

PO-CH / NL / 0384
PART A

Part A

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Begins: ~~11~~ 11/1/89.
Ends: ~~24~~ 2/2/89.

PO -CH /NL/0384

PART A

Chancellor's (Lawson) Papers:

PARLIAMENTARY COMMITTEES
AND PRIVATE MEMBERS
BILLS

PO -CH /NL/0384
PART A

DD's: 25 Year

[Handwritten Signature]

8/12/95.

CH/EXCHEQUER	
REC.	12 JAN 1989
ACTION	FST ✓ 12/1
COPIES TO	
	MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB
	D/S of S/PS/22/1L



PWP

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

TELEPHONE 01-218 9000

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11th January 1989

Dear Lord President,

PARLIAMENTARY COMMITTEES

I think I should share with you my concern about difficulties my Department is having with the House of Commons Select Committee on Defence (HCDC) and the Public Accounts Committee (PAC), both separately and collectively, over the exercise of their respective responsibilities.

My first concern about HCDC activity concerns workload. We have faced, and dealt with uncomplainingly, a remarkable volume of detailed questioning on the HCDC's current inquiry into the Future of the Brigade of Gurkhas. The Committee are putting together their report on this inquiry and are, I think, broadly satisfied that we have been as helpful as possible. But they have now submitted a questionnaire on a new subject, equipment reliability and maintainability (R&M), which if tackled in full, and given the general staff-shortage pressures, will have inevitable and serious repercussions upon the day-to-day management of defence projects. The HCDC are also tending increasingly to invite named senior officials to give evidence; on the R&M inquiry they have asked for my Chief of Defence Procurement, Sir Peter Levene - the Accounting Officer, at Permanent Secretary level - to attend three evidence sessions over the next two months. It would be more productive - and more customary - for the Committee to direct detailed questions at

The Rt Hon John Wakeham MP



lower albeit still quite senior level, leaving any major issues to be addressed subsequently by my most senior staff, if required.

Select Committees must fulfil their responsibilities to the House, and we will continue to give them all the help we reasonably can. But I am responsible for ensuring that the work of my Department does not suffer from devoting so much effort to this that my responsibility to Parliament for ensuring that the Defence programme is properly managed is impaired. I intend to discuss the problems frankly with Michael Mates with a view to seeking his co-operation in keeping the enthusiasm of his Committee and, in particular, of the Committee staff and Special Advisers (whom I suspect are behind the drafting of most of the detailed questioning) within reasonable bounds. I should prefer to avoid a direct refusal to meet requests (as we do sometimes with PQs) but it may come to that.

We are also facing increasing problems of duplication between HCDC and PAC. Both, for example, have recently looked at the Trident programme and the Foxhunter radar for Tornado. We have coped with this so far, albeit not without occasional problems given the differences in powers. The HCDC's current inquiry on R&M however mirrors exactly work being done by the PAC; Sir Peter Levene is required, as Accounting Officer, to give oral evidence on R&M to the PAC on 13 February, nine days before the first of the HCDC sessions. I recognise the fact of inter-Committee rivalries; but duplication of this kind surely makes no sense, especially when it aggravates the present loading and staffing problems.

This problem is partly created, and certainly exacerbated, by a widening in the scope of NAO and PAC activity. Under the National Audit Act 1983, NAO/PAC are entitled to look at any value-for-money (VFM) question in the field of monies voted by Parliament. But of course it takes very little ingenuity to construct a VFM figleaf for



any issue; and this is illustrated by the fact that recently, for example, the NAO have been discussing with my Department the terms of inquiries they intend to undertake into low flying, and into the EFA decision. We know that the former is being undertaken at the insistence of Dale Campbell-Savours, who has a constituency interest in the disturbance aspect; and the latter is a major programme decision, taken by Ministers only a matter of months ago, of which the costs and effects lie almost wholly in the future. It is, in my judgement, quite unrealistic to expect that either study will in practice be confined to, or even mainly about, managerial efficiency; both are sure to become general policy inquests of the kind normally apt to the HCDC.

There is a serious question whether we intended in 1983, or should be prepared now simply to accept, that the PAC - with its quite special backing of NAO's large staff and exceptional rights of access - should become in effect an all purpose Select Committee. That is not however my main immediate point. I strongly suspect that, for their own reasons, the HCDC are seeking to mark out turf in the face of PAC expansionism, and that the "R&M" duplication is the result. However that may be, it seems to me intolerable that Departments should be caught in the cross-fire, and loaded with all the work that results from duplication, simply because the boundaries between Parliamentary Committee have got lost or fallen into contention.

It is not for me to arbitrate between the two. But in my view the Government should insist that someone does. The issues seem to have surfaced most sharply in Defence, but in principle of course they apply across the board. I hope you will share my view that this is a matter for the Liaison Committee. We might perhaps raise it initially with Terence Higgins when we see him next week, as your office is arranging, on business appointments. The "R&M" overlap problem is of course weighing on my Department urgently.



FROM: B O DYER
DATE: 18 January 1989

01-270 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 19 JANUARY 1989
PARLIAMENTARY AFFAIRS

Following is the business, currently, proposed for the Commons next week (subject to Shadow Cabinet representations tonight):

Monday 23 January

2.30pm: Welsh Questions

3.30pm: Prevention of Terrorism Bill - Guillotine for Committee
Security Service Bill: Remaining stages

Tuesday 24 January

2.30pm: Health Questions

3.15pm: PMs Questions

3.30pm: Ten Minute Rule Bill - Alan Meale: British Racing Commission

3.40pm: Opposition 2nd Allotted Day (subject to be announced)

Wednesday 25 January

2.30pm: Environment Questions

3.30pm: Ten Minute Rule Bill - Tony Banks: London Government

3.40pm: Official Secrets Bill - Committee stage

Thursday 26 January

2.30pm: Treasury Questions (C/Ex, CST, PMG, EST)

3.15pm: PMs Questions

3.30pm: Business Statement

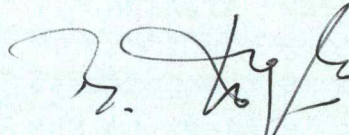
3.50pm: Elected Authorities (Northern Ireland) Bill - Remaining stages



Friday 27 January

9.30am: **Private Members' Bills -- Second Reading**

1. Protection of Privacy Bill
2. Road Traffic Regulation (Parking) Bill
3. International Parliamentary Organisations
(Registration) Bill
4. Definitive Map Modification Bill


B O DYER

FROM : MISS J C SIMPSON
DATE : 25 JANUARY 1989

1. MR PICKFORD *S. Pickford 25/1*
2. **CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Gieve
Mr Dyer
Mr Deane
Mr Lind
Mr Hutson (+ 5 copies)
Mrs Chaplin
Mr Tyrie
Mr Call

Mr N Forman MP
Mr T Favell MP
Mr M Stern MP
Mrs G Shephard MP
Mr A Howarth MP

TREASURY FIRST ORDER QUESTIONS : THURSDAY, 26 JANUARY
EB CENTRAL BRIEF

1. I attach ED's central brief.
2. The brief contains:
 - (i) Bull points
 - (ii) Checklist of main indicators published recently
 - (iii) General briefing on topical issues.

Changes from the draft brief have been sidelined.

3. You agreed that the best place to aim to stop would be Mr Key's and Mr Coombs' grouped questions on investment intentions (numbers 13). To this end, Government backbenchers were to be encouraged to ask supplementaries particularly on the four investment questions (numbers 1 and 2 from Messrs Paice and Cran and the two grouped ones), on Mr Townend's question on the PSDR (number 5) and on Mr Greenway's question on inflation and interest rates (number 9). Mr Lord's question on unemployment (number 17) should be the absolute backstop.

5. Subject briefs have been prepared on

- interest and exchange rates (MG)
- balance of payments (EA2)
- investment and consumption (EA1)

They have been attached to the relevant questions in the usual way.

6. Most of the main economic statistics were published last week. The only one outstanding is the balance of payments, which will not be published until Friday, 27 January. The briefing has been updated to take account of the CBI's Industrial Trends Survey published on Tuesday, 24 January.

J

MISS J C SIMPSON

BULL POINTS

1. Investment

DTI Investment Intentions Survey (December) projects 11 per cent rise in manufacturing investment in 1989. Autumn Statement forecast growth of 10 per cent in 1989.

Total investment expected to have grown by at least 12 per cent in 1988, more than twice as fast as consumption. Autumn Statement forecast growth in manufacturing investment of 18 per cent in 1988.

Over past 5 years total investment grown by getting on for twice as fast as total consumption. Under Labour, consumption grew by only 2 per cent a year, while investment hardly grew at all [$\frac{1}{4}$ per cent a year on average].

Since 1981 investment outpaced consumption growth in every year except one; and investment grown faster than in any of the other major industrialised countries, or any other EC country.

Private investment in 1988 expected to be highest proportion of GDP since records began in 1955.

Profitability in 1988 expected to have been at highest level since 1960.

2. Output

GDP output measure up $4\frac{1}{2}$ per cent in year to 1988Q3.

UK grown faster than all other major EC countries since 1980. Bottom of this league table in 1960s and 1970s.

Manufacturing output in third quarter of 1988 at highest ever level; up 9 per cent on 1979H1 and 3 per cent on 1974Q2. Fell between 1974H1 and 1979H1.

3. Jobs

Adult unemployment (seasonally adjusted) fallen 29 months in a row, by over 1 million in total and now at lowest level since early 1981. Fall in unemployment longest and largest since War.

Unemployment has fallen in all regions over the last year. Long term unemployment has fallen faster than unemployment as a whole in all regions.

Employment risen by over $2\frac{1}{4}$ million since 1983; performance over last five years best since War.

4. Public finances

PSDR in 1988-89 (ie budget surplus) for second successive year, first time this has happened since the beginning of the 1950s. PSDR in 1988-89 forecast to be biggest surplus since early 1950s.

Since 1982-83, general government expenditure (GGE), excluding privatisation proceeds, fallen by 7 percentage points as a share of GDP. In 1988-89 less than 40 per cent of GDP for first time for over 20 years. Planned to fall further by 1990-91 to less than 39 per cent, lowest since 1966-67.

MAIN ECONOMIC INDICATORS PUBLISHED SINCE 23 DECEMBER

23 December Balance of payments current account and overseas trade figures (November)

- November current account deficit of £1613 million.

- In 3 months to November, export volumes (excl. oil and erratics) up 2½ per cent on previous 3 months and up 4 per cent on a year earlier.

- In 3 months to November, import volumes (excl. oil and erratics) up 3 per cent on previous 3 months and up 16 per cent on a year earlier.

4 January UK official reserves (December)

- Underlying rise of \$461 million.

5 January Personal income, expenditure and saving (Q3)

- Real personal disposable income in 1988Q3 up 1½ per cent on 1988Q2, and up 3½ per cent on 1987Q3.

- Saving ratio in 1988Q3 fell to 1½ per cent.

Industrial and commercial companies (Q3)

- Gross trading profits (net of stock appreciation) of non-North Sea industrial and commercial companies rose by 11 per cent between 1988Q2 and 1988Q3. In 1988Q3, they were 17 per cent higher than a year earlier.

9 January

Retail sales (November - final)

Producer prices (December)

- Annual rate of output prices 4.9 per cent.
- Annual rate of input prices 4.8 per cent.

16 January

CBI/FT Survey of distributive trades (December)

Retail sales (December - provisional)

- In the 1988Q4, up 1 per cent on previous quarter and up 5½ per cent on 1987Q4. In 1988 as a whole, volume of sales up 6¼ per cent on 1987.

18 January

Public Sector Borrowing Requirement (December)

- Provisionally estimated to have been minus £2.1 billion in November. Cumulative total of minus £8.1 billion in first nine months of 1988-89.
- Cumulative, excl. privatisation proceeds, of minus £2.1 billion.

19 January

Index of output of production industries (November)

- Industrial production in 3 months to November up 0.4 per cent on previous 3 months, and up 3.4 per cent on year earlier.
- Manufacturing output in 3 months to November up 1.3 per cent on previous 3 months and up 7.2 per cent on a year earlier.

Labour market statistics

- Unemployment (sa, claimants aged 18 and over only) (December) down 66,000 to 2,039,000. 'Headline' total down 20,000 to 2,047,000.
- Workforce in employment in 1988Q3 up 120,000 on 1988Q2 to level 399,000 higher than year earlier.
- Manufacturing employees (November) up 3,000 from October to 4,985,000.
- Vacancies (December) down 7,000 from November to 238,000.
- Average earnings (November) underlying increase of 8 $\frac{3}{4}$ per cent for whole economy.
- Manufacturing unit wage costs in 3 months to November up 0.5 per cent on year earlier.
- Manufacturing productivity in 3 months to November up 7.7 per cent on year earlier.

20 January

Tax and prices index (December)

- Annual rate 4.8 per cent.

Retail prices index (December)

- Annual rate 6.8 per cent, excl. mortgage interest payments (MIPs) annual rate 5.1 per cent.

Provisional estimates of monetary aggregates (December)

- M0 annual growth rate 8.5 per cent.

- M3 annual growth rate 20.2 per cent.
- M4 annual growth rate 17.4 per cent.
- M5 annual growth rate 16.5 per cent.

Preliminary estimate of consumers' expenditure (Q4-provisional)

- In Q4 up 1½ per cent on Q3 and up 5½ per cent on year earlier. In 1988 as whole up 6 per cent, compared with 5½ per cent in 1987.

24 January

CBI Quarterly Industrial Trends Survey(January)

Optimism down on October. Order books also down but still above normal. Investment intentions strong. 88 per cent of firms report capacity at least adequate to meet expected demand over next 12 months; up from 80 per cent in October. Firms reporting capacity as constraint on output down sharply to 17 per cent (from 29 per cent).

25 January

Construction - new orders (November)

Total orders in 3 months to November up 9 per cent on previous 3 months, and up 20 per cent on a year earlier.

GENERAL BRIEFING : TOPICAL ISSUES

1. Economy still growing too fast?

- As I/my RHF have made clear, economy has been growing at above its long-term sustainable rate and within that domestic demand even faster, so generating inflationary pressure. Both need to slow down and the necessary action has been taken
- always said that effects of these will take time to come through but are already seeing some effects, in housing market and consumer demand, for example.

2. Investment languishing while consumption booms

- No. Total investment has grown faster than total consumption in six out of past seven years - on average twice as fast. Experiencing longest lived investment-led expansion British economy has experienced for decades
- DTI investment intentions survey (December) suggested growth of 12 per cent in manufacturing investment in 1988 and further growth of 11 per cent in 1989. CBI industrial trends enquiries continue to show confidence - January quarterly survey showed balance of firms expecting to increase capital expenditure over next 12 months remains high
- Autumn Statement forecast total business investment would increase by 13½ per cent in 1988, and within that manufacturing investment by 18 per cent. Compares with forecast increase in consumer spending of 5½ per cent
- overall level of investment at record levels. Has risen since 1979 by 36 per cent in real terms. Over period 1974-79 it grew by 1.4 per cent.
- not just quantity but quality of investment that is important. Quality improved since 1979 as evidenced by improvement in productivity and profitability.

3. Interest rate rises have yet to achieve desired effects

- increasingly seeing effects; policy has tightened considerably since early June, but full impact will take some time to come through; already signs of effect on housing market, retail sales and consumer confidence. Expect underlying rate of inflation to peak at around 5½ per cent ~~some time~~ later this year
- I/my RHF has made clear that prepared to maintain interest rates at whatever level necessary to maintain downward pressure on inflation
- recognise that increased interest rates unwelcome to borrowers, especially small businessmen and home owners, but battle against inflation must be paramount

- We had inflation blip of similar sort in 1985 - got over that and will get over this.

4. Real interest rates penalising industry

- Industry doing very well: output up, profitability up, investment intentions remain strong, financial position very strong
- renewed inflation would damage industry's confidence and willingness to invest
- no evidence that UK interest rates inhibiting growth or investment. Latest CBI Survey shows that investment intentions remain strong. CBI say that figures indicate "strong manufacturing investment is likely to continue"
- 1 per cent increase in interest rates, even if sustained for full year, would cost industry much less than 1 per cent increase in wage settlements.

5. High exchange rate should be allowed to fall because of damage to industry, high current account deficit

- No. Have made clear that will not permit exchange rate to depreciate to accommodate inflation, or inflationary pay increases. Would merely give new impulse to inflation. Up to industry to keep costs under control
- would also be quite inappropriate reaction to current account deficit, particularly in present circumstances. Present deficit associated with high investment spending by private sector and with over-rapid rise in domestic demand, not with public sector deficit
- private investment adding to productive capacity; will boost exports and displace imports in future, while interest rate rises will rein back domestic demand
- maintaining confidence in UK economy through firm monetary and fiscal policies will ensure that no difficulty in financing deficit.

6. Should use other instruments as well as interest rates

- Interest rates by no means only economic instrument - also fiscal policy and supply-side policies. But these two appropriate for medium/longer term
- fiscal policy not suitable for fine-tuning economy because lags in system mean tax changes take longer to have effect on activity than interest rates do. Was tried often enough in 1960s and 1970s and lesson to be drawn from failures of that period is clear. Also destroys supply-side benefits of tax cuts
- and fiscal policy already tight (see below)

- credit controls would be unworkable, as well as creating inefficiencies and distortions in market. Would act as disincentive to savers as well as borrowers
- would also be unfair, because less well-placed borrowers would have to pay more and be driven to loan-sharks, while respectable lenders directed cheaper credit to 'safest' borrowers

7. All fault of Budget - stimulated demand etc

- No. Budget boosted supply, not demand - supply-side benefits will improve output and trade performance in long term
- fiscal policy very tight this year; Autumn Statement revised up surplus by nearly £7 billion from FSBR forecast, which in turn £7 billion higher than projection in previous FSBR
- public spending under control - has fallen as percentage of GDP from peak in 1982 and set to fall again for present year and next three years. Hardly an irresponsible stimulus for demand

8. Mortgage rate increases wiped out effect of Budget tax cuts

- Income tax cuts will bring long term benefits by improving supply side performance
- interest rates vary from time to time as necessary to keep control of inflation
- public has much more to fear from rapidly rising prices than from current fluctuations in mortgage rates.

9. Recent monthly current account deficits mean balance of payments crisis imminent

- Autumn Statement forecast current account deficit this year at £11 billion or around 2¼ per cent of GDP, but no hint of balance of payments crisis
- deficit reflects rapid rise in investment and increased individual wealth combined with confidence to spend it. Combination of circumstances not seen for some time.
- present deficit financing high investment spending by private sector, contrary to period of 1960s and 1970s when current account deficit financed public sector deficit. Private investment adding to productive capacity which will boost exports and displace imports in future
- Government has taken appropriate action and deficit will correct itself in time. No cause for concern provided firm financial framework in place, as it is. Meanwhile, general strength of economy and high level of overseas assets mean no problems in financing temporary deficit.

10. Manufacturing trade deficit

- Since 1981, UK share of world trade in manufacturing little changed after decades of substantial decline
- Manufacturing export volumes up 5 per cent in three months to November, compared to same period year earlier.

11. Manufacturing output still below June 1979?

- No. Manufacturing output has risen under this Government (in three months to November, up nearly 10 per cent on 1979H1) and at all-time high
- it fell under Labour
- and on almost all objective indicators, manufacturing performance has been transformed: productivity, profitability exports etc
- and total output (which is equally important) has increased by getting on for a quarter [23%].

12. Government policies consistently favour rich at expense of poor

- No. Living standards have never been higher. Real take-home pay of average married man with two children rose less than 1 per cent under Labour. Taking account of Budget tax cuts, it is likely to have risen over 29 per cent - or £45 a week at today's prices - under this Government
- real disposable incomes up throughout the income distribution. And what matters to those on low incomes is their real standard of living, not their relative position
- on DSS figures, post tax incomes of people at all levels rose in real terms between 1981-1985. Since 1985 real incomes have continued to rise, unemployment has fallen sharply and taxes have been further reduced. Real household disposable income per head rose on average 3 per cent a year 1981-87. Marked contrast to slow growth between 1974 and 1979
- real value of supplementary benefit has increased between 1979 and 1987. Between 1979 and 1986 average net income of pensioners rose by 23 per cent in real terms
- total expenditure on benefits up 33 per cent in real terms since 1979. Spending on sick and disabled has almost doubled in real terms
- even after last Budget changes, top 5 per cent of taxpayers pay higher share of total income tax than in 1978-79

- [on CPAG report] Figure of £8.50 'loss' since 1979 for households in bottom half of population spurious. Not a comparison with actual tax allowances and benefits in 1979, nor even with 1979 tax allowances and benefits adjusted for inflation, but with tax allowances and benefits uprated in line with rise in GNP. No reason to think that continuation of last Government's policies would have produced same rise in prosperity.

13. BP and KIO

- Not for HMG to comment on terms of arrangement between BP and KIO. Matter for commercial judgement of parties concerned. BP shareholders will consider at extraordinary general meeting on 31 January
- ordinary tax rules applying to ACT and to Kuwait's sovereign immunity will apply.

Miss J C Simpson
EB Division
Ext 5211

From: Nigel Forman.
25th January 1989.

To: Chancellor.

Back-Bench Finance Committee, 24th January.

1. As you know, the Governor of the Bank of England was invited to speak at this meeting last night. Among the most interesting points which he made in the course of a safe and sound opening speech were the following:

- The use of short term interest rates was well directed to the principal problem, namely the excessive growth of domestic demand fuelled by the rapid expansion of personal credit.
- The use of fiscal policy was not appropriate for fine-tuning or for dealing with excessive domestic demand. In fact, the success of the Government's fiscal policy had been its medium term characteristic and it had had some very desirable supply side effects by being conducted in this way. He argued that the fiscal stance was actually rather tight with a public surplus equivalent to about 3% of G.D.P. and pointed out that without the tax cuts in last year's Budget, the proportion taken in total personal tax would have risen.
- On his leaked letter to you, all he would say was that the reports were inaccurate and that he was not going to tell those present what was really in the letter.
- He accepted that the effect of strong interest rates on some mortgage borrowers would be harsh, but this would reduce the capacity of people to spend on other things and curtail the leakage into other consumer spending caused by loose supervision of lending and equity withdrawal. He saw no marked, adverse effect upon investment yet and quoted CBI figures of a forecast 10% increase for 1989. He also

foresaw little adverse effect upon sterling or exports, since non-oil exports were still growing well and profit margins were good.

- He said that the trade deficit had widened because our unusually high growth of domestic demand was out of line with that of our major trading partners.

- It was too soon to say how effective the policy would be, but all the signs so far were encouraging, e.g. the slowing down of the 3 month broad money aggregates, the reduction in the number of housing transactions and the anecdotal evidence of a decline in retail sales.

- He observed that personal debt had doubled in the last 12 years in relation to P.D.I. and that a level of about £300 billion ~~it~~ was now broadly the same as one year's P.D.I. The introduction of credit controls would not be a good idea, since it would produce abuses and distortions. The problems of housing arrears, repossessions and credit card default were tiny in relation to the totals and bank recovery rates on bad personal debts were actually better than on commercial debts.

- There was, however, a need for more refined lending by the banks and other personal lenders. A black register of bad debtors might help, but he was dubious about a white register to exchange confidential information on people who had no record of bad debts. He saw no good case for a tax on personal credit or on credit cards which he regarded as a very efficient method of financial transaction. He added that to go back to the corset on lending would now be unworkable and the introduction of physical controls would simply have the effect of raising the cost of credit.

2. In answer to a wide range of questions from those present, I thought his most noteworthy points were:

*dangerous
& say
anything*

- Asked by Michael Shaw about the future outlook for interest rates, the Governor said he hoped there would not have to ~~be~~ any further rises, but added that even now interest rates were not as high as they had been a few years ago. He thought they might stay at their present level for quite a time and that it would be a matter of tricky judgement when to switch to reductions. He thought the same thing applied to sterling about which he was also relaxed in view of what he described as "the degree of latitude in present parities".

- On British entry into the Exchange Rate Mechanism - which Michael Shaw also asked about - he said ~~he~~ thought the time really was not 'ripe' during the present 'blip' in inflation. However, he reported that he was coming under considerable pressure from the other members of the Delors Committee for Britain to join the E.R.M. In answering subsequent questions on the E.M.S., he gave the view that the whole thing had been a considerable success and a source of strength to a number of member countries with weak or coalition Governments. He also thought that to go 2 years without a realignment was quite an achievement. Deciding when the time would be 'ripe' would be "a major policy decision" for H.M.G. (much hollow laughter) and he added that his real worry was that if we did not join, Britain might get left behind in a two-speed Europe on monetary matters.

- Asked by Peter Hordern about raising the limit for mortgage interest tax relief to £35,000, he said that all tax allowances and special reliefs should be avoided if at all possible. However, merely holding the limit where it was eroded it over a period of time. Indeed, such a relief could actually harm the interests of first-time buyers by raising the price of houses higher than they would otherwise be.

- Questioned by John Redwood in a rather opinionated way about the period in the first half of last year when you sought to link the £ to the D.Mark, he replied that with hindsight he thought the policy had been a mistake and that the authorities all over the world had over-reacted to the dangers of Black Monday. However, he did say that he could operate monetary policy quite satisfactorily on the basis of targetting the exchange rate, if that was chosen as the main criterion by H.M.G.

- Terry Higgins asked him a complicated double question about (a) whether the base rates and brackets around them were now set by the Bank in an interventionist manner, and (b) whether there was an argument for not fully 'unfunding' in order to tighten the monetary base. The Governor replied that Yes, the authorities do seek to influence not only the base rates but also the spreads and he agreed that it would be possible (but probably unwise) to tighten monetary policy still further in the way that Terry Higgins had suggested. Someone else observed that it would be the equivalent of taking a portion of the tax revenues and then burning them!

- Asked by John Townend about lending opportunities for Western banks in the Soviet Union and Eastern Europe, he said he saw considerable opportunities for such lending and appeared quite bullish about it. He added that such countries would be a much better risk than those in Latin America and recalled the way in which the Bank had put itself out recently for the Governor of the Soviet Central Bank when he was in this country.

- Asked by Peter Thurnham whether he was concerned about the low savings ratio and what could or should be done about it, he observed that when feeling confident about the future people tended to save less. The large rise in personal borrowing was the main cause of the problems and this would almost certainly be rectified in time by the present strong interest rates. He warned against special schemes of tax relief to encourage savings on the grounds that these produced distortions and did not necessarily bring about an overall increase in savings.

- Finally, asked by Tony Nelson about the adequacy of the recently introduced banking supervision arrangements, he said that they were working well and that he was pleased with that particular department at the Bank. Yet because of the inherent confidentiality and delicacy of the subject, he felt he could not say anything more. P.S. I believe that Tony Nelson is a consultant to G.E.C. which may not be without relevance in this context.

707



FROM: B O DYER
DATE: 25 January 1989

01-270 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 26 JANUARY 1989
PARLIAMENTARY AFFAIRS

Following is the business, currently, proposed for the Commons next week:

Monday 30 January

- 2.30pm: Energy Questions
- 3.30pm: Prevention of Terrorism Bill - Remaining Stages

Tuesday 31 January

- 2.30pm: Education and Science Questions
- 3.15pm: PMs Questions
- 3.30pm: Ten Minute Rule Bill - Mr J Brazier: Armed Forces Housing and Tax
- 3.40pm: Fair Employment (Northern Ireland) Bill - Second Reading

Wednesday 1 February

- 2.30pm: Scottish Questions
- 3.30pm: Ten Minute Rule Bill - Mrs G Shephard: Planning (Notification of Development Proposals)
- 3.40pm: Opposition 3rd Allotted Day - subject to be announced

Thursday 2 February

- 2.30pm: Home Office Questions
- 3.15pm: PMs Questions
- 3.30pm: Business Statement
- 3.50pm: Official Secrets Bill - Committee (day 2)

Friday 3 February

- 9.30am: Private Members' Bills - Second Reading
 1. Right of Reply Bill
 2. Indecent Displays Bill
 3. Fuel and Energy Provision Bill


B O DYER

FROM: N J KROLL

DATE: 26 JANUARY 1989

APS/CHANCELLOR (Mr Taylor)

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Odling-Smee
Mr Gieve

TREASURY QUESTIONS: EQUITICORP

We spoke. I attach a line to take and background note on Equiticorp, cleared with the Bank, in case the issue arises at Treasury questions this afternoon.

N J KROLL

Line to take

Supervision of individual institutions - responsibility of Bank: cannot comment on particular cases. Satisfied that framework of Banking Act 1987 is adequate to allow Bank to fulfil their supervisory responsibilities.

Background

1. Equiticorp acquired control of the Guinness Peat Group, including the merchant bank Guinness Mahon, on 30 September 1987, one day before the coming into force of the Banking Act 1987. That meant that Equiticorp did not need to secure the Bank's formal approval to their becoming major shareholder in Guinness Mahon, as they would have done under the 1987 Act. Under the 1987 Act, however, Equiticorp were subject to continuing "fitness and properness" requirements.

2. The Guinness Peat Group was restructured in June 1988, leaving Guinness Mahon as a freestanding company, 61 per cent owned by Equiticorp. In the course of this restructuring, and after a full review, the Bank were not able to satisfy themselves as to Equiticorp's fitness and properness. They required Equiticorp to give undertakings to dispose of their shareholdings and to draw back from any direct day-to-day control of, or involvement in, Guinness Mahon. Equiticorp gave these undertakings but were unable to sell Guinness Mahon after discussions with a number of possible purchasers.

3. Equiticorp's 61% holdings in Guinness Mahon is now controlled by a consortium of banks led by Samuel Montagu. Guinness Mahon, which has adequate liquidity and is making profits, satisfies the Bank's prudential requirements.

CONFIDENTIAL



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270 0135

Miss M P Wallace
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

MP

30 January 1989

Dear Moira -

LEGISLATIVE PROGRAMME 1989/90

Following our meetings with Departments in the week beginning 16 January, I am now circulating the pro forma legislative bids amended in the light of our discussions at those meetings and edited to be consistent between Departments.

These pro formas will need very shortly to be circulated to QL for consideration. I would therefore be grateful to receive any necessary corrections, by phone if necessary, no later than noon on 1 February. It may not be possible to incorporate comments received after this deadline in the pro formas circulated to QL.

Yours sincerely

JCF

CH/EXCHEQUER	
REC.	30 JAN 1989
ACTION	FST
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✓ 30/1

JOHN FULLER

CONFIDENTIAL

GOVERNMENT BILLS PROPOSED FOR 1989/90

PROGRAMME

<u>PRIORITY AND TITLE; PURPOSE</u>	<u>DEPT</u>	<u>POLITICAL ASPECTS</u>	<u>LENGTH PARL. PROCEDURE; ROYAL ASSENT</u>	<u>FINANCIAL MAN-POWER OR EC ASPECTS</u>	<u>TIMING FOR PREPARATION</u>
<p>GOVERNMENT TRADING FUNDS</p> <p>Under the powers in the Government Trading Fund 1973 Act designated bodies can be taken out of the Vote accounting system where receipts cover costs. But this is only available for bodies which are "trading" or in the "nature of trading". The Bill would extend the powers in the Act to Next Steps agencies which are providing statutory/regulatory services.</p> <p>The Bill would provide for loans for capital purposes to be provided from Votes rather than the NLF as under the 1973 Act.</p>	<p>Trea- sury</p>	<p>Likely to be generally welcomed by Parliament (as was the 1973 Act) and seen as evidence of Government's commitment to Next Steps programme.</p>	<p>Short.</p> <p>May be suitable for Second Reading Committee procedure.</p> <p>Royal Assent <u>desirable</u> summer 1990 by when some agencies may be ready for designation under the order making powers in the 1973 Act and to creation as Agency Funds from April 1991</p>	<p>No significant financial or manpower aspects. Should lead to improved efficiency in longer term.</p>	<p>Policy clearance currently being sought from EA in correspondence. May be appropriate to consult PAC after Government's intentions are announced.</p> <p>Instructions to Parliamentary Counsel could be available in April 1990.</p> <p>Bill ready for introduction at beginning of 1989-90 Session.</p>

CONFIDENTIAL

GOVERNMENT BILLS PROPOSED FOR 1989/90

PROGRAMME

<u>PRIORITY AND TITLE; PURPOSE</u>	<u>DEPT</u>	<u>POLITICAL ASPECTS</u>	<u>LENGTH PARL. PROCEDURE; ROYAL ASSENT</u>	<u>FINANCIAL MAN-POWER OR EC ASPECTS</u>	<u>TIMING FOR PREPARATION</u>
<p>PARLIAMENTARY PENSIONS</p> <p>To provide for (a) PM/Speaker to join Parliamentary pension scheme; (b) full pensions increase and common pensions ratio for Speaker, PM, Lord Chancellor (c) severance pay for common Ministers.</p>	HMT	Controversial; but necessary to implement TSRB recommendations.	Short. No special procedure but unsuitable for a Private Member.	Full pensions increase/commons ratio for office holders will entail small cost from Consolidated Fund. Small cost arising from Ministerial severance pay.	Instructions to Counsel in Spring 1989.

GOVERNMENT BILLS PROPOSED FOR 1989/90

ESSENTIAL (a) PROGRAMME (b) and (c)

PRIORITY AND TITLE; PURPOSE	DEPT	POLITICAL ASPECTS	LENGTH PARL. PROCEDURE; ROYAL ASSENT	FINANCIAL MAN- POWER OR EC ASPECTS	TIMETABLE FOR PREPARATION
PENSIONS (MISCELLANEOUS PROVISIONS) To provide for (a) pensions increase for widowers (EC requirement) (b) exclusional additional voluntary contributions from pensions increase (c) scoring cost of pensions increase in teachers/NHS notional funds.	HMT	Uncontroverial apart from (c)	(a) short (b) no special procedure but unsuitable for a Private Member	Very small initial cost, building up into continuing commitment cost impossible to estimate - depends on number of widowers and rate of inflation. Widowers provision to bring UK into line with EC Directives.	Instructions to Counsel: June/July Ready for introduction: November 1989.

CH/EXCHEQUER	
REC.	01FEB1989
ACTION	FST
COPIES TO	

v1/a



MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

D/S of S/PS/22/1V

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

31st January 1989

pwp

Dear John,

PARLIAMENTARY COMMITTEES

When we met on the 18th January, I agreed to write to you setting out in more detail my concern about the difficulties my Department is facing as a result of the increasing duplication of effort between the HCDC and the PAC. I understand that a number of Departments face similar problems, as both the PAC and Select Committees increasingly try to broaden the scope of their activities, but my Department seems to be particularly in the front line at present.

Five out of the twelve areas in which the HCDC conducted inquiries last year were also the subject of a PAC investigation. Already this year, we have a situation where Sir Peter Levene has been asked to give evidence personally to the PAC and the HCDC within days of each other on Reliability and Maintainability of Defence Equipment (R&M). Inquiries by either Committee involve a very heavy, and steadily increasing, workload for staff in my Department, which we do our best to meet. But where there is duplication of this sort, the burden becomes intolerable. It is now reaching the stage where it is starting to impair my officials' ability to carry out their other duties, especially in the heavily laden procurement field, where effective project management is already complicated by staff shortages.

The Rt Hon John Wakeham MP



As I have said, this problem is created by moves by both Select Committees and the PAC to expand the scope of their activities. Under the National Audit Act 1983, NAO/PAC are entitled to look at any value-for-money (VFM) question in the field of monies voted by Parliament. But this is a remit which can be expanded almost to any limit, a point best illustrated by the fact that, recently, the NAO have been discussing with my Department the terms of Inquiries they intend to undertake into low flying and the EFA decision. Neither seems to me suitable for audit in anything like the ordinary sense, and I feel bound to be highly sceptical of whether either study can be dependably confined to, or even mainly about, managerial efficiency; both must be apt to become general policy inquiries. Similarly, the HCDC has asked to receive the Major Project Statement which my Department produces each year for the PAC, and they intend to conduct a separate inquiry on each occasion. I have already mentioned the current problem with the R&M inquiries.

It is not for me to arbitrate between the PAC and the HCDC, but I believe the Government should insist that someone does. Whilst the issues seem to have surfaced most sharply in Defence, they have more general application across the board. As you know, I remain very willing and ready to co-operate with Select Committees and to ensure that my Department does its best to meet their legitimate requirements. But because of the resource and manpower constraints, I am afraid that I cannot tolerate a situation in which the Ministry of Defence has to "service" two Committees working in the same area at the same time. I shall be delighted to provide the necessary information for one of them and, if required, will provide similar information to the other once the first inquiry has been completed. But it is not possible for me to do both at the same time. In my view, where these clashes of interest arise, the Liaison Committee should be looked to for adjudication (a possibility which you and I have discussed in outline with Terence Higgins). It is not for Departments to resolve this general issue.



We need to establish at least a procedural mechanism (even if we cannot, as would be very desirable, establish some sound demarcation conventions about substance) which would enable priorities to be decided as between Committee investigations. One course might be to get the PAC to circulate its future programme of business (or the NAO's programme of work, which may be established earlier) to Select Committees and for the Chairmen of those Committees to take up with the PAC any overlap of interest, using the good offices of the Liaison Committee, as required, where difficulties cannot easily be overcome.

As you know, I place great importance on the very early tackling of this problem; the demands in question lie on my Department's table now. I have been over the ground in outline with Michael Mates. I told him that I would be writing to you along these lines and that I expected the matter to be taken up with Terence Higgins.

I am copying this letter to the Prime Minister and other Cabinet colleagues, and to Sir Robin Butler.

Yours ever,
George.

George Younger



FROM: B O DYER
DATE: 1 February 1989

01-270 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mrs J Chaplin
Mrs J Thorpe

**CABINET : THURSDAY 2 FEBRUARY 1989
PARLIAMENTARY AFFAIRS**

Following is the business, currently, proposed for the Commons next week: (Note: The Opposition wish to switch dates for the PEWP and Broadcasting White Paper debates; we and Home Office have been resisting. It may be raised in Cabinet).

Monday 6 February

2.30pm: Social Security Questions
3.20pm: Civil Service Questions (Mr Luce)
3.30pm: Water Bill - Guillotine
7.00pm: Opposed Private Business

Tuesday 7 February

2.20pm: Defence Questions
3.15pm: PMs Questions
3.30pm: Ten Minute Rule Bill - Postal Privilege : Mr J Bowis
3.40pm: Opposition 4th Allotted Day - subject to be announced

Wednesday 8 February

2.30pm: FCO Questions
3.30pm: Ten Minute Rule Bill - Land Registry Reform: Mr A Coombs
3.40pm: Broadcasting White Paper debate

Thursday 9 February

2.30pm: Northern Ireland Questions
3.15pm: PMs Questions
3.30pm: Business Statement
3.50pm: PEWP debate - CST & FST
10.00pm: 3 EC Banking Directives (debate on a motion to take note) - EST

CONFIDENTIAL



Friday 10 February

9.30am: **Private Members' Bills - Second Reading**

1. National Identity Card Bill
2. Hearing Aid Council Bill
3. Alcohol Abuse (Scotland) Bill
4. Coalmining Subsidence Bill

A handwritten signature in black ink, appearing to read 'B. O. Dyer', is written over the typed name. The signature is stylized and somewhat cursive.

B O DYER

Ch/ You asked about this bill earlier this week.

@15



FINANCIAL SECRETARY	
REC.	-2 FEB 1989
ACTION	Mr. Martineck
COPIES TO	PRS, CST, ENG, EST Mr. S. Wood Mr. N. Fray Mr. R. G. Westwater

QUEEN ANNE'S GATE LONDON SW1H 9AT

2 February 1989

pwp

2

Handwritten signature/initials in red ink.

Dear John, Mr. C. J. Cotmore
Party Clerk

SUNDAY SPORTS BILL

I propose that we should express a measure of general support for Andrew MacKay's Sunday Sports Bill in the Second Reading debate on Friday 17 February. Andrew MacKay came fourth in the Ballot for Private Members' Bills and his Bill is first order for business on that Friday.

The Bill has not yet been published, but we have seen a draft and know that Andrew MacKay intends it to cover much the same ground as last Session's two unsuccessful Bills, Lord Wyatt of Weeford's Sunday Sports Bill and Nicholas Soames' Sunday Sports (No 2) Bill. Thus, the Bill will seek to remove the prohibition on charging the public for admission to Sunday sports which remains on the statute book under the Sunday Observance Act 1780; to pave the way for Sunday racing by allowing betting to take place lawfully at and away from horserace courses; and to protect current employees of the sports and betting industries who refuse to work on Sundays from discriminatory action by their employers.

Andrew MacKay's Bill will, however, contain one significant difference. It will limit, to a maximum of twelve in one year, the number of Sundays on which horseracing may take place. That is to say, only on a maximum of twelve Sunday afternoons annually will on-course betting on horserace courses be lawful, and the Sunday afternoon opening of betting offices will be linked to that. You may recall that one condition of our general support for the previous Sunday Sports Bills was that betting offices should be allowed to open when there was Sunday horseracing, for fear of the illegal betting which would otherwise result. Betting on horseraces is the bulk of the off-course business. Objections to the Sunday opening of betting offices from some quarters were one reason why last Session's Bills failed in the House of Commons (Lord Wyatt's had completed all its stages in the Lords). I understand that Andrew MacKay believes that he can portray a statutory limit to the number of Sundays concerned as a reasonable concession to the opponents of the earlier Bills.

/Andrew MacKay

The Rt Hon John Wakeham, MP
Lord President of the Council

Andrew MacKay currently intends to limit on-course betting on other tracks, notably greyhound tracks, to the Sundays on which horseracing takes place, or at least is scheduled to take place. But he may have to concede a general freedom for sports other than horseracing to provide Sunday on-course betting. I believe that this would be acceptable. In this respect it would make his Bill the same as last Session's. There is no great fear of illegal off-course betting on greyhound races. Most greyhound races already take place during weekday evenings, when betting offices are required to be closed.

I suggest that a measure of support for the Bill is justified because the failure of last Session's Bills did not affect the merits of the case for such a measure of deregulation. Indeed, the reasonable freedom for people to choose what they wish to do on Sundays is Andrew MacKay's theme. He has no special interest in racing. He has support from the racing authorities, although understandably they would prefer not to be limited in the number of Sundays on which racing could effectively take place. It seems to me to remain fair to let those authorities see if Sunday racing would be popular and successful. Again, as before, the Bill would be consistent with the objectives of the controls on betting. They are intended to bring betting out into the open and to regulate its provision, not to restrict the opportunities for the incidence of betting.

Colleagues in general previously shared my welcome for an attempt to disapply the offences in the Sunday Observance Act 1780. This is needed to allow racecourses to charge for public admission on Sundays, but all sports would benefit from it. It would make unnecessary the current resort, by some sports, to doubtful devices for charging, in attempted circumvention of the 1780 Act.

I understand that officials in the Department of Employment are satisfied with the employment protection provisions in the draft Bill. These have been adopted from Lord Wyatt's earlier Bill, to which we gave drafting assistance.

I should say that the draft Bill which we have seen is not in all respects satisfactory. It shows that the limitation of racing to a maximum number of Sundays annually, through control of on and off-course betting, is a difficult provision to get right. It would be helpful to have the views of Parliamentary Counsel on it.

I should also say that there must be doubt about the Bill's prospects of success even though Andrew MacKay's high position in the Ballot gives him the opportunity of a full Friday's debate. Opposition to the previous Sunday Sports Bills from the "Sunday lobby" and, to a lesser extent, from the Unions, is unlikely to have lessened.

/Taking all

Taking all these considerations into account, I propose that the Government spokesman during the Second Reading debate on the Bill should indicate that we would be content to see it make progress, if the House agrees, by reference to the reasons for our measured support for last Session's Bills. As to the proposed statutory limitation of sports dependent on betting to a maximum number of Sundays, our line would be not to object, provided that the drafting can be got right and, as necessary, arguments by sports other than horseracing are heard.

I am sending copies of this letter to members of 'H' and Legislation Committee, to Colin Moynihan, in view of the strong sports interest, to Sir Robin Butler, Sir Patrick Mayhew and to First Parliamentary Counsel.

Yours,

Douglas,



FROM: Assistant Parliamentary Clerk
DATE: 3 February 1988

01-270 5007

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Gieve - IDT
Mr Hibberd - EA1
Mr Mercer - EC2
Mr Dyer

pwp

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

ORAL QUESTIONS

Wednesday 8 February Lord Ezra - To ask as Her Majesty's Government whether they regard it as a matter for concern that, according to the recently published Social Trends survey, household savings as a percentage of disposable income was negative in 1986 and 1987.

Government Spokesman: Lord Young of Graffham. EA1 Division in the lead.

Tuesday 14 February Lord Bruce of Donnington - To ask Her Majesty's Government whether they will report on the discussions at the European Community's Economic and Finance Council on the frauds referred to in the question asked by Lord Bruce of Donnington and answered by Lord Young of Graffham on 20 January 1988 (H.L. Deb. Cols. 206-207).

Government Spokesman: To be confirmed. EC2 Division in the lead.

Thursday 16 February Lord Campbell of Croy - To ask Her Majesty's Government by how much productivity has increased in manufacturing industry in the United Kingdom since 1979.

Government Spokesman: To be confirmed . EA1 Division in the lead.

TREASURY INTEREST QUESTIONS

ORAL

Monday 6 February Viscount of Oxfuird - To ask Her Majesty's Government whether they will give the latest available statistics on business start ups in 1988, and comparable figures for 1987.

Government Spokesman: To be confirmed. Dept of Employment in the lead

Thursday 9 February Baroness Elliot of Harwood - to ask Her Majesty's Government by how much the productivity of Scottish manufacturing industry has increased since 1979; and how this compares with that of other component parts of the United Kingdom.

Government Spokesman: Lord Sanderson. Scottish Office in the Lead.

Mari Rogerson
MARI ROGERSON



pwp

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Paul Gray Esq
10 Downing Street
LONDON
SW1A 2AA

CH/EXCHEQUER	
REC.	03 FEB 1989
ACTION	<i>FST</i>
COPIES TO	

✓3/2

3 February 1989

Dear Paul

SELF-GOVERNING SCHOOLS ETC (SCOTLAND) BILL

E(EP) agreed last July to the main measures to be included in this session's Education (Scotland) Bill (now to be entitled the Self-Governing Schools etc (Scotland) Bill). There still remain a few outstanding policy issues for which my Secretary of State seeks clearance. The most substantial of these cover teacher appraisal and further education colleges.

The Secretary of State proposes to include in the Bill provisions enabling him to prescribe by regulations the appraisal of the performance of teachers employed in all Scottish schools and further education establishments, other than in the independent sector. A single clause is envisaged similar to section 49 of the Education (No 2) Act 1986 which provides a comparable power in respect of appraisal of teachers in England and Wales. The Secretary of State hopes to see appraisal introduced on a voluntary basis by education authorities following staff development pilot studies which are presently being conducted. However largely because of trade union hostility to the concept, these studies are not likely to produce much of value on the conduct of appraisal schemes. The Secretary of State judges it necessary therefore to take enabling powers, which will allow him to make regulations to ensure that this key element in improving teaching and learning in Scottish schools is introduced.

The Secretary of State wishes also to include provisions allowing Further Education colleges to incorporate themselves under the Companies Act while remaining within the local authority sector as assisted colleges. This option has long been available in England and Wales. We shall also be giving further education college councils greatly increased delegated powers, a new membership at least half of whom will be employers, and the power to undertake commercial activities so they will have both the freedom and the incentive to innovate and respond to labour market needs.

Further minor measures due for inclusion in the Bill are listed at Annex A.

Copies of this minute go to the Private Secretaries of members of E(EP), and Trevor Woolley. I would be grateful for any comments by close of play on Monday 6 February.

*Yours sincerely
David Crawley*

PP **DAVID CRAWLEY**
Private Secretary

1. General Teaching Council

The Teaching Council (Scotland) Act is to be amended to entitle persons to be registered with General Teaching Council if they fulfil such requirements as the Secretary of State may, after consultation with the GTC, prescribe by regulations. The GTC is soon to be required by EC Directive to register nationals of other member states who are recognised as teachers, provided that they have a 3-year Higher Education diploma. It will also be necessary to treat teachers from other parts of the United Kingdom in a similar way.

2. Special Educational Needs - Placing Requests

a. The Education (Scotland) Act 1980 is to be amended to clarify that placing requests may be made for special schools located anywhere in the UK. It has been common in the past for Scottish children with specific impairments such as autism or epilepsy to attend schools in England specialising in these particular conditions. A recent court case has cast doubt on the vires of this practice and particularly that of placing requests from Scottish parents in favour of such schools. It is proposed therefore to reinstate beyond doubt the previous interpretation.

b. The Education (Scotland) Act 1980 enables an education authority not to accept a placing request for an independent special school where it can make, at less cost, adequate provision for the needs of the child in a school under their management. This provision has on occasion been applied too stringently, resulting in inappropriate school placement. It is proposed therefore to substitute a condition that the duty to accept such a placing request may be set aside only if it is reasonable to do so having regard to the suitability, as well as the cost, of the education the authority can provide at a school under its own management.

3. Junior College Provisions

Provision in the Education (Scotland) 1980 Act relating to Junior Colleges (compulsory further education) are to be repealed. These provisions, originally enacted in the 1940s, were never commenced and are now anachronistic.

Scottish Office
February 1989

CH/EXCHEQUER	
REC.	06 FEB 1989
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COPIES TO	

✓6/2



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 February 1989

Dear David,

pmg

SELF-GOVERNING SCHOOLS ETC (SCOTLAND) BILL

Thank you for your letter of 3 February which the Prime Minister has seen. Subject to the views of colleagues, she is content with your Secretary of State's proposals.

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

Yan,
P.G.

PAUL GRAY

David Crawley, Esq.
Scottish Office



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

CH/EXCHEQUER	
REC.	09 FEB 1989
ACTION	FST
COPIES TO	

8 February 1989

✓ 9/2

[Handwritten signature]
✓

See Nigel

LEGISLATIVE PROGRAMME 1989/90

The Queen's Speeches and Future Legislation Committee (QL) met today to consider the bids made by colleagues for legislation in the 1989/90 session.

This is simply to let you know that we agreed to the inclusion of the Pensions (Miscellaneous Provisions) Bill, the Government Trading Funds Bill, and the Parliamentary Pensions Bill in the 1989/90 programme.

I am sending copies of this letter to QL colleagues, Sir Robin Butler and First Parliamentary Counsel.

[Handwritten signature]
[Handwritten signature]

JOHN WAKEHAM

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer



FROM: B O DYER
DATE: 8 February 1989

CHANCELLOR

01-270 4520

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 9 FEBRUARY 1989
PARLIAMENTARY AFFAIRS

Following is the business, currently, proposed for the Commons next week:

Monday 13 February

2.30pm: Transport Questions

3.30pm: Private Members' Motions

1. Mr John Ward - subject to be announced
2. Sir Hal Miller - Church, Govt. and Moral Values
3. Mr Nicholas Baker - Town and Country Planning

7.00pm: Official Secrets Bill - Guillotine

Tuesday 14 February

2.30pm: Employment Questions

3.15pm: PMs Questions

3.30pm: Ten Minute Rule Bill - Poll Tax : Mr A Cohen

3.40pm: Local Government and Housing Bill - Second Reading

Wednesday 15 February

2.30pm: Trade and Industry Questions

3.30pm: Ten Minute Rule Bill - Junior Hospital Doctors' Hours: Mr T Davis

3.40pm: Official Secrets Bill - Committee (3rd day)

Thursday 16 February

2.30pm: MAFF Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: Official Secrets Bill - Committee (concluding day)

CONFIDENTIAL



Friday 17 February

9.30am: Private Members' Bills - Second Reading

1. Sunday Sports Bill
2. Disabled Persons (NI) Bill
3. Housing Associations Bill
4. British Racing Commission Bill

A handwritten signature in black ink, appearing to read 'B. O. Dyer'.

B O DYER

PS The Opposition are seeking two days for Second Reading of the Local Government and Housing Bill; *this is being resisted.*



HM/EXCHEQUER	
REC.	10 FEB 1989
	FST

QUEEN ANNE'S GATE LONDON SW1H 9AT

✓ 10/2

9 February 1989

Dear John,

ROAD TRAFFIC (BREATH TESTS) BILL

John Home Robertson's Bill on police breath testing powers is due for Second Reading on 24 February.

Although the Bill has not yet been published, I have seen a copy in draft. It will contain two clauses. The first will seek to clarify existing powers by stating explicitly that a police officer may use his power to stop any vehicle in order to establish whether there are grounds for requiring a breath test. The second clause will provide for the Secretary of State to make regulations regarding the conduct of roadside checks. I understand that its purpose is to allow random testing under specified circumstances.

As you know, on 1 February I announced a period of public consultation on possible changes to police breath testing powers. The consultation period lasts until 30 April. I would therefore wish to avoid any need to express a substantive view on the Bill; and it would not be helpful for it to reach Committee. If there were to be a debate, there would be some risk that the Bill's promoters would force and win a vote. I suggest therefore that, if necessary, arrangements should be made for the Bill not to be reached on 24 February.

I am copying this letter to members of H and L, Paul Channon, Malcolm Rifkind, Sir Robin Butler and Sir Patrick Mayhew.

Yours,
Douglas

The Rt Hon John Wakeham, MP
Lord President of the Council



Y SWYDDFA GYMREIG
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

From The Secretary of State for Wales

CH/EXCHEQUER	
REC.	09 FEB 1989
ACTION	FST
COPIES TO	

✓ 9/2

CT/3079/89

9 February 1989

Dear David,

SELF GOVERNING SCHOOLS ETC (SCOTLAND) BILL

Thank you for copying to me your letter of 3 February to Paul Gray.

Your third paragraph can be read as saying that provisions allowing further education colleges in England and Wales to incorporate themselves under the Companies Acts while remaining in the local authority sector have long been included in education law. The position is that the option of becoming a limited company, by agreement between the college and the maintaining LEA, has been an option under general local government law, but there have been no specific provisions in the Education Acts. Section 156(5) of the Education Reform Act 1988 provides that where it is proposed to form a company to conduct a maintained institution of further or higher education, the memorandum and articles of association shall be subject to the Secretary of State's approval, but it is not necessary to include any provisions enabling the formation of the company in the new legislation.

Copies of this letter to the private secretaries of E(EP) members and Trevor Woolley.

Ysgrifennydd
Stephen

S R WILLIAMS

David Crawley Esq
Private Secretary to the Secretary of State for Scotland
Scottish Office
Whitehall
LONDON SW1A 2AU



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1A 2AT

Dear John.

Pmp

CH/EXCHEQUER	
REC.	10 FEB 1989
ACTION	FST
ISSUES	

10/2

- 9 FEB 1989

PARLIAMENTARY COMMITTEES

Having seen George Younger's letter to you of 31 January, I should like to lend my support to what he says.

Overlap between the work of the various Committees is becoming more and more of a problem, and the root of it is the PAC's extremely liberal interpretation of its statutory remit under the 1983 Act. Although that Act did represent a substantial extension of the PAC's remit, the clear intention, reflected in the wording of the statute, was that the NAO/PAC should continue to be concerned with the use of resources; should continue to address the actions of the executive, not those of Ministers or the Government; and should be concerned with actions and events that have happened, rather than speculating about hypothetical or future actions or events. As George Younger implies, the intention behind the 1983 Act was that the NAO's approach should still be audit based, even though concerned with more than checking procedures and arithmetic.

Unfortunately, the NAO seem determined to leave audit behind in getting ever deeper into policy review, and the PAC have done little to restrain them. For example, the NAO's inquiry into Road Safety focussed on issues such as whether the Government should introduce random breath testing for drivers and whether rear seat belt wearing should be made compulsory. Both issues are quite clearly matters for Ministerial decision and moreover, any action would have to be agreed by Parliament. Neither really has anything to do with the way in which my officials have discharged their functions and managed resources, although the NAO argued (in my view very tenuously) that since my Department has a general objective to improve road safety, they were entitled to look at any measure, whether actual or possible, in assessing effectiveness.

The result was an inquiry which strayed into areas which are appropriate to the remit of the Select Committee on Transport and indeed, the Transport Committee did carry out an inquiry into road safety in 1982-83. Similarly, at the recent hearing into the NAO's inquiry into Road Planning, the main issues of concern to the PAC were what was going to be done about congestion on the M25 and the design standards to be adopted for a new section of the M40. Once again, these are very clearly Departmental Select Committee matters and as it happens, the Committee is currently conducting an inquiry into future plans for road building.

The NAO is now carrying out an inquiry into the Next Steps/ Executive Agencies Initiative in the immediate aftermath of an inquiry by the Treasury and Civil Service Select Committee. As the oldest Agency (the Vehicle Inspectorate) has scarcely been in existence for six months, there would seem to be precious little scope for analysing value for money issues. The dealings which my officials have had with NAO staff do indeed suggest that their report, when it appears, will be largely concerned with policy matters.

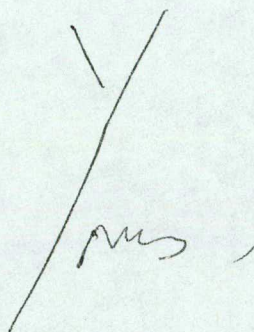
Quite apart from the very considerable burden of largely unproductive work which these inquiries impose, the approach adopted by the NAO raises serious practical and constitutional issues. Their reports come dangerously close to trying to hold officials accountable for matters which are Ministers' responsibility. In the longer term, I believe that that can only diminish the effectiveness of the PAC since it will become distracted from its proper role. Moreover, quite apart from the issue of principle, the NAO is simply not staffed with people of the appropriate background (nor, I regret to say, the necessary calibre) to undertake satisfactory analyses of complex and judgemental issues - a problem which is exacerbated by the tight, and often unrealistic timetables which the NAO is obliged to set in order to deliver a satisfactory programme of work for the PAC.

There are some signs that the PAC are becoming aware of these dangers. I have been pleased to note for example that the PAC Report on Road Safety to be published on 9 February stops short of making recommendations about new policies on random breath testing and rear seat belts, and even, in discussing the Comptroller and Auditor General's audit remit (extract enclosed) puts a welcome emphasis on the analysis of "strengths and weaknesses in what has been done in implementing policy objectives" which does seem to imply a more audit based approach. We should encourage this trend.

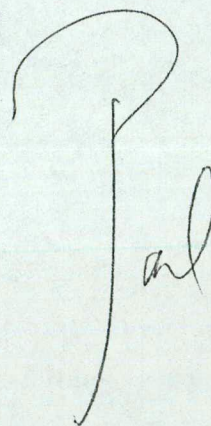
Meanwhile I very much support George Younger's view that better co-ordination of the scheduling of inquiries between Committees would be a positive step. It would not address the fundamental problem that the PAC and NAO have been straying further and further from their audit role into matters of policy, but by all

means let us tackle the symptoms of this disorder in the way he suggests. If there were in addition anything you could do to reinforce the message that the PAC should concentrate on its own very important work in the field of audit based expenditure control, and not allow itself to be so readily distracted by the delights of policy review. I am sure that would do much both to reduce the duplication of effort which prompted George Younger's letter, and to strengthen the effective Parliamentary control of expenditure which is or ought to be the primary concern of the PAC.

I am sending copies of this letter to the Prime Minister, Cabinet colleagues and Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'Paul Channon', written over a diagonal line that extends from the top left towards the bottom right.

PAUL CHANNON

A large, stylized handwritten signature in black ink, starting with a large 'P' and ending with 'al'.



MP

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

CH/EXCHEQUER	
REC.	13 FEB 1989
ACTION	FST ✓ 13/2
COPIES TO	

10 February 1989

Dear John

CONTROL OF SMOKE POLLUTION BILL

Andrew Hunter, who came 16th in the ballot for Private Members' Bills, has introduced a Control of Smoke Pollution Bill. The Bill is down for Second Reading on 27 January and I am writing to propose the line we should take.

The Bill will implement two relatively minor proposals in a consultation paper published by my Department, the Scottish Development Department and the Welsh Office in December 1986. H Committee clearance to these provisions being offered as a handout Bill was given in July 1987.

The text of the Bill is attached. The purpose of the Bill is to amend the Clean Air Acts 1956 and 1968 so as:

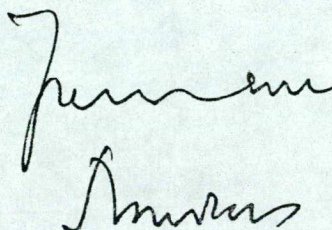
- a) to specify that emissions of non-dark smoke from private dwellings, where the dwellings are not in a smoke control area, can be a statutory nuisance for the purposes of the Public Health Act 1936. This is to overcome an inconsistency whereby there is provision for all emissions of smoke, from whatever source, to be controlled under either the 1936 Act or the Clean Air Acts, with the exception of non-dark smoke emissions from private dwellings outside smoke control areas; and
- b) to overcome some of the difficulties experienced in enforcing against anyone emitting dark smoke from industrial or trade premises; in particular emissions of toxic smoke from burning of cables at night in order to recover the metal core.

The long title will need to be amended in Committee in the light of the change to the Bill since it was presented: to amend rather than repeal section 16(1)(a) of the Clean Air Act 1956.

There was almost universal support for the two proposals from those responding to the 1986 consultation paper.

The Bill is fourth in order for debate on 24 February and is therefore unlikely to reach Second Reading debate. In the event of it being reached, I propose that in principle support should be given and administrative support for it thereafter. Likewise, I propose that administrative support should be given if the Bill obtains a Second Reading without debate. If Second Reading debate is not reached and the Bill is blocked, I do not feel that the Bill is of sufficient significance to warrant providing time during main business.

I am copying this letter to the Prime Minister, Members of H and L Committees and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

DRAFT

OF A

B I L L

TO

Repeal section 16(1)(a) of the Clean Air Act 1956 and to amend section 1 of the Clean Air Act 1968. A.D. 1989.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

5 1. In section 16 of the Clean Air Act 1956, in paragraph (a) of subsection (1) (which exempts smoke emitted from a chimney of a private dwelling from types of smoke deemed to be a statutory nuisance for the purposes of Part III of the Public Health Act 1936) after the words "private dwelling" there shall be inserted the words
10 "within a smoke control area".

Removal of exemption from statutory nuisance of smoke from certain domestic chimneys. [i]

1956 c. 52.
1936 c.49.

15 2.—(1) In subsection (1) of section 1 of the Clean Air Act 1968 (occupier of premises from which dark smoke is emitted to be guilty of an offence) after the words "occupier of the premises" there shall be inserted the words "and any person who causes or permits the emission".

Extension of offence of emitting dark smoke from industrial or trade premises. [j2]

1968 c. 62.

(2) After that subsection there shall be inserted—

"(1A) For the purposes of subsection (1) above, there shall be taken to have been an emission of dark smoke from industrial or trade premises in any case where—

20 (a) material is burned on those premises, and

(b) the circumstances are such that the burning would be likely to give rise to the emission of dark smoke,

unless the occupier or any person who caused or permitted the burning shows that no dark smoke was emitted."

Short title,
commencement
and extent. [j3]

3.—(1) This Act may be cited as the Control of Smoke Pollution Act 1989.

(2) This Act shall come into force at the end of the period of two months beginning with the day on which it is passed.

(2) This Act shall not extend to Northern Ireland.



FCS/89/024

ppp

CH/EXCHEQUER	
REC.	13 FEB 1989
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LORD PRESIDENT

13/2/89.

Parliamentary Select Committees

1. I have seen a copy of George Younger's letter of 31 January about the difficulties his Department is facing as a result of the increasing duplication of effort between the HCDC and PAC.
2. Whilst the difficulty he describes has not so far affected the FCO, I very much agree with him that the overlapping of House of Commons Select Committee work is a complication best avoided, not least because of the resource implications for Departments. I therefore support his suggestion that the PAC might circulate its future programme of business to other House of Commons Select Committees so that their Chairmen might take up with the PAC any likely overlapping of interest. Recent PAC inquiries into FCO work included reports in 1987 on Export Services and on the ODA's manpower programme, and in 1988 on the ODA's control of multilateral aid expenditure. This spring, the Committee are to look into the ODA's sponsorship of the Commonwealth Development Corporation.
3. We also need to watch for possible risks of duplication between the work of House of Lords and House of Commons Committees. The Lords Science and Technology



Committee is about to begin an inquiry into scientific and technical aid to developing countries. There is clearly some risk of overlap with past FAC inquiries.

4. I am copying this minute to the Prime Minister and other Cabinet colleagues, and to Sir Robin Butler

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
13 February 1989



FROM: B O DYER
DATE: 15 February 1989

01-270 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 16 FEBRUARY 1989
PARLIAMENTARY AFFAIRS

Following is the business, currently, proposed for the Commons next week:

Monday 20 February

- 2.30pm: Welsh Questions
- 3.30pm: Transport (Scotland) Bill - Remaining stages
- 7.00pm: The Housing Crisis - Debate on a motion for the Adjournment

Tuesday 21 February

- 2.30pm: Health Questions
- 3.15pm: PMs Questions
- 3.30pm: Ten Minute Rule Bill - David Shaw: Competition in Book Sales
- 3.40pm: Opposition 5th Allotted Day - Subject to be announced

Wednesday 22 February

- 2.30pm: Environment Questions
- 3.30pm: Ten Minute Rule Bill - Barry Field: Employment Age Discrimination
- 3.40pm: Official Secrets Bill - Remaining stages

Thursday 23 February

- 2.30pm: Treasury Questions (C/Ex, CST, FST, PMG)
- 3.15pm: PMs Questions
- 3.30pm: Business Statement
- 3.50pm: EC White Paper Debate (Mrs Chalker to open and EST to wind)

CONFIDENTIAL



Friday 24 February

9.30am: **Private Members' Bills - Second Reading**

1. Control of Pollution
2. Road Traffic (Breath Tests)
3. Fire Safety Information
4. Control of Smoke Pollution

B O DYER



CH/EXCHEQUER	
REC.	20 FEB 1989
ACTION	FST
COPIES TO	

✓ 20/2

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

17 February 1989

Dear Francis

DAVID SHAW'S TEN MINUTE RULE MOTION FOR TUESDAY 21 FEBRUARY

Thank you for your letter of 10 February setting out your proposals for handling David Shaw's Ten Minute Rule Motion for Tuesday 21 February.

I agree that the Motion should not be opposed, that, in the event of a division, any colleagues present should abstain and that any resultant Bill should be blocked at Second Reading. We shall make the necessary arrangements to secure this.

I note that you will be explaining to David why we are withholding support for his Bill.

I am copying this letter to the members of L, Nigel Lawson, Richard Luce, Sir Robin Butler and First Parliamentary Counsel.

JOHN WAKEHAM

The Hon Francis Maude MP
Parliamentary Under Secretary of State
for Corporate Affairs
Department of Trade and Industry



CH/EXCHEQUER	
REC.	22 FEB 1989
ACTION	FST
COPIES TO	

QUEEN ANNE'S GATE LONDON SW1H 9AT

Handwritten signature

✓ 227

2 February 1989

Dear John,

Alistair Burt is to seek leave on Tuesday 28 February to introduce a Bill to require the installation of smoke detectors (now more properly called smoke alarms) in domestic premises. He introduced a similar Bill this time last year, but its proposers did not print it for Second Reading because of our plans to block it. Our position on this issue has not changed.

Steps have already been taken by the Department of Trade and Industry to prevent the sale of some of the worst types of furniture but existing furniture will remain in most homes for many years to come. Figures from America suggest that early warning from smoke alarms can save lives, provided the alarms are properly fitted and looked after. They are, of course, only an early warning system and no substitute for proper precautions and care to prevent fire.

We are actively encouraging responsible householders to install smoke alarms, but cannot guarantee that a single smoke alarm will provide adequate warning in all cases. Much depends on where they are situated. In some cases more than one may be necessary. There is at present no statistical evidence in this country to support their use; the evidence of their success is largely anecdotal. There is also the problem that if installed, there is no way in which it can be ensured that they will be maintained, for example that the batteries will be checked or changed. Those who purchase smoke alarms voluntarily are, in our view, those most likely to maintain them. This, we feel, justifies our publicity and public education programme, but we are not convinced that we have reached the point where legislation would be either effective or justified.

In the meantime we have a research project which involves the monitoring of a programme to install 10,000 smoke alarms in houses in the Tameside district of Greater Manchester, and research is being carried out at the Fire Research Station on behalf of the Department of the Environment to determine where

/smoke alarms

The Rt Hon John Wakeham, MP
Lord President of the Council

smoke alarms should be placed and in what numbers, to secure maximum benefit for the occupation of domestic premises. It is essential that this should be completed before effective legislation can be contemplated. Even then, the maintenance problem still has to be overcome.

For these reasons I am not able to support Alistair Burt's Bill, but I do not think that there is any need for the Motion to be opposed. If there is a Division, I suggest that Ministers should abstain, but the Bill should be blocked at Second Reading. If this is agreed, I will write to Alistair Burt explaining the reasons for our decision.

I am sending copies of this letter to other Members of (L), the Secretary of State for the Environment, the Minister for Consumer Affairs, First Parliamentary Counsel and to the Secretaries to (L).

Yours,
Douglas.



EXCHEQUER	
22 FEB 1989	
FST	
TO	

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

21 February 1989

Dear Stephen

RALPH HOWELL'S PRIVATE MEMBER'S BILL ON IDENTITY CARDS

Since the Government's policy of neutrality has allowed John Browne's Protection of Privacy Bill to get its Second Reading "on the nod", there is an obvious possibility that Ralph Howell might try to achieve the same result for his own Bill, by bringing its Second Reading forward from 21 April.

The Home Secretary is anxious that any such attempt should be frustrated. He believes that the Government would be justified in blocking the Howell Bill, notwithstanding that it did not obstruct John Browne's; the latter, after all, was well supported and narrowly failed to get through its initial Second Reading debate, whereas Ralph Howell's Bill was a long way short of its 100 votes and faced considerable opposition. It would be quite inappropriate to let the National Identity Card Bill go through unopposed and it is proposed that arrangements should therefore be made to block it.

I am copying this letter to the Private Secretaries of other members of 'L'.

Yours
Catherine

MISS C J BANNISTER

Stephen Catling, Esq
Private Secretary to
the Lord President



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services Security

EXCHEQUER	
REC.	21 FEB 1989
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COPIES TO	

v21/2

The Rt Hon John Wakeham MP
 Lord President of the Council and
 Leader of the House of Commons
 Privy Council Office
 Whitehall
 LONDON
 SW1A 2AT

21 February 1989

PARLIAMENTARY COMMITTEES

Having seen George Younger's letter to you of 31 January, I should very much like to endorse what he says.

While my Department does not- yet - have quite the same problems of overlap between the work of the PAC and the Social Services Committee which George describes, it is certainly true that in the social security field the PAC, and the NAO, are moving away from their traditional scrutiny of the efficiency with which the Department administers its expenditure into policy review. They are doing this by a wide interpretation of their statutory right to examine the 'effectiveness' of the Department's activities.

The NAO have a number of studies currently in hand, for example into lone parent support, financial provision for the elderly and housing benefit, where the new emphasis on evaluating the effectiveness of policies against objectives laid down by Ministers is coming very much to the fore. And they have just notified us that they intend to mount a value for money scrutiny into how far the objectives of the April 1988 social security reforms are being met. These areas are politically very highly charged and it is difficult to see how the PAC will be able to maintain, even if they showed signs of wanting to, the dividing line between Accounting Officer responsibility for efficient administration and Ministerial accountability to the House and to Departmental Select Committees for policy matters.

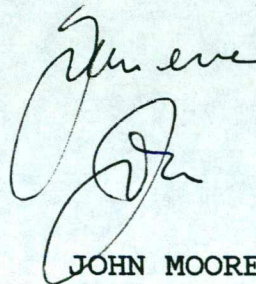
This issue may come to a head in a particularly acute form shortly if the NAO cannot be persuaded by my officials to delete passages in a draft report on housing benefit which in its present form records that my Department has not been prepared to release papers to the NAO containing advice on policy options from officials to Ministers bearing on the reasons for Ministerial decisions taken in April 1988 on transitional arrangements for the housing benefit changes introduced at that time. It is difficult to imagine anything which is more clearly a policy matter for Ministers.

E.R.

I am also concerned at the very considerable burden of work which the clearance and discussion of these reports is imposing on my officials. Given the size of the social security programme, it is not surprising that the NAO devotes considerable resources to its scrutiny. The social security division is the largest within NAO. The expansion of work in the last year or so, however, means that at any one time my Department is having to handle eight value for money scrutinies each of which, from preliminary study to Treasury Minute, involves a twenty month programme of work, apart from the more usual work on the Accounts. The Accounting Officer now has the prospect of four PAC hearings a year, in addition to any appearances on the Accounts or on Treasury Minutes. The cost-effectiveness of all this needs to be kept in mind, more especially when my officials have to spend so much time discussing and re-drafting NAO draft reports which can be wide of the mark in their original form.

I therefore very much agree with Paul Channon that, quite apart from the considerable burden of work which the scrutinies impose on Departments, the approach being adopted by the NAO raises important issues of principle and that, by confusing the roles of the PAC and the Departmental Select Committees, it might serve to weaken rather than strengthen the accountability of the executive to Parliament. George Younger's proposal for better co-ordination of the work of Committees would be a helpful interim step in improving the position but it does not resolve this fundamental problem.

I am sending copies of the letter to the Prime Minister, Cabinet colleagues and Sir Robin Butler.



JOHN MOORE

From: Nigel Forman.
21st February 1989.

To: Chancellor.

✓ / PJ

Operation Do Them Down, 1989.

1. No doubt you will have heard by now that the operation was successful again this year. I attach a list of all those who took part, including Ann Widdecombe, to whom you may wish to send personal letters of thanks.

2. Naturally, we all hope that this puerile nonsense of queuing in the Public Bill Waiting Office has taken place for the last time. I understand that the Leader of the House and the Chief Whip are taking the matter in hand in a way which would eliminate the Ten Minute Rule Bill on subsequent Budget Days and make the other slots available by ballot. If my understanding is correct, doubtless you will wish to give this scheme your full support. Apart from anything else, I do not believe that our wives (spouses) would take kindly to any further repeat performances.

707
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P.S. Alan Howarth and the Whips were also very helpful and supportive in many ways. So a letter to him might be appreciated as well.



FROM: B O DYER
DATE: 22 February 1989

01-270 4520

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mrs J Chaplin
Mrs J Thorpe

CABINET : THURSDAY 23 FEBRUARY 1989
PARLIAMENTARY AFFAIRS

Following is the business, currently, proposed for the Commons next week:

Monday 27 February

2.30pm: Energy Questions
3.20pm: Civil Service Questions (Mr Luce)
3.20pm: Debate on EC proposals for Agriculture & Prices

Tuesday 28 February

2.30pm: Education and Science Questions
3.15pm: PMs Questions
3.30pm: Ten Minute Rule Bill - Alistair Burt : Installation of
Smoke Detectors
3.40pm: Debate on the Navy

Wednesday 1 March

2.30pm: Scottish Questions
3.30pm: Ten Minute Rule Bill - John McAllion : Scottish Assembly
3.40pm: ~~Self-Governing Schools (Scotland) Bill~~ Second Reading
Debate on Wales - St. David's Day

Thursday 2 March

2.30pm: Home Office Questions
3.15pm: PMs Questions
3.30pm: Business Statement
3.50pm: ~~Debate on Housing - arising on a motion for the Adjournment~~
7.00pm: Court of Auditors Report (PMG)

CONFIDENTIAL

Friday 3 March

9.30am: **Private Members' Bills - Second Reading**

1. Citizens' Compensation Bill
2. Abortion (Amdt) Bill
3. Data Protection Bill
4. Misuse of Drugs Bill

A handwritten signature in black ink, appearing to read 'B. O. Dyer', is written over a faint circular stamp. The signature is stylized and cursive.

B O DYER

py

CHANCELLOR

[Red handwritten mark]

FROM: A G TYRIE
DATE: 22 February 1989
cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mrs Chaplin
Mr Call

I attach a letter from Ian Stewart in response to your request at the First Order PQ Briefing meeting.

2. I think the simple point to get across is that Labour have a yawning credibility gap. No-one believes that Labour would be able to keep inflation under control. Their "concern" about inflation comes after a decade in which they have demanded, non stop, for higher spending, lower interest rates and a depreciation of the currency.

[Handwritten initials]
A G TYRIE

Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

Director: ROBIN HARRIS CBE

IS/cm

21st February 1989

Dear Andrew,

LABOUR AND INFLATION

After yesterday's PQ briefing I thought Ministers might find the attached list of quotes from Labour spokesman useful.

There are probably three ways to counter Labour's attack on our inflation record:

1. Labour believe that low inflation is compatible with large reductions in interest rates and a devaluation of the pound - contrary to all the experience of the last 20 years. Labour spokesman urged the Chancellor to go further and faster in cutting interest rates than he was prepared to go following the October Crash. And despite the re-emergence of inflationary pressures in the second half of 1988 Labour has consistently urged the Chancellor to make further cuts in interest rates (see section A attached).
2. Labour's policies for increasing public spending would inevitably fuel inflation. It's interesting to note that Labour once saw America's expansionary policies as a model for a future Labour Government. Given that Labour has rejected the tight monetary policy that prevented America's fiscal expansion feeding through into inflation the consequence of pursuing such a policy in the UK are all too apparent. Gordon Brown has now admitted that he wants to see increases in public spending, though he prefers to talk of 'public investment' - presumably because it sounds less inflationary (see section B).
3. A number of Labour spokesmen have admitted that the Party's policies would cause inflation - or that Labour does not attach great priority to controlling inflation (see section C).

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I thought it might also be worth emphasising that even John Smith admits that Labour's only weapon for controlling rising prices - credit controls - could not be made to work in the long term. Since Labour admits that credit controls would only work in the short term it would be useful to press them on how a future Labour Government would control inflation in the long term.

The attached quote from the CBI's 1989 Budget representations might also be useful for PQs since it underlines the importance business attaches to controlling inflation - and their belief that the only effective way to do so is through higher interest rates.

I hope this is useful. Please let me know if anything else is required.

Yours,
I

IAN STEWART

Andrew Tyrie Esq
HM Treasury
Parliament Street
London SW1

LABOUR AND INFLATION - QUOTES

A. INTEREST RATES

1. 'declines to approve the Autumn Statement; deplores the failings in the Government' economic policies and the ... higher inflation ... these have caused ... and calls upon the Government to adopt an economic strategy which will ... combat imflation, move interest rates downwards towards the levels of Britain's competitors and reduce the balance of payments deficit by improving export performance' (Labour amendment to a Government motion on the Autumn Statement, Hansard 12th January 1989, Col. 1014).
2. 'the Chancellor should set in motion a fiscal strategy that is not only fair but is designed to reduce inflation, allow interest rates to fall and assist our balance of payments' (Gordon Brown, Hansard, 12th January 1989, Col. 1021).
3. 'High interest rates show a Government who want to encourage immediate consumption, low interest rates show a Government whose policy is to encourage future investment' (Bryan Gould, Hansard, 29th March 1988, Col. 52).
4. 'The Chancellor should have looked at interest rates. He should have given a much clearer signal than he gave today to the markets, first, about the need for a stable but competitive exchange rate, which at the moment is desperately uncompetitive; and, secondly, about a substantial reduction in interest rates ...' (Chris Smith Hansard, 17th March 1988, Col. 1310).
5. 'At home in Britain it [the need to ward off recession following the October Crash] means a stimulation of the economy by cuts in interest rates, a targeted programme of public investment directed particularly to the unused capacity of the regions, and the acceptance of government responsibility to revive our real economy by investment in insdustry by a boost for science and technology, and a real commitment to education and training' (John Smith, Speech to the OECD, Paris, 13th November 1987).
6. Social Justice and Economic Efficiency states that the aims of Labour's macroeconomic policy will be 'steady expansion, competitive exchange rates and low inflation' (p.3).
7. 'now is the time for cuts in interest rates to stimulate the economy' (John Smith, Airdrie, 14th November 1987).
8. '[Britain] must have lower interest rates and a more stable and competitive exchange rate' (Chris Smith, Hansard, 17th March 1988, Col. 1310).

B. SPENDING

9. 'Although our motivation and measures would differ from that of the United States president, our method for recovery - of expansionary budgets, of extending credit and of public expenditure - would differ only in the way in which we would insist that, systematically, it applied to our whole country' (Neil Kinnock, Hansard, 31st July 1984, Col. 234).
10. 'Perhaps more important is the single fact that to reject borrowing as a means of financing a massive job-creating programme is to accept unemployment remaining at 3 million or 3.5 million for the rest of this decade and beyond' (Roy Hattersley, Hansard, 19th March 1986, Col. 310).
11. 'the policies that the opposition advocate have led to the rescue and recovery of the US economy on scale and at a pace that have given that country a new dawn of development. The Government must know that the only answer to the perpetual rundown of our economy is to adopt those policies' (Neil Kinnock, Hansard, 31st July 1984).
12. 'I can assure the Chancellor that we believe in more public investment, and to make that possible we would have a different fiscal strategy from the strategy that the Chancellor is pursuing' (Gordon Brown, Hansard, 12th January 1989, Col 1020).
13. 'The Labour Party is, of course, committed to increased public investment' (Gordon Brown, Hansard, 12th January 1989, Col. 1019).

C. RISING INFLATION

14. 'Obviously, the countering of inflation should be a key objective of any Government, but the fight against inflation should not be a paramount aim even of a Conservative Government' (Stuart Holland, Hansard, 16th March 1988, Col. 1192).
15. Mr Kinnock admitted during the 1987 General Election that the implementation of Labour's policies would produce 'a temporary surge' in inflation, taking the rate to 'say 7 per cent' (Panorama BBC1, 1st June 1987).
16. 'There are ... weak areas where we have not provided a sufficiently clear answer to the electorate: for example, the containment of inflation, how do we pay for our programme and what alternatives we are putting in place of the Tory trade union legislation' (Michael Meacher The Independent, 23rd September 1987).

D. OTHERS

17. 'It may well be the case that open financial markets can in the long run erode the impact of credit restraint. But we are not seeking to put in place a permanent and sealed system. All that credit controls need to achieve is to help to decelerate over the short term. And, of course, this result would avoid the damaging efforts of interest rate increases' (John Smith, Speech to the Labour finance and Industry Group, 25th January 1989).

18. 'When the last Labour Government left office inflation was falling' (Gordon Brown, Hansard, 12th January 1989, Col. 1017).

- the development of new methods of company financing in the 1980s has reduced industries' reliance on bank lending. The wider use of fixed interest rate loans, interest rate caps and equity finance from new markets (the Over the Counter Market, the Stock Exchange's Third Market and the Unlisted Securities Market) has given business more choice as to how they fund expansion.

The experience of British business in the 1970s - a period of poor profitability, declining competitiveness and rampant inflation - underlines the crucial importance of low inflation to business success. The Confederation of British Industry (CBI) has acknowledged this fact, pointing out that member companies:

'accept that there has been no alternative in the short-term to increasing interest rates to prevent inflation accelerating out of control...The reduction of inflation during the 1980s has been a key element in the recovery of British industry and the CBI shares the Government's commitment to lower inflation. For any economy like the UK, exposed to international competition, inflation higher than that in our principal trading partners almost inevitably means a lower standard of living, slower growth and thus poorer employment prospects in the longer term' (Building on Business Success: CBI Priorities for 1989, January 1989)

Interest rates represent only one cost to those businesses which finance investment by borrowing, rather than re-investing profits or issuing equity. A one year increase in interest rates, for instance, even if sustained for a full year, increases business costs by far less than the amount added by a one per cent increase in wage settleme

FROM : MISS J C SIMPSON
DATE : 22 FEBRUARY 1989

1. MR PICKFORD ^{Simpson} 24/2
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Gieve
Mr Dyer
Mr Deane
Mr Lind
Mr Hutson (+ 5 copies)
Mrs Chaplin
Mr Tyrie
Mr Call

Mr N Forman MP
Mr T Favell MP
Mr J Maples MP
Mr M Stern MP
Mr A Howarth MP

TREASURY FIRST ORDER QUESTIONS : THURSDAY, 23 FEBRUARY
EB CENTRAL BRIEF

1. I attach EB's central brief.
2. The brief contains:
 - (i) Bull points
 - (ii) Checklist of main indicators published recently
 - (iii) General briefing on topical issues.

Changes from the draft version have been sidelined.

3. You agreed that it would be helpful to stop, if at all possible, with Mr Arbuthnot's and Mr Bowen Wells' grouped questions on public expenditure since 1982-83. But as these will be numbers 8 and 9 on the Order Paper this will be difficult to achieve, even though a number of additional questions will have leap-frogged them by being grouped. The next Conservative Question after that is Mr Martin's on the TPI (number 12) and then

Mr Jack's on RPDI (number 19). You agreed that the main theme of Questions should be an attack on the Labour Government's record on inflation from 1974-79.

4. EA1 have prepared a subject brief on inflation which will be attached to the relevant questions in the usual way.

5. Most of the main monthly economic statistics have now been published. The only one outstanding is the balance of payments, which will not be published until Wednesday, 1 March.

B

MISS J C SIMPSON

1. Investment

DTI Investment Intentions Survey (December) projects 11 per cent rise in manufacturing investment in 1989. Autumn Statement forecasts growth of 10 per cent in 1989.

Total investment expected to have grown by at least 12 per cent in 1988, more than twice as fast as total consumption.

Over past 5 years total investment grown by getting on for twice as fast as total consumption. Under Labour, consumption grew by only 2 per cent a year, while investment hardly grew at all [$\frac{1}{4}$ per cent a year on average].

Since 1981 investment outpaced consumption growth in every year except one. In 1980s total investment grown faster than in any other EC country.

Private investment in 1988 expected to be highest proportion of GDP since records began in 1955.

2. Output

GDP output measure up $4\frac{1}{2}$ per cent in 1988 as a whole. Up $3\frac{1}{2}$ per cent in year to 1988Q4.

UK grown faster than all other major EC countries since 1980. Bottom of this league table in 1960s and 1970s.

Manufacturing output in fourth quarter of 1988 at highest ever level; up 10 per cent on 1979H1. Fell between 1974H1 and 1979H1.

Profitability in 1988 expected to be at level not seen since early 1960s.

3. Jobs

Adult unemployment (seasonally adjusted) fallen to below 2 million for first time since February 1981. Continuous fall for 30 months in a row, by over 1.1 million in total. Fall in unemployment longest and largest since War.

Unemployment has fallen in all regions over the last year. Long term unemployment has fallen faster than unemployment as a whole in all regions.

Employment risen by over $2\frac{1}{4}$ million since 1983; performance over last five years best since War. Now at highest ever level.

4. Public finances

PSDR in 1988-89 (ie budget surplus) for second successive year, first time this has happened since the beginning of the 1950s. PSDR in 1988-89 forecast to be biggest surplus since early 1950s.

Since 1982-83, general government expenditure (GGE), excluding privatisation proceeds, fallen by 7 percentage points as a share of GDP. In 1988-89 less than 40 per cent of GDP for first time for over 20 years. Planned to fall further by 1990-91 to less than 39 per cent, lowest since 1966-67.

MAIN ECONOMIC INDICATORS PUBLISHED SINCE 27 JANUARY

27 January Balance of payments current account and overseas trade figures (December)

- December current account deficit of £1257 million. In 1988 as a whole deficit of £14270 million.

- In 1988Q4, export volumes (excl. oil and erratics) down 2 per cent on previous quarter and up $3\frac{1}{2}$ per cent on a year earlier. In 1988 as a whole up $3\frac{1}{2}$ per cent on 1987.

- In 1988Q4, import volumes (excl. oil and erratics) up $2\frac{1}{2}$ per cent on previous quarter and up 15 per cent on a year earlier. In 1988 as a whole up 14 per cent on 1987.

2 February UK official reserves (January)

- Underlying rise of \$330 million.

6 February Retail sales (December - final)

9 February Bank of England Quarterly Bulletin

13 February CBI/FT Survey of distributive trades (January)

Retail sales (January - provisional)

- In January down $1\frac{1}{2}$ per cent on December. In 3 months to January up only $\frac{1}{4}$ per cent on previous 3 months and $4\frac{1}{2}$ per cent on a year earlier.

Labour market statistics

- Unemployment (s.a., claimants aged 18 and over only) (January) down 49,000 to 1,988,000. 'Headline' total up 28,000 to 2,074,000.
- Workforce in employment in 1988Q3 up 120,000 on 1988Q2 to level 400,000 higher than year earlier.
- Manufacturing employees (December) up 8,000 from November to 4,988,000.
- Vacancies (January) down 9,000 from December to 229,000.
- Average earnings (December) underlying increase of $8\frac{3}{4}$ per cent for whole economy.
- Manufacturing unit wage costs in 1988Q4 up 1.1 per cent on year earlier.
- Manufacturing productivity in 1988Q4 up 7.5 per cent on year earlier.

17 February

Tax and price index (January)

- Annual rate 5.6 per cent.

Retail prices index (January)

- Annual rate 7.5 per cent, excl. mortgage interest payments (MIPs) annual rate 5.5 per cent.

20 February

CBI Monthly Trends Enquiry (February)

Producer prices (January)

- Annual rate of output prices 5.3 per cent.
- Annual rate of input prices 5.7 per cent.

15 February

Index of output of production industries
(December)

- Industrial production in 1988Q4 down 0.2 per cent on previous quarter, but up 2.6 per cent on year earlier. In 1988 as a whole up 3.7 per cent on 1987.
- Manufacturing output in 1988Q4 up 0.4 per cent on previous quarter and up 6.9 per cent on a year earlier. In 1988 as a whole up 7.1 per cent on 1987.

16 February

Public Sector Borrowing Requirement (January)

- Provisionally estimated to have been minus £6.9 billion in January. Cumulative total of minus £15.5 billion in first ten months of 1988-89.
- Cumulative, excl. privatisation proceeds, of minus £9.4 billion.

Capital expenditure by manufacturing and service industries (Q4 - provisional)

- Manufacturing investment in 1988Q4 down 4 per cent on 1988Q3, but up 5.1 per cent on a year earlier. In 1988 as a whole up 9.8 per cent on 1987.

GENERAL BRIEFING : TOPICAL ISSUES

1. Interest rate rises not working ; inflation rising and out of control

- No. Only about $\frac{1}{2}$ per cent of $2\frac{1}{2}$ percentage point rise in RPI since July due to underlying inflation. Rest due to impact of mortgage interest payments
- as I/my RHF has made clear, always lag between effect of higher interest rates on consumer spending and effect on inflation
- already clear signs of slowdown in consumer spending eg in MO, housing market, retail sales and consumer confidence
- although inflation likely to rise further before starts to fall again, will certainly fall later this year
- I/my RHF has made clear that prepared to maintain interest rates at whatever level necessary to maintain downward pressure on inflation
- recognise that increased interest rates unwelcome to borrowers, especially small businessmen and home owners, but battle against inflation must be paramount
- We had inflation blip of similar sort in 1985 - got over that and will get over this.

2. Investment languishing while consumption booms

- No. Total investment has grown faster than total consumption in six out of past seven years - on average twice as fast. Experiencing longest lived investment-led expansion British economy has experienced for decades
- DTI investment intentions survey (December) suggested growth of 12 per cent in manufacturing investment in 1988 and further growth of 11 per cent in 1989. CBI industrial trends enquiries continue to show confidence - January quarterly survey showed balance of firms expecting to increase capital expenditure over next 12 months remains high
- overall level of investment at record levels. Rose between 1979 and first half of 1988 by at least 25 per cent in real terms. Over period 1974-79 it grew by 1.4 per cent
- not just quantity but quality of investment that is important. Quality improved since 1979 as evidenced by improvement in productivity and profitability.

Provisional estimates of monetary aggregates
(January)

- M0 annual growth rate 8.1 per cent.
- M3 annual growth rate 22.0 per cent.
- M4 annual growth rate 18.3 per cent.
- M5 annual growth rate 17.5 per cent.

21 February

Gross Domestic Product (Output-based)
(Q4 - preliminary)

- In 1988Q4 GDP(O) estimated to be up 0.1 per cent on 1988Q3 and up 3.3 per cent on a year earlier. In 1988 as a whole up 4½ per cent on 1987.

22 February

Construction - new orders (December)

Total orders in 1988Q4 up 10 per cent on 1988Q3, and up 23 per cent on a year earlier. In 1988 as a whole total construction orders up 5 per cent on 1987.

3. Latest investment figures show real interest rates penalising industry (eg statements by John Banham, 17 February)

- Industry doing very well: output up, profitability up, investment intentions remain strong, financial position very strong
- [latest investment figures below AS forecast, especially for manufacturing] Still indicate growth of 10 per cent in 1988. Figures disappointing, but provisional estimates [notoriously] unreliable. Long history of upward revisions, sometimes substantial. CSO Director recently told TCSC that were inherent difficulties in making reliable estimates of investment for recent past
- Latest CBI Survey shows that investment intentions remain strong. ABCC survey (14 February) shows business confidence still remains high
- renewed inflation would damage industry's confidence and willingness to invest
- 1 per cent increase in interest rates, even if sustained for full year, would cost industry much less than 1 per cent increase in wage settlements.

4. Nationalised industry price increases damaging industry; unnecessary to fund investment; Government adding £2 billion to industry's costs (John Banham, 17 February)

- Fuel and power costs only tiny proportion of industry's total costs. April 1988 electricity price increases represented increase in costs of only one-sixth of one per cent. And industrial consumers' prices had fallen over past five years by 10 per cent in real terms. Price in mid-range of European prices
- not true that price rises not justified by need to fund investment. Present low rate of return from nationalised industries insufficient to justify investment on scale needed for future. Right therefore that required rate of return should be increased as my RHF SoS/Energy made clear when announced new targets in November 1987. And right that taxpayer should also get return on investment
- my H & LF Minister for Water made clear that price rises for water represent appropriate balance between charges and borrowing next year, taking account of authorities' long-term financial requirements
- once industries privatised, will be free to raise finance in markets like other industries
- over past five years (1983-88), nationalised industry prices as whole rose less than RPI (22 per cent compared to 26 per cent for RPI)
- [on business rates] recognise burden business rates can impose in areas of high local authority spending. That is why introduced NNDR. My RHF SoS/Environment announced last week transitional arrangements for those badly affected by rating revaluation. New system will be much fairer.

5. Should use other instruments as well as interest rates

- Interest rates by no means only economic instrument - also fiscal policy and supply-side policies. But these two appropriate for medium/longer term
- fiscal policy not suitable for fine-tuning economy because lags in system mean tax changes take longer to have effect on activity than interest rates do. Was tried often enough in 1960s and 1970s and lesson to be drawn from failures of that period is clear. Also destroys supply-side benefits of tax cuts
- and fiscal policy already tight (see below)
- credit controls would be unworkable, as well as creating inefficiencies and distortions in market. Would act as disincentive to savers as well as borrowers
- would also be unfair, because less well-placed borrowers would have to pay more and be driven to loan-sharks, while respectable lenders directed cheaper credit to 'safest' borrowers

6. All fault of Budget - stimulated demand etc

- No. Budget boosted supply, not demand - supply-side benefits will improve output and trade performance in long term
- fiscal policy very tight this year; Autumn Statement revised up surplus by nearly £7 billion from FSR forecast. And PSDR likely to be somewhat higher than forecast in Autumn Statement (new forecast in Budget)
- public spending under control - has fallen as percentage of GDP from peak in 1982 and set to fall again for present year and next three years. Hardly an irresponsible stimulus for demand

7. Mortgage rate increases wiped out effect of Budget tax cuts

- Income tax cuts will bring long term benefits by improving supply side performance
- interest rates vary from time to time as necessary to keep control of inflation
- public has much more to fear from rapidly rising prices than from current fluctuations in mortgage rates.

8. Recent monthly current account deficits mean balance of payments crisis imminent

- Autumn Statement forecast current account deficit this year at £11 billion or around 2¼ per cent of GDP, but no balance of payments crisis

- deficit reflects rapid rise in investment and increased individual wealth combined with confidence to spend it. Combination of circumstances not seen for some time.
- present deficit financing high investment spending by private sector, contrary to period of 1960s and 1970s when current account deficit financed public sector deficit. Private investment adding to productive capacity which will boost exports and displace imports in future
- Government has taken appropriate action and deficit will correct itself in time. No cause for concern provided firm financial framework in place, as it is. Meanwhile, general strength of economy and high level of overseas assets mean no problems in financing temporary deficit.

9. Manufacturing trade deficit

- Since 1981, UK share of world trade in manufacturing little changed after decades of substantial decline
- Manufacturing export volumes up 3 per cent in three months to December, compared to same period year earlier
- and on almost all other objective indicators, manufacturing performance has been transformed: productivity, profitability investment etc
- manufacturing output has risen under this Government (in three months to December, up 10 per cent on 1979H1) and at all-time high. It fell under Labour.

10. Government policies consistently favour rich at expense of poor

- No. Living standards have never been higher. Real take-home pay of average married man with two children rose less than 1 per cent under Labour. Taking account of Budget tax cuts, it is likely to have risen over 29 per cent - or £45 a week at today's prices - under this Government
- real disposable incomes up throughout the income distribution. And what matters to those on low incomes is their real standard of living, not their relative position
- on DSS figures, post tax incomes of people at all levels rose in real terms between 1981-1985. Since 1985 real incomes have continued to rise, unemployment has fallen sharply and taxes have been further reduced. Real household disposable income per head rose on average 3 per cent a year 1981-87. Marked contrast to slow growth between 1974 and 1979
- real value of supplementary benefit has increased between 1979 and 1987. Between 1979 and 1986 average net income of pensioners rose by 23 per cent in real terms
- total expenditure on benefits up 33 per cent in real terms since 1979. Spending on sick and disabled has almost doubled in real terms

- even after last Budget changes, top 5 per cent of taxpayers pay higher share of total income tax than in 1978-79

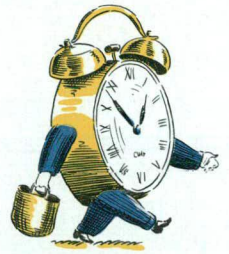
11. Tax cutting strategy has not produced falling tax burden

- Tax burden grew until 1981-82, reflecting need to reduce PSBR and so inflation, but now reduced from peak levels
- other countries have had growing tax burdens. UK has average burden. Latest CSO figures for 1986 show that it is greater than US, Japan and Italy, but lower than France and most Scandinavian countries, and similar to West Germany
- Government will reduce tax burden as and when feasible and prudent to do so.

Miss J C Simpson
EB Division
Ext 5211

⇒ Jonathan.

22nd February 1989



SHOPPING HOURS REFORM COUNCIL

39/40 St. James's Place
London SW1A 1NS
Telephone 01-493 3178
Fax 01-629 5189
From Sir Basil Feldman,
Chairman

Per ack.

Len Nigel

As you know, I am Chairman of the Shopping Hours Reform Council which is campaigning for reform of the laws on Sunday trading and opening hours in line with the 1987 Conservative manifesto. We have been in regular contact with Tim Renton who has been extremely helpful in listening to our views. But our work has, of course, gone much more widely.

There is no doubt that there is majority support for reform throughout the country. We accept that since the defeat of the Shops Bill in 1986 it is not realistic to go for total deregulation as then proposed and that a compromise with broad support is the way forward.

We therefore published our own proposals for reform in November of last year and since then we have seen strong support for reform among newspapers, among the general public and among Conservative backbench MPs.

1. NEWSPAPERS

In recent weeks many of the newspapers have in their leaders nailed their colours firmly to the mast of reform of Sunday trading: the Times, the Daily Telegraph, the Daily Express, the Sun, the Daily Mirror, Today, the Observer, the Evening Standard; and the Sunday Times is running its own campaign, "The Sunday Times for Sunday Trading". I enclose a set of these leaders.

2. PUBLIC OPINION

Four public opinion polls (NOP, MORI, Marplan and Gallup) asked the question all at the same time :

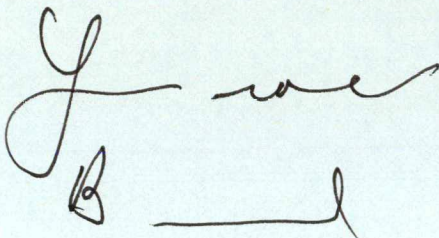
"At present only shops selling newspapers and certain types of goods are allowed to open on Sunday. Do you think that the law should be changed to allow other shops to open on Sunday or not?"

Every poll showed more than 60% answering "Yes" to Sunday opening and the average of the four polls was 63%. This poll of 7,000 people, undertaken in the last few weeks, confirms the consistency of virtually every other poll taken before which show almost 2 out of 3 people favouring Sunday opening.

3. CONSERVATIVE MPs

In addition, we have been in touch with a very large number of Conservative backbench MPs. There has clearly been a considerable movement of opinion and our findings show that a large number of MPs who either voted against or abstained in 1986, or who were only elected in 1987, would support a reforming Bill which proposed a compromise rather than total deregulation.

I thought you would like to know all of this because if, as I hope, the Government introduces a reforming Bill this autumn, you will be able to count on the support of a large majority of your own backbenchers, on the active support of most national newspapers and on the support of the majority of the British people.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written in a cursive style.

Sir Basil Feldman
Chairman

The Rt. Hon. Nigel Lawson, MP

THE SUPER POLL

Question :

"At present only shops selling newspapers and certain types of goods are allowed to open on Sunday. Do you think that the law should be changed to allow other shops to open on Sunday or not?"

	<u>YES</u>	<u>NO</u>	<u>DON'T KNOW</u>
NOP	61	33	6
MORI	65	32	3
Marplan	61	34	5
Gallup	66	29	4
<u>Average</u>	63	32	5

--oo0oo--

NOP : Results based on a random sample of 1716 adults in England and Wales. Fieldwork dates : 25th-30th January 1989. Number of sampling points : 146

MORI : Results based on a representative quota sample of 1826 adults aged 16 plus in England and Wales. Fieldwork dates : 26th-30th January 1989. Number of sampling points : 145

Marplan : Results based on a representative quota sample of 1898 adults in England and Wales. Fieldwork dates : 25th-29th January 1989 and 1st-5th February 1989. Number of sampling points : 103

Gallup : Results based on a representative quota sample of 1757 adults in England and Wales. Fieldwork dates : 26th-31st January 1989. Number of sampling points : over 100

--oo0oo--

The Daily Telegraph

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TRAFFORD PARK MANCHESTER M17 1SL TEL: 061 872 5939 TELEX 668891

Sunday shopping

TWO YEARS after the ignominious defeat of its Bill to permit unbridled Sunday trading, the Government is canvassing back-bench opinion on a compromise measure to remove the worst anomalies of the current law, and maybe go a little further. There has been understandable caution about reopening a question that arouses deep emotions, especially among those who regard modification of the English Sunday as an undesirable Continental intrusion. Many Conservative MPs voted against the previous Bill in response to pressure directed at them by evangelical groups. We share the deep-rooted instinct that Sunday should remain a special day in our lives. Nevertheless, we believe Ministers are right to lick their wounds and try again.

The arguments over Sunday trading are well-rehearsed. Neither side seems likely to win many converts. This is a classic struggle over a social issue, between a majority which does not hold views strongly enough to organise; and a minority willing to fight for its passionate conviction. If individuals wish to shop on Sundays, they need to write to their MPs to say so. The Sunday trading issue is essentially one of choice: no shopkeeper will be forced to open, nor shopper to shop. If a compromise can be found that provides choice without infringing the rights of individuals, it should be pursued. It is perfectly possible to go to church, enjoy a day with the children, and visit the DIY shop as well. We do not believe the latter acts diminish the virtues of the former.

The Government's last attempt at reform was defeated because it sought total deregulation, thus offending many churchgoers and the shopworkers' union, USDAW, which won over a previously uncommitted Labour party. Such radical change this time is not on the cards. Two forms of compromise are proposed: one from the Keep Sunday Special group, that looks remarkably like the present farrago of anomalies; and another from the Shopping Hours Reform Council. This latter group advocates all-day opening for corner shops only, with bigger stores free to open after noon, and statutory protection for shopworkers unwilling to work on Sundays. This package seems to provide a possible basis for legislation. The Government should grasp the nettle.

Poll boosts campaign for opening shops on Sunday

SUNDAY trading campaigners receive a major boost with a "poll of polls" published today that shows public opinion to be overwhelmingly on their side.

The poll of more than 7,000 people by the four main opinion poll companies found that 63% favoured changing the law to allow shops to open on Sundays, with 32% against and 5% don't know.

The result will increase pressure on the government to bring in legislation on Sunday trading in the autumn. Supporters of deregulation last night forecast that most MPs would support a compromise proposal such as half-day opening on Sundays.

The polling organisations asked the question: "At present, only shops selling newspapers and certain types of goods are allowed to open on Sunday. Do you think that the law should be changed to allow other shops to be open on a Sunday or not?"

The poll was commissioned by the Shopping Hours Reform Council, which has proposed that shops should be allowed to open from noon until 6pm on Sundays. Roger Boaden, the council's director, was delighted with the outcome.

"As far as we know, it is unprecedented for four polling organisations to ask the same question at the same time," he said. "But we were determined to prove once and for

by Jon Craig
Home Affairs
Correspondent

all that an overwhelming majority demands reform.

"We know that MPs receive heavy mail against change from a vociferous minority, but they should understand that every time the people have been asked their opinion they have come up with the same reply: we want to be able to shop on Sundays."

Boaden claimed the poll showed that the necessary reform was frustrated by a minority. Nobody could dispute that any longer, he said.

Michael Grylls, chairman of the Conservative backbench trade and industry committee, said last night that despite the government's defeat on the Shops Bill three years ago, an amended reform would now stand a better chance of getting through the Commons.

"I was disappointed that we were not able to achieve complete deregulation but we have to respect the views of people who think Sunday should be kept special, and I think half-day opening would allow that to happen."

There was a warm welcome for the poll from the two main consumers' organisations, the National Consumer Council and the Consumers' Association. "These findings must not be ignored," said Maurice Healy, NCC director.



"Personal prejudice or party political bias must not be allowed to stand in the way of reform of the law. A clear majority wants to see more shops open on Sunday. The present law is an ass and has fallen into disrepute. Parliament has a responsibility to act."

Rachel Waterhouse, chairman of the Consumers' Association, said the fact that nearly two-thirds thought more shops should be able to trade on Sundays should leave the government in no doubt that there was powerful support for reform of the present confusion. "The Consumers' Association has campaigned for reform of the law for 20 years. The time has come for us to reach a sensible compromise that everyone will find acceptable," she said.

The pressure group opposed to deregulation, Keep Sunday Special, claimed yesterday that a retailers' revolt against

Sunday trading was growing. Dr Michael Schluter, campaign director, claimed that the speech made by Baroness Young, a former government minister and now a director of Marks and Spencer, revealed that M&S, the Sears group and the John Lewis Partnership all opposed deregulation.

"Coupled with the known position of the Co-op, which has the largest retail turnover in the country, it is a shattering reverse for the deregulation camp," he said. "The Shopping Hours Reform Council can no longer claim that Britain's biggest retailers want deregulation."

David Blackmore, Keep Sunday Special's operations director, claimed that the British Retailers' Association had decisively rejected the partial deregulation canvassed by the Home Office, under pressure from the reform council.

"More and more retailers are recognising the economic nonsense of Sunday trading and the potential for long-term damage to the interests of business and the consumers they serve," he said.

The four organisations taking part in the poll were Market & Opinion Research International (Mori), Gallup, Marplan and National Opinion Poll (NOP). The poll results were Mori: 65% yes, 32% no, 2% don't know; Gallup: 67% yes, 29% no, 5% don't know; Marplan: 61% yes, 34% no, 5% don't know; NOP: 61% yes, 33% no, 6% don't know.

Half a loaf on Sundays

THE Sunday trading laws are in such a mess that they are clearly in need of reform. It cannot be right for the law to be so widely ignored, as it is now by such normally law-abiding pillars of the retailing establishment as Woolworths and W. H. Smith. That much, at least, is common ground between those who wish to keep the Sabbath as a special day of rest and those who want to end all trading restrictions. Today's opinion poll (reported on page 6) suggests that the public would support a modest measure of reform which stopped short of total deregulation.

The Home Secretary, Mr Douglas Hurd, should take heart from these findings and argue the case for a new Shops Act in the autumn. For a Government committed to upholding the rule of law,

with a majority of over 100, it would be shameful to allow the law to go on being treated with contempt. The last attempt at reform failed, not because MPs did not agree that it was needed, but because the Government did not take account of the many genuine public doubts about the right method of achieving it. Somehow the law has to be made both workable and acceptable to the majority of the population without losing the special nature of the seventh day. A sensible compromise would be to allow shops to open for a limited period on Sunday afternoons, with a few exemptions for small retailers, such as newsagents, to open in the morning. That would recognise the special character of the British Sunday while going some way to acknowledge changes in people's habits.

Shoddy reform

THE Government seems determined to get into an unholy mess over the attempt to reform our dated, discredited and disliked Sunday trading laws.

The boldest plan ministers are willing to introduce allows afternoon-only opening for the big stores, with all-day opening retained for "corner shops."

And it seems that as a sop to die-hard backbench opponents, swingeing fines be imposed on those large stores who broke the new laws.

This is a shoddy compromise.

The public wants the option of *all-day* shopping on Sunday. This is what should be uppermost in the Government's mind, not the antediluvian objections of a few of its supporters.

ON THE SEVENTH DAY

Mrs Thatcher is often presented, however inaccurately, as a politician who is determined to force through unpopular measures against the will of the majority. On the question of Sunday trading, however, the situation is almost the exact reverse.

Opinion polls show at least two-thirds would welcome the freedom to shop on Sunday without restriction. Yet the Government was forced to withdraw its Sunday Trading Bill in 1986 in the face of a determined minority campaign and is wary of raising another hornet's nest with a further attempt at legalizing unrestricted Sunday trading.

On one thing practically everyone is agreed: the anomalies of the present law should not be allowed to continue. The 1950 Shops Act forbids Sunday trading in England and Wales except for certain specified items which today constitute a bizarre list. Fodder for mules may be obtained but supermarkets are closed for groceries. Bibles are not on sale but semi-pornographic magazines are. Enforcement of the law is left to local authorities, with the result that in some areas it is strictly observed while in others it is openly flouted.

The Conservative election manifesto contained a commitment to bring sense and consistency to the Sunday trading laws, and a year ago Mr Timothy Renton, Minister of State at the Home Office, called for submissions on the subject. The Government is now delicately sounding out its back-benchers on what kind of reforms might command a majority in the House of Commons.

MPs — and the Lords who debated the matter yesterday — should think carefully before opposing a reform which is so popular and makes such eminent sense. The Sunday trading laws are an anachronism when people increasingly want to be active on a Sunday and would welcome the convenience of being able

to go shopping then. The present Government has sought to couple economic and social freedom with commensurate responsibility: the freedom to spend Sunday as one wishes is entirely a part of that.

Opponents of Sunday trading argue that Sunday should be a day apart and that opening the shops would keep people out of the churches. Whether people go to church is a matter for them. But allowing shops to open is unlikely to turn Sunday into a day like any other. In Scotland, where the relevant section of the Shops Act has never applied, shops open only where there is a demand. There is trading in about 23 per cent of the total and about twice as many people go to church regularly in Scotland as in England and Wales.

Nor is there any shortage of people willing to work. Sunday working is particularly popular with young mothers: they can retain some independence, confident that their children are being looked after by their father or other members of the family.

The Government appears to be leaning towards a compromise advanced by the Shopping Hours Reform Council. This would allow shops to open for, say, six hours on Sunday afternoons but restrict morning opening to certain categories of retailers. For a measure aimed at introducing sense and consistency into Sunday trading it is a curious proposal.

While offering shoppers half a loaf in the shape of afternoon trading, it would retain all the problems associated with statutory itemization of which goods may or may not be sold. An alternative proposal, that only shops below a certain size should be permitted to open, would introduce all sorts of new anomalies. The only really sensible and consistent reform is to abandon the Sunday trading restrictions altogether.

—  EXPRESS —

OPINION

No sense in this Sunday closed shop

POLL after poll down the years has shown that a substantial majority of the population wants to be able to shop normally on Sundays.

Yet, thanks to a small but over-influential lobby of churchmen and union Luddites, Ministerial moves to relax our antiquated—and largely unenforceable—Sunday trading laws still seem some distance away.

Seldom has a reform wanted by so many for so long been thwarted by so few.

The latest test of public opinion has been in Mrs Thatcher's own Finchley constituency, where seven out of ten want Sunday opening for all shops.

Not surprisingly, the Prime Minister is a firm supporter of deregulation. And Home Office Minister Timothy Renton has been preparing a report on the best way to get reform on to the Statute Book.

Unfortunately the Government, chastened by its failure to change the law two years ago, intends to proceed cautiously.

No further attempt seems in the offing before the next Queen's Speech. And what Ministers are reported to have in mind stops well short of complete deregulation.

The scheme said to be favoured would allow noon to 6 p.m. opening for all shops and is designed, apparently, to preserve Sunday mornings for church-going.

But this would be a messy and unnecessary compromise.

The preservation of Sunday morning for church-going is in the hands of church-goers. Why should those who want to shop on Sunday morning—perhaps choosing to go to church in the evening—have their freedom of choice limited?

There is no reason in a free society why the one activity should inhibit the other.

The Government should stop dithering and scrap the Sunday trading laws soon. *All* of them.

Sunday service

THE ban on Sunday shopping just isn't worth the money it costs.

So say Britain's district councils, confirming what has been obvious to most people for years.

But since the Government was voted down by its own backbenchers when it tried to loosen up the law two years ago, it isn't in the mood to try again unless it's sure it will win. Now it looks as if it could win if it settled for six-hour opening on Sundays instead of all-day.

Six hours will be better than nothing but it will still be a bad second best. In the late 20th Century you can't ban people into being Godly or good on Sundays or any other day of the week.

If it were as easy as passing a law, we'd be in favour of closing down everything on Saturdays so as to stop all drunken louts and football hooligans in their tracks.

The Government should try harder for round-the-clock opening before it gives in to backbench pressure for less.

If market forces work fairly on six days of the week, there is no reason to suppose they won't work fairly on Sundays too.

Open the door

THIS Sunday was freedom day for some shops.

Hundreds of DIY stores stayed open after the High Court refused to grant injunctions to three local authorities against Sunday trading.

Now the buck stops at Home Secretary Douglas Hurd.

He should announce that the Government will introduce legislation to allow ALL shops to be open ALL hours on Sunday.

The right to shop

NOWADAYS you can join a union, run your school, buy your council house or own shares if you so desire. But if you want to buy your baked beans or your wallpaper on the way to Sunday church, you can't. The outdated and bizarre law which prevents Sunday trading remains on the Statute Book, because a Government attempt at reform was defeated in the Commons last year by an unholy and canting alliance of Puritans, Sabbatarians, trade unionists, busy-bodies and cranks.

The High Court has now ruled that councils may not obtain injunctions to stop Do-It-Yourself centres opening on Sundays until the European Court has given a ruling on the question. In the meantime the Shopping Hours Reform Council is writing to 18,000 clergymen seeking their views. Bishops and clergy of many denominations, who tend to remain culpably silent on many genuine issues of morality, have noisily opposed Sunday trading even though there is nothing whatever in the moral law to prevent anyone who wishes to buy or sell goods or services on a Sunday from doing so, provided that no shop-worker is forced to work on any particular day of the week against his own conscience. The Government's Bill properly took this proviso into account. Ministers should have the courage to reintroduce it at the earliest opportunity. Sunday trading is not a wrong but a right.

MIRROR COMMENT

Open all hours..

ALL shops should be allowed to open **ALL** day on Sundays. It may not be what church leaders, or shop assistants, or some trade unions want.

But it's what the customers want. And they're the people who matter.

The British Retailers' Association, which represents corner shops, High Street stores and hypermarkets, is balloting its members on whether to campaign for Sunday **AFTERNOON** opening.

That's a weak-kneed compromise that won't satisfy anybody. It isn't enough for shoppers. It's too much for the opponents of Sunday trading.

Church

Shops can open all day if they wish in many countries which have higher church attendances than Britain.

They can in Scotland. So why not in England and Wales?

In a fortnight, pubs will have an extra hour on Sunday lunchtime. It will be easier to get plastered — but not to buy Polyfilla.

Estate agents can open on Sunday to sell homes, but do-it-yourself stores can't legally sell to home owners.

Travel agents can book any holiday — but garden centres are restricted to what they can legally sell.

• Local councils don't like the responsibility of prosecuting defiant shops. So some do. And some don't.

Nowhere is the law more stupid. And if shopkeepers don't want to be as daft they should go **ALL** out for **ALL**-day opening.

DAILY MIRROR

15th August 1988

Today
August 15 1988



phf

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

23 February 1989

Sir Basil Feldman
Chairman
Shopping Hours Reform
Council
39/40 St James's Place
London SW1A 1NS

Dear Sir Basil

The Chancellor has asked me to thank you for your letter of 22 February, which he has read with interest.

Yours sincerely
Jonathan Taylor
J M G TAYLOR
Private Secretary



FROM: Assistant Parliamentary Clerk

DATE: 24 February 1989

01-270 5007

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Bonney - IAE1
Mr Jones - PSP
Mr Pirie - FIM1
Mr Seammen - Pay1
Mr Gieve - IDT
Mr Dyer

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

ORAL QUESTIONS

Monday 13 March The Lord Grimmond - To ask Her Majesty's Government whether it is still their policy to abolish inflation.

Government Spokesman: To be confirmed. EA1 in the lead.

UNSTARRED QUESTION

Monday 13 March The Lord Oliver of Aylmerton - To move, That this House take note of the Report of the European Communities Committee on Compliance with Public Procurement Directives

(12th Report, 1987-88, HL Paper 72)

Government Spokesman: To be confirmed. PSP in the lead.

TRASURY INTEREST QUESTIONS

ORAL

Thursday 2 March Lord Jay - To ask Her Majesty's Government what action they are taking to prevent large scale fraud in the distribution of export subsidies by the commission of the European Communities under the Common Agricultural Policy.

Government Spokesman: Baroness Trumpington. Ministry of Agriculture Fisheries and Food in the lead.

Tuesday 14 March The Baroness Blatch - To ask Her Majesty's Government whether food price rises are outstripping the overall rate of inflation.

Government Spokesman: To be confirmed. Department of Employment in the lead.

The Lord Dormand of Easington - To ask Her Majesty's Government what has been the cost to industry of the rise in base rates since March 1988.

Government Spokesman: To be confirmed. DTI in the lead.

Mari Rogerson

MARI ROGERSON