

PO-CH/NL/0302

PART A

Part A

SECRET

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PO -CH /NL/0202



PART A

Chancellor's (Lawson) Papers:

1987 SUPPLY SIDE MEASURES

NL/0202

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PO

PART A

Disposal Directions: 25 Years

7/9/95.

CONFIDENTIAL

FROM: N MONCK

DATE: 23 July 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary	Mrs Lomax
Financial Secretary	Mr Moore
Paymaster General	Mr Mountfield
Economic Secretary	Miss Peirson
PCC	Mr Scholar
Mr Byatt	Mr Spackman
Mr Burgner	Mr Gray
Mr A Edwards	Mr Guy
Mr Gilmore	Mr Cropper
Mr Hawtin	Mr Tyrie

SUPPLY SIDE MEASURES

Mr Byatt and I have prepared this submission on supply side measures at the request of Sir Peter Middleton.

2. The annexes contain contributions from most parts of the Treasury including IAE3 (Messrs Gray and Guy), who have also done the editing. They bring together measures which vary in kind, in importance and in the stage they are at, ranging at one end from those which are about to come into effect and require little or no further action to some at the other which are no more than gleams in Treasury officials' eyes. Inevitably much of the compilation is familiar, partly because many of the measures have to be pursued over many years. But producing it enable broad judgements to be made at the start of a new Parliament on:

- (a) whether in aggregate there are enough measures in hand or in prospect;
- (b) which are the most important areas to pursue or tackle for the first time and whether there are major gaps or imbalances; and
- (c) whether Treasury Ministers need to take an initiative or give a push to promote particular measures which, except for tax and some other aspects of incentives to work, are typically not primarily their responsibility: or whether Ministers think some of the measures listed are not worth pursuing.

3. There are inevitably problems of definition, coverage and classification. There is probably no ideal solution and we have not spent much time trying to find one. Broadly, we have taken supply side measures to mean making markets work better, getting more output for given input of resources (including investment), and making

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the economy more flexible and increasing its underlying competitiveness. At this stage we have gone for an inclusive approach and may have overdone it - though we have not tried to capture all the detailed deregulation work to reduce burdens on business, or to include all public service efforts to improve value for money except where they seemed likely to have a significant impact on improving the market economy. There are also some omissions of more sensitive issues in hand.

4. The annexes do not cover macroeconomic policies, although such policies clearly contribute to these aims by creating a climate of stability. In particular, the maintenance of a stable exchange rate can stimulate business investment in productive capacity and in 'intangibles' such as R & D. Moreover if businesses believe that the Government will not allow the exchange rate to accommodate excessive pay settlements as much as experience during most of the 1980s might suggest, that should help to bring down the level of pay settlements. A general policy in favour of an open economy, resisting any protectionist moves and rolling back existing protection, can also help to keep down prices and costs. The annexes include several specific measures consistent with such a policy.

5. We have not grouped together issues which form part of the moves towards the EC internal market. The focus of that exercise is improvements in competition, but it embraces several of the sectors in our classification, such as financial services and trade. The detailed annexes indicate those cases we have included in our trawl which also form part of the internal market initiative, for example public purchasing (J1) and financial services (K1).

6. The format of the detailed annexes provides material classified by sector (labour market, housing etc). These are preceded by two summary schedules:

- (i) a state of play summary, classifying the sector entries into eight categories, eg Budget issues, E(CP) issues;
- (ii) a cross classification by sector and type of measure (eg fiscal, privatisation).

Scale and composition of the measures

7. The scale is considerable in aggregate. Though many, in isolation, may only have a local impact, the cumulative effects on the efficiency and flexibility of the economy could be considerable.

8. Much has been achieved on the supply side in recent years - profits are now healthy, compared with the cost of capital, productivity in manufacturing rising satisfactorily, there are some signs of better trade performance - but problems remain. You may not be satisfied with the measures listed in the labour market and housing areas which come together in labour mobility. Wage settlements are still excessive and unemployment - although falling - remains too high. Greater mobility - between firms, between occupations and between areas - is needed.

9. On the labour market much has of course already been done and the effects of this, as well as of PRP, may come through by the end of this Parliament. But a gradual erosion of international competitiveness still seems likely if a fixed exchange rate is assumed, as in the forecast, and this is unlikely to be corrected by new measures that are available. We have omitted ways of intervening to restrain pay increases, including the tax based approaches which have been repeatedly turned down in recent years. But we have included an attack on pay review bodies and greater differentiation of pay has an important role to play. Greater flexibility within the public sector could provide a good example as well as being useful in its own right. There is also scope for non-pay measures. Incentives to work could be improved by further reductions in the basic rate of income tax and by changing employee NICs, which is mentioned in the annexes. Better training and retraining are important elements in achieving greater occupational mobility, especially if restrictions on entry into particular trades and professions are relaxed.

10. Greater flexibility in the housing market too would help to increase geographical mobility. Deregulation of new private rents and increases in public sector rents will improve the allocation of the existing rented housing stock. But rented housing is a diminishing part of the stock and, given mortgage interest relief, an increase in the supply of rented housing may depend on subsidies or tax reliefs as well as deregulation. We have included nothing on that but we have suggested work by economists on additional release of land for housing in order to increase the owner occupied stock sufficiently to permit greater movement to areas where economic activity is high.

11. Another possible area of weakness is that we do not have specific measures likely to raise the level of private sector business spending on long term investment of the kind mentioned in para 4 above. We have to rely mainly on continuing existing macro economic policies, particularly helping to maintain adequate profitability in industry, plus a few modest measures such as the disclosure of R & D expenditure by companies.

12. Despite these limitations the annexes show that there is plenty of scope for supply side measures:

- (a) through increasing competition in various forms, particularly import competition not only in the major fields of the CAP and Coal but several others;
- (b) through tax measures which are under your own control;
- (c) through changing the way in which public services are at present delivered, notably education;
- (d) through progressively reducing subsidies and raising inadequate rates of return in the nationalised coal and transport industries and the utilities, as well as in local authority housing; and
- (e) through improved information provided to managers and investors in company accounts and to consumers about the costs of protection as a result of CAP and trade policies.

Many of these measures will arouse opposition but are well worth pursuing because of their diffused benefits.

Proposed action by Treasury officials and Ministers

13. This is indicated for each item under the "Next Steps" column in the detailed sector annexes. In many cases enough has already been done or is in hand, particularly through the PES process or in preparations for the 1988 Budget. You may also care to look at the state of play summary which groups the next steps under eight broad headings. For example:

- (i) early submissions are planned on NICs, PEPs and the consumer costs of trade protection;
- (ii) E(CP) seems the right forum to handle issues such as private sector coal operations, liberalisation in the heavy goods transport sector, and further steps on the professions and shop opening;
- (iii) issues you will need to discuss with colleagues in other contexts include electricity privatisation, road pricing, financial reporting by companies and the mergers/RTP review.

14. If you wanted a discussion on this submission, you could treat questions (a) to (c) in para 2 as an agenda, using the State of Play summary as a list for (c).


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LIST OF ANNEXESSUMMARIES

STATE OF PLAY SUMMARY

SUMMARY SCHEDULE BY SECTOR AND TYPE OF MEASURE

SECTOR DETAILS

- A LABOUR MARKET
- B HOUSING
- C EDUCATION AND TRAINING
- D ENERGY
- E WATER
- F COMMUNICATION
- G HEALTH
- H TRANSPORT
- J OTHER PUBLIC SECTOR
- K FINANCIAL SERVICES
- L TRADE AND INTERNATIONAL
- M INDUSTRY AND COMMERCE

STATE OF PLAY SUMMARY

<u>In Progress/ Monitoring</u>	<u>For Survey/IFR</u>	<u>Budget Issues</u>	<u>Submission to Treasury Ministers Planned</u>	<u>Need to Approach Other Ministers</u>	<u>For E(CP)</u>	<u>Further Work In Hand</u>	<u>Future Work</u>
A <u>Labour Market</u>	Personal pensions PP TU reform Civil Service/ police/ teachers pay	Social security benefits	NICs Review bodies		Labour market restrictive	Retirement age	Wages Councils Doctors' pay
B <u>Housing</u>	De-regulate new Lettings	Public sector rents	Conveyancing			Supply of building land.	
C <u>Education and Training</u>	Major education reforms.	Focus of DE Programmes				Planning of HE provision. Management education. Student support.	
D <u>Energy</u>		Heavy fuel oil tax.	Electricity privatisation		Private sector coal operations.	On-shore oil vesting rights.	
E <u>Water</u>	Metering	Water charges.				Privatisation.	
F <u>Communications</u>	Broadcasting/ Peacock		£1 letter monopoly.		Radio frequency spectrum. Needletime.		Development of telecoms sector.
G <u>Health</u>		Drugs generic substitution Welfare milk			Drugs re-imburement		Health Service pay/working parties/ contracting out.
H <u>Transport</u>	Ports Pilotage Roads/tendering/ competition. Vehicle licensing tendering. BR rationalisation measures. EC Air-routes competition	Fuel tax rebate	Abolish "O" licences	SBC privat- isation Road pricing	Heavy goods Liberalisation	Taxis de-regulation	LA bus subsid- aries Cabotage ER - changes to PSO Pricing of airport landing slots Air traffic control competition Bus de-reg- ulation in London Privatisat- ion of London under- ground.

STATE OF PLAY SUMMARY

<u>In Progress/ Monitoring</u>	<u>For Survey/IFF</u>	<u>Budget Issues</u>	<u>Submission to Treasury Ministers Planned</u>	<u>Need to Approach Other Ministers</u>	<u>For E(CP)</u>	<u>Further Work In Hand</u>	<u>Future Work</u>
<p><u>J Other Public Sector</u></p> <p>EC-public purchasing for services to exporters overseas LA competitive tendering/fees and charges. Un-tying from common service agencies.</p>				<p>Extension of market testing for in-house services.</p>		<p>BSC privatisation.</p>	<p>Rover privatisation</p>
<p><u>K Financial Services</u></p>		<p>Taxes on securities transactions Retail gold market Taxation of savings institutions/instruments.</p>	<p>PEPs review</p>	<p>Polarisation</p> <p>Financial reporting by companies Girobank privatisation</p>			<p>EC internal market issues.</p>
<p><u>L Trade and International</u></p>			<p>Consumer costs of trade protection</p>	<p>International reductions of export support Non-renewal of MFA.</p>	<p>VRAs</p>	<p>EC-liberalisation of capital movements</p>	<p>Unilateral UK reduction of subsidies</p>
<p><u>M Industry</u></p>	<p>Inner cities measures</p> <p>Regional/urban spending Industrial R&D</p>			<p>Milk and Potato Marketing Boards Mergers/RTP review Licensing hours.</p>	<p>Wool Marketing Board Shop/Sunday hours Professions</p>		

SUMMARY SCHEDULE OF SUPPLY SIDE MEASURES

SECTORS	TYPE OF MEASURE	U More Competition and Deregulation (incl. action by regulators of monopolies)	V Privatisation	W Accounting and Other Information	X Fiscal	Y Targetting and Public Investment	Z Reducing or Removing Subsidies (incl. inadequate returns on capital)
A Labour Market		A1 A4 A6 A7 A8 A9 A10 A11 A12 A13 A14 A15	A2 A3 A5				
B Housing		B1 B2 B5	B6	B3		B4	
C Education & Training		C4 C5 C6			C1 C2 C3		
D Energy		D1 D2 D3 D4	D5 D6	D7			
E Water			E3			E1 E2	
F Communication		F1 F2 F3 F4 F5 F6					
G Health		G1 G2 G3 G4 G5 G6 G7 G8 G9					
H Transport		H4 H5 H6 H7 H8 H9 H10 H12 H13 H15	H3 H11 H13 H14			H1 H2 H11	
J Other Public Sector		J1 J2 J6 J8 J9	J5 J10		J4	J3 J7	
K Financial Services		K1 K2	K7	K4 K5	K1 K3 K5 K6		
L Trade and International		L2 L4 L5 L6	L1			L3 L5 L6	
M Industry and Commerce		M3 M4 M5 M6 M7 M8	M2		M1 M2 M9 M10		

SUPPLY SIDE MEASURES - A - LABOUR MARKET

SUBJECT DEPARTMENT & TREASURY DIVISION IN LEAD POSSIBLE MEASURES ACTION ALREADY IN HAND - NEXT STEPS COSTS, SENSITIVITIES ETC

1. Personal pensions	DHSS (ST1, FIM1, FIM2)	Further action to promote PPs if measures already planned fail to generate high take-up.	PPS to be available from 1.1.1988. Free-standing AVCs from 1.10.1987.	Monitor impact of new measures	In short term, while new measures taking effect, further action may be unwelcome.
2. NICS	Treasury (ST1)	Restructuring to alleviate unemployment trap.	Options paper on employees' NICs in preparation. Earliest implementation: April 1988.	Options paper for Treasury Ministers by recess.	Costs depend on choice of option and aims for dealing with trap.
3. Social Security benefits	DHSS (ST1)	Allow increases no more than RPI to alleviate unemployment trap, as earnings rise.	For consideration in each year's Survey.	Consider in 1987 Survey and in context of new Income Support Scheme, to be implemented April 1988.	Increases of less than RPI would run into strong opposition <i>depends chief</i>
4. Retirement age	Treasury/DHSS (ST1) <i>N Steadman</i>	Allow flexibility to increase individual choice and improve labour market.	DHSS costing some options. Initial work being done in Treasury.	Further work in response to Ministers' reactions to initial papers. Need consultation and legislation. Implementation unlikely before 1990.	Most likely options would involve significant public expenditure costs. <i>depends on assumptions. Note also par. 11.1.1. term cuts profits from savings</i>
5. Profit-related pay	Treasury/IR (IAE3)	Tax relief for registered schemes.	To be implemented in Finance (No 2) Act 1987	Assess pressure for any amendments to legislation in run-up to 1988 Budget.	Revenue costs depend on take-up

6. Trade Union DE
reform. (IRD, IAE3)

Further protection for individual union members; establish new TU Commissioner.

Legislation

Public expenditure costs of Commissioner

7. Wages Councils and Agricultural DE, MAFF (Pay) Wages Boards

Wages Councils reformed by Wages Act 1986.

Review progress of new regime for Wages Councils DE and MAFF. Early reforms will be resisted by Reconsider Agricultural Wages Boards.

8. Labour Market restrictive practices — which? DE, DTI (Pay, IAE)

Powers exist under 1973 Fair Trading Act, but never used.

To be considered by E(CP) in July 1987.

9. Civil Service Pay HMT (Pay)

Pay working to introduce regional and performance-related pay; and more structured negotiating framework.

Continuing activity.

10. Review Bodies HMT, MOD, DHSS, LCD (Pay)

Pay doing preparatory work.

Submissions to Ministers late autumn.

11. Police Pay HO (Pay)

Seek to moderate rate of increase under Edmund-Davies formula, introduce geographical flexibility. Home Secretary and Chancellor.

Work on review likely to continue to end of year.

A (could)

12. Teachers' Pay

DES (Pay)
To ensure Interim Advisory Committee and successor arrangements lead to flexible pay arrangements for teachers, (eg geog. variation) and reflect affordability (ie no Review Body).

In hand in E(EP) which has remitted to officials for further work.

Decisions needed by autumn on Interim Advisory Committee; also Green Paper (followed by legislation) on future pay arrangements.
DES hanker after Review Body for Teachers; unions and local authorities favour free collective bargaining with minimum voice for Government.

13. Doctors' Pay

DHSS (ST2)
Link pay of GPs to overall performance, as measured by clinical outcome against input.

None.

Requires extension of clinical budgetting to family practitioners (still at pilot stage in HCHS).

14. Other Public Sector Pay (including NIs)

Sponsoring Depts (Pay)
Keep pressure up for introduction of greater flexibility; moderate settlements.

ST2 and Pay to develop ideas. Could not be achieved before 1990s. Major restructuring of doctors' pay; might involve changed role, possibly abolition of DDRB as such. Opposed by medical profession.

15. Private Sector Pay

DE/HMT (Pay)
Continued exhortation

Chief Secretary's autumn letter setting guidelines for colleagues.

SUPPLY SIDE MEASURES - B - HOUSING

COSTS,
SENSITIVITIES ETC

NEXT STEPS

ACTION ALREADY
IN HAND

POSSIBLE MEASURES

DEPARTMENT & TREASURY
DIVISION IN LEAD

SUBJECT

1. Conveyancing	LCD (FTML, HE)	Enable building societies [and other institutions?] to do conveyancing for their own mortgage holders (as long as service priced separately and available to other institutions' clients).	LCD currently preparing regulations to enable institutions to do conveyancing for people not their clients.	Reopen at Ministerial level	Power of legal lobby.
2. Private sector rents	DOE (IG2)	Deregulate for new lettings.	Deregulation of existing lettings rejected by Ministers in 1987 Housing Policy review.	Legislation agreed for 1987-88 Session. Enactment expected mid-1988.	Increasing housing benefit costs as rents rise.
3. Mortgage Interest Relief	IR/DOE (LG2 FP)	Resist pressure for increases.	No reviews planned.	Budget issue.	Additional tax revenues. No direct costs.
4. Public Sector Rents	DOE (IG2)	Rent rises for LA tenants through reduced subsidy and for HA tenants through lower capital grant. Former administrative (proposed by DOE in Survey). Letter legislative. Reduces unfair competition with private sector.	Legislation on HAs in 1987-88 Bill. Survey discussions on LA rents increases made easier if new finance regime (legislation in 1989) allows classification change in treatment of rent surpluses.	Move to economic rents gradually. Rapid moves rejected by Ministers in Housing Policy. Review. Pursue in 1987 Survey.	Housing benefit cost offset by increased private finance for HAs and change in classification for LA.
5. Building Land	DOE (LG2) (PSE)	Loosen planning constraints in S.East to reduce house price pressure.	No action in hand.	Internal economists review in Treasury possible, followed by discussions with DOE.	No direct costs.

DOE Review of the Survey
Wills & Jones
Legislation

B

6. Privat-
isation of
inner city
housing estates

DOE
(LG2)

DOE legislation to
allow Housing Action
Trusts to be set up
in inner cities planned
for 1987-88 Session.
Trusts will take over
estates for renovation/
privatisation.

DOE working up
details and drafting
instructions to
Counsel.

Treasury to
discuss output
and performance
measures, costs/
benefits and
proposals for
evaluation with
DOE over Summer
1987.

Substantial initial
costs with receipts
offset later.
Mr Ridley has bid for
£270 million over
current Survey period

B (contd.)

SUPPLY SIDE MEASURES - C - EDUCATION AND TRAINING

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
1. Higher Education	DES (HE2)	Gear planning of provision more explicitly to the needs of the economy.	Higher Education White Paper (Cm 114) included commitments to a review.	Initiate Review Autumn 1987	DES unenthusiastic and reluctant to proceed. Stress on the 'supply side' aspect could provide helpful stimulus.
2. Training	MSC, DE (IAE) DES	Action to improve effective labour supply by giving basic skills to "unemployables" and improving skills/adaptability of existing labour force.	Restart and new JTS is acting this way for longer term unemployed. TVEI influencing school curriculum.	Further consideration of re-focussing DE/MSD programmes in 1987 Survey.	Possible conflict between supply side and public expenditure objectives.
3. Management education	DE, MSC, DTI, DES (IAE, HE)	Increased emphasis on management training by industry and, possibly, through public provision.	Follow-up to Handy and Constable Reports led by CBI/FME Steering Group.	Ministerial Group (including PMG) to monitor CBI/FME expenditure.	Pressure for higher public expenditure.
4. Extra-curricular educational activities	DES (HE2)	LEAs to charge for activities on more consistent basis.	Consultation document prepared for E(EP)	Issue (July) of consultation document. Response by September. Further consultations on detail. Eventual inclusion in Education Bill.	No provision to be included in first draft of Education Bill, as consultations will still be in progress.

C

5. Student Support. DES (HE2)

6. Education " "
- Reform:
- i) National curriculum.
 - ii) Opting out of schools from LEA management.
 - iii) Open enrolment.
 - iv) Financial delegation to schools.
 - v) transfer of polytechnics and colleges from LA sector.

Loans to replace both student grant and social security payments to students.

Improved education service, more responsive to "consumer" demand, more efficient and with wider parental choice.

Review in progress.

Proposals being worked up for inclusion in Education Bill

Consultative paper to issue New Year 1988.

Draft instructions to Counsel July - September.

No immediate savings but possible long term savings of £100m a year.

(contd.)

SUPPLY SIDE MEASURES - D - ENERGY

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
<u>Onshore Oil</u>					
Investing rights	DEn (PEL)	Bring distribution of benefits and costs into line by vesting rights with IAs.	None.	Inter-departmental Review.	Releasing expenditure constraints for some IAs
<u>BGC</u>					
Industrial gas sales	DEn (PEAU)	Enforce transparency to eliminate discrimination.	OFT may refer to MMC.		
Use of grid	DEn (PEAU)	Enforce transparency in access to allow alternative supplies to develop.	None.	Wait for complaint to OFGAS.	Potentially damaging to BC prospects but should reinforce efforts by BC managers to improve productivity. Will be seen as precursor to privatisation. Unions hostile.
Uniform Pricing	DEn (PEAU)	More cost related domestic prices regionally.	None.	Wait for complaint to OFGAS	
<u>Coal</u>					
Liberalise UK coal industry removing constraints on private sector operation.	DEn (PEL)	Privatisation or more liberal licence regime to increase private sector access, and greater exposure to imports.	CX written to SoS Energy. Relevant to electricity privatisation. DEn paper due on opencast mining.	Take-up in context of electricity privatisation. E(OP) discussion on opencast in autumn 1987.	

D

Electricity

DEn
(PE1)

Electricity
privatisation.

More competition
particularly in
generation. Access
for independent
generators.

DEn considering
strategy

Financial adviser
appointed shortly.
CX to speak to
SoS Energy in
next few weeks.
Measures to promote
competition will have
implications for
costs and timetable
of privatisation.

Indirect Taxes

HFC tax

Treasury FP PE

Abolish or phase out
tax designed to protect
coal.

Looked at in 1986
Budget, but
rejected

For consider-
ation in
Chancellor's
Departments.
Potential
Budget issue.

Revenue cost £70m.
May rise cost of
Frigg gas.

Handwritten notes:
in Highways
in 1986
non-directly
related

D (contd)

1. Water Charges

DOE (PE2)

Increase water charges towards economic levels, reducing taxpayer subsidy to consumers

Continue to raise charges annually, via IFR, up to flotation

Prepare negotiating strategy for Autumn IFR bilateral

Very sensitive with customers and water authorities. DOE resistance to real price increase before privatisation.

2. Water Metering

DOE (PE2)

Charge consumer for water actually consumed as measured by meter. Current charging system based on rateable value. Therefore link between charge and consumption.

Legislation to allow large-scale trials will be introduced in July (subject to Ministerial decisions). DOE will co-ordinate 3-year trials.

No further action by HMT required

Installation of meters country-wider could cost over £1 billion. But trials needed to assess cost of installation accurately. Trials should cost £6-8 million.

mb intervention with charging.

3. Privatisation DOE (PE2)

Transfer utility functions of Water Authorities to private sector as plcs. Certain regulatory, public service duties to be retained in National Rivers Authority (NRA).

Preparatory work in hand. Draft legislation being prepared. Policy and consultation paper on setting up NRA published.

Bill this session to clarify powers of Authorities to prepare for privatisation. Main bill next session.

Opposed by unions and certain environmental groups. Water Authorities very critical of NRA proposals, but overall support privatisation.

SUPPLY SIDE MEASURES - F - COMMUNICATIONS

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
1. Network market entry constraints	DTI (PEAU)	Allow new entrants to network market	Review by OFTEL of Mercury/BT duopoly to 1990	Duopoly expires 1990. Monitoring in interim.	
2. Telecommunications Industry	DTI (IAE2)	Review of policy towards the development of the telecomms sector over the next 2 decades following the Peacock Report and the privatisation of BT with a view to increasing competition for value added services.	Study contract awarded to PA Computers and Telecomms Ltd; public consultation document issued April 1987. Completion date mid/late 1988.	To be decided in light of outcome of study.	
3. Radio frequency spectrum	DTI (IAE)	New management regime	DTI working up proposals	E(CP) discussion in Autumn 1987	
4. Needletime	DTI (HE2)	Curtailment/removal of copyright owners and artists power to restrict broadcasting time devoted to playing records.	Ministerial consideration of follow-up to Radio Green Paper.	E(CP) discussion in Autumn 1987.	DTI resisting Government intervention.
5. Broadcasting	Home Office (HE2)	Create an effective broadcasting market.	Ministerial consideration of follow-up to Peacock Report.	Consider development of ITV contracts, C4 financing and independent producers in July 1987; subscription TV in October 1987.	ITV and BBC resistant to independent producers. Consultancy study on subscription already available.

T

6. Post Office DTI (PE3)

1. Abolish £1 letter monopoly.

2. Introduce more private sector finance into Counters eg franchising of Crown offices.

3. Separation of businesses to end cross-subsidy.

4. Allow Counters to offer more services (mainly to private sector).

Will take some years if more than a temporary suspension. Legislation required for more than temporary suspension.

Ministers agree Corporate Plan in E(NI) or correspondence.

Ensure implementation proceeds as planned.

Ministers to agree Corporate Plan: E(NI) or correspondence.

Need to persuade DTI Ministers first - may be difficult. Problem of ending of uniform pricing and effect on rural services.

Probable union opposition.

Competition with Banks, Building Societies and others.

None.

Proposal in PO Corporate Plan. Implementation over 4-5 years.

Action in hand Implementation over next 2 years.

Action plan contained in Corporate Plan.

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SUPPLY SIDE MEASURES - G - HEALTH

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
1. Health Service Pay	DHSS (ST2, Pay)	Give Health Authorities more scope to adjust pay levels to reflect regional factors and individual performance, within limits on cost.	Needs to be explored in Treasury, then with DHSS. (Also Review Body diversion).	ST2 and Pay to develop ideas for 1988.	Whether this would deliver cheaper result is questionable.
2. Health Service working practices	DHSS (ST2)	Review of respective roles of doctors and nurses, to encourage more flexible working practices.	None. Needs to be explored in Treasury.	ST2 to develop ideas for 1988.	Opposition from medical profession.
3. Personal Social Services	DHSS (ST2 and LG2)	Include home helps and meals on wheels as services compulsorily put to competitive tender.	Depends on passage of Local Government Finance Bill.	Agree with DHSS and DOE.	Many services provided by volunteers so large savings unlikely. Opposed by NAIGO.
4. Health Services	DHSS (ST2)	Vouchers for wheelchairs (instead of provision of wheelchairs), to promote greater consumer choice.	None.	Requires legislation. ST2 to develop proposals for 1988.	Opposed by Health Ministers, and by Disabled Lobby (if accompanied by means testing which is necessary to avoid deadweight cost).
5. Hospital Services	DHSS (ST2)	(a) Contract out provision of clinical services to private sector. (b) Further development of internal market by HAs (cross-charging, publication of waiting times in different areas).	Some temporary initiatives under way, eg use of private abortion clinics. Under way by NHS Management Board. No further Treasury initiative necessary.	ST2 to consider. Monitor and report progress.	Requires re-thinking policy on unconventional finance. Popul with patients. Dislik by NHS professionals.

G

6. Residential DHSS (ST2, IG)
Care Homes.

Set national instead of
IA standards (eg star
ratings), for Residen-
tial Care Homes,
improving basis for
Consumer choice.

None. Needs to be
explored in Treasury.

ST2 to develop
proposals.
Probably needs
legislation

Popular with
Residential Care Home
owners. Likely to be
opposed by LAs.

7. Drugs: Input DHSS (ST2)
to FPS.

(a) Impose generic
substitution.

Raise again
with DHSS in
1987 Survey.

Requires co-operation
of pharmacists.
Opposed by Health
Ministers, doctors, and
drug companies. Public
expenditure saving of
at least £25mpa likely

(b) Purchase
Index system to
re-imbursement
pharmacists dispensing
generic drugs.

Pilot exercise
proposed for 1988.

Under discussion
in E(CP).

DHSS opposed.
Pharmacists likely
to oppose. Small
public expenditure
savings likely.

8. Welfare Milk DHSS (ST2)

Replace welfare milk
tokens with cash
vouchers.

ST2 developing
proposals.

Pursue in
Survey as fall-
back to effec-
iency savings
from better deal
with Dairy
Federation.

Health Ministers
and pressure groups
likely to oppose.
Small public
expenditure saving.

9. Pharmaceut- DHSS (ST2)
ical Services:
Input to FPS.

Put provision of drug
dispensing services
to competitive tender.

None.

Work up proposals
to put to DHSS.
Could be imple-
mented in 1989.

Opposed by pharmacists
Number Ten not keen.
DHSS worries about
securing "adequate"
service.

G (contd)

SUPPLY SIDE MEASURES - H - TRANSPORT

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
<u>Indirect Taxes</u>					
1. Fuel tax Rebate	HMT (HE), DTP (FP)	Abolish £130m rebate to over 12 seater buses.	None.	HE and FP to develop proposal. Budget issue.	
<u>Buses</u>					
2. LA bus subsidiaries	DOE (HE)	Ensure cost of capital reflected in tenders. Require return on equity capital in Transport Bill.	None. Needs work in Treasury.	HE to develop proposals	STG have complained of unfair competition.
<u>3. Ports</u>					
	DTP (HE1)	Turn public trust ports and IA ports into Companies. Privatise former if possible. End public financial support for ports.	Proposals from S of S for Transport for decision in July 1987	Ministerial decision. If agreed, Bill in 1987-88	
<u>4. Pilotage</u>					
	DTP (HE1)	Make pilotage a port responsibility and abolish Pilotage Commission.	Legislation passed this year. DTP. already taking steps to implement.	Monitor progress of implementation.	

Mission - no direct

National roads DTP: HEL

a) Fee competition amongst engineering consultants introduced January 1985 for main commissions

Industry concerned by effects on project quality

Monitor results and extend to other projects if appropriate.

b) 'Design and build' contracts: increase design freedom of contractors.

2 trial projects in 1987-88

Evaluate trials and extend if appropriate.

c) Lane rental for maintenance contracts: tenderers must take account of completion times.

Trials since 1984-85

Evaluate trials for decision on extension

6. Local roads DTP (HEL, LG)

Extend tendering of maintenance contracts

All major contracts and some smaller ones now tendered

Regulations to Local Authorities require more of smaller contracts costs will increase to be tendered - for 1988-89.

7. Vehicle Licences DTP (HEL)

Tender licence issuing work, currently undertaken by Post Office

Tenders from banks and building societies to be invited this year.

Letting of tenders.

8. Shipping DTP (HEL)

End cabotage restrictions within EC

Council of Ministers failed to agree. Further measures will take some years to complete.

Bring case to European Court of Justice.

9. Taxis DTP (HEL)

Decontrol of fares in London; other deregulation measures.

Taxi sharing arrangements permitted outside London from 1986.

DTP study of effects of fares decontrol. Risk of overcharging traffic congestion.

10. Heavy goods DTP (HEL)

a) Liberalisation of controls on foreign hauliers in all EC countries.

Increase in road haulage permit quotas agreed in 1987.

Further proposals to be considered next year. Reach agreement between Member State on long term liberalisation. Place on E(CP) programme.

H (contd)

b) Relax 'O' licence requirements

Bill proposed by DTp; not included in 1987-88 legislative programme

Get legislative slot. Place on E(CP) programme

Increased environmental nuisance

(radical alternative: abolition of 'O' licences)

(abolition not proposed, requires work in Treasury).

Submission on abolition.

c) Increase weight limits

UK has derogation from higher EC limits. No change likely at least until bridges strengthened.

Agreed bridge strengthening programme

Environmental objection

11. British Rail DTp (PE3)

1. Intercity out of grant

Agreed. Intercity out of grant after 1987-88.

2. Disposal of British Transport Advertising.

Bids sought

Disposal

3. Review of future of BREL; in addition disposals of Doncaster Wagon Works.

Price Waterhouse review future size and structure of BREL's New Build and Repair Group. DWW being established as a separate subsidiary, bids sought.

PW's interim report now due. DWW disposal likely this summer.

High redundancy costs
Union opposition.

4. "Traveller's Fare" sites out to tender; eventual disposal of Traveller's Fare.

Tendering process under way. BRB have agreed in principle to disposal of TF at some point in future.

Tenders sought. TF restructuring as a separate company needed prior to disposal.

5. Review of scope for more bus substitution.

Objectives require BRB to review whether buses can be substituted where convenient and cost effective.

Review to continue.

H (contd.)

British Rail
(continued)

6. Remove Network South East from PSO.

No current proposals. Objectives require significant reduction in grant requirement by 1989-90.

Review in light of NSE's progress to 1990: demand; fares structure; cost reductions.

7. Pay PSO on declining passenger mile basis.

No current proposals.

Review in 1989-90 Political and union opposition.

DTP
(PE3, PEAU)

12. Civil Aviation

1. Competition for airport air traffic control.

Review by CAA accepted by DTP. Competition for ATC services at BAA airports in principle comes into effect with BAA privatisation.

Implementation in practice a commercial matter for BAA plc.

2. Investment to prevent airspace rationing

LATCC II scheme to be considered in IFR.

Consideration in IFR 1987

Possible inter-action with option 3.

3. Review pricing of landing time slots to reflect peak landing.

None.

Would require CAA review. PEAU to develop ideas for 1988.

Possible inter-action with option 2.

4. Greater competition on EC air routes.

1984 White Paper policy to increase competition. European Commission proposals discussed at June 1987 meeting of Transport Ministers.

EC proposals stalled over Gibraltar. UK and Spain to attempt to resolve bilaterally. Further meeting of Ministers in October.

H (contd.)

13. London Regional Transport

DTP (HE1, PE3)

1. Put routes out to tender
2. Deregulation of buses in London

In hand

Transport Act 1985 gives basic powers.

Union opposition

Further enabling legislation
DTP propose implementation 1990. LRT to prepare for deregulation, restructuring, etc before 1990.

Union opposition
Restructuring costs.
Problems with combined services and congestion.

3. Reduce constraints on LUL/NSE price rises.

BRB objectives require fares structure increasingly to reflect cost of provision; new LRT objectives will do the same and break link with BR NSE fares and inflation.

New LRT objectives to be finalised in summer 1988 and agreed.
Fares for BRB and LRT.

Elasticity of demand for services.

4. Privatisation of LUL.

No current proposals. Difficult to do in way increasing competition scope for franchising over definite period.

Review at end of new objectives period (1990)

Political Union opposition. DTP currently opposed

5. Bus Engineering Limited out to tender.

No current proposals.

Union opposition.

SDD (PE3)

- Privatisation of SBG
Probably requires legislation.

Ministers to consider in autumn.

Rural services politically sensitive. Problems ensuring competition.

DTP (HE1)

- Introduce electronic road pricing in selected areas.

Ministers to consider policy issues in 1987-88.

Strong opposition from road users.

H (could)

14. STG

15. Road Pricing

SUPPLY SIDE MEASURES - J - OTHER PUBLIC SECTOR

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
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1. Public Purchasing

Treasury - TOA/PE

Further/more effective advertising by public purchasers in EC, US, Canada, Japan, etc resulting in

- a. greater pressure on UK purchasers including nationalised industries to obtain value for money.

Improvements in GATT Agreement on Government Procurement due to come into effect in 1988. More far-reaching EC proposals being discussed as part of programme to complete internal market by 1992.

Further proposals from European Commission expected later this year. Need to avoid excessive administrative burden. Nationalised industry resistance.

2. Public Purchasing

" "

Stronger action to encourage public purchasers to get better VFM could include requiring central approval before using exemptions to EC & GATT rules; and requiring them to reflect the proportion of overseas firms among candidates in those invited to tender.

Second suggestion already part of PSA instructions. Similar proposal in Commission draft of amendments to Works Directive.

No plans. Action could be taken alongside changes that may be required to implement Commission's proposals to strengthen enforcement of directives.

Some UK interests may oppose additional competition in domestic market.

3. Charging for FCO - AEF1/IAE2 services to exporters overseas

Introduce charging for services provided to exporters by FCO's overseas posts.

a. pilot study under way on charging ECGD for FCO input to ECGD's services to exporters.

Departments are arguing strongly that any increased revenue from charging must be ploughed back as increased provision for these services.

b. review of BOTB charging policy complete

b. report being considered by BOTB.

FCO are reluctant to consider charges for services hitherto provided free at port.

c. PAC report to be published shortly expected to recommend increased use of charging.

c. action awaits public-action of the Report.

4. British Shipbuilders

DTI (PE3)

Close capacity

No current proposals. The major BS yards have work until 1989.

Ministers to discuss BS Corporate Plan in E(NI) in Autumn.

Yards are in areas of high unemployment.

5. British Steel Corporation

DTI (PE3)

1. Privatisation

Initial Merchant Bank advice taken. Legislation required Possible by 1989-90 at earliest.

Ministers to agree timetable once strategy agreed (below).

Capacity closure probably required in Scotland.

2. Close capacity.

No current proposals

Ministers to discuss BSC strategy in 6-9 months.

Capacity to be closed in areas of high unemployment

3. End EC quota regime

Discussions continuing in Brussels. Other EC Members opposed to removal of quotas.

Industry Council in Autumn.

J (contd.)

6. Local Authority competitive tendering DOE (LG1)

Require local authorities to put more services out to tender (refuse collection, cleaning, catering, vehicle and ground maintenance.)

1. Introduce Regulation implementing new regime from 1.4.89

Annual savings 10 per cent (over £200 million) expected when legislation fully implemented

2. Add management of leisure facilities

2. Issue consultation paper on management of leisure facilities.

7. Local Authority fees and charges Environment (LG1)

Encourage local authorities to set fees and charges at economic levels

Review of LA fees and charges completed but decisions yet to be announced. Increased LAs' powers to charge and remove some central controls.

Announce decisions by statement and consultation paper. Primary legislation needed, would reduce net public spending. 1987-88.

8. Untying of depts from common service agencies PSA (LG2, RCM)

Extension of agreed untying arrangements between PSA/Depts to areas yet untied

Discussions in hand (being considered by inter-departmental committees.)

Any extra running cost expected to be offset by better value for money in cost of bought goods and services

Next report October 1987. Report to PM in the autumn (by CUP with input from RCM.)

9. Market testing for services currently provided in-house, incl. computing services. RCM - policy CUP - monitoring Expenditure Divisions) - on-going work)

Maintain/increase pressure on departments to consider new areas.

Departments required to consider possibilities as widely as possible. CCTA preparing methodology for managing contracted out computing services.

Depends on report for the PM likelihood of continuation of present policy.

Difficult area for departments to get to grips with industrial relations problems.

J (contd.)

10. Rover Group

DTI (IAE2)

Return remaining businesses (ie Austin Rover Group (cars) and Land Rover) to private sector ownership.

Current Corporate Plan envisages sale of Land Rover in 1989; no fixed timetable for ARG disposal.

LR - await Lord Young's proposals.

Sale of LR to British bidder would have no major presentational or cost implications (foreign sale more difficult).

ARG - consider in light of 1988 Corporate Plan (first draft expected autumn 1987.)

On LR Lord Young is considering an earlier sale with a view to reaching preliminary conclusions in the Autumn.

ARG disposal could be politically contentious and would cost £750m/£1 billion in debt write off.

Spinning

On ARG Graham Day proposing possible flotation in the early/mid 1990s.

Remove August peak of new car sales by changing registration number system.

DTP in negotiation with vehicle manufacturers to shift new registration from August.

Await outcome of consultation process.

ARG in favour
Multinational opposition
Current arrangements give them advantage over ARG. Some dealers also oppose.

J (contd)

SUPPLY SIDE MEASURES - K - FINANCIAL SERVICES

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURE	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
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1. Financial
Services
(EC issues)

HMT; DTI
(FIM1, FIM2, IAE3, EC)

Various measures with possible financial services supply side effects currently under discussion, in particular

(i) Mutual recognition of banking supervision (2nd co-ordination Directive).
1990s - progress slow

(ii) Mortgage credit directive (mutual recognition of host country supervision and different mortgage instruments);

(iii) Freedom to provide insurance services.

(iv) Abolition of taxes on securities transactions
Commission proposal still before Council.

(v) Harmonisation of securities regulatory regimes.

Many of these measures with possible supply side effects cannot be implemented until other proposed directives (eg on solvency ratios, own funds etc) are in place

UK opposed at present. Possible reconsideration in Budget context.
Potential loss of £1bn revenue UK opposed on Revenue grounds.

K

DTI
(FIM2)

2. Financial Services Commissions/ Polarisation

SIB to change rule book to reduce restrictions on who can do different types of business and commissions.

DGFT and SIB already said will keep FS rules under review; but full effects of rules may be seen till 1988.

Treasury Ministers to query new commissions (max-imum commissions and agreement) and restate support for (alternative) greater disclosure.

Could delay new FS regime. Throws doubt on decision to delegate FSA powers to SIB. Intermediaries arguing for general increase in commissions, which could delay new rules.

3. Retail gold market
DTI; HMT
(FIM1 & 2, FP)

Most gold-dealing at the retail level is done off-shore. Follow Swiss lead in removing or greatly reducing VAT on sales of legal tender gold coins.

Rejected when considered previously

Budget issue

A 1 per cent stamp duty instead of VAT might well increase revenue. Might have to apply to gold coins: sensitivity re recent VAT frauds.

4. Financial Reporting by Companies.
DTI
(IAE3, CA, PEAU, FIM2)

(a) Require current cost information to be given in accounts of large companies.

Discussions with accounting profession (DTI); discussions with Bank/Inland Revenue (HMT) and Stock Exchange (HMT/DTI); review by Accounting Standards Committee.

Discussion between DTI and HMT Ministers early in autumn 1987.

General impact on public and private sector accounting and Stock Market. Attitudes and speed of response of accounting profession "The City", DTI (not previously wholly supportive); Industry (opposed to greater regulation), Technical Complexity of subject - no clear consensus on best way forward.

(b) Clarify law on what may be included in balance sheets.

(c) Reduce options available for accounting for mergers and acquisitions.

(d) Reduce options available as to comprehensiveness and frequency of revaluations recorded in company accounts.

(e) Legislate to encourage/require company reports to reveal economic performance rather than level of distributable profits.

(could)

DTI
(FIM1 & 2, FP)

5. Wider share Ownership
HM Treasury; DTI
(FIM2, IAE3, CA, FP)

a. Reduce transactions costs.
See also KI above.

b. Reduce costs to companies and PEP managers of maintaining large shareholder lists, and encourage greater shareholder interest:

(i) allow two tiers of company reports and accounts:

- mandatory long form, as at present

- optional short form for all shareholders with ordinary shareholders' rights.

6. Taxation of savings (level playing fields)

FIM/FP

Possible changes either to taxation applied to different institutions through which savings channelled (eg unit trusts, pension funds, life assurance etc); or to individuals depending on their pattern of savings/investment eg relief for pension contributions, BES, PEPs, etc.

7. Girobank

Department of Trade and Industry (PE3)

Privatisation

Girobank already a plc. Could be done relatively quickly once decision taken.

Union opposition

Minister to agree timetable (DTI Ministers in lead).

Budget matter

PEP review to report to Ministers by end July.

DTI carrying out internal consultations - report to DTI Ministers autumn 1987.

May be costs to companies from increased shareholder lists.

Potential Budget issue.

Action by City?
how?
100% (15/11/87)

Not done - see PE3

K (contd)

SUBJECT DEPARTMENT & TREASURY DIVISIONS IN LEAD

POSSIBLE MEASURES

ACTION ALREADY IN HAND

NEXT STEPS

COSTS, SENSITIVITIES ETC

Focus consumer attention on economic costs of protective trade measures.

Standing remit to establish body such as National Consumer Council to study costs of protection on reference from DTI Ministers.

DTI studying return of greater effort in this area. National Consumer report on CAP due out April 1988.

Submission shortly to Chancellor

Might result in additional demand for public expenditure up to possibly £5m.

Handwritten note:
N. Kelly

Sustain pressure for removal of Voluntary Restraint Arrangements (and other trade measures operating outside GATT)

Remove or set limits on continuation of all Voluntary Restraint Arrangements (subject to appropriate judgement of public expenditure costs/privatisation prospects).

Correspondence with DTI Ministers questioning basis of recent decision to retain machine tool, footwear and special steels VRAs. Debate in E(CP) later this year on future of DTI's review of measures.

On E(CP) agenda for autumn.

DTI Ministers have retreated from earlier commitment to scrap VRAs automatically unless a sound case is made for their retention; vehicles VRA next for review likely to be sensitive

Export support through ATP and Fixed Rate Export Finance

1. Further progress toward international agreement to reduce subsidies.
2. Unilateral action by UK to abolish/curtail subsidies.

1. ECGD writing up paper on international negotiating objectives for agreement before summer holidays.
2. None.

1. Interdepartmental clearance at official level Ministerial agreement by correspondence expected Oct/Nov 1987

1. Treasury may wish to go further (eg on differentiated rate system) than ECGD/DTI But scope over next 2 years probably less anyway than in previous.
2. Savings small but indeterminate.

2. Would need Treasury Ministers' agreement to open up issue with Departments.

2. Minimal chance of colleagues agreement. DTI/ECGD strongly opposed. ODA less so. Would reduce UK firms chances of winning large export orders with likely closures and short term job losses. Savings on FREF could rise to £30m per annum after 3 years; on ATP to £80 per annum after 3 years.

Liberalisation
of capital
movements

Moves towards
EC internal
market.

Await
Commission.

None

Non-
renewal of
MFA

DTI (AEFL)

Keep MFA in forefront
for GATT negotiation,
and ensure no renewal
beyond 1991 when it
expires.

None.

DTI agree to MFA in
GATT negotiations in
exchange for reciprocal
market opening by
IDCS. Negotiations
starting 1988 in
EC towards mandate.

DTI to clear
line before
mandate cleared
(mid 1988) with
FAC. Substantive
GATT negotiations
unlikely to begin
before late 1988.

CAP

MAFF
(IAEL, EC, IF)

Work for more market
oriented CAP with
reduced support levels
and tighter expenditure
control.

Current focus EC
financing review.

Prepare detailed
negotiating
brief in EC
context. Subse-
quently in
GATT Round
negotiations.

Progress likely to be
slow given foot
dragging by other
Member States.

(contd)

SUPPLY SIDE MEASURES - M - INDUSTRY

SUBJECT	DEPARTMENT & TREASURY DIVISION IN LEAD	POSSIBLE MEASURES	ACTION ALREADY IN HAND	NEXT STEPS	COSTS, SENSITIVITIES ETC
Regional Policy (See also M9/M10)	DTI (and Scottish, Welsh Offices, NIC and DOE) IAE2	<p>Increase cost effectiveness of regional assistance by:</p> <ul style="list-style-type: none"> • further reducing regional development grants; • redrawing Assisted Area map to focus on priority areas; • regional selective assistance 	<p>Treasury officials considering improved targeting in the context of the 1987 Survey and work on greater emphasis on inner city areas.</p> <p>DTI and Cabinet Office preparing interim report on inner cities for end July for E(UP).</p>	<p>Treasury to suggest reorienting regional assistance towards inner cities as input to Cabinet Office reports. Pursue in 1987 Survey.</p> <p>Final report scheduled for end September.</p>	<p>Major redrawing of map politically very contentious though presentational problem could be ameliorated by linking to Cabinet Office with shift of resource to inner city areas.</p>
Industrial R&D	DTI, MOD IAE2, DM	<p>Reduce dependence of private sector on government-funded R&D and encourage increased R&D by industry by reduced/better targetted spending.</p>	<ul style="list-style-type: none"> • MOD already announced intention gradually to reduce resources devoted to R&D. • Encouraging accounting standards bodies to make R&D disclosure mandatory in company accounts (decision expected in autumn 1987) • Industrial Support Review (ISR) limited circumstances for government intervention 	<ul style="list-style-type: none"> • Further Treasury attack in 1987 Survey on scale of defence R&D to reduce R&D intensity of MOD procurement. • Press for reduction/removal of industrial sponsorship role of DTI perhaps coupled with restraint on DTI R&D support. Pursue in 1987 Survey. 	<ul style="list-style-type: none"> • Major opposition from MOD and defence contractors.

See for A. M. 12.01

Review of operational implementation of information requirements due in Summer 1987.

• Seek more rigorous application of ISR criteria to achieve better targeting of DTI funds.

Milk Marketing Board MAFF IAE

Break the statutory monopoly on milk marketing

Dairy Crest commercial arm to be more independent but wholly owned subsidiary.

Review due in 1988-89

Single producer co-op: strong objections from dairy farmers.

Potato Marketing Board MAFF IAE

Abolish Potato Marketing Board

Review scheduled for 1988.

Initiate review with MAFF Ministers

£1.8m admin saved. Independent producer organisation; some opposition to abolition approx. £6m PES.

British Wool Marketing Board MAFF IAE

Break the British Wool Marketing Board statutory monopoly. End Government guarantee price

Review scheduled for 1988
Current contract with Government ends 1990.

E(CP)

Intense political objections from sheep farmers

Mergers/RTP Review DTI (IAE)

Institutional changes to merger control. Change from form to effects based RTP legislation.

DTI-led interdepartmental review

Ministerial consideration in Autumn 1987.

Licensing/shop opening hours/Sunday trading.

Home Office (DE, DTI, IAE)

Further relaxation of shop opening/Sunday restrictions.

Home Office proposals for legislation on liquor licensing hours. now under consideration.

Open to Treasury Ministers to press for radical approach in H.O. review of shop hours - candidate for E(CP) later this year.

M (contd.)

0217 1 P00

Professions

DTI (IAE, HE)

Removal of patent agents' monopoly.

(i) Doctors' and dentists' advertising

(ii) and (iii) to E(CP) in Autumn 1987.

YR
(ii) Legal profession.

Urban Programme DOE (LG2)

Concentrate on increasing workshop/commercial premises provision and training of inner city residents. Switch UP resources to initiatives more likely to achieve this ie: ICI, UDCs

Ministerial Guidelines already presses LAs to concentrate on economic projects.

Could add to pressure by reducing UP resources in Survey with transfer to UDCs etc. DOE to work up in Summer 1987 proposals for low budget UDCs - could gradually displace UP.

Pressure for additional resources for urban measures continual but scope for reallocation within existing provision.

New urban initiatives

DOE/DTI (LG2)

Target new initiatives on growth centres rather than 'black spots' to maximise potential outputs and spin-offs for most difficult areas.

None.

Need to react as new initiatives proposed. Press case in context of low-Budget UDCs, Housing Actions Trusts and any proposals for expanding Inner Cities Initiative.

Additional costs associated with initiatives themselves but these would arise anyway.

W. S. ...

M (contd.)

S E C R E T



FROM: P D P BARNES
DATE: 28 July 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PCC
Mr Byatt
Mr Monck
Mr Burgner
Mr A Edwards
Mr Gilmore
Mr Hawtin
Mrs Lomax
Mr Moore
Mr Mountfield
Miss Peirson
Mr Scholar
Mr Spackman
Mr Gray
Mr Guy
Mr Cropper
Mr Tyrie

SUPPLY SIDE MEASURES

The Economic Secretary has seen Mr Monck's submission to the Chancellor of 23 July.

2. The Economic Secretary had the following additional ideas for supply side measures:-

Labour Market

- i) Phase out retirement earnings rule.

Housing

- ii) Review/abolish Housing and Homeless Persons Act.

Education

- iii) Extend all "Baker" plan reforms to Scotland.

S E C R E T

PS/EST
TO
PS/CH
28/7

- iv) Introduce per capita funding for higher education.
- v) Encourage schools etc to open or hire out swimming pool sports facilities outside school hours or when not in use.

Energy

- vi) Raise limit of employment in private pits.
- vii) Auction on-shore oil licences.
- viii) Nullify British Gas contracts with suppliers, specifying no future direct supplier through grid.

Communications

- ix) Privatisise Post Office and end monopoly.

*(as per's in
speech
Royal Mail.)*

Health

- x) Introduce internal market in operations/treatment between area health authorities.
- xi) Introduce tax rebate for medical insurance up to (fraction of) average cost of NHS treatment for each age band.

Transport

- xii) Privatisise buses in Scotland

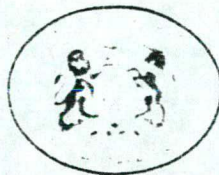
Financial Services

- xiii) Encourage TSA to allow cold calling by telephone to recruit new investors (not to transact business).
- xiv) Review/abolish Control of Borrowing Order and new issue queue.

PC

S E C R E T

prep



FROM: P D P BARNES
DATE: 20 July 1987

PS/CHANCELLOR

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PCC
- Mr Byatt
- Mr Monck
- Mr Burgner
- Mr A Edwards
- Mr Gilmore
- Mr Hawtin
- Mrs Lomax
- Mr Moore
- Mr Mountfield
- Miss Peirson
- ~~Mr Scholar~~
- Mr Spackman
- Mr Gray
- Mr Guy
- Mr Cropper
- Mr Tyrie

Mr Kuczyk

*I hope the Chancellor
will add (xi) to the list - or
ask us to do anything on it.
HCS 2917*

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Education

- iii) Extend all "Baker" plan reforms to Scotland.

S E C R E T

2/8/87



FROM: S P JUDGE
DATE: 5 August 1987

PRINCIPAL PRIVATE SECRETARY

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PCC
- Mr Byatt
- Mr Monck
- Mr Burnger
- Mr A Edwards
- Mr Gilmore
- Mr Hawtin
- Mrs Lomax
- Mr Moore
- Mr Mountfield
- Miss Peirson
- Mr Scholar
- Mr Spackman
- Mr Gray
- Mr Guy
- Mr Cropper
- Mr Tyrrie

*More grateful to Monck than
Byatt for his vi compulsory
paper I wd like to hold a
discussion (all main points) as M & M
suggest in para 14. Meanwhile, I
am grateful of his letter
but do not know how
own 'top ten' for this doc: we
clearly need to think where to pass
resources. (Also: do we
supply-side unit?)*

SUPPLY SIDE MEASURES

*PS. AA/IT
PST at show me over a table
years 1977-1986, plus 1987-
to date, plus 1988-
M & E (S) BM - (a) \$,
plus
to be done
fact you
of these
avg
values.
T.A.*

PS/PMG
TO
PPS
S/B

The Paymaster General has seen Mr Monck's submission to the Chancellor of 23 July, which he found a very interesting and worthwhile quarry.

2. He had a few detailed comments. I would be grateful if the underlined officials could arrange for short notes on them:

i. **C.1 (Higher Education)**: the Paymaster thinks it would be worth a Minister having a word with Mr Jackson. He is unsure how much the final column ("DES unenthusiastic and reluctant to proceed") reflects Ministerial or official reaction, but his reports are that Mr Walden, who came to HE in part by accident, had specific rather than general interests. He thinks Mr Jackson is likely to be more sympathetic on science and engineering;

ii. **F.4 (Needletime)**: what is the significance of this - is it a restrictive practice? (Mr Gilmore);

CONFIDENTIAL

iii. H.13.4 (Privatisation of London Underground): why is DTp opposed to this? (Mr Gilmore);

iv. K.3 (Abolish VAT on sales of gold coins): the Paymaster is attracted to this, recognises the risk of attendant flak, and is prepared to live with this;

v. M.2 (Industrial R&D): given the strong line we have taken on EC R&D (in particular the Italian research centre), how good a reading do we have on the quality of the R&D we found at DTI research establishments? (Mr Burgner).



S P JUDGE
Private Secretary

CONFIDENTIAL

FROM: CATHY RYDING
 DATE: 13 AUGUST 1987

BIF 27/8
 [Handwritten initials]

MR MONCK

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 PCC
 Mr Byatt
 Mr Burgner
 Mr A Edwards
 Mr Gilmore
 Mr Hawtin
 Mrs Lomax
 Mr Moore
 Mr Mountfield
 Miss Peirson
 Mr Scholar
 Mr Spackman
 Mr Gray
 Mr Guy
 Mr Cropper
 Mr Tyrie

CR
 TO
 MONCK
 13/8

SUPPLY SIDE MEASURES

The Chancellor was most grateful for your and Mr Byatt's very comprehensive paper of 23 July. He has also seen PS/Economic Secretary's minute of 28 July and PS/Paymaster General's minute of 5 August.

2. The Chancellor would like to hold a meeting on your submission as you suggest in paragraph 14. Meanwhile, he would be grateful if you and Mr Byatt could let him know your own "top ten" from this list: we clearly need to decide where to press hardest and to devote resources. (Also, do we need a supply side unit?)

CR

CATHY RYDING



Check what has
to XR
80s

Ch

copy

his
improvements

I agreed with PEM to hold this back for August reading / possible September meeting.

my
agenda

It's a pot-pourri of bits & pieces - some already in hand & some already ruled out. Objective was to provide brief survey across whole ~~area~~ ^{area} to see if any gaps emerge or if there are things needing a post. can readily commission fuller note on any individual subject.

AA

See note on paper
immediate
below

CONFIDENTIAL

FROM: N MONCK

DATE: 12 October 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 PCC
 Mr Byatt
 Mr Burgner
 Mr A Edwards
 Mr Gilmore
 Mr Hawtin
 Mrs Lomax
 Mr Moore
 Mr Mountfield
 Miss Peirson
 Mr Scholar
 Mr Spackman
 Mr P Gray
 Mr Wynn Owen
 Mr Cropper
 Mr Tyrie
 Mr Call

SUPPLY SIDE MEASURES

Rayley
19/8

You are holding a meeting tomorrow afternoon to discuss the submission which Mr Byatt and I sent you on 23 July. There has been considerable progress since then. The Economic Secretary suggested some additional measures (minute of 28 July) and you have received the promised submissions. So the state of play summary and some of the individual measures are therefore no longer up to date. But the questions in para 2(a) to (c) of my covering minute still provide relevant agenda items. In brief these were:

- (a) whether the list of measures was adequate in scale;
- (b) which were the most important areas and whether you saw major gaps or imbalances;
- (c) whether, as part of the follow up, you want to push some measures outside your own responsibility (or to drop some)?

"Top Ten"

2. You asked (Mrs Ryding's note of 13 August) Mr Byatt and me to contribute to

C/ This is a good note from Nick which should refresh your memory on all of this. It also covers points you may want to cover at the meeting

There are a lot of background papers ^{CR 12/10} for this - I've tried to flag them with yellow flags to make it easier

↑
Nick has in mind

1. Redley of 19/8 on Protection and the consumer (Yellow flag 1)

2 Task force stuff on NICS

3 Tony Wilson's ^{Accountancy initiative} ~~Supply Side~~ (Yellow flag 3)

→ Not included here because all task force + you probably won't want to mention it at this meeting because several people aren't on list (but we'll send papers if you wish) CR

(b) above by nominating a top 10. This is not easy but we suggest the following references to annexes in brackets):

- But can in practice be v expensive*
- Bananas!*
- (a) Increase labour mobility. Housing policy, including the supply of housing land, is one key element (B5);
 - (b) Increase pay flexibility in public sector and elsewhere (especially regional differentiation which is another key to labour mobility) and attack pay review bodies (A9, 12, 14, G1);
 - (c) Trade policy. Avoid protectionist measures. Roll back voluntary export agreements, protectionist public procurement etc. (L2, J1-2, L1 also relevant);
 - (d) Tax policy - reduce marginal tax rates and reduce distortions to savings instruments (A2, K6);
 - (e) Reduce subsidies to, and raise the rate of return in, nationalised industries (E1);
 - (f) Get a competitive solution to electricity (and coal) privatisation (D6, D5);
 - (g) Get agreement on a longer term framework for the reform of the CAP (L6);
 - (h) Liberalise - ie more choice, competition and more private money - in health and education (C6, G5, 6, 9);
 - (i) Improve information in accounts (public and private sector) for investors and consumers (K4 and L1).

3. As set out here this is only 9. This allows either training (C2) or FIM's candidate of wider share ownership measures (eg K5) to be added.

FOLLOW UP

4. Most of the Top Ten are already in hand, as you know, and so are many of the other items in the annexes. They probably do not call for discussion at your meeting unless you see a need to exert some new pressure on your colleagues at this point. Treasury divisions will pursue them as part of their continuing work. But it is useful for them to know that you support the measures, give high priority to work on them and to keep you in touch, and that you are ready to intervene

If officials run into roadblocks. Some particular cases where we suggest you pursue these measures through E(CP) or in correspondence are mentioned in paras 6-10 below.

A Supply Side Unit?

5. We do not see a case for a supply side unit. The natural and more effective arrangement is for lead Treasury divisions to be responsible for following up specific measures, including liaison with responsible departments. IAE3 can do a light co-ordination job amounting to a periodic progress check, just as they do on the work of E(CP).

E(CP)

6. You will want to use E(CP) as a vehicle for pushing forward work on supply side issues. Since the Election the Committee has been given some renewed impetus (although the latest meeting had to be cancelled because of the Lord Chancellor's illness). Most of the items identified as E(CP) possibilities in the state of play summary in the submission of 23 July are being pursued there. The next meeting (probably after the Autumn Statement) will cover:

- legal profession;
- other professions more generally;
- X - drugs procurement (Mr Fowler's letter of 29 September); (with comp. initiative papers below)
- needle time.

Radio frequency spectrum management should be taken in the New Year. Licensing opencast coal and other private mining activities will be discussed separately.

7. The Lord Chancellor's paper E(CP)(87)8 on the Legal Profession has been described in a Cabinet Office minute to you as "largely an argument for doing nothing", at least about the fusion of barristers and solicitors. A note on barristers by HE is annexed to this minute.

8. Lord Young has invited additional proposals for inclusion in the Competition Initiative following the E(CP) conclusion that the existing document - Annex A to E(CP)(87)6 - might be expanded.

9. Most of the obvious candidates are already included. But you may want to consider at your meeting whether to write to Lord Young with further suggestions. Procedurally it may be sensible to regard the Competition Initiative document

is setting out the sort of issues suitable for E(CP). That will obviously exclude tax or other issues which you will pursue separately. (Demarcation issues may arise concerning the dividing line between the work programmes of E(CP) and the new de-regulation group, MISC 133.) The Financial Secretary's letter to Lord Young of 8 September said "We are looking at a number of areas for possible inclusion in the Action Plan and I hope to write to you again in the near future". The possible content of a letter is in para 10(e) below.

with comp in hand paper

Specific items for discussion at your meeting

10. Although most of the measures do not need to be discussed, it would be useful to cover a few of them:

(a) "Protection and the Consumer" (L1)

Do you want to send an (up-dated) version of the draft letter on this to Lord Young (Mr Redley's submission to you of 19 August)?

(b) Competitive tendering for drug dispensing services (G9)

ST think a Ministerial letter to Mr Moore would be timely;

(c) Barristers

In the light of the annex and the Lord Chancellor's paper do you wish to intervene or not? If you do, would you prefer to write to wait for the E(CP) discussion?

*SH
ST*

(d) Labour mobility

Is there a case for an initiative on building land, especially in view of the continuing rise in house prices in the South East and the widening of the regional differentials or should internal work be done first?

(e) Competition initiative document

If you wanted to suggest formal additions to the Action Plan, the candidates might be (a) above, the telecommunications sector (F2) and liberalisation of capital movements in the EC (L4). The supply of building land (B5) might be another.

N MONCK

SUPPLY SIDE MEASURES: BARRISTERS

Restrictive practices

1. The professions in general are a special case of restrictive practices, and this is recognised in law: the Restrictive Practices Act 1976 makes specific exception for the legal and other professions from the overview of the Office of Fair Trading on the grounds that their regulations are in the interests of professional standards and are not simply a restraint of trade.

2. Within the legal profession, there is strict demarcation between the work of barristers and solicitors, and this is reflected in the existence of two separate professional bodies in the Law Society and the Bar Council. The latter represents only some 12% of the total legal profession in private practice, and is particularly active in preserving the status quo. The most notable restrictive practice is that only barristers have rights of audience in the higher criminal courts, ie Crown Court and above. A lesser restrictive practice is that if a senior QC is engaged, he should be accompanied by a junior counsel also, although the profession has moved recently to reduce this restriction. There are restrictions also on the forming of joint practices between solicitors and barristers, and between solicitors and non-legal professionals. We have not in previous exercises been able to identify other specific restrictive practices on the part of the Bar which are still in place, although we think that the discrimination is reflected in promotions to the judiciary. Solicitors nevertheless have restrictive practices of their own which barristers envy, particularly the direction of legal business to preferred sets of Chambers, and the habit of delaying payment for work done until litigation is concluded. Some of these practices were identified and criticised by the Director General of Fair Trading in a report in June 1986 prepared at the request of E(CP) but no action was taken because the Marre Committee (see para.6 below) had by then been set up.

Benson Commission

3. The last major review which covered the general issue of demarcation of barristers and solicitors was the Royal Commission

on Legal Services chaired by Lord Benson which reported in 1979. Their conclusion, which was accepted by the Government, was that there should be no change in rights of audience, since in their view the specialisation of barristers in advocacy was in the public interest. LCD has proved resistant to Treasury suggestions that the issue should be re-opened, and legal Ministers have for the most part exercised a powerful influence in the same direction. The present arrangements for rights of audience were confirmed in a reference in the Legal Aid White Paper in March of this year.

Financial and economic issues

4. The financial and economic implications of restructuring of the legal profession are more complex. Earnings in both halves of the profession are not subject to the full play of market forces. There are restrictions on advertising by barristers (solicitors' restrictions have been lifted), but the cartel effect in solicitors' work has been eroded by the loss of their monopoly over conveyancing work. A further distortion of the market for barristers is that the Government is by far the biggest single employer, since all prosecutions are publicly funded, and the Government pays for a high proportion of criminal defence work through the legal aid fund. The Government has direct control over the rates paid for prosecution and defence work, and the degree of control has been tightened by such measures as standard fees and standard rates. The level of earnings broadly reflects that which can be attained by other leading professions, although in the long term earnings will need to continue to attract recruits of sufficient calibre to the profession to meet the needs of the Government and other clients. Barristers earnings are undoubtedly under pressure, but this is partly due to serious over-supply of barristers since recruitment campaigns in the 1970s.

5. Solicitors in general cost more for comparable work than do barristers, since it is an accepted feature of solicitors' remuneration that their cost structure includes overheads, as compared to barristers who are in effect self employed.

Marre Committee - See next page for terms of ref

6. The question of the boundaries between barristers and solicitors

is currently being reexamined by the Marre Committee, which was set up in April 1986 by the profession itself to examine once more the issues of whether legal services meet the needs of the public and to report on whether the structure or practice of the profession could be revised in the public interest. The Committee was set up at the time of the Bar's litigation against the Lord Chancellor over remuneration, and is expected to gather evidence until next Easter. The Chairman, is Lady Marre, who is a non-lawyer, and the committee comprises 6 barristers, 6 solicitors, and 6 lay members. There is no expectation within Government at this stage that anything radical will emerge.

7. Another pressure for improved efficiency in the profession is the Efficiency Commission, which was set up as a joint body between both halves of the profession and Government after the remuneration dispute in 1986. But by March 1987 it had achieved virtually nothing beyond a qualified announcement about the circumstances in which a senior QC would appear alone.

8. In our view, the background to previous examination of the issues described above suggests that there will be no substantial progress on removing demarcation within the legal profession without a Royal Commission and probably legislation as well. There is no reason why the Government should not put in a paper to the Marre Committee with its views, but since the committee is owned by the profession, this would have little benefit other than publicity value.

9. The best opportunity to reopen the issues within Government is that the previous Lord Chancellor committed himself to a paper for E(CP) this autumn on competition in the legal profession and on the Efficiency Commission. The paper has been circulated as E(CP)(87)8.