices of Leader of the House and Paymaster General have been amalgamated, the way is open to Mr Pym to take a somewhat more positive role than Angus Maude was able to do.

2. At present the policy issues in the public domain tend to be rather technical and abstruse, relating to the PSBR, the monetary target and the rest. There are a whole range of other issues and arguments which need to be presented regularly, systematically and with one voice by Ministers and others.

3. At present the reports Lord Thorneycroft hears from the grass roots are a little depressing, and the Government's position is sliding. Since it has, in truth, a good story to tell now is the time to act. It is particularly opportune because the Government's policies differ so sharply from those of the Centrists (whose recipes are largely failed methods of the past, in particular income policy) and of the Socialists, who are inclining to more and more Left wing solutions under Michael Foot's leadership. A more conscious effort to defend and explain the principles lying behind them which does so by contrast with the other two main lines of political thought would give a considerable element of extra cohesion to the

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Government's position.

4. In practical terms Lord Thorneycroft hopes that, busy though most of us are, Mr Pym and the Prime Minister will from time to time create opportunities to get together with key colleagues to decide in broad terms what should be said, how and by whom; and to bring about the sense of conviction and shared attitudes which is needed in practice to make a success of such a manoeuvre.

AR

ADAM RIDLEY
20 January 1981

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cc Mr Corlett
Mr Potter
Mr Cropper
Ms Davies
Mr Blythe
Mr Mace

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

21 January 1981

D.N. Idris Pearce, Esq., FRICS.,
Messrs. Richard Ellis,
7-17, Jewry Street,
LONDON,
EC3N 2ND.

Dear Idris

You wrote to me on 24 October with some proposals for improving the flow of finance for new property development particularly in areas such as the enterprise zones. We have been looking at the suggestions which you and your colleague, Norman Bowie, put forward and I am very sorry I have not been able to send you an earlier reply.

I understand the reasons which you give for trying to encourage property development by pensions funds and insurance companies through intermediate property investment companies but the tax exemptions proposed for these arrangements raise a number of difficulties and I should need more evidence both that the necessary finance will not be forthcoming under the existing tax law and, more importantly that the proposals would be really effective in achieving their purpose.

One problem which I envisage is that the suggestion which Norman Bowie puts forward would involve a new exemption from tax on capital gains (there are not at present any special CGT reliefs in the enterprise zones) as well as a departure from the basis principle that the tax liability of a company is determined independently of the status of its shareholders. Both these changes could lead to pressure for similar concessions in other areas which it might be hard to resist. A further difficulty is the different tax treatment of the pension business of life assurance companies and their life business. Mr. Bowie's suggestion that there would be only a minimal loss of tax from exempting the special property investment company from corporation tax is, I think based on the assumption that the company's income (and capital gains) would otherwise have been tax exempt as attributable to pension business. As paragraph 5 of Mr. Bowie's paper recognises, however, the income attributable to life business would at present be taxable, in the absence of other reliefs, at 37½ per cent at least (and capital gains at 30 per cent). The tax cost could therefore be higher than Mr. Bowie suggests.

/In the

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In the circumstances I should want to be convinced that the existing tax provisions create a special obstacle to the flow of investment into property which would be overcome by the proposals you put forward. There are a number of differences between the pension funds and insurance companies and I am not certain that they would necessarily be compatible as investors in a joint property company. In addition I understand that the Revenue's current experience is that pension funds and insurance companies are by no means reluctant to invest in property development although they accept that the companies apparently prefer direct investment (or investment at least through a subsidiary company) and may shy away to some extent from the less attractive inner city areas.

I certainly recognise the need, however, to encourage funds to be channelled into property development in the problem areas you mention. I should therefore be happy to look at specific examples you could provide of possible property developments which are providing too big or risky to be handled by a single source or cases where the existing tax provisions have been the crucial obstacle to joint investment in an intermediary property company by a number of funds or institutions.

As —

Geoffrey

GEOFFREY HOWE

40

10 DOWNING STREET,
WHITEHALL S.W.1

With the Private Secretary's Compliments

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pa

10 DOWNING STREET

From the Private Secretary

21 January 1981

The Prime Minister has asked me to thank you for your letter of 16 December about the refusal of Customs to allow duty-free supplies to the "Around Britain" cruises operated by your company. In particular you drew attention to what appeared to you to be a contrast between the law in the United Kingdom and that applying in other parts of the world.

In this, as in so many other revenue matters, it is necessary to draw the line somewhere. It would be universally accepted, I think, that on vessels going abroad supplies should be relieved of duty and tax, but few would argue that this should also apply to steamers operating from one small port to another in the same country. In substance our law reflects this position. We allow duty-free stores to be shipped aboard vessels making international voyages and we deny them to ships engaged in trade around the coasts of the United Kingdom, including those voyaging to the outer islands. This philosophy, which is common to most major maritime countries, is reflected in the draft directive on ships' stores at present under consideration within the European Community.

The basis of the provisions we make for cruise vessels is the Convention on Facilitation of International Maritime Traffic to which 46 maritime nations subscribe, including the United Kingdom. Under the Convention a cruise ship is defined as being on an international voyage carrying passengers for the purpose of making tourist visits at one or more ports at which it does not normally embark or disembark passengers. Thus H.M. Customs and Excise allow cruise ships arriving from abroad to have duty-free supplies during their voyage around our coasts provided that, temporary visits ashore apart, passengers do not leave or join the ship.

The rules governing duty-free stores in the countries to which you refer in your letter, though they may differ in detail, would in general follow the terms of the Convention. Thus, cruise vessels visiting those countries would be granted much the same facilities as we offer to foreign ships cruising around the United Kingdom. The practice in America is typical: a visiting

/ foreign

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foreign cruise liner would be allowed to use duty-free stores but one of their own vessels operating similarly under what would then be coasting conditions would not benefit from the same facilities.

International considerations apart, if we relieved "Around Britain" cruise passengers from paying duty, it would be difficult to resist the claims of all other vessels engaged in coasting and there are tens of thousands of such voyages each year. A change of this order would lead to a considerable loss of revenue and many more preventive staff would be required for control purposes which would be incompatible with the Government policy of reducing the size of the Civil Service. There is also the question of equity. Other types of tourist, both British and foreign, move about by road and rail and use hotel accommodation in this country but few would argue that duty-free facilities should be provided in such circumstances. However, remarks in the "Southampton Evening Echo" of 19 July 1980 attributed to your Managing Director, Mr. Ken Swan, make it clear that he regards your service as the logical alternative to these more traditional ways of seeing the British Isles.

The Prime Minister has asked me to say that she recognises the national importance of the tourist industry and hopes that your cruise programme will be successful. For the reasons I have given, however, she does not think that a change in the law would be justified.

M. A. PATTISON

Miss D. F. Goodrick.

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10, OWNING STREET,
WHITEHALL S.W.1

With the Private Secretary's Compliments

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Pa

10 DOWNING STREET

THE PRIME MINISTER

21 January 1981

Dear Mr. Stokes,

Thank you for your letter of 18 December.

May I start by welcoming your support and endorsement of our economic objectives and strategy; particularly the importance we attach to defeating inflation. I believe that our policies are beginning to show signs of success. Inflation has been substantially reduced and the prospects for further reductions this year are excellent. I am much encouraged by the new mood of realism emerging in pay bargaining and settlements. The defeat of inflation is, I believe, an essential prerequisite to re-establishing sound and sustainable economic growth.

I am well aware of industry's concern at the cost of energy, and that some energy prices in the UK are out of line with those charged abroad. The Government have asked the energy industries to be more flexible in the application of their existing tariffs - particularly so as to help bulk purchasers. But the fact is that since the beginning of 1979 world oil prices have more than doubled, and the price of other fuels has inevitably been forced up as a consequence. Adjusting to this is inevitably a painful process for the UK and for other industrialised countries.

/You may have

You may have read of the tripartite discussion on 6 January at NEDC where there was a substantial measure of agreement that energy cost problems are confined mainly to large consumers in certain energy intensive industries. A task force with Government, CBI, TUC, energy supply industries and National Economic Development Office representatives has been set up to narrow down remaining differences of view of international comparative prices.

I can assure you that the position of the company sector is uppermost in our considerations; that is why I am determined to control both the volume and cost of public expenditure. Within the constraints imposed by the need to continue with, and consolidate upon, our progress in reducing inflation, the Chancellor's November announcements were designed to give priority to industry. The stock relief scheme will help many firms. The new oil tax will relieve pressure on public borrowing and interest rates. The increase in national insurance contributions was designed expressly to shield employers. Whereas employees will pay 27 per cent more next year, employers will pay only 8 per cent - probably rather less than would be needed to maintain the real value of payments.

You refer to reductions in public expenditure. As you recognise, such reductions were essential. The nation simply could not afford the levels of public expenditure planned by the previous Government, and we have therefore made large cuts in those plans. Although the financial year 1979-80 was already under way when we came to power, public expenditure that year was (in late 1979 prices) £2½ billion less than in the previous Government's plans. The planning total for public expenditure next year is expected to be some £5 billion below the level planned by the previous Government.

Savings of this size cannot be achieved without looking critically at all areas of expenditure. Our task is to curb the role of the public sector. This is bound to mean that public sector demand

/ for industrial

for industrial output is restricted. That is inevitable if we are to restrain the tax burden and reduce public borrowing and monetary growth, and thus create the conditions in which the wealth creating sector of the economy can flourish.

At the same time, I fully understand your concern about the direct impact that particular expenditure reductions may have on industry. That is why I am determined that maximum savings should be obtained from the elimination of waste and inefficiency within Government. Sir Derek Rayner is advising me on this matter, and as a result of the first round of investigations which he has personally supervised, savings of around £67 million a year will be achieved together with the once-off savings of £23 million. His second round of projects has identified potential savings of over £100 million and 7,600 staff. I share your concern about public service manpower. Within the area that the Government controls directly, we have already reduced the size of the Civil Service from 732,000 when we came to power to 697,000 and plan to reduce it further to about 630,000 by April 1984, which would be the smallest Civil Service since the war. We are pressing local authorities hard for staff savings and the number of local authorities staff in England and Wales has been reduced by almost 50,000.

You discuss the prospects for investment. In the past, investment has been dampened by the poor market and commercial prospects that flow from the inter-linked nexus of low productivity and profitability, and high wage and price inflation. These are the deep rooted afflictions our policies are designed to tackle. I do of course recognise that interest rates have been an additional contributory factor depressing investment. As you are aware, we were able to reduce MLR by 2 per cent last November. We remain firmly committed to reducing interest rates further when monetary developments and conditions permit. Premature reductions would undermine the battle against inflation and would be counter-productive, and benefit no-one, least of all industry.

/ You suggest

You suggest that it has been standard practice in British public finance for expenditure estimates to be agreed first and for taxation proposals to be decided in the light of those estimates. That criticism cannot really be levelled at this government. It was largely because of the implications for the burden of taxation that we cut back severely on our predecessors' plans for public spending. As you say, public spending must be restrained to a level the country can afford. We have throughout sought to decide public spending and taxation plans alongside each other as far as possible, as was reflected in the presentation of the medium term financial strategy, with its supporting figures for both spending and receipts, published in the 1980 Budget.

Yours sincerely

Margaret Thatcher

J. C. Tholen, Esq.

21/1/81. 48

CONFIDENTIAL

CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
MINISTER OF STATE (C)
MINISTER OF STATE (L)
MR NEWTON
SIR DOUGLAS WASS
SIR KENNETH COUZENS
SIR ANTHONY RAWLINSON
MR W S RYRIE
MR T BURNS
MR UNWIN
MR RIDLEY
MR CARDONA

pe.

cc Sir Lawrence Airey - IR
Sir Douglas Lovelock - C & E
Ian Stewart MP

Is * correct? Are we following up F?

CONSERVATIVE PARTY FINANCE COMMITTEE - 20 JANUARY 1981

The Chancellor of the Exchequer spoke briefly on the background to the Budget, and invited questions and comments. About 80 present.

Hal Miller: Can we not devise a means of drawing a distinction between Nationalised Industries' borrowings for capital expenditure and their borrowings to meet current deficits.

Paul Dean: The government did a good job for charities last year, but now there is rumbling again, particularly on VAT, and particularly in light of the concession on sporting competitions (Chancellor reminded questioner that this 'concession' was only restoring the status quo ante.)

Terence Higgins: i) Presentation and explanation. People are very unclear about how the upturn is going to come about and how inflation is going to be avoided. ii) It is absurd that the real value of tobacco and drink excises should have fallen over time; we must get away from the tyranny of the RPI. (Hear, hear).

Charles Fletcher-Cooke: Black economy is simply thriving. What is the government going to do about the poverty trap. Production figures are totally misleading. An immense amount of work is going on outside the system and an immense amount of tax being lost.

Julian Amery: Public expenditure and M3 are out of control, yet we have over 2 million unemployed. What is the purpose of it all?

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John Townend: Are you optimistic of doing much better on Public Expenditure from now on?

Jock Bruce-Gardyne: I hope Chancellor will be prepared to err on the side of caution on the PSBR. This year we aimed for £8½ bn and look like overshooting by 50%. The gilt edged market would look pretty sick if we aimed at £10 bn this year and overshot by 50%.

Geoffrey Johnson-Smith: Everybody we speak to pleads for lower interest rates, lower capital taxation and riddance from NI surcharge. How can we encourage these people to travel hopefully?

Peter Hordern: One reason why the PSBR is so big - public sector pay. The NHS has taken on an additional 25,000 people since this government took office.

William Rees-Davies: In constituencies like mine, with prevalent low wage levels, there are great advantages in not working. Cannot tax thresholds be cut?

Maurice MacMillan: I see how difficult it all is, but cannot government rhetoric acknowledge that private capital is central to Tory beliefs. Private businesses see even bigger burdens placed on them in the recession, while money is poured into nationalised industries and big public companies. CGT continues to be levied on purely inflationary gains (hear, hear, hear) and at the end of it all businesses are clobbered by CTT at levels that cannot possibly be financed.

* Johnathan Aitken: Will the government not reconsider postponing the 4th Channel. It will cost the taxpayer £100 million and it will be a flop.

Tony Beaumont-Darke: Please will you reconsider the Stock Relief proposals which really will not help manufacturing industry. Of 37 firms I have asked, only 2 will benefit: the scheme will cost Tube Investments £8 million a year.

IR are producing a review note on the present posn.

Pat Cormack: Still a lot of anxiety about ESPS.

William Waldegrave: There has never been such a sudden loss in competitiveness. Will not Chancellor consider a major cut in National Insurance Surcharge, even at the cost of raising direct taxation.

Albert Costain: It is very wrong that people should be obliged to use up their redundancy pay before they can qualify for Supplementary Benefit.

Stephen Dorrell: Welcomed the gradual advance of inflation bonds, via National Savings.

Nicholas Winterton: What on earth is the cost of one million employed. When is the government going to start using North Sea oil proceeds to help industry.

Ralph Howell: Very concerned that government has not moved further and faster on "Why Work". The Prime Minister told us a year ago that it was the No.1 problem, but little has happened. Appallingly low tax thresholds; penal tax rates; indexed Supplementary Benefits. There may be as many as a million people who cannot afford to work. The Chairman of Unigate says he cannot get milk delivery men.

Bill Benyon: We have just got to get the economy going again. I would rather have higher tax rates if we could get lower interest rates. I know this is not acceptable to the Party, so cannot we have differential interest rates?

Martin Stevens (Fulham). My local HEALTH authority recently came to me to ask how I thought they should best spend the surplus cash they looked like having at the end of the year, to stop it falling into the hands of the Treasury. I told them to pay it back. But this is what we are up against.

Nick Budgen: It may be time to cut the employers NI contribution, balancing that by economies in the Manpower Services Commission and elsewhere.

David Madel: i) If VED is to be raised, please raise it on a sliding scale by size of vehicle. ii) Cannot we follow the Belgian example

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and relieve employers on NI contributions on newly recruited employees in the under 25 group. Can we not move to synchro-pay in the Public Sector?

John Browne: What proposals do you have for tax encouragement to the seed corn investment in new business?

Ian Lang: Is there not a case for a withholding tax on interest rates paid to foreign depositors in the UK, as a way of financing NI surcharge cuts.

P J CROPPER
21 January 1981

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10, DOWNING STREET,
W[illegible]EHALL S.W.1

With the Private Secretary's Compliments

58

cc as before

PA.

10 DOWNING STREET

From the Private Secretary

22 January 1981

I attach a copy of some correspondence the Prime Minister has received from Harold Walker, M.P. and Michael Welsh, M.P., including a letter from the Chief Executive of Doncaster Borough Council. I also enclose an earlier letter from the Leader of Doncaster Council, dated 27 November 1980, and the reply from the Secretary of State for Employment, dated 14 January 1981. I should be grateful if, in consultation with other departments if necessary, you could now let me have a draft reply for the Prime Minister to send to Mr. Walker and Mr. Welsh, to reach us here by Thursday 5 February.

Since this correspondence may have been copied to other departments by some of the Members of Parliament involved, I am copying this letter and its enclosures for information to Richard Dykes (Department of Employment), Ian Ellison (Department of Industry) and Richard Tolkien (HM Treasury).

N. J. SANDERS

David Edmonds, Esq.,
Department of the Environment

FROM: THE RT HON HAROLD WALKER PC MP

54

HOUSE OF COMMONS
LONDON SW1A 0AA

21 January 1981

Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON
SW1

Dear Prime Minister

We enclose the letter we have received from the Chief Executive of the Doncaster Metropolitan Borough Council which sets out the terms of a resolution of the Council's meeting held on 12 January. We would be grateful for your comments.

You will recall that the leader of the Council, Councillor Brumwell, wrote to you direct about the very serious problems facing those whom we represent. There was considerable resentment that you did not reply personally but referred the letter to the Department of Employment, and we hope that on this occasion we can receive a reply over your own name.

Yours sincerely

Harold Walker

Rt Hon Harold Walker MP

M Welsh

Michael Welsh MP

55

Doncaster
Metropolitan Borough Council

Chief Executive
Colin B. Jeynes, I.P.F.A., D.M.A.
2 Priory Place, Doncaster,
South Yorkshire. DN1 1BN
Telephone (0302) 20321

Your Ref. Our Ref. FP/SM/125/1 If telephoning or calling please ask for ....

15th January, 1981.

Dear Member of Parliament,

I set out below the terms of a resolution of the Council passed at a meeting held on Monday, 12th January 1981. The Council would appreciate your help and support in bringing the terms of the resolution to the attention of H.M. Government.

'This Council draws to the attention of all sections of community life in Doncaster the bleak future for the next financial year in terms of rate and rent levels, standard of public service, and quality of life.

This Council denies that H.M. Government has a mandate from the electorate to continue with their harsh economic policies which are crippling local government services, creating unemployment and wasting the talents and abilities of our nation.

This Council records that the Government decisions on rate support grant and capital spending in 1981/82 will have a serious impact on community life in our Borough. The continuing transfer of financial responsibilities from central government to local government coupled with the tightening of control of capital expenditure and the autocratic and dictatorial powers taken by the Secretary of State will manifest themselves in higher rate charges, more unemployment and a further squeeze on the profits of industry and commerce which are important to the re-generation of our economy.

This Council asks H.M. Government to recognise that:-

(a) the economic problems of this Borough are made worse by their policies, and

(b) control of local government in Doncaster by the electorate of Doncaster should not be constrained by Ministerial powers.

Further, this Council calls upon H.M. Government to ensure that an adequate part of the nation's resources is deployed in this area in the interests of our industry, commerce, and community life; and, to this end, calls upon H.M. Government to channel an appropriate share of the windfall profits of the banking system and the £717 million rebate from the E.E.C. in the current year into:

(a) the provision of low interest rate loans to finance private and public sector investment in employment-producing projects; and

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(b) the provision of rate relief to commerce and industry where added rate burdens will jeopardise future employment.'

Yours sincerely,

G. B. Jeynes

Chief Executive

Rt. Hon. H. Walker, M.P.
Dr. E. Marshall, M.P.
E. Wainwright, Esq. M.P.
M.C. Welsh, Esq. M.P.

cc

N010

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SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NA

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MAD

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PO 9411/80

- CPs off.

Councillor George Brumwell
Leader of the Council
Doncaster Metropolitan Borough Council
Mansion House
Doncaster
South Yorkshire DN1 1BN

R| 14 January 1981

Dear Mr Brumwell

You wrote to the Prime Minister on 27 November about the effects that the current recession is having on the Doncaster area. The Prime Minister has asked me to thank you for your letter and to reply on her behalf. I am sorry not to have been able to write to you sooner but your letter raised a number of important issues which I wished to consider carefully.

First let me assure you that the Government is very much aware of the problems and difficulties which the present recession has brought to areas like Doncaster, and we are very concerned about the anxiety and distress which unemployment or even the threat of it brings to many workers and their families. We are trying to ease the situation through our programme of special employment and training measures which aims to help particularly vulnerable groups such as the long-term unemployed and unemployed young people and also to protect existing jobs threatened by redundancy, through the Temporary Short Time Working Compensation Scheme. Our programme of special measures is reviewed each year so that we can try to ensure that help is concentrated where it is most needed,an I am pleased to say that in this year's review we have been able to announce that an extra £250m has been made available to expand the programme in 1981/82. Much of this additional resource will be directed towards helping unemployed school leavers whom we feel are put at a special disadvantage by not having a job at the start of their working lives.

Of course, these measures can only have a short term value and the great need in Doncaster as elsewhere in the country is for real permanent jobs, the creation of which is largely dependent upon an upturn in the world economy. As we are all aware, the whole of the western world has been hit by the present recession and we, as a trading nation, cannot isolate ourselves from its effects. In this country we face a further difficulty in that many of our industries are declining and in some, such as the steel industry, we have had to drastically cut down our workforces to bring them into line with international manning

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SECRETARY OF STATE FOR EMPLOYMENT

levels so that we can compete in world markets.

Another major problem with which we had to contend has been inflation. Unless we as a country are successful in the battle against inflation we shall find ourselves priced out of world markets with the inevitable results that further jobs will go.

As you will know, successive Governments over the past twenty years have sought to support industry, stimulate investment and to create jobs, yet the underlying trend in unemployment has been upwards. In the Government's view, the only real answer to our economic problems is to bring down inflation and reduce public spending in order to release resources for industry so that industry has both the confidence to invest and the certainty that when it does so it will not be crippled by high interest rates. It is,of course, only by industry's own efforts that we can ensure that our goods are competitive and are of the quality which people demand. The Government believes, however, that by bringing down inflation and reducing the burden of public spending it can help to establish the climate in which enterprise and initiative will prosper.

Clearly it will take time for our policy to produce results but the battle to help the unemployed is not one which the Government can fight alone. I am particularly pleased to read of the great efforts your Council is making to bring jobs to Doncaster and I hope that your forthcoming exhibition at Doncaster Racecourse and the small firms seminar will produce results.

Finally, you raise the issue of assisted area status. On the general question of regional assistance it has been the Government's policy to concentrate aid on areas of greatest need, and shortly after we took office we reviewed the coverage of assisted areas and reduced the proportion of the country entitled to assistance from 44% to 25%. We also widened the differentials between the degree of aid available to each category of assisted area. Despite the fact that the assisted area coverage is being substantially reduced, the problems of Mexborough and Doncaster were recognised in that Mexborough was one of the few areas given a higher category of assisted area status on the last review and it was agreed that Doncaster could retain its Intermediate Area status.

Let me in conclusion say that I in no way wish to minimise the difficulti[es] we are facing and which I fear we shall continue to face in 1981. Apart from the worldwide recession which is affecting all western countries, we have our own particular problems to which I have referred. As the Prime Minister has said there are no easy answers, but I do believe that when the Government's policies have worked through we shall have a much stronger economy and a better base from which to take advantage of the upturn in world trade. Indeed, inflation is falling at present, and despite the strong pound our share of world trade is holding well. There is every reason for confidence if we do not at great cost continue to postpone changes that are bound to come in any case. To go for the alternative course of reflation at this time would, I believe, lead to our industry becoming increasingly uncompetitive, would draw in additional imports and

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SECRETARY OF STATE FOR EMPLOYMENT

would, in the end, result in still greater unemployment for the country.

Yours very sincerely

Jim Prior

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Doncaster
Metropolitan Borough Council

Leader of the Council
Cr. George Brumwell

The Leader's Office,
Mansion House, Doncaster.
South Yorkshire. DN1 1BN

Telephone (0302) 20321

27th November, 1980.

Dear Prime Minister,

I write to you as Leader of my Council, with the unanimous consent of the Members of all parties represented on the Council, to ensure that you are aware both of the effect of the deepening recession on the Metropolitan Borough of Doncaster and of the mounting concern of both the Members and people of Doncaster. I write in no party political vein and will resist the temptation to score points against you and your Government's policies, in order to ensure that you are not diverted thereby from gaining an adequate realisation of the grim substance of the Borough's predicament.

Doncaster, geographically the largest Metropolitan Borough in Britain, has a population of 286,500 enjoying a mixed urban and rural environment, where the blemishes on our landscape have been the not unwilling price Doncastrians have paid for the prosperity and diversity of our industrial base. Doncaster is the proud energy centre of Western Europe and, if the future has any prosperity in store for us at all, this part of South Yorkshire must be in the vanguard of the revival.

The Doncaster area has over the years had its employment problems - on a par with the rest of the country and influenced by broadly national maladies - and has been in the forefront of developing self-help initiatives in the industrial development and promotional fields. We are finding now, however, that we are losing jobs faster than we can conceivably hope to generate them in new industries or businesses.

We are concerned that redundancies are turning into factory closures and are worried that some of our large employers will withdraw from the area repeating the effect of the Pilkington and Ford withdrawals in the 1960's which, together with the rationalisation of the coalmines and the cessation of steam engine manufacture at our railway 'Plant' Works, took the area from full employment into an unemployment situation which has remained with us ever since and is now escalating alarmingly. We do not want to come out of this recession with a ghost industrial area of large empty factories we cannot hope ever to fill again. Doncaster has in the past provided a new job and a new home for many who moved here to get a new start after closures in other parts of the United Kingdom; we now have a cosmopolitan population whose particular characteristics are a willingness to work hard to earn their living - but the opportunities to do so are reducing.

This month's unemployment figures for the Borough (roughly speaking, the Doncaster and Mexborough Travel to Work Areas) show 17,862 out of work (11.7% Doncaster TTWA and 16.2% Mexborough TTWA), with only 256 unfilled vacancies. This is a massive 46% in the Doncaster TTWA and 61% in the Mexborough TTWA higher than it was a year ago. These figures do not include some 1250 young people in MSC funded temporary employment, but do include the 3000 youngsters who have been unable to find work. The announced redundancies (i.e. not including the unannounced small firm workforce reductions which receive no publicity) in 1980 have reached a fearsome total of 5020 so far, as against a previous peak of just over 1000 in 1976.

/Continued....

....

Perhaps even more worrying (for fear of the structural change which it foretells) is that the type of industry announcing redundancies has changed. The town's employment base has always been fairly stable because, while surrounding areas were suffering redundancies in their basic industries, the ten major industries in Doncaster kept steady - apart from ICI who were known to be carrying out planned rationalisation. 1980 is different; not only are some of our most promising new industries and our oldest world-famous names succumbing to the current pressures, but our industrial base is being threatened. For the first time, our biggest employment centres are under threat; six of our ten major employers, who among them at the beginning of this year employed 13,467 (about 10% of the Borough's working population), have cut back and now employ only 10,783- a loss of 2684 jobs (20%) in less than a year! Large numbers of those still working in these firms are on short time (even as little as a one day week).

The Doncaster TTWA is an Intermediate Area but such status no longer gives the incentives which it did formerly (Regional Development Grant, free training assistance, small firms increased employment subsidy for 26 weeks); high interest rates and lack of confidence in the future are an unsatisfactory substitute for such incentives. We can perhaps be thankful that our representations were listened to when our Skillcentre was being considered for closure. Although the Mexborough TTWA has Development Area status, the unemployment figures there show that such status is unable to overcome the structural problems that the area displays.

A sorry tale indeed, but not one which has led us to despair. My Council has a fine record of industrial development investment - we will be spending some £¾million of our own resources this year on measures which are designed to facilitate job creation in the private sector. We have joined with EIEC in factory unit development. We have encouraged private sector development. We are mounting a virtually free exhibition at Doncaster Racecourse next February where local small firms will be showing each other and the public their goods and services in an effort to promote a 'Buy Doncaster' attitude. We are holding a small firms seminar next Spring to help to locate the problems they are facing and help them to expand. These are not inconsequential efforts at a time when local authority budgets are under severe pressure; my Council has made efforts to reduce its expenditure and is continuing that process, and the protection of our industrial development and promotion budgets has needed faith and determination.

But we are beginning to despair. We can see no light at the end of this particular tunnel. We are losing jobs at a rate faster than we can ever hope to generate them. Thousands of Doncastrians are chasing a handful of jobs. We have given our young people probably the finest education in Britain, but for what? Over 4,000 of them have yet to find a real job and, instead of a return on our education investment, the only dividend is boredom, disillusion and discontent.

Unemployment must be at the forefront of the minds of community leaders in these circumstances. I hope my words have brought home to you the concern in my community. If my inadequate phrases have failed to convey the depth of my feelings (which I express as a reflection of those of my Council Member colleagues), I invite you to visit Doncaster as my guest when I could provide an opportunity for you to discuss the problem both with Councillors and representatives of local industry management.

/Continued....

You and I, as leaders of our respective communities, have parallel responsibilities and they are awesome, at my level, to me and you must feel the same. Unemployment is morale-sapping, mind-destroying, and a scourge to our society. We cannot stand by and watch the damage - we have to be concerned; we have to be working toward its elimination; too much is at stake for either you or I to think that our ideological differences are of any importance, compared with the needs of our people. The downward spiral we are witnessing is becoming a headlong descent towards a subsistence economy and this is an unwarranted fate for the much-maligned British working man.

You do not need me to remind you that South Yorkshire is not crowded with your supporters. It could be, therefore, that Doncaster and its problems are not in the forefront of your mind; there is a danger, then, that you will fail to recognise just how bad the situation is becoming outside the prosperous South-East. I hope this letter has guarded against that danger and that you will recognise the need to ensure that we do not, as a nation, go past the point in time when irreparable structural damage is suffered in places like Doncaster which do not exhibit the characteristics of the "average" upon which Government policy must necessarily be based.

Take note of our concern. Mark our sentiments. Doncaster is reaching the point of no return, and that is in neither your party's interest, nor mine. We share a responsibility for the 286,500 people of Doncaster - a responsibility to care for them, to secure their prosperity, to advance their aspirations. I have tried to show how I am endeavouring to carry out my responsibility and how worried I am. I would welcome an indication of your realisation of the dangers we are facing and of the steps which you are taking or would advise my Council to be taking to give hope to the 17,862 unemployed in my Borough.

Yours sincerely,

H. B. Brumwell

Leader

The Right Hon. Mrs. M. Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON.

From: Peter Viggers, M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

Top copy Ch/Ex

CH/EXCHEQUER
REC. 28 JAN1981
ACTION PS/IR
COPIES TO

22 January 1981

Dear Geoffrey,

Thank you for your letter of 13 January concerning tax relief for personal employees.

I appreciate the strength of the arguments against such relief and, of course, I recognise that the Government does not intend to make any change to tax reliefs in this connection at this stage.

Nevertheless, I think it is approrpiate for there to be a wider discussion on ways in which employment can be encouraged by fiscal means and these arguments may gain in strength in time.

North Sea Oil and Gas has given us an appreciable income which does not need to be earned by employment. Also, there is a risk that advances in technology may similarly give us a reasonable level of prosperity which does not need to be earned by employment.

If this is the case it must be socially desirable to find ways of stimulating employment and one of the most fertile areas to do this is in the field of personal services.

The arguments are not simple and, of course, one is dealing with a massive black economy albeit one which is regarded in most circles as respectable. I imagine that almost every daily cleaner and gardener is paid in cash and it would be a very brave Government which sought to interfere with such an arrangement.

Nevertheless, there are very many people who would employ others on a more regular basis if tax allowance were available to the employer. The corollary of such an arrangement is that the employee would become taxable, thus taking that person out of the black economy, and simultaneously reducing the numbers of those listed as unemployed.

It would be interesting to see whether this idea has any popular support.

Yours ever,

Peter

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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THE THOMSON ORGANISATION LIMITED

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WMB/ldl

22nd January 1981

Top copy Ch/Ex
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IB 28/1

CH/EXCHEQUER
REC. 26 JAN 1981
ACTION Mr Pollard IR
COPIES TO PS/MST(C)
Mr Battishill
Mr Wicks

The Rt. Hon. Sir Geoffrey Howe, MP
Chancellor of the Exchequer
House of Commons
Westminster
London, SW1

27/1

Dear Chancellor

You will have received a letter dated 19th January from Brindex, on the present North Sea tax proposals with which we completely concur. You will also have the Occidental Consortium letter of 15th January, which does not materially differ in its conclusions from the proposals put by Brindex, and you will know that we are members of the Occidental Consortium.

There is general agreement that the present PRT system has a number of anomolies which need to be corrected, and the industry seems to be in reasonable accord on constructive ways to approach the problem of North Sea taxation. We shall be making our own representations to the Inland Revenue on certain aspects. We are particularly concerned with the impact which the tax proposals are likely to have on the viability of the proposal to develop the additional reserves recently found in the Northern part of the Claymore field; if implemented as proposed, the taxes would lead to the abandonment of this project, and indeed the final decision on the project now has to await the outcome of the discussions with the Inland Revenue and on the Finance Bill.

A point which is not covered by either the Brindex or the Occidental letters, and raised in the Inland Revenue of the 5th January is the proposed collection arrangements of the "supplementary tax". The proposal would have a very high negative effect on company cash flows. Oil may well not be sold within 30 days of production and the minimum normal credit period is 30 days, so at the very best a licencee would receive cash at about the same time as he pays the first tranche of tax. The position would be severely aggravated if, as may well happen, there is a major reduction or cessation in

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production, due to technical problems, or more especially at a time of surplus, when extended credit is given. We believe that the proposed payment arrangements are burdensome and are likely to have another adverse effect on the industry; its financing capability; and its confidence.

Yours sincerely,

....

W. M. Brown

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10 DOWNING STREET,
WHITEHALL S.W.1

With the Private Secretary's Compliments

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cc as above.

10 DOWNING STREET

From the Private Secretary

23 January 1981

I attach a copy of some correspondence the Prime Minister has received from Dr. Edmund Marshall MP. It is identical with the letter I sent you yesterday from Harold Walker MP and Michael Welsh MP. We will therefore use the same draft reply.

To avoid any doubt over the handling of this correspondence, I am copying this letter and its enclosure to those people who received my letter to you of 22 January: Richard Dykes (Department of Employment), Ian Ellison (Department of Industry) and Richard Tolkien (HM Treasury).

N. J. SANDERS

David Edmonds, Esq.,
Department of the Environment.

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HOUSE OF COMMONS
LONDON, S.W.1

22 January, 1981.

Rt. Hon. Ms. M. Thatcher, M.P.
10, Downing Street.

Dear Prime Minister,

I shall be grateful if you will give the enclosed communication from Doncaster Metropolitan Borough Council your attention and send me a reply which I can forward to my constituents.

Please acknowledge.

Yours sincerely,
Edmund Marshall.

64

Doncaster
Metropolitan Borough Council

Chief Executive
Colin B. Jeynes, I.P.F.A., D.M.A.
2 Priory Place, Doncaster,
South Yorkshire. DN1 1BN
Telephone (0302) 20321

Your Ref.   Our Ref. FP/SM/125/1   If telephoning or calling please ask for ....

15th January, 1981.

Dear Member of Parliament,

I set out below the terms of a resolution of the Council passed at a meeting held on Monday, 12th January 1981. The Council would appreciate your help and support in bringing the terms of the resolution to the attention of H.M. Government.

'This Council draws to the attention of all sections of community life in Doncaster the bleak future for the next financial year in terms of rate and rent levels, standard of public service, and quality of life.

This Council denies that H.M. Government has a mandate from the electorate to continue with their harsh economic policies which are crippling local government services, creating unemployment and wasting the talents and abilities of our nation.

This Council records that the Government decisions on rate support grant and capital spending in 1981/82 will have a serious impact on community life in our Borough. The continuing transfer of financial responsibilities from central government to local government coupled with the tightening of control of capital expenditure and the autocratic and dictatorial powers taken by the Secretary of State will manifest themselves in higher rate charges, more unemployment and a further squeeze on the profits of industry and commerce which are important to the re-generation of our economy.

This Council asks H.M. Government to recognise that:-

(a) the economic problems of this Borough are made worse by their policies, and

(b) control of local government in Doncaster by the electorate of Doncaster should not be constrained by Ministerial powers.

Further, this Council calls upon H.M. Government to ensure that an adequate part of the nation's resources is deployed in this area in the interests of our industry, commerce, and community life; and, to this end, calls upon H.M. Government to channel an appropriate share of the windfall profits of the banking system and the £717 million rebate from the E.E.C. in the current year into:

(a) the provision of low interest rate loans to finance private and public sector investment in employment-producing projects; and

...1.

(b) the provision of rate relief to commerce and industry where added rate burdens will jeopardise future employment.'

Yours sincerely,

E.B. Jeynes

Chief Executive

Rt. Hon. H. Walker, M.P.
Dr. E. Marshall, M.P.
E. Wainwright, Esq. M.P.
M.C. Welsh, Esq. M.P.

20408
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ACK
18

Redland Limited

Redland House Reigate Surrey RH2 0SJ
Telephone: Reigate 42488 (STD Code 073 72)
Telex: 28626

APH/DMS

CH/EXCHEQUER
REC. 26 JAN 1981
ACTION PS/IR
COPIES TO PS/MST(L)

23rd January, 1981

Dear Sir Geoffrey Howe

Proposals to avoid tax discrimination against direct investment by British companies in overseas markets.

Since 1973, when Advanced Corporation Tax was first introduced, British companies with overseas subsidiaries or associates have generally suffered a degree of tax penalty on the profits earned in those overseas businesses. If the British Parent company wishes to distribute more of its global profit than is represented by UK taxable profit, then the cost of such distribution becomes the gross dividend, whereas distribution out of United Kingdom profit only costs the company the net dividend. This is due to Advance Corporation Tax being offsetable only against United Kingdom Mainstream Corporation Tax.

This arrangement penalises investment by British based companies in overseas markets. Apart from the general aim of EEC tax harmonisation, no doubt considerations such as Britain's need to maximise exports and to create jobs were factors behind the reasoning which led to the introduction of the ACT system. However, like so many political calculations relating to tax, they were too simplistic.

The overwhelming majority of decisions to invest in manufacturing facilities overseas are unrelated to a choice between home production and exports on the one hand or overseas manufacture on the other. The need for overseas investment normally arises because a British company has technology or know-how which it believes can be profitably exploited in overseas markets. Few companies would choose to invest overseas, with all the difficulties which are entailed, unless they judge this to be the best way of exploiting whatever technical or know-how advantage they have.

Is it therefore conducive to British interests to penalise this type of

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To: The Right Hon. Sir Geoffrey Howe MP

investment ? It is submitted that these penalties have no merit. They can only serve to constrain the degree to which British technology and know-how is exploited by British entrepreneurs in foreign markets. In consequence, less profit is made by British companies, less dividend income is received as a result of the profitable exploitation of these investment opportunities, less British equipment is exported to support the setting up of British owned plants, and, above all, fewer British companies gain the greater world wide market share for their products which in the long run means lower costs and further advanced technology feeding back to the British parent company operations.

My own company, Redland Limited, is a very clear example of this thesis. Redland is the largest producer of concrete roofing tiles in the world. It has concrete roof tile plants in 21 countries. It made its first overseas roof tile plant investment in 1947. By 1980 it had grown to a stage in which Redland subsidiary and associate companies supplied 60% of the West German roofing market, 65% of the Australian roofing market, 50% of that of Holland, to name only three of the more important achievements. The return on the capital invested has been very high indeed. The company has received a regular flow of dividends from overseas, while earning additional income from exporting its tile plants and spares to its subsidiaries and associates. It has also received royalty and licence income. More important still, it has built up a substantial leadership worldwide through the exchange of information between all the Group companies developing roof tile technology. Yet not a single tile could have been exported from the United Kingdom profitably had Redland been prevented from expanding into manufacturing in overseas markets.

Since 1973 ACT has materially reduced the attraction to the Company of exploiting its roof tile technology worldwide. This has not prevented the Company from continuing to do so, partly because the returns on that business were still attractive in spite of the tax penalty and partly because the downturn in construction activity in the United Kingdom in the last eight years meant that any British based building materials company which sought growth was only likely to find it by going into foreign markets. However, had the returns from the exploitation of the technology been somewhat lower and had there been plenty of activity at home to occupy the organisation's energies, the tax penalty represented by the ACT system might well have inhibited the further exploitation of an important British asset, our technical lead in the manufacture of concrete roof tiles.

For the first time for many decades Britain is in a position to export capital freely. Indeed, with an overvalued exchange rate for the pound sterling, it may be regarded as a highly desirable national objective to encourage direct investment overseas, both to bring downward pressure on sterling in due course and to represent a store of capital value accruing from North Sea Oil surpluses on which the country can draw in harder times when it may no longer have a privileged energy position. Exchange controls have been lifted on portfolio investment and there are no UK tax penalties associated with investment in foreign shares. Why then should we retain a tax system which penalises direct investment overseas, the antecedents of which appear to have been very directly related to discouraging overseas investments at a time when Britain thought it needed all its capital at home ?

The reforms that we would advocate are very simple. We would propose that all dividends be paid to shareholders net but that they be entitled to claim a tax credit of 30% of the equivalent gross dividend. Advance Corporation Tax would be abolished, insofar as dividends are payable out of profits which have borne UK or overseas taxes at a rate which is at least equal to the rate of imputed credit. In other cases ACT would be restricted to such an amount as would ensure that the profits out of which the dividend is payable have borne either UK or overseas taxes at the rate of the tax credit. Companies would pay their full Mainstream Corporation Tax on all UK taxable profit. The consequence of this change would be that some or all of the benefit of double tax relief would be effectively preserved for the individual shareholder. The company would be taxed in the United Kingdom on all profits arising in the United Kingdom and would be free to distribute the profit earned and taxed overseas to its shareholders without any penalty arising once the rate of corporate taxes paid in the UK or overseas had at least equalled that of the credit to be imputed to the shareholder. The attached schedule shows under a number of circumstances the total tax liabilities which would be payable by a company earning profits of £20m. and paying a net dividend of £5m., on which shareholders would receive an imputed credit equal to the basic rate of income tax of 30%, under the existing system compared with the proposed system. The schedule illustrates that there is a penalty under the existing system whenever UK profits subject to Corporation tax are less than the amount of dividend paid, including tax credit.

Such a change in the company tax system would do much to encourage the enterprise of British companies in exploiting their strengths in world markets. By continuing to adhere to the narrow principle that a British shareholder is entitled to take into consideration tax paid on British profits by the company in which he has invested, but not tax paid by that company on foreign profits, the Government will only inhibit exploitation by the British companies of their full potential. The most damaging consequence of that inhibition is likely to be their failure to match those of their overseas competitors who do not suffer from the imputation system in the rapidity and completeness with which they exploit their strengths in world markets which, in the course of time, will inevitably leave them smaller and weaker and ultimately with higher costs than those overseas competitors.

Yours sincerely

Anthony Hichens

Deputy Managing Director &
Financial Director
A. P. HICHENS

The Rt. Hon. Sir Geoffrey Howe, M.P.,
House of Commons,
LONDON SW1 1AA

£m	Full corporate taxes paid in UK and overseas		Full corporate taxes paid in UK and overseas		Corporate taxes in excess of rate of imputed credit paid in UK and overseas		Corporate taxes in excess of imputed credit paid overseas but not in UK		Corporate taxes less than imputed credit both overseas and in UK	
Data - existing tax system										
Profits before tax:										
Overseas	10.00		15.00		10.00		15.00		10.00	
UK	10.00	20.00	5.00	20.00	10.00	20.00	5.00	20.00	10.00	20.00
Corporate taxes:										
Overseas	5.00		7.50		2.00		7.50		1.00	
UK - ACT	2.14		2.14		2.14		2.14		2.14	
- Mainstream	2.86	10.00	1.00	10.64	.80	4.94	.40	10.04	.40	3.54
Profit after tax		10.00		9.36		15.06		9.96		16.46
Dividend net		5.00		5.00		5.00		5.00		5.00
Taxable profits										
Overseas	10.00		15.00		4.00		15.00		2.00	
UK	10.00		5.00		4.00		2.00		2.00	
	20.00		20.00		8.00		17.00		4.00	
Comparison of tax liabilities:										
Existing system - as above (tax rate on taxable profit)		10.00 (50%)		10.64 (53%)		4.94 (62%)		10.04 (59%)		3.54 (89%)
Proposed system:										
Overseas	5.00		7.50		2.00		7.50		1.00	
UK - ACT	-		-		-		-		.94	
- Mainstream (tax rate on taxable profit)	5.00	10.00 (50%)	2.50	10.00 (50%)	2.00	4.00 (50%)	1.00	8.50 (50%)	1.00	2.94 (74%)
PENALTY IMPOSED BY EXISTING SYSTEM		-		.64		.94		1.54		.60
Computation of Mainstream liability - existing system										
UK Taxable profit		10.00		5.00		4.00		2.00		2.00
Corporation tax at 50%		5.00		2.50		2.00		1.00		1.00
Deduct ACT at 30%	On 7.14	2.14	On 5.00	1.50	On 4.00	1.20	On 2.00	.60	On 2.00	.60
Mainstream liability		2.86		1.00		.80		.40		.40
Computation of ACT liability - proposed system										
Profits taxed at 50%		20.00		20.00		8.00		17.00		4.00
Net dividend + imputed credit		7.14		7.14		7.14		7.14		7.14
Shortfall		-		-		-		-		3.14
ACT at 30%										.94

Under the proposed system ACT would be irrecoverable only where net dividend plus imputed credit was greater than taxable profit, whether derived from UK or overseas operations.

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RETRA

Radio, Electrical and Television Retailers' Association (RETRA) Ltd

Director: R.T.Edom M.B.I.M.

Registered Office:
RETRA House
57-61 Newington Causeway
London SE1 6BE
Telephone: 01.403 1463 (5 lines)
Registered in England No. 374327

23rd January 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
LONDON SW1P 3HE

Dear Sir Geoffrey

I refer to our earlier submissions to you regarding the changes announced in your last Budget, on the application of Capital Allowances to the rental to consumers of Television and related products.

While we are grateful for the amendment that was introduced during the passage of the Finance Bill, we are still very concerned about the effect of the reduction in allowances on our members businesses. The present economic climate and the growing number of unemployed persons must seriously affect future consumer expenditure, and in turn the viability of the television rental operation for both rental organisations and their suppliers.

My Council and our Multiple Shops members have therefore instructed me to write to you to ask for reconsideration of the existing stages of reduction of allowances. It would be most helpful if a smoother transition could be operated of 80% in the first year, 60% in the second year, 40% in the third year and 20% in the fourth year.

We would hope that you will give sympathetic consideration to this in the formulation of your Budget to be announced on 10th March.

20397

Yours sincerely

R T EDOM
Director

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CH/EXCHEQUER

REC.	26 JAN 1981
ACTION	PS/IR
COPIES TO	CST, FST, MST(C)(L) SIR D WASS Mr RYRIE Mr MIDDLETON Mr BATTISHILL Mr DIXON Mr BUCKLEY

Mr CORLETT
Mr UNWIN
Mr PICKERING
Mr GRIFFITHS
Mr CROPPER

27/1

76

10 DOWNING STREET

THE PRIME MINISTER

CH/EXCHEQUER
REC. 23 JAN1981
ACTION
COPIES TO

23 January, 1981.

20304

Dear Horace,

In your letter to me of 7 August, you explained that you had been obliged to reduce the GLC budget for mortgage lending by some 60 per cent this year and asked that you might use your substantial capital receipts to increase your lending. We then met on 20 October. I am sorry that it has taken some time to reply, but we have been giving a good deal of thought to the problem and to the related question of maintaining the momentum of your homesteading scheme on which there has been parallel correspondence between John Stanley and George Tremlett.

We have not however been able to find a way of agreeing that the GLC and similarly placed authorities may use their housing capital receipts to increase their capital expenditure this year. The fundamental difficulty is that an estimate of these receipts was taken into account nationally in fixing the sum available for Housing Investment Programmes (HIPs) - if we had not done so, the amount for distribution as HIPs would have had to have been correspondingly reduced. The indications are that the national total of receipts this year will be about the figure estimated in our public expenditure planning. If therefore authorities were to be allowed to increase their spending by using their capital receipts, we should at the national level in effect be taking credit for them twice over and in addition we should be making a breach of the HIP cash limit still more likely. I think you will understand why the Government cannot contemplate that, when local authorities are already estimating that their existing commitments this year will be in excess of the HIP cash limit which of course is why we have had to continue the general moratorium on HIP expenditure.

/ I am of course

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I am of course anxious that you should, despite the moratorium, be able to maintain the momentum of your mortgage lending and homesteading programmes, at least by getting into a position to make payments from the very beginning of the new financial year. Michael Heseltine in his statement on 15 December said that, though the moratorium must remain in force for the time being, authorities were free to make new commitments before the end of this year so long as there would be no additional expenditure until after 1 April. I hope therefore that you will be able immediately to restart the processing of homesteading and mortgage applications - and perhaps be able through publicity to stimulate further applications - with a view to expenditure from 1 April.

In addition, it will be possible to give a limited amount of help before 1 April. On 3 December, Michael Heseltine announced that a special allocation of £3 million was being made available to encourage pilot improvement for sale schemes. We have now decided that these resources may also be used for homesteading schemes. I cannot yet say exactly how much can be allocated to the GLC as John Stanley is still settling the final details, but this will make it possible for you to deal with at least some of your outstanding homesteading applications very soon.

Yours ever,

(SGD) MT

Sir Horace Cutler, O.B.E.

78

~~[illegible]~~ TAN 26/1

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

→ Mr Wonder TAN 26/1

Wd you like to write to the WSA, replying to their letter to the Ch/Ex and offering a mtg with the MST(C)?

MT

23 January 1981

PS/CHANCELLOR OF THE EXCHEQUER cc PS/Minister of State (C)
Mr Pickering

BUDGET REPRESENTATIONS 26/1

1. The Chairman of the Wine and Spirits Association has written to the Chancellor enclosing their Budget representations and asking for a meeting with a Treasury Minister.

2. We would advise that the WSA are given a meeting. They have in the past met the MST(C) and we suggest that they are invited to do so again.

3. We will, of course, brief and attend the meeting to support the Minister.

MJE

M J ELAND
Private Secretary

Internal circulation:

Mr Phelps
Mr Freedman
Mr Packman
CPS

79

20032

The Wine and Spirit Association of Great Britain and Northern Ireland

(Incorporated) Limited by Guarantee

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Upper Thames Street, London EC4V 3BH

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WSA 8812703
Telegrams:
Fortified, London EC4

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20/1

Mr PICKERING

FROM THE CHAIRMAN

DGDW/LS

The Rt. Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London S.W.1.

16th January 1981

Dear Sir,

On behalf of this Association, I enclose three copies of our formal representations in respect of the forthcoming Budget.

Once again, the bases of our submission are stability of duties in monetary terms, and the introduction of a credit period for payment of duties (or duty deferment). I would emphasise that both these points have equal priority.

I take this opportunity to request formally that you, or one of your Ministers, will receive a deputation from this Association so that we may be afforded the opportunity of amplifying and clarifying our supporting argument.

Yours faithfully,

Dennis G D Webb

D.G.D. Webb
Chairman

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WINE AND SPIRIT ASSOCIATION

OF

GREAT BRITAIN AND NORTHERN IRELAND

Representations to the Chancellor of the Exchequer

on his forthcoming Budget

January 1981

The Wine and Spirit Association of Great Britain and Northern Ireland presents to the Chancellor of the Exchequer the following observations relating to his forthcoming Budget. They are concerned with

the burden of taxation on wines and spirits;
the financing of this burden;
the taxation of profits;
the National Insurance surcharge.

TAXATION OF WINES AND SPIRITS

The principal taxes to which wines and spirits are subject are the excise duties and value-added tax. The June 1979 Budget raised the VAT rate from 8% to 15%. The higher rate thus applied to sales of wines and spirits for 9 months of the 1979/80 fiscal year. The increase in the VAT rate had the same effect on average retail prices (on-sales and off-sales together) as an increase in duty on wines of about 26% and on spirits of about 14%.

The March 1980 Budget increased the rates of excise duty on wines by about 13.9% and on spirits by about 13.7%. VAT is chargeable on the duty paid price so that the increase in duty attracted a VAT "surcharge" of 15% of the amount of the increase.

The full effects of the latest increase in taxation cannot be assessed until it has been in force for a year but significant figures are emerging. They are the twelve month moving totals of clearances month by month since the fiscal year ended 31st March 1980. Twelve month moving totals have been chosen to eliminate seasonal fluctuations and, as far as possible, the effect of Budget anticipations.

Wines

Clearances of wines in the 12 months ended March 1980 amounted to 4,790,000 hectolitres. During that year VAT was in force at 8% for 3 months and at 15% for 9 months.

Clearances for the twelve months ended September 1980, compared with those for the year ended March 1980, show a decline of 6.4%. The twelve months to September 1980 reflect only the first six months' impact of the higher duty rates introduced by the March 1980 Budget. It must therefore be expected that clearances for the complete fiscal year ending March 1981, reflecting a full twelve months of the higher duties and a full twelve months of the higher VAT, will be significantly below clearances for the fiscal year ended March 1980.

The March 1980 Financial Statement and Budget Report assumed a 12.9% increase in duty receipts from a 13.9% increase in duty rates - an implied decline in quantities cleared of about 1%. This estimate was more optimistic than estimates in a series of Written Answers to Parliamentary Questions which the Chancellor gave in November 1979 and January 1980. These Answers forecast a significantly more unfavourable ratio of duty receipts to various hypothetical duty rate increases.

In the Association's opinion the receipts from the increased duty rates for 1980/81 will show little advance on the receipts from the lower rates for 1979/80, owing to a substantial fall in clearances between the two years. If this should prove to be the case the Revenue will have benefited little from the increased rates and the public and the trade will have suffered substantially from higher prices and lower consumption.

Spirits

The decline in the clearances of spirits since the Budget increases of March 1980 has been even more marked than in the case of wine. For the fiscal year ended 31st March 1980 spirit clearances totalled 1,111,000 hectolitres of alcohol. For the twelve months ended 30th September 1980 the total was 988,000 hectolitres of alcohol - 11.1% less.

The 13.7% higher rate of duty introduced in March 1980 affected only six months of the year ended September 1980. It must therefore be expected that clearances for the fiscal year ending March 1981, reflecting a full twelve months of the higher duties and of the higher VAT, will be substantially less than the clearances for 1979/80.

The March 1980 Financial Statement and Budget Report assumed a 10.2% increase in duty receipts from a 13.7% in duty rates - an implied decline in clearances of about 3%. The Written Answers referred to earlier suggested a much less favourable ratio of duty receipts to various hypothetical duty increases. Results so far this fiscal year certainly bear out these forecasts.

The Association thinks it likely that duty receipts for 1980/81 will barely equal or may even fall short of those for 1979/80 in spite of the 13.7% increase in duty rates. In the latter event all three parties will have suffered - the Revenue, the trade and the public.

The Association believes that experience in the present fiscal year points strongly to the conclusion that any further increase in the rates of duty on wines and spirits (or of VAT which has the same effect) might well be counterproductive for the Revenue and would certainly be inimical to the interests of the public and the trade.

This opinion is reinforced by the fact that the total of duty receipts from wines and spirits in the year ended September 1980 was less than that for the year ended September 1979 by about 2%, despite the substantially higher rates of duty which prevailed for the six months April to September 1980.

There is one further consideration. Whilst not proceeding to a definitive judgment (Case 170/78) the Court of Justice of the European Economic Community has found that the systems under which wines and beer respectively are taxed in the United Kingdom show a protective trend unfavourable to imports of wine into the United Kingdom. Granted that the negotiations arising out of this finding may be somewhat protracted a clear prospect nevertheless emerges of a substantial alteration in the ratio of wine duties to beer duties, based on the respective alcoholic contents of the two drinks.

The Association strongly urges that from now on all decisions as to duty rates on wines should be clearly directed towards progressive implementation of the principle indicated by the Court of Justice, within a maximum period of two years.

DUTY DEFERMENT

The practical problems of allowing traders a period of credit for payment of duties on wines and spirits were discussed between H.M. Customs and Excise, the Association and other wines and spirits interests before the 1978 Budget. The parties agreed as to ways in which these problems could be solved but of course the whole matter was subject to a decision by Parliament on an appropriate proposal by the Chancellor. This proposal has not so far been forthcoming.

The Association does not believe that the Chancellor would want to defend the present position on grounds of logic.

First, duty makes up as much as 41% of the retail price of a litre of table wine and 70% of that of a 75 cl. bottle of Scotch whisky. This arbitrary addition to cost has to be financed throughout the process of distribution once the goods leave bond. Especially at current rates of interest and current duty levels the wrong done to the wine and spirit trade is grievous.

Second, deferment is allowed on other dutiable goods namely beer, made-wine, cider and perry, not to mention tobacco.

The injury and the anomaly were very obvious to the members of Standing Committee D when they debated a relevant amendment to the Finance Bill on 19th May 1977. The Opposition and Government members who spoke unanimously supported the amendment. Under this pressure, the then Financial Secretary to the Treasury said

> " ... duty deferment is a matter which I am considering. I hope that I shall be able to have some discussions with the wine and spirit industry to look at some of the practical implications of taking some action on deferment ..." (19th May 1977, col. 36).

The continued failure up to the present time to correct this state of affairs has become a sorry example of expediency. The Association calls upon the Chancellor to extend now to the wines and spirits trade the deferment enjoyed by traders in other dutiable goods.

CAPITAL ALLOWANCES ON COMMERCIAL BUILDINGS

The Association considers that the denial of capital allowances on commercial buildings is one of the worst blemishes on the law governing the taxation of profits. There can be no doubt that the denial runs counter to the principle that assets which are consumed in the course of the trade should be taken into account in the calculation of profits. Buildings are "consumed" by wear and tear, by deterioration and by plain obsolescence. It is true that repairs are chargeable for tax purposes but the inevitable long-term elimination of the asset is not.

In the Association's opinion this rejection of a fundamental principle brings the law into disrepute.

Various arguments have been used to confuse the issue. One is that, over a period, commercial buildings tend to appreciate in value. This may be true when the value of the land is added to the value of the structure, but it cannot be true of the structure itself. The two values need to be separated. The value of the structure then provides the basis for reckoning depreciation as a charge in arriving at profits.

A second argument is that it is of no economic importance to recognise that buildings are used up in the course of a commercial business. This ignores one of the main trends of a modern economic society. As manufacturing skills and capacities increase there is tremendous pressure for commercial and distributive facilities to cope with the increased output.

Purpose-built warehouses, offices and retail units are an essential part of these facilities.

It should be remembered that in current conditions the proportion of the nation's work force which is employed in manufacturing industry is tending to fall; and the proportion employed in distribution and services to rise.

The present law acts as an obstacle to the natural development of the nation's economy and employment. In addition it inflicts an injustice on an important class of taxpayers. The Association urges that a definite programme should now be laid down for reforming the law.

NATIONAL INSURANCE SURCHARGE

In the Association's opinion the surcharge was originally a political decision to put a burden on employers alone, which would normally have been shared, to avoid the unpopularity of increasing the employee's contributions. The economic consequences of the decision were not foreseen, or were ignored.

In March 1977 the employer's rate of contribution was 8.75%. It is now (for employees not contracted out) 13.7% - an increase in the rate of more than half!

The surcharge makes it more expensive to take on new labour and thus adds to the unemployment problem; and it is an additional cost which increases prices with adverse effects on demand and hence on output and employment.

The Association appreciates that the recent decision to increase employees' contributions from 6¾% to 7¾% represents a first step towards restoring parity of contribution. It asks that a plan be set in motion for taking the remaining steps as soon as possible.

January 1981

NATIONAL
INFORMATION
71 Fleet Street
London EC4
01-583 9305
01-583 2148

LA + AS earlier letter

87

20471

Please reply to:

CH/EXCHEQUER
REC. 27 JAN1981
ACTION PS/IR
COPIES TO CST, FST, MST (c)(L)
Sir D Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr Corlett
Mr Unwin
Mr Pickering
Mr Griffiths

THE UNION OF INDEPENDENT COMPANIES

26th January 1981

The Rt Hon Sir Geoffrey Howe QC, MP,
Chancellor of the Exchequer,
The Treasury,
Whitehall,
London SW1.

Dear Chancellor,

METRO BONDS

Following our letter to you of 12 January enclosing our recommendations for the 1981 Budget, we have been considering a number of ways to assist the funding of our major proposals, particularly those related to the provision and replenishment of risk capital in "exempt trading companies" and the retention of funds in continuing enterprises. In addition, we have been concerned for some time about the need to enable such businesses to build up a tax free fund for future capital projects and research and development schemes.

As stated in our previous letter, the availability of internal funds for investment has a key influence on attitudes and the will to expand, together with providing an enlarged base to support any required borrowing.

We enclose a brief paper setting out our recommendations for the issue by the Treasury to exempt trading companies of index linked "Metro Bonds", to enable these enterprises to invest funds with the Government free of corporation tax, until such time as the funds are required, when they would become taxable upon redemption.

We consider that such bonds would provide not only a major incentive to the companies concerned but also a valuable new source of revenue for the Exchequer, particularly in the short to medium term.

Yours sincerely,

W.G.Poeton.
Chairman, External Relations Committee.

pp. Sean Mayo – National Chairman UIC

"To create an environment in which all who work in independent companies can thrive and prosper and make the maximum contribution to the national economy"

88

NATIONAL INFORMATION
71 Fleet Street
London EC4
01-583 9305
01-583 2148

Please reply to:

THE UNION OF INDEPENDENT COMPANIES

BUDGET RECOMMENDATIONS - JANUARY 1981

"METRO BONDS"

Purpose

1. To assist exempt trading companies to retain a fund of profits free of corporation tax, for future capital projects and research and development schemes.

2. To discourage such companies from frivolous revenue expenditure immediately prior to their accounting dates, aimed at reducing or extinguishing their liability to corporation tax.

3. To encourage meaningful capital investment by such companies and to avoid decisions in which fiscal considerations over-ride normal commercial ones based on the ongoing needs of the enterprise.

Current Position

4. Small and expanding companies wishing to finance their growth with a planned programme of capital projects and development related to their future scope and needs suffer from the same difficulty as young marrieds aiming at buying a house - the difficulty of saving adequate funds out of taxed earnings to go ahead at the most opportune date.

5. Each year, under the present system of corporate taxation, there is the temptation to "off-load" the liability to corporation tax by investments of limited consequence and/or by increased revenue expenditure which is not justifiable in normal commercial terms - for example -

(1) The payment of charges on income prior to the due date

(2) Maximising the level of directors' remuneration (this is of particular benefit with a top personal rate of 60% and a marginal corporation tax rate on profits between £70,000 and £130,000 of 67%) and of their pension schemes.

(3) Incurring major revenue expenses before the accounting date - (for example, accelerating maintenance work before it is necessary).

contd

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(4) maintaining uneconomic levels of stock in order to obtain increasing stock relief.

(5) advancing the purchase date of capital expenditure in order to obtain legal title to plant etc in order to claim tax allowances in the appropriate period.

Recommendation

6. The creation of "Metro Bonds" to be issued by the Treasury to exempt trading companies in multiples of £1,000, index-linked to the date of redemption and with a minimum investment period of one year.

7. The purchase of these bonds would give a deduction of their face value from the company profits, adjusted for corporation tax purposes, in the year of acquisition. Any unutilised surplus would be carried forward indefinitely until absorbed by future profits liable to corporation tax.

8. The proceed of sale of these bonds would be added to the company profits, adjusted for corporation tax purposes, in the year of redemption.

Benefits

9. Deployment of profits can be determined on a longer term basis which should result in better planning decisions and use of internally generated resources.

10. Companies have a practical and commercial alternative to the type of "off-loading" set out in 5 above and are able to build up an internally generated fund, free of corporation tax, to finance or part finance major projects.

11. The Treasury benefits from an additional source of Exchequer funding, receiving 100% of the profits concerned until such time as sizeable taxation allowances are available to offset against all or part of such profits.

Suggested Name

12. Metro Bonds - metro being a name for a form of conveyance and highlighting the transfer of funds from one trading period to a future period.

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ıbers of The Stock Exchange

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ECONOMIC
RESEARCH

For private circulation

EQUITY VIEWPOINT

28th January, 1981

Conclusion: Recently available data for the third quarter 1980 indicate that this Winter is likely to live up to the worst expectations in its effect on the company sector. We suspect, however, that the equity market is already discounting a large part of the bad news in this area. Perhaps a more serious, and growing, threat to the markets through 1981 and 1982 is likely to be posed by the political prospects for the next U.K. General Election.

For some time now it has been widely acknowledged that some very grim news is about to emerge from the company sector. The very fact that this is widely acknowledged, however, and therefore is probably already reflected in prices seems to argue that the potential for a further fall in the equity market is limited, particularly in view of the likely strength of the short gilt market. In addition, as the Spring gets nearer and investors look forward to economic recovery equities will probably start to reflect the fact. Whilst the market's hopes for the impact of the economic recovery upon dividends frequently seem to us to be too high, there are reasonable grounds for looking forward to solid if unspectacular progress in the equity market into 1982.

This broadly optimistic view was advanced in our last company sector profits forecast of 18th December and it still, we feel, has much to recommend it. Recent weeks have, however, seen several developments which may add significantly to the risks facing the equity market over the next year or so.

The first point to be borne in mind is that the news from the company sector is likely to live up to the very worst expectations. Third quarter data concerning company profits has only recently become available. These have, as usual, revised the past data and the one certainty is that these new figures will, in turn, be revised in the future. The evidence available does seem to indicate, however, that the trend in profits through 1980 was significantly worse than we envisaged in December on the basis of the data then available (see Table 1).

Gross trading profits of industrial and commercial companies were previously officially estimated to have fallen by 6% between first and second quarters of 1980 and we estimated a further 4% fall between the second and third quarters. The new data indicates falls of 15% and 12% respectively for these period. Thus, even if the new data are subsequently revised upwards it seems likely that the downward trend in profits as the recession hit industry during 1980 was more pronounced than had been envisaged. This is reflected in dividend payments. We had expected a rise in dividends on a year previously of about 13% in the third quarter but the data now indicates that dividends were virtually static (on an annual basis) in the quarter, representing a fall of over 10% on the second quarter.

Table 1. **GROSS TRADING PROFITS**

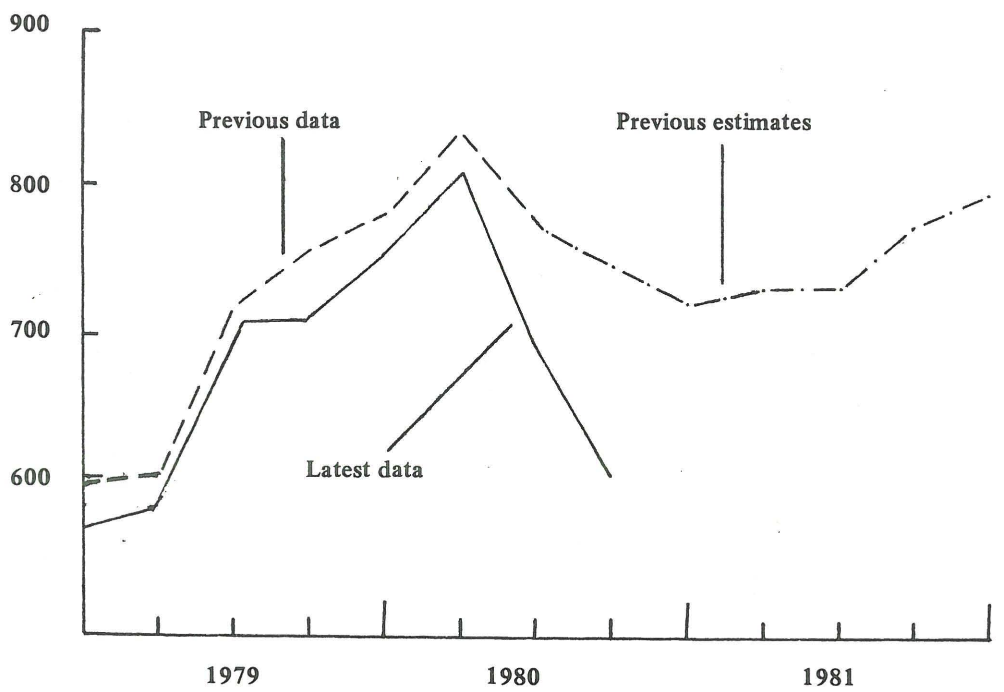
This table indicates the revisions to the gross trading profits data. The latest data is shown in bold type, the previous published data (up to the second quarter), together with our previous projections for the third and fourth quarters are shown in italics.

£ million	1980 I	1980 II	1980 III	1980 IV
Gross Trading Profit of Company Sector	7,371	6,178	5,323	–
	7,646	*7,110*	*6,750*	*6,500*
– Stock Appreciaion	2,309	1,313	898	–
	2,273	*1,396*	*1,100*	*800*
= **Gross Trading Profit of Company Sector**	5,062	4,863	4,425	–
	5,373	*5,714*	*5,650*	*5,700*
+ Financial Sector Losses	730	750	780	–
	730	*750*	*775*	*750*
– North Sea Oil Profit	1,680	1,710	1,600	–
	1,720	*1,690*	*1,833*	*2,026*
= **Gross Trading Profits of Industrial & Commercial Companies, net of N. Sea Oil and net of Stock Appreciation.**	4,120	3,910	3,600	–
	4,383	*4,774*	*4,591*	*4,423*

The worse than expected trend in the official estimates of profits and dividends is confirmed by some of the other economic data available. Earlier in the Autumn the expectation had been that the recession would at least start to slow this Winter. The third quarter stock output ratios were perhaps the first solid indicator that the economy still had some serious adjustments to make during the Winter. Both the unemployment and the industrial production figures have confirmed that this adjustment is taking place and that the recession is still hitting industry hard.

The industrial production data indicate that late last Summer output fell particularly sharply, rather as it did in the Spring. Ever since, however, production has continued falling month by month (if oil output is excluded). The position is of particular interest in the chemical sector, where output appears to have fallen sharply (5%) again the fourth quarter. This, of course, raises fresh questions about the level of ICI's dividend payment. We think a cut is unlikely, but obviously if it did happen it would have widespread implications for the equity market.

GROSS TRADING PROFITS OF INDUSTRIAL & COMMERCIAL COMPANIES, £m.



The labour market figures also seem to be pointing to a further marked slowdown in activity this Winter, with unemployment rising at a steady 100,000 a month on a seasonally adjusted basis. Whilst the worst monthly increases may have already been seen, the figures indicate how difficult trading conditions were last Autumn and it is certainly difficult to see much improvement in the course of this year.

The rising level of unemployment has implications for the market beyond the evidence it offers concerning the state of health of companies. Investors may become increasingly concerned about the political consequences of high unemployment as the year progresses.

Many of the arguments put forward in defence of the current high level of unemployment, whilst being at least partly true, also imply that current unemployment levels are going to be with us for some years. Companies are shedding labour as the result of adopting new, more efficient production techniques and the U.K. is withdrawing from old industries where ir probably could never again be competitive, but even on the most optimistic view the surplus labour created looks as if it will remain surplus for some years. When demographic forces are also considered, even if the economy does start to recover later this year the Government is likely to have to fight the next election with unemployment uncomfortably high. (A)

(B)

As 1981 progresses investors may become increasingly nervous about the political outlook. Even the most optimistic of the serious economic forecasts indicates that the economic record on which the Government will have to fight the next election will hardly be attractive. The probable alternative to the current Government is likely to be perceived as a particularly left wing Labour Party after last week-end's conference.

A further consideration is that if an effective new centre party does emerge it may pose as big a threat to the Conservative Party, attracting votes in the South-East, as it does to the Labour Party. (1) In addition, in the event of a close election result presumably a new centre party's natural coalition partner would be the Labour Party rather than the Conservative Party.

(2)

Political calculations such as these, which normally begin to crystalise as a government starts the second half of its term of office, may begin to surface in investors' minds as the year progresses. The result could well be a desire to move funds abroad whilst Sterling is historically strong and the economy is still free of exchange controls. Certainly, given the short-term domestic economic prospects and the growing weight which may be given to the emerging political uncertainties UK investors may respond favourably to the thought of a rather greater degree of international diversification.

George Hodgson

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From

THE CHAIRMAN OF THE PARTY

The Rt. Hon. The Lord Thorneycroft C.H.

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

Telephone: 01-222 9000

PT/CAW

30th January, 1981

To: The Prime Minister
The Rt. Hon. Francis Pym, MC,MP
The Rt. Hon. Sir Geoffrey Howe, QC,MP
The Rt. Hon. Leon Brittan, QC,MP
The Rt. Hon. Nigel Lawson, MP

From: Lord Thorneycroft

As promised I enclose a paper on the Presentation of Policy. It has been circulated only to those listed above.

T.

Enc.

cc. MS(c)
MS(L)
Cropper
Cardona

For next Prayer meeting

M 3/3.

COPY NO. 3. . . 92

From

THE CHAIRMAN OF THE PARTY

The Rt. Hon. The Lord Thorneycroft C.H.

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
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WESTMINSTER, SW1P 3HH,

Telephone: 01-222 9000

PT/CAW

30th January, 1981

PRESENTATION OF POLICY BY GOVERNMENT & PARTY

A Paper by Lord Thorneycroft

1. The Chairman of the Party is concerned above all else with the winning of Elections. The factors which affect him and his chances include.

(a) Luck. Much turns on the timing of events outside this country and outside the control of the Government and Party which he serves.

(b) The behaviour of the opposition. People vote against things as well as for them and the presentation of a view of one's political opponents can be as important as a presentation of one's own case. The Labour Party are being helpful in this matter.

(c) Party Policy. This is for the Prime Minister and her Cabinet to determine but it is worth observing that once the main thrust and direction of policy is chosen, the room to manoeuvre is much narrower than is sometimes supposed.

(d) The presentation of policy. This is the subject with which this paper is concerned. It is a subject much neglected by Governments and to their cost. It is concerned with more things than actual policy. It is linked with aims, with attitudes, with images. It must concern itself with what the aspirations of the public really are. It must consider and even seek to shape the actual yardsticks by which success or failure

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will be measured. It embraces much more than occasional keynote speeches or weekly briefing notes. It is something that all Ministers and all Party officers should be engaged upon in all aspects of the work they do.

2. The public judgement of a Party in Government may well be misguided and unfair but it will in the final analysis be related to two questions.

(a) Was it Competent?

(b) Does it care?

It is part of public relations to ensure that its competence is not simply judged by performance without regard to the climate in which it operates. It is also part of the task to see that caring is not simply related to crude comparisons of money spent. The questions are however inescapable and should never be forgotten.

3. I recognise that much is being done by Ministers and by the Party to present our case at the present time. Much of what this paper contains is by no means novel to my colleagues. I am bound however to add that at this moment in time there is a growing opinion among our Supporters in the Country as well as Members of the House of Commons that the presentation of our case leaves much to be desired. The criticism could be summarised as follows:

(a) Our presentation concentrates too much on economics.

(b) What we say about the subject is complicated and is indeed not only incomprehensible to ordinary men and women but incomprehensible even to a quite experienced Business and Commercial Community.

(c) That partly because of the above the Cabinet appears to be divided between the Treasury Team and the others. A sort of Gentlemen v Players syndrome.

(d) That far too much is left to the Prime Minister who has been built up to look like a lonely and embattled figure holding off the assaults not of her opponents but her colleagues.

(e) That unemployment (now a clear "top of the pops" in the opinion charts) is something wholly related to (and even perhaps sought by) the economic policies of the Government and unrelated to the real world outside.

(f) That the great reforming tradition of the Conservative Party with all its household Gods and great names like Disraeli, Shaftesbury and many others has been put into a box and labelled "WET" or at least "Rising Damp" together with some of our ablest Ministers and perhaps even more dangerously that the Prime Minister (perhaps the most radical reformer of all) is somehow excluded from this great tradition.

I have perhaps said enough to indicate that in my judgement we could present ourselves a little better.

4. To achieve something in Governing a country is clearly difficult. To explain what you are trying to achieve should be capable of much simpler definition. It is this latter that people really want to know. We should concentrate upon this. "What are we really trying to do" is as good a topic for a Cabinet as it is for a Conservative Branch Meeting.

We could take three worlds. Margaret Thatcher's, Michael Foot's and a theoretical third or fourth Party and simply list their aims.

<u>Margaret Thatcher's World</u>

Wealth Creation

Personal Responsibility

Freedom of Choice

Limited Government

Strong Defences

High Private Investment

High Profitability

Free Market Available In Europe

World Market Within G.A.T.T. Rules

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Michael Foot's World

Corporate State	Government Investment
Government Aid	Insular Approach
Unilateral Disarmament	Cut Off From Europe
Government Controls	Import Controls

3rd/4th Party's World

Broadly everything that anyone likes such as lower Interest Rates, a better deal for small businesses.
Plus, in most case, a permanent incomes policy.

Presentation of policy won't in fact get much beyond these extremely simplified aims and the presentation of individual policies certainly needs to be related to them.

5. The Labour Party is striding towards the Left. It will, whatever we ourselves say, be now represented as largely Marxist. The power of the Trade Unions within it, under any Electoral College System, will be mistrusted and disliked. We can, and should, exploit these weaknesses. Michael Foot has summarised its aims as a further large advance in Socialism, unilateral disarmament and an orderly withdrawal from Europe.

Basically Michael Foot's technique will be to use the problems which the last Labour Government created, watch them increased by world recession, increase them if possible by Industrial action and then argue that the only solution to the resultant chaos is an even greater dose of the Socialism which largely caused them.

6. The Centre is represented by the Liberal Party and the new Social Democratic Council. Recent events have increased the Liberal share in opinion polls and the new Social Democratic Council may initially damage the Labour Party. In my view, however, the probability of the growth of support for a Central position represents a real danger in the longer term to the Conservative Party. It is by no means beyond the bounds of possibility that in a by-election a candidate from this area might cause us a very great deal of trouble indeed.

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The technique for taking these Central positions, or capturing this ground ourselves requires careful thought and analysis. Essentially the Liberal Party, with the background of the Lib/Lab Pact and the self-styled Social Democrats, suffers the mutual disability of being part of the problem rather than part of the cure. The massive national disabilities associated with widespread public ownership of industry and staggering levels of indebtedness stem from the very Socialism which they supported, and in the case of the Social Democrat Council, from the Socialist Party of which they are still members.

Members of the House of Commons, particularly from the back benches, have a considerable opportunity to exploit the differences between Socialist Social Democrats and other Socialists upon the one hand and between them and the Liberals upon the other.

We should, however, play this hand with caution. The new formations lack leadership, membership and policy. They will command a certain sympathetic support from those who blame their ills upon all Parties who have ever, in recent times, had a hand in Government. A strong attempt will be made to represent the Conservative Party as being as extremist as the Left.

7. At the root of our presentational probelms lie, of course, the issues of unemployment, of rising prices and of high interest rates. I do not pretend that there is a public relations technique which can popularise these situations. There are, however, some factors which are relevant to the consideration of them.

(a) We need to make a real study of our approach to unemployment. If a higher level than previously is likely to persist we need approaches that take account of it.

(b) We need to break down the total in more detail than appears at present, at least publicly, to be done.

(c) We need to give more prominence to ameliorating measures taken by the Department of Employment, including Training.

(d) We need to give even greater prominence to those aspects of our policy, namely the encouragement of investment and the maintenance of a European Market, which are relevant.

(e) We need to advertise more widely new starts, new jobs, new export orders, new overseas investment, including inward movement of European Funds.

(f) We need to make the most of any decline in the rate of price rises, wage settlements or lowering of interest rates which our policies make possible.

(g) We need, in rather careful consultation with the Foreign Office, to explain the connection between energy prices triggered by oil upon world Trade and seek comparisons, if they help, between us and other countries.

8. Europe involves a whole group of presentational problems of its own. We cannot avoid fighting the next election as a European Party, and we have to persuade the voting public to accept or at least to acquiesce in that situation. On the face of it we should be in a strong position. The main official opposition wants us to get out, and indeed says so openly. Yet Europe is the largest potential market and generator of jobs we have. Its existence on our doorstep is a powerful inducement to inward investment. It would be madness to throw away these opportunities.

The Europe Reform Group, or at any rate, some leading and powerful members of it, will however campaign against membership and exploit the obvious problems, including the present adverse trade balance in manufacturing goods, to the full.

We need to co-ordinate within the Government, the Party, the politicians at Westminster and the European M.Ps. operating in Strasbourg, the presentation of the case for Membership of a Europe realistically adapted rather more closely to our needs. I am in touch with Ministers, with the National Union and with Members of the European Parliament, and we have already set up some machinery for this purpose and we are initiating some concerted measures to this end.

9. Presentation of policy takes place through many Channels. We need to use all of them and above all we need a much closer working links between the Party Organisation and its Government. The Party machine needs to know not simply how a Minister wishes to present the policy of his own Department but how he conceives that it should be presented in the context of the total political thrust of the Government as a whole.

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10. The techniques of presentation are numerous and varied, from Set Piece debates in the House of Commons to small discussion groups, hopefully arranged in branches. We need to use the lot. The occasional major theme speech by the Prime Minister is of critical importance but it is plainly insufficient unless treated as the centre piece for a whole range of other methods. The smoking room of the House of Commons can be as important as the public platform.

11. Ministers in speeches tend to concentrate much more than they used to do upon the subject of their own departments. We need many more general speeches covering the broad sweep of our approach. Importantly we want many more speeches openly supporting one another.

12. I propose to invite Ministers to speak on general policy more frequently on Party Political Broadcasts and I am hoping that the Prime Minister herself may agree to contribute by this means.

13. A few of us under the direction of Francis Pym should I think meet from time to time to rehearse not only the short term scene but the middle and longer distances that loom ahead. It would be immensely helpful to me if I could, in his company and always I think with someone from the Treasury and No.10, discuss with a few individual Ministers how they see the presentational Priorities of their Departments in relation to the presentation of Government Policy as a whole.

14. I am of course fully aware that Ministers differ from time to time on policy. This is after all what Cabinets are largely about. I do however also see a vast number of Common aims and objectives, and huge areas of common ground. The presentation of this case, common to all of us and critical if we are to win the next Election, if it is not quite going by default is certainly not coming over with the punch and confidence and drive that any of us would wish. We could do better.

United Kingdom Federation of Business & Professional Women

National President
Miss A. Turner
Hon. National Secretary
Miss B. Upwood
General Secretary
Miss E. M. Young

Affiliated to the International Federation of Business & Professional Women

54 Bloomsbury Street, London WC1B 3QU. Tel. 01-580 9686/7

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1st Fenruary 1981

Dear Sir Geoffrey,

As the time comes round for you to prepare your Budget, I should like to send to you a copy of the Resolutions on financial matters which have been passed at Annual Conferences of this Federation between 1946 and 1980 and which have not as yet been implemented.

I hope that, on Budget Day, the members of this Federation will have the pleasure of learning that some, or better still all, are on their way on to the Statute Book.

I send to you the best wishes of this Federation for success in your very difficult task.

Yours sincerely,

Audrey Turner

Audrey Turner (Miss)
National President

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Top copy CH/EX Ack Lam

CH/EXCHEQUER
REC. -4 FEB 1981
ACTION PS/IR
COPIES TO CST, FST, MST(C)(L)
SIR D WASS
Mr RYRIE
Mr MIDDLETON
Mr BATTISHILL
Mr CORLETT
Mr UNWIN
Mr PICKERING
Mr GRIFFITHS

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1B 3/2

THE U.K. FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN FEDERATION

POLICY ON TAXATION BASED ON MOTIONS 1946 to 1980

1. Housekeeper Allowance which is given to widows/widowers (without an allowable child) and to single persons (with an allowable child) ought also to be given to single persons who are fully employed or incapacitated throughout the tax year. 1946/49/54 and 59 motions.

2. The single personal allowance is not adequate for a person living alone. (At present the additional personal allowance, bringing the total relief up to the married allowance, is only given where there is an allowable child.
N.B. If granted this would be much better than Housekeeper Relief (£100) as additional personal allowance is £770. 1966 and 1969 motions.

3. Index linking of Allowances. The annual increases in the Personal Allowances roughly cover the increase in the cost of living but similar increases are not made in the Housekeeper (£100) Dependent Relative (£100 or £145) Blind Persons (£180) Daughter's/son's Services (£55) reliefs. Our motion in 1976 was not limited to Personal Allowances only.
N.B. There is an even more glaring injustice highlighted in our 1978 motion, concerning the £30 Death Grant, unchanged for 30 years or more.

4. Earnings rules applied for pensions purposes (not strictly taxation). This applies to earned income only and discriminated in favour of unearned income. 1962 and 1967 motions.
N.B. Allied to this it is our policy to press for the same pension ages for men and women.

5. We asked in 1969 for a Working Party to be set up to examine the whole Tax Structure with a view to simplification.

6. Exemption from tax of Retirement/widow's pensions. 1967 motion.
At present benefits related to earnings are taxed but those unearned, sickness, unemployment etc. are not. If the Tax Credit System is ever introduced all benefits will be taxed. Possibly instead of pressing for exemption we ought to press for the same treatment of all benefits.

7. Tax Relief for Dependents. At present the Additional Personal Allowance is given to single persons with an allowable child and to husbands with an incapacitated wife and our 1976 motion asked for this relief to be given to wives with an incapacitated husband, and to single or married taxpayers who care for a dependent relative, and to all persons who depend on the services of others because of handicap (mental or physical) or age.

8. Standardisation of Allowance for Income Tax and Social Security etc. purposes only the excess over the standard to bear tax and N.I.C. and the use of non-cumulative tables to avoid anomalies in present system.

9. Unearned Income, retired persons. 1951 and 1969 motions. Largely satisfied by present £5,500 exemption before the Surcharge is made but we asked for all their income to be treated as earned on retirement.

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From: John Wheeler, J.P., M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

A. Rid to say, lots[illegible]?

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2nd February 1981

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CH/EXCHEQUER 5/2
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ACTION Mr Ridley
COPIES TO CST, FST
Mr Petrie
Mr Dixon
Mr Corlett
Mr Wicks
Mrs Case
Mr Kitcatt

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1P 3AG

Dear Geoffrey,

Thank you for giving me the opportunity to contribute to the discussion on economic and financial policy on 20th January 1981. Ian Stewart has suggested that it would be helpful if I noted down in more detail some of the points of which I think you should be aware. In setting these out, I should like you to know that I base these points on detailed discussions with the City of Westminster Chamber of Commerce which has 3,500 members, ranging from leading international businesses down to the smaller business. I have also taken into account comments made to me by other commercial people whom I have met recently.

The first point to state is that every businessman I have spoken to is very firmly of the opinion that the Government must continue its present policies if the country is to have a secure economic future. Secondly, business opinion is that the Government is succeeding in its objectives, but many people would like to see more evidence of cutbacks in public expenditure, and in particular they are anxious to see that pay settlements in the public sector are realistic, having regard to the ability of the taxpayer and ratepayer to pay them.

Many people express concern about the present scheme for Development Grants. They say that the Government has been too restrictive in the areas selected and, in any case, the period between a public announcement of the intention to define a particular area as a Development Area and the incorporation of the precise enactment inhibits many businesses making decisions.

It is also felt that the Government has been foolish in not contending the unemployment propaganda by taking measures which would take out of the unemployment figures a considerable volume of people who have taken early retirement from, for instance, banks and insurance companies and are positively encouraged by their former employers to sign on as unemployed and therefore swell the statistics.

In this regard, the Government should take steps to compel institutions like the banks, who retire people early, to do so with full pension benefit out of their own funds, rather than be supplemented by Government pensions. Furthermore, the Government has to tackle the problem of inherent unemployment which does not just arise from the current recession but arises because of the

/change...

change of industry structure, with more mechanisation, etc. The suggestion of work-sharing is not felt to be a good idea as it only serves to increase costs.

It has been suggested that the Government extends its own compulsory early retirement scheme, now applied to the civil departments of the Services, to the whole of industry. This would make it difficult for private employers to justify the employment of people over retirement age which tends to inflate the unemployed at the lower age levels.

Many business people raise the question of compensation to redundant employees in nationalised industries which is far in excess of anything that can be afforded by the private sector. Action should be taken to rectify this inbalance between the amounts of compensation paid in the public as against the private sector.

Under some wage council and trade union agreements, it is necessary to pay youngsters reaching the age of eighteen a full adult wage, although they are not at that age equal to full adult effort. This causes resentment from older people who are receiving the same wage but are, in effect, up to forty per cent more useful to the company than the youngster who has only achieved the increased salary by virtue of reaching an eighteenth birthday. Some action should be taken to grade the system in a more realistic way.

There is now so much discontent with the present rating system for local authority financing that it should be scrapped. The present system has stumbled from crisis to crisis and recent changes have all the appearance of causing even more dissatisfaction.

Government policy is adversely affecting British industry by taxing fuel and chemical feedstocks. We have been made uncompetitive with the Americans and, to a lesser extent, other European countries. (The Americans probably work on true well-head cost plus a reasonable profit.) Additionally, our present method of financing nationalised industries' capital spending means that today's users are paying for tomorrow's equipment - and often there is a surcharge of Corporation Tax, e.g., British Airports Authority £12 million and £13 million tax for the last two years - and this is a small organisation.

There are other penal impositions, such as payroll tax and training board levies, not sustained by some overseas competitors.

Anything that can be done to lower the oil asset-based pound would aid exporters and home producers faced by importers' price cuts.

United States polypropylene is bought at £450 per tonne delivered London, which has forced the home price down from around £550. It is cheaper to buy Canadian plastic rubber tubes for 5-gallon milk packs rather than make them in the United Kingdom. The sale of machinery by Courtaulds in January to South Carolina is due to the uncompetitive price of United Kingdom synthetic textiles.

On a visit to Taiwan, South Korea and the Phillipines by businessmen to buy synthetic yarn, it was noted that the Far-Eastern producers also seem to

/start...

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start from cheaper base chemicals.

British Rail pays no tax on its diesel fuel and the Government should extend this philosophy to all industrial users of oil and natural gas-based products.

The Air Transport Users' Committee reported recently on financing the BAA's capital programme. Government policy dictates that such work must be financed out of internal resources, leading to high charges compared with competing foreign airports. As buildings attract only fifty per cent first year tax allowances, high Corporation Tax payments have to be funded by the passengers also.

Bond financing is recommended. Exactly the same primitive revenue/ capital financing has been imposed on the electricity industry, British Telecom, etc. Private investors could be found for such industries and the Government should introduce the appropriate legislation.

Smaller businesses have put to me the following view about 'fiscal neutrality'.

The problem in the United Kingdom has been that most people's savings go into vast institutions which simply cannot deal in the small amounts which the typical 'start-up' or developing business needs. The Prudential, or similar institution, would not be in a position ever to consider the small man in 'anytown' who is looking for £25,000. He has, generally, no track record and, in most cases, he is not financially aware enough to deal with bureaucratic needs.

The major reason for the flight of savings to these large institutions is that they have, on the whole, favourable tax treatment, making them more attractive to the investor.

The following is suggested:

1. Give relief on a sum X invested in non-quoted trading company. Relief should be given at the marginal rate so as to induce those with good existing pension arrangements and who would be willing to subject part of their income to the very risky business of investing in new and development ventures.

2. Encourage the creation of businessmen's investment clubs (say, ten or more men) successful in their own area - again on high incomes - to come together to invest in new local businesses. This would reduce the cost of administering small investment - £20 to £50,000 - and create a whole new cource of equity capital.

I enclose a copy of a report published by the City of Westminster Chamber of Commerce entitled "Travelling to Work" which contains several

/recommendations...

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recommendations. The Chamber hopes that urgent consideration can be given to this and that the Government will introduce the necessary legislation.

Yours ever,

JW.

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TRAVELLING
TO
WORK

REPORT OF THE WORKING PARTY

SPONSORED BY THE CITY OF WESTMINSTER

CHAMBER OF COMMERCE

CHAIRMAN: ROBERT STEVENS

FORTUNA MELIORES SEQUITUR

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London
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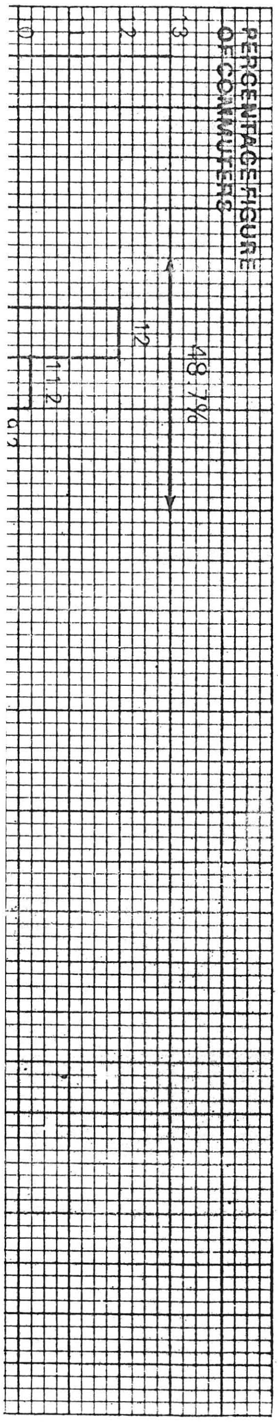
FIGURE G

TRAVELLING TO WORK FARE SURVEY

GRAPH SHOWING HOW MUCH COMMUTERS SPEND ON FARES



SECTION VI - RECOMMENDATIONS

In framing these proposals we have been aware of the need to take a wide view of the country's economic position, and we are conscious of the enormous task that lies ahead of the nation in the battle to regain our position in the world trade league.

Although this report is focused on the cost of travelling to work, we believe that in order to achieve our purpose of some effective cost reduction, we must illustrate the fundamental necessity to maintain and improve the public transport service. This we have done by emphasising the effect that a continually deteriorating service is bound to have, and by drawing comparisons between our own transport systems and those operating in other countries, especially those whose economic performance is superior to our own.

The reasons for this report are simple and straightforward. If the present situation is allowed to continue public transport will decline as more and more people decide to opt out of daily travel to work. We believe therefore that some alleviation of the present cost of travel would result in replacing some of the vitality that is fundamental to our country's industrial performance.

Some positive action to reduce the cost of travelling to work would, we believe, be entirely in keeping with the present mood of the nation. Industry must be encouraged by all possible means to improve performance and to become, once again, the provider of quality goods at competitive prices delivered on time. Transport is a vitally important arm of industry and we believe that the recommendations we are putting forward represent an investment in British industry which will benefit not only the working traveller, but the whole nation.

In considering the matter of cost alleviation, we have examined many suggested ways and means of providing relief and we have studied the possible effects of applying such methods, not only as regards the benefit to the traveller, but also bearing in mind the cost to the taxpayer; administration by the Inland Revenue; administration by the appropriate travel operators; loss of revenue; popular appeal; and flexibility of operation which would allow for any extension or reduction as changing circumstances require. We have been particularly conscious of the need to avoid schemes which involve employers in carrying extra financial obligations which would be passed on to the consumer. Our aim has been to take something out of costs rather than put them up.

The Working Party has considered at great length the implications of the original brief with particular regard to tax relief on the cost of season tickets. It became evident that a recommendation on this basis alone would not help the person who buys a daily ticket. There are great numbers of travellers who do not buy season tickets many of whom are unable to find the capital sums required from their own resources.

The matter of some form of general allowance against tax has been the source of much discussion as it is considered to be fundamental to the subject of this report. Although it is recognised to be a proposition which has not so far attracted Government support, we are in a majority agreement that some form of tax relief should be part of a *package of proposals.*

We are aware of the argument that to provide tax relief for commuters would be unfair as regards the rest of the community. We cannot subscribe to this point of view as there are already many other allowances which are admissible against tax within the rules of the Tax Acts. Some of the notable ones are as follows:-

- Protective clothing and tools allowances for members of Trades Unions.
- Subscriptions to Professional Institutions where necessary to employment.
- Interest on Mortgages.
- Life Assurance Premiums.
- Trade Journals and books necessary to employment.
- The expenses of employees working wholly overseas in travelling to take up employment.

Few would dispute the necessity to allow relief against tax for these expenses. Travelling to **work** of all things should surely receive encouragement on a similar basis.

In arriving at a practicable and effective means of cost alleviation, the Working Party have accepted that a simple reduction of tax in respect of travel cost does not entirely satisfy the *requirement of betterment* that it is hoped to achieve. It is evident that to be acceptable, any package of proposals must recognise and make allowance for some element of co-operation between all concerned. The State, as proprietor, The Transport Authority, as operator and The Traveller, as user. All have a responsibility to ensure the success of any proposition that is made for *general betterment.*

It would be unrealistic to expect that great changes will take place quickly, but we recommend most strongly that some action is taken without delay in order to bring some immediate relief, and we set the scene for a continuing pattern of improvement. Such action, we are certain, would engender a confidence that *things are getting better,* a state of mind not normally enjoyed by people travelling to work.

Our recommendations are ther

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Our recommendations are therefore as follows:-

THE STATE - the Proprietor

We are satisfied that tax relief for the cost of travelling to work could not, in any way, be regarded as granting an unfair advantage over those who do not commute, and we are convinced that it is the surest way of providing help to those lower paid travellers who do not receive tax relief in any of the forms already described.

We have considered, most carefully, the manner in which such relief should be given and we have examined the methods used by other countries. It is evident that the easiest form of relief to administer would be an "across the board" allowance in respect of travel expenses irrespective of the taxpayers' commitment to regular travel to work.

We have decided that however simple such a method would be we cannot recommend it, on the grounds that it does not truly reflect the need to minimise the resultant loss of revenue. This can only be achieved by restricting the benefit as a tax allowance for those actually incurring the expense.

We therefore recommend that an allowance against tax be given at the basic rate on expenses in excess of £100 incurred in getting to work by public transport with a maximum allowance of £300.

We recognise the argument that the introduction of tax allowances could induce the transport authorities to charge even higher fares, but we believe that this is a matter of financial discipline imposed by a tight control of the general subsidy.

THE TRANSPORT AUTHORITY - the Operator

We have already commented (p.14 para.2 and **British Rail,** pp. 38,39) on the confusing price structure of British Rail which we acknowledge may be due in part to the complexity of the railway system. We are, however, very concerned at the apparent need to place a higher price on early morning fares. It has, in the past, been the practice to carry early morning passengers for lower fares and we are firmly of the opinion that this practice (i.e. lower fares before 8 a.m.) should be readopted.

The current British Rail discussion paper "Towards a Commuter Charter" comments upon the increase in revenue of the "off peak" services. While we are gratified to know that B.R. revenue is increasing, we must point out that it is probable that commuters who hitherto have arrived promptly at work are now later in making a start because it is cheaper to travel "off peak".

If we are to recharge our commercial life with the enthusiasm and determination it needs, we must match - and better - our competitors' efforts. Few continental offices start work in the morning as late as ours.

We recommend that all public transport tickets purchased for journeys which will be completed before 8.00 a.m. should be at a reduced rate.

In view of the particular problems facing young people, who are inevitably at the lower end of the salary scale, **we recommend that some thought be given to the possibility of introducing a cheaper fare structure for working travellers under 18.**

We are of the opinion that all parties should work together to achieve a better service.

If this aim is to be satisfied, it is evident that the liaison between the transport operators and the traveller - the *consumer* - must be established at all levels and that those who represent the consumer should be qualified to do so.

We respect the representation already made by the Transport Users Consultative Committees and the Central Transport Consultative Committee and the various Passenger Transport Executives on behalf of the traveller, but we believe the powers of these bodies to be limited. Recognition of this fact has led to the formation of various non-statutory bodies in the form of commuter associations and rail passenger groups. There is no doubt that commuters themselves feel a need for their voice to be heard and we believe that the transport operators could gain much benefit from a closer involvement with their consumers.

We recommend that in order to represent commuter interests, suitable persons should be appointed to the Main Board and the Regional Boards of British Rail and to the Board of London Transport. These appointments should be for periods of limited duration and selection should be restricted to persons with the requisite knowledge and after consultation with the various representative bodies. The most important factor would be that those appointed should have regular and ongoing information on commuters' problems.

THE TRAVELLER - the User

We have mentioned (p.17 para.2) that we believe there should be a more direct involvement by the public in the financing of transport and we have recognised the need for co-operation between all parties in the interest of better public transport.

If the present heavy burden of cost can be reduced by tax allowances and a reduction in early morning fares, we believe that we could expect the traveller to play his part by participating in some scheme where he can gain some additional advantage over his present position. This could especially apply to those who would not qualify for any benefit from the proposed tax allowances nor by early morning travel.

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We therefore recommend the issue of British Transport Discount Certificates to be sold to the general public.

We envisage a Certificate sold at British Rail ticket offices, the purchase of which would rank as a payment on account towards the cost of a season ticket. Holdings exceeding a prescribed amount, perhaps £50, would qualify for a discount on the price of a season ticket graded according to the period of the ticket and the total value of certificates held. All certificate holders would receive a tax free bonus for certificates held for a period of three years. The scheme should be designed to benefit the user of any of the public transport services.

We acknowledge the complex requirements of such a scheme and the problems of financial gearing required. We are firmly of the opinion that these problems could be overcome and we urge most strongly that our proposal for British Transport Discount Certificates should be examined in detail without delay.

CONCLUSION

Our concern is that the daily traveller using public transport to get to work should be able to depend upon a clean, efficient and reliable service at fares that he can afford.

We have commented upon the need for a competitive attitude to maintain high standards and while we support the right of people to choose how they should travel, we believe that it should be the aim of British Rail to ensure that they can compete successfully with the motor car on a cost basis. A sharper edge to their attitudes in this direction would benefit all concerned.

This report is concerned with ways and means of alleviating the present cost of fares and with setting up a new approach to the problems involved in travelling to work. We have not commented upon the validity of the present level of fares nor upon the need for some assurance that fares are the lowest that can be charged. It is essential that the transport authorities should, in the future, be able to provide this assurance.

If the objectives of this report are to be reached and maintained, it is imperative that the transport operators should make the fullest possible use of their resources, not only by way of increased productivity, but also by realising the very large land and property assets as yet undeveloped.

In this regard we recognise the great constraints imposed by Development Land Tax, and we strongly urge a reform of this Tax in order to allow for the full development of land and property owned by British Rail and London Transport. The realisation of those assets in terms of capital or revenue could provide a major contribution to programmes of modernisation and improvement.

The package of measures we have recommended could, we believe, establish the framework for a better understanding of the problems facing transport operators as well as providing the commuter with some badly needed help. They could also form the first stage of a long term pattern of improvement of public transport services. Following the establishment of the measures we have recommended, the continuation of that improvement must depend on the transport operators themselves.

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A PPENDIX A

THE SURVEY QUESTIO

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ROBERT STEVENS

Vice Chairman
Westminster Chambe

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FROM
G. K. NEWMAN, O.B.E., M.A. (Oxon)
DIRECTOR-GENERAL

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Sir D Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr Corlett
Mr Unwin
Mr Pickering
Mr Griffiths
Mrs Boardman

ROAD HAULAGE ASSOCIATION LIMITED
22, UPPER WOBURN PLACE
LONDON, WC1H OES
TEL. 01-387 9711
TELEX: 298404

GKN/AS

2nd February 1981

Dear Chancellor,

On behalf of the Road Haulage Association which represents some 14,000 operators of road goods vehicles for hire or reward, I am writing to request that the following matters should be considered favourably prior to your forthcoming Budget proposals.

1. Vehicle Excise Duty and Fuel Taxation

Following the abolition of the Road Fund in 1955, the gap between motor taxation and road expenditure has widened steadily so that in the year 1980/1981 the estimated track costs of commercial goods vehicles amount to £797 million compared with revenue from goods vehicles of some £840 million. The road haulage industry has therefore contributed £43 million to the Exchequer. We believe that the Department of Transport evaluates track costs on an arbitrary basis by methods which are strongly biased against the lorry so that any further increases in vehicle excise duty and diesel fuel duty cannot be justified on the grounds that lorries do not meet their track costs.

An increase of £800 per annum on the vehicle excise duty payable in respect of the 32.5 tonne 4-axled vehicle as suggested by the Armitage Inquiry would increase the costs of operators of those vehicles by approximately 2 per cent. An increase in diesel fuel duty of 1p per litre over and above the present duty of 10p per litre would increase road haulage operating costs by approximately ¾ per cent.

Many hauliers have been unable to recover any appreciable part of the 17 per cent increase in operating costs suffered during 1980 and already in 1981 there have been further increases in the price of fuel and in the cost of wages, even though these wage increases have been kept to a very reasonable level. Any increase in the burden of taxation upon the haulier could not be borne by him and would have to be passed directly to consumers (i.e., trade and industry), thus adversely affecting the price of goods and the conomy as a whole. There is already considerable doubt about the industry's ability to respond swiftly to the demands which will be made upon it when the economic climate improves, and ill-considered action in respect of the taxation of hauliers now will merely deepen the financial crisis in which the road haulage industry finds itself.

In international road haulage, any substantial increase in taxation on British hauliers will put them at a severe commercial disadvantage with their foreign competitors. This, with the increased value of sterling, will reduce the British haulier's share of the international road haulage market to the detriment of the United Kingdom's balance of payments.

2. Stock Appreciation Relief

A recent interpretation of paragraph 30(b) of Schedule 5 of the Finance Act 1976 by the Technical Division of the Inland Revenue seems to suggest that the only occasion on which a road haulier would be entitled to claim stock relief is when his "stock" of tyres and fuel can be identified as relating specifically to a haulage contract which has not been completed at the balance sheet date, and in respect of which no invoice has been raised for that portion of the contract which has been completed. The new proposals in respect of stock relief, which were the subject of a recent consultative document published by the Board of Inland Revenue, do not appear to augment the minimal relief afforded to the road haulage industry under the existing provisions. On the contrary, the proposed new basis for computation on opening stock values would appear completely to exclude hauliers from relief if the interpretation of existing legislation referred to above is correct. Stock relief is both discriminatory and inadequate as a protection against inflation for the road haulage industry, and we therefore believe that a lowering of the rates of Corporation Tax is the only means by which equitable relief can be afforded to the industry.

3. Investment Tax Credits

Since January 1978 the cost of vehicle replacement has increased by approximately 44 per cent and the problems of funding this essential renewal are well known. Although first year allowances go some way towards assisting the replacement process, we believe that a system of investment credits should be introduced, as in other countries, providing the haulage operator with a genuine relief against his mainstream Corporation Tax liability.

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4. Industrial Buildings

We believe that the definition of an "industrial building" discriminates against the road haulier. It should be extended to include garages, workshops, mobile and other offices used by the haulier so that these items can be depreciated for tax purposes.

The Association hopes that its views, stated above, will be considered sympathetically. Our representations are made not only in the interests of the road haulage industry but also in support of the Government's anti-inflation policy.

As regards other matters of taxation, the Association fully endorses the submission made by the C.B.I.

Yours sincerely,

G.K. Newman.

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1P 3AG.

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TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

From Sir James Wilson, K.B.E., M.C.
Chairman

Telephone: 01-828 2803/2041
Telegrams: TOBCOM LONDON SW1E 5AG

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2nd February, 1981

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Mr CROPPER

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1P 3AG.

Dear Chancellor,

Last year, at about this time, T.A.C. sent you a selection of papers about the taxation of cigarettes and other tobacco products. I am taking the liberty of doing so again this year; as before, T.A.C. would be grateful if you and your advisers could take our submissions into account when you are framing your coming Budget.

You may recall that last year a main basis of our submission lay in our view that tobacco goods were already substantially over-taxed across the board, with the main burden falling especially heavily on cigarettes. The situation is no different in 1981; duty and value added tax, taken together, still account for about 70% of consumer expenditure on tobacco products.

You will not be surprised, therefore, at T.A.C.'s continuing to emphasise this same theme. It is significant, in this connection, to find the C.B.I. as a whole this year implicitly supporting our view. To quote briefly from their representation: "Nor do we recommend that the Government raise indirect taxes. Our longer term wish to see the balance of our tax structure shifted from direct to indirect taxes should, we think, be achieved by future reductions in direct taxes rather than by further large increases in indirect taxes".

In our submission, over-taxation is a major cause of the declining trends of consumption revealed by the figures in our papers. Naturally, these trends are a matter of concern to the tobacco industry; they also represent a further erosion of the base for future sources of tax revenue. Current over-taxation is, in fact, such that there is currently little or no growth in the industry; more taxation can only mean a further reduction in numbers employed within the industry.

In the case of cigarettes, consumption declined during 1980 by 2.3%. This fall in consumption took place despite intense competition in the market place; the resultant price cutting at the retail level provided specially favourable conditions for consumers, and indeed, without this, the decline in consumption would doubtless have been more pronounced. T.A.C. believes (see page 3 of our paper on taxation of cigarettes) that, in principle, there should be no change in the level of cigarette taxation in the 1981 Budget; we recognise, however, that the immediate need to restrict the P.S.B.R. may require cigarettes, in company with other similar consumer goods, to bear a degree of increased taxation. If so, T.A.C. would counsel the wisdom of a

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The Rt. Hon. Sir Geoffrey Howe, QC, MP.   2nd February, 1981

gentle approach; following the recent price increase by most manufacturers amounting to 4p for 20 cigarettes, some one-third of which accrues to the revenue, T.A.C. is of the view that a tax increase in excess of, say, 3p per 20 cigarettes at this time of recession might undermine the base for future revenue receipts.

The taxation of handrolling tobaccos deserves special consideration. Consumption in this field has fallen for four consecutive years and stands now some 15% below the 1976/77 level. Almost 80% of handrolling tobacco smokers are in the C2, D, and E social classes; any help you can give in this area would therefore particularly benefit the less favoured group of the population.

The case for avoiding further taxation on pipe tobacco is, surely, overwhelming. Consumption of pipe tobaccos has been falling for many years, but, as our paper on this subject shows, the rate of decline has accelerated in recent years. The tax burden on pipe tobaccos relative to cigarettes remains much too high; furthermore it compares unfavourably with the position in other European countries (see Appendix to paper on taxation of pipe tobaccos), and, unless corrected, will continue to prejudice our export potential in relation to Continental competitors.

Finally T.A.C. asks for special consideration to be given to U.K. cigar manufacturing interests. This is a market which declined last year when, from every point of view, one would have wished to see it increase. As our detailed paper on the subject indicates (paras. 3 and 4), cigar sales are particularly responsive to taxation changes; it is specially important that in 1981 there should be no further burdens placed on a sector of the tobacco industry, still labour intensive and where import penetration is being gradually reduced.

As you may know, we have already been in touch with the Minister of State at the Treasury, and are most grateful to him for agreeing to see a delegation from T.A.C. on Tuesday, 17th February. We greatly appreciate the privilege of being able to put forward our submissions personally in this way, and hope that these papers may not only save time on that occasion but will also prove helpful to you and your advisers in reaching your final conclusions.

Yours sincerely

James Lister

TAXATION OF CIGARETTES

1. Price Changes in 1980

Cigarette taxation was increased by the equivalent of 5p per 20 cigarettes in the March 1980 Budget, raising the total tax burden by 10¾% and retail prices by about 7½%.

Most manufacturers increased cigarette prices by 2p per 20 in early/mid March 1980; thus, in total, cigarette prices rose by some 7p per 20 in 1980 - a typical king size brand retailing at 73p per 20 by the end of the year, compared with 66p twelve months earlier.

(A more recent price change - in January/February 1981 - has raised the price of most cigarette brands by 4p per 20).

2. Cigarette Prices relative to Changes in the R.P.I.

In its submission prior to the March 1980 Budget, the T.A.C. expressed its concern that the price of cigarettes, primarily as a result of successive tax increases, had increased faster than the prices of other goods and services.

A year hence, there has been no material change in the situation, with the R.P.I. for cigarettes being some 9% higher than the all items index (January 1974 = 100).

T.A.C. has noted with concern comments contained in the E.E.C. Commission's recent report on the U.K.'s tar related surcharge about cigarette taxation in U.K. relative to changes in the R.P.I. As T.A.C. has demonstrated in a separate paper submitted to H.M. Customs, the Commission's calculations - and therefore its conclusions - are erroneous and misleading. The actual position, compared with the Commission's figuring, is shown below -

	E.E.C. Commission's Report	Actual Position
R.P.I. Index - 1.7.80 cf. 1.7.73	286	286
Index of Cigarette Taxation - 1.7.80 cf. 1.7.73	234	325
Change in 1980 duty rate to match change in R.P.I.	+23%	-12%

The above tax indices are based on the sales weighted average tax burden. However, because of the change to the E.E.C. tax structure for cigarettes during this period, the increase in taxation for small size filter brands - which had accounted for a substantial part of the market - has been considerably greater than the average shown.

Using the Commission's approach, but with the correct data, it can be seen that cigarette taxation should be reduced by 12% to bring it back into line with inflation generally - i.e. a reduction of about 6p per 20 cigarettes.

3. Cigarette Consumption

Cigarette consumption continues to fall but, compared with the two previous years, there was some acceleration in the rate of decline in 1980 - mainly the result of the 5p per 20 increase in taxation in a year of economic recession.

Consumption trends in recent years, compared with increases in cigarette taxation, are summarised below -

	Consumption		Budget/Regulator Increases in Cigarette Taxation
	millions	% cf. previous year	pence per 20 cigarettes
Calendar Year:			
1976	130,600	- 1·5%	+ 3/3½p
1977	125,900	- 3·6%	+ 8p
1978	125,200	- 0·6%	...
1979	124,300	- 0·7%	+ 6p
1980 (prov.)	121,500	- 2·3%	+ 5p

The sales reduction in 1980 occurred in spite of intense competition in the cigarette market; the very marked price cutting activity provided extremely favourable buying conditions for consumers and, without this activity, sales would undoubtedly have been even lower.

The current rate of consumption is estimated at 120,000 millions p.a. - some 14% below the peak rate of 140,000 millions p.a. achieved in early 1974, prior to the April 1974 duty increase.

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4. 1981 Prospects

In its submission last year, T.A.C. pointed out that a heavy duty increase on cigarettes, in the context of a predicted 2% reduction in G.D.P., would be likely to cause substantial disturbance in the market, with a consequential impact upon the anticipated increase in cigarette tax revenue. T.A.C. further suggested that, having regard to the joint aims of achieving the maximum increase in cigarette tax revenue with the least adverse effect on the R.P.I., H.M.G. should confine any consideration of cigarette tax increases to possibilities not exceeding 4p per 20 cigarettes.

In the event, the tax increase for cigarettes was 5p per 20 and the reduction in G.D.P. seems likely to be about 3%, rather than the 2% predicted. As a result - in spite of the price cutting activities last year - cigarette consumption has been curtailed.

With a further, albeit smaller, reduction in G.D.P. predicted for 1981, but with cigarette consumption on a less firm base than a year ago, T.A.C. believes that there should be no change in the level of cigarette taxation in this year's Budget. A year's respite from further tax increases would provide the following benefits -

(i) It would allow the rate of increase in cigarette prices to be brought back more into line with price movements generally.

(ii) Cigarette consumption could be expected to regain some stability - giving a more assured base for future revenue receipts.

(iii) The industry, together with its investment and employment capability, would benefit.

(iv) It would contribute to the maintenance of low import penetration and a successful export trade.

(v) The inflationary impact of an increase in cigarette taxation would be avoided.

These are strong arguments which T.A.C. urges the Chancellor to take fully into account in framing his 1981 Budget.

T.A.C. recognises, however, that the Chancellor may feel that the immediate problem of reducing the P.S.B.R. is nevertheless of overriding importance and that cigarettes must bear some degree of increased taxation. Bearing in mind the considerations referred to earlier in this paper, T.A.C. would stress the importance of a cautious approach. Certainly, in T.A.C.'s view, a repeat of last year's 5p per 20 increase would be inappropriate in the present circumstances; indeed, T.A.C. would advise against any increase in excess of 3p per 20 cigarettes on this occasion.

5. <u>Specific/Ad Valorem Ratio of Taxation</u>

A recent price increase of 4p per 20 cigarettes by most of the leading manufacturers will increase the amount of ad valorem excise duty and V.A.T. payable and will consequently lower the specific proportion of total taxation on the most popular price class to about 51%, compared with the 55% specific maximum permitted under the current stage of cigarette tax harmonisation.

If, therefore, an increase in cigarette taxation is unavoidable on this occasion, it would be appropriate for it to be applied by means of an adjustment to the specific rate only.

6. <u>Contribution to U.K. Economy</u>

The contribution of the tobacco industry to the total employment level in the U.K. is substantial. Some 40,000 people are directly employed in the tobacco manufacturing industry - many factories being situated in areas of high unemployment, such as Northern Ireland, Scotland, Merseyside, Tyneside. In addition, there is a significant employment element in the ancillary industries - specialised machinery, cigarette paper, packaging, etc. - which serve both home and export markets, as well as those employed in the wholesale and retail distribution of tobacco goods. There are some 300,000 retail outlets for tobacco goods in U.K.

The tobacco industry's contribution to the U.K. balance of payments is impressive. Imported brands account for less than 2% of total cigarette consumption in U.K.; this is a remarkable achievement against powerful European and international interests. On the export side, despite the relative strength of sterling, the U.K. has been extremely successful in developing export markets in fierce competition against the large American companies - the U.K. is, in fact, the most important cigarette exporter in the E.E.C.

However, foreign competition can only be resisted so long as the U.K. domestic industry has a sufficiently large and stable base to continue to produce high quality products at competitive prices.

Revenue receipts from tobacco goods are estimated at some £3,400 million in 1980/81 (excise duty and V.A.T.) - some 14% of Customs and Excise total tax revenue.

7. Conclusion

T.A.C. is concerned that the taxation policies adopted by successive Governments since the mid-1970's have increased cigarette prices at a faster rate than price movements generally - thereby depressing cigarette consumption and affecting adversely the industry's ability to maintain investment and employment levels.

The tobacco industry needs a respite from increases in taxation in 1981 - otherwise the consumption base will further contract and the source of future revenue receipts will become less stable. Obviously, any cut-back in an industry which accounts for some 4% of total consumers' expenditure is bound to have repercussions for the economy as a whole.

If H.M.G.'s immediate economic priorities are such that it feels an increase in cigarette taxation cannot be avoided, T.A.C. believes that the Chancellor should think in terms of possibilities not exceeding 3p per 20.

T.A.C.

January, 1981

TAXATION OF HANDROLLING TOBACCOS

1. As in the case of manufactured cigarettes, consumption of handrolling tobaccos has fallen in recent years as prices in this sector of the market have been pushed up, by successive increases in taxation, at a faster rate than price movements generally. Details are as follows -

	Price Index at November 1980 (Jan. 1974 = 100)
All Items	274·1
All Tobacco Goods	297·9
Handrolling Tobaccos	313·8*

*By end-February 1981, following a price increase of 4p per 25g, this index would become 326.

For the smoker of handrolling tobaccos, there is little scope for economy by moving to a less expensive brand because most brands retail within a fairly narrow price band. This, of course, is a feature of the weight-related duty system.

Therefore, with the price of handrolling tobaccos increasing even faster than manufactured cigarettes, many smokers have been forced to reduce their consumption.

2. National consumption trends have moved as follows -

	Handrolling Tobacco Consumption	
Calendar Year:	Million Kg.	% cf. previous year
1975	6·4	+ 5½%
1976	6·5	+ 1½%
1977	6·5	- ½%
1978	6·1	- 6½%
1979	5·7	- 7%
1980 (prov.)	5·6	- 2%

(N.B. Percentages based on unrounded sales figures)

Consumption has fallen for four consecutive years and is currently some 15% below the 1976/77 level.

3. The social profile of handrolling tobacco smokers indicates a very definite weighting towards the C2, D and E social classes, as follows -

Social Group	Division of Handrolling Tobacco Smokers by Social Groups	(Division of U.K. Adult Population)
ABC1	22%	(37½%)
C2	40%	(32½%)
DE	38%	(30%)
Total	100%	(100%)

Almost 80% of handrolling tobacco smokers are in the C2, D and E social classes, and therefore any increase in handrolling tobacco duty would particularly penalise this less well off section of the population.

4. In the light of these facts, T.A.C. believes that there should be no increase in taxation for handrolling tobaccos in the forthcoming Budget and that this sector of the industry should be allowed to regain some of its earlier stability, thus protecting employment levels.

Even if, despite T.A.C.'s representations, there should be some increase in cigarette taxation, the special features of the handrolling market - in particular the relative R.P.I. movements - would support no change in taxation for handrolling tobaccos.

T.A.C.

January, 1981

TAXATION OF PIPE TOBACCOS

1. T.A.C. strongly urges that there should be no increase in taxation of pipe tobaccos in the forthcoming Budget.

2. The pipe tobacco market has been falling for many years but, as shown in the following table, the rate of decline has accelerated since the late 1970's -

Calendar Year	U.K. Sales of Pipe Tobacco	Sales Decline: On Annual Basis	Sales Decline: cf. 5 Years Earlier
	Million Kg.		
1965	6•6	- 3½%	- 17%
1970	5•7	- 2½%	- 13%
1975	5•0	- 2½%	- 13%
1976	5•0	- 1½%	- 17%
1977	5•0	...	- 13%
1978	4•6	- 7%	- 17%
1979	4•2	- 7½%	- 22%
1980 (prov.)	4•0	- 5%	- 20%

(N.B. Percentages based on unrounded sales figures)

3. The relative market stability in 1976 and 1977 can be directly attributed to the favourable treatment afforded to pipe tobaccos in the Chancellor's Budgets in those years. On the other hand, the uplift in V.A.T. rate in 1979 (8% to 15%) was followed by a sales reduction of 7½% in that year. Even in 1980, when the Chancellor increased the rate of duty on pipe tobaccos by less than on handrolling tobaccos, sales fell by 5%.

4. In spite of the dispensations at the Budgets in 1976, 1977 and last year, the tax burden on pipe tobaccos in the U.K., relative to cigarettes, is still far too high. So far as Continental E.E.C. countries are concerned, the cost of a typical 25 gram pack of pipe tobacco varies between 21% and 90% of the price of a 20s pack of the leading price class of cigarettes, compared with 114% in U.K. - see details in the attached Appendix.

Lower levels of pipe tobacco taxation in Continental markets have enabled the industries in these countries to develop a strong home base, together with a successful export trade. The U.K. industry, on the other hand, has been burdened with an excessive level of taxation, its home market has declined and it has consequently been very difficult to remain competitive.

5. On the basis of past experience, there would seem to be little doubt that any increase in taxation on pipe tobaccos would have an adverse effect on sales, leaving little benefit in extra tax revenue for the Chancellor.

6. An increase in tax on pipe tobaccos would also push up prices for those sectors of the community least able to afford it - about a third of pipe smokers are aged 60 years and over and 60% are in the C2, D and E social classes.

7. Without further duty concessions, a continued significant decline in pipe tobacco sales would be inevitable and, in this labour intensive sector of the market, this would have a proportional impact on employment. Unfortunately, this would affect areas of the country where the levels of unemployment are highest, as can be seen from the following figures.-

	Numbers Employed in U.K. in Pipe Tobacco Manufacture
Northern Ireland	900
Liverpool	800
Glasgow	200
	1,900

The phased introduction of more productive machinery is being made to improve the international competitiveness of the U.K. industry and this will inevitably mean some reduction in the future level of employment in the industry. Manufacturers would hope that the problems associated with shedding labour will not be compounded by a further decline in demand caused by excessive taxation.

8. The problems in the U.K. pipe tobacco industry are being felt particularly harshly by the small manufacturers, some of whom are finding it difficult to maintain a viable business.

9. T.A.C. believes that the foregoing fully justifies its view that taxation of pipe tobaccos should not be increased beyond the current high level at the forthcoming Budget.

T.A.C.

January, 1981

APPENDIX

RELATIVE PRICE LEVELS OF CIGARETTES AND PIPE TOBACCOS IN E.E.C.

		(a) Cigarettes Most Popular Price Class per 20	(b) Pipe Tobacco Most Popular Price Class equivalent per 25g	(b) as a % of (a) %
Belgium	(BF)	34•40	12•50	36
Denmark	(DKr)	16•90	3•60	21
France	(FF)	2•90	2•60	90
German Fed. Rep.	(DM)	2•85	2•00	70
Italy	(Lit.)	700	375	54
Netherlands	(Fl.)	2•40	1•40	58
Rep. of Ireland	(p)	70	73 (hard pressed)	104
			88 (Cut)	126
United Kingdom	(p)	73	83	114

TAXATION OF CIGARS

1. T.A.C. is concerned that, contrary to the view expressed a year ago that cigar taxation should not be increased in the Chancellor's Spring 1980 Budget, this class of goods suffered a disproportionately heavy increase in taxation, with an almost immediate adverse effect on cigar consumption.

2. The trend of cigar sales in the U.K. in recent years has been as follows -

Calendar Year	Sales million	cf. Previous Year
Av. % increase 1970/73		+ 17%
1974	1,600	+ 3½%
1975	1,640	+ 2½%
1976	1,580	- 3½%
1977	1,570	- ½%
1978	1,610	+ 2½%
1979	1,650	+ 2½%
1980 (prov.)	1,610	- 2½%

3. Prior to 1975, cigar sales in U.K. had shown a strong upward trend over a number of years. However, following the tobacco duty increases in 1975 and 1976, this trend was reversed in 1976 and 1977 when cigar sales fell below the 1974 level.

Cigar sales showed a modest recovery in 1978 and 1979 and there is little doubt that the absence of a duty increase on cigars between January 1977 (Regulator duty increase) and June 1979 (V.A.T. change) contributed to this improvement. Nevertheless cigar sales in 1979 were at little more than the 1975 level.

4. Cigar sales continued to show some improvement in the early part of 1980 but it is significant that, following the substantial increase in cigar taxation in the March 1980 Budget, sales have since fallen substantially - 4% down in the period May to December 1980 compared with a year earlier. The overall 1980 figure is likely to be 2½% down compared with 1979.

5. The increase in duty on cigars at the March 1980 Budget was much too high in relation to that on cigarettes (+17¾% and +10¾% respectively, including V.A.T.).

The March 1980 taxation changes added 5p to the price of both 5 whiff cigars and 20 cigarettes, even though the taxation element of retail price for cigars (at 45%) is substantially lower than on cigarettes (70%). Since the non-tax element of price is also subject to inflationary influences, this approach pushed up cigar prices in 1980 much faster than cigarette prices, as follows -

	Retail Price of 5 Whiff Cigars	Retail Price of Typical King Size Cigarettes
At 1.1.80	61p per 5	66p per 20
At 1.1.81	71p* per 5	73pø per 20
Increase	+16½%	+10½%
	*73p by Feb. 1981	ø77p by Feb. 1981

6. Cigar manufacture is labour intensive and therefore important in terms of employment. Over 4,000 people are currently employed in cigar manufacture, details by geographical location being broadly as follows -

	Approximate Numbers Employed
South Wales	1,350/1,400
Bristol	850
Ipswich	900
Glasgow	500
N. Ireland	600/650
Total	4,200/4,300

Virtually half of all cigar manufacture takes place in areas suffering above average levels of unemployment and a further decline in cigar sales would have repercussions for employment in these regions.

7. Cigar smoking is not, as is popularly believed, restricted to the more affluent social classes. In fact, a little over half of all cigar smokers are in the C2, D and E social groups.

8. T.A.C. was very disturbed about the excessive increase in cigar taxation imposed last year, relative to that on cigarettes. In order to restore a more equitable balance, cigar taxation should be reduced in the Chancellor's 1981 Budget.

However, T.A.C. has to acknowledge that it would be unrealistic to expect an actual reduction in cigar taxation on this occasion - but stresses the importance of avoiding any increase in order that this industry should not suffer further damage.

9. The benefits derived from re-building this sector in 1978 and 1979 have already largely been eroded during the latter half of 1980 and any additional taxation burden seems certain to have a further adverse effect.

If cigars were spared further increases in taxation for the next year or two, we believe the market could stabilise and eventually show some further expansion. This would remove some of the current uncertainty for what has historically been a growth market and would thus provide manufacturers with the incentive to invest. This would place the U.K. industry in a stronger position to resist competition from abroad and encourage efforts to expand exports.

T.A.C.

January 1981

LS pl minute x

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THE THEATRES' NATIONAL COMMITTEE

Chairman: JOHN GALE

The Committee comprises representatives of:
The Society of West End Theatre
Theatrical Management Association/Council of Regional Theatre Ltd incorporating The Association of Touring and Producing Managers
The Association of Circus Proprietors of Gt. Britain

All Communications to be addressed to The Secretary

BEDFORD CHAMBERS
THE PIAZZA
COVENT GARDEN
WC2E 8HQ
01-836 0971/2/3

Telegraphic Address:
'THEMANAS' LONDON

JG/VB/SJM

2nd February 1981

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
11 Downing Street
London
SW1

x 1

We should send this letter to MST seriously

Dear Sir Geoffrey

Thank you for your letter of 15th January. It has come as a great disappointment to us, partly because it seems as if our proposal has been misunderstood.

I am writing at some length to your colleague Mr Peter Rees since clearly you will be immersed in preparations for this year's Budget. Naturally we hope that there will be a positive outcome to these discussions which could be reflected in this year's Finance Bill.

Yours sincerely

John Gale

John Gale
Chairman

Top copy CH/EX ACK

CH/EXCHEQUER	
REC.	- 5 FEB 1981
ACTION	PS/IR
COPIES TO	MST(c)
	Mr CAFF
	Mr CROPPER

6/2

Copies sent 6/2 TAN

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cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Ridley
Mr Cropper
Mr Cardona

The Chancellor thinks you will be interested to see the
... attached circular by Scrimgeour, Kemp-Gee, which he would
like to consider at an early morning meeting.

2. His point a) - in the last sentence of the third paragraph on page 3 - is for consideration as a question of fact. Point b) - the first sentence of the next paragraph - underlines, he thinks, the need for early headway on disposals. If the points marked as 1 and 2 - in the final paragraph on page 3 - are correct, and he would discuss these with you, there are important implications for the style and tone of the presentation of policy, if not for policy itself.

3. He thinks it may be timeous to submit some comments to the Prime Minister and Lord Thorneycroft. He would also want to discuss this at the morning meeting.

R.I.T.

R I TOLKIEN
2 February 1981

Scrimgeour, Kemp-Gee & Co

bers of The Stock Exchange

20 Copthall Avenue, London EC2R 7JS Telephone 01-600 7595 Telex 885171

ECONOMIC
RESEARCH

For private circulation

EQUITY VIEWPOINT

28th January, 1981

Conclusion: Recently available data for the third quarter 1980 indicate that this Winter is likely to live up to the worst expectations in its effect on the company sector. We suspect, however, that the equity market is already discounting a large part of the bad news in this area. Perhaps a more serious, and growing, threat to the markets through 1981 and 1982 is likely to be posed by the political prospects for the next U.K. General Election.

For some time now it has been widely acknowledged that some very grim news is about to emerge from the company sector. The very fact that this is widely acknowledged, however, and therefore is probably already reflected in prices seems to argue that the potential for a further fall in the equity market is limited, particularly in view of the likely strength of the short gilt market. In addition, as the Spring gets nearer and investors look forward to economic recovery equities will probably start to reflect the fact. Whilst the market's hopes for the impact of the economic recovery upon dividends frequently seem to us to be too high, there are reasonable grounds for looking forward to solid if unspectacular progress in the equity market into 1982.

This broadly optimistic view was advanced in our last company sector profits forecast of 18th December and it still, we feel, has much to recommend it. Recent weeks have, however, seen several developments which may add significantly to the risks facing the equity market over the next year or so.

The first point to be borne in mind is that the news from the company sector is likely to live up to the very worst expectations. Third quarter data concerning company profits has only recently become available. These have, as usual, revised the past data and the one certainty is that these new figures will, in turn, be revised in the future. The evidence available does seem to indicate, however, that the trend in profits through 1980 was significantly worse than we envisaged in December on the basis of the data then available (see Table 1).

Gross trading profits of industrial and commercial companies were previously officially estimated to have fallen by 6% between first and second quarters of 1980 and we estimated a further 4% fall between the second and third quarters. The new data indicates falls of 15% and 12% respectively for these period. Thus, even if the new data are subsequently revised upwards it seems

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likely that the downward trend in profits as the recession hit industry during 1980 was more pronounced than had been envisaged. This is reflected in dividend payments. We had expected a rise in dividends on a year previously of about 13% in the third quarter but the data now indicates that dividends were virtually static (on an annual basis) in the quarter, representing a fall of over 10% on the second quarter.

Table 1. GROSS TRADING PROFITS

This table indicates the revisions to the gross trading profits data. The latest data is shown in bold type, the previous published data (up to the second quarter), together with our previous projections for the third and fourth quarters are shown in italics.

	1980			
£ million	**I**	**II**	**III**	**IV**
Gross Trading Profit of Company Sector	**7,371**	**6,178**	**5,323**	**–**
	7,646	*7,110*	*6,750*	*6,500*
– Stock Appreciaion	**2,309**	**1,313**	**898**	**–**
	2,273	*1,396*	*1,100*	*800*
= Gross Trading Profit of Company Sector	**5,062**	**4,863**	**4,425**	**–**
	5,373	*5,714*	*5,650*	*5,700*
+ Financial Sector Losses	**730**	**750**	**780**	**–**
	730	*750*	*775*	*750*
– North Sea Oil Profit	**1,680**	**1,710**	**1,600**	**–**
	1,720	*1,690*	*1,833*	*2,026*
= Gross Trading Profits of Industrial & Commercial Companies, net of N. Sea Oil and net of Stock Appreciation.	**4,120**	**3,910**	**3,600**	**–**
	4,383	*4,774*	*4,591*	*4,423*

The worse than expected trend in the official estimates of profits and dividends is confirmed by some of the other economic data available. Earlier in the Autumn the expectation had been that the recession would at least start to slow this Winter. The third quarter stock output ratios were perhaps the first solid indicator that the economy still had some serious adjustments to make during the Winter. Both the unemployment and the industrial production figures have confirmed that this adjustment is taking place and that the recession is still hitting industry hard.

The industrial production data indicate that late last Summer output fell particularly sharply, rather as it did in the Spring. Ever since, however, production has continued falling month by month (if oil output is excluded). The position is of particular interest in the chemical sector, where output appears to have fallen sharply (5%) again the fourth quarter. This, of course, raises fresh questions about the level of ICI's dividend payment. We think a cut is unlikely, but obviously if it did happen it would have widespread implications for the equity market.

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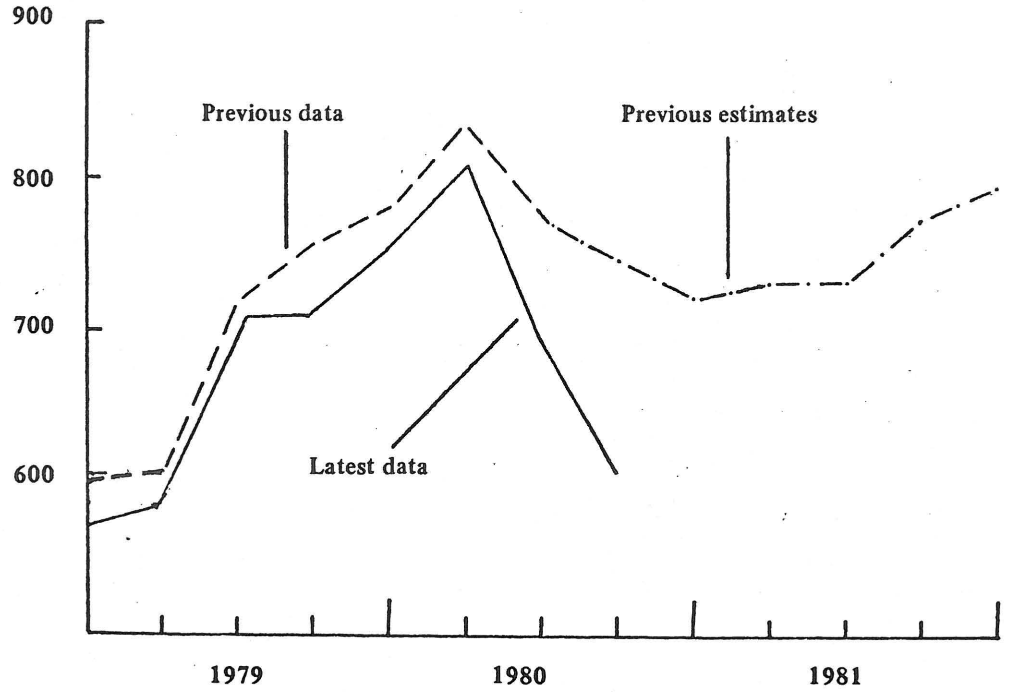
GROSS TRADING PROFITS OF INDUSTRIAL & COMMERCIAL COMPANIES, £m.



The labour market figures also seem to be pointing to a further marked slowdown in activity this Winter, with unemployment rising at a steady 100,000 a month on a seasonally adjusted basis. Whilst the worst monthly increases may have already been seen, the figures indicate how difficult trading conditions were last Autumn and it is certainly difficult to see much improvement in the course of this year.

The rising level of unemployment has implications for the market beyond the evidence it offers concerning the state of health of companies. Investors may become increasingly concerned about the political consequences of high unemployment as the year progresses.

Many of the arguments put forward in defence of the current high level of unemployment, whilst being at least partly true, also imply that current unemployment levels are going to be with us for some years. Companies are shedding labour as the result of adopting new, more efficient production techniques and the U.K. is withdrawing from old industries where ir probably could never again be competitive, but even on the most optimistic view the surplus labour created looks as if it will remain surplus for some years. When demographic forces are also considered, even if the economy does start to recover later this year the Government is likely to have to fight the next election with unemployment uncomfortably high.

As 1981 progresses investors may become increasingly nervous about the political outlook. Even the most optimistic of the serious economic forecasts indicates that the economic record on which the Government will have to fight the next election will hardly be attractive. The probable alternative to the current Government is likely to be perceived as a particularly left wing Labour Party after last week-end's conference.

A further consideration is that if an effective new centre party does emerge it may pose as big a threat to the Conservative Party, attracting votes in the South-East, as it does to the Labour Party. In addition, in the event of a close election result presumably a new centre party's natural coalition partner would be the Labour Party rather than the Conservative Party.

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Political calculations such as these, which normally begin to crystalise as a government starts the second half of its term of office, may begin to surface in investors' minds as the year progresses. The result could well be a desire to move funds abroad whilst Sterling is historically strong and the economy is still free of exchange controls. Certainly, given the short-term domestic economic prospects and the growing weight which may be given to the emerging political uncertainties UK investors may respond favourably to the thought of a rather greater degree of international diversification.

George Hodgson

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For morning prayers
m 6/2

PRINCIPAL PRIVATE SECRETARY ✓ cc PS/Financial Secretary

PRESENTATION OF POLICY BY GOVERNMENT AND PARTY

The Chief Secretary has seen the paper attached to Lord Thorneycroft's note of 30 January, and has commented that he finds himself in agreement with nearly all of this - but he is not quite sure what the next step might be.

Discussion - with G.C's note - on 4.ii

TM

T F MATHEWS
2 February 1981

For discussion at Morning Prayers on 4 Feb

c. Chief Secretary
Financial Secretary
MST(C)
MST(L)
Mr Ridley
Mr Cropper
Mr Cardona

3/2

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PRESENTATION OF ECONOMIC POLICY

After the meeting with the Prime Minister, Lord Thorneycroft and Francis Pym on 21 January, it was suggested that a letter should go from the Chancellor to Mr Pym with suggestions about the presentation of economic policy. Below is a possible structure for the letter:

(1) Themes we are trying to put across

(a) problems have built up for decades:
(b) world recession's effects on output;
(c) effects of N.Sea oil production;
(d) strict adherence to MTFS;
(e) need to restrain public spending (including local authorities);
(f) micro-economic policy/supply-side/productivity/training/FASE/etc;
(g) no alternative;
(h) good news: pay realism, inflation falling, new enterprises.

(2) Principal "clients" for progaganda

(a) Conservative back-benchers;
(b) Party in the country;
(c) big industries, CBI etc;
(d) small businesses;
(e) pensioner and poverty lobbies;
(f) regions;
(g) floating voters;

3. Procedural and other points

(a) Government should not be too defensive;

(b) better co-ordination with CRD and Saatchi and Saatchi (eg should PMG deal directly with Michael Dobbs at Saatchi, rather than through Lord Thorneycroft?);

(c) response to Social Democratic Party;

(d) start thinking about machinery for fighting next election: writing Manifesto, etc.

GEORGE CARDONA
2 February 1981

RESTRICTED

JW 140

To be discussed - also with officials.

CHANCELLOR

cc Mr Ridley
Mr Cropper

Presentation of Economic Policy

See below

Mr Ridley has spoken to me about your meeting this morning with the Prime Minister, Lord Thorney~~,~~croft, Mr Pym and others, and asked me to let you have this note suggesting the possible content of the letter which, I understand, you have it in mind to send to Mr Pym.

2. Such a letter could fall into three parts:

(i) a short list, with comments, of the principal themes we are trying to put across to the public:

(a) problems have built up for decades;
(b) world recession;
(c) effects of N.Sea oil production;
(d) good news; pay realism, inflation coming down, new enterprise;
need to restrain public exp (inc LAs) (e) strict adherence to MTFS;
(f) no alternative.
? (g) productivity / training / importance of better individual performance at ... level

(h) FACE measures etc ?

Past speeches of yours expounding these themes might profitably be annexed to the letter.

(ii) A list of the principal "client-groups" and their anxieites:

(a) Conservative back-benchers;
(b) Party in the country;
(c) Industry (big);
(d) Small business;
(e) Pensioner and poverty lobbies;
(f) Regions;
(g) Floating Conservative voters.

(iii) Some comment on the mechanics and effectiveness of Government propaganda in the past, with recommendations for the future.

/....

Examples:

(a) PMG notes - should some go to all Conservative backbenchers?

(b) Better co-ordination with CRD/Saatchi.

[(c) More attention to opinion polls - perhaps circulate more important results as PMG notes.] [Leading from behind?]

GEORGE CARDONA

21 January 1981

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