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SECRETARY OF STATE FOR EDUCATION AND SCIENCE

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↓
PM
28 July

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

PRIME MINISTER

OPTING OUT OF ILEA: TRANSFER OF ASSETS

I attach a further paper which examines how best to deal with the transfer of property and other assets from the Inner London Education Authority to those boroughs opting out to run their own education services.

2. I am proposing that the arrangements should be modelled as closely as possible on those that worked successfully in the case of the abolition of the GLC and the Metropolitan County Councils. There are however a number of obvious differences between the two situations, notably in the fact that we cannot predict with certainty which boroughs will apply successfully to opt out.

3. The paper proposes essentially that all ILEA property within the boundary of an opting out borough should transfer when that borough becomes an LEA. The responsibility to identify the property concerned would rest with the borough. There would however be exceptions to allow for property which the borough did not wish to inherit, or conversely where ILEA wished to make out a case for retaining a specific asset.

4. There are two particular difficulties. One relates to ILEA's various residential establishments located outside inner London. Particularly if the greater number of boroughs opt out, there is no reason why ILEA should be allowed to retain all these assets simply on the grounds that they do not happen to be located within the boundary of any inner London authority. It will not be easy to determine the ownership of such institutions, but I believe that we must make provision to allow opting out boroughs to bring some of these "satellite" institutions with them if they wish.

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5. More importantly, the Annex illustrates the fact that significant parts of ILEA's further education provision are provided by institutions based in more than one borough. The arrangements I am proposing are designed to retain existing institutions and to give clear general rules on the likely destination of cross-boundary institutions. To do otherwise would be controversial and extremely disruptive to the education of the students concerned. But I believe that I must retain some discretion to determine the ownership of property where this will be a material factor in the success of a borough's application to opt out. This is a question which we shall be discussing in more detail with the boroughs concerned.

6. It will not be easy to prevent ILEA from pocketing moveable assets which in principle should be inherited by the opting out boroughs. I can see no way of attempting to control this other than by having an inventory drawn up sufficiently far in advance of the transfer date to make it difficult for ILEA - which will have to continue to run the schools and colleges concerned in a reasonable manner - to engage in this form of asset stripping. That job could potentially be done by or under the aegis of the Education Assets Board (EAB) which we are setting up in connection with our proposals for polytechnics and colleges and for grant-maintained schools. But it would be a large undertaking nonetheless, and we need to be clear that it would be worthwhile.

7. Even if we decide that it would not, there will still be a role for the EAB to assist the process of transition between ILEA and the inheriting boroughs.

8. As in the case of my memorandum on staff transfer, I should be glad to know that colleagues are content with my proposals on the transfer of assets, so that I can work towards publishing a consultation paper well before the end of August.

9. I am copying this minute to other members of E(EP) and E(LF), and to Sir Robert Armstrong.

K.B.

KB

28 July 1987

Department of Education and Science

DRAFT

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OPTING OUT OF ILEA: TRANSFER OF ASSETS

MEMORANDUM BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

This paper discusses the transfer from ILEA to the opting out boroughs of property consisting of land and buildings, together with the equipment located on or in them, and associated rights or liabilities. It does not cover other contracts, enforceable undertakings, rights or assets. The arrangements proposed are modelled where possible on those applied during the abolition of the GLC and the Metropolitan Counties, though the different circumstances in the present case require different solutions to some problems. The Annex gives details of the main types of establishment concerned.

2. We are currently examining whether a faster timetable may be possible. The present paper assumes however that, as agreed by E(LF) on 2 July, the following timetable will apply -

February 1989 - Closing date for applications to opt out;

April-June 1989 - Designation of the new local education authorities, including the power to establish shadow local education authorities;

April 1990 - Transfer of responsibility.

In order to allow time for the arrangements described below, it seems likely that the Orders transferring property will need to be made after the designation of the new authorities following approval of a statutory Order by the affirmative procedure. It will be appropriate for such property transfer Orders to be made under the negative resolution procedure.

3. The guiding principles for the transfer procedure should be the following:

- Continuity in the operation of educational establishments;

- Clarity about where the title to property etc lies;

- Neutrality with regard to third parties' rights or obligations in respect of the property transferred; I have announced separate counter-obstruction measures for application if necessary to prevent the incoming LEAs from being saddled with unduly burdensome contracts.

Destination of Ownership

4. The basic rule in identifying the property concerned will be that all and only the ILEA property within the boundary of the opting out borough should transfer when that borough becomes an LEA. In putting forward its application to become an LEA the borough will have a duty to provide a complete list of the property which it believes it should inherit, within its boundaries, making use as necessary of powers to be included within the legislation which will require ILEA to make available any necessary information. There will however be exceptions to this basic rule, as follows:

(i) Land or buildings which the new LEA does not propose to me that it should inherit will remain the property of ILEA (unless it can be shown that failure by ILEA to provide information led to an oversight on the part of the borough).

(ii) The property which forms part of an institution falling wholly within the borough boundary, but which is the subject of a request by ILEA - within the period of one month allowed for objections to the application - that it should not transfer to the borough, will be transferred or not according to a determination by me. This could apply in the case of certain specialised facilities, eg the ILEA Planetarium in Wandsworth.

(iii) Where a borough can show that an ILEA establishment located outside inner London has provided regularly for a significant number of pupils resident in the borough, it will be open to the borough to argue that it should inherit that establishment in order to maintain a comprehensive service for its residents. This could apply in the case of eg certain residential special schools.

(iv) Where an institution is partly located outside the borough, including for example cases where playing fields in one borough serve a school in another or in more than one borough, the following procedure will apply:

- Immediately following Royal Assent we shall issue guidance to potential applicants. This will invite them to attempt to agree a solution with their neighbours in putting forward their application. Where the neighbour is ILEA, it is unlikely that ILEA will be willing to cooperate in this way with a borough wishing to secede.

- In the absence of agreement, I will in general be guided by the principle that the institution should remain as an entity, and should transfer to the predominant owner, using the occupation of the largest area of floor space as an initial criterion, but taking account also as appropriate of the intensity of use (measured by student numbers). I would however reserve the right not to leave the institution with the predominant owner, if a case had been made out by the authority concerned for an exception to be made.

- It would be open to the loser in any dispute to negotiate user rights in that part of the institution within its own boundaries. Indeed the relevant property Order might require the owner to make available such rights. These rights could consist either of a lease or a licence to use the premises.

5. Fittings, furniture and equipment, together with other fixed equipment, should transfer with the property in or on which they are located. This would apply both to educational institutions and to other premises, including offices. But there are obvious difficulties. At one end of the scale, it would probably not be possible to prevent ILEA from removing stores and small items of moveable equipment (or even motor vehicles), and it would have to be the responsibility of the new LEA to ensure that institutions were appropriately stocked for the start of the summer term 1990. On the other hand it should be possible to take some steps to reduce the risk that ILEA might strip buildings of moveable assets. For example, it would be possible to arrange for an inventory of defined categories of equipment by not later than the start of the term before transfer.

6. ILEA would be required to vacate the relevant premises by 31 March 1990. (Easter Sunday falls on 15 April in that year.)

Education Assets Board

7. The forthcoming legislation will contain provisions establishing an Education Assets Board (EAB) to facilitate the transfer of assets in the context of the Government's proposals for polytechnics and colleges and for grant-maintained schools. The process of opting out of ILEA will require decisions about property transfer which are no less complex than those arising in the other two cases. It seems desirable therefore to extend the proposed functions of the EAB to include aspects of opting out, for example -

(i) the arrangements for transfer of title deeds and other documents;

(ii) where a property Order requires the owner of the property to make user rights available to another authority, the EAB could if necessary impose terms

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on the authorities concerned;

(iii) the inventory of equipment suggested in paragraph 5 above might be carried out under the aegis of the EAB.

27 JULY 1987

ANNEX

EDUCATIONAL (AND ASSOCIATED) ASSETS

Borough	Nursery	Primary	Secondary	Special	VI Form Centres	FE (A)	Teachers' Centres (B)	Adult Education Centres (C)	Careers Offices	Administrative Offices
Hammersmith & Fulham	6	44	10	7	–	1	–	–	1	1
Kensington & Chelsea	4	27	5	–	–	–	–	–	1	–
Camden	3	43	11	6	–	1	2	4	2	–
Westminster	3	3	8	2	–	–	4	2	1	4
Islington	3	58	9	5	1	1	2	1	1	1
Hackney	2	71	10	6	–	1	2	1	3	1
Tower Hamlets	7	65	14	7	1	1	3	3	2	1
City	–	1	–	–	–	–	–	–	–	–
Greenwich	6	80	15	8	–	1	–	2	2	2
Lewisham	2	81	17	6	–	–	1	3	2	2
Southwark	5	82	17	8	–	1	3	2	3	1
Lambeth	5	81	13	13	–	2	5	1	2	2
Wandsworth	3	81	17	9	1	1	1	1	3	1

NOTES

A Institutions with premises solely in that borough. There are in addition eight institutions with premises in more than one borough and the Merchant Navy College is located in Kent.

B Excludes schools or colleges with teachers' centres located within.

C Centres with premises solely in that borough. There are in addition twelve centres with premises in more than one borough.

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MR FER BUTLER
MR ANSON MR KEMP
MR MONCK MR BURGNER
DR FREEMAN MR LUCE
MISS PEIRSON MR TURNBULL
MS BOYS MR BEARD
MR TYRIE.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliamentary Street
LONDON
SW1P 3AG

b/f with advice (p)

28 July 1987

Dear Nigel.

OPERATIONAL STRATEGY: USE OF CONSULTANTS

I wrote to you on 7 July about the action we proposed to take on the Local Office Project for computerisation. You will wish to know what has happened, and I must also tell you of another development in our industrial relations.

The LOP Project

The staff at the project, staff on other Information Technology projects and the Departmental Trade Union Side were informed of the changes on Thursday 16 July. The DTUS were of course horrified and made immediate protests, especially about the lack of consultation, and asked for an urgent meeting with the Permanent Secretary. This was granted. On 20 July he gave the DTUS a full explanation of why the action was needed managerially, and why we had gone about it in the way we did.

The first batch of extra consultants arrived that morning. So far there has been no retaliatory industrial action at the LOP site at Lytham St Anne's nor at other computer development or operational centres. This is not to say we can rule out such action, but as each day passes the chances of such action must diminish.

The speedy and sensitive action my officials took in talking to the staff at Lytham who need to be redeployed did much to defuse the situation. A "job centre" with line managers and personnel management staff was set up there. Already almost half the staff affected know where their next assignment is.

E.R.

We have not sought to labour with the Unions the message that what we have had to do arises partly from their own actions. Nevertheless I think they are under no illusions about it.

Limited Period Appointments

However, we are not in clear waters on industrial relations matters yet. As part of the planning for implementing the Social Security Reforms we are using extra staff engaged on what are known at Limited Period Appointment terms (LPA). This is because we need significant numbers of extra people this year for the implementation who will not be needed next year, when the Reforms themselves will reduce staffing levels. We shall need to shed staff at a faster rate than normal wastage will allow in most parts of the country, and the use of LPAs enables us to do this relatively painlessly and inexpensively. But the Unions are most strongly opposed to the engagement of staff on these terms.

So far they have been engaged in 147 offices. The Unions have arranged industrial action in about 30 of them. This takes the form of tit-for-tat tactics: we engage someone on LPA terms and they call on strike 2 or 3 permanent members of staff. This is for the Unions a cheap but effective course. Until now we have sat on our hands, because during the Civil Service pay dispute and pending the action at LOP we considered it right not to take any action which might spill over into those areas.

But having taken legal action we are about to embark on a process of issuing "anticipatory" warning notices to staff in the offices where industrial action is taking place. These notices will remind the staff of their obligation to work normally; and warn that they will not be paid while at home. If staff walk out they will be asked to give an undertaking to work normally before being allowed to resume duty. My officials will call in the Section Secretaries of the SCPS and CPSA to tell them precisely what we have in mind so that both staff and Unions will have the opportunity to consider their positions before pursuing their action against LPA.

Again, as with LOP, the course we propose to follow is not without risk of further disruption to services to the public. But I am sure that we must not be diverted from a prudent management policy, and I doubt whether there could be a better opportunity to maintain our position against Union pressure.

I am copying this letter to the Prime Minister, the Secretary of State for Employment and Sir Robert Armstrong.

Yours ever
John

JOHN MOORE

FROM: S P WILLIS
DATE: 9 July 1987

1. ~~MS~~ BOYS AB 9/7
2. CHANCELLOR

c/ letter to issue?

CR 9/7

OK

cc Chief Secretary
Paymaster General
Sir P Middleton*
Mr F E R Butler
Mr Anson
Mr Kemp*
Mr Monck
Mr Burgner
Dr Freeman
Mr Luce
Miss Peirson(or)
Mr Turnbull
Mr Beard
Mr Tyrie

* with letter

OPERATIONAL STRATEGY: USE OF CONSULTANTS

With his letter of 7 July Mr Moore told you that he intended to employ a substantial number of further consultants on the Local Office Project. He brought this to your attention because of the importance of the project and the possible impact this action could have on industrial relations at a time when they are in a very delicate state.

2. The project is important to us. As Mr Moore says, it will produce valuable manpower and running cost savings and we should encourage DHSS to do all that it can to deliver those savings in full and to time. From that point of view there is nothing in the letter we would want to object to. If it is Mr Moore's considered judgement that this is the action needed to achieve delivery then we recommend that you accept what he proposes.

3. That said, the step he proposes is a major one with potentially important and damaging industrial relations consequences. The unions are likely to react and we can only speculate as to how. The draft letter attached aims to seek from Mr Moore the best possible timing and presentation of his decision in the context of the pay dispute, which is now hopefully nearing its end. It also seeks to ensure that DHSS do not fall over their own agreement with the SCPS governing the return to work of those who had been taking industrial action, a copy of which is attached.

4. IRD, Pay and CCTA agree.

SW.

S P WILLIS
ST2

198/7

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO:

The Rt Hon J Moore MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
London SE1 6BY

OPERATIONAL STRATEGY: USE OF CONSULTANTS

Thank you for your letter of 7 July.

leave to you

I am content to trust to your considered judgement the management action required to ensure that the substantial benefits of the Local Office Project are delivered to time and within cost. However, as you say acknowledge, the step you propose is a major one, with potentially important and damaging industrial relations consequences. We all hope that hopefully the long drawn out pay dispute is now nearing its end; but there are still hurdles to surmount. Suitable timing and presentation could do much to minimise the risk of damage in DHSS and more widely.

On 7 July, the Society of Civil and Public Servants (SCPS) agreed not to resume industrial action while talks on a range of outstanding issues were going on: these issues include the need to maintain impetus towards modernisation of the Service through the use of information technology. In practice this should mean that the SCPS will not be taking official industrial action over pay until September at the earliest, and not at all if the new talks end in agreement. Meanwhile, as you know, members of the Civil and Public Services Association (CPSA) are being balloted on all out action.

The CPSA ballot will not close until the middle of next week. There is a general interest in avoiding anything that might increase the chance of an unfavourable outcome. I must therefore ask you to consider deferring the introduction of consultants until 20 July.

It is also important that ensure

You will also want to satisfy yourself that nothing you intend could convincingly be presented as a breach of the return to work agreement your department reached with the SCPS some two weeks ago. This gave assurances that strikers would not be victimised and that those on detached duty (of whom I gather there may be some in the LOP project team) would not have their detached duty terminated nor be adversely affected in any way because of strike action. You will need to give careful thought to the issue if any staff with ADP allowances are to be replaced by consultants.

Against this background a good deal will turn on the presentation of your action and the very careful handling of all its details. On presentation, it seems desirable to convey the decision as one which provides extra skills and resources for a particularly technically demanding phase of the project in order to meet deadlines that were clearly established at the outset. You will not want your action seen as a consequence of industrial action. If possible, you may want to give assurances that the immediate decision would not necessarily carry implications for the deployment of permanent staff in later phases of the project, provided of course that their employment would be effective. And, to disprove any claims that your action amounts to the victimisation of strikers, you may want to ensure that any displaced staff are not drawn exclusively from those who took strike action.

I am copying this letter to the Prime Minister, the Secretary of State for Employment and Sir Robert Armstrong.

NL

B/f w/cr advice.

CH/EXCHEQUER 8/7.
REC. 08 JUL 1987
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DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

7 July 1987

Dear Nigel,

OPERATIONAL STRATEGY: USE OF CONSULTANTS

The central project in my Department's Operational Strategy is the Local Office Project (LOP). This will bring on-line computers to the assistance of my local office staff. Besides improving standards of accuracy and the quality of service to the public, we expect the LOP to save around 8,000 local and central office staff, say £80 million a year, when it is fully operational in the middle of the next decade.

But the project has reached a critical stage. We are, of course, like other Departments, chronically short of ADP skills. This problem has been compounded by the recent industrial action, which effectively stopped work on the project for nearly three months. Unless we can restore the momentum the project will be seriously delayed and may even cease to be viable. Each month's delay will cost around £7 million in lost savings.

To meet this problem, I am proposing to take on more consultants and to deploy them in line management from Monday 13 July. This is not new. The same kind of approach was used in the successful COP project in Inland Revenue. But in the present delicate state of industrial relations the unions may well see it as a provocation, and could mount action against both the project and other computer systems. This risk is unwelcome, but I think it is one we are bound to take in the circumstances, although one has to recognise that strikes in computers can be disproportionately costly to Government. Indeed, with the unions relatively off balance following the unsuccessful action over pay, we may never get a better opportunity to recapture the management initiative.

E.R.

I estimate that the additional cost of deploying consultants will be in the region of £3.5 million, of which probably some £2 million will fall in the current financial year. It is my intention if at all possible that the Department should find this money from within existing provision.

I am clear that we must proceed as I am proposing. But given the importance of the decision for the operational strategy, the present state of industrial relations in the Civil Service, and the potential threat to computer systems generally, I thought you and colleagues would wish to know what I have in mind. I am, of course, conscious that your officials are in discussion with SCPS on the resolution of the pay dispute as a whole.

I am copying this letter to the Prime Minister, the Secretary of State for Employment and Sir Robert Armstrong.

Yours ever
John

JOHN MOORE

CONFIDENTIAL

H/EXCHEQUER
28 JUL 1987
CST

SS/DES
PM
28 July

PRIME MINISTER

OPTING OUT OF ILEA: FINANCIAL IMPLICATIONS

for meeting w/how.

1 We are to discuss policy on opting out of ILEA in E(EP) on 30 July.

Timing

2 On 2 July E(LF) agreed that 1 April 1990 was the earliest feasible date for the first transfers. Since then, the leaders of Kensington and Chelsea, Westminster and Wandsworth have told me of their strong preference for an earlier transfer. They suggest 1 September 1989, that is, at the beginning of the academic year. I have therefore reconsidered the position. But I believe that the boroughs' preferred timing takes insufficient account of the procedural uncertainties we face in the passage of the legislation and the making of subsequent Orders. It also underestimates the scale of the preparations which they will themselves have to make. In addition there is the financial complexity of a mid-year transfer, especially one which would fall at the very end of the present system of local government financing.

3 The establishment of London Regional Transport as a body separate from the GLC provides a precedent for a mid-year transfer of responsibilities. I attach an annex on the application of this precedent to the ILEA. The complex additions which would be needed to what is already a very large and complex piece of legislation, the risk of successful challenge in the courts and the likelihood that early transfer would not deliver the political advantages which the boroughs concerned seek from it lead me to the view that we should aim for first transfers in April 1990.

Financial arrangements post-1990

4 On this basis, opting out boroughs would assume education functions at the same time as the reform of local government finance is introduced. A borough opting out would receive grant from the Exchequer for its new education function according to population and assessed need and the rump ILEA would lose accordingly. The new education authority would finance its service from its own resources and would not have to pay a precept to ILEA. It would finance its total spending after taking account of Exchequer grant from the community charge.

Limitation of precepts and charges

5 I will aim through precept limitation this year and next to reduce ILEA's expenditure by 15% in real terms. I am also looking at how to devise a workable manpower control. But in my judgement we cannot rely on ILEA's expenditure being less than 50% above GRE in April 1990. In his minute to you of 28 July Nick Ridley sets out proposals for the capping of community charges in the new system. We shall almost certainly need to limit the precept of the rump ILEA in 1990-91. If the opting-out boroughs inherit an education service spending at 50% above GRE, the criteria which Nick adopts to select local authorities for charge-capping are likely to catch at least one of the likely opters-out. There seem to me to be three options for dealing with that;

i to allow the selection criteria to operate but to show flexibility when an opting-out borough applies for a higher limit on the grounds that the overspend on education is no fault of their own, and on the understanding that they are taking steps to reduce it;

ii to designate the new education authorities automatically for charge-capping for, say, three years, like the joint boards created by the Local Government Act 1985. It might be easier than under option i to differentiate between authorities so designated and the wilful overspenders;

iii to legislate for Inner London Boroughs who are successful in their applications to become education authorities to have a period of grace - say three years - before charge-capping is applied to them. We could stipulate that such a period was not available to an ILB with a record of over-spending on other services.

We shall need to decide soon which of these options we favour. My own preference is for option iii, if the group of ILBs who could benefit from the period of grace can be satisfactorily defined.

Equalisation of the business rate

6 The cost of the overspend on local services in Inner London is now shared between business and domestic rate payers in the ratio 3:1. With the unification of the business rate Inner London residents have in principle to pay for the whole of the overspend on local services through their community charge. This will affect boroughs which opt out and those which do not alike. We have agreed in E(LF) arrangements for phasing in the community charge gradually, and to consider whether an element of Inner London's non-domestic rate revenue might be retained within the capital for a transitional period. That would certainly ease the problems here described.

ILEA's overspend: the starting point for opting-out boroughs

7 I do not have the information to assess either what education GREs would be for individual Inner London boroughs, or how much ILEA spends in each of them. I shall need to take powers in my bill to gather this and other necessary information from ILEA; I do not think that ILEA will supply it voluntarily. In the meantime, my officials have carried out some rough calculations of GREs for the boroughs using the best data available. The results should be regarded with caution. But if we assume that ILEA's spending in 1989-90 is pegged back to 50% above GRE and that the pattern of spending across boroughs is in line with the GREs we have calculated, starting points would be broadly as follows:

	education spending, £m	of which, overspend relative to GRE, £m
Kensington and Chelsea	45	15
Westminster	60	20
Wandsworth	105	35

8 The table assumes that boroughs inherit the ILEA average overspend. However, ILEA spreads its spending across the boroughs in relation to its own criteria. It may direct relatively more resources to areas with special social needs than does the GRE system. I hope to be in a position to explore this further in the autumn when LEAs will be required for the first time to publish information about the budgets of each of their schools. Opting-out boroughs will find that if ILEA's spending on them relative to their GREs is lower than the ILEA average overspend, they will need to raise a lower community charge than the rump ILEA. Westminster and Kensington and Chelsea have relatively low social needs; Wandsworth's needs are close to the ILEA average.

9 Secondly, although I am proposing block transfer of teaching and some other groups of staff, I intend that the opting-out boroughs should be free to set up their own administrative and support services. If, as I know they intend, they administer the service more cheaply than ILEA, their starting point will be lower than indicated above. That for the rump ILEA will be correspondingly higher: my staffing paper sets out proposals for a scheme to meet the costs of redundancies of resulting surplus staff, thereby preventing the costs from falling on community charge payers in Inner London.

Impact of overspend on community charge

10 The influence of overspend on the community charge will depend on the proportion of adults in the area. Kensington and Chelsea and Westminster have proportionately fewer under-18s than Inner London as a whole. If they opt out, overspending on education in their areas would be spread over a relatively large number of adults, resulting in a lower community charge: the "starting point" figures for the two boroughs are 25% lower per adult than the corresponding figure for ILEA as a whole. Wandsworth's child to adult ratio is close to the Inner London average.

Recoupment

11 Arrangements already exist under which an authority providing education for a pupil or student from another authority may recoup the cost. I have recently legislated to ensure that recoupment continues to be at standard rates, so that ILEA is not able to attract pupils and students from other areas into its schools and pass on in full its high spending to their home authorities. I intend that these arrangements should apply to the Inner London boroughs which opt out. Their financial effect depends on the net flows of pupils and students between boroughs; assuming that the opting-out boroughs inherit some at least of ILEA's high spending, a net importer of pupils stands to lose and a net exporter to gain. I shall need to ask ILEA for information about the movement of school pupils, but a preliminary estimate suggests that Westminster may be a small net importer and Kensington and Wandsworth net exporters. I do not expect any special measures to be necessary as regards schools recoupment. In further education, ILEA's high costs are due largely to its wide range of provision and low fee policies. It will be open to the Boroughs to increase adult education fees to help cover costs, but some transitional provision may be needed, for example to provide automatic recoupment for students who began courses before the transfer.

Overall effect on community charge

12 On the basis of the information available to me I believe that at the outset, Kensington and Chelsea and Westminster may be able to charge their residents less for education than they would have to pay through the ILEA precept for the same level of service. The position for Wandsworth is likely to be neutral. All three boroughs will have the opportunity to reduce their initial overspend through a tighter central administration and, in the medium term, by other means. To the extent that the opting out boroughs are in a position initially to raise a lower community charge, the boroughs remaining in ILEA will need to raise a higher charge for the same level of service. The impact of that would be tempered by the redundancy scheme which I propose, and more generally, by the transitional arrangements now under consideration for Inner London.

13 If the opting-out boroughs as might be expected tackle the job of reducing excessive staffing and identifying savings in other areas more quickly and with greater vigour than the rump ILEA, those savings will feed through directly to a lower community charge.

CONCLUSION

14 I invite my colleagues;

i to re-affirm our policy of making the first transfers of the education function to Inner London Boroughs who successfully apply for it in April 1990;

ii to agree that boroughs whose application to become an education authority is successful and who are not over-spenders on other services, should have a period of grace before community charge-capping applies to them;

iii to note that if the three boroughs which have so far declared a wish to become education authorities achieve their aim, they are likely to gain, or at least not to lose, from the decision and the rump ILEA is likely to lose. Since many of those London boroughs where the level of the community charge is likely to cause most concern are also likely to remain in ILEA, this emphasises the need to provide transitional protection against excessive levels of community charge in Inner London.

15 I am copying this minute to other members of E(EP) and E(LF), and to Sir Robert Armstrong.

K.B.

KB

28 July 1987

Department of Education and Science

CONFIDENTIAL

ANNEX

OPTING OUT OF ILEA: THE IMPLICATIONS OF FIRST TRANSFERS IN SEPTEMBER 1989

1. If all the relevant information were available by September 1988, it would be possible to allow for the financial consequences of boroughs opting out in September 1989 in the main RSG settlement for 1989-90. However, on the most optimistic assumptions about the legislative timetable, I would not know in September 1988 which boroughs were to opt out. Nor would I have the relevant financial and statistical data on which to carry out the block grant calculations on a borough basis: I will need to take the powers to require the ILEA to supply these in the bill itself. A block grant solution is therefore not feasible. I would need to make special arrangements.

2. The establishment of London Regional Transport as a body separate from the GLC provides a precedent for the mid-year transfer of responsibilities. In that case, the Transport Secretary took powers to require the GLC to pay the newly established body for the exercise of the transport function from the time of transfer to the end of the financial year. A similar mechanism could be adopted for ILEA, with the rump ILEA being required to transfer a specified sum to each of the opting out boroughs to enable them to provide education from September 1989 to March 1990. Powers would need to be taken in the Education Bill and exercised by Order; the financial Order would need to be separate from and subsequent to the Order for the transfer of functions because of the time needed to gather information and carry out consultations before it is laid.

3. The legal provisions would be more complex than in the LRT case. First, I would need to determine not only the sum which the ILEA should hand over but also how it should be divided among the recipients. Secondly, the recipients are part of the existing grant distribution system. Steps would need to be taken to ensure that if they spent more or less on education than the sum they received from ILEA, they would not gain or lose grant as a result. This would involve redefining total expenditure for these boroughs in 1989-90 to exclude their education expenditure and income from ILEA.

4. The calculation of the sum to be transferred from the ILEA to each of the opting out boroughs would need to be based on the expenditure level of the ILEA in 1989-90 and the notional education GREs for each of the inner London boroughs (these GREs would have also to be defined in the legislation). A difficulty would arise if ILEA's budget for the year, as it has in the past, exceeds its expenditure level. In this event the opting out boroughs would take over spending liabilities which they were unable to meet from their share of the ILEA expenditure level. The scope for savings particularly on staffing would be limited: decisions need to be taken before the start of the academic year. They would be unable to raise rate revenue in-year. Unless they had taken the undesirable step of raising a rate which would enable them to swell reserves, they would be potentially in

serious difficulties. Under such circumstances, early transfer would not deliver the political advantages which the boroughs seek.

5. The ILEA would almost certainly challenge my decision on the sum to be transferred in the courts. The LRT experience suggests that the risk of successful judicial review is considerable.

2514/9/28

CONFIDENTIAL

papers here

FROM: N M KAUFMANN

DATE: 28 July 1987

1. MR GILMORE

2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Scholar
Mr Turnbull
Mr Burr (or)
Mr Potter
Mr Fellgett
Mr Cropper
Mr Tyrie

E(LF)(87)30: THE EXPENDITURE OF THE ILEA) TOPPING-UP
FUTURE FUNDING OF POLYTECHNICS AND COLLEGES)

Since the discussion in E(LF) on Monday 27 July did not reach Mr Baker's proposals for dealing with ILEA's topping-up of its polytechnics and colleges after their transfer out of the LA sector which were set out in his paper E(LF)(87)30, you wished to write to Mr Baker. This submission provides advice on topping-up in ILEA and also in England as a whole which Mr Baker raised in his letter of 23 June and on which Mr Ridley commented in his letter of 16 July.

Background

2. Polytechnics and colleges are mainly funded from the Advanced Further Education (AFE) pool which is set and allocated by the Secretary of State but to which the local authorities contribute on a formula basis. Some LEAs, notably ILEA, choose to top this up with their own money. It has already been agreed that the transfer of polytechnics and colleges should be made financially neutral as between taxpayer and ratepayer and that this will be achieved for the £750 million pool expenditure by reducing LA provision and deduction from AEG. The issue still to be resolved is what to do about topping-up.

3. DES estimate that in 1987-88 topping-up is running at about £30 million of which ILEA's share is about £15 million (compared with their pool allocation of £89 million). Topping up can be divided into two sorts of expenditure. The first is payments for extra services which an LEA wants its institutions to provide such as INSET (in-service teacher training) courses or access courses

[illegible] ethnic minorities. The second is to finance more lavish provision across the board ie a general subsidy. The consultative paper on the transfer of polytechnics and colleges (as does the White Paper on higher education - Cm 114) makes it clear that the 'Government expects LEAs to phase out any general subsidies before the transfer' though it leaves it open to authorities to continue payments for specific services not covered by the pool.

Mr Baker's proposals

4. For both ILEA and LEAs in general, Mr Baker is concerned that topping-up of the subsidy kind will not be squeezed out by 1 April 1989, the date of the transfer. His present estimate is that the sum to be dealt with will be about £20 million (though further information is to be sought from LEAs to establish the actual position nearer the time). Since most of that money will be for staff, Mr Baker argues that it cannot be cut at a stroke but will have to be phased out over 3 years from the transfer. Mr Baker proposes that the cost of this should be offset on LA provision, which would be secured by deducting it from AEG. He says he has considered and rejected the arguments for recovery from the responsible LEA on grounds of practicality and principle. We are not convinced, however, that it would not be practicable to take a power to recover the money and we do not see what is wrong from doing so even if the need for it arises from past spending decisions of LEAs. The authorities knew that those decisions had implications for future years.

5. Mr Ridley argues forcibly in his letter of 16 July against Mr Baker's proposal. He thinks it would both validate what is effectively overspending and lift the burden of paying for it from the local ratepayers at the expense of ratepayers generally.

6. We recommend you to support Mr Ridley, particularly as there is the further point that Mr Baker's proposal would remove all incentive for LEAs to comply with the Government's policy of reducing topping-up before the transfer. A draft letter is attached.

N M KAUFMANN

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY TO MR BAKER

E(LF)(87)30: THE EXPENDITURE OF THE ILEA
FUTURE FUNDING OF POLYTECHNICS AND COLLEGES

In discussion of your paper on ILEA in E(LF) on 27 July we did not reach the issue of what to do about ILEA's topping-up of its polytechnics and colleges. This letter provides my comments on your proposals for ILEA and, since they are the same, on your proposals for dealing with topping-up of all polytechnics and colleges in England after their transfer from the local authority sector which were put forward in your letter of 23 June to Nicholas Ridley.

2. My starting position is the agreed policy that the transfer should be financially neutral as between the ratepayer and the taxpayer. Clearly, any phasing out of topping-up after the transfer must be offset by a deliverable reduction in local authority spending. Your proposal would do that; but I share Nicholas Ridley's view that simply adjusting LA provision and AEG on a national level would validate what amounts to overspending by certain particular authorities, and would absolve them of the responsibility for paying for it by spreading it across authorities generally. I am concerned, too, by a further point. Your proposal would also remove the incentive on LEAs to reduce their topping-up before the transfer. It is our agreed policy for topping-up to be squeezed out as far as possible before 1 April 1989, and that calls for an incentive on the authorities concerned to rein back, not a signal that their spending above the pooled level will be visited on others.

3. It seems to me that, to deal with this limited issue of topping up, the right course must be to recover the cost of any necessary phasing out from the particular authorities who will have incurred it. You raised doubts about the practicability

and the principle of this. On the principle, it seems reasonable to look to local authorities to pay for the immediate consequences of their ~~conclusions~~ CONSCIOUS spending decisions. On the practicalities, I can see that direct recovery would not be as straightforward as deduction from LA provision and AEG. But if we leave aside that topping-up which is payment for specific services (where it will be for LEAs to decide whether they wish to continue contracting with the transferred institutions), then I am not convinced that it would be wholly impracticable to identify and recover that part of any remaining general subsidies which could not be withdrawn immediately on transfer.

4. I would therefore be grateful if you would consider the recovery option again.

5. I am copying this to Nicholas Ridley and other members of E(LF), and to Sir Robert Armstrong.

JOHN MAJOR

18/210

1. MR POTTER BHP 29/7

2. CHIEF SECRETARY

FROM: N I HOLGATE

Date: 29 July 1987

cc: PS/Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Burgner
Mr Scholar
Mr Turnbull
Mr P Gray
Mr Waller
Mr Devereux
Mr Tyrie
PS/Inland Revenue

NON-DOMESTIC RATING

Mr Ridley has replied to your letter of 17 July on the operation of the non-domestic rates (NNDR) pool under the new system of local government finance.

2. He agrees with most of the points which you raised. But there is one critical issue outstanding: what to do if payments out exceed payments in at the end of the year, despite all the precautions taken. You need to make clear that you will not agree to meet a deficit on the NNDR pool from the Exchequer e.g by exceeding Vote provision for grant to local authorities (LAs).

Background

3. Notionally, LAs would pay all their non-domestic rates into a pool. The proceeds would then be redistributed to all LAs as an equal amount per adult. It would be ridiculous to do this in practice. LAs can keep much of the non-domestic rates which they collect and pay the net amount due from them, or receive the net amount due to them, from the pool. But a further practical simplification is also possible. Because the pool will be held by central government and because all LAs will receive revenue support grant, the net payments of non-domestic rates can be offset against payments of revenue support grant. Most LAs' RSG entitlements exceed the net amounts of non-domestic rates due. It is thought that only Kensington, Westminster and the City of London will in practice be cash contributors to the NNDR pool.

Discussion

4. You proposed a fixed schedule of notional payments into and out of the pool to maximise incentives upon LAs to collect their non-domestic rates promptly. You also suggested a small safety margin, generated through payments being set marginally above payments out. Mr Ridley agrees. In practice, the great majority of LAs will receive grant payments from DOE, adjusted for forecast net NNDR payments and LAs will keep much of what they collect in non-domestic rates. So LAs will have a clear incentive to collect rates properly.

5. Mr Ridley suggests three cases where this mechanism may fail and the notional payments will need adjustment.

(i) Individual LAs may suffer an unanticipated in-year loss of rateable value, perhaps because of the closure of a major factory.

(ii) One of the very few net contributors to the pool may be unable to pay because of computer failure or industrial action.

(iii) The aggregate forecast of receipts may be too high, because of successful appeals in the first year. The small safety margin could then be exhausted.

6. The first case would cause the LA to borrow and would lead to an unjustifiable interest burden upon an LA which, through no fault of its officers cannot raise the rates burden set in the payment schedule. I recommend that you agree that the schedule of payments should be adjusted in such cases provided that there is a de minimis level, such as 5%, for the extent by which an authority's rateable value must fall before any adjustment is made. (This should apply to exceptional losses in rateable value. We must not compensate just for an authority's forecasting errors.)

7. But there should also be an incentive or requirement for LAs which have collected more than forecast to pay over the excess promptly (or seek adjustments that will lower revenue support grant payments). If LAs pay over such sums after the financial year to which they relate and after the valuation list has been amended, they should also pay the interest which they have earned, or been deemed to have earned, on funds which really belong to the pool.

8. The second problem - a failure of a net contributor to the pool to pay - is both unlikely and not very serious if the delay is only for a few days. But it is clearly the LAs responsibility. Notice should be given in advance, whenever this is possible, that payments will be late and interest should be charged daily on amounts outstanding.

9. On Mr Ridley's third problem, I recommend that you agree that Vote provision can be drawn upon to balance the pool "on any particular day" (his words) i.e in-year. But you must draw the line at payments of Vote provision which would exceed those planned for the year as a whole. LAs will have forecast the yield; and non-domestic rates are raised to pay for local government. It is local authorities which should bear the risk and interest burden of a shortfall at the end of the year brought about by too high a forecast of yield across the country. (This would involve a running down of cash balances and some short term borrowing.)

10. The risk of such a shortfall is greatest in the first year of the pool when many challenges will be made to the Inland Revenue's revaluation of property. But Mr Ridley provides no evidence of the possible extent of this from previous valuations; and any first year concessions may be extended to subsequent years, on the grounds that account must be taken of the backlog of appeals, or to subsequent revaluations. This is just the sort of problem which should be met by setting an adequate safety margin to begin with, rather than extending a guarantee from the Exchequer.

Duty to consult business

11. You suggested that abolition of the duty to consult might give the wrong signal on the importance attached by the government to co-operation between business and LAs. Mr Ridley suggests that as some amendment is needed (because they can no longer consult on the level of the rate), DOE should seek the views of LAs and others in the consultation paper on amendments to rating legislation. I recommend that you agree.

Conclusion

12. Mr Ridley is concerned about who will meet a shortfall on the non-domestic rates pool. You can offer some in-year flexibility in the case of major losses of rateable value or delays in cash payment, but the burden between years should be left to local authorities.

13. A draft letter is attached.

14. Accounts agree.

N I Holgate

N I HOLGATE

DRAFT LETTER TO:

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

July 1987

NON-DOMESTIC RATING

Thank you for your letter of 24 July.

I am now broadly content with your proposals for the operation of the national non-domestic rates (NNDR) pool. I am grateful for your agreement to fixed schedules of payments into and out of the pool. And I quite accept that local authorities' payments will need to be adjusted after the end of the year when the final rate product is certified.

You raised the problem of individual authorities which suffer unanticipated losses in rateable value, because of events such as a factory closure. I think that there is a case for an in-year adjustment but only if the loss of rateable value is significant, say 5%. I hope you would also agree however that there should be some incentive on authorities that have been able in practice to collect more than the amount forecast (because of unanticipated increases in rateable value) to surrender these amounts to the Exchequer.

This might be achieved by charging interest on those sums which have not been surrendered before the end of the financial year.

I am also content for Vote provision to be called upon, in-year on a contingency basis to meet a shortfall on any particular day. But we would expect the~~se~~ very few authorities concerned to give reasonable notice if they are aware that payments will be late; and interest should be charged daily on the amount outstanding.

The final possibility you mention is that outturn yield could fall below that expected because of successful appeals against valuation across the country. I cannot accept that the Exchequer should pay out more in aggregate than is planned for the year as a whole (plus the safety margin). Local authorities will have forecast their non-domestic yield. Non-domestic rates pay for local government. Local authorities should bear the risk of a shortfall in payments through successful appeals. We must minimise the risk of a significant shortfall in the first year through the safety margin, not a guarantee from the Exchequer, and through careful scrutiny of LAs' assessment of their non-domestic rate income.

<u>Duty to consult business</u>

I agree that we should proceed to consultation on whether the duty to consult business should be adapted or dropped altogether.

I am copying this letter to members of E(LF) and to Sir Robert Armstrong.

JOHN MAJOR

psl/44A

RESTRICTED

pup

FROM: A C S ALLAN

DATE: 29 July 1987

MR CULPIN

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Miss O'Mara

STATISTICAL PRESS NOTICES

The Chancellor was grateful for your minute of 24 July. He discussed this briefly with Sir P Middleton, who said he would discuss with you how to take this forward in conjunction with separate work already in hand on the quality of economic statistics. As well as the two points you raised (comparing movements over different periods, and underlying trends), there is an additional point concerning the procedures for revisions.

ACSA

A C S ALLAN

STATISTICAL PRESS NOTICES

672/027

FROM: ROBERT CULPIN
DATE: 24 July 1987

CHANCELLOR

cc: Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Cassell
Mr Scholar
Miss O'Mara
Mr Pickford
Miss Evans
Mr Towers

Rgm Scholar

STATISTICAL PRESS NOTICES

There seems to be no consistent convention to the treatment of statistics in government press notices. Is it worth taking this up?

2. Two points in particular.

3. First, different press notices compare movements over different periods. All, I think, give some sort of 12 month comparison; most give the latest month or quarter on the previous one. Some have three month comparisons, some six month comparisons. (Notes attached.)

4. Second, some give underlying trends, some don't. The government claims to know underlying unemployment, earnings, exports and imports, but not (say) prices, output, the PSBR or money. And different underlying trends are calculated on different bases: exports and imports are largely mechanical, unemployment and earnings judgemental.

5. I am not fussed about different time periods. The general presumption must be that there is information in all the various comparisons, so more is probably better.

6. But I do wonder about underlying trends. I am not at all sure either that I believe them, or that it helps the government to have them, or that they are "facts". And it can look a bit odd to parade underlying trends for some statistics and say we can't even seasonally adjust others.

7. There are differences in the prose, too. But that is another story.

8. If you think it worth looking at this more systematically, we could take it up with the CSO at official level. Differences in practice have clearly grown up by accident, and we could consider whether they are justified. We put some effort a while ago into aligning publication times: this would be a similar exercise.

8. But no one is agitating about it, and there is always a case for letting sleeping dogs lie. There is certainly no point in raising it if you are not interested.

9. Is it worth any work?

RC

ROBERT CULPIN

A. Bank of England

MONEY AND BANKING FIGURES (1 May 1987)

- Latest month's change on previous month
- latest month's change on 12 months previously
- no steer/gloss
- no Notes to Editors

B. Central Statistical Office (and Treasury for PSBR)

CONSUMERS' EXPENDITURE (PRELIMINARY FIGURES) (30 April 1987)

- Latest quarter's change on previous quarter
- latest quarter's change on 12 months previously
- no explanations
- Notes to Editors have a standard caution about preliminary figures

PUBLIC SECTOR BORROWING REQUIREMENT (16 April 1987)

- Latest month for key components
- cumulative totals in financial year compared with cumulative total 12 months previously
- selective comments: eg on privatisation receipts and on EC advances; otherwise flat presentation
- Notes to Editors contain one or two standard cautions on interpreting the figures

CYCLICAL INDICATORS (15 April 1987)

- monthly qualitative indications
- charts are included
- Notes to Editors are standard explanations

INDUSTRIAL PRODUCTION (14 April 1987)

- Latest 3 months' change on previous 3 months
- latest 3 months' change on 12 months previously
- but monthly indices available in table
- charts are included
- no Notes to Editors

D. Department of Trade and Industry

CREDIT BUSINESS (11 May 1987)

- latest month's change on previous month
- latest 3 months' change on previous 3 months
- a newsy steer in the text (eg "a record level of credit")
- tables carry monthly figures
- Notes to Editors are mainly explanatory, but may carry cautions on interpretation

TRADE FIGURES (1 May 1987)

- latest month compared with previous month
- latest 3 months compared with previous 3 months
- some interpretation of monthly figures
- commentary on underlying trends
- Notes to Editors are standard

PRODUCER PRICES; INPUT PRICES (13 April 1987)

- latest month's change on previous month
- latest month's change on 12 months previously
- some interpretation of monthly figures
- Notes to Editors are mainly standard explanations

CAPITAL SPENDING (14 February 1987)

- latest quarter's change on previous quarter
- latest quarter's change on 12 months previously
- some commmentary in the text
- Notes to Editors are standard explanations

E. TREASURY

RESERVES

- latest and previous month's figures
- Notes to Editors contain standard cautions and regular analyses.

TAX AND PRICE INDEX (10 April 1987)

- Latest month's change on 12 months previously
- but monthly indices available in table
- Notes to Editors contain regular/timely explanations

C. Department of Employment

LABOUR MARKET STATISTICS (15 April 1987)
(UNEMPLOYMENT; EMPLOYMENT; VACANCIES; EARNINGS;
UNIT WAGE COSTS; HOURS; PRODUCTIVITY; DISPUTES)

- Latest month's change on previous month
  (unemployment, employment; vacancies)
- latest month's change on previous 12 months
  (ditto; plus underlying earnings)
- latest 6 months' change (average monthly) on previous 6 months
  (unemployment - seasonally adjusted)
- latest quarter compared with preceding quarter; plus additional gloss
  (employed labour force)

- latest 3 months' change on previous quarter and on 12 months previously
  (manufacturing employment)
- tables show:

  - monthly index
  - latest month's change on 12 months previously
  - latest 3 months' change on previous 3 months

  (unit wage costs; productivity)
- Notes to Editors are standard explanations

RETAIL PRICE INDEX (10 APRIL 1987)

- latest month's change on previous month
- latest month's change on 6 months previously
- latest month's change on 12 months previously
- brief explanation for monthly change
- Notes to Editors are standard explanations

2328/10

CONFIDENTIAL

FROM: R FELLGETT
DATE: 29 July 1987

1. MR POTTER BHP 29/7
2. CHANCELLOR

Ch
Good points
AA

cc Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin o/r
Mr Gilmore
Mrs Lomax
Mr Scholar
Mr Turnbull
Mr Potter
Mr Perfect
Mr Cropper
Mr Tyrie

CAPPING THE COMMUNITY CHARGE

No.10 have asked for Mr Ridley's minute of 28 July to be on the agenda for E(LF) tomorrow.

2. It has been agreed that the Government will retain a power to cap community charges, during and after the transition. Mr Ridley wants agreement to a scheme with two main points:

(i) on the Scottish model, a power to reduce community charges in-year, ~~and not~~ rather than before local authorities fix their budgets; and

(ii) that authorities should be community charge capped if either the level of their charge or its increase is too large in itself, and not by reference to their expenditure.

3. I recommend that you agree, subject to two important modifications which are described below. Further work is needed, particularly or capping during the transition.

In-Year Capping

4. The main attraction of the Scottish model is that action

will be taken against an authority immediately it sets an excessive community charge. This is much better than the present English system of rate-capping, where action is not taken until the following year. For example Ealing and Waltham Forest cannot be rate-capped until 1988-89, despite rate increases above 50% for 1987-88.

5. However, the Scottish approach has a potential drawback. Authorities get no early warning of a community charge cap, which would allow them to set their plans and budgets to live within their means. There is little concrete evidence that the Scottish system is effective in reducing local authorities' expenditure and increasing their efficiency. Faced with a shortfall in rates income part of the way through a financial year, they have tended to resort to devices like selling capital assets (usually pictures from the Art Gallery in the case of Edinburgh) and offsetting the receipts against additional capital expenditure which, in turn, compensates for reduced current spending.

6. The English system gives authorities advance warning of their rate caps. It has to be ~~reorganised~~ recognised that this equally gives them time to evade the effects by creative accounting.

7. I recommend that you agree to Mr Ridley's preference for in-year action. But, on balance, I further recommend that you argue that DOE should announce by each Autumn the criteria which would make authorities potentially liable for community charge capping in the following year. As loop-holes are closed, authorities will have less scope for creative accounting. And they will have a better opportunity to respond by reducing expenditure, even if one cannot guarantee they will take it. If they get no warning it will in practice be too late by about July of any financial year for them to take much serious action.

Taking No Account of Expenditure

8. We are concerned both to control local authority income and to influence their spending. A complete control over income

would be advantageous in its own right, and in addition full control over one side of the account would put us in a better position to influence the other side.

9. At present, the Scottish and English systems treat rate-capping as an instrument to influence spending by requiring the Government to have regard to an authority's expenditure in deciding whether or not to rate-cap it. Mr Ridley's proposal to take action without reference to levels or increases in expenditure, based solely on the community charge itself is therefore welcome. This is consistent with the fact that almost all the Government's controls operate on the income side of local authority accounts, and borrowing controls in place of capital expenditure controls will extend this approach.

10. However, on Mr Ridley's scheme, Government control of local authority income, even for a community charge capped authority, will still not be complete. Authorities will continue to be able to draw on balances and special funds, and may find ways of finding new sources of current income despite new borrowing controls. These additional funds will also be available to finance excess spending.

11. I therefore recommend that you argue that selection for community charge capping should take account of the amount of income available to a local authority from balances, special funds and other sources; and that the level of community charge imposed on an authority should depend on the income it should be able to raise from such sources. Details will need further work, including the links with borrowing controls.

Transition

12. DOE have not fully thought through how community charge capping will operate during the transition. Domestic rates will then be set centrally, and they recognise that capping must operate on the uncontrolled community charge element. But further work is needed to ensure that LAs are selected for capping if the total domestic tax bills are excessive; there must be no incentive

on them to inflate rates in 1989-90 and retain the benefit for as long as transition lasts.

Conclusion

13. I recommend that you support Mr Ridley's community charge capping proposals in broad terms, but subject to two important modifications:

(i) authorities should be forewarned, perhaps in the preceding Autumn, of the criteria which would render them liable for community charge capping in the following financial year;

(ii) both the criteria for selection for community charge capping and the level of community charge imposed should take account of actual and potential miscellaneous sources of revenue available to local authorities from balances, special funds, residual creative accounting devices etc.

These two modifications are a package: if the Government can take account of creative accounting and miscellaneous income there will be less incentive on local authorities to respond to early warning by using such devices, and a better prospect that they will feel obliged to constrain spending and improve efficiency.

14. A suggested line to take and points to make in discussion are attached.

R FELLGETT

Line to take

Broadly content with Environment Secretary's proposals, subject to:

(i) early announcement (eg by the preceding autumn) of the criteria that would make authorities liable to charge capping in any financial year;

(ii) powers for the Government to take account of miscellaneous income, balances, special funds etc., both in selection for charge capping and in the level of charge imposed.

Officials will need to work up the scheme, and clarify the links with transition (which involves powers to limit residual domestic rates in all authorities) and with a new capital control system (which is likely to involve new borrowing controls).

Points to make in support of the modification

1. Early warning will allow LAs to plan and budget to live within their means.

2. By July in any financial year, LAs have limited scope to adjust their priorities.

3. Recognise that early warning also gives LAs more time to evade the criteria. But this is above all a problem of creative accounting within the present rate-capping scheme based on excessive expenditure; the Environment Secretary's proposals would not base selection on expenditure, which LAs have learnt to manipulate, but on the actual community charge.

4. Taking account of other income in the level of charge imposed is necessary to prevent charge-capped LAs from financing excessive spending from balances or special funds or new creative accounting (if loopholes are not closed).

5. Taking it into account in selection for charge-capping, is necessary to avoid new incentives to devise new creative-financing dodges to evade selection.

CONFIDENTIAL

ANNEX

ANX

CAPPING THE COMMUNITY CHARGE

1. This note outlines proposals for a scheme of "community charge capping" in England and Wales. This would operate during a transitional period leading to full introduction of the community charge and could operate indefinitely thereafter.

General

2. The shape of the scheme would be similar to that adopted in Scotland, which in turn was based on the existing Scottish system of ratecapping. The essence of that system is the Government taking in-year action to reduce bills as soon as possible after they have been sent out, rather than reacting to a council's excessive spending plans for one year by limiting its expenditure through a cap on the rate or charge in the following financial year. The scheme outlined below does, however, include some variants to the Scottish model, some of which are needed to take account of the conclusion reached at E(LF) on 2 July 1987 that the charge should run alongside rates during a transitional period.

Selection of authorities for capping

3. The approach in selecting authorities for capping under the new system would operate as at present in England and Wales by the application of general principles which determined what was excessive. It should, however, avoid the present difficulty under the English system, of authorities manipulating the presentation of their budgets to reduce their apparent expenditure, by concentrating instead on the revenue actually raised from ratepayers and chargepayers through an authority's precept on the Collection Fund. (This is the fund on which local authorities from both tiers will precept for the income to finance their spending. Into it will be paid the needs grant from central Government, income from the national non-domestic rate, and receipts from the charges levied by both tiers on ratepayers and chargepayers.) This precept is in effect a proxy for the authority's spending.

4. The principles for selection would be based afresh each year on a combination of some or all of the following factors:

(a) a cut-off to exclude authorities where the absolute level of the precept, or the precept per head of adult population, was below a specified figure;

(b) an excess of the overall precept, or the precept per head, over a specified margin above the amount implied by the Government's assessment of an authority's need to spend;

(c) an excess of the overall precept, or the precept per head, over a margin specified in cash or percentage terms compared with the preceding year (with provision to make a notional comparison with the last year before transition).

As at present, the selection criteria could distinguish if necessary between classes of authority, and between those capped in the previous year and those not. At the end of the transitional period, the notion of "precept per head" would equate directly with the level of an authority's gross community charge per adult. By limiting this gross charge, the charge net of grant and non-domestic rate income would effectively be limited too.

5. The aim of the selection criteria powers would be to provide the Secretary of State with sufficient flexibility to cap authorities where the level of gross charge, or the year-on-year increase, or a combination of both, was excessive. The powers would be drafted both to exclude explicit duties on the Secretary of State to make judgements about what is "reasonable" on local authorities' part, and to minimise within the areas of discretion open to him the number of points where the implicit duty to act reasonably could give rise to legal dispute. The aim here would be to make decisions on selection for capping as proof as possible against challenge by judicial review.

Securing reductions from the capped authorities

6. At the same time as the announcement of selected authorities (probably in the second half of April) the Secretary of State would notify them of the provisional limit he was placing on their precept on the Collection Fund. This would probably be done by reference to general principles to reduce the risk of legal challenge to the use of his discretion affecting individual authorities. An authority would be able to apply for the limits on its precept to be fixed somewhere between the level it had set and the provisional limit notified by the

Secretary of State. To do so it would have to submit its application and various prescribed information before the end of a specified period (probably by late May); and it would also be able before the end of that period to submit any representations in support of the application.

7. The Secretary of State would aim to reach a decision on applications by the end of June. If he were to decide that an authority's original precept should stand, he would formally notify the authority of the fact. If he decided on a lower figure, this would be prescribed in regulations subject to affirmative resolution in the Commons (during the course of July). The legislation would need to provide some form of parallel to the existing powers under ratecapping to reduce the provisional limit or, if allowing a higher limit, to impose conditions relating to the authority's expenditure or financial management.

8. Once an authority was in receipt of a statutory notice limiting the amount it could precept on the Collection Fund, fund managers would be under a duty to ensure that no more than the new amount was levied for the authority or paid to it for the year as a whole. The authority itself would be required within a statutory period to reduce its level of charge by the appropriate amount: if it failed to act before the end of that period, the original charge demands would become invalid from that point. In the transitional period, all of the reduction would fall on the community charge rather than on the residual rate element (subject to a minimum reduced level of charge, to prevent cases where it might otherwise be reduced to an impractically small, or even negative amount).

Department of the Environment

July 1987

DOC4097LP

BRIEF

POTTER
↓
CH/EX
29. July

CONFIDENTIAL

See further [illegible]

CHANCELLOR

FROM: B H POTTER

Date: 29 July 1987

cc: Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Hawtin o/r
Mr Scholar
Mr Turnbull
Mr Holgate
Mr Tyrie

Ch
Paper itself* already with you
AA
(* + minute)

E(LF): COMMUNITY CHARGE - TRANSITIONAL ARRANGEMENTS

E(LF) on 27 July agreed that there should be a four year phasing in of the Community Charge (CC) in most of England. Mr Ridley was asked to bring forward proposals for further special arrangements for London: this would involve using part of London's own NNDR proceeds to provide for a five year transition in inner London. He was also asked to consider the case for a £75 initial CC as against £100.

Proposal

2. Mr Ridley's minute of 29 July to the Prime Minister proposes an initial CC of £100. He also outlines a possible scheme for special transitional help to inner London comprising:

i) additional money to keep down the CC in inner London chanelled through the safety net from 1991-95: this amount (just over £200m) would be met by chargepayers outside inner London (there is no cost to the Exchequer);

ii) rates would be phased out over 4 years in London as elsewhere.

But Mr Ridley does not commend this arrangement to colleagues. He argues that it would add to the complexity and obscurity of the transition, and would require a subsidy for inner London from the rest of England. He therefore proposes no special arrangements for London.

Assessment

3. We share Mr Ridley's view that the scheme outlined in his memorandum is unacceptable. Even if the 'special London arrangement' is presented as earmarking part of London NNDR proceeds to help inner London boroughs, it will be understood by the local authority assocations and other pressure groups as a subsidy to London from other parts of the country. In an earlier E(LF) paper, E(LF)(87)28, Mr Ridley himself pointed out:

"...it would be extremely undesirable to pay for further reductions in London by - in effect - a surcharge on CC payers elsewhere: our supporters are urging strongly that, whatever else we do, we do not make the north contribute financially to alleviating the problems of London."

4. In more detail, the main disadvantages are:-

a) it would be inequitable between different areas of the century; in some areas like Liverpool and Brentwood CC payers could well end up paying higher charges than those in inner London boroughs which they are helping to support (see Annex A attached); and there may, by then, be other authorities spending proportionately even more above assessed need whose chargepayers would receive no subsidy;

b) it would essentially be a subsidy towards overspending partly by ILEA but also by certain 'loony left' councils;

c) it would distort local accountability everywhere for five years; so one of the main benefits of phasing in the CC elsewhere in four years would be lost and accountability would still be distorted in 1995;

(d) moveover there is a danger of the special London arrangement becoming a <u>permanent element</u> of the new grant scheme - again undermining the improved accountability which is at the heart of the PLG regime.

5. Given the drawbacks, you may wish to accept Mr Ridley's conclusion that there should be no special arrangements for London. We have now secured a four year nationwide transition period and safety net for England. And it will remain open to Ministers later to change the duration of the transition since it will not be laid down in the Bill.

<u>A five-year transition</u>

6. But there remains the concern about inner London and the likely path of the CC, not least for the new taxpayer, over the transition period. You may therefore wish to float again the alternative of a five year phasing in of the CC and a safety net throughout England. Inevitably that means re-opening the E(LF) decision to opt for a four year transition in most of England. But if the scheme to help London is not to involve a reasonably transparent subsidy from the rest of the country, it must be on a nationwide basis.

7. The main attractions of five year transition, relative to that in Mr Ridley's memorandum, are:

- it would be symmetrical and equitable across the country, a genuine phasing in for winners and losers;

- it would involve no special London arrangements and hence no identifiable subsidy to London from the rest of the country;

- it avoids an overt subsidy to overspending London boroughs; and

- it should avoid the permanent damage to accountability, implicit in any special arrangement for London, no matter how long it lasts.

8. As table B shows a five year transition would make only a relatively small, if beneficial, difference to the levels and rates of increase in CC in London. But it would give longer to address London's problems. There may also be wider advantages, as noted in previous submissions, from a slower and harmonized (in tandem with the NNDR) five year transition throughout England.

Initial Community Charge

9. We understand Ministers were close to agreement on an intial CC of £100 at the previous E(LF) discussion. A starting CC of £75 would make very little difference in practice to the rates of increase experienced within a four or five year transition. On balance, we recommend that you accept an inital CC of £100.

Wales

10. A separate note is attached at Annex C.

Conclusion

11. Several weeks ago, Mr Ridley proposed the complete abolition of domestic rates in 1990. Then he proposed a three year transition from rates to the community. Now he is prepared to agree to a four year transition.

12. We recommend that:

i) you consider putting forward a 5 year transition throughout England as an alternative means of supporting inner London;

ii) if this attracts no support, you could reluctantly accept no special help for London;

iii) you accept an initial CC of £100.

Barry H. Potter

B H POTTER

CC TRANSITION

Inner London includes three boroughs whose full community charge would, in 1987-88 have been below £450.

	£
Kensington and Chelsea	370
Wandsworth	435
Westminster	396

Given a few years' growth in spending (at different rates) the community charges in the following districts need be little different in the 1990s.

	Charge 1987-88 £	Years to match Kensington at differential growth of 5%
Brent	283	6
Ealing	278	6
Haringey	329	3
Newham	304	4
Waltham Forest	365	1
Liverpool	301	4
Doncaster	280	6
Newcastle-upon-Tyne	292	5
Brentwood	339	2
Harlow	315	4

(Rate-capping will restrain growth but encourage creative accounting, the effects of which will come through in the 1990s.)

ANNEX B.

COMMUNITY CHARGE TRANSITION: THE MARRIED COUPLE

	Final charge no safety net (£)	Average annual increases in the total bill — Years of transition: 4		5	
Camden	1564	209	21%	167	17%
Greenwich	1216	193	29%	154	22%
Hackney	1382	180	20%	144	16%
Hammersmith & Fulham	930	138	25%	110	20%
Islington	966	119	19%	95	15%
Kensington & Chelsea	740	45	7%	36	6%
Lambeth	1094	152	22%	121	18%
Lewisham	1354	189	23%	151	18%
Southwark	1140	170	25%	136	20%
Tower Hamlets	1278	196	27%	156	21%
Wandsworth	870	126	24%	100	19%
Westminster	792	17	2%	13	2%

Initial charge £ 100
Rateable value 80%of the average
Number of adults 2

WALES

Mr Ridley's minute to the Prime Minister seeks a faster phasing out of the safety net in Wales (four years rather than the ten proposed by Mr Walker) and a transitional period for the abolition of rates, so that the introduction of the charge is identical with that in England.

2. This seems unnecessary. There is little purpose in consistency between England and Wales when Scotland's approach (at least on transition) is so different and conditions in Wales are different from those in England.

(a) There is much smaller variation in charges than in England.

(b) The charge to be introduced is on average lower than that in England (£136 compared with £215).

(c) There would be a larger proportion of very small rates bills to be collected.

(d) There is less risk in Welsh LAs becoming dependent upon a new form of raising tax than there is in inner city areas in England.

3. You should therefore oppose Mr Ridley's suggestion that rates should be retained. But, the same arguments point towards a fast phasing out of the safety net. Levels of charge could then be consistent across the principality. You should therefore agree with Mr Ridley that four or five years would be sufficient for that.

NO. If anything, support Mr Ridley on rates, but Mr Walker on slow phasing out of safety net.

Longer transition for London?

CONFIDENTIAL

Different transition (3-5) for different authorities? (i.e. 5 where [illegible] domestic rate bills, & where [illegible] 3)

CHANCELLOR

FROM: B H POTTER

Date: 24 July 1987

cc: Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Hawtin o/r
Mr Scholar
Mr Turnbull
Mr Holgate
Mr Tyrie

Ch
I'm afraid this provides very little factual ammunition.
Perhaps best option is to argue for five years but say leave open final decision until DOE over summer produce tables of gainers & losers by household type & by area for different transitional periods
AA

POTTER → CH/x 24 July

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

E(LF) on 14 July agreed that there should be a phased introduction of the Community Charge and that Mr Ridley should exemplify further the transition arrangements. Decisions are now required on the length of the transition period, and on the initial Community Charge (CC). (These will be used for public presentation: neither will be specified in the Bill.)

2. We recommend that you continue to argue for a five year transition. The arguments for an initial CC of £50 vis a vis £100 are more finely balanced, and you may wish to argue for no final decision yet. Agreeing to £100 could be worthwhile, however, if it helped secure acceptance of a 5 year transition.

<u>Assessment</u>

3. In the memorandum E(LF)(87)35 the following arguments are seen as relevant to the decisions on the transition arrangements:

i) the need to give individuals time to adjust;

ii) the need to give LAs with high spending time to adjust;

iii) the desirability of a short transition period; and

iv) the desirability of avoiding turbulence in local government finance during transition.

Implicity Mr Ridley attaches more weight to arguments iii) and iv) than the first two. The supporting points made, in striking that balance, are that it would be uneconomic to collect small residual rate bills and low initial CCs; would secure earlier the greater accountability under the PLG regime; and would not help London, since under any option, inner London is likely to remain a problem at the end of the transition.

4. In our view, neither these arguments nor the supporting evidence in the accompanying tables substantiate Mr Ridley's conclusion that a 3 year transition and a £100 initial CC are the best transitional arrangement. A longer transition and lower initial CC would mitigate, though not eliminate, the most adverse distributional consequences of the change from rates to Community Charge on inidividuals and households. And that has important timing and presentational advantages for the Government. Your main attack should be on the length of the transition.

The Transition Period

5. The range of districts and households exemplified are fair and representative. Annex A discusses what they show. They focus on levels of domestic bills (rates + CC). They do not clearly illustrate the rate of changes in bills; and they give no information on the numbers affected, under different transition options. Yet both will be particularly important in shaping public perceptions of the CC. In particular, you will wish to draw attention to:

(a) the percentage and absolute increases in CCs for those paying towards local government for the first time (under different transition periods);

(b) the percentage and absolute increases in CCs faced by ordinary households in the worst hit authorities; and

(c) numbers of losers and the extent of their losses.

6. First we have examined the position of the new taxpayer, typically a young or elderly person living with relatives who has not shared in paying the rates. On a three year transition, with a starting CC of £100, new taxpayers in over 150 districts, that is over 40% of all districts, would see their charges increase by an average of over 25% or £30 a year. (This takes no account of the effect on CCs of increases in LAs cash spending.) A list of the districts concerned is at Annex B. By contrast, with a five year transition, only 18 districts (ie 4% of the total) would show a 25% annual increase.

7. Second, we considered the position in the worst-hit authorities. Table 1 (attached) concentrates on those in inner London: all would have levied a community charge of over £300 in 1987-88. The table shows the percentage increase faced by a two-person household with 80% of average rateable value. This might represent an elderly, married couple or a young couple in a flat.

8. A three year transition would produce average annual increases over the transition period of nearly 30% and £200 each year - again taking no account of the further effect of any cash increase in the LAs spending. A five-year transition reduces the average percentage increase to around 15% and the average absolute increase to £115. Even on a five year transition therefore the increases are fairly sharp. But, in the light of these figures, it is difficult to see why Mr Ridley regards it as "vital to get the full new system in force in London before the 1994 London elections". The boroughs may well be able to attribute the size of the CC increases to the short transition period imposed by central government.

9. Colleagues may argue that this is just an inner London problem largely, though not wholly, attributable to ILEA. But these effects are not confined to London. In Harlow and Brentwood in Essex, a three years transition means increases of around 50% p.a in CC (around 27% with 5 years). And in the north, it makes the difference between a 19% and a 11% increase for chargepayers in Hyndbrun and in Calderdale and 20% and 12% in Barnsley. In certain outer London boroughs, the same effect would arise.

10. Third we have reviewed the overall numbers of gainers and losers. Mr Holgate's minute to you of 24 June noted that, with a £50 initial CC, about 56% of adults would probably lose in the first year of the community charge transition; and up to 5% of individuals could lose more than £2 a week each (if expenses are shared). These figures are not affected by the length of the transition period but could be mitigated if the initial charge were set at £50.

11. Regrettably, the only picture of how numbers of losses and size of losses would differ under alternative transitional arrangements must be drawn from the Green Paper. (DOE oficials steadfastly refused to provide such data for any of the transition options). The Green Paper provided figures both for a first year of transition (with a full safety net and a £50 initial charge) and that of the full replacement of rates by the community charge as follows:

What!!

TABLE 2: LOSERS OVER TIME

	First year of transition	Full replacement
Thousands (and proportion) of households £2 a week worse off	275 (1.3%)	3075 (14.9%)
Thousands (and proportion) of households losing over 2% of net income	375 (1.8%)	1225 (6.0%)

When the CC is introduced in full, over 3 million households will be £2 a week worse off; and over 1 million will lose 2% of net income. Because the relationship is non-linear, we cannot assess how many will be affected in each year under different transition periods or the size of the losses. But the more rapid the transition, the greater the number of the eventual losers affected by 1991 and 1992; and the larger the losses will be.

12. From these data, we draw the conclusion that a three year transition is too short to give time for many individuals and households and a number of authorities - in particular in London - to adjust. Moreover Mr Ridley has attached too little weight to these factors: it is these, rather than administrative costs and confusion in local government finance, that are likely to shape peoples perceptions of the CC in the critical years between 1990 and 1993.

<u>The Case for Short Transition</u>

13. Mr Ridley's main arguments for short transition are not wholly convincing - that a longer transition produces a succession of small rates bills which are uneconomical to collect, and a longer period of turbulence when signals to chargepayers about LA spending are confusing.

14. The latter point can in fact be mitigated, but not removed, by a lower starting charge (because it smoothes out ups and downs in total domestic bills) at the cost of further postponing the improved accountability under PLG. The argument on small rate bills is:-

(a) not quantified: DOE should be able to say how many districts this applies to, for how long and how those numbers change with the period of transition;

(b) not as serious as Mr Ridley suggests, because the amounts collected are implicitly contrasted with the average, rather than the marginal cost of collection, (which should in most cases be lower, especially for small bills); and

(c) if the average rates bill falls below some minimum, such as £25, in the penultimate year of transition, a local authority could scrap the separate bills and adjust the community charge. (There is little virtue in a precisely symmetrical phasing when as Mr Ridley says, accountability will be distorted and comparisons between authorities difficult to make.)

Harmonisation with National Non-DOmestic Rate (NNDR)

15. Finally, the paper ignores the important point (previously raised) that as the CC redistributes tax burdens from the south to the north, the transitional period should match that for the introduction of the NNDR (which has the opposite distributional effect). The Valuation Office's estimate for the regional change in rates burden upon the full introduction of the NNDR and the revaluation is given in table 3. It shows a close relationship by area between the NNDR and the CC (outside of London). The Northern region benefits most from the NNDR and revaluation but suffers most from the charge; Yorkshire and Humberside faces the second greatest shift in each case and so on. It is clearly very important that these two redistributions coincide as far as possible to achieve genuine improved accountability and avoid undue burdens on CC payers in the south. And that means a common period for transition.

The Initial Community Charge

16. Finally on the starting CC, a £50 charge was proposed in the Green Paper. It would produce a smoother adjustment and reduce the size and number of perverse patterns of rises and falls in total bills. And it would mean LAs could begin to address collection and evasion problems, before they were too dependent on the CC as a source of their income. But E(LF) was more impressed by the argument that £50 would be uneconomical to collect. Those on 80% rebates would be paying only £10, which would hardly justify collection costs approaching £10 (again, an average rather than a marginal collection cost). You may not wish to push hard for a £50 initial charge in view of the last E(LF) discussion; but it may be possible to leave the option open.

Wales

17. A separate note is attached at Annex C.

Conclusion

the silly, [illegible]

18. Mr Ridley proposes a three year transition. This will give rise to big increases in CCs for first time payers between 1990 and 1993; large increases in general, both in London (just before the 1994 elections) and in a number of other authorities; and will involve larger numbers of significant losers losing more money earlier across the country. A longer five year transition period would mitigate (though could not eliminate) these effects; would harmonize with proposals for the NNDR; and would allow more time to sort out London. I recommend that you argue for a five year transition.

Barry H. Potter

B H POTTER

Table 1

COMMUNITY CHARGE TRANSITION: THE MARRIED COUPLE IN INNER LONDON

	Final charge no safety net (£)	Average annual increases in the total bill Years of transition 3		4		5	
Camden	1564	279	29%	209	21%	167	17%
Greenwich	1216	257	40%	193	29%	154	22%
Hackney	1382	240	28%	180	20%	144	16%
Hammersmith & Fulham	930	183	35%	138	25%	110	20%
Islington	966	159	25%	119	19%	95	15%
Kensington & Chelsea	740	60	10%	45	7%	36	6%
Lambeth	1094	202	31%	152	22%	121	18%
Lewisham	1354	252	31%	189	23%	151	18%
Southwark	1140	226	35%	170	25%	136	20%
Tower Hamlets	1278	261	37%	196	27%	156	21%
Wandsworth	870	167	33%	126	24%	100	19%
Westminster	792	22	3%	17	2%	13	2%

Initial charge £ 100
Rateable value 80% of the average
Number of adults 2

Don't understand

TABLE 3: NON-DOMESTIC RATES AND THE COMMUNITY CHARGE

	£m	% change relative to present	% losing households	% losing more than £2 a week
Northern Region	-153	-30%	71%	33%
Yorkshire & Humberside	-157	-21%	70%	31%
North West	-203	-20%	50%	19%
East Midlands	-91	-16%	44%	13%
West Midlands	-101	-13%	29%	7%
South West	102	19%	36%	10%
East Anglia	55	21%	26%	5%
South East (excl. London)	358	24%	20%	4%
Greater London	164	7%	62%	34%

EXEMPLIFICATIONS OF THE TRANSITION IN ENGLAND

Mr Ridley attaches 15 tables to E(LF)(87)35. Each table shows, for three representative households and for initial charges of £50 and £100, the pattern of bills over a transitional period. Illustrative figures are given for three, four and five year transitions, for each of five districts - Camden, Barnet, Elmbridge (Surrey), Barnsley (South Yorkshire) and Craven (North Yorkshire).

2. Table 1 (Camden) shows how a lower initial charge smooths the pattern of bills for a single householder. With a charge of £50, he sees a fall of £15 in 1990-91 followed by a rise of £69. With a charge of £100, he sees a fall of £29 followed by a rise of £73. However the percentage fall is probably small enough in both cases to be obscured by inflation and increases in spending.

3. Table 1 and Table 3 show the contrast between a fast and slow transition. The average two adult household sees an increase of £240 a year in the former and £144 in the latter.

4. Table 4 (Barnet) shows that as the district is a gainer from the changes, it is large rather than small households which face a perverse pattern in the bills. For a three adult household and a £100 initial charge, a rise of £53 in 1990-91 is followed by a fall of £73 in 1991-92. The tables for Elmbridge (tables 7, 8 and 9) are very similar.

5. Table 10 (Barnsley) illustrates a losing authority with low domestic rateable value. A three year transition for the average two adult household implies an average increase of £65 a year. A five year transition reduces this average to £39.

6. Table 13 (Craven) shows how the transition produces very small changes in bills for some authorities and very small rates bills in the final years of the transition. The rows for the single person household also illustrate the fact that a £50 initial charge could avoid a perverse pattern of bills.

Annex B

DISTRICTS THAT WILL INCREASE THE CHARGE BY 25% A YEAR FOR A THREE YEAR TRANSITION

LONDON	All inner London boroughs	
	14 out of 20 outer London boroughs	
METROPOLITAN DISTRICTS	Merseyside	(all)
	West Yorkshire	
	South Yorkshire	
	Tyne and Wear	
	8 out of 10 districts in Manchester	
	3 out of 7 districts in the West Midlands	
SHIRES DISTRICTS	Avon	(all)
	Bedfordshire	"
	Cleveland	"
	Cumbria	"
	Derbyshire	"
	Humberside	"
	Northumberland	"
	Nottinghamshire	"
	Buckinghamshire	(most)
	Durham	"
	Hertfordshire	"
	Oxfordshire	"
	Essex	(some)
	Lancashire	"
	Leicestershire	"
	Warwickshire	"
	Wiltshire	"

ANNEX C

WALES

Mr Walker minuted the Prime Minister on 20 July. He restates his case for the complete abolition of rates in Wales in 1990 and a ten year cash safety net.

Worry here is that if you let Wales have no transitional period for introducing poll tax, England will be odd man out.

Transition

2. In favour of a complete abolition of rates, there is:

(a) the Scottish precedent;

(b) the lower level of charge to be introduced in Wales (an average of £136 compared to £215 in England);

(c) a small variation in the charge between districts;

(d) the low residual rates bills that would be collected;

(e) the likelihood that Welsh councils will have less difficulty in setting up registers and keeping track of residents than many LAs in England. Why?

3. A transitional period does not seem nearly so necessary in Wales as it is in England.

Safety nets

4. Mr Walker's ten year cash safety nets allow increases in LA spending to feed through as increases in the charge. But they do little to adjust the levels of charges in different areas so that those councils which spend more above assessed need levy higher community charges. (Mr Walker's illustrative calculation obscures this by assuming implicitly that the starting levels of A and B are consistent with spending at need, and by setting the initial charge at the same level in A and B.)

5. You should argue for a shorter transitional period of five years, which would be consistent with England and bring the levels of charges for Welsh LAs on to a consistent basis. !??

Rw meeting [illegible]

CH/EXCHEQUER
REC. 20 JUL 1987 20/7
ACTION CST
COPIES TO

CONFIDENTIAL

PRIME MINISTER

INTRODUCING THE COMMUNITY CHARGE

When we discussed transitional arrangements for the community charge at E(LF) last Tuesday I said that I would circulate an illustration of how the different spending decisions of local authorities would be reflected in community charges under my proposal to abandon rates from the outset and for a long-term safety net which was fixed in cash terms.

... The attached table shows community charges for two district councils over a ten year period, assuming that both benefit from the safety net by the amount of £10 per adult each year in cash terms. Inflation, for ease of illustration, is set at a notional 5% per annum. District Council A simply increases its expenditure each year to keep pace with inflation. District Council B, on the other hand, increases expenditure each year by 2% in real terms (NB These figures only illustrate the district council portion of the total community charge to be paid by the taxpayer but a similar pattern would apply to the much higher county council portion).

SS/WALES TO PM 20/7

The table makes clear that increases in expenditure are fully reflected in the community charges set by each authority; in fact by year 10, the charge of District Council B is more than twice that of District Council A. I remain convinced that a safety net of this nature is the best way forward for Wales. It will preserve accountability while at the same time allaying fears about dramatic changes in local tax bills between authorities.

Ch
(v different in Wales, since range of rates much smaller to start with)
AA

/I have ...

I have also been reflecting on our discussion at the same meeting about the possibility of phasing out rates over a period of years. I can see the attractions of moderating the initial impact of the community charge by setting it at a standard amount while continuing to keep rates in the early years. But I am sure that in Wales these advantages would be outweighed by the savings in local authority costs and manpower, and by the advantage of giving local authorities a clear field to get on with making the new system work effectively. Concern has already been voiced about the practical difficulties of compiling the register and collecting the charge, and these will only be compounded if authorities have to run the old and the new systems simultaneously. Provided that we mitigate the distributional effects of the new arrangements between areas by means of the safety net which I am proposing I do not think that the impact upon individuals of the new system would be sufficient to justify phasing out rates gradually. If I adopted an initial threshold in Wales of £100 then the amounts remaining to be phased in would not be large enough to justify keeping rates for an extra period.

... I am copying this minute to members of E(LF) and to Sir Robert Armstrong.

HJClements

20 July 1987

Approved by the Secretary of State
and signed in his absence

ILLUSTRATIVE COMMUNITY CHARGE CALCULATION

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DISTRICT COUNCIL A (spending in line with inflation each year)	£22	£24	£25	£27	£29	£31	£33	£35	£37	£40
DISTRICT COUNCIL B (spending 2% above inflation each year)	£22	£27	£32	£38	£44	£51	£59	£67	£77	£86

NOTE

This illustration assumes that both authorities benefit from the safety net at £10 per adult; and that the safety net is frozen in cash terms throughout the ten years. Inflation has been assumed to be a notional 5% per annum for ease of illustration. Only the district council portion of the total community charge has been illustrated but a similar pattern would apply to the county council portion.

1 Alex
2 C. See also PMG's comments below
CR 25/6

1. MR FELLGETT ~~FELLGETT~~ Rd. Fellgett 26/6

2. CHANCELLOR

FROM: N I HOLGATE

Date: 24 June 1987

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr F E R Butler
Mr Hawtin
Mr Potter o/r
Mr Cropper
Mr Tyrie

Ch
There is to be an E(LF) meeting on 'London' next week. Will need to take a v tough line (see para 6).
AA

Rob Rt. ✓

Thanks. Do we have a qualification for X? I suspect reason will be substantial.

COST OF POLL TAX COULD BE AN ELECTORAL DISASTER - INDEPENDENT 19 JUNE

Mrs Ryding's minute of 19 June to Mr Potter asked for a note on this article. I attach a copy of the magazine article from which the Independent's report was drawn.

2. The article says that although 51% of households gain from the introduction of the community charge, 56% of individuals live in households that lose. We and DOE think that this is broadly correct. On average, single person households gain from the change while most larger households lose and 2-person households neither gain nor lose. The proportion of individuals in losing households is therefore larger than the proportion of losing households. As the community charge represents a shift from a tax on property to a personal tax, it is not surprising that most people lose.

3. However, it is worth noting that not all the individuals in a losing or gaining household will themselves be losers or gainers, unless all the household expenses are shared equally among those living there. For example, a couple who currently share the rates bills may see no change even if their household as a whole is worse off; but a sibling living in the same house may pay local taxes for the first time.

HOLGATE TO ALEX 24/6

The article also says that, looking only at those households that gain or lose more than £2 a week, 68% of the individuals involved live in losing households. Again, this seems broadly correct. However, it should not be confused with a comparison among individuals who are personally more than £2 a week better or worse off; most households that lose more than £2 a week will contain several adults who will each, if expenses are shared, lose rather less. In fact, we estimate that only about 5% of adults will, on the shared-cost assumption, lose more than £2 a week.

5. The article finally says that, with the transitional safety net proposed in "Paying for Local Government", there will be major losers at transition in certain Conservative seats. This observation is also correct but may be overtaken by events. Mr Ridley is likely shortly to propose to E(LF) that there should be neither a safety net nor a transition of the type envisaged in "Paying for Local Government". Under his new proposals, the largest percentage losses will be in the areas listed in table A attached.

Nothing has changed since earlier decision was taken to go ahead with poll tax nonetheless.

6. We have seen a draft of Mr Ridley's E(LF) paper, prepared by his officials. It makes clear that the community charge will provide an inadequate tax base to support current high levels of local authority spending in parts of London, despite rebates and the uprating of income support. Some transitional subsidy in London seems unavoidable, though we will of course brief you to argue that this should involve a redistribution of local authority finance rather than a further call on the taxpayer. If the cost is borne equally by local taxpayers, the areas listed in table A will remain the biggest losers but the percentage changes will be higher.

Conclusion

7. The article aims to demonstrate that a majority of individuals will be losers from the transition to community

charge. This is probably correct, although the statistics in the article are not sufficient to support the conclusion. This might affect the electoral impact. But it may be equally important that average community charges are likely to be higher than average rate bills, because it will be more expensive to collect and harder to enforce.

N I HOLGATE

HOW THE POLL TAX WILL PUNISH ELECTORS

A new study by **John Gibson,** PSLG's finance correspondent finds that following the introduction of the poll tax the majority of electors will live in households where local tax bills will actually increase.

One of the last pieces of legislation to get through Parliament and onto the statute book before the prorogation for the general election was the Abolition of Domestic Rates Etc (Scotland) Act. The Act will, of course, introduce the community charge as a replacement for domestic rates on April 1 1989 as well as leading to a uniform business rate throughout Great Britain once the non-domestic revaluation is completed in England and Wales. Scrapping the domestic rates was seen by ministers as a vital aid to alleviating the Conservatives' unpopularity in Scotland.

As we know the Conservatives are also promising to introduce similar measures for England and Wales. Indeed the uniform business rate fits in with one of the Conservatives' major electoral themes of spreading jobs and economic prosperity to those parts of the country where it has not yet reached — especially the inner cities and the north, where the uniform rate will result in a reduction in business rates.

Privately, however, a number of Conservative MPs have been concerned that the community charge/poll tax will cause bigger problems for a future Conservative government than the rates ever did. These worries have not surfaced very often, although last December Timothy Raison registered his own doubts both in Parliament and in an article in *The Guardian.*

What these Conservative MPs are really worried about is what is going to happen at that crucial time — not very far away now — when the first poll tax bills hit the mats. The previous Secretary of State for the Environment, Kenneth Baker, offered them reassurance by pointing to the Green Paper figures (*see Table 1*) which showed that a narrow majority (51 per cent) of households would actually gain from the introduction of the poll tax — that is, their local tax bills would be smaller under poll tax than under domestic rates.

However, so far as I am aware, no minister or political commentator has spelt out the electoral arithmetic which is implied by the household figures in Table 1. It is worth exploring this issue.

The Electoral Arithmetic

One feature to notice in Table 1 is that the majority of single adult households will gain from the poll tax. Conversely, the majority of households with three or more adults will find their bills are increased.

From this follows the important point that the average number of electors in households where bills will increase is larger than the average number of electors in households where bills will fall. How much does it alter the 50-50 picture which ministers have presented? Well in *Table 2* we have converted the household numbers into the numbers of electors who are members of gaining and losing households.

The figures show that out of every 100 electors, there are 56 who live in households which will find themselves worse off under poll tax and 44 living in households where bills fall under poll tax.

Table 2 also enables us to compare the numbers of electors in those households which are the largest losers and gainers — say those with a change in bills of more than £2 a week/£100 a year. Here the numbers look even worse for the popularity of the poll tax. The ratio is 62 large losers to 38 large gainers — and there are over 8.3 million electors in households with bill increases of over £100 a year. (Remember as well that all this excludes the losses that will be experienced by those at present receiving full rebates, when plans to introduce a 20 per cent minimum payment of rates are introduced).

These are the average figures for Great Britain. The proportions of gainers to losers will vary from area to area. Perhaps there is the feeling that this will not matter too much to Conservative MPs because (a) won't the increases in bills tend to be larger in Labour controlled authorities?, and (b) within each authority won't the poll tax lend to hit opposition voters living in the lowest rateable value properties rather than their own supporters who tend to live in the better parts of the authority?

Unfortunately for MPs seeking comfort from such reasoning only the second

Figure J7 Cont'd 7.14

TABLE 1 - HOUSEHOLDS GAINING AND LOSING

	Single pensioner	Other single	Two adults	Three + adults	All households
£ PER WEEK					
Losers					
10+	-	-	0	50	50
5-10	-	-	75	425	500
2-5	0	75	1325	1125	2525
1-2	25	100	1625	425	2175
0-1	375	275	3750	325	4725
Total losers	400	475	6800	2350	10000
Gainers					
0-1	1700	775	2800	200	5475
1-2	250	350	1275	100	1975
2-5	350	600	1400	100	2450
5-10	75	100	350	25	575
10+	25	25	50	0	100
Total gainers	2400	1850	5875	425	10575

Note: 0=less than 12,500 households

Households gaining and losing with full replacement of domestic rates by the community charge - by type of household (Great Britain thousand households)

TABLE 2 - ELECTORS GAINING AND LOSING

	Single pensioner	Other single	Two adults	Three + adults	All households
£ PER WEEK					
Losers					
10+	-	-	0	175(a)	175
5-10	-	-	150	1488(a)	1638
2-5	0	75	2650	3825(b)	6550
1-2	25	100	3250	1445(b)	4820
0-1	375	275	7500	1105(b)	9255
Total losers	400	475	13600	8038(b)	22438
Gainers					
0-1	1700	775	5600	660(c)	8735
1-2	250	350	2550	330(c)	3480
2-5	350	600	2800	330(c)	4080
5-10	75	100	700	80(d)	955
10+	25	25	100	0(d)	150
Total gainers	2400	1850	11750	1400	17400

Note: (a) size of "three +" adult households assumed to be 3.5
(b) size of "three +" adult households assumed to be 3.4
(c) size of "three +" adult households assumed to be 3.3
(d) size of "three +" adult households assumed to be 3.2

Electors in households gaining and losing with full replacement of domestic rates by the community charge - by type of household (Great Britain thousand households)

proposition is true. It is true that ultimately the new system will increase average bills most in local authorities where there is both high spending and low domestic rateable values. However, when the new system is introduced in England and Wales on April 1 1990 the changes in average bills which will occur will be the smaller ones due to the 'safety netting' procedure which the Government will set up to control changes in local authorities' income from grants and non-domestic rates.

This means that average bills do not immediately shoot up in high spending Labour authorities and plummet in low spending Conservative authorities. In fact these initial changes in average bills (and it is these initial changes which will be in place as the next election approaches) do not seem to be directed at Labour strongholds(1).

Constituency variations

The small changes in average bills lead to what we will call 'constituency variations' and these are important because quite small changes in average bills can lead to the '56 and 44' ratio of losers to gainers changing quite dramatically. Luckily the DoE has recently worked out the changes in average bills in each local tax collecting authority based on the 1986/87 spending figures for local authorities. We use these to list those local authorities where average bills change by more than 15 per cent.

Where average bills rise by more than 15 per cent we can safely estimate that more than 65 per cent of electors will be 'losers' and where average bills fall by more than 15 per cent we can safely estimate that more than 50 per cent of electors will be gainers (2). The tax collection areas where there are such changes are listed in *Tables 3 and 4* along with the Parliamentary constituencies which are affected.

TABLE 3 - ELECTORS WITH INCREASED BILLS

Local tax collecting authority	(Increase in bill)	Parliamentary constituencies affected
Weymouth & Portland (*25.8*)		Dorset South (*Con*)
Leominster (*25.7*)		Leominster (*Con*)
Torridge (*25.2*)		Devon West and Torridge (*Con*)
Pendle (*24.4*)		Pendle (*Con*)
Fenland (*23.7*)		Cambridgeshire NE (*Lib*)
Forest of Dean (*23.3*)		Gloucestershire West (*Con*)
Burnley (*23.3*)		Burnley (*Lab*)
South Herefordshire (*22.8*)		Hereford (*Con*)
		Leominster (*Con*)
Hereford (*22.7*)		Hereford (*Con*)
Aylesbury Vale (*22.6*)		Aylesbury (*Con*)
		Buckingham (*Con*)
Wandsworth (*22.2*)		Battersea (*Lab*)
		Putney (*Con*)
		Tooting (*Lab*)
Milton Keynes (*21.7*)		Buckingham (*Con*)
		Milton Keynes (*Con*)
Hyndburn (*21.0*)		Hyndburn (*Con*)
Portsmouth (*20.05*)		Portsmouth South (*SDP*)
		Portsmouth North (*Con*)
Bolsover (*20.3*)		Bolsover (*Lab*)
Colchester (*19.4*)		Colchester North (*Con*)
		Colchester South and Maldon (*Con*)
Greenwich (*18.5*)		Greenwich (*SDP*)
Hammersmith & Fulham (*18.2*)		Fulham (*Lab*)
		Hammersmith (*Lab*)
Braintree (*17.9*)		Saffron Walden (*Con*)
West Dorset (*17.5*)		Dorset West (*Con*)
		Dorset South (*Con*)
North Dorset (*17.4*)		Dorset North (*Con*)
Runnymede (*17.2*)		Chertsey and Walton (*Con*)
		Surrey NW (*Con*)
North Devon (*16.4*)		Devon North (*Con*)
Hastings (*15.8*)		Hastings and Rye (*Con*)
Leicester (*15.5*)		Leicester East (*Con*)
		Leicester South (*Con*)
		Leicester West (*Con*)
North Warwickshire (*15.1*)		Warwickshire North (*Con*)
Crawley (*15.1*)		Crawley (*Con*)

Poll Tax - areas where more than 65 per cent of electors live in households with increases in local tax bills on April 1 1990 (figures in brackets = change in average household bill)

TABLE 4 - ELECTORS WITH REDUCED BILLS

Local tax collecting authority	(Reduction (in bill)	Parliamentary constituencies affected
Kensington & Chelsea (*-46.4*)		Chelsea (*Con*)
		Kensington (*Con*)
Westminster (*-33.7*)		City of London and Westminster South (*Con*)
		Westminster North (*Con*)
West Lancashire(*-22.7*)		Lancashire West (*Con*)
		Chorley (*Con*)
Beverley (*-22.6*)		Beverley (*Con*)
		Boothferry (*Con*)
Fylde (*-21.9*)		Fylde (*Con*)
South Staffordshire (*-18.9*)		Staffordshire South (*Con*)
South Buckinghamshire (*-18.8*)		Beaconsfield (*Con*)
Rushcliffe (*-17.4*)		Rushcliffe (*Con*)
Lichfield (*-17.2*)		Cannock and Burntwood (*Con*)
		Staffordshire SE (*Con*)
Macclesfield (*-17.1*)		Macclesfield (*Con*)
		Tatton (*Con*)
South Cambridgeshire (*-16.6*)		Cambridgeshire SE (*Con*)
		Cambridgeshire SW (*Con*)
Castle Morpeth (*-16.4*)		Berwick upon Tweed (*Lib*)
		Hexham (*Con*)
		Wansbeck (*Lab*)
Wyre (*-16.0*)		Wyre (*Con*)
		Lancaster (*Con*)
Brentwood (*-15.9*)		Brentwood and Ongar (*Con*)
Chiltern (*-15.4*)		Chesham and Amersham (*Con*)

Poll Tax - areas where more than 50 per cent of electors live in households with reductions in local tax bills on April 1 1990 (figures in brackets = change in average household bill)

NOTES

(1) In fact the only changes which occur are those due to alterations in the distribution of the burdens of precepts between rating authorities (precepts will be sent on the basis of number of adults rather than on rateable value) and the replacement of the domestic rate relief grant by a straight per adult grant.

(2) The estimate of the percentage of electors living in losing households is based on knowledge derived from a study in Durham (*The Poll Tax: Its Impact on Residents of County Durham*, available from Durham County Council) which measures the percentage change in bills for 160,000 households in County Durham using data on rateable values and the number of adults in each household.

John Gibson is an expert on local authority finance and works for the Institute of Local Government Studies (INLOGOV).

TABLE A

The [illegible]est percentage increases in average local tax bills on the introduction of the community charge in areas not benefitting from the safety net

(all figures based on 1986/87 levels of spending of all the local authorities in the area)

--- areas ranked in descending order of percentage increase in average bills ---

	average rates bill per adult Col 1	community charge Col 2	increase £s/adult Col 3	*increase % Col 4
Burnley	£ 129	£ 215	£ 85	66 %
Barnsley	£ 161	£ 267	£ 106	66 %
Wear Valley	£ 131	£ 215	£ 84	65 %
Pendle	£ 119	£ 185	£ 66	56 %
Copeland	£ 143	£ 214	£ 71	50 %
Calderdale	£ 169	£ 254	£ 85	50 %
Barrow in Furness	£ 141	£ 211	£ 70	49 %
Sedgefield	£ 149	£ 223	£ 74	49 %
Teesdale	£ 111	£ 164	£ 53	48 %
Hyndburn	£ 124	£ 182	£ 58	47 %
Rotherham	£ 183	£ 270	£ 87	47 %
Kirklees	£ 164	£ 241	£ 76	47 %
Easington	£ 123	£ 179	£ 56	46 %
Derwentside	£ 141	£ 202	£ 62	44 %
Doncaster	£ 195	£ 280	£ 85	44 %
Blackburn	£ 136	£ 192	£ 56	41 %
Wansbeck	£ 160	£ 226	£ 66	41 %
Rossendale	£ 141	£ 197	£ 56	40 %
Sheffield	£ 230	£ 322	£ 92	40 %

Papers

FROM: D OWEN
DATE: 30 JULY 1987

PS/CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Sedgwick
Mr Bottrill o/r
Mr Culpin
Miss O'Mara

Ch
Pty

TRENDS IN EXPORTS

1. The Chancellor noticed that on his copy of the CSO's monthly economic brief the trend line for exports was different from that drawn by DTI in their briefing on the monthly trade figures (your minute to me of 30 July, attached). The CSO's trend line is in fact too high, as can be seen from the fact that nearly all the actual observations lie below the trend.

2. The numbers for the CSO's trend line are supplied by DTI. The problem lies in the multicoloured printing used for the CSO chart - the red trend line and the black volume index are printed separately and they have clearly not been lined up correctly. Another batch of copies of the monthly brief has been printed with the trend line too low - see attached chart!

3. We have pointed this out to the CSO and they have assured us that they will attempt to improve their aim in future.

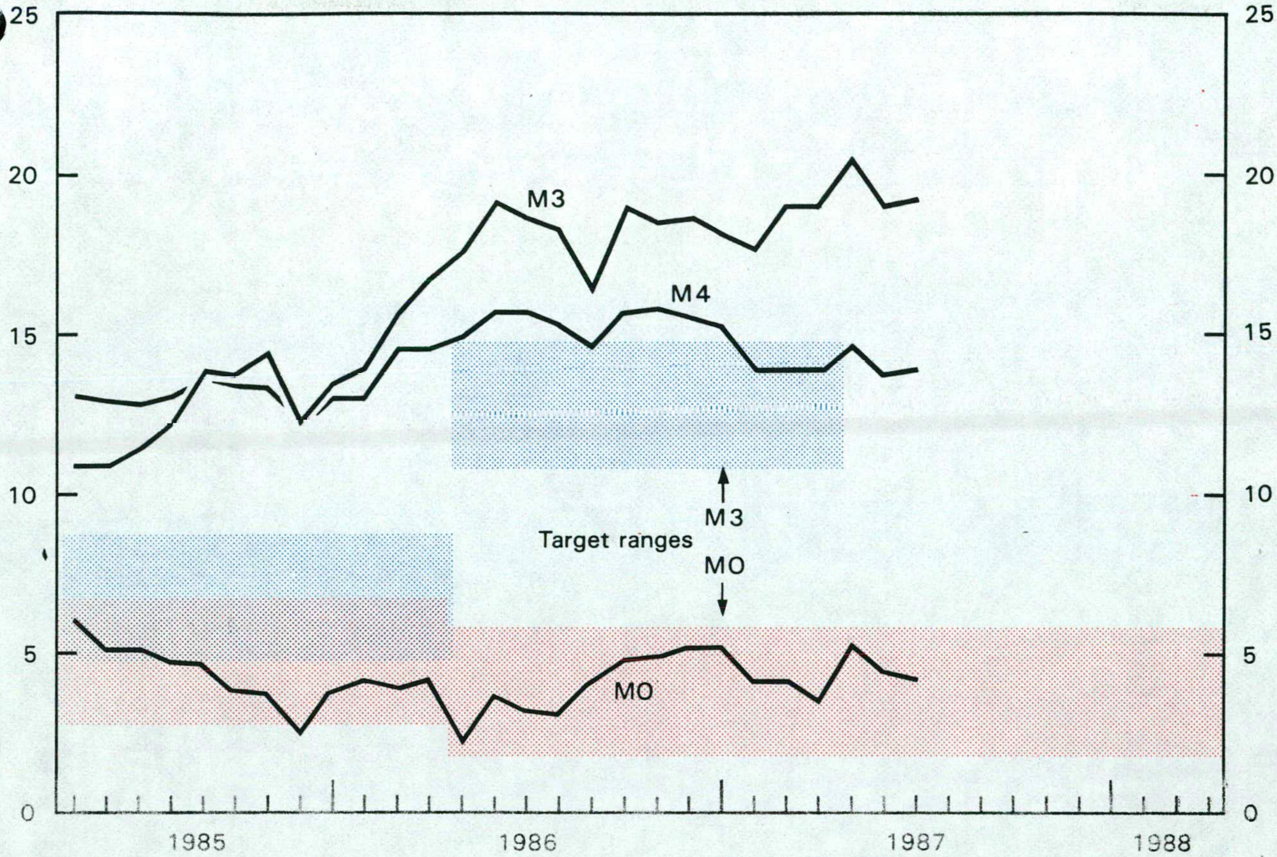
David Owen

DAVID OWEN
EA2

CHART 6

Monetary aggregates

Percentage change on previous 12 months (not seasonally adjusted)

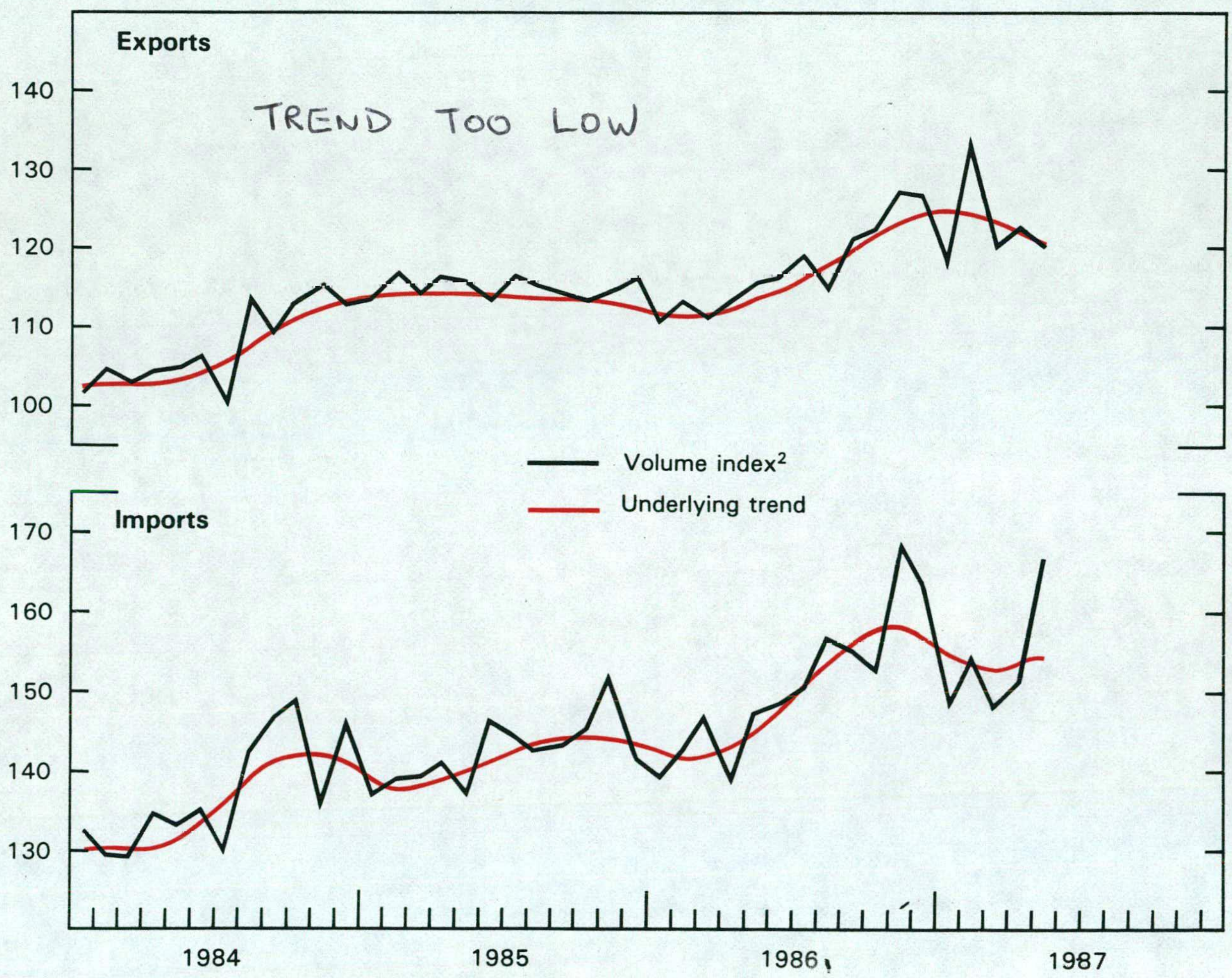


Shaded areas represent announced target ranges

CHART 7

Exports and Imports (excluding oil and erratics[1])

Index 1980 = 100



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis

ps1/50A

UNCLASSIFIED

FROM: A C S ALLAN
DATE: 30 July 1987

MR OWEN 3rd

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Bottrill
Mr Culpin
Miss O'Mara

TRENDS IN EXPORTS

... The Chancellor has observed that the attached chart from the CSO's monthly economic brief draws a <u>different</u> trend line for exports from that drawn by DTI (even allowing for the difference in scale).

2. He feels this is a strong further argument for leaving statements about economic trends to the Treasury.

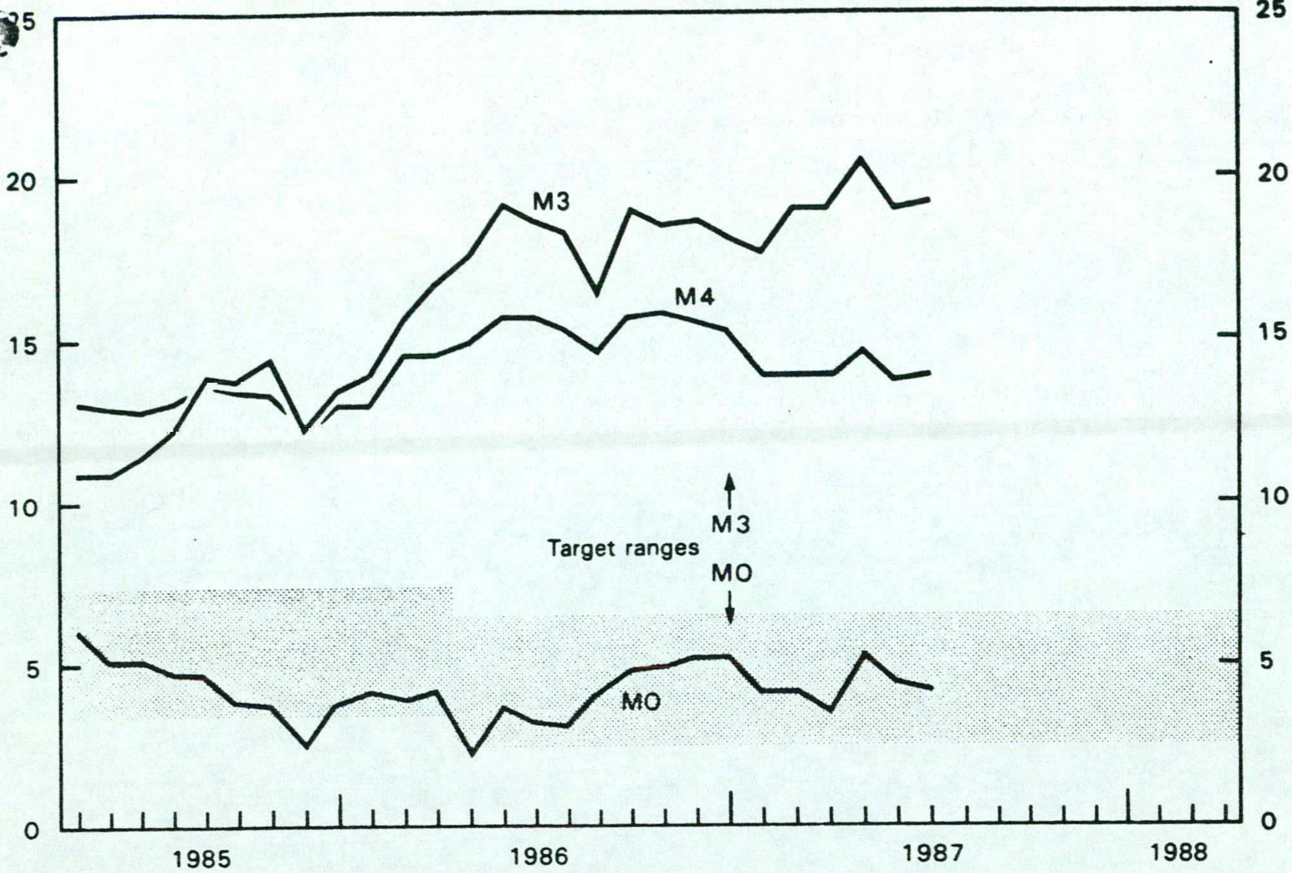
ACSA

A C S ALLAN

CHART 6

Monetary aggregates

Percentage change on previous 12 months (not seasonally adjusted)

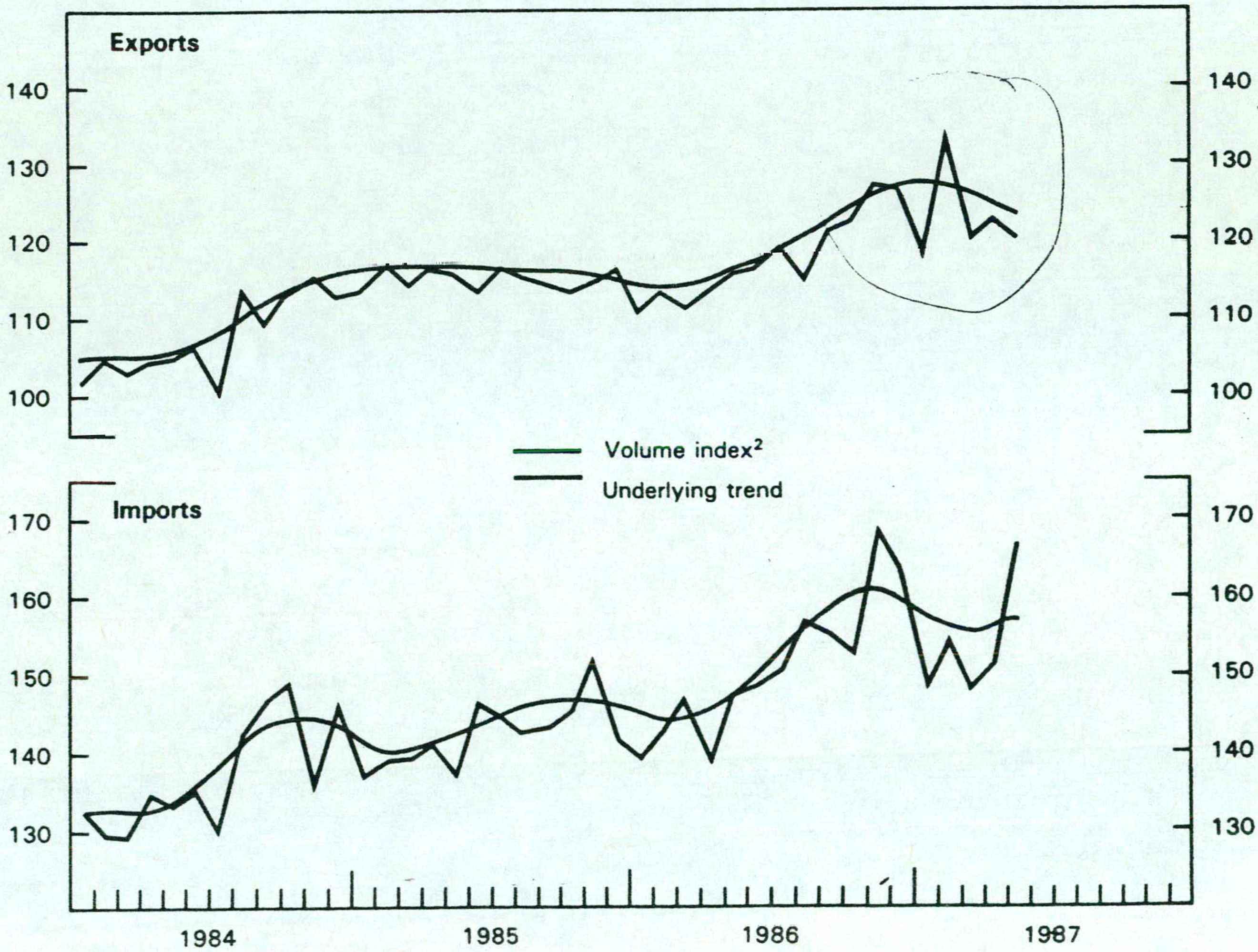


Shaded areas represent announced target ranges

CHART 7

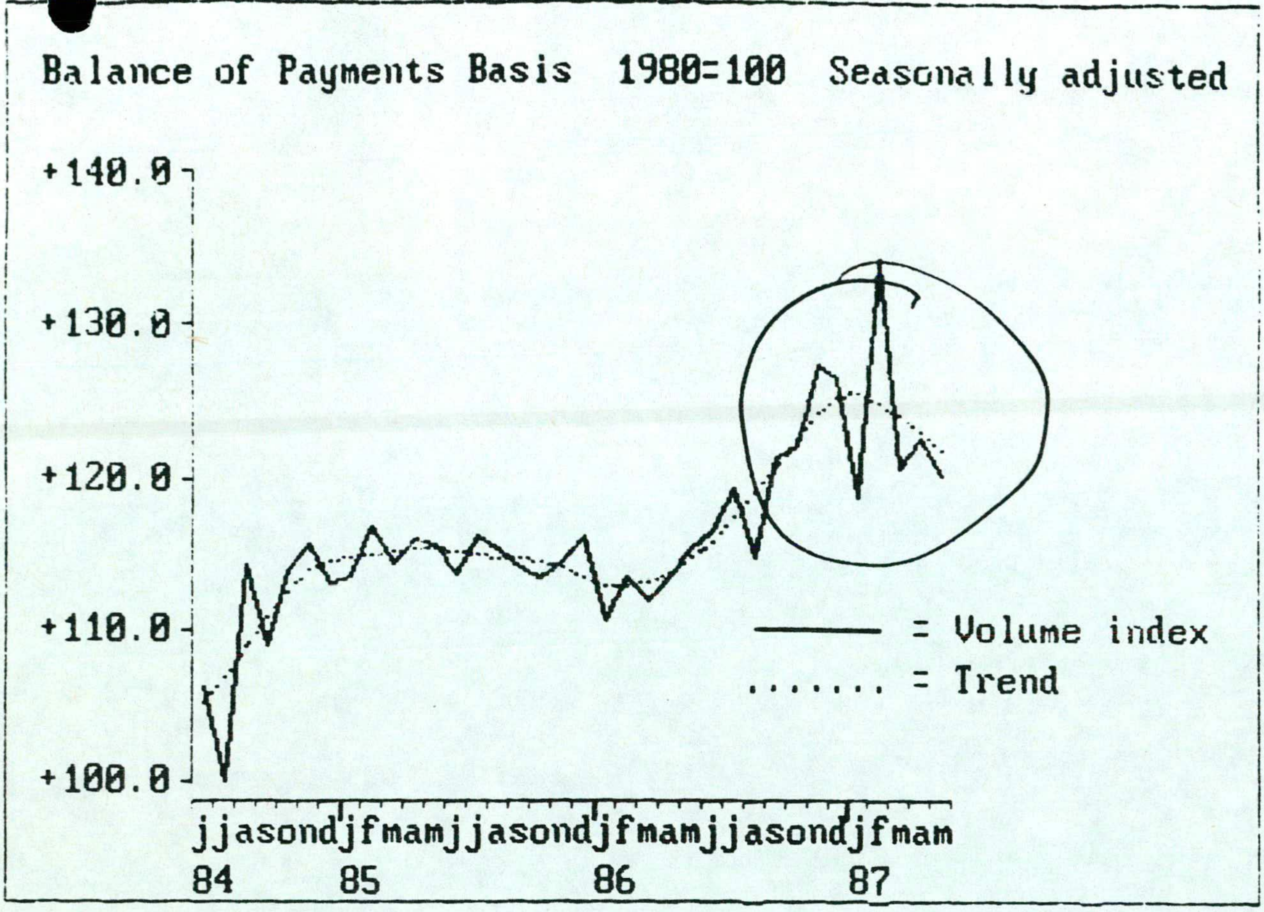
Exports and Imports (excluding oil and erratics¹)

Index 1980 = 100



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis

EXPORTS LESS OIL & ERRATICS



SECRET AND PERSONL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

psl/50A

UNCLASSIFIED

BF 1/8

FROM: A C S ALLAN
DATE: 30 July 1987

MR OWEN

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Bottrill
Mr Culpin
Miss O'Mara

TRENDS IN EXPORTS

... The Chancellor has observed that the attached chart from the CSO's monthly economic brief draws a different trend line for exports from that drawn by DTI (even allowing for the difference in scale).

2. He feels this is a strong further argument for leaving statements about economic trends to the Treasury.

ACSA

A C S ALLAN

CHART 6

Monetary aggregates

Percentage change on previous 12 months (not seasonally adjusted)

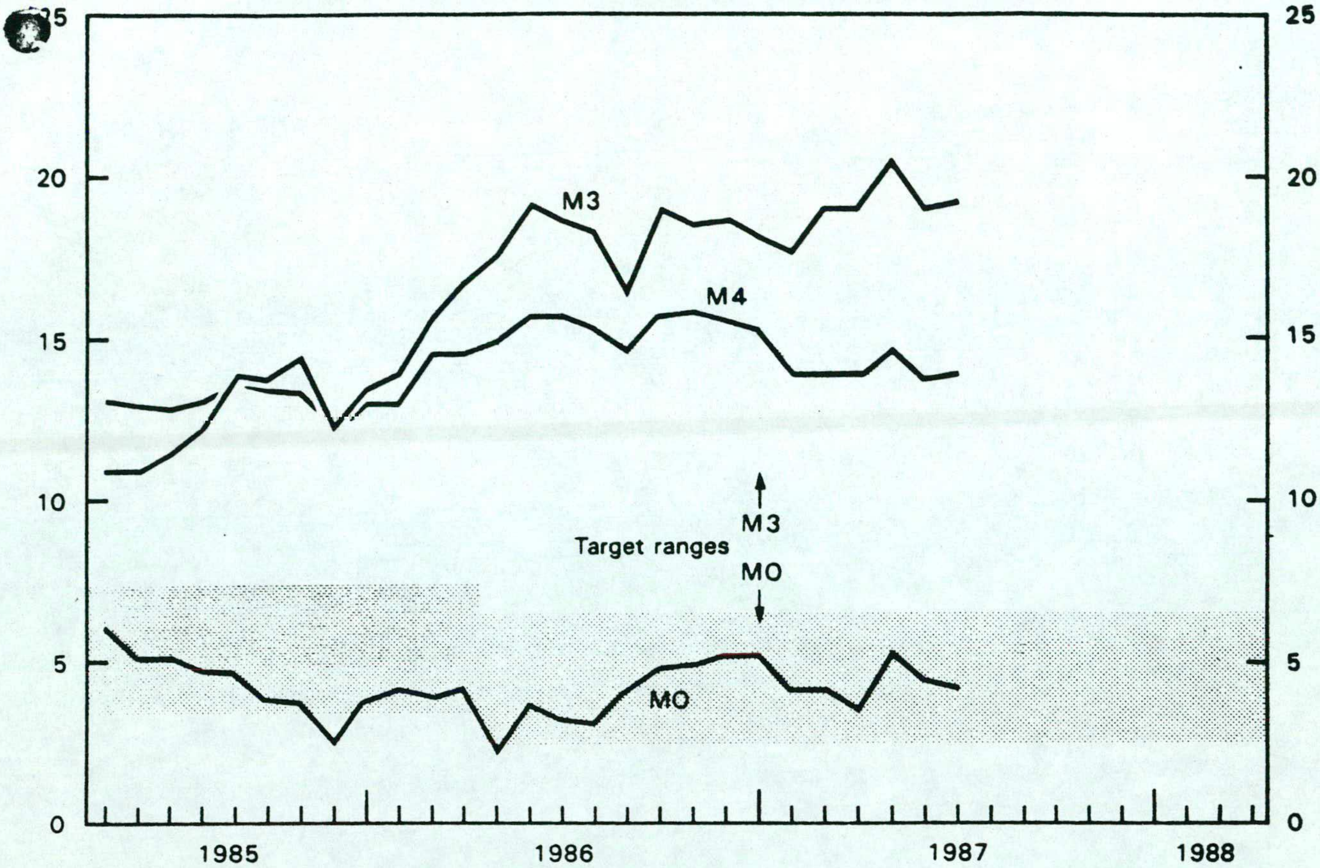


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CHART 7

Exports and Imports (excluding oil and erratics[1])

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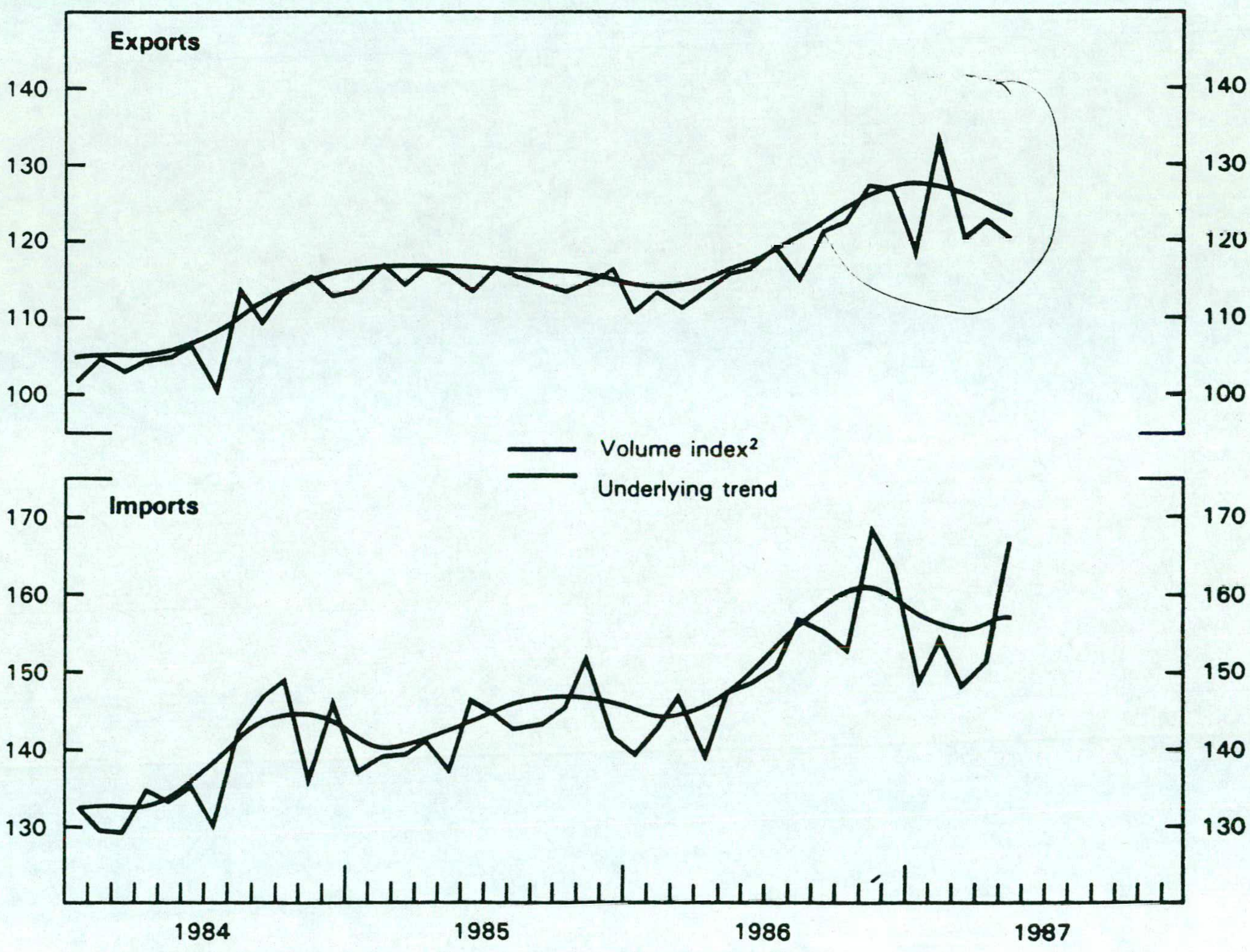
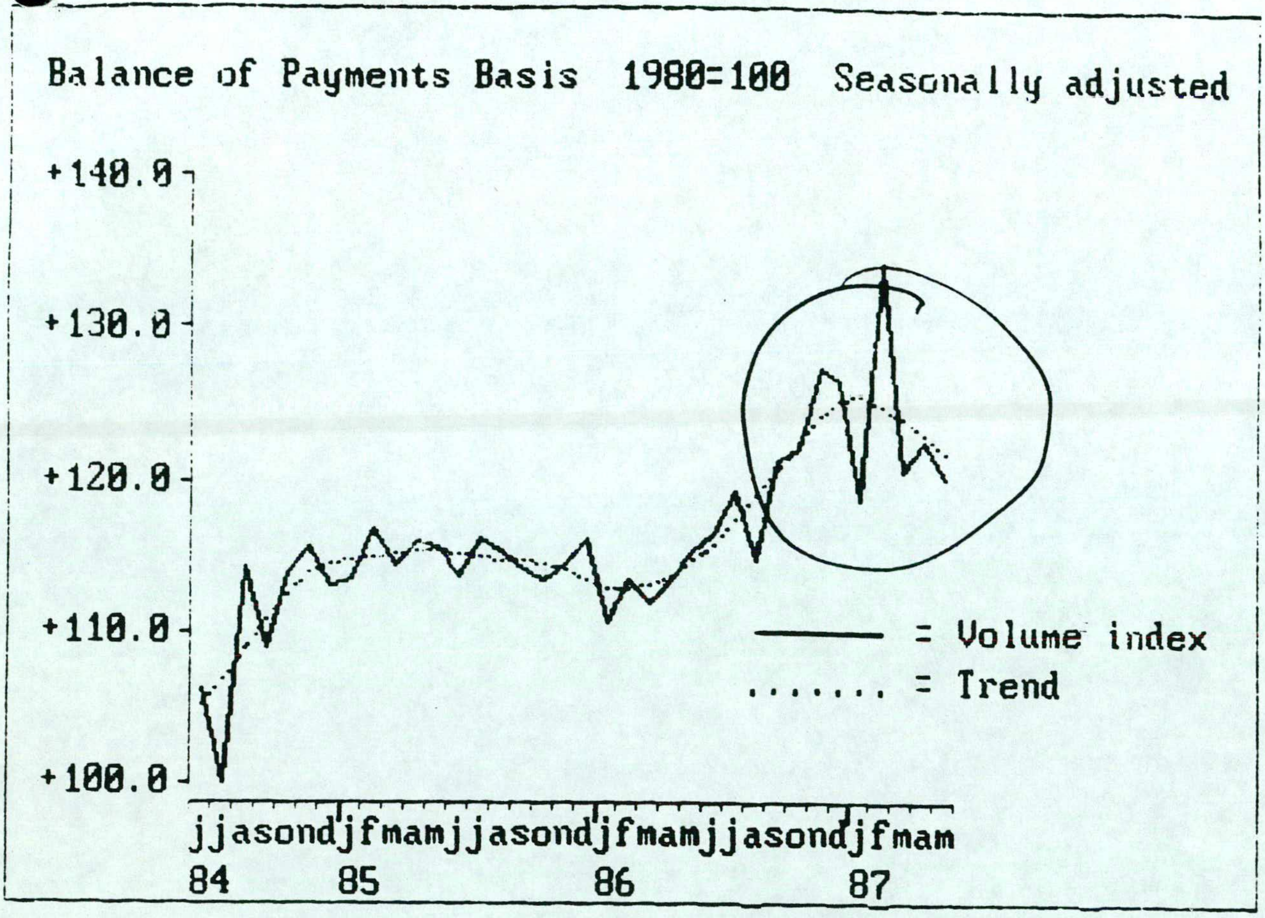


1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis

EXPORTS LESS OIL & ERRATICS



SECRET AND PERSONL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

Ch

! even allowing for different scale CSO draw different trend line to DTI (see DTI chart at bottom of bundle)

AA

Well spotted. Strong further argument for abolishing published trend lines, & leave ~~[illegible]~~ statements [illegible] [illegible] [illegible].

CONFIDENTIAL

A2[illegible]1

COPY NO 86

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 28 July 1987

Visible trade showed a deficit of £1.2 billion in May compared with a deficit of £0.5 billion in April. It is too early to assess whether the larger deficit in May is indicative of a change in the underlying level or an erratic movement.

Current indications are that GDP for the second quarter of 1987 will be $\frac{1}{2}$ per cent higher than in the first quarter. Our assessment of the current underlying trend in GDP remains in the range $2\frac{1}{2}$ - $4\frac{1}{2}$ per cent per annum.

The level of producer input prices (seasonally adjusted) rose by almost 2 per cent between May and June, the largest increase since June 1981. The twelve month increase is now 4 per cent, although prices remain $9\frac{1}{2}$ per cent below their March 1985 peak.

Sterling closed towards the end of July at around $72\frac{1}{2}$ in effective terms, little changed from the beginning of the month, having peaked at $73\frac{1}{2}$ on 16/17 July. US and UK trade figures in the second half of the month did not appear to have any appreciable impact on the index.

The underlying increase in average weekly earnings, in the year to May was about $7\frac{3}{4}$ per cent, which is the same as for the year to April, but higher than for previous months this year. The continued higher level of the underlying increase is a reflection of the teachers' settlement as well as increased activity in the economy.

The annual rate of inflation, as measured by the Retail Prices Index, rose in June back to its April level of 4.2 per cent, having fallen slightly to 4.1 per cent in May. The rate is expected to rise further to around $4\frac{1}{2}$ per cent in July.

Seasonally adjusted adult unemployment fell again between May and June, by 27,000, maintaining the sharp downward trend. It has now fallen for 12 months running with the result that unemployment is now nearly 300,000 lower than in June 1986, the largest fall on record for a 12 month period. Revised tests of availability and Restart have had a major influence, but an increasing proportion of the fall appears to be attributable to the strength of the economy. Employment rose strongly in the first quarter of 1987; it has now risen in every quarter in the last four years.

Readers are advised that there will be no Monthly Economic Brief prepared in August; the next circulation will be at the end of September.

CONFIDENTIAL

RECENT RATES OF CHANGE AND ASSESSMENT OF CURRENT TREND FOR SOME KEY ECONOMIC INDICATORS

In the following notes, the figures for current trend represent our best assessment of the current underlying rate of increase after making allowance for temporary distorting factors such as strikes, unseasonal weather effects, etc. The figures show how the series are moving currently and may be different from the comparisons over the latest published twelve months.

GDP (average measure) in the first quarter of 1987 was $3\frac{1}{2}$ per cent higher than in the same period a year ago. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the second quarter of 1987 is that the rate of increase lies in the range $2\frac{1}{2}$-$4\frac{1}{2}$ per cent per annum.

Industrial production in the three months to May 1987 was $2\frac{1}{2}$ per cent higher than in the same period a year ago; manufacturing output was $4\frac{1}{2}$ per cent higher. The assessment of current underlying trend for industrial production is that the rate of change lies in the range 2-5 per cent per annum at present. The current underlying trend in manufacturing output is in the range 3-6 per cent per annum.

Retail prices rose by a little over 4 per cent in the twelve months to June 1987. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is around 4 per cent per annum. In the twelve months to June 1987 this series rose $3\frac{1}{2}$ per cent (not published).

Producer input prices showed an increase of almost 2 per cent in seasonally adjusted terms in June. Although they are now 4 per cent higher than at the same time last year, they remain $9\frac{1}{2}$ per cent below their peak in March 1985. A small rise is expected in July.

Average earnings (underlying) in the twelve months to May 1987 rose by $7\frac{3}{4}$ per cent. The current trend is estimated to be $7\frac{1}{2}$-8 per cent per annum.

Unit wage costs in manufacturing in the three months to May rose by 1 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 1-4 per cent per annum.

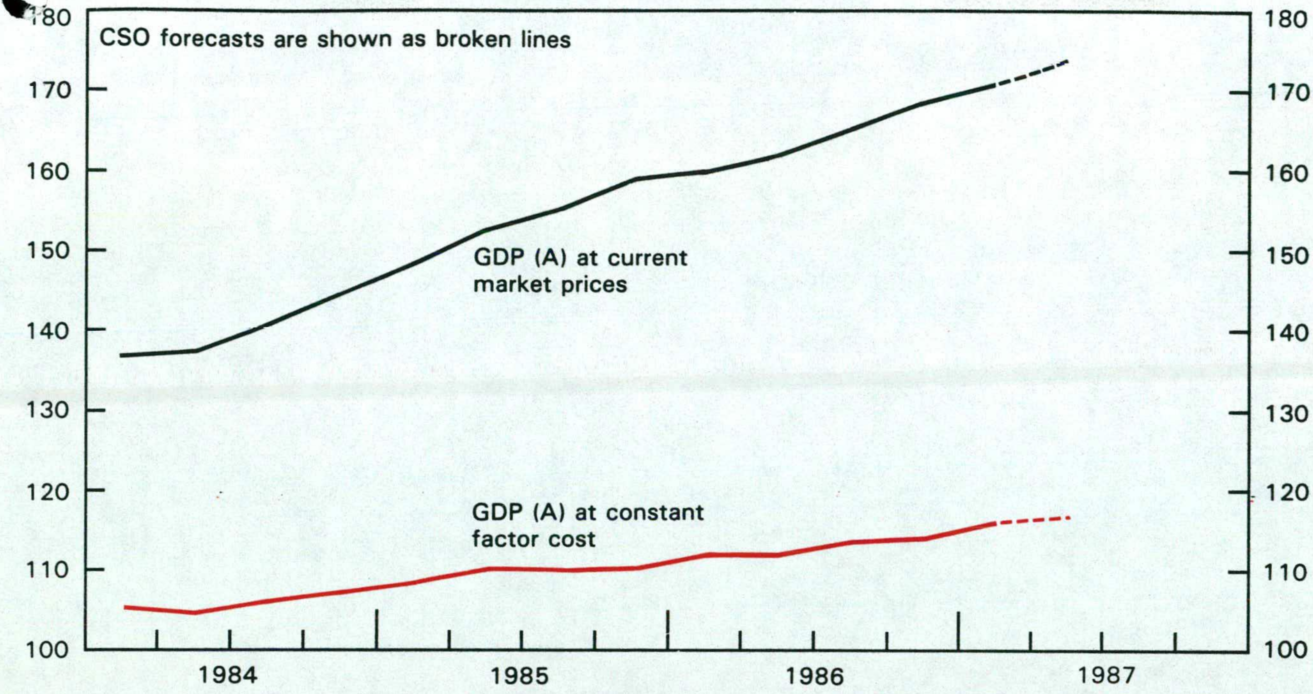
Unemployment (excluding school leavers) in the twelve months to June has fallen on average by nearly 24,000 per month. Over the past 6 months there has been an average fall of over 32,000 per month.

Movements over the latest published 12 months include any revisions that may have occurred since last publication (in general any such differences only occur in the GDP series).

CHART 1A

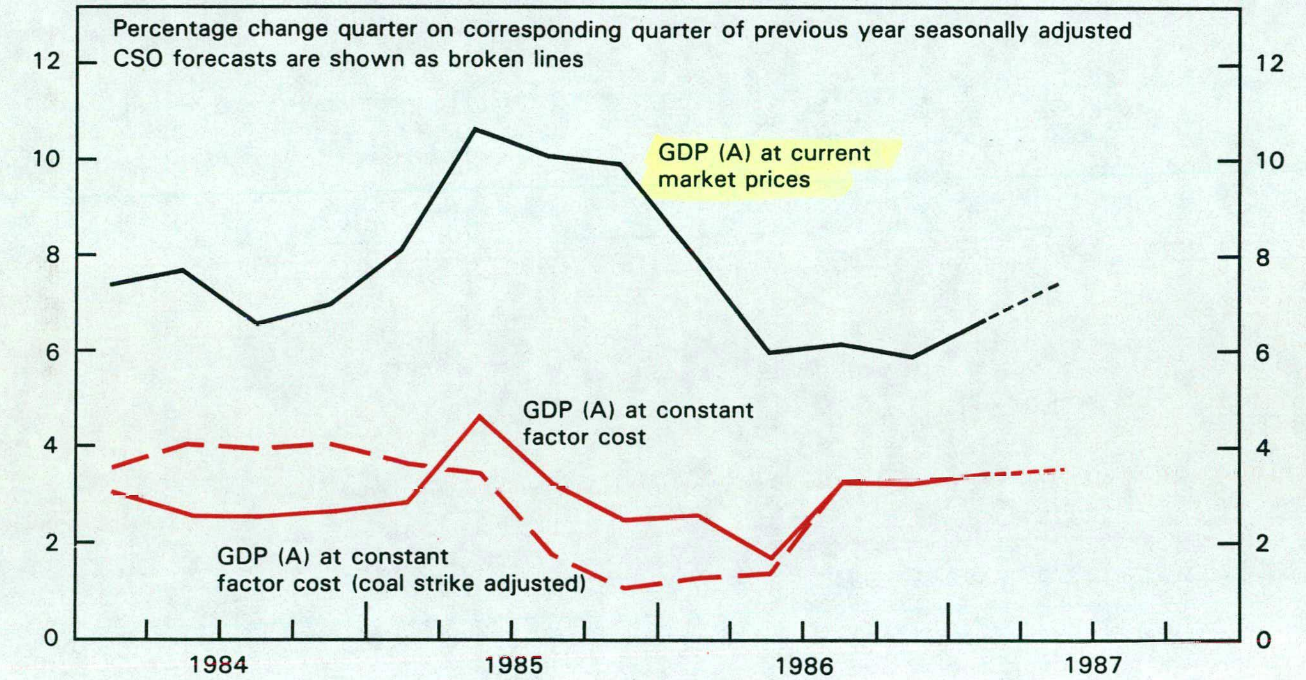
Gross domestic product (average measure)

1980 = 100, seasonally adjusted



Gross domestic product (average measure)

CHART 1B



Changes in unemployment

CHART 2

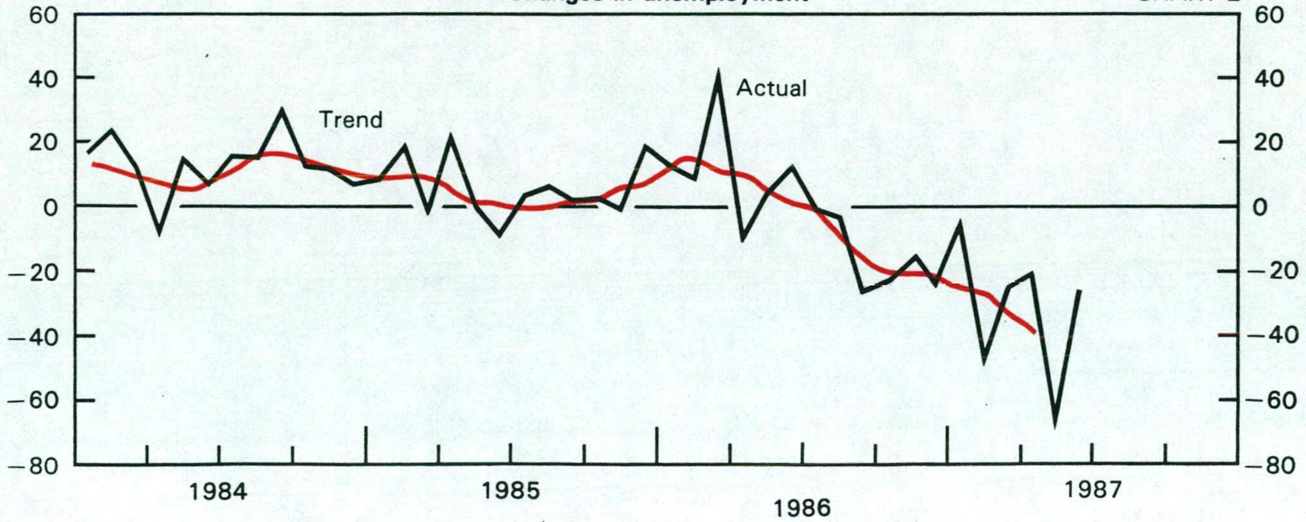
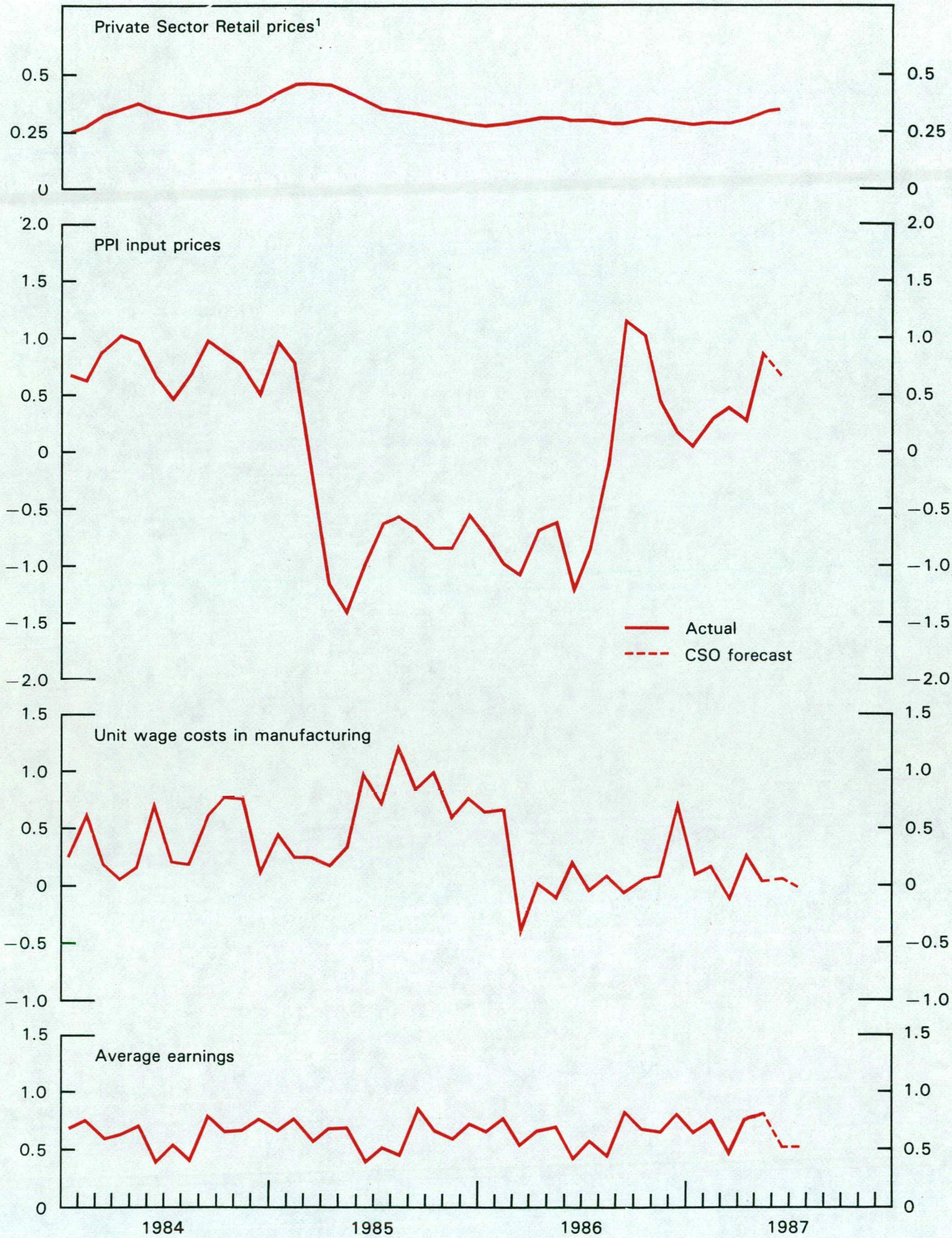


CHART 3

Rate of increase in average earnings, unit wage cost in manufacturing PPI input prices and Private sector retail prices

Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



1. Excludes seasonal food, mortgage interest, rent, rates and water charges motor vehicle licences, products produced by Nationalised industries and petrol.

CHART 4

Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

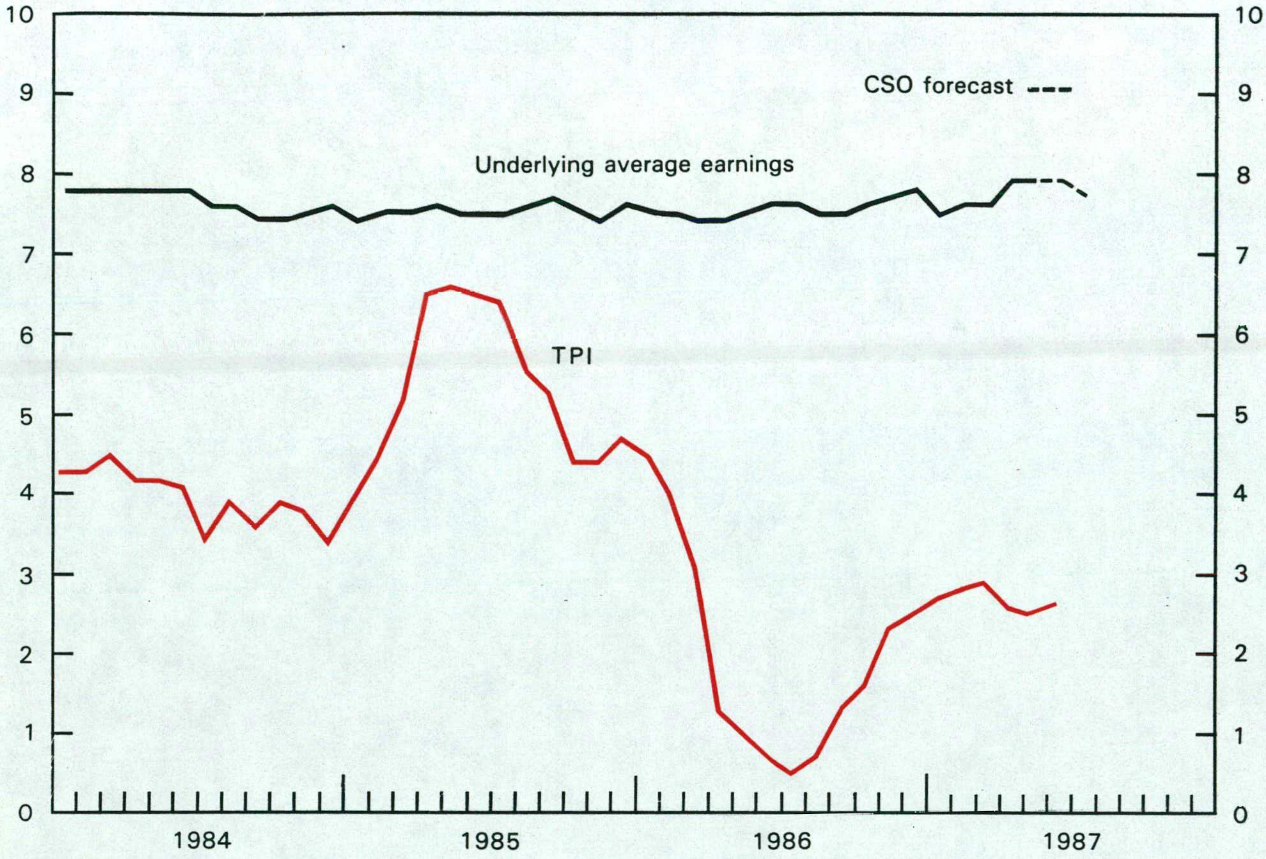


CHART 5

Interest rates

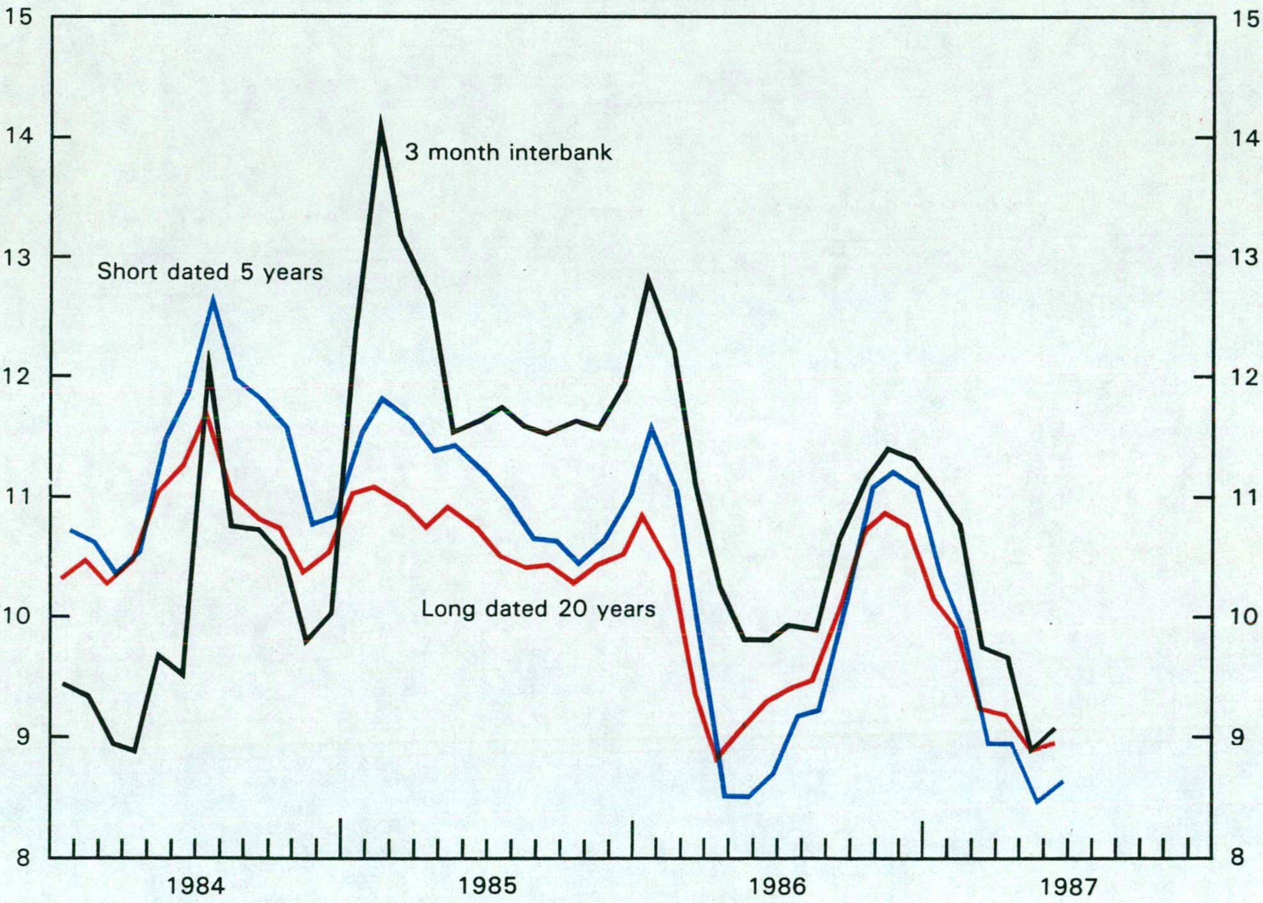
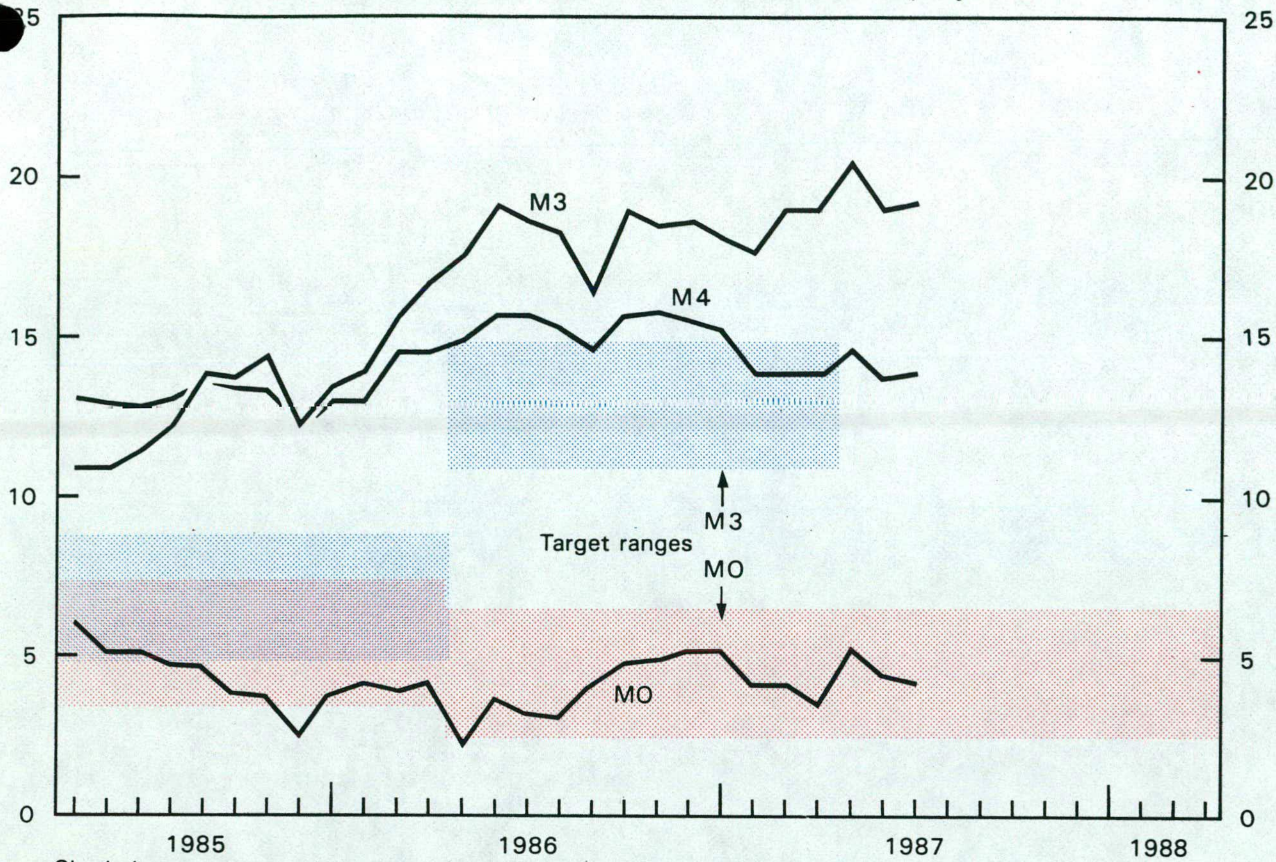


CHART 6

Monetary aggregates

Percentage change on previous 12 months (not seasonally adjusted)

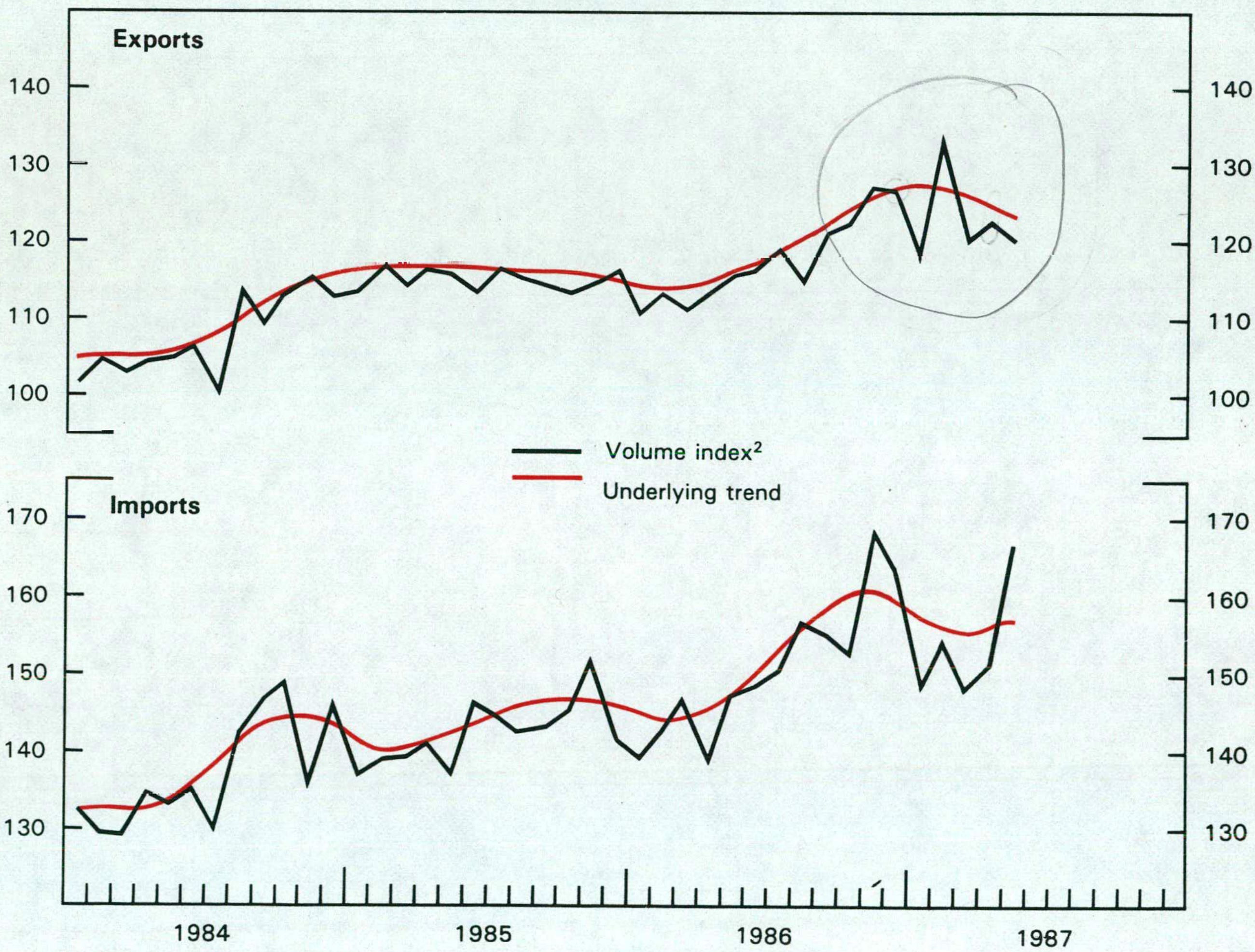


Shaded areas represent announced target ranges

CHART 7

Exports and Imports (excluding oil and erratics[1])

Index 1980 = 100



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis

SECRET AND PERSONAL

FROM: D W OWEN

DATE: 15 July 1987

1. SIR T BURNS
2. CHANCELLOR

Nigel

cc: Sir P Middleton
Mr Sedgwick
Mr Bottrill
Mr Barrell
Mr Davis

OVERSEAS TRADE STATISTICS FOR MAY 1987: EXPORTS

You asked whether the recent fall in the trend line in the DTI chart of monthly exports less oil and erratics was a fair representation of the underlying trend (Mrs Ryding's note to Sir T Burns, 14 July, attached). Sir T Burns has asked me to reply.

2. The trend line shown in the chart is calculated using a standard formula which removes most of the very short term fluctuations in the monthly data. The trend can however be distorted by very erratic observations such as those which might occur during a strike or during bad weather. In such a situation DTI make adjustments to the trend to remove the distortion. Although the January and February export figures this year were affected by bad weather they are not thought to be significantly distorting the trend and consequently no adjustments have been made.

3. Another factor which might distort the trend is any emerging seasonal pattern not fully removed by the seasonal adjustment procedure used by DTI. We suspect that the published export figures <u>may</u> be seasonally high in the fourth quarter and low in the first quarter, but we have not found conclusive statistical evidence to demonstrate this yet. We are however urgently investigating it.

4. In recent months the trend line has however been affected by movements in exports of certain categories of non manufactures which, although temporary, were sustained for several months:

(i) as a result of the fall in sterling last Autumn it became profitable to exploit a loophole in EC law by importing olive oil into the UK from Spain, and then re-exporting it to Italy. UK exports of olive oil rose sharply in the fourth quarter of 1986, remained high in the early months of 1987 but have now disappeared.

(ii) exports of non monetary gold were also high at the end of 1986 and the beginning of 1987 but have now fallen away.

(iii) exports of food (grain) were high in the last four months of 1986 reflecting the disposal of surplus stocks by IBAP, but this has abated in 1987.

5. The first two of these were offset by higher imports and consequently had no effect on the current account. But all the factors tended to raise temporarily the export trend line at the end of 1986. Consequently some decline in the trend line in early 1987 was not unexpected: the attached chart 1 shows that this was anticipated in the Budget forecast.

6. In view of these changes in exports of non manufactures, perhaps a better guide to the underlying trend is provided by examining the path of exports of manufactures (excluding erratics). The attached chart 2 shows the DTI trend line for manufactures, calculated in the same way as for total non oil exports. The trend line still falls in early 1987, but by considerably less than for the total.

7. The conclusion seems to be that the DTI trend line for non oil exports may overstate the underlying level of exports at the end of 1986 and, consequently, may overstate the fall since then. Nevertheless manufacturing export volumes have been a little weaker than we were expecting at Budget time and it is hard to deny that there has been at least a small fall in the underlying trend.

David Owen

D W OWEN

EA2

Chart 1

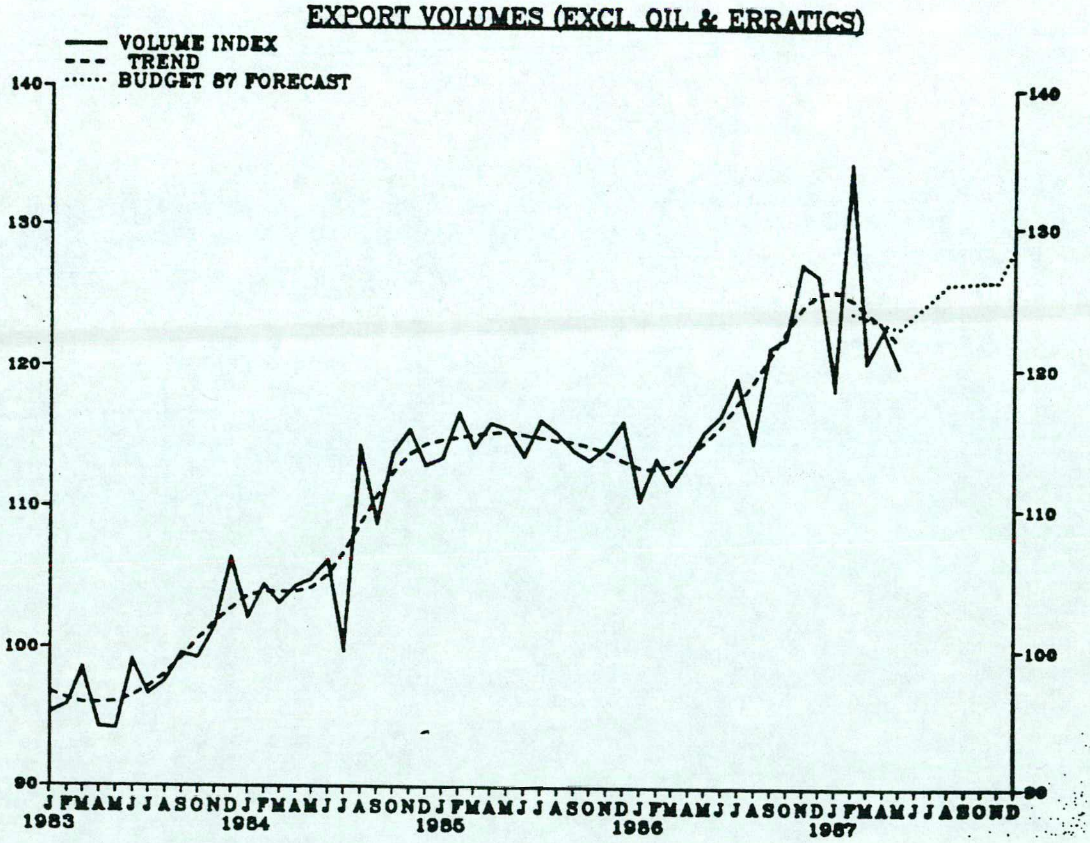
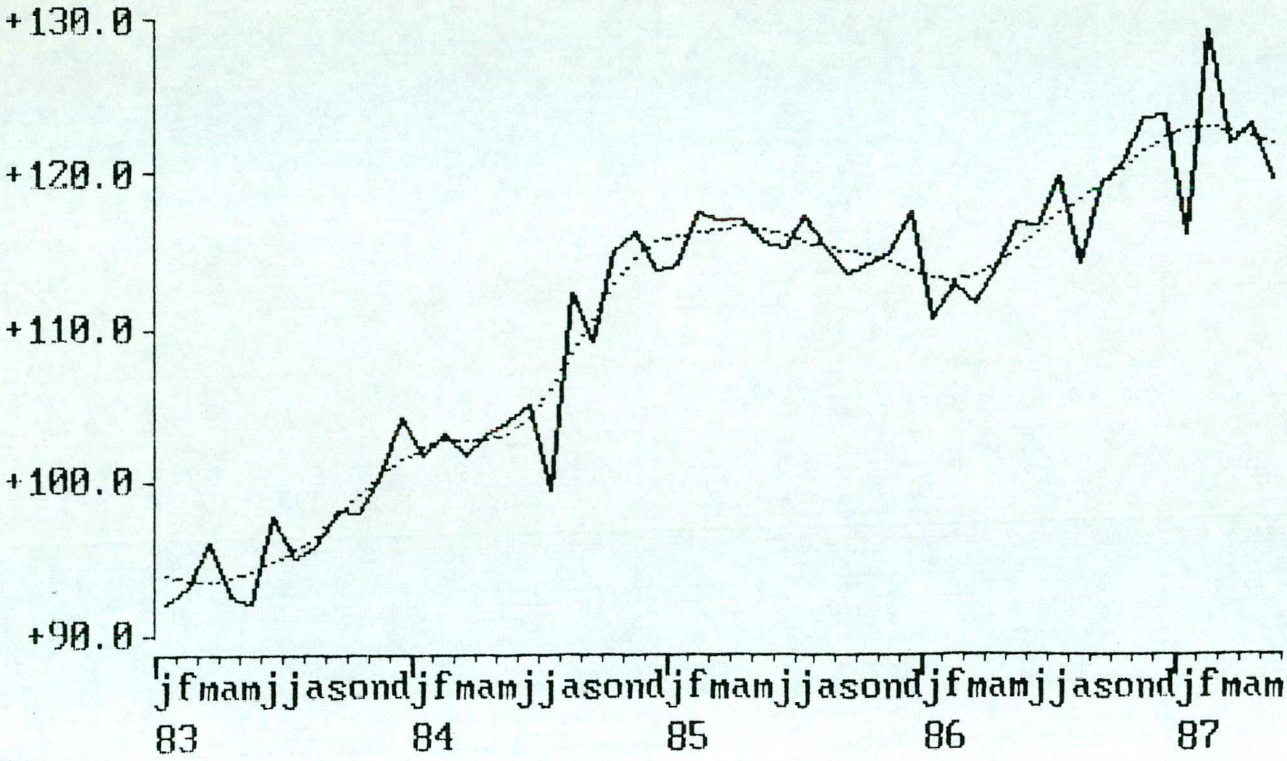


Chart 2

EXPORT VOLUME SA

MANUFACTURES LESS ERRATICS



RC2.23

SECRET AND PERSONAL

FROM: CATHY RYDING
DATE: 14 July 1987

SIR T BURNS

cc Mr D Owen

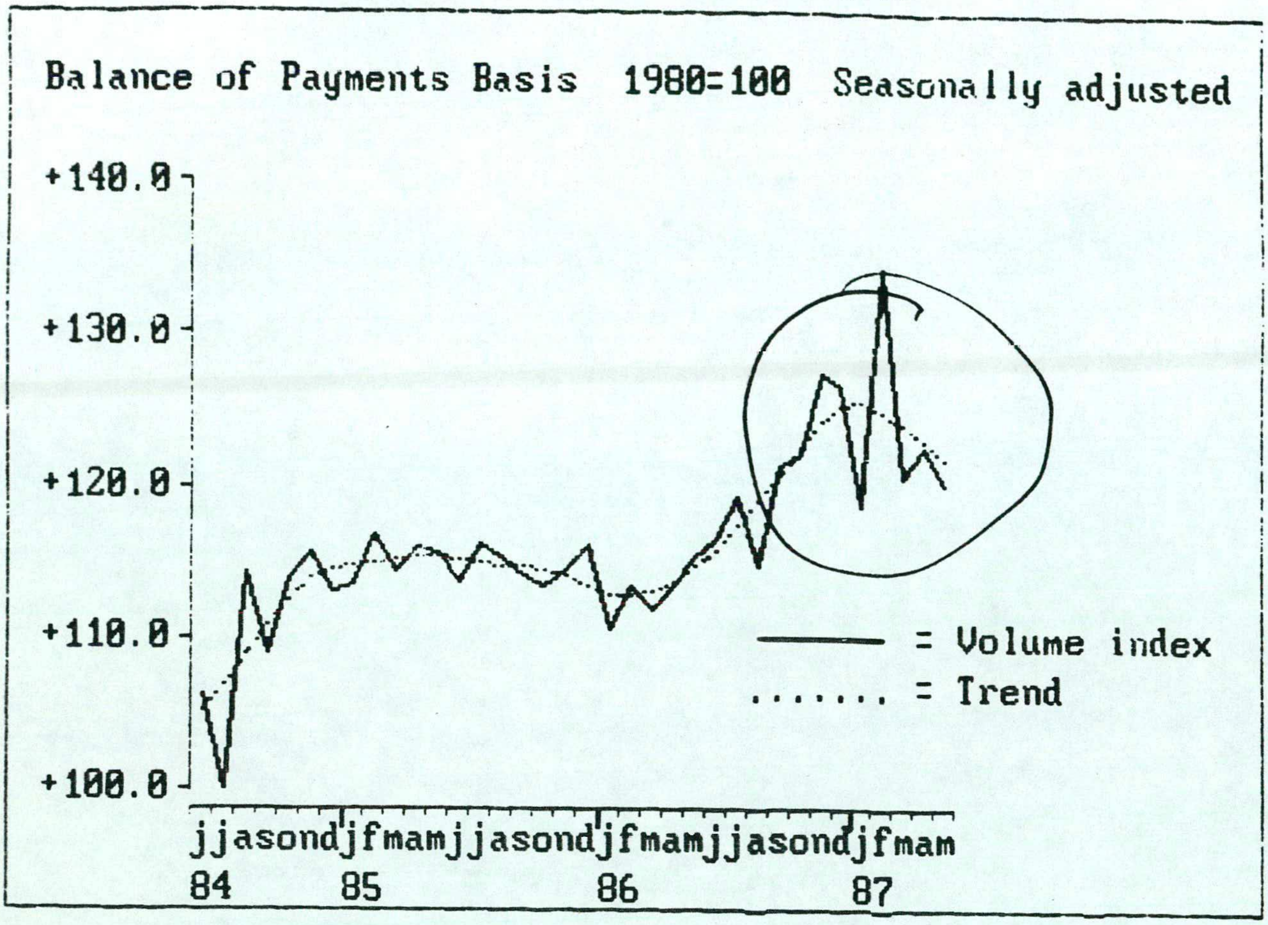
OVERSEAS TRADE FIGURES FOR MAY 1987: EXPORTS

I attach a chart showing exports less oil and erratics. The Chancellor would be grateful to know whether you consider the trend line that he has ringed genuine or the product of off-beat statistical adjustments.

CR

CATHY RYDING

EXPORTS LESS OIL & ERRATICS



SECRET AND PERSONL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

RC2.23

SECRET AND PERSONAL

ND

BIF ~~AS~~ ~~17/7~~ 20/7.

FROM: CATHY RYDING
DATE: 14 July 1987

SIR T BURNS

cc Mr D Owen

OVERSEAS TRADE FIGURES FOR MAY 1987: EXPORTS

I attach a chart showing exports less oil and erratics. The Chancellor would be grateful to know whether you consider the trend line that he has ringed genuine or the product of off-beat statistical adjustments.

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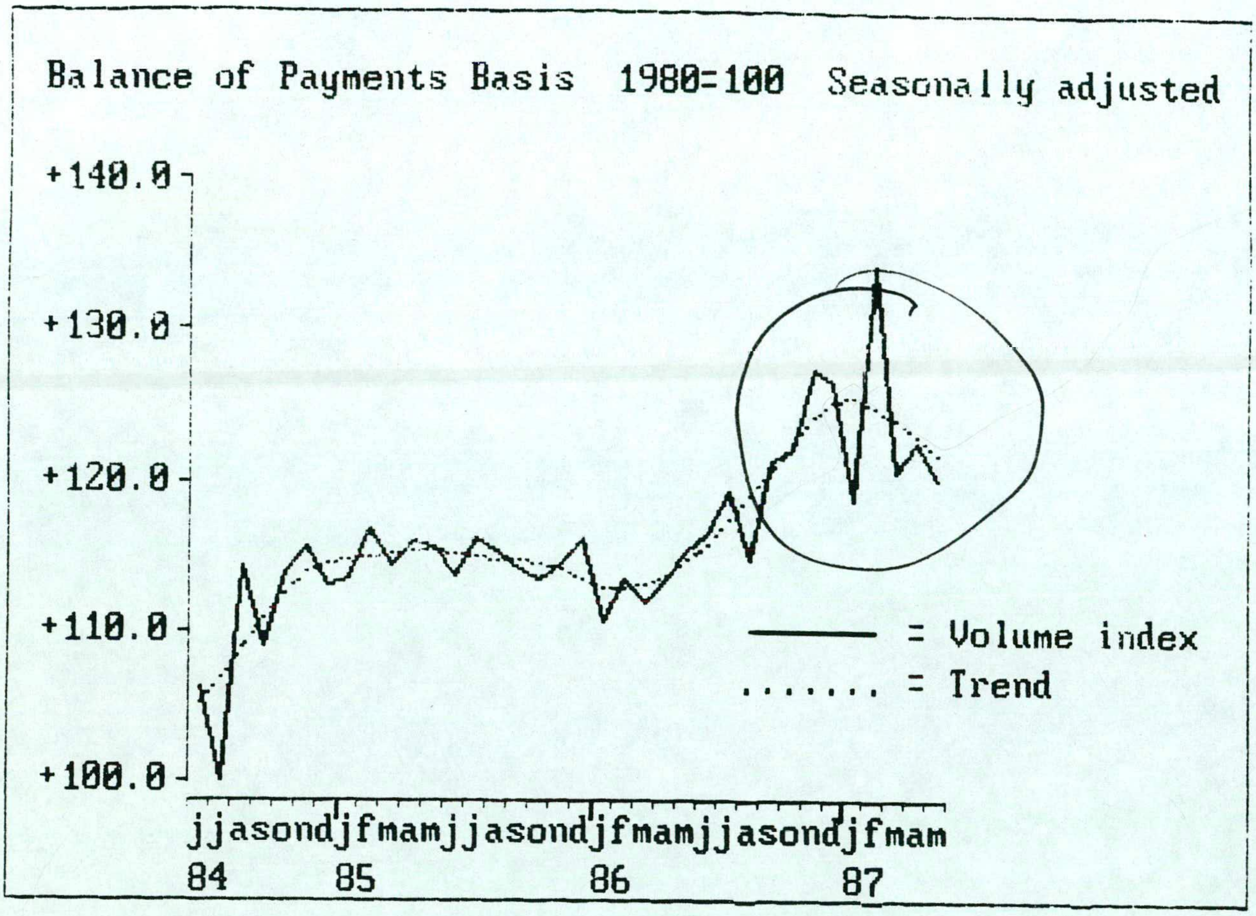
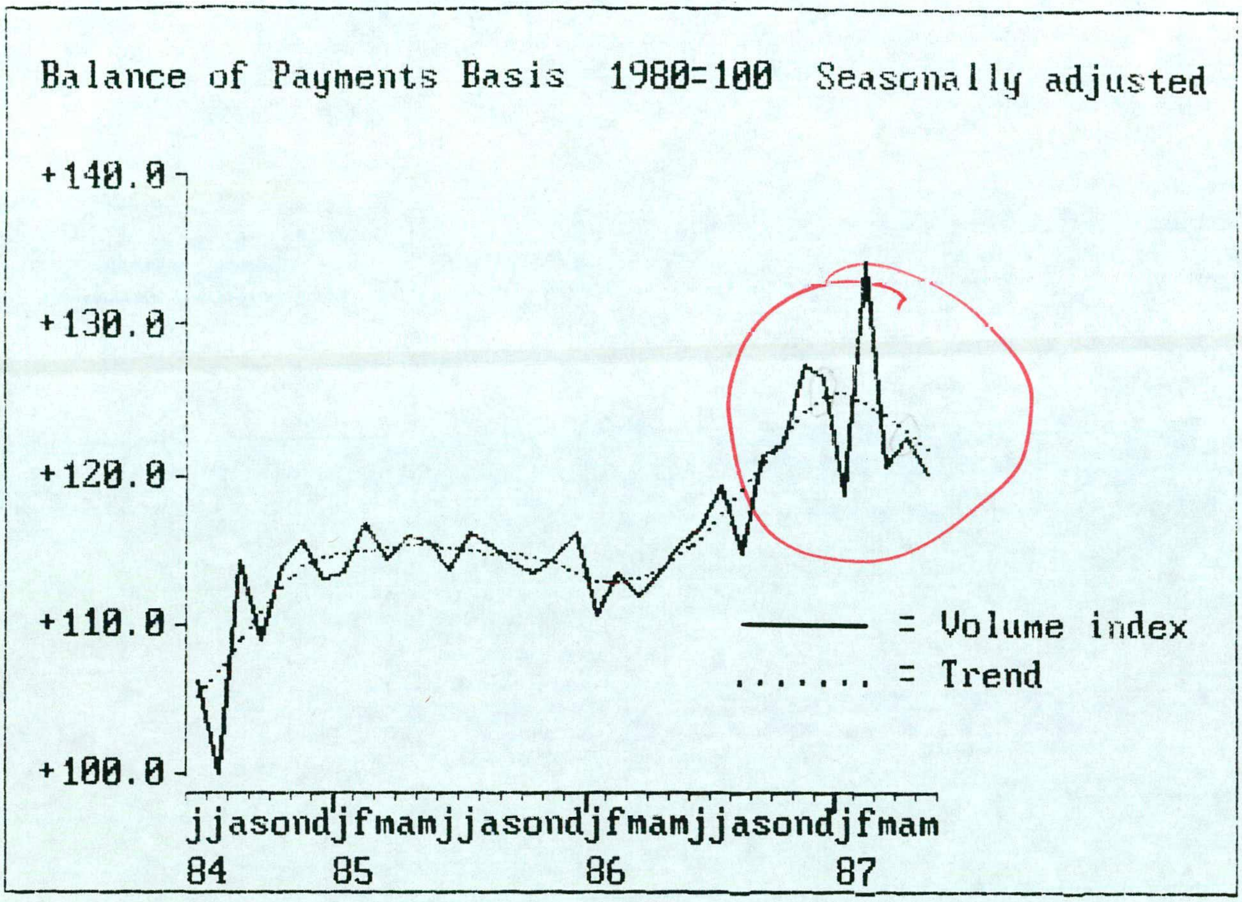
EXPORTS LESS OIL & ERRATICS



SECRET AND PERSONL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

EXPORTS LESS OIL & ERRATICS



SECRET AND PERSONL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

3760/031

CONFIDENTIAL

BARNES TO PS/CH 30 July

FROM: P D P BARNES
DATE: 30 July 1987

PS/Chancellor

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Jenkins Parly Counsel

PS/IR

I await [illegible] comments + advice. [illegible] I am inclined to agree with X [illegible] conversation [illegible] relevant. NL

COVENANTS AND MAINTENANCE

The Economic Secretary has seen Mr Isaac's submission of 24 July, and your minute of 27 July.

2. The Economic Secretary thinks that we would have to enter this minefield if we introduced Independent Taxation. However, the narrowly targeted solution, which Mr Isaac mentions in his paragraph 3, would leave us in the untenable position of introducing new penalties on marriage.

3. The proposed "MIRAS" style solution for student covenants would involve introducing a new allowance, which will fit oddly in a budget designed to simplyfy and scrap unnecessary allowances. He thinks we may simply have to stomach converting a tax expense into public expenditure.

X

4. Whether we do this or not, the Economic Secretary thinks that we need to know how many parents who could covenant to student offspring do not do so at present. He thinks that converting to either a MIRAS allowance or a minimum grant could cost appreciably more than the present revenue foregone on student covenants.

5. Overall, the Economic Secretary thinks that the proposals are beautifully elegant, but that this is unlikely to be appreciated by those affected by them. Even if no one loses, the Economic

CONFIDENTIAL

Secretary thinks that all those dependent on maintenance or covenants will be very apprehensive about changes of this sort.

PB

P D P BARNES
Private Secretary

UNCLASSIFIED

FROM: J WILLIAMS
DATE: 31 July 1987

MR C C FINLINSON

OVERSEAS TRADE STATISTICS

The Chancellor has seen and was grateful for your minute of 30 July.

J WILLIAMS

H. M. CUSTOMS AND EXCISE
STATISTICAL OFFICE
PORTCULLIS HOUSE, 27 VICTORIA AVENUE, SOUTHEND ON SEA
ESSEX SS2 6AL
TELEPHONE: 0702 36 7155

CONFIDENTIAL

FROM: C C FINLINSON
DATE: 30 July 1987

CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Paymaster General
Sir Peter Middleton
Mr Bottrill
Mr Cropper
Mr Tyrie
Mr Hibbert - CSO
Mr Liesner - DTI
Mr Stibbard - DTI
Mr Boyd - DTI

Julian

OVERSEAS TRADE STATISTICS

You will wish to know that we have made detailed enquiries at all locations where there was industrial action in April, May or June which might have affected the processing of import or export entries, and thus affected the capture of data for trade statistics purposes. The result of those enquiries, which we must emphasise are still only estimates with a margin of error of perhaps some 20%, can be summarised as follows.

Internal Distribution: CPS
Mr Knox
Mr Nash
Mr Weston
Mr Harris

SO 100/SM/87
SO 100/21
SO 104/25

	April Account	May Account	(£m)
Understatement of Export Values	32	57	
Understatement of Import Values	64	23	
Net Balance	-32	34	

Although not available at the time the figures above reinforce the statement in the briefing note for May from DTI officials of 16 July following Customs and Excise advice that industrial action at the ports and at our computer centre had a minimal effect on the figures for May.

For the June and July trade statistics accounts we estimate, with the same level of accuracy, that the figures we shall supply to DTI will be understated as follows.

	June Account	July Account	(£m)
Understatement of Export Values	72	47	
Understatement of Import Values	35	–	
Net Balance	37	47	

Within the next 24 hours you will receive a copy of the usual monthly briefing note concerning exports for June 1987 prepared by DTI officials. The figures in that briefing will include a special allowance for the value of exports not included in the detailed Customs statistics for June. The adjustment and also one for imports will be included in the joint DTI/CSO press notice to be published on 11 August. In addition the figures of imports and exports for April and May will be revised in that press notice and the reasons for the revisions will be explained.

Corresponding adjustments, but only affecting exports, will be made in the briefing and press notice on the July figures. The July figures are currently scheduled to be published in the week commencing 31 August.

We are not yet able to give a confident prediction of when the missing import and export data will be brought to account, but as soon as we are able to do so we will confirm the actual values and provide the appropriate briefing. When this information is available DTI will be able to refine the first estimates of the adjustments needed to the April, May, June and July trade figures. When the missing data is fully processed it will be reflected in the very detailed figures published in the "Overseas Trade Statistics of the United Kingdom" for the month in which the data is processed and in the cumulative year to date figures. The DTI will make an off setting adjustment to the figures which we supply to them for that month.

Colin C Finlinson

C C FINLINSON

3973/13

CONFIDENTIAL

FROM: P J CROPPER
DATE: 31 July 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Tyrie
Mr Jenkins - Parl Counsel
Mr Isaac IR
PS/IR

COVENANTS AND MAINTENANCE

You invited comments on Mr Isaac's and Mr Stewart's papers of 24 July.

2. Covenants must clearly be retained for charitable giving, because only last year we embodied them in what we intend to be a permanent set of arrangements at the interface of charity and the tax system. Covenants may also need to be retained for the disabled, although less clearly so.

3. For the rest, my feeling is that the covenant system is a piece of legal mumbo jumbo, which served a very valuable purpose as a loophole through which the system could breathe when rates of tax were at confiscatory levels, but which looks increasingly unattractive as income tax rates come down to what people might begin to accept as "reasonable".

4. The grandparent's covenant for the benefit of the grandchild is almost impossible to justify in any fundamental review of the personal tax system. Why should grandparents be able to do what parents cannot? Grandparents would still be able to assist generously with their grandchildren's education out of income taxed at 25 per cent and xx per cent, if they wanted to.

CROPPER TO CH/EX 31 JULY

5. The parent's covenant in favour of the student son or daughter seems just slightly less anomalous because it fits in with the fact that people over 18 are classed as adults for most other purposes and they have a personal tax allowance which their contemporaries at work are able to make normal use of. But the student covenant is still a very convoluted and selective arrangement, which gives the youngster of better off parents a deplorable first introduction to the art of tax avoidance.

6. Myself, I start from a very strong pre-disposition in favour of a full maintenance payment by the State to all full time young students who have earned places in further education on merit. I do not think parents should be called on for a contribution, means tested or otherwise. Be that as it may. My second preference would be a general system of student loans, but we do not look like arriving at that, either, in the immediate future. It therefore looks very sensible to explore further the mechanics of a MIRAS-type solution as outlined in the Isaac/Stewart paper. It would need fewer staff and it would appear less flagrant as a tax avoidance device. It would probably, also, solve the so-called Cropper problem, where the student on a full local authority grant is free to set his or her personal allowance against vacation earnings while the student receiving a covenanted parental contribution has to use up his or her personal allowance on that and is fully taxed on vacation earnings.

7. Covenants between husband and wife clearly have to be blocked under a system of independent taxation. Covenants between co-habiting unmarried people must surely go the same way. Is there any case for retaining tax relief on inter-personal covenants at all?

8. Maintenance payments on divorce and separation present great difficulty. Where there are no children to be supported I cannot see any convincing argument for differentiating between the tax treatment of payments to the former wife

and payments to the current wife. Tax neutrality would seem to be right, although I can see the practical case for retaining a limited relief for the husband equal to the difference between single and married allowances (£1,370 at present). I cannot see any logical case for going higher: certainly not for unlimited relief for the husband on his transfers to a former wife.

9. The children of a divorced couple present much greater difficulty. There may be a case for regularising "Sherdley" and enabling all the children of a broken marriage to make use of their personal income tax allowances against payments made by the father. But I cannot see any logical grounds for treating those children more favourably for tax purposes than one treats the children of a non-broken marriage. Children in general are not going to have a personal tax allowance to set against income from their parents.

10. Strong emotions will be aroused over the treatment of divorce, maintenance etc. It is important to remember that nobody is stopping divorced people making payments to each other and to their children. The only question is whether they should get tax relief on such payments. The actual rates of tax are crucial: 25 per cent and xx per cent are very different from what we had not so long ago, ie 35 per cent, with higher rates (even on earned income) stretching up to 83 per cent. What was necessary in 1975 may not be necessary now.

11. I feel that the onus of proof is on those who would preserve any of these covenant and maintenace tax reliefs, with all their administrative complexity and mumbo jumbo. We have an unrepeatable opportunity to get rid of most of them.

P J CROPPER

FROM: J P MCINTYRE
DATE: 31 JULY 1987

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Miss Peirson
Mr Gibson
Mr Macpherson

SOCIAL SECURITY: MEDIUM TERM OPTIONS: FLEXIBLE RETIREMENT AGE

At your meeting on 16 July, you asked for some further work to be done on a flexible retirement age. In particular, you wanted to know about arrangements in other countries and about the current position of women who retire later than 60.

2. I attach a note by Mr Macpherson which answers these questions.

3. The note also considers the parameters likely to be necessary to generate short term public expenditure savings from a flexible retirement scheme. The conclusion is that, in order to produce savings and assuming a decade of retirement between 60 and 70, we would need to delay payment of the full basic pension until age 67 for both men and women <u>and</u> to abate the pension by 8 per cent a year for those opting to retire earlier. Even then, we could not be certain of achieving savings if many more people chose to retire early than we expected.

4. If proposals on these lines were adopted, there would no doubt be some phasing in. But the ultimate effect would be to cut the single man's pension at age 65 by £6.30 a week to £33.20, on current rates. Single women retiring at 60 would lose £22.10 a week, with their pension reduced to £17.40.

5. We have sounded out DHSS officials on the work being done on flexibility in their Department. They remain coy and have not invited any further Treasury involvement (so far, we have been asked only about the economic assumptions to be used in their

work). As far as we know, they are planning to put a paper to their Ministers around the end of the year. Unless we press them further, I suspect we shall hear no more about it from DHSS until after their Ministers have looked at this work.

JPM

J P MCINTYRE

FLEXIBLE RETIREMENT

Position of Women who retire later than 60

Women (and men) who currently work on beyond retirement age earn an increment on their pension of 7½ per cent for each additional year worked. Increments can only be earned up to the age of 65 for women and 70 for men, after which the maximum retirement pension is paid regardless of whether the individual is working. The increment is not compounded: the maximum pension payable to a woman retiring at 65 is therefore 37.5% higher than the maximum available to a woman retiring at 60 and a man retiring at 65.

2. Implicit in all DHSS retirement age equalisation proposals, hitherto, has been the assumption of pension equality. If retirement age was equalised at 63, for example, a single woman retiring at that age would receive less than she would at present (£39.50 per week, at current benefit levels, as opposed to £48.40); she would lose three 7½ per cent increments. On the other hand, a man who worked on to 65 would do better than under the current system, because he would gain two increments.

Retirement ages in other countries

3. The attached table shows retirement ages in a number of other major countries. Only the United States and Japan have given serious thought to raising the age of retirement in recent years. In the United States, retirement age (on basic pension) for both men and women is to rise from 65 to 67, the change being phased in between 2000 and 2007. The minimum retirement age of 62 will remain, but the pension available at that age will be reduced from 80% of the basic pension to 70%.

4. Japan has so far confined itself to raising the retirement age for women from 55 to 60 in the earnings related pension scheme (Koosei), which covers employees in medium and large sized companies. This will bring them into line with men. The change

is being phased in over a long period and will not be complete until 2000. Further rises in the retirement age are under consideration. The dual pension system's other scheme (Kokumin), which provides flat rate pensions to those not covered by the earnings related schemes, already has a retirement age of 65, and there is a strong possibility that the Koosei scheme will be brought into line. However, the recent rise in unemployment in Japan has made retirement age a sensitive issue.

5. Austria and Belgium's structure is the same as the UK; otherwise, retirement age equality is the rule. An increasing number of countries have a degree of flexibility; for example, Canada has this year implemented a decade of retirement (with appropriate actuarial adjustment) for their earnings related scheme.

DHSS plans and possible savings

6. DHSS plans remain unclear, but the most likely proposal would appear to be a decade of retirement between 60 and 70 with full pension available to men and women at 63 and abatement of around 7% pa. This is likely to have a short term cost in the region of £2 billion pa, falling to around £1 billion pa after twenty five years.

7. Any flexible retirement scheme, which enables people to retire earlier than they do at present, is likely to have short term costs. This is because on implementation there will be a once and for all step increase in retirement pension expenditure as those who want to retire early choose to do so. Of course, they will be entitled to lower pensions as a result, but the saving on the lower pension only outweighs the cost of the added years when they reach their life expectancy, i.e. at around 80 years of age. Savings will be generated on benefits paid to the unemployed, but these are unlikely to offset the short term increase in retirement expenditure. This is because firms may choose not to replace early retirees and even if they do they may replace them with people not on the register. Macroeconomic effects will also reduce the savings on unemployment related

expenditure. Early retirement will reduce the labour supply and push up real wages, thus reducing labour demand and employment.

Y 8. In 1984, DHSS estimated that a decade of retirement from 60 to 70 with full pension available to men and women at 65 and an abatement rate of 8 per cent would have short term costs of £0.7 billion p.a. (1984-85 prices), though savings of £2.2 billion p.a. after twenty five years. This assumed that 10 per cent of each age cohort would retire at 60, rising to 60 per cent by 64. Experience in the US and France, where demand for early retirement outstripped expectations, suggests these assumptions may be on the low side. It would probably be necessary to raise the pivotal age to 67, while leaving the abatement rate unchanged at 8 per cent, to secure short term savings, and even then the outcome would remain open to doubt.

State Retirement age

	Age	Flexibility: Earliest age	Flexibility: Actuarial abatement
Austria	65 (M) 60 (W)	None	
Belgium	65 (M) 60 (W)	60 (M) 55 (W)	5% pa
Canada	65 (M,W)	60 (earnings rel.d)	?
Denmark	67 (M,W)	None	
France	60 (M,W)	55	6% pa
Ireland	65 (M,W)	None	
Germany	65 (M,W)	63 (if 35 year contrib.n record)	None
Japan	65 (M,W) - Kokumin 60 (M) 55 (W)* - Koosei	None None	
Netherlands	65 (M,W)	None	
Spain	65 (M,W)	60	8%pa
Sweden	65 (M,W)	60	6%pa
United States	65 (M,W)**	62	6.6%pa

* Woman's age to rise to 60 by 2000

**State retirement age to rise to 67 by 2007

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SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1P 3AG

31 July 1987

Complete news to me. Check what Nigel knows abt this, & why we are consulting. If so, IR to do at all, it must be on a very rough & ready costing basis, using minimal IR resources. M

Dear Nigel

EFFECTS OF DOMESTIC REVALUATION

As you know, the Prime Minister has asked for an exercise to be carried out which will illustrate the turbulence that might be expected if there were to be a revaluation of domestic rateable values.

IR have never told us?

My officials and yours at the Inland Revenue have been discussing how this might be achieved. Because of the timescale (we are looking for results around mid September) and because resources are stretched at the Inland Revenue - and here - the exercise must necessarily be both limited, and a joint effort. I understand, however, that officials are satisfied that it will be possible to design a survey - along the lines of one which was carried out in 1982 - which will be adequate to meet the Prime Minister's requirements provided we can offer some statistical assistance.

I hope you will be able to agree that we should now put this exercise in hand. My officials are ready to help settle the detailed operational questions which will need answering.

Yours ever
Nicholas

NICHOLAS RIDLEY

Policy. Pls investigate forthwith:

reforms of PRS had had time to bed down. AA

Ch
Did you know about this?
Seems a most unattractive thing to be doing: can reasonably argue that even if we were keeping rates we would not contemplate a revaluation on new rental values until Ridley m

Reference ....

PWP

PUSS OM NO: 826

To:

MR STIBBARD S2

From:

DAVID ROE
PS/PUSS (CCA)
V/717
215 4417

31 July 1987

cc PS/SoS
PS/CDL
PS/Mr Butcher
PS/Chancellor of the Exchequer
PS/Economic Secretary
PS/SBH
Mr Liesner
Mr Harvey S1
Mr Newton CA
Mr Ward BSO
Mr Whiting EC2
Mr Moorey Inf
Mr Richardson S2C
Miss Marson S2C
Ms Partridge Inf
Mr Thomas OFT
Mr Flemming BOE
Mr Bull BOE
Mr Wells CSO
Mr Alexander CSO
Mr Cassell Treasury
Mr Pike Treasury

DTI PRESS NOTICE ON CREDIT BUSINESS STATISTICS

Thank you for your submission of 30 July. Mr Maude is content with the recommendation.

DRoe

DAVID ROE

CODE 18-77

MN4CUR

3/046

CONFIDENTIAL

FROM: R M PERFECT
DATE: 31 July 1987

1. MR POTTER RMP 31/7
2. CHIEF SECRETARY

cc Chancellor
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Hawtin o/r
Mrs Lomax
Mr Turnbull
Miss Noble
Mr C Fletcher
Mr Tyrie

A STOP POWER FOR THE DISTRICT AUDITOR

The Secretary of State for the Environment's letter of 17 July sets out two proposals that are intended to form part of the new prudential regime for local authorities. Mr Hawtin's minute of 8 July (attached top copy only) sets out the background. The Lord President's letter of 23 July supports the first but suggests more consideration needs to be given to the second.

(i) <u>A Stop Power</u>

2. At present, auditors only have powers to question financial transactions and their treatment in the accounts retrospectively. And the penalties the courts can impose - surcharge or disqualification on councillors - can take years to enforce. The Environment Secretary proposes that auditors should be given a stop power to help prevent illegal spending <u>before</u> it happens. The stop power would also cover actions (or inactions) that incurred a loss as a result of wilful misconduct.

3. The proposal is, in principle, welcome. It could usefully add to the armoury of measures to limit or prevent creative accounting. We are, however, not yet convinced that it can be made to work without creating lots of unnecessary work for auditors in the overwhelming majority of law abiding authorities. D/Enviornment officials seem to envisage the auditor relying on new special reports from the local authority Treasurer. This raises problems for the Treasurer which Ministers have yet to consider.

4. But, Mr Ridley is seeking only to secure the drafting of the necessary clauses in the Local Government Bill. We suggest you support him, while drawing attention to the need for further work on the practicalities.

(ii) Duty Not to be Imprudent

5. The second proposal is to create a statutory duty on local authorities to act impartially between various interests, including future local tax payers. It would mean the auditor could take the local authority to court if they failed to give due weight to the consequences of present spending decisions for future local tax levels.

6. Again the approach has attractions. But it might be difficult to enforce legally, particularly if objective evidence on prudential ratios could not be adduced in support. (The Audit Commission, under DOE guidance, are still working on these; and we are, as yet, unable to judge their efficacy.) The Lord President has pointed out the need for legal advice on the difficulty of enforcing the proposed duty in the courts. He has suggested a collective discussion after the summer break. That should also allow Ministers to consider in more depth how this idea fits in with the other elements of the proposed prudential regimes.

Action

7. I attach a draft letter supporting Mr Ridley's first proposal subject to the practical difficulties noted above being sorted out and suggesting further consideration of the second.

R. M. Perfect.

R M PERFECT

DRAFT LETTER TO:

The Rt Hon Nicholas Ridley Esq
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON

A STOP POWER FOR THE DISTRICT AUDITOR

I have seen your letter of 17 July and also Willie Whitelaw's reply of 23 July.

2. I support your proposal to give the auditor power to "stop" illegal spending before it occurs. This should help increase the efficiency of our expenditure controls and help to discourage further use of creative accounting devices. However we will need to consider further how cost-effective mechanisms can be devised to focus auditor's attention on suspect proposals and suspect authorities. I understand that the stronger role for Treasurers is likely to be crucial in achieving this and I look forward to seeing your proposals on this. We must however avoid so far as possible imposing unnecessary extra surveillance duties on the auditors of the overwhelming majority of law abiding local authorities.

3. I am also attracted to the concept of a statutory duty on local authorities to give due weight to the interests of present and future local taxpayers. But as Willie Whitelaw has pointed out, we need to be clear that the legal difficulties can be overcome. We also ought to be in a position to see how the proposal relates to the proposed prudential regime as a whole. I therefore support Willie's suggestion that the proposal should be considered collectively after the Summer break.

4. I am copying this letter to E(LA) and Sir Robert Armstrong.

JOHN MAJOR

CONFIDENTIAL

PUP

FROM: P D P BARNES
DATE: 31 July 1987

MR PERETZ

cc PS/Chancellor
Sir P Middleton
Sit T Burns
Sir G Littler
Mr Cassell
Mr Sedgwick
Mr Culpin
Mr C W Kelly
Miss Noble
Mr Pike
Mr Richardson
Mr P S Hall

DTI PRESS NOTICE ON CONSUMER CREDIT : EXPANDED COVERAGE

The Economic Secretary was grateful for your submission of 31 July.

2. The Economic Secretary agrees with the course recommended in your paragraph 6, that we should take stock once we see the trade figures next week.

PB

P D P BARNES
Private Secretary

CONFIDENTIAL

From : D L C Peretz
Date : 31 July 1987

ECONOMIC SECRETARY

cc Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Sedgwick
Mr Culpin
Mr C W Kelly
Miss Noble
Mr Pike
Mr Richardson
Mr P S Hall

DTI PRESS NOTICE ON CONSUMER CREDIT : EXPANDED COVERAGE

I am responding to your Private Secretary's minute of earlier today, in Mr Grice's absence on leave. You will also by now have had a copy of the DTI submission to their Ministers (from Peter Stibbard).

2. The coincidence (or near-coincidence) of this first expanded consumer credit press notice with the trade figures on 11 August is one of the points that had worried us. But in the end we concluded that it was best nevertheless to go ahead with publishing the expanded figures for the first time in August for the reasons set out in Mr Grice's earlier minute.

3. Delaying the August publication date would be difficult. The release date has already been published by the CSO in their list of publication dates for forthcoming statistics. (Normally of course the date would be well away from the trade figures : it is only next to it this month because of the hold up in processing the trade figures themselves). It might be possible to explain a day or two's delay in publication as due to processing problems but we would want a longer delay than that to avoid the problem of coincidence with the trade figures.

4. There is, however, a slightly different possibility, which I have discussed with DTI. They have <u>not</u> announced that the figures published on 10 August will be anything other than the old

style (less interesting, if more misleading) press release. We could revert to that for August, and aim to bring the first new style expanded quarterly figures out for the following quarter. Publication would be on 9 November, a date that has already been announced.

5. I would be pretty reluctant to press DTI to delay things in that way. The main point is that we cannot be at all certain that 9 November would be any better, from a market point of view. (It is likely to be around Autumn Statement time). But I have agreed with DTI that it will not be too late to reconsider this possibility in the course of next week, after we have had a first sight of the complete trade figures : if the trade figures are bad enough, concern about possible market reaction might lead us to want to argue for making the 10 August consumer credit figures less interesting, even though that would mean publishing the first set of more interesting quarterly figures on 9 November rather than during August.

6. Would you be content for us to leave things on that basis, and to take stock again once we have a sight of the trade figures, which I gather should be around the middle of next week?

7. As to the question of giving ourselves a little more time to peruse the figures and prepare briefing on them before publication, we are pursuing that further with DTI in respect of publication dates which have not already been announced. There is a good case, it seems to me, for a 24 hour delay : but we will need to consider that alongside the timetable for other statistics.

DLP

D L C PERETZ

CONFIDENTIAL

pp M.

FROM: P D P BARNES
DATE: 31 July 1987

MR GRICE

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Sedgwick
Mr Peretz
Mrs Lomax
Mr Culpin
Mr C W Kelly
Miss Noble
Mr Pickford
Mr Pike
Mr Richardson
Mr Allum
Mr P S Hall
Mr Brook

DTI PRESS NOTICE ON CONSUMER CREDIT : EXPANDED COVERAGE

The Economic Secretary was grateful for your submission of 29 July.

2. The Economic Secretary thinks it unfortunate that the first expanded press notice will almost coincide with the publication of the next trade figures. He wonders whether it is really not possible to delay publication, thereby giving ourselves more time to peruse the figures.

PB

P D P BARNES
Private Secretary

30 JUL 1987

To Mr Maude

From Peter Stibbard
US/S2
V/260 Ext. 4872

30 July 1987

cc Secretary of State
Mr Clarke, CDL
Mr Butcher
Chancellor of the Exchequer
[redacted]

Sir Brian Hayes
Mr Liesner
Mr Harvey S1
Mr Newton CA
Mr Ward BSO
Mr Whiting Ec2
Mr Moorey Inf
Mr Richardson S2C
Miss Marson S2C
Ms Partridge Inf
Mr Thomas OFT

Mr Flemming Bank of England
Mr Bull "
Mr Wells CSO
Mr Alexander CSO
Mr Cassell Treasury
Mr Pike Treasury

DTI PRESS NOTICE ON CREDIT BUSINESS STATISTICS

The Issue

1 This submission gives advance notice of changes to the monthly DTI statistical press notice on credit business, starting with the press notice for June, to be issued on Monday, 10 August. These affect both the coverage and the presentation of the statistics. The main change in coverage is the inclusion of quarterly figures on bank personal loans and overdrafts on personal accounts; and the change in presentation is that we are now giving the main emphasis to 'changes in amounts outstanding' rather than 'new credit advanced'.

Recommendation

2 I recommend that these changes, which have been discussed and agreed with officials from the Treasury and the Bank of England, the Central Statistical Office, and with DTI Information Division, should be made.

Timing

3 The next press notice on credit business statistics is to be issued on Monday, 10 August. This date has been included in the

list of release dates of economic statistics published by the Central Statistical Office. (As usual, it coincides with publication of the DTI press notice giving final monthly retail sales figures - provisional figures are released about three weeks earlier). To be able to take account of any comments on the format of the press notice we would like to receive them by this coming Monday, 3 August.

Background

4 Statistics on credit business are collected by this Department because of its role in monitoring the effects of the Consumer Credit Act 1974. Monthly data have been collected from finance houses and other specialist credit grantors and from retailers for many years, and published by press notice. The continuation of the statistical inquiries to the former group was approved by Mr Butcher following a detailed review which I submitted on 13 December 1985. (The inquiry to retailers forms part of the monthly Retail Sales Inquiry, the review of which was approved by Mr Butcher on 5 July 1985).

5 As the coverage of the Consumer Credit Act has been extended we have expanded the coverage of our statistics published in the press notice. Data on bank credit cards, obtained from the Committee of London and Scottish Bankers (CLSB), were included from January 1986. From the start of this year we have incorporated data on building societies' unsecured lending, which have been provided by the Building Societies Association.

6 Also since the beginning of this year we have been collecting quarterly data on bank personal loans, and overdrafts on personal accounts, not exceeding £15,000 (the upper limit of personal loans to individuals regulated under the Consumer Credit Act). We are now ready to publish this information, as promised to the CLSB when we started to collect it. This is the main change to the coverage of the press notice. [We had hoped to be able to obtain these data from either the CLSB or the Bank of England - as envisaged in my submission to Mr Butcher of 20 January 1986. This did not prove possible in the short-term, although discussions are continuing. Meanwhile we have been collecting quarterly information directly from 11 large banks consisting of two items only; these cover some 90% of the total lending of this type and we have made estimates for the remainder.]

Argument

7 In our statistics we shall now cover all sources of finance for consumers, thus giving a reasonably accurate and comprehensive figure for total consumer credit (defined to exclude the main sources of loans for house purchase). This is an important economic indicator, of wide interest inside and outside Government. Until now the only source for figures of comparable coverage has been the Central Statistical Office. Their total is derived differently and they publish the

figures in their publication Financial Statistics (Table 9.3, a copy of which is attached as Annex A). The CSO figures become available much later eg their data for the quarter ended June 1987 will not be published until the end of October. [The CSO are now reviewing the format of Financial Statistics Table 9.3. They are considering using the new DTI figures in Financial Statistics and discontinuing their own figures of consumer credit - thus preventing the confusion that would be caused by the existence of two official series of broadly similar coverage].

8 As stated above, we propose to include the new statistics on bank personal loans and overdrafts in the tables in the 10 August Press Notice. Figures on total bank lending in June and on lending to the private sector were published on 20 July by the Bank of England in the latest of their regular press notices on money and banking statistics. More detailed figures concerning personal lending were published at the same time by the CLSB. Together, these figures for June excited considerable media interest and affected financial markets. The banking figures we propose to publish will be a (previously indistinguishable) sub-set of those already published on 20 July, supplemented by the latest figures from the other sources of consumer credit covered already by the DTI press notice on credit business.

9 To complete the picture, we also intend to include loans by insurance companies to individuals in our press notice. These quarterly figures are available from inquiries already conducted by this Division for another purpose, but as these are not timely we shall have to make estimates for the latest quarter, and revise the figures later. However, the amounts involved are very small in relation to total consumer credit.

10 Simultaneously we propose to change the presentation of the statistics. Until now the main emphasis of the press notice has been new credit advanced (ie gross lending, excluding repayments). This has included 'turnover' on bank credit cards (Visa and Access) and the importance of bank credit cards in consumer credit has thus been exaggerated to the extent these are used as a method of payment rather than as a means of obtaining credit. We propose to ameliorate this problem by giving main prominence to changes in amounts outstanding. This change also has the advantage of concentrating attention on the series for which we have full coverage (eg we do not - yet - have information on new credit advanced on bank personal loans). We also intend to give more prominence to consumer lending (hitherto lending to businesses by finance houses was included in the main aggregate featured in the press notice).

11 The formats of the three tables we propose to include in the press notice are shown in Annex B. Table 1 presents the changes in amounts outstanding on the items for which we have monthly figures. Table 2 reproduces the data from Table 1 as quarterly totals, supplemented by the new quarterly data on bank personal loans and overdrafts and

insurance company loans that we now wish to publish. Table 3 presents the available monthly data on new credit advanced, which was previously given most prominence in the press notice. Table 2 will not, of course, be updated again until the figures for Q3 are available (apart from revisions to Table 1 carried into Table 2). The Q3 figures will be published in the press notice issued in November. The tables in Annex B do not include any figures for June or Q2 because we are only now receiving this information from the respondents to our surveys. Table 2 has been marked 'confidential' because the Q1 figures for bank loans and overdrafts have not, of course, been published. A rough outline of the text of the press notice is also shown in Annex B.

12 The press notice to be issued on 10 August will include additional notes explaining the increased coverage and the changed presentation. Special briefing on this topic will also be provided to the DTI press office and copied to other relevant Departmental press offices.

13 Also attached, at Annex C, is an information copy of the most recent issue of the DTI credit business press notice in its present form.

14 Finally, Annex D is a chart illustrating the past, present and proposed future coverage of DTI consumer credit statistics, expressed in amounts outstanding. We do not intend to include this chart in the press notice, but we may, if space allows, include something like it in the subsequent monthly article in British Business, as an explanatory aid.

15 An advance information copy of the Press Notice will be sent to Ministers on the afternoon of Friday, 7 August complete with the figures for June and Q2, which will become known during the morning of that day. Special arrangements have been made to telephone the main figures to Treasury officials as soon as they are firm; they have asked to have them to use for internal briefing in the Treasury.

P J STIBBARD

9.3 Consumer credit and other personal sector borrowing

£ million

	Consumer credit: Total: Unadjusted	Consumer credit: Total: Seasonally adjusted	Consumer credit: Monetary sector (1): Total	Consumer credit: Monetary sector (1): of which: credit card lending	Consumer credit: Trustee saving banks	Consumer credit: Non-Monetary sector credit companies	Consumer credit: Insurance companies	Consumer credit: Retailers	Other borrowing: Loans for house purchase	Other borrowing: Monetary sector	Other borrowing: Other	Total borrowing
Amount outstanding at end of period	AILA		AILB	AILI	AILC	AGRJ	AILE	AILF	AILG	AILH		
1982	16,030		12,602	2,020		1,317	317	1,794	76,325	12,501		
1983	18,932†		14,804	2,592		1,842	356†	1,930	91,430	14,798		
1984	22,348		17,415	3,199		2,204	683	2,046	108,464	16,486		
1985	26,160		20,352	4,052		2,815	745	2,248	127,536†	20,186		
1986	30,685		23,827†	..		3,758	804	2,296	153,363	19,956†		
Net transactions	AIKL	AIKM	AIKN	AIKP	AIKO	AGSJ	AIKQ	AAPP	AAPR	AIKR	AIKS	AIJP
1982	2,621		2,344			125	19	133	14,123	2,645	147	19,536
1983	3,284		2,583			525	40	136	14,501	2,310	243	20,338
1984	3,094		2,604			362	12	116	17,034	1,577	378	22,083
1985	3,812†		2,937†			611	62	202	19,072†	3,891	762	27,537†
1986	4,477	4,477	3,476			894	59	48	25,827	2,575†	-394†	32,485
1982 1	243	525	316			-38	5	-40	2,693	782	-37	3,681
2	551	515	564			1	5	-19	3,545	810	-265	4,641
3	845	737	772			49	4	20	3,845	813	-141	5,362
4	982	844	692			113	5	172	4,040	240	590	5,852
1983 1	464	776	361			76	4	23	3,629	584	190	4,867
2	849	828	812			68	10	-41	3,707	858	-388	5,026
3	972	829	802			158	11	1	3,580	572	-70	5,054
4	999	851	608			223	15	153	3,585	296	511	5,391
1984 1	438	771	307			163	3	-35	3,512	380	207	4,537
2	988	974	965			94	5	-76	4,733	483	-159	6,045
3	770	604	696			51	3	20	4,591	626	-141	5,846
4	898	745	636			54	1	207	4,198	88	471	5,655
1985 1	506	852	427			77	14	-12	3,683	1,191	524	5,904
2	999	981	836			207	14	-58	4,577	964	-406	6,134
3	1,213†	1,038†	945†			223	17	28	5,320†	801	-227	7,107†
4	1,094	941	729			104	17	244	5,492	935	871	8,392
1986 1	599	948	426			185	3	-15	4,448	911†	244	6,202
2	1,180	1,162	1,125			152	14	-111	6,379	1,715	-730†	8,544
3	1,637	1,458	1,276			260	14	87	7,880	-220	15	9,312
4	1,061	909	649			297	28	87	7,120	169	77	8,427
1987 1			561			180†				1,572		

1. Up to 1981 includes consumer credit companies recognised as banks. From 1982 includes consumer credit companies licensed to take deposits.

Source: Central Statistical Office.

[Extract from the June 1987 edition of Financial Statistics]

CREDIT BUSINESS IN JUNE

During June the **change in amounts outstanding on consumer credit agreements** with finance houses, other specialist credit grantors, building societies, retailers and on bank credit cards was £[ ] billion (see **Table 1**). [Sentence comparing the June and May figures].

The increase in the latest three months, April to June, was £[ ] billion, [comparison with previous three months]. Within the total, the [decrease/ increase] shown by finance houses, other specialist credit grantors and building societies was £[ ] billion in the most recent period compared to £[ ] billion in the previous one. Bank credit cards showed an increase of £[ ] billion. Retailers also showed similar increases, of £[ ] billion in the most recent three month period and £[ ] billion in the previous three month period.

[[Bank loans on personal accounts showed an increase in amounts outstanding of £[ ] billion, [lower/higher] than the previous quarter's value of £[ ] billion (see **Table 2.**) Including these loans and loans to individuals by insurance companies, figures for which are available only quarterly, gives a **total increase in consumer credit** in the April to June quarter of £[ ] billion, [up/down] from £[ ] billion in the preceding quarter.]]

[[At the end of the quarter, the **total amount outstanding on consumer credit agreements** was £[ ] billion, [ ] per cent [less/more] than the total at the end of the previous quarter.]]

New credit advanced to consumers in June by finance houses, other specialist credit grantors, building societies, retailers and on bank credit cards amounted to £[ ] billion, [sentence comparing with May figures] (see **Table 3**). The total for the three months April to June was [ ] per cent [lower/higher] than that for the previous three months.

In June there was a **change in amounts outstanding on agreements with businesses** by finance houses and other specialist credit grantors of £[ ] billion (see **Table 1**). The total change in the latest three months was £[ ] billion compared to [ ] in the preceding three months. At the end of June the total value of the outstanding amounts was £[ ] billion.

NB **[[ ]]** indicate passages to be included in press notices for March, June, September and December but not for other months.

TABLE 1

CHANGES IN AMOUNTS OUTSTANDING TO FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS. (SEASONALLY ADJUSTED)

£ Million

	AGREEMENTS WITH CONSUMERS				AGREEMENTS WITH BUSINESSES	TOTAL AGREEMENTS
	TOTAL	RETAILERS (a)	BANK CREDIT CARDS	FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH		
				CONSUMERS	BUSINESSES	
AMOUNTS OUTSTANDING AT END OF PERIOD						
1986	19,063	2,231	4,681	12,151	5,728	24,791
1987 MAY	20,728	2,338	5,061	13,329	5,940	26,668
CHANGES IN AMOUNTS OUTSTANDING						
1986	2,365	94	819	1,452	596	2,961
1986 1st Qtr	855	39	221	595	214	1,069
2nd Qtr	346	3	213	130	34	380
3rd Qtr	792	107	356	329	193	985
4th Qtr	444	-55	101	398	155	599
1987 1st Qtr	952	67	248	637	5	957
1986 JUN	167	9	109	49	21	188
JUL	183	28	80	75	73	256
AUG	217	34	82	101	48	265
SEP	392	45	194	153	72	545
OCT	194	-81	86	189	127	321
NOV	-15	12	-113	86	-23	-38
DEC	265	14	128	123	51	316
1987 JAN	257	8	15	234	-17	240
FEB	296	27	97	172	24	320
MAR	399	32	136	231	-2	397
APR	410	20	113	277	66	476
MAY	303	20	19	264	141	444
1986 DEC-FEB '87	818	49	240	529	58	876
1987 MAR-MAY	1,112	72	268	772	205	1,317

R = revised

NOTES (a) Self financed credit advanced by clothing retailers, household goods retailers mixed retail businesses (other than Co-operative societies) and general mail-order houses only.

(b) Data were not collected on a consistent basis for all types of credit grantor prior to 1986. The following table gives figures for changes in amounts outstanding which are available:

£ Million

	1983	1984	1985
Retailers	132	116	195
Finance houses etc.	2,286	2,180	2,541

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TABLE 2

CHANGES IN AMOUNTS OUTSTANDING TO FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES, RETAILERS, BANKS ON CREDIT CARDS AND PERSONAL ACCOUNTS AND TO INSURANCE COMPANIES ON CONSUMER LOANS. (SEASONALLY ADJUSTED)

£ Million

	AGREEMENTS WITH CONSUMERS						AGREEMENTS WITH BUSINESSES	TOTAL AGREEMENTS (a)
	TOTAL (a)	RETAILERS (b)	BANKS (c)		INSURANCE COMPANIES	FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH		
			CREDIT CARDS	LOANS ON PERSONAL ACCOUNTS (d)		CONSUMERS	BUSINESSES	
AMOUNT OUTSTANDING AT END OF PERIOD								
1986	30,996	2,231	4,681	11,129	804	12,151	5,728	36,724
1987 1st Qtr	32,735	2,298	4,929	11,908	812	12,788	5,733	38,468
CHANGES IN AMOUNTS OUTSTANDING								
1986	2,496	94	819		59	1,452	596	3,092
1986 1st Qtr	857	39	221		3	595	214	1,071
2nd Qtr	360	3	213		14	130	34	394
3rd Qtr	806	107	356		14	329	193	999
4th Qtr	472	-55	101		28	398	155	627
1987 1st Qtr	1,739	67	248	779	8	637	5	1,744

—— indicates a break in the series

R = revised

NOTES

(a) Changes in amounts outstanding in 1986 exclude bank loans on personal accounts.

(b) Self-financed advances by clothing retailers, household goods retailers mixed retail businesses (other than Co-operative societies) and general mail order houses only.

(c) Monetary sector institutions other than those included in finance houses and other specialist credit grantors.

(d) Amounts outstanding on bank loans on personal accounts, not exeeding £15,000, excluding bridging loans and house purchase finance.

TABLE 3

NEW CREDIT ADVANCED BY FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS. (SEASONALLY ADJUSTED)

£ Million

	AGREEMENTS WITH CONSUMERS				AGREEMENTS WITH BUSINESSES	TOTAL AGREEMENTS
	TOTAL	RETAILERS (a)	BANK CREDIT CARDS	FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH CONSUMERS	FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES ON AGREEMENTS WITH BUSINESSES	
1986	28,026	4,834	12,916	10,276	3,489	31,515
1986 1st Qtr	6,549	1,146	2,926	2,477	826	7,375
2nd Qtr	6,875	1,191	3,115	2,569	864	7,739
3rd Qtr	7,349	1,267	3,395	2,687	874	8,223
4th Qtr	7,253	1,230	3,480	2,543	925	8,178
1987 1st Qtr	7,918	1,241	3,874	2,083	963	8,881
1986 JUN	2,331	402	1,080	849	282	2,613
JUL	2,411	415	1,107	889	274	2,685
AUG	2,383	421	1,068	894	285	2,668
SEP	2,555	431	1,220	904	315	2,870
OCT	2,437	413	1,152	872	322	2,759
NOV	2,360	420	1,129	811	275	2,635
DEC	2,456	397	1,199	860	328	2,784
1987 JAN	2,417	411	1,177	829	278	2,695
FEB	2,618	415	1,276	927	331	2,949
MAR	2,883	415	1,421	1,047	354	3,237
APR	2,766	416	1,289	1,061	314	3,080
MAY	2,708	414	1,268	1,026	335	3,043
1986 DEC-FEB'87	7,491	1,223	3,652	2,616	937	8,428
1987 MAR-MAY	8,357	1,245	3,978	3,134	1,003	9,360
Percentage increase over previous quarter	12	2	9	20	7	11

R = revised

NOTES (a) Self financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative societies) and general mail-order houses only.

ANNEX C

DTI Press Notice

Department of Trade and Industry
1 Victoria Street SW1H 0ET
Press Office: 01-215 4471/4475
Out of hours: 01-215 7877

No 87/379

6 July 1987

CREDIT BUSINESS IN MAY

During May £3.0 billion of **new credit** was advanced by finance houses, other specialist credit grantors, retailers and on bank credit cards. This was below the levels of the previous two months, the fall being shown by all types of credit grantor.

Total advances in the latest three months, March to May, were 11 per cent higher than in the previous three months. Lending by finance houses and other specialist credit grantors increased by 16 per cent between the two periods. Within this total, lending to consumers increased by 20 per cent and lending to businesses increased by 7 per cent. Advances on bank credit cards increased by 9 per cent between the two periods. Retailers advanced 2 per cent more in the latest three months than in the previous three months.

There was an increase of £0.4 billion in **amounts outstanding** to finance houses, other specialist credit grantors, retailers and on bank credit cards between end-April and end-May. The total amount outstanding at end-May was £25.6 billion, 5 per cent more than the total three months earlier.

Notes to Editors

1 All figures are quoted after seasonal adjustment.

2 Table 1 covers the credit business of finance houses, other specialist credit grantors and building societies, retailers and on bank credit cards. Table 2 covers the business of finance houses, other specialist credit grantors and building societies only, but provides an analysis of new credit advanced to consumers and businesses. The credit advances shown in Table 1 for retailers and bank credit cards are mainly to consumers. A high proportion of credit advances in certain types of agreement, notably on bank credit cards and by mail order houses, is repaid within a month, reflecting the use of such agreements as a method of payment rather than as a means of obtaining credit.

3 From January 1986 the statistics include new credit advances by finance houses and other specialist credit grantors on running account agreements on which information was not collected previously. Lending on bank credit cards is also included for the first time in the January 1986 statistics. Unsecured loans by building societies, which are advanced under the provisions of the Building Societies Act 1986, are included from January 1987. Lending by banks, other than on bank credit cards, and by companies where the group specialises in lending to other companies only are excluded from the statistics in this Press Notice.

4 Charges for credit and deposits or downpayments are excluded from the figures of new credit advanced which thus represent the amount of credit advanced during the period. Figures for retailers are estimated from the value of their self-financed credit sales, which include both charges and deposits. The figures for retailers' credit sales include sales on budget and other running-account agreements and exclude credit sales financed by banks, finance houses, and other specialist credit grantors.

5 Amounts outstanding are the amounts owed, excluding unearned charges, on credit agreements of all types at the end of the period, irrespective of the period in which credit was advanced. Unearned credit charges are those charges, mainly interest, included at the outset of a fixed-sum credit agreement on the assumption that the agreement lasts its full term.

6 Further definitions are given at the foot of the tables accompanying this Press Notice.

7 Full results of the inquiries which collect the monthly information on credit are published by HM Stationery Office in Business Monitor SDM6 - Credit business of finance houses and other specialist credit grantors - and in Business Monitor SDM8 - Credit business of retailers. Both may be obtained on subscription (£17.50 each title per annum) from HM Stationery Office PO Box 569, London SE1 9NH. Individual copies are available, price £3.20 each from:
The Library, Business Statistics Office, Government Buildings, Cardiff Road, Newport GWENT. Telephone: Newport (0633) 222973.

8 Non-press calls to 01-215 6400.

TABLE 1

TOTAL CREDIT BUSINESS OF FINANCE HOUSES, OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES, RETAILERS AND ON BANK CREDIT CARDS (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED					TOTAL AMOUNT OUTSTANDING (a)	
	TOTAL (c)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b): FIXED SUM (d)	FINANCE HOUSES AND OTHER SPECIALIST CREDIT GRANTORS (b): RUNNING ACCOUNT	BANK CREDIT CARDS	RETAILERS (e)	CHANGE	AMOUNT AT END OF PERIOD
1983	10,524	6,840			3,684	2,246	12,199
1984	11,507	7,662			3,845	2,159	14,358
1985	12,996	8,727			4,269	2,586	16,944
1986	31,515	10,720	3,045	12,916	4,834	2,952	23,772
1985 2nd Qtr	3,083	2,030			1,053	533	15,477
3rd Qtr	3,374	2,293			1,081	745	16,222
4th Qtr	3,436	2,336			1,100	722	16,944
1986 1st Qtr	7,375	2,655	648	2,926	1,146	980	21,800
2nd Qtr	7,739	2,640	793	3,115	1,191	418	22,218
3rd Qtr	8,223	2,722	839	3,395	1,267	968	23,186
4th Qtr	8,178	2,703	765	3,480	1,230	586	23,772
1987 1st Qtr	8,881	3,021	745	3,874	1,241	1,012	24,784
1986 MAR	2,372	802	238	954	378	325	21,800
APR	2,717	969	251	1,093	404	120	21,920
MAY	2,409	819	263	942	385	117	22,037
JUN	2,613	852	279	1,080	402	181	22,218
JUL	2,685	885	278	1,107	415	219	22,437
AUG	2,668	890	289	1,068	421	302	22,739
SEP	2,870	947	272	1,220	431	447	23,186
OCT	2,759	925	269	1,152	413	247	23,433
NOV	2,635	843	243	1,129	420	18	23,451
DEC	2,784	935	253	1,199	397	321	23,772
1987 JAN	2,695	870	237	1,177	411	320	24,092
FEB	2,949	1,033	225	1,276	415	323	24,415
MAR	3,237	1,118	283	1,421	415	369	24,784
APR	3,080R	1,066R	309R	1,289	416	483R	25,267R
MAY	3,043	1,077	284	1,268	414	380	25,647
1986 DEC-FEB '87	8,428	3,553		3,652	1,223	964	24,415
1987 MAR-MAY	9,360	4,137		3,978	1,245	1,232	25,647
Percentage increase over previous quarter	11	16		9	2	28	5

—— indicates a break in the series

R = revised

NOTES (a) Until December 1985 excluding amounts outstanding on Bank Credit Cards and block discounted agreements.

(b) Including Building Societies. See Table 2 for an analysis into agreements with consumers and agreements with businesses.

(c) Until December 1985 includes only direct fixed-sum business of Finance Houses and other specialist Credit Grantors and advances by retailers.

(d) From January 1986 including new credit on block discounted agreements.

(e) Self-financed credit advanced by clothing retailers, household goods retailers, mixed retail businesses (other than Co-operative Societies) and general mail-order houses only.

TABLE 2

TOTAL CREDIT BUSINESS OF FINANCE HOUSES , OTHER SPECIALIST CREDIT GRANTORS AND BUILDING SOCIETIES (SEASONALLY ADJUSTED)

£ Million

	NEW CREDIT ADVANCED				TOTAL AMOUNTS OUTSTANDING		
	AGREEMENTS WITH CONSUMERS (b)		AGREEMENTS WITH BUSINESSES (c)		FIXED SUM AGREEMENTS (a)	RUNNING ACCOUNT AGREEMENTS	DEALER STOCK FUNDING LOANS (d)
	FIXED SUM CREDIT	RUNNING ACCOUNT CREDIT	FIXED SUM CREDIT(a)	RUNNING ACCOUNT CREDIT			
1983	4,470		2,370		9,378	995	652
1984	5,092		2,570		11,183	1,233	789
1985	6,168		2,559		13,165	1,642	939
1986	7,251	3,025	3,469	20	14,778	2,082	1,019
1985 2nd Qtr	1,401		629		12,074	1,403	908
3rd Qtr	1,661		632		12,660	1,503	971
4th Qtr	1,725		611		13,165	1,642	939
1986 1st Qtr	1,833	644	822	4	13,858	1,755	1,027
2nd Qtr	1,781	788	859	5	13,959	1,856	989
3rd Qtr	1,852	835	870	4	14,363	1,957	1,006
4th Qtr	1,785	758	918	7	14,778	2,082	1,019
1987 1st Qtr	2,061	742	960	3	15,370	2,187	964
1986 MAR	539	237	263	1	13,858	1,755	1,027
APR	650	250	319	1	13,892	1,787	987
MAY	558	262	261	1	13,942	1,810	982
JUN	573	276	279	3	13,959	1,856	989
JUL	612	277	273	1	14,032	1,894	1,026
AUG	606	288	284	1	14,190	1,922	989
SEP	634	270	313	2	14,363	1,957	1,006
OCT	607	265	318	4	14,549	2,013	1,080
NOV	570	241	273	2	14,637	2,044	1,024
DEC	608	252	327	1	14,778	2,082	1,019
1987 JAN	593	236	277	1	15,016	2,141	939
FEB	703	224	330	1	15,191	2,165	936
MAR	765	282	353	1	15,370	2,187	964
APR	753R	308R	313	1	15,707R	2,200R	957
MAY	743	283	334	1	16,033	2,215	1,021
1986 DEC-FEB '87	2,616		937		15,191	2,165	936
1987 MAR-MAY	3,134		1,003		16,033	2,215	1,021
Percentage increase over previous quarter	20		7		6	2	9

—▾— indicates a break in the series

R = revised

NOTES

(a) From January 1986 including block discounted agreements.

(b) Until December 1985 figures are for consumer credit agreements regulated under the Consumer Credit Act 1974. These comprise non-exempt agreements involving the provision of credit not exceeding £15,000 (£5,000 before 20 May 1985) to individuals.

(c) Until December 1985 figures are for credit agreements not regulated under the Consumer Credit Act 1974, entered into by companies which also enter into regulated credit agreements.

(d) Figures in this column are excluded from amounts oustanding in Table 1.

ANNEX D

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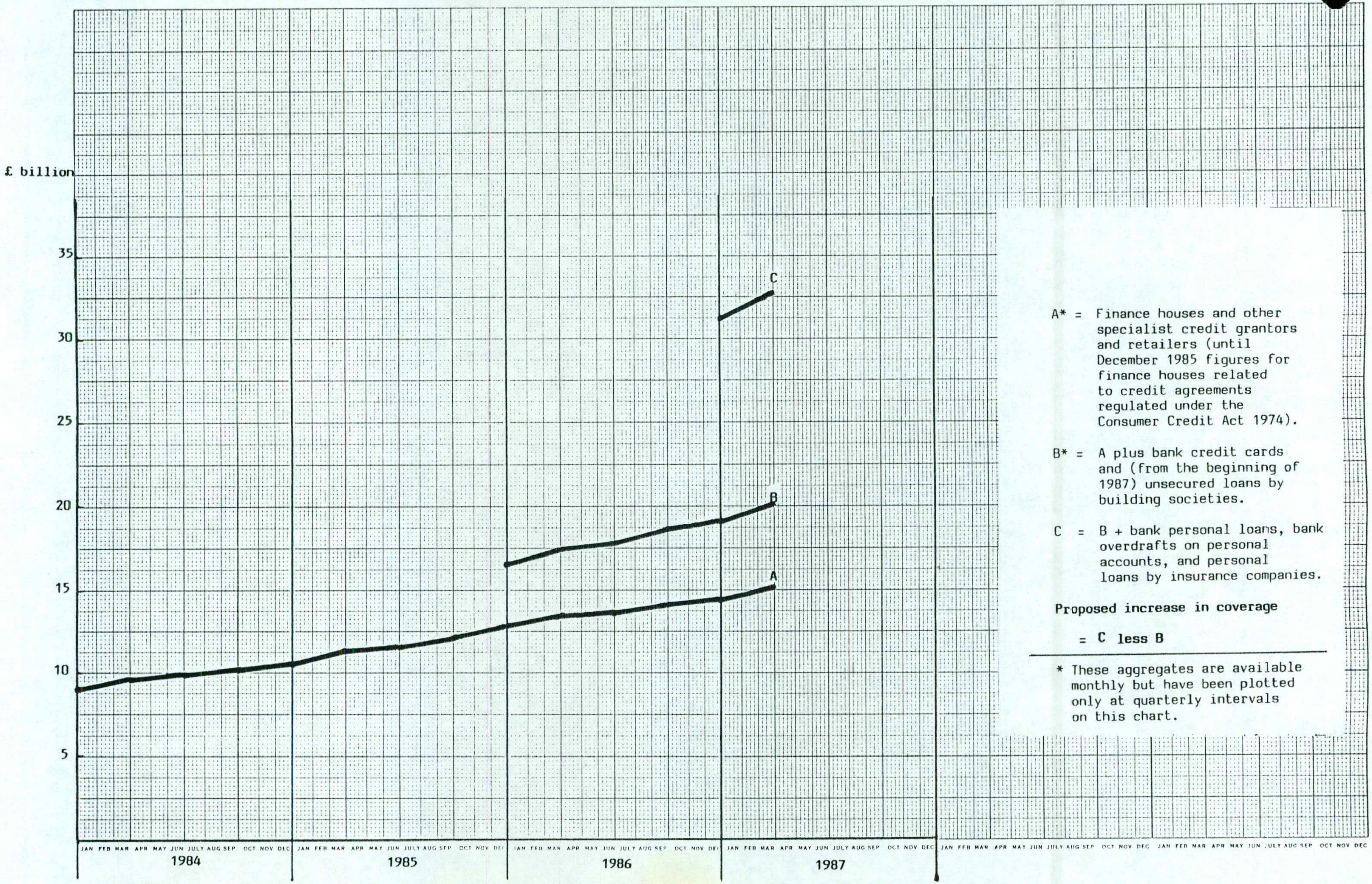
PAST, PRESENT AND PROPOSED FUTURE COVERAGE OF DTI PRESS NOTICE ON CREDIT BUSINESS

Amounts outstanding on agreements with consumers (seasonally adjusted)



A* = Finance houses and other specialist credit grantors and retailers (until December 1985 figures for finance houses related to credit agreements regulated under the Consumer Credit Act 1974).

B* = A plus bank credit cards and (from the beginning of 1987) unsecured loans by building societies.

C = B + bank personal loans, bank overdrafts on personal accounts, and personal loans by insurance companies.

Proposed increase in coverage

= C less B

* These aggregates are available monthly but have been plotted only at quarterly intervals on this chart.

PPS 12/2.

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238
Facsimile: 270 5244
Telex: 9413704

PW

23 July 1987

CASH LIMITS 1986-87: PROVISIONAL OUTTURN

The Treasury today published the Cash Limits Outturn White Paper (Cm 189) showing:

i. Provisional outturn for 1986-87 cash limits; nationalised industries External Financial Limits; and running costs limits;

ii. Final outturn for 1985-86 cash limits.

As in previous years, almost all cash limits were correctly observed. In their first year of operation running costs limits also held in virtually all cases. The overall position for 1986-87 was:

	Original Cash Limits	Final Cash Limits	Total provisional outturn	£million
Voted cash limits	58,312	59,634	58,730	
Non voted cash limits	7,758	7,797	7,684	
EFLs	929	1,084	1,182	
Running cost limits	12,996	13,171	13,071	

The difference between original and final cash limits represents increases made during the year to cover certain unexpected developments of policy and other contingencies.

There were 3 breaches out of a total of 123 central government voted cash limits: 2 breaches of non-voted cash limits: and 4 breaches out of a total of 50 departmental running costs limits. Details are given in the White Paper, the summary text of which is attached.

41/87

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG

Notes to Editors

Further details are available in the White Paper.

Similar White Papers have been published in previous years (last year's was Cmnd 9851). Enquiries on the general subject of cash limits and running costs limits should be addressed to Treasury Press Office. Questions on individual limits should be addressed to the Departments concerned.

Cash limits cover about 40 per cent of the public expenditure planning total.

Cash Limits 1986–87 Provisional Outturn (and 1985–86 Outturn)

1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1986–87 and revised figures for 1985–86. It also gives provisional outturn figures for 1986–87 departmental running costs limits.

Original cash limits

2. The original cash limits for 1986–87 on central government voted expenditure were published in the Supply Estimates and listed in the Summary and Guide to Estimates 1986–87 (Cmnd 9742). The original cash limits relating to local authorities' capital expenditure and certain other expenditure were announced by written PQ on 18 March 1986.

Original running costs limits

3. Departmental running costs limits were introduced for 1986–87 for the first time. The original running costs limits were published in the Summary and Guide to Estimates 1986–87 (Cmnd 9742).

Provisional outturn on cash limits

4. Total cash limited central government voted expenditure was £58,730 million—an underspend of £903 million compared with final cash limits. Total cash limited non-voted expenditure was £7,684 million—an underspend of £113 million compared with final cash limits. **Tables 1 and 2** give provisional outturn figures for 1986–87 compared with final cash limits. These figures may be subject to some adjustment when the final accounts are available, particularly in the case of the local authority capital cash limits.

Provisional outturn on running costs limits

5. Total running costs expenditure was £13,071 million—an underspend of £100 million compared with final running costs limits. **Table 3** gives provisional outturn figures for 1986–87 compared with final running costs limits. These figures may be subject to some adjustment when the final accounts are available.

Changes to original cash limits

6. **Table 4** shows changes to the original cash limits other than token increases. Increases in cash limits due to the carry forward of end-year flexibility are separately identified. It is normal for some cash limits to be increased during the year to cover certain unexpected developments of policy or other contingencies: there is an unallocated Reserve in the public expenditure plans against which increases in public expenditure are charged.

Cash limit breaches

7. On the current figures there were five breaches of cash limits.

(i) The Department of Employment overspent on their administration cash limit (Class VII vote 3) by £1.769 million (2.4 per cent.).

(ii) the Department of Health and Social Security overspent the hospital and community health service limit (Class XIV vote 1) by £3.418 million (0.04 per cent.). This cash limit overspend should not lead to a public expenditure overspend because it is expected that the breach will be more than matched by increased receipts being surrendered to the Consolidated Fund.

(iii) The DHSS also overspent their social security administration cash limit (Class XV vote 5) by £4.924 million (0.4 per cent.).

(iv) Local authorities in England breached the cash limit for capital expenditure (Department of the Environment/LA1) by £18.5 million (0.8 per cent.).

(v) Similarly, Welsh local authorities breached Welsh Office/LA1 by £46 million (14.6 per cent.).

The usual corrective procedures in the case of cash limit breaches are being implemented.

Changes to original running costs limits

8. **Table 5** shows changes to the original running costs limits. None of these changes are attributable to Civil Service pay settlements.

Running costs limit breaches

9. On the current figures there were four breaches of running costs limits.

(i) The Department of Employment overspent by £2.337 million (0.6 per cent.).
(ii) The Department of Health and Social Security overspent by £0.674 million (0.04 per cent.).
(iii) The Scottish Office overspent by £1.768 million (1.1 per cent.).
(iv) The Inland Revenue overspent by £2.934 million (0.3 per cent.).

Appropriate corrective action is being implemented.

Nationalised industries

10. **Table 6** shows the original external financing limits (EFLs) of nationalised industries in 1986–87, revised EFLs and provisional outturn figures for each industry.

1985–86 revised outturn

11. **Table 7** gives final outturn figures for central government cash limited expenditure in 1985–86. **Table 8** shows revised figures for the same year for the capital expenditure of local authorities and for certain other bodies. These may still be subject to some revision. Provisional outturn figures for 1985–86 were published in July 1986 in the White Paper "Cash Limits 1985–86 Provisional Outturn" (Cmnd 9851).

3361/29

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Bf 4/8
with pps

FROM: FINANCIAL SECRETARY
DATE: 31 July 1987

CHANCELLOR

cc Chief Secretary
Paymaster General
Economic Secretary
Mr Scholar
Mr Cropper
Mr Tyrie
Mr Isaac IR
Mr Corlett IR
Mr Stewart IR

Ch/ To see this + Mr Cropper's minute. AG 4/8

The FST would no doubt welcome further following X: I will then hold a mtg on my return to decide the issue. All papers (& advisers) re 85 so far; as well as relevant Tsy & IR officials. NL.

(Though this is, as I said, a minefield, I strongly agree with Mr Cropper's para 11.)

COVENANTS AND MAINTENANCE

You asked for views on this subject.

2. My general comment is that - as you implied - this is a hornet's nest. I am acutely conscious that, particularly on the maintenance payments side, there could be some very hard cases here. We all know people who are living in semi-destitution due to divorce and I am sure we must do nothing that risks exacerbating this situation.

3. I dispute John Isaac's premise that because we are seeking to remove the tax penalties on marriage, we should treat married and divorced people identically. That seems to me to be wrong. What we are seeking to do is to remove the tax breaks that put cohabiting people in a privileged position. Divorced people do not get divorced for tax reasons. They are often very unfortunate people who would have preferred to stay married and who have suffered financially as well.

4. I can see that the tax system should not provide expensive subsidies to rich men supporting ex-wives. But I do not think we need pursue a theoretical neutrality between married couples and divorced/separated couples.

FST to CH/EX 31 July

5. Bearing in mind these potentially conflicting considerations, I think the following approach offers the most promising package (in the context of a tax reform Budget):

6. (i) The Sherdley judgment is obviously unwelcome and must be reversed in legislation. It is clearly a nonsense to allow people to obtain Court orders against themselves for tax purposes.

(ii) Given that, should all maintenance payments to children by made ineffective for tax purposes? I think, on balance, that this would be right. To reverse Sherdley and do nothing else would be to retain the inequity highlighted by the House of Lords (no tax relief if payer has custody, tax relief if he does not have custody). And if we did render ineffective maintenance payments to children, people would probably just up the payments to spouses.

(iii) So the core issue is how to treat payments between (usually) man and ex-wife. The Revenue suggest a cap on the payments that can be made with tax relief. If there is to be a cap - which would undoubtedly reduce the gross maintenance payments going to some ex-wives - I am sure it needs to be set at quite a high level. Even with a cap as high as £2,500 pa, 34,000 payers would lose some of the tax relief they get now and would presumably have to reduce their maintenance payments accordingly. The Revenue think that many of these payers are in the higher income ranges, at present enjoying tax relief going far beyond the value of the married allowance for the ordinary married couple. The latter point is a red-herring to my mind. There are arguments for giving more tax relief to divorced couples - often supporting two households - than to married couples. A maintenance payment of £2,500 pa is not much to live on, and with a cap there would be a sharp disincentive - compared with the present regime - for people to pay more maintenance than this low figure.

(iv) I am far from convinced that we need a cap at all, but if we do it may well be right to exempt the recipient from tax on the payments made. I have asked the Revenue to look at various options for the cap combined with tax exemptions for the recipient.

(v) I agree with the Revenue that covenant payments between married couples should be made ineffective for tax purposes, and also other covenants between unmarried individuals. This is probably right for grandparent covenants too.

(vi) As far as student covenants are concerned, I strongly believe that there is little point in the Revenue working this up in further detail unless we are sure that there are to be no changes in the whole structure of student maintenance.

X 7. After my holiday I will be considering this further with officials.

NL

NORMAN LAMONT

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REC. 31 JUL 1987 31/7
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PMO

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 July, 1987.

Ch
(Chief Secretary)
AA

Dear Rob,

REFORM OF MAINTAINED FURTHER EDUCATION: CONSULTATION PAPER

The Prime Minister has seen the draft consultation paper attached to your Secretary of State's minute of 27 July, and is content, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to the members of E(EP), the Secretary of State for Northern Ireland, and to Sir Robert Armstrong.

Yours,

David.

(David Norgrove)

R.L. Smith, Esq.,
Department of Education and Science.

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SECRETARY OF STATE FOR THE ENVIRONMENT

CH/EXCHEQUER
REC. 28 JUL 1987 2817
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Ch (I'm a bit suspicious, but may be OK) AA

pep

RIDLEY → PM 28/7

Prime Minister

I trust this is as lawyer-proof as possible.

CAPPING THE COMMUNITY CHARGE

At its meeting on 2 July, E(LF) concluded that there should be a scheme for capping the community charge and that this should not be confined to the transitional period when the community charge was being phased in. This letter seeks colleagues' agreement to the capping scheme to be adopted.

Annex A to the paper discussed on 2 July outlined a scheme based on the approach adopted in Scotland. I have given further thought to that approach and still favour the general basis of the Scottish system, with its considerable merit of the immediacy of in-year action to reduce charges. I have developed the outline further, with some modifications to take account of circumstances during a transitional period.

The scheme which I now have in mind is set out in the Annex to this letter. Its principal features are that it would allow me to intervene and reduce authorities' charges at the start of the financial year for which they had been set; and that I could select authorities for capping on the grounds both of excessive levels of charge and of excessive year-on-year increases. In broad outline, the scheme would operate as follows:

March	Authorities set their gross community charge.
April	Government selects authorities for capping on the basis of excessively high charges or excessive increases in charges over previous year; and fixes provisional lower charges.
April-May	Selected authorities have opportunity to apply for provisional limits to be increased.

SECRETARY OF STATE FOR THE ENVIRONMENT

May-June	Authorities' representations considered.
July	Lower charges fixed by Order.

It is possible, given the need to act quickly at the start of the financial year, that we might want to bring forward from 1 April to the beginning of March the date by which authorities must fix their charges.

As I suggested in the earlier paper for E(LF), it may not be possible under a system of this sort to seek spending reductions as large as under the existing ratecapping system, or to embrace as large a number of authorities within the system. These possible drawbacks are, however, outweighed by major advantages - the speed with which the Government would be seen to have reduced existing bills; the move away from selection criteria which depend on accounting definitions susceptible to abuse by unscrupulous authorities; and downward pressure on charges, since the only way for an authority to avoid selection - by whatever means, including creative accounting - would be to hold down the demands made on chargepayers.

Subject to any further views which colleagues may have on the proposals, I would like them to be worked up urgently for inclusion in the Bill. In view of the season and of the tight timetable for drafting legislation, I would be grateful if they would let me have any comments by the end of this week, 31 July.

I am copying this minute to members of E(LF) and to Sir Robert Armstrong.

NR

N R

28 July 1987

PAPERS PLEASE

No (pump? to money) PS with JF? TL 31/8

10 DOWNING STREET

LONDON SW1A 2AA

CHIEF SECRETARY
REC. 31 JUL 1987
Mr S. Kelly
CX Mr Butler
Mr Anson Mr Gilmore
Mr Hartin Miss Peirson
Mr Turnbull Mr Burr o/r

From the Private Secretary

31 July 1987

Mr Greve Mr Potter
Mr Cropper Mr Tyrie

Dear Jon

The Prime Minister has seen your Secretary of State's minute of 30 July to which was attached a draft consultation paper on grant maintained schools.

The Prime Minister, as I told you, does not think it would be helpful to leave discretion on funding of GM schools in the early years to the Secretary of State, even if the aim was to move towards a formula in due course. Her belief is that to do so would discourage schools from opting out: they might not like the idea of their funding being at the Secretary of State's discretion and they would have no guarantee that they would receive as much money as they would have done had they remained within the LEA sector. The Prime Minister believes it would be preferable for Wales also to propose the system described in the English consultation paper.

I am sending a copy of this letter to the Private Secretaries to members of E(EP) and to Trevor Woolley (Cabinet Office).

Yours,

David

DAVID NORGROVE

Jon Shortridge, Esq.,
Welsh Office.