P.O-CH/NL/0537

PART A

Part. A.

SECRET

(Circulate under cover and notify REGISTRY of movement)

Begins: 10/6/85.
Ends: 8/7/87.

THIS FOLDER HAS BEEN REGISTERED ON THE REGISTRY SYSTEM

PO -CH/NL/0537.
PT.A.

Chancellor's (Lawson) Papers:
Treasury Parliamentary Business At the House of Lords Stage, 1985-88.

DD's: 25 Years

10/4/96.

PO -CH/NL/0537.
PT.A.

022/18

Ch
As requested
KL
15/6

PMP

FROM: GUS O'DONNELL
DATE: 10 JUNE 1985

MRS LOMAX

cc: Mr Peretz

MONETARY GROWTH, INFLATION, EXCHANGE RATES ETC

The table and charts you requested are attached. I have included an adjusted figure for MO growth in 1981-82 to allow for the exclusion of non-operational deposits from the definition of MO from September 1981. The adjusted MO series is the one used in all the charts.

The explanation for the figure you queried (2.7%)

2. As you know, the £M3 figures are affected by numerous definitional changes, which have been smoothed out as far as possible. The main breaks occur in 1971 Q1, 1973 Q2, 1981 Q4 and 1983 Q1.

Gus O'D

A O'DONNELL

Thanks.
2. Is the 1982-83 PSBR/GDP 3.1% really a low one (the lowest for a long time)? unaware
3. What are the factors ... explanation of the 1971-72 MO figure? ... It requires ... CC, forwards (somewhat backwards).

MONETARY TARGET AGGREGATES, EXCHANGE RATE, INFLATION AND PSBR/GDP RATIO : 1970-71 to 1984-85

	MO*	£M3*	£ EXCHANGE RATE[1]	INFLATION[2]	PSBR/GDP RATIO
1970-71	13.0	12.6[+]	127.1	8.5	1.5
1971-72	- 1.0	16.9[+]	128.8	8.0	1.6
1972-73	14.8	26.5	114.6	7.9	3.6
1973-74	10.8	22.8	107.2	12.7	5.8
1974-75	15.7	8.1	105.1	20.3	8.9
1975-76	9.7	7.3	94.0	22.5	9.2
1976-77	10.6	6.2	80.9	16.5	6.4
1977-78	13.9	14.6	84.8	9.5	3.6
1978-79	14.8	11.2	82.4	9.6	5.4
1979-80	10.0	12.4	93.0	19.1	4.8
1980-81	6.5	19.1	101.8	12.7	5.4
1981-82	2.7[ø] (3.7)	13.6	91.7	11.1	3.3
1982-83	5.3	9.8	80.5	4.9	3.1
1983-84	5.7	9.8	81.7	5.1	3.7
1984-85	5.3	9.3	72.1	5.5	3.1

* Mid-March to Mid-March

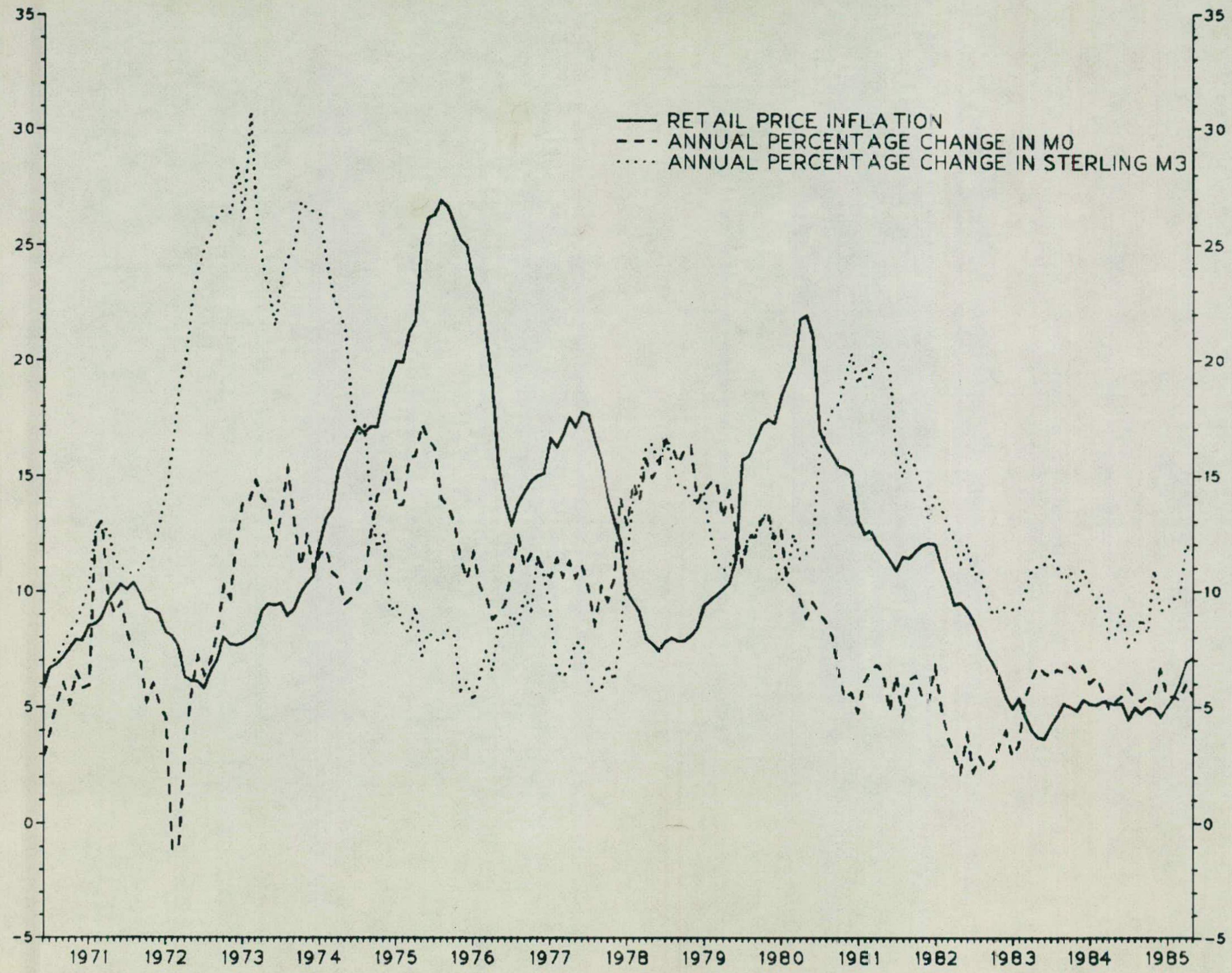
1 Q1 level

2 RPI: Q1 on previous Q1

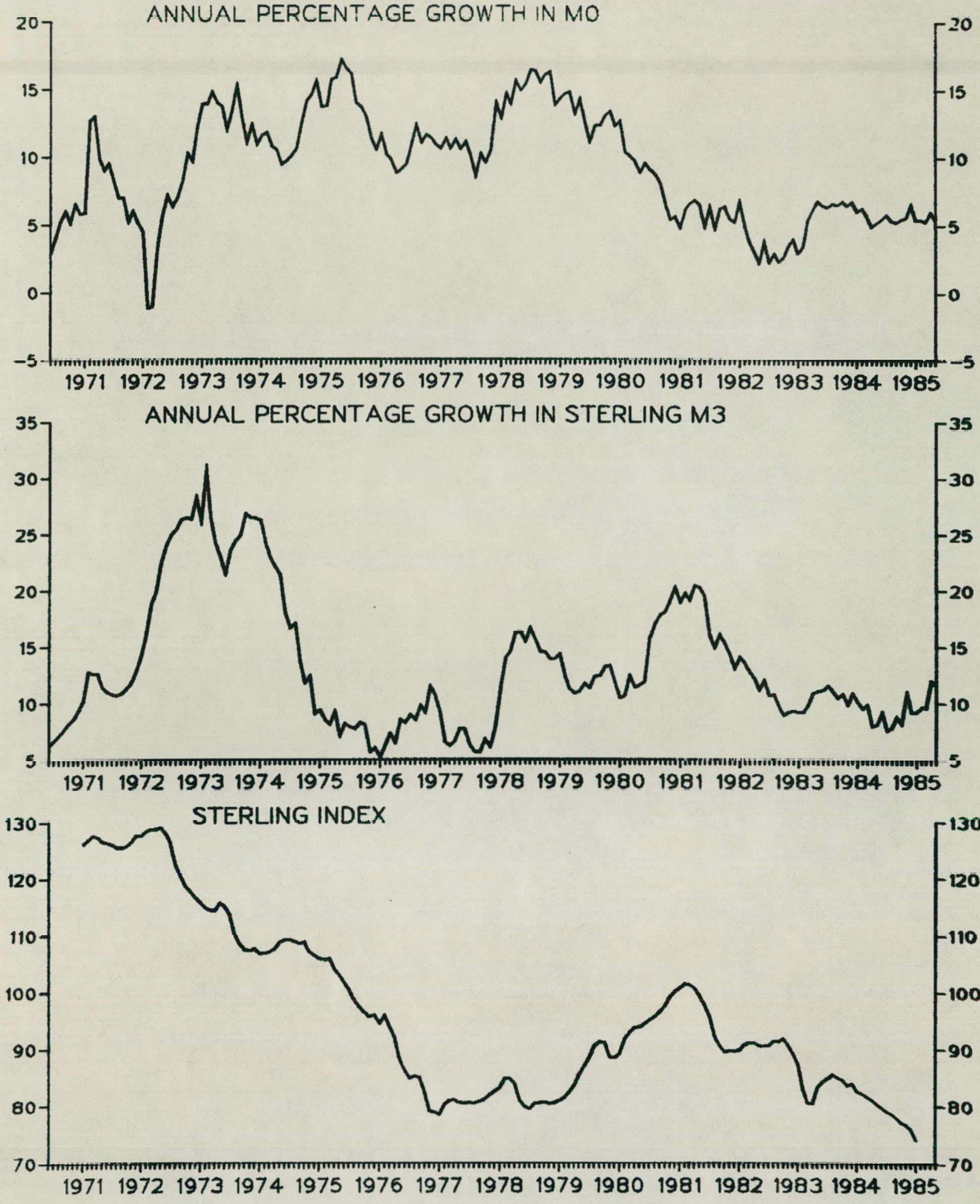
\+ Q1 on previous Q1

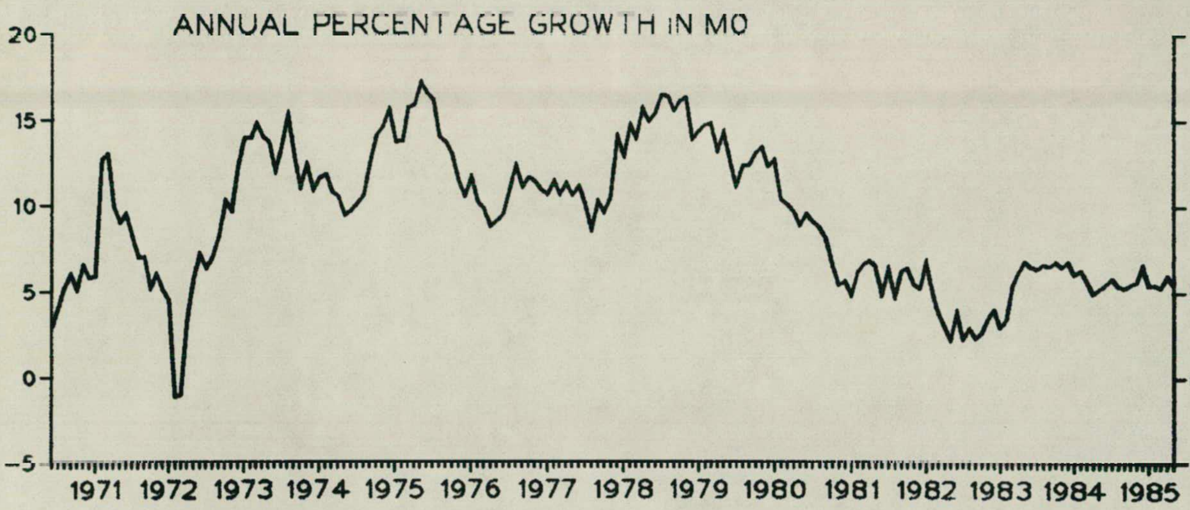
ø This figure is distorted by the change in the definition of MO in September 1981, after which date non-operational balances were excluded from MO. The figure in brackets is the estimated change adjusted for the change in definition.

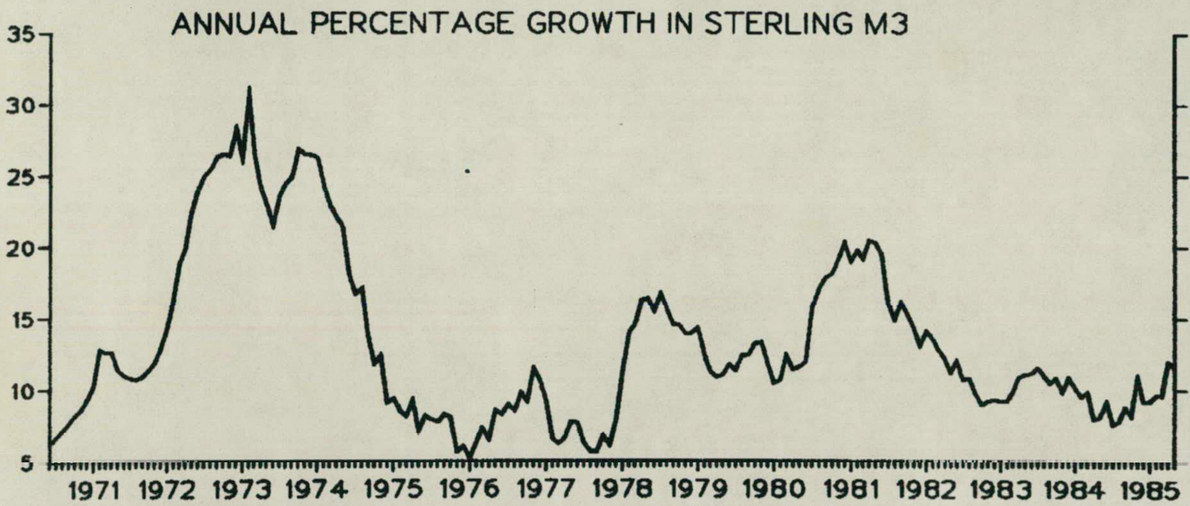
MONETARY GROWTH AND INFLATION



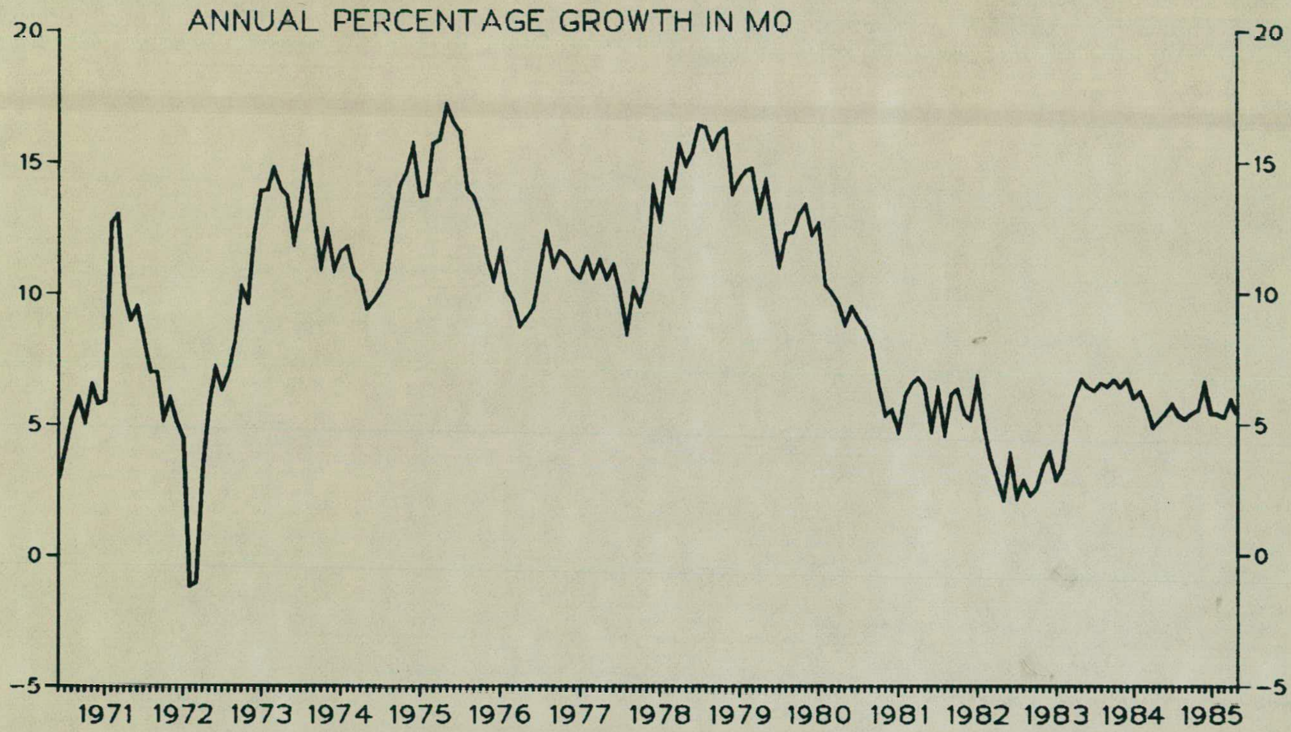
MONETARY TARGET AGGREGATES AND STERLING INDEX

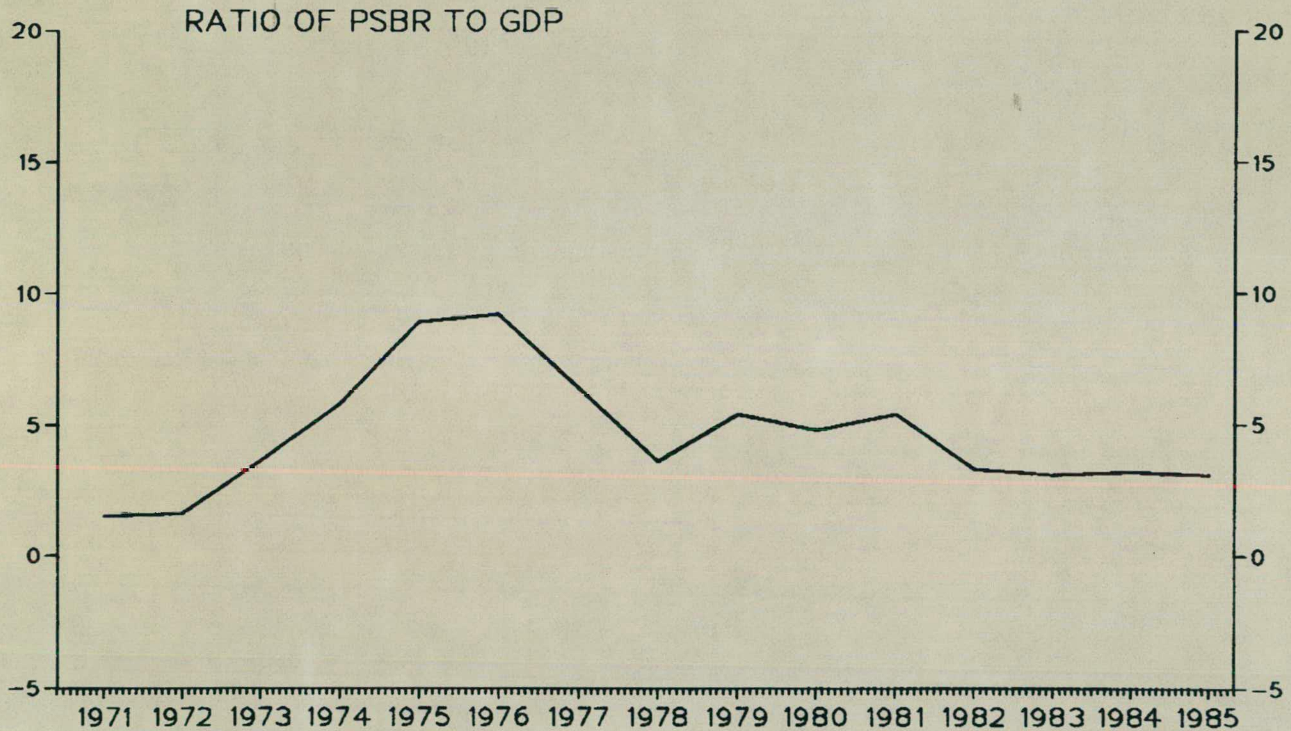



ANNUAL PERCENTAGE GROWTH IN M0
20
15
10
5
0
−5
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985


ANNUAL PERCENTAGE GROWTH IN STERLING M3
35
30
25
20
15
10
5
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985


RATIO OF PSBR TO GDP
20
15
10
5
0
−5
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985


ANNUAL PERCENTAGE GROWTH IN M0
20
15
10
5
0
-5
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985


RATIO OF PSBR TO GDP
20
15
10
5
0
-5
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985

MONETARY TARGET AGGREGATES, EXCHANGE RATE AND INFLATION

	MO*	£M3*	STERLING EXCHANGE RATE[1]	INFLATION[2]
1979-80	10.0	12.4	93.0	19.1
1980-81	6.5	19.1	101.8	12.7
1981-82	2.7	13.0	91.7	11.1
1982-83	5.3	9.8	80.5	4.9
1983-84	5.7	9.8	81.7	5.1
1984-85	5.3	9.3	72.1	5.5

* Mid-March to Mid-March

1 Q1 level

2 RPI: Q1 on previous Q1

What is the explanation for this?

SECRET

10 DOWNING STREET

From the Private Secretary

11 June 1985

CH/EXCHEQUER
14 JUN 1985
MR MONCK
CST, FST, MST
SIR P. MIDDLETON
SIR T. BURNS
MR BAILEY
MR BURGNER
MR SCHOLAR
MR ODLING-SMEE
MR JAMESON
MR SHAW
MR G. WHITE
MS. SEAMMEN
MR GILHOOLY
MR CROPPER
PS/IR
MR CORLETT

LONG TERM UNEMPLOYMENT MTG 11/6

Dear David

LONG-TERM UNEMPLOYMENT

The Prime Minister held a meeting today to discuss ways in which long-term unemployment could be reduced. Present were the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry, Environment, Social Services, Employment, Wales and Transport, the Chief Secretary, the Minister without Portfolio, the Minister of State Department of Employment and Mr. Stewart (Scottish Office). Also present were Mr. Wiggins and Mr. Letwin. The meeting had before it the minute of 5 June from the Secretary of State for Employment and the minute of 6 June by the Minister without Portfolio.

The Secretary of State for Employment said unemployment was continuing to rise and the number unemployed for more than three years was likely to reach half a million in July. Despite optimism from the CBI, the manufacturing sector was continuing to shed jobs and there were doubts as to whether the service sector would expand as fast as it had done in recent quarters. Against this background he had proposed measures which would have a significant impact on the unemployment figures. He had looked again at an expansion of the Community Programme beyond the increase agreed in the Budget. Schemes based on voluntary organisations and charities to help the long-term unemployed were being developed on a pilot basis and could be expanded further. Through these schemes the Government could begin to move away from the union imposed restrictions on CP and towards the concept of Benefit Plus without having to tackle head on all the opposition which Benefit Plus would provoke. He also sugested a new "Facelift" programme under which schemes could be organised to clear derelict sites and refurbish buildings.

The Secretary of State for Employment said further measures were needed to establish whether those registered as unemployed were genuinely available for work. He recognised that the experience of the regions varied greatly but there were legitimate doubts as to whether all those registered as unemployed in the South East (274,000 unemployed for more than one year) were genuinely unemployed, or whether they were working in the black economy or were in effect retired. The changes which had

SECRET

been made in the administration of benefit, while securing economies in manpower had weakened the link betwen receipt of benefit and readiness to work. He suggested an intensive programme of interviews of the long-term unemployed to establish their true position. Pilot schemes to counter fraud had been launched in Crawley and the Thames Valley and these could be developed elsewhere.

The Minister without Portfolio said that both he and the Secretary of State for Employment had put forward ideas for an incentive to encourage the long-term unemployed to seek work. His scheme took the form of a tax credit while that of the Secretary of State was based on a grant. The margin between net income for those in work and on benefit provided insufficient incentive. For example, a married man with two children needed to earn £130 a week to bring his net income £15 a week clear of what he would receive on benefit.

The Minister without Portfolio also supported measures to counter fraud. This would command greater public support if it were coupled with measures to deal with tax evasion. The DHSS and Inland Revenue should coordinate their efforts. At present DHSS could bring to the attention of Inland Revenue any tax evasion which it detected in the course of its work but Inland Revenue could not reveal to DHSS the names of anyone it thought engaged in benefit fraud. There was a case for changing the law to allow information to move in both directions.

The Chancellor of the Exchequer said the pressure on the public expenditure totals was extremely strong. He saw no prospect of being able to afford the increases implied by the full programme suggested by the Secretary of State for Employment. He doubted whether it was right to introduce a new package of special employment measures before the measures introduced in the Budget - extension of YTS, expansion of CP and restructuring of NICs - had had time to take effect. All the signs were that since the Budget the economy was more buoyant than thought. He agreed, however, that measures were needed to establish the true nature of long-term unemployment and to cut down on fraud. The Inland Revenue would do all it was empowered to do to cooperate with the DHSS.

In discussion the following points were made:

(i) As originally proposed, CP was to be operated on a Benefit Plus basis. As a result of union opposition it could be launched only by paying "the rate for the job". This was one of a number of examples where union opposition had prevented the introduction of job creating measures or had dictated their operation in a less effective form. A note should be prepared drawing together examples.

(ii) Government needed to know more about the nature of long-term unemployment and how it differed between regions. The Government should commission a study on the black economy. This could be done through ESRC or the University of Buckingham. (Mr. Morrison said he would be seeing Professor Blaug from Buckingham to discuss this.)

(iii) The development of Benefit Plus could be seen as a way of testing whether those registered as unemployed were genuinely available for work. The Government could set up a scheme and invite applications. If the response was very low the Government would have demonstrated that many claiming to be unemployed were not; if the take up was high there would be a significant impact to the unemployment figures.

(iv) Any proposal to expand special employment measures should be assessed against the benefits from expanding other forms of infrastructure spending such as urban programme or housing improvement. These programmes often had higher costs per job but ultimately produced more assets for the nation. It was argued that it was wrong to cut back support for research and innovation in order to make room for special employment measures whose benefit was temporary.

In discussion, it was suggested that too much emphasis had been given to reducing civil service numbers at the expense of savings to the Exchequer. It was also noted that increasing manpower for services whose costs were recovered from fees would allow a better service to be provided while reducing the net cost to the Exchequer. The Prime Minister thought the Government ought not to economise on manpower in pursuit of fraud or crime. This should not, however, turn into harassment of legitimate small traders.

Summing up the discussion, the Prime Minister said that no expansion of the Community Programme should be undertaken on its present basis before the impact of the measures introduced in the Budget could be assessed. Further work should be undertaken to develop schemes to help the long-term unemployed under the aegis of charities and voluntary bodies. Ideas to provide an incentive for job search by the long-term unemployed should be further researched. The concept of providing jobs on a Benefit Plus basis should be further developed as a way of testing whether those registered as unemployed were genuinely available for work. The Treasury, Department of Health and Social Security and Department of Employment should cooperate in developing schemes to combat fraud. The procedures for administering benefit should be re-examined to ensure that those receiving benefit were genuinely unemployed. A programme of interviews for the long-term unemployed should be introduced. In developing proposals Departments should take account of regional differences in unemployment. The Department of Employment, in consultation with the Department of Education and Science, should commission a study from ESRC or the University of Buckingham into the nature of the black economy. The Treasury, in consultation with relevant Departments, should re-examine the level of manpower devoted to the control of fraud and to reconsider the staffing of services whose cost was recovered by fees. Papers reporting programme on these initiatives should be circulated to E(A) by mid-July. 1x

I am copying this letter to Rachel Lomax (HM Treasury), Elizabeth Hodkinson (Department of Education and Science), John Mogg (Department of Trade and Industry), John Ballard (Department of the Environment), Steve Godber (DHSS), John Graham (Scottish Office), Colin Williams (Welsh Office), Richard Allen (Department of Transport), Richard Broadbent (Chief Secretary's Office), Leigh Lewis (Office of the Minister without Portfolio), Stuart Lane (Mr Morrison's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

David Normington, Esq.,
Department of Employment.

FROM: P W FAWCETT

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

DATE: 12 JUNE 1985

1. MR CORLETT 12/6/85

2. CHANCELLOR OF THE EXCHEQUER

INSOLVENCY BILL: CROWN PREFERENCE

1. Mr Wynn Owen's minute to PS/Customs and Excise today.

2. Although the Financial Times did not report it, PAYE preference was also debated last night, and you might like to be acquainted with what happened on that front as well.

3. You will recall that during the passage of the Insolvency Bill through the House of Lords the Government gave up Crown Preference on assessed taxes, retaining the 12 months preference on PAYE and VAT, a distinction being drawn between "collector" taxes like PAYE and VAT on the one hand and assessed taxes such as income tax and corporation tax on the other. At Report Stage in the House of Lords the VAT preference period was reduced from 12 months to 6 months.

FAWCETT → CH/EX 12/6

4. In Committee in the House of Commons last night there was, as you know, a Government amendment to restore the VAT preference to 12 months, and also an amendment (in the names of Labour and Conservative members) to reduce PAYE preference to 6 months.

---

cc PS/Chief Secretary	Mr Isaac
PS/Financial Secretary	Mr Corlett
PS/Minister of State	Mr Painter
PS/Economic Secretary	Mr Fawcett
Sir P Middleton	Mrs Gomes
Mr Monger	Mr E Green
Mr Lankester	PS/IR
Mr Griffiths	
Mr Knox - C&E	
Mr D J Howard - C&E	

5. In the debate I had the impression that Conservative members generally were drawing a distinction between VAT and PAYE: some of them seemed to see more of a collector tax in PAYE than in VAT (one member, for example, said that he thought that VAT looked much more like corporation tax). However, as the debate went on, the distinction seemed to become more blurred.

6. In the end, the vote on retaining the PAYE preference was 5:5 (I think 2 or 3 Conservatives abstained) and the chairman cast his vote in favour of the Government. Then Mr Bermingham, who had apparently slipped out of the debate, ran in and said that the interval for the division had been too short and that he had left instructions with his Front Bench to call him for the vote. The chairman said that he was unaware of any such instructions, that the interval was a matter for him and that he could do nothing about the vote that had just taken place.

7. The VAT vote was then taken and the Government amendment to restore the 12 months VAT preference was lost 7:5.

8. Whether or not the Government decide to try once more to restore the VAT preference, PAYE preference will presumably come under attack again. If, however, the Government decide not to risk a third defeat on VAT, we would for our part argue that a distinction could be drawn between a 6 months preference period for VAT and a 12 months preference period for PAYE - ie that they do not necessarily have to be exactly in line. The Cork Committee based its recommendations on the mistaken assumption that PAYE returns are made monthly, when in fact they are made annually. (Employers do pay tax monthly but do not send in a return until the end of the tax year.) VAT returns are made quarterly. The Cork Committee recommended that the preference period should be the period of the return plus the time that had elapsed between then and insolvency. On this footing a distinction between the 12 months PAYE preference and a 6 months VAT preference would be defensible.

9. There is the point that the Government has already given way on Inland Revenue assessed taxes (and presumably any future assessed taxes). This has already cost some £8 million out of the £20 million which we estimate is the present tax yield from preference. Of the £12 million which is PAYE, £6 million would be lost by giving up 6 months preference.

pwf

P W FAWCETT

I agree with FST: We must keep 12 months for PAYE, but can concede gracefully 6 months for VAT. N.

FROM: P W FAWCETT

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

DATE: 14 JUNE 1985

1. FINANCIAL SECRETARY

I would argue strongly for retention of P.A.Y.E 1 year Crown Preference. CP.

2. CHANCELLOR OF THE EXCHEQUER

C/ To see FST's comment
- for Prayers folder.
R 17/6

FAWCETT 14/6

CROWN PREFERENCE

1. I minuted you on 12 June on the debate in Committee at the House of Commons on the Insolvency Bill the previous night (11 June). I have just heard that Crown Preference will be debated again in Committee at the House of Commons next Tuesday (18 June) in the context of the Bankruptcy (Scotland) Bill, the Scottish equivalent of the Insolvency Bill.

2. The main relevant amendments are a Government amendment to abolish Crown preference in the case of the assessed taxes, such as income tax and corporation tax (following the decision on the Insolvency Bill) and Opposition amendments restricting Crown preference in the case of both PAYE and VAT to 3 months plus the period from then to the date of the bankruptcy.

3. I understand that the Government will be led in Committee by Mr Peter Fraser, the Solicitor General for Scotland, and I am due to meet him on Tuesday morning 18 June before the debate.

---

cc PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Monger
Mr Lankester
Mr Griffiths
Mr Knox - C&E
Mr D J Howard - C&E

Mr Isaac
Mr Corlett
Mr Painter
Mr Fawcett
Mrs Gomes
Mr E Green
PS/IR

4. I would be grateful for urgent instructions on the line to take. Our recommendation is to defend the PAYE preference at 12 months, if necessary distinguishing it from VAT on the grounds that PAYE returns are made annually whereas VAT returns are made quarterly. This is on the footing that the Cork Committee recommended that the period of preference should be at least the period of the return: they went on to recommend PAYE preference of less than 12 months because they believedthat PAYE returns were made monthly, whereas they are in fact made annually. I would however add that the Scottish Law Commission Report on this subject recommended the abolition of all Crown preference.

PWF

P W FAWCETT

~~Pt attach MST's response to Hogg minute below~~

~~Afro pt~~

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU732

Secretary of State for Trade and Industry

24 June 1985

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

C. To note.

Rno 24/6

24/6

CH/EXCHEQUER
REC. 24 JUN 1985
ACTION MST.
COPIES TO

D Nigel.

INSOLVENCY BILL: CROWN PREFERENCE

Thank you for your letter of 17 June.

I am pleased that you feel able to accept a reduction to six months for the period of preference for VAT. I note your caveat about retaining the PAYE preference but I do not think that will prove a problem.

The difficulty which we have been under throughout has been our inability, despite valiant efforts by Ministers and officials, to convince the opposition that VAT is truly a collector tax although the frequency of the VAT return was also something of an obstacle.

I am copying this letter to John Wakeham and Peter Fraser.

Yours ever,

Norman

NORMAN TEBBIT

Note:
Done/ PS/FST will probably do it. Rno 18/7

FROM: P W FAWCETT

We cannot allow ourselves to be overturned. PST ask FST to speak urgently to Wallops. N.

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

DATE: 17 JULY 1985

CHANCELLOR OF THE EXCHEQUER

C. X is essential - do you want to tell Mr Fawcett that you will reconsider tomorrow (or over the weekend) if X is lost? This would avoid slightly defeatist approach of considering going on to concede on Bankruptcy (Scotland) Bill before we even know if there is a problem. yes

FST has seen this - he is keen to see PAYE 12 mnths defended. Rno 17/7

CROWN PREFERENCE

1. I minuted you on 14 June on the 12 month period of Crown preference for PAYE in the context of the Insolvency Bill and the Bankruptcy (Scotland) Bill.

2. You will recall that during the passage of these Bills through both Houses of Parliament, the Government has given up Crown preference on assessed taxes but retained the 12 month preference on PAYE. You agreed on 17 June to accept, reluctantly, a 6 month period of preference for VAT but only on the clear understanding that the PAYE preference period would remain at 12 months. (A distinction was drawn between PAYE which requires an annual return and VAT returns which are quarterly.)

3. The Report Stage of the Insolvency Bill in the Commons will be tomorrow (18 July) and the Report Stage of the Bankruptcy (Scotland) Bill in the Commons will be the following Monday (22 July). We have just heard that a Labour amendment has been put down for the Insolvency Bill reducing the PAYE 12 month preference period to 6 months. There is a similar Labour amendment for the Bankruptcy (Scotland) Bill.

---

cc PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Monger
Mr Lankester
Mr Griffiths
Mr Knox - C&E
Mr D J Howard - C&E
Mr Isaac
Mr Corlett
Mr Painter
Mr Fawcett
Mrs Gomes
Mr E Green
PS/IR

4. The Secretary of State for Scotland has asked, in the (unfortunate) event of a defeat on PAYE in the Insolvency Bill, for your approval to amend the Bankruptcy (Scotland) Bill to bring it into line with any changes in the Insolvency Bill. Clearly the two Bills ought to be in line. Department of Trade and Industry Ministers will, in accordance with your strong wishes, be arguing for retaining the present 12 month preference period for PAYE. However, the time scale for giving notice of any amendment to the Scottish Bill will be very tight and this is why I have to ask for your contingent approval in advance.

P W Fawcett

P W FAWCETT

CONFIDENTIAL

Ames pl (or copies X)

FROM: MISS J A C DALES

DATE: 25 July 1985

1. MR ~~BURR~~ TOB 26/7

2. CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Bailey
Mr Anson
Mr Gilmore
Mr Cropper
Mr Davies
Mr Lord
Mr Romanski
Mr Judd
Mrs Thoms

C. A progress report, with more to follow. I find para' 5 very surprising, but para' 6 has some telling facts.

This is little short of a scandal. But I am particularly exercised about X: Peacock does not interprets his remit ~~in the widest way~~ in the narrow way & this report shd certainly be sent to the Chan. N

Ho 8/8

TV LICENCE EVASION

Mr Wynn Owen's minute of 14 June conveyed your concern at the continuing level of licence evasion. We are putting forward this note now that we have some indication of the likely PAC recommendations. We will let you have a further note once the consultants' review is completed (see paragraph 3 below).

Latest Developments

2. The PAC have now completed their hearing of the Home Office's evidence on the NAO report on broadcasting receiving licence revenue. Their report is not expected to be published until shortly before the summer recess (or possibly not until Parliament resumes in the Autumn). However initial indications are that they are likely to recommend:-

(i) Post Office incentives for maximising revenue should be significantly strengthened, and Home Office control and oversight improved;

(ii) consideration should be given to re-establishing a minimum target for the hard core of licence defaulters, to be further reduced in due course;

(iii) the Home Office must use the proposals from their consultants review (see paragraph 3 below) so as to secure early improvement, and to establish the direction of enforcement measures on a more satisfactory and convincing basis;

(iv) the Home Office to convey PAC views to the courts, that the low level of fines imposed on convicted licence defaulters do not operate as a sufficient deterent; and

(v) further serious consideration should be given to introducing a system of fixed fines and mitigated penalties.

But of course we await final confirmation from the published report.

3. As a direct result of the NAO report the Home Office (with the agreement of the Post Office) have appointed a team of consultants to examine television licence collection and enforcement procedures, with particular reference to their effectiveness, efficiency and economy. The review is currently underway and is expected to be completed by the end of August. It is too early to say what the likely outcome will be; but we will let you know once the review has been completed.

4. The Home Office do not regard licence fee evasion as directly relevant to the Peacock Committee, whose terms of reference relate to the effects of (not the case for) introducing advertising or other new sources of funds. They have therefore not formally notified them of the findings of the NAO report. They will undertake consultations with the Post Office on any recommendations from the consultants independently of the Peacock Committee.

X

Caravan Sites

5. Under the Wireless Telegraphy (Broadcast Licence Charges and Exemptions) Regulations 1984 hotel and caravan site proprietors are required to have one licence for the first 15 units of accommodation; and a further licence is then required for each multiple of 5 thereafter. It is the case, as you say, that there are no formal checks on caravan sites except for those residents whose caravans is their sole place of residence. However when these regulations were introduced the Home Office assured the hotel and catering industry that the new regulations would not involve routine inspections of their letting accommodation. But they did suggest informally to the Post Office that one way local staff might check up would be by looking at hotel (including for this purpose caravan site) brochures, and where rooms are advertised as having televisions, one could then check if the hotel had the requisite number of licences.

Licence evasion

6. The problem of licence evasion is in fact rather more complex than it first appears, with no easy solutions. A number of ideas have been put forward in the past eg

(i) larger fines and/or fixed penalties (the latter as I have said previously is expected to be one of the recommendations of the PAC); and

(ii) more investigative staff.

However, as quite a large proportion of evaders come from single parent families or other low income groups and have not the means to pay fines, magistrates have little choice but to consider their ability to pay and set the level of fines accordingly. More investigative staff would result in higher administrative costs which in turn might lead to less licence revenue going direct to the BBC, unless of course so much extra licence revenue was generated to compensate for this. But this could not be guaranteed. Another problem is that of tracking down the estimated 10% of people who move house each year many of whom do not notify the Post Office of their change of address.

7. You also suggested that the enforcement task might be given to the BBC. The BBC would certainly have much more of an incentive to pursue evaders than does the Post Office, but if the BBC took on enforcement, this function might need to be separated from administration which the Post Office, with all its many outlets, is well placed to do. And although the Post Office's record may not be that good, the BBC's record in managing its existing affairs has been less than satisfactory. But we are keeping in close touch with the Home Office. We will pursue your idea further as soon as the consultants' report is completed.

Jonny Dales

MISS J A C DALES

022

From: **E YEO**
Date: 6 SEPTEMBER 1985

1. **MR PERRY**
2. **CHANCELLOR**

cc: PS/CST
PS/FST
Sir P Middleton
Mr Monck (or)
Mr Burgner (or)
Mr Monger
Mrs Butler (or)
Mr Stock
Mr Romanski
Mr Coggle.

C/ Paras 4 and 8 make the vital points. Content with draft as amended by me?
RM 6/9

The letter is not wholly satisfactory.
(a) is the TV licence classified as a tax?
(b) The letter does not deal with the point in Mr TSSS?'s para 3 & what it means to do
(c) I don't understand what para 4 of the draft means, nor what solution we have in mind.

PROPOSED LEVY ON BLANK RECORDING TAPE

The former Secretary of State for Trade and Industry wrote to you on 30 July about his proposal to introduce a levy on blank recording tape, to remunerate copyright owners for the use made of their works by those who record them at home. He asked that the levy should <u>not</u> be designated a tax, to avoid the presentational difficulties of the Government appearing to raise a new form of taxation, and setting up a new Quango. He hoped that the whole operation could be considered as taking place within the private sector.

<u>Background</u>

2. The Green Paper ("The Recording and Rental of Audio and Video Copyright Material") said the proposed levy would not be a tax, but this had not been cleared with the Treasury. After publication we took the view that the levy might not be a tax, on the description of the levy given to us at the time, which seemed to suggest that it would largely be a voluntary payment. We did however ask to be informed of the arrangements both for setting the levy and for its administration, and pointed out that changes in either feature could lead to its being considered a tax.

3. Since that time there have been exchanges and a meeting with DTI officials. Under the present proposal, the form of

the levy will be determined by legislation, the Collecting Society will have no power to negotiate the rates of levy, which will be laid down by Government, and the Secretary of State will have considerable powers over the Society. These represent quite marked changes on the original proposal, and we now take the view that the levy should properly be designated as taxation.

Consideration

4. GEP3 advise that the internationally-accepted definition of a production/import tax, laid down in the European System of Accounts, is:

> ".... a compulsory payment which is levied by general government (ie central government and local authorities) or by the Institutions of the European Communities on producer units in respect of the production and importing of goods and services ...."

The blank tape levy would be compulsory, and it would be levied by central goverment (the Collecting Society acting solely as agent). There are no grounds for doubting that the levy would be a tax.

5. A consequence of classifying the levy collected as a tax is that the payments by the collecting societies score as public expenditure. This would be the case whether or not collecting societies are classified as a public sector bodies. The operation would be PSBR neutral.

6. The letter says that the Eady Levy (on cinema receipts) was similar, and was not a tax. That is true but we have explained to DTI officials that the treatment of the Eady Levy is seen to be wrong now that it has been brought to our attention. As that levy is in abeyance pending abolition, we have not yet reclassified it in the statistics, though it is intended that this will be done.

7. Finally, the Secretary of State has said that France and

Germany are introducing blank tape levies, and he understands those countries do not view them as taxes. We have no evidence on this matter. We follow the international definition, as explained above, rather than practice in individual countries.

8. There is a further Treasury point, that we should be cautious about any attempts by departments to generate their own sources of funds by creating levies which bear on taxable capacity.

Recommendation

9. While recognising the presentational difficulties to which Mr Tebbit referred, we must recommend you to write to the Secretary of State upholding the definition of the levy, as currently conceived, as a tax.

10. I attach a draft reply.

E. A. Yeo

E YEO

023

DRAFT LETTER TO:

The Rt Hon Leon Brittan
Secretary of State for Trade and Industry

PROPOSED LEVY ON BLANK RECORDING TAPE

Norman Tebbit wrote to me on 30 July about the classification of this levy as a tax.

2. ~~I am sorry that~~ I am afraid I cannot agree that the levy should not be regarded as a tax. The internationally-accepted definition of a production/import tax laid down in the European System of Accounts is:

> ".... a compulsory payment which is levied by general government (ie central government and local authorities) ....in respect of the production and importing of goods and services ...."

The blank tape levy now proposed would be compulsory, and would be levied by central government upon the manufacturers and importers of blank tapes. Under the scheme which your officials have discussed with mine, the Collecting Society would be acting as an agent of the Government in collecting and distributing the levy.

3. The Eady Levy was not deemed to be taxation but, now that the matter has been raised, it is clear that it should have been and. It is to will be reclassified in the statistics.

4. I appreciate the reasons why Norman wanted to avoid the levy being a tax. My officials will be in touch with yours to see if there is any way of getting this whether a mechanism could be devised which would get around the problem.

discuss the matter further.

NIGEL LAWSON

2128/005

FROM: M S Stock
DATE: 12 September 1985

1. MR TURNBULL AT 12/9

2. CHANCELLOR OF THE EXCHEQUER

cc PS/CST
PS/FST
Sir P Middleton
Mr Monck
Mr Burgner
Mr Monger
Mr Perry
Mrs Butler (o/a)
Mr Yeo
Mr Romanski
Mr Coggle
Mr Ward)CSO
Mr Doggett)

Much better. PS to Bur. Thanks. M.

C. Redraft as requested. Andrew Turnbull took this in hand and has now, I think, found a suitable compromise. Content with draft?
RNO 12/9.

PROPOSED LEVY ON BLANK TAPE RECORDING

You asked some questions about Mr Yeo's submission of 6 September. In view of the technical nature of the issues raised GEP have agreed to put up this further submission.

2. DTI originally hoped to introduce a tape levy scheme, with a large element of voluntarism, ie either a fully voluntary scheme or possibly a scheme in which the Government decreed only that there should be a levy subject to a maximum amount of revenue to be raised, leaving the tape manufacturers and importers to agree with the copyright owners the amount of the levy. On this basis the Treasury advised that the levy would not be a tax.

3. In developing the proposal, DTI have failed to secure a fully, or even partly, voluntary scheme. The version now proposed entails a large degree of Government compulsion - payment of the levy would be compulsory and the Government would specify the form and rate of the levy and who shall pay it. In this version the role of the Collecting Society is solely that of an agent. On this basis, GEP took the view that it would be wrong for any money levied and subsequently paid out as a result of Government decree not to appear anywhere in the public accounts.

4. The answer to Mr Tebbit's paragraph 3, therefore, is that he does not fully acknowledge the degree of compulsion in the

233/9

scheme as now envisaged. While the scheme would be administered in the private sector, all the main features of the scheme stem from Government decisions. Providing DTI use an existing Collecting Society to administer the scheme, it would not be necessary to regard it as a quango and it would remain in the private sector (we do not, for example, class the Law Society as a quango because it administers the legal aid scheme).

5. If it is accepted that the receipts and payments generated by the scheme as now envisaged must flow through the Government accounts, there can be debate about the way this is done. GEP earlier advised that the proper classification was that of a production/import tax, which is defined in the European System of Accounts as

> "... a compulsory payment which is levied by general government is respect of the production and importing of goods and services ..."

This takes the view that those paying the levy, the manufacturers and importers, are not paying for a service supplied. It could be argued that they are paying, on behalf of their customers, for permission to record copyright material, but this does not constitute payment for supplying a service. A closer analogy is payment for a licence, eg driving or gun licenses. These have hitherto been classified as tax receipts. It was on this basis that GEP advised scoring the tape levy as a tax, with the corresponding payments scored as expenditure, leaving the PSBR neutral.

6. Since this advice was first put forward, events have moved on. Since last week the CSO have established a new category called 'miscellaneous current transfers' covering items previously classified as taxes on expenditure. This item comprises receipts from driving licences, public service vehicle licence fees, heavy goods vehicle licence fees, passport fees, dog and gun licences, and fines and penalties in Magistrates and Scottish courts.

7. We have consulted the CSO and have agreed with them that the tape levy should be scored as government income and the corresponding payments as public expenditure. This treatment would recognise that the sums were being levied as a result of Government direction. The CSO have agreed that the levy can be described as a 'miscellaneous current transfer' and not as a tax.

8. You raised two other questions. First, the BBC licence revenue is regarded as the trading income of the BBC. This follows the international convention on broadcasting authorities. The revenue actually flows into the central government and is passed to the BBC via a Vote. It receives a special classification to avoid its scoring as government expenditure. It is recognised that broadcasting licence revenue is a special case since it is both a charge for a service and a regulatory device. By convention, the purchase of the service is deemed to be thc dominant aspect.

9. Secondly, you asked for clarification of the last paragraph of the original draft letter. This was an offer to consider the nature of the scheme to see if an alternative could be devised which reintroduced a sufficient element of voluntarism, thereby allowing the levy to be treated as a private sector transaction. We did not have a particular solution in mind, and are sceptical that one would be found, since it was the opposition of the tape manufacturers and importers which forced the original idea to be dropped.

Conclusion

10. We recommend that you reply to Mr Brittan suggesting the treatment of the levy as a miscellaneous current transfer. A new draft letter is attached.

Michael Stock.

M S STOCK

pl' type today
for C's sig

DRAFT LETTER TO

Secretary of State, Department of Trade & Industry

PROPOSED LEVY ON BLANK RECORDING TAPE

Norman Tebbit wrote to me on 30 July about classification of this levy. The underlying question to be considered is whether the scheme is a genuine private sector operation in which there is a substantial degree of voluntarism in the action of the parties concerned; or whether the scheme, though administered in the private sector, flows from Government decisions.

2. While your predecessor may originally have hoped to secure a voluntary scheme, the scheme now envisaged does rest substantially on government compulsion. Norman was considering legislation that would specify the form and rate of the levy and who shall pay it. Furthermore, the Collecting Society responsible for administering the scheme would have to submit its plans to the Secretary of State for approval, with final power resting with you ~~the~~ as Secretary of State. The role of the Collecting Society would be that of an agent, not that of an instigator of the scheme.

3. In these circumstances, I believe it would be misleading, to the public and to Parliament, for the amounts of money raised and subsequently paid out not to pass through the Government accounts.

4. However, there is now an alternative which both acknowledges the degree of government involvement yet avoids labelling the levy as a tax. The CSO have recently introduced a new category of receipts which had previously been classified as taxes on expenditure. These are called "miscellaneous current transfers" and cover items such as receipts from driving licences, public service vehicle licence fees, heavy goods vehicle licence fees, passport fees, dog and gun licences, and fines and penalties in Magistrates and Scottish courts. The levy could be scored under this category, with the corresponding payments being classified as expenditure. This would not require that any existing Collecting Society chosen to act as agent should be reclassified from the private sector as a quango.

5. I hope you will find this a satisfactory basis.

NIGEL LAWSON

Covering SECRET

FROM: H P EVANS

DATE: 17 September 1985.

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Sir T Burns
Sir G Littler
Mr Anson
Mr Cassell
Mr Monck
Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr Turnbull
Mr S Davies
Mr Mowl
Miss Peirson
Mr Riley
Mr Cropper
Mr H Davies
Mr Lord

Pse get any comments from CST on the PX aspects. Subject to that, stands OK except for X, where 5/4/3 would seem better than 5½/3½/3. N.

Ch.
Some of this looks very startling, but your comments are useful at this stage.
RC
18/9

POLICY ASSUMPTIONS FOR THE AUTUMN FORECAST

I attach a note, discussed in PCC, on the proposed policy assumptions for the autumn forecast. This exercise is now under way and reports will be circulated on 18 October.

2. On monetary policy we have taken account of recent policy decisions. Elsewhere we are sticking to the MTFS guidelines. Because the autumn forecast is often compared with the figures emerging from the Public Expenditure Survey, we have spelt out in some detail the proposals on public expenditure.

HPE

H P EVANS

POLICY ASSUMPTIONS FOR THE AUTUMN FORECAST

Note by EA and PSF

The autumn forecast is an internal exercise, but an Industry Act Forecast will of course be published in the autumn statement in November. In general, the approach is to base the forecast on the macro policies set out in the 1985 MTFS, while taking account of new information. Analysis so far has identified the possibility of a larger fall in oil prices: despite slightly higher prices now than forecast, projections of demand are lower, of supply higher and the imbalance in the oil market larger than ever, with an increasing possibility of large price cuts.

Monetary policy

2. The underlying aim of monetary policy is assumed to be to exert downward pressure on the growth rate of money GDP, broadly as assumed in the MTFS. We propose to assume that short-term interest rates are set so as to keep M0 and the exchange rate consistent with this. This will probably involve keeping M0 within, and perhaps in the lower half of, its MTFS ranges; and no major changes in the sterling index. The forecasters will consult Sir Terence Burns and Mr Cassell over the implementation of these assumptions in the new forecast. It may well be useful, as in the June forecast, to construct a variant on the basis of different paths for the exchange rate and interest rates.

3. The PSBR will be assumed to be broadly fully funded over each financial year as a whole, including 1985-86, with no significant under or over funding. (Funding is defined to include sales of debt to non-residents as well as to non-bank residents.) This means that funding is not available as an independent means of influencing £M3 which is likely therefore to be above the top of the MTFS ranges, at least for the next year or so. Apart from the NLF and

PWLB changes announced in July it will be assumed that there are no further measures to reduce the stock of money market assistance, a forecast of which will be included in the report.

4. Given that the PSBR and therefore the total funding requirement is assumed to be declining slightly, we propose to assume no change in the national savings target of £3 billion.

Fiscal Policy

5. For 1986-87 the MTFS assumption for the PSBR was £7½ billion, or 2 per cent of GDP. The privatisation of gas, now being assumed to take place in 1986-87, should provide additional receipts from asset sales in 1986-87. In total asset sales in that year are assumed to be £4½ billion, £2¼ billion more than assumed in the MTFS. Nevertheless for all years, it is assumed that the PSBR ratios in the MTFS will be maintained: these are the same assumptions about both asset sales and the PSBR as in the June forecast.

6. On these assumptions, the forecast will re-assess the scope for fiscal adjustment. By convention this is measured after revalorisation and is assumed to take the form of income tax cuts.

Public Expenditure

7. As in the June forecast, the starting-point for the public expenditure forecast for 1985-86 onwards is the 1985 PEWP programme plans (ie excluding the Reserves), as amended by the Budget changes. To these plans will be added:-

(a) for 1985-86, the latest estimate of the likely call on the Reserve;

(b) for 1986-87 onwards, GEP's assessment of the likely outcome of the 1985 Survey (to be published in the Autumn Statement, at least for 1986-87), in terms of both bids and assumed cuts and including changes arising from the social security proposals and other reviews;

(c) for 1986-87 onwards, £$\frac{3}{4}$ billion a year of "discretionary" allocations from the Reserve to cover unforeseen needs for expenditure.

8. In addition, the forecast of public expenditure will take account of the outlook for inflation, unemployment, interest rates etc emerging from the main forecast, to the extent that these are different from the economic assumptions used in constructing the Survey bids. (A revised set of economic assumptions - excluding pay - to be issued to Departments will be submitted for approval on 11 October.)

9. In constructing the forecast of pay in the public services, we shall take account of employees covered by Review bodies, the £1$\frac{1}{4}$ billion offer to the teachers, the recent offer to LA manuals and the likelihood that other groups in the public services will obtain rises in earnings close to those in the private sector. Overall, public service earnings may rise from now on at a rate similar to that in the private sector.

P. Kemp says this is depressing, but realistic as a broad brush forecasting purposes. (i.e. emphasis settlements above the private sector)

10. As usual, it will be assumed that cash controls on central government expenditure hold in the current financial year; it will also be assumed that cash plans for such expenditure in 1986-87, resulting from the 1985 Survey, hold in that year (the only exception in both years will be discretionary allocations from the Reserve). That is, if pay and prices are higher than implicitly assumed in the plans, the result will be a reduction in the volume of such expenditure. In 1987-88 onwards, however, that reduction will be assumed to be subject to a maximum squeeze of 2 per cent. (There is no explicit Survey assumption on public service pay in 1986-87 onwards, but, in constructing their bids, Departments are tending to assume earnings increases in central government of 5$\frac{1}{2}$ per cent in 1986-87, 3$\frac{1}{2}$ per cent in 1987-88 and 3 per cent in 1988-89.)

X

11. The following assumptions are proposed concerning areas subject to current expenditure policy reviews:

(a) <u>Social security</u>. On benefits, as in the Green Paper (including savings agreed by Ministers in May and effect of advanced upratings). On national insurance contributions, see below. Cost to Government Departments of increased employers' contribution rates will be taken into account.

(b) Local government current expenditure and finance. Block grant from central government in 1986-87 will be assumed to be about 5 per cent higher than in 1985-86 (after holdback; this is equivalent to a cash standstill before holdback). Rates continue for the forecast period. The new targetless regime agreed for 1986-87 continues for the forecast period.

(c) Local government capital and borrowing. No change in regime in forecast period, beyond changes already made (eg restriction on risk-free refinancing of local authority mortgages).

12. Other assumptions are:

(a) Asset sales. The British Airways sale is in 1986Q2 and the Gas sale in 1986Q4. Total special asset sales in 1985-86 are £2½ bn, in 1986-87 are £4½ bn, and in 1987-88 and 1988-89 are £3½ bn a year.

(b) Nationalised industries. Water prices rise in real terms(4% in 1986-87, 3% in 1987-88 and 2% in 1988-89), and so do domestic gas prices (1% in 1986-87, nil thereafter); other prices generally rise slightly below inflation.

Revenues

13. On receipts side, the following assumptions are proposed:

(a) National insurance contributions. No change in contribution rates in April 1986. Provisionally, contribution rates and earnings bands for transitional period for phasing out SERPS (1987-88 to 1988-89) as in DHSS figures presented to Ministers in May. It is proposed to assume no substantial contracting back of people over 50, but the report will give an indication of possible increase in revenue if numbers did change substantially.

(b) Tax relief on private sector pensions. Steady phasing in of increased payments to private sector pension funds, from 2 per cent (employers plus employees) in 1987-88 to 4 per cent in 1989-90, as proposed in May in connection with abolition of SERPS. Although payments may turn out higher (the proposals in the Green Paper were for minima) the difference to the forecast in the next few years would not be large.

1. Rachel
2. PWP

RESTRICTED

Ch
(to be aware in case C House questions at the Party Conference (unlikely as that might seem!)
RL
7/10

CH/EXCHEQUER
REC. 7 OCT 1985
ACTION CST
COPIES TO

[await advice on the various pts raised.

FCS/85/259

CHANCELLOR OF THE EXCHEQUER

Pay Assumption and Running Cost Limits

7/10/85.

1. While I can well understand the reasoning underlying the proposal for avoiding a pay assumption made in your minute to the Prime Minister of 25 September, in practice the presentation envisaged seems likely to cause us problems with Parliament. It involves abandoning the longstanding practice of having pay subheads in the Estimates. I agree with George Younger (his minute to John Macgregor of 16 September) that if we are pressed by our Select Committees we can hardly refuse to give them the information they require.

2. There is a particular problem so far as the Overseas Representation Vote Class II is concerned. In the absence of programme expenditure, under the proposed arrangements, the Vote would contain only a few lines of figures. I am sure that the Foreign Affairs Select Committee, which has been diligent in pursuing its investigations of my spending down to sub-sub-subhead level, would not be satisfied and would demand sufficient information to enable a detailed comparison to be made between the Estimates for 1986/87 and those for the current year. On past form the Committee's request for information, including oral examination of the Accounting Officer, will come well before the Supply is Voted and before a Civil Service pay settlement is reached. Similar problems would be encountered with the Overseas Aid Administration Vote, although in the past the Foreign Affairs Committee has not investigated the Vote in great depth.

/3.

3. I recognise the importance of preventing the unions and others from deducing what you now call the "pay component". But I believe it will be necessary to devise some method of providing Select Committees with the degree of information which they are entitled to expect before approving Supply. For example, one might spread the expected pay increase pro-rata across all sub-items in one "Pay and General Administrative Expenditure" subhead. Another approach might be to move the pay round so that it can be completed before Parliament examines the Estimates.

4. I am copying this minute to the Prime Minister, Members of the Cabinet and Sir Robert Armstrong.

Foreign & Commonwealth Office
7 October 1985

GEOFFREY HOWE

B/f 15/10 pl

OK. Pse let me have a go at a last further (p20) x

FROM: J W STEVENS

DATE: 11 October 1985

PS/CHANCELLOR

cc: PS/Chief Secretary
Sir P Middleton
Mr Bailey
Mr Cuplin

CIPFA CENTENARY LECTURE — 23 OCTOBER

Mr Wilson has been asked to deliver a lecture to the Midland Region of the Chartered Institute of Public Finance and Accountancy. This is intended to one in a series of lectures to mark the Institute's centenary year and includes the speech which Sir Peter Middleton gave at CIPFA's annual conference in June. It is intended that these lectures will be brought together in a published volume once they are completed.

2. Mr Wilson has been asked to speak on the theme of accountancy advice in the public sector and I attach a copy of the draft which has been prepared. I would be grateful to know if the Chancellor and copy recipients are content with what is proposed.

Ch
Rather a patchy speech.
But nothing for you to object to, I think
AWK
11/10

JWStevens

J W STEVENS

CIPFA CENTENARY LECTURE 1985

THE DELIVERY OF ACCOUNTING ADVICE IN THE PUBLIC SECTOR

[Usual government health warning]

For most of its history your Institute has been involved in developing accountancy in one particular part, albeit a very important one, of the public sector - local authorities. Your recognition of a wider field of influence several years ago when you changed your name, was a timely indication that you understood where major developments in accountability over the next few years would lie. I am referring of course to the field of central government which is my particular sphere of interest. The other accountancy bodies also see involvement in this area for their members and if at the outset I may offer one piece of advice to you as well as the others it would be to say that the accounting profession as a whole will progress further and faster and develop greater public credibility and support if the various accountancy bodies of which it is made up co-operate in a sensible manner with each other, with each specialising in the area in which it has most to offer rather than all trying to compete with one another right across the board.

Having said that, there are some particularly intractible problems to solve in the field of public accountability and there is no doubt in my mind that we need the co-ordinated the skills of all the members of the accountancy profession who work in the public sector to enable us to address them fully and so solve them. In this context I am very pleased therefore to see that CIPFA and some of the other accountancy bodies are now co-operating in putting on seminars and courses in the public sector field. If I may say so, I think this is very forward looking and I trust that the development will extend in the future.

Historical Setting

As you probably know, accountants have not in the past played a leading role in the administration of the Civil Service. Traditionally, accountants in government have been employed on management accounting in the industrial and quasi-commercial areas of the Service, in the examination of the accounts and systems of outside firms in connection with contract payments, grants, etc and in internal audit, although this function employed only a relatively small number of them. The number of accountants employed in financial policy areas could be counted on the fingers of one hand and virtually none were involved in vote accounting, (that is the Parliamentary payments and receipts accounting system), or in the financial planning process of the Public Expenditure Survey and Supply Estimates.

The role of providing financial advice in policy formulation has traditionally been for the generalist administrator, and I would not want to criticize the contribution which these officers have rendered in the past. They are high calibre people with a strong intellectual ability and an immense capacity to grasp the key issues in any problem which faces them. Nonetheless, the growing complexity of government business, more sophisticated management decision processes, performance expectations from an increasingly knowledgeable public, and rising professional standards generally mean that the days of the generalist administrator who can put his hands successfully to complex financial issues are at the twilight stage. This was the thought pattern which led to the recommendations of the Fulton Committee fifteen and more years ago.

Fulton and the Recommendations

That story begins as far back as 1968 when the Fulton Committee on the Civil Service recommended inter alia a much wider role and greater responsibility for accountants, and specified some of the areas in which more qualified staff were needed.

At that time accountants were in one of two groups - those in the Professional Accountant Class and those within the Administration Group of the Civil Service.

The Professional Accountant Class was a group on its own and was concerned mainly with providing accountancy advisory services such as in the Procurement Executive of the Ministry of Defence where advice on the production cost to capital employed ratios and overhead rates for contractors was given to Contracts Branch. Similarly the Accountancy Services Division of the Department of Industry advised on such matters as regional development grants and selective financial assistance to industry. Other members of the Professional Accountant Class were employed in the Ministry of Agriculture, Fisheries and Food, the Scottish Office and several other Departments. They were principally Chartered or Certified Accountants recruited as people who had already gained previous experience in the profession, commerce or industry.

Accountants within the Administration Group of the Civil Service, who were also of course professionally qualified, were normally trained within the Service. A large number of them were Cost and Management Accountants trained at the Royal Army Pay Corps Training Centre at Worthy Down and others were Cost and Management Accountants, Certified Accountants or members of your Institute trained at Polytechnics on day or block release, or through full time study. In other words, the traditional route was to recruit qualified accountants and then train them to be Civil Servants. The Exchequer and Audit Department, (now the National Audit Office), and the District Audit Service, (now the Audit Commission), did not operate their own training schemes for the CIPFA qualification until quite recently.

Fulton reported that the ways in which accountants were then employed in the Civil Service severely restricted the role of the Professional Accountant Class and excluded its members from responsibility for financial control. They were limited to the relatively narrow fields in which departments themselves kept commercial accounts or were concerned with the financial operations of commercial organisations. The outlets available to them for other kinds of work and into higher management positions were severely limited.

Fulton went on to say that qualified accountants could make a valuable contribution to the management of several areas of civil service work; for example, in financial forecasting and control, in the whole field of government procurement and in reviewing the financial performance of nationalised industries. There were additional areas of work similar to those in which accountants were prominent in industry, but from which they were generally excluded in the Civil Service. Furthermore the skills of modern management accountants appeared to be increasingly needed at high levels of policy making and management. It was already recognised that many accountants were trained to evaluate policy options in financial terms, to compare the costs and benefits arising from different uses of resources, and to apply quantitive techniques to the control of expenditure and measurement of efficiency.

The most significant recommendations by Fulton were as follows:

(i) That the practice of introducing external accountants into the Service to do work falling outside the normal routine operations should continue.

(ii) A strong force of highly-qualified professional accountants was needed within the Service particularly in the following areas:

(a) In the Senior Policy and Management Groups,

(b) In Purchasing Branches,

(c) In divisions providing management services.

(d) In divisions whose task it is to develop greater accountability and better informed management.

(iii) Trainee accountants should be articled to members of the profession within Government Departments. (This never got off the ground as the Institute of Chartered Accountants in England and Wales continues to insist that training is carried out within professional firms.)

(iv) The work done by qualified accountants already in Service should be examined to see whether some of it could not be delegated to less highly qualified staff.

(v) Accountants should continue to be an identifiable occupational group within the Service; the group should include cost and management accountants.

(vi) The accountant needed broader training in his early years and also at intervals throughout his career.

(vii) There should be adequate central management of accountants by the then Civil Service Department.

The Melville/Burney report followed in 1973. This resulted from a review by Sir Ronald Melville, a former Permanent Secretary at the Civil Service Department, and Sir Anthony Burney then a leading practising accountant, into the use of accountants in the Civil Service. They recommended, following on from Fulton, the creation of a larger, stronger accountancy service with improved career opportunities and the appointment of a Head of Profession within the Civil Service.

Criticism of the lack of accountancy expertise in Government Departments continued to be levied, notably by the Comptroller and Auditor General and by parliamentary committees, until in 1975 we had the appointment of Sir Kenneth Sharp as the first Head of the Government Accountancy Service. He also had a secondary role as accountancy advisor to the Department of Industry and it was principally for that reason he was based in that department rather than in a central department such as the (then) Civil Service Department, or the Treasury, as recommended by Fulton.

I have already explained the background to the existence of the two major groups of accountants which existed within the Service ten years ago and one of the first tasks taken on by Ken Sharp was the formation of a unified Government Accountancy Service. However this group was to exclude accountants working in the (then) Exchequer and Audit Department and the (then) District Audit Service due to the nature of their work and the need for them to be independent. In addition a Government Accountancy Service Management Unit was created to assist departments in the recruitment, management and training of accountants. An Accountancy Functional Specialism was formed within the Administration Group which also included members of that group who, although not professionally qualified, had worked in finance and accountancy for many years and could be regarded as "qualified" by experience.

An announcement about the formation of an Accountancy Functional Specialism was made in the House of Lords by the then Lord Privy Seal, Baroness Young, in June 1982, and in view of its importance to us accountants in central government I will repeat the statement she made:-

The LORD PRIVY SEAL (Baroness YOUNG):

"Accountants in the Civil Service have a vital part to play in the Government's drive to improve financial and resource management in Departments. The Government is determined to make the fullest possible use of the accountancy skills that exist already in the Service and to add to them as much and as quickly as we can. From 1 July 1982 a new accountancy functional specialism within the Administration Group is being introduced. Accountants in the present Professional Accountant Class will join with colleagues already in the Administration Group to form part of an expanded Government Accountancy Service which will also include staff with a high degree of accountancy expertise and experience.

This removes the artificial barriers which have largely confined the professional accountant to the provision of technical advice.

For the future, Civil Service accountants, like those elsewhere, will be free to move outside their professional sphere into general administrative roles. There will be long-term career development plans to equip the best accountants for senior posts.

Under the new arrangements an expanded Government Accountancy Service Management Unit will provide a focal point for the management of accountants and accountancy training and will help Departments in managing their staff in the GAS, including those under training.

Over the next 10 years we want to double the number of professionally qualified accountants in the Service to fill primarily those posts - some 60% - in the functional specialism which will normally be filled by professionally qualified staff. Part of this will be achieved by training people already in the Service; part by continued recruitment of qualified accountants from outside. Recruitment will be necessary both to meet the expected shortage of professionally qualified staff and to provide the right blend of skills and experience, some of which can be acquired only outside Government work.

I am conscious of the concern that has been expressed in Parliament and elsewhere about the need to make better use of accountants in the Civil Service. The changes we are introducing on 1 July are designed to bring this about by broadening the career opportunities of accountants and increasing the opportunities they have to contribute to management and decision making."

The early days of the GAS were spent in identifying the widely dispersed posts requiring accountancy skills throughout the Service as well as the population of professionally qualified accountants and those qualified by experience to fill them. Much of this task had already been completed when I was appointed Head of the Government Accountancy Service on 1 October 1984. The widespread recognition of the need for and value of accountancy advice and skills continues to develop space.

Well that's a brief history of the development of the Government Accountancy Service and the state that it had reached up to 1 October 1984 when I joined it as its second Head.

What has happened since? - a good deal.

Much has been done to demonstrate to departments just what accountants can provide by way of useful input to their top management information systems. The speed with which information technology is developing demands a greater financial literacy within line management to take advantage of it and who better to provide such literacy than the accountants who have been trained to accept and understand it? That, of itself, focuses ona need for new accounting skills foremost among which is communication. Managers anxious to use the new technologies available to inform their decision making processes want to know who they work and what they can deliver, so the accountants, if they wish to take their rightful place in the sum, must develop the art of relating and communicating to their fellow members of the management team. They will not succeed if they appear to be trying to keep the mysteries of their art to themselves, and indeed, throughout my professional life, I have tried to impress on young people coming into accountancy that it is essentially a communicative art. You can be the cleverest technician in the world, but if you can't explain what you mean or how your work relates to the problems of others, you might as well save your breath to cool your porridge.

So, a great deal of progress is being made in explaining the relevance of accounting skills to general management in the Civil Service, and the systems and organisational structures are changing too. All this fits in well with the general ethos of the Financial Management Initiative, of which more later.

In addition to my role as Head of the Government Accountancy Service I have a second and equally demanding job as Accountancy Adviser to the Treasury. I want to spend a little bit of time now telling you about some of the things which have exercised me over the last year in each of my roles and then tell you about my plans for the development of the Government Accountancy Service as we move towards the target date of 1992 for doubling the number of accountants employed within the Government Accountancy Service forshadowed in the 1982 Government statement. Perhaps it is easiest if I tell you the terms of reference under which I operate:

My Terms of Reference

(i) As Accountancy Adviser to the Treasury I am to:-

(a) Advise the Treasury on the management accounting aspects of public expenditure control. This advice can be on individual cases, or on systems operated by departments, or on the principles of whether management accounting needs are adequately reflected in the rules of government accounting;

(b) Advise the Treasury on the commercial and accounting aspects of Treasury business, in particular in relation to nationalised industries, privatisation, and the monitoring of companies in which the government has a financial interest;

(c) Advise the Treasury and departments on the principles governing the monitoring and creation of Trading Funds or other arrangements involving charging for government services, in the form of trading and white paper accounts, and on the basis of charge;

(d) Define standards for internal audit in government departments and supervise their application;

(e) Provide accountancy services to meet the accountancy needs of the Cabinet Office (MPO) in its work on efficiency in the Civil Service;

(f) Direct, control and develop my own staff to do these things;

(g) Advise the Treasury on any necessary change in its organisation and staffing for these purposes in the light of experience.

(ii) As Head of the Government Accountancy Service to:-

(a) Advise on major appointments and on recruitment policies;

(b) Supervise the development and use of training schemes;

(c) Supervise the central arrangements for developing and deploying accountancy expertise across departments (including the use of outside consultants);

(d) Recommend improvements in these arrangements in the light of experience, implementing what is decided;

(e) Other responsibilities. As the Senior Accountant in the Central Government Service I am also to advise departments other than the Treasury on certain specific issues; eg the development of accounting practices and standards in the profession, their application to the public sector, advice to the Secretary of State for Trade and Industry as required on matters of accountancy under the Companies Acts.

As you will appreciate this is a very wide ranging and all embracing brief and I was daunted during my early days in the Treasury by the enormity of the task facing me. (I still am!) On the one hand the development of the Government Accountancy Service as a unified, highly motivated, highlyprofessional group spread across more than 30 departments with members working within and representing the interests of those departments is difficult enough, whilst at the same time keeping a weather eye on developments within the Service as a whole. On the other hand filling a new post as Accountancy Adviser to the Treasury (they hadn't had one before), a department in which nearly every aspect of the work could benefit significantly from the introduction of at least a smattering of accountancy advice provides an endless challenge. Straddling both these there is the colossus of the Financial Management Initiative about which I will say a little more in a moment.

I would now like to talk a bit about the structure of the Government Accountancy Service and the role which it plays. It currently has some 700 qualified members and there are also a further 400 members who are regarded as being qualified by experience. The largest group - 44% - are cost and management accountants most of whom have been trained within the Service through the excellent scheme which is operated by the Royal Army Pay Corps at Worthy Down to which I have already made a reference. The remaining 56% is made up of 36% Chartered, 15% Certified and 5% members of your Institute.

Very few members of the Government Accountancy Service come under my direct command in the Treasury - only about 25 in fact. Members are spread over 30 different departments ranging in size from the Ministry of Defence to the Office of Fair Trading and, as you might expect, the largest number - about 46% of the total are located in the Ministry of Defence. The management and organisation of the Government

Accountancy Service is very much a federal structure. As its Head I have overall responsibility for advising on the development of recruitment policies and training programmes and also, through the Government Accountancy Service Management Unit, for providing an effective system for identifying the particular skills available within the Government Accountancy Service and arranging for movement of individuals between departments to improve their career development and burden their experience. This latter responsibility is particularly important for those members who are employed in small departments or in large departments who - up to now at least - have taken the view that they require only a relatively small accountancy function. Such departments often do not offer the wide range of work which is necessary to provide the background which a professional person needs to be able to develop - and which in itself is one of the important attractions of working in the Government Accountancy Service - or to provide a hierarchical structure within which the accountant may rise as his career develops.

But the prime responsibility for day to day management and development of members of the Government Accountancy Service rests solely with the department in which they are based. Now this may seem a little strange to you, here I am Head of the Service with direct managerial control for only a very small proportion of the individual members which make it up. Well, such a system does have its drawbacks; but the structure reflects the federal status of departments and the Civil Service. Each department is responsible for organising itself in its own way to meet its needs and its accounting population fits into that mould. In fact, if you reflect a moment, it is vital that they should because as part of the open structure they wouldn't stand much chance of moving into departmental management if they were specialist outsiders, so to speak, bedded in.

I do not intend to go into detail about the type of work which members of the GAS do; it would be possible to devote several lectures to it and even then they would not exhaust the subject. It might, however, be helpful if I gave you a few examples of the areas in which members of the GAS are involved so that you get a feel of what they do. These include, in my own command in the Treasury, advice to departments and other parts of the Treasury on such things as the FMI, value for money and other aspects of public expenditure control. In the MOD examination of suppliers overhead rates and advice on returns on capital employed on non-competative Government contracts; and the financial evaluation of companies seeking grants and other assistance under the various industrial support schemes operated by the DTI. But in addition I see a greatly enhanced role for people with accountancy qualification in the Finance Branch of Departments and in providing advice to senior management as the demands of the FMI place a greater and greater emphasis on the need for efficient resource allocation. In this context the FMI is something which is having a significant impact on all aspects of the work of the Civil Service and it warrants some further analysis.

Financial Management Initiative

Although many people had their own ideas and plans for moving forward the general style of management in the Civil Service, the progress seemed rather haphazard until three years ago. In May 1982 the Financial Management Initiative was launched and it forced forced the whole Civil Service to think about what financial management needs and ramifications would develop in the latter part of the 20th century. The initiative therefore must represent a major milestone in the development of accountancy in central government. Milestone is probably the right epithet because there were many other signposts and beacons erected on the road to better accountability in earlier years, but most of them are now forgotten. The FMI, because of the commitment to it from the very top, represents a real challenge to for the accountancy profession and it demands the services of large numbers of accountants of very high quality indeed to develop it.

Briefly the initiative requires an organisation and a system in each department in which managers at all levels have first a clear view of their responsibilities; second, well defined objectives and the means of measuring their achievements against these objectives; and third better information, particularly about costs in order to manage more efficiently. This is all very easy to say in theoretical terms, but very difficult to achieve in practice. The problem is that there are obstacles to the application of these principles in the public sector. The yardstick of profitability is lacking, - oh for a bottom line and a cost plus capability. Many government objectives are generalised, and the test of their success is often acceptability rather than a quantified measure of output. In some areas, the final measures are elusive and only partial indicators of performance can be devised. The task of applying the principles will therefore take time, and complete success in every particular area is an unrealistic hope. Nevertheless the principles are fundamental to good management and the effective use of resources. The initial White Paper which launched the FMI said that these principles should be applied to the maximum practicable extent, and I thoroughly endorse this.

There are three major developments taking place in the 31 departments involved in this Initiative. These are first of all the development of top management systems - some would say corporate planning systems - such as MINIS. These systems typically identify for the main organisational units of a department their objectives, a description of their activities, and a broad statement of the resources being used to achieve them. Typically these systems then identify future plans and the resources required in order to achieve these and from that the top management of the department determines priorities. They also determine, (or should do when the systems are fully developed), the top level resource allocation process and so they represent the apex of a budgetary control process. Budgetary control in fact is the second main feature in the development of the FMI. All departments are now decentralising the control of money and manpower to line management responsible for delivering the services. These developments are typically being piloted in discrete parts of departments so that the lessons emerging can then be applied in the development of budgetary control for the whole department. Currently I am leading a review of how all of this is progressing in six departments and one non-departmental public body, and I will be making a final report to the Chief Secretary to the Treasury at the end of this year.

Obviously you will not expect me to give details of my findings before I have put in my final report, but I can safely say that budgetary control is already biting within the Civil Service and those line managers who are practising it are doing so enthusiastically and are identifying very worthwhile economies as a result. It is not only cost savings which are emerging, but the possibility of providing better service for the same money. I am sure that this will not surprise the present audience but it is encouraging to report such a development in the environment of the Civil Service which has not been used to operating in this fashion before. Above all, the institution of devolved budgeting has already developed a marked degree of greater cost consciousness at all levels.

The third main development resulting from the FMI lies in the oven of financial management of programme expenditure itself. This, as you know, is the term used to describe all public expenditure other than the pay and running costs of the Civil Service. Programme expenditure amounts to some 80% of total government expenditure and it is now being critically examined to see in what ways the financial management of it can be improved. Again this is a very demanding task.

These developments have led to an increasing number of accountancy advisers being introduced to the financial areas of departments such as the Home Office, the Department of the Environment and the Department of Transport. More accountants are also being employed at lower level to assist in the development of the management accounting systems, but so far we have only scratched the surface. I foresee a very big increase in the numbers of accountants required once these new systems are fully developed and working and the complexity of the financial advice required becomes apparent. What it all adds up to is greater financial literacy informing management decisions at all levels - who can be better placed to deliver this than accountants who have the necessary understanding and skills - what they perhaps need to develop more than anything else at this stage is their communication abilities.

The Future

As I said earlier it is the Government's expressed objective to double the number of accountants employed in the Civil Service by 1992. I believe this to be crucial if the important developments to which I have been referring are not to be constrained because of the lack of skills available.

But it isn't really the numbers game which is so important - it is the enhanced delivery of service. We have talked often about the three "Es" - efficiency, economy and effectiveness - those three legs of the stool on which the FMI stands. What about the accountants' own management initiative? We are professional people and we take a pride in the quality of our work as well as our level of achievement and our contribution to the common good. We can see how our skills can help the management team to plan better, to perform more effectively and to obtain more justificable satisfaction from a job better done. But management in the Civil Service, although it can see what it wants to do and where it wants to go, is no different from management in the private sector - it is nervous about embarking on change and it often doesn't know where to look for help to achieve it. We accountants know we can help, but we must tell people what we can do for them, be prepared to put ourselves out to do so, but above all we must give management what it wants and not what we think it might like to have and we must give them what they want in terms which they can understand. We must never forget that we are specialist communicators - or ought to be!

So to my mind the development we are looking for is not a doubling of the numbers, it is a doubling or a trebling or even a tenfold increase in effective accounting service to management, and through management to the customers fo rthe services provided by the Public Sector. If we achieve that then the numbers will take care of themselves for the career opportunities for accountants in the Civil Service will be legion - whether those opportunities come in strictly finance posts or in general management.

More specifically I see enhanced opportunities coming forward in the following areas:-

(a) More accountancy advice will be required in the financial policy areas, in support of top management and within the large management blocks within departments. We shall also find a need for an acceptance of more accountancy input to the Ministerial level where major policy decisions are taken. Put it another way. The effective formation and implementation of policy is increasingly going to need more financial literacy in the top management teams responsible for this work; as I have said, it is the accountants who have the skills and experience represented by that literacy. But it isn't jsut any accountant who can expect promotion to the top and I refer again to what I said earlier about very high calibre officers being required. The need here is for innovative work translating (and not just transplanting) accountancy and communication techniques into the particular requirements of central government. I feel that you in this audience will understand what I mean when I say this as I imagine you have had to do similar things in the local government environment.

(b) Much greater development and integration of the top management and budgetary control systems will be needed both between themselves and also with the Public Expenditure Survey, Supply Estimates, and the cash accounting or Vote systems. Again, I am sure that you will understand the importance of cash in this environment. A lot of people talk as if cash were unimportant these days. The macro economic planning procedures in central government make cash management crucially important. Part of our task as accountants is to show how resource accounting systems using factors other than cash can improve value for money while not prejudicing the crucial controls over cash expenditure. We have therefore to solve some difficult accounting problems and again it is very high calibre accountants who are required.

(c) The monitoring by way of increased use of efficiency reviews of the improved management information that will be available will also need more accountancy input.

Overall Aim

Now where does all this lead us by way of conclusions?

In the first place there is now, so far as accountants in the Government Service are concerned, a remarkable opportunity to take great strides forward in their collective career development. Being the people they are, and I have grown to know them well over the past year, most of them would put it another way. They recognise that top management needs them as it has never needed them before and provided they can supply management with the services which it needs, they will find themselves welcome and regarded members of the senior management teams. That is the challenge and the opportunity which prsents itself to accountants in the Civil Service - we will do our best to meet it, but senior management in the departments must also play its part and it can move the necessary development forward in leaps and bounds if it actively shows itself ready, now, to welcome accountants inot its inner circle.

Second, we must recognise that government departments are varied not only in their organisational structures and service delivery, but also in the size and type of business they run. It would be less than helpful, in my view, to adopt the view that what is good for one must necessarily be good for all. We must avoid centralism at all costs, for devolved management and autonynous policy development, which are hallmarks of the FMI, require, if they are to succeed, their own structures and management information systems tailor-made to their own needs. We as accountants must resist the temptation to put in a system just because it has worked well elsewhere.

Third, within the Government Accountancy Service itself we must pay greater attention to the career development of our members. We have a reservoir of talent available to us, but some of it is not tapped as it should be because of inadequate attention to the selection of horses for courses, and the overattention in the past to technical aspects of our work at the expense of broader management training and experience.

Perhaps I can close by sticking my neck out by saying what I personally have set as my own objectives over the next three years. There are several of them but two are predominant:

First of all it is necessary to give more impetus to the already changing attitudes throughout the Civil Service and make Ministers and senior officials even more aware than they are already of how financial literacy and accounting skills can help them to improve the decision making progress at all levels in Government Departments. The climate is right and there is a lot of support for this objective. What we need to do, however, is to demonstrate how this can be achieved in practice - actions not words will count over the next year and there has been a lot of preaching and rather less doing in the past year or two. Perhaps my Multi Departmental Review into Budgeting will help in the regard.

To move forward we need to translate rather than transplant successful commercial accounting concepts into the circumstances of the public sector. We need to demonstrate that management accounting principles can co-exist with and indeed strengthen the cash based government financial control mechanism. The development of an ability for government departments to account for the services they deliver to the public on an orthodox output accounting basis whilst maintaining the rigours of central control on a cash input basis will be difficult, but when accomplished it will introduce a new credibility into public sector accounting. I believe that Parliament and the public will expect to see these developments. Cash flow control is, after all, an important aspect of controlling the private sector too, but that does not inhibit the development of proper management accounting systems there. Again, I look to my present audience as one which is particularly knowledgeable in dealing with these sorts of issues.

Second, I want to see a large number of talented Civil Servants coming forward for accountancy training for all the six main professional accounting bodies with this being followed up once they have qualified by structured training in management skills as well as continuing professional education. I would expect a number of these officers to study with and qualify for CIPFA and I look to your Institute to encourage these developments. A combination of technical ability and management training will make it easier for accountants to move into important senior positions in all Government Departments. I recognise, of course, that all those concerned with financial decisions will not and need not be professionally trained accountants nor need accountants be restricted to financial management areas of responsibility. Proper training will, however, make them even better general managers. If we can get the internal side of this career progression right, we shall have less difficulty when we need to recruit direct into the Service - as we always will need to do for some of our experience and skills - in attracting high calibre candidates from other parts of the public sector, (which would of course include local authorities), and private industry.

If I can achieve these things - or even make substantial progress towards them - during my time in the hot seat (I have quickly learned why my post was entitled "HOTGAS") then I shall feel that my venture into the public sector has been worth while.

As I said at the beginning, I think it is very appropriate that I am speaking to CIPFA in their centenary year on these issues. I suspect that you have already tackled many similar problems in the local authority field and I'm sure there is scope for us to learn from each other. I would like to encourage much more cross fertilisation of experience and ideas between local authority accountants and Civil Service accountants and I shall be interested in subsequent discussion with you to learn how best to progress this. We do as you know employ CIPFA accountants within the Civil Service, but I wonder if there is scope for more planned transfers between the two fields? Although difficult organisationally, I believe that such movements could be very advantageous. I am nagged by the belief that all of us operating in the public sector are constantly reinventing wheels in each other's fields. I shall be very interested in any comments you have to offer with respect to this. I shall also be interested in any comments you have as to whether accountancy training provides accountants with the right set of skills to deal with the sorts of problems one finds in the public sector. As I said earlier, I believe it probably does provided the trainees themselves have the intellectual capacity to adapt their skills and techniques to meet the peculiar circumstances of the public sector in which we all play our respective parts.

1263/021/AH

CONFIDENTIAL

From: M L Williams
Date: 11 October 1985

1. **MR ANSON** A 11/10

Copies attached for:

Chief Secretary
Minister of State
Mr Bailey or

2. **CHANCELLOR**

Ch
If you agree the general line, perhaps the CST cd send the minute (suitably adapted) to Sir G. Howe?
AWK
11/10

I agree. Pse ask CST to send. Re For: Sec: [illegible] [illegible] that @ Cabinet. N.

cc Mr Kemp
Mr Turnbull
Mr C D Butler
Mr Mountfield
Mr Scholar
Mr Watson
Mr P G F Davis
Mr Gilhooly
Mr R Willis
Mr C C Allan
Mr Fellgett
Mr Parkinson
Mr Macafee
Mr Cropper
Mr Lord

PAY ASSUMPTION AND RUNNING COSTS LIMITS: FCO

Sir G Howe, in his minute of 7 October, takes issue with the presentation of running costs in Estimates that you proposed in your minute of 25 September to the Prime Minister. He is particularly worried by the Foreign Affairs Select Committee's reaction to the loss of detailed information on the components of running costs from FCO's overseas representation vote.

2. We have been aware of FCO officials' unease on this score. But Sir Geoffrey's minute was not sent until after Cabinet on 3 October, which endorsed your proposals in the course of discussion on the Survey and running costs generally (or so I understand; the Cabinet Ministers do not mention this specific issue). The attached draft reply, which has been cleared with AEF, does not suggest there is any scope for modifying your proposal; it instead concentrates on the next steps and the defensive handling of any criticism from the FAC. We will elaborate the points made with FCO officials as necessary.

3. I might note two other points on the draft.

1) Para 3, first sentence: I understand that the Chief Secretary plans to write very early next

See draft in separate folder

week to Mr Younger, circulating guidance on the presentation of running costs;

2) para 3, last sentence: the FCO have tended to lag behind other departments in restructuring their administrative vote by function or responsibility centre. This sentence is intended as a gentle prod (indeed improvements of this kind could help diffuse possible FCO criticism of the loss of detail).

FAC?

TCSC

M L WILLIAMS

I agree. The Foreign Secretary justifies his "pro-rata" idea on the grounds that it would give Parliament more detailed information. But in fact it would provide only the appearance of more information, rather than the reality; and this would become obvious quite soon.

JA
11/10

1262/034/AH

CONFIDENTIAL

DRAFT MINUTE FROM CHANCELLOR TO FOREIGN SECRETARY

PAY ASSUMPTION AND RUNNING COSTS LIMITS

Thank you for your minute of 7 October. I agree that the legitimate interests of Select Committees in departmental Estimates should be respected; and, as I indicated in my minute of 25 September to the Prime Minister, presentation of the proposed format will be important. However, I believe that Select Committees will see the advantages of a format which focusses on the total cash provision for running costs, disaggregated where appropriate by function or responsibility centre, and which reflects the way departments will now be planning and controlling their running costs. Parliament has pressed us in the past to ensure that its scrutiny and control of Supply is in line with the way the executive operates in practice.

2. I will be consulting the Treasury and Civil Service Committee and the Committee of Public Accounts about my proposals, as endorsed by Cabinet on 3 October, as soon as the House returns from the summer Recess. If, as I hope, they agree to them, it would be surprising if the Foreign Affairs Committee pressed a different view when it came to consider your Estimates. But if your Committee did dissent, ~~I am sure~~ you could point ~~out~~ to the advantages of the new arrangement, ~~which~~ and to the fact that it had already been the subject of consultation ~~and agreement~~ with Parliament. Moreover, you ~~can~~ could draw their attention to the doubtful value of the comparisons for which you have been asked in the past; within FCO's running costs there has in recent years been a substantial underspend and a switch to pay from provision for other running costs. I could not justify presenting your department's Estimates in a format different from others'.

3. John MacGregor has already circulated some suggestions with his letter of [ ] to George Younger on the information that might in future be given to departmental Committees. The key point is to stress that running costs expenditure is planned

and controlled in total. However, detailed monitoring information will be available, and you could therefore offer the Committee outturn figures split into the categories that they would find helpful. Once pay rates have been negotiated (and I am afraid I see no prospect of bringing forward the pay round), the Committee could also be given forecast outturn on a similar basis. (I see little point in giving them a breakdown on the notional basis you suggest, which might further encourage them to explore the pay assumptions you have made). More relevant will be the total running cost of each main function or responsibility centre, and I hope your developing budgetary control system will enable you to show a breakdown along these lines in your 1986-87 Estimates, as will most other departments.

4. I am copying this minute to the Prime Minister, members of Cabinet and Sir Robert Armstrong.

[NL]

Pps [illegible]

SECRETARY OF STATE

CH/EXCHEQUER
16 OCT 1985
CST
TO

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB
TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 2/2/6M

14th October 1985

16/10

Dear Nigel

PAY ASSUMPTION AND RUNNING COSTS LIMITS

In your minute of 25th September you proposed that the running costs provision of each Department should be shown in aggregated form in its Main Estimates.

As has already been explained to your officials, this proposal would call for a major restructuring of Defence Votes. On the basis of past experience, it would take up to nine months to complete all the detailed accounting and computer programming changes required. Implementation in time for the 1986/87 Estimates is therefore impossible: the earliest implementation date would be 1st April 1987.

Aside from the problems of timing, I am by no means convinced that this is the best method of approach. Once the Estimates have received Treasury approval all our Vote managers are issued with cash allocations (usually in February or March); and it would be apparent from the allocations for Service and

The Rt Hon Nigel Lawson MP

civilian pay what assumptions had been made about pay increases in the Estimates year. Equally, we would be faced with this problem when issuing managerial budgets under the arrangements which we are introducing as part of our response to the Financial Management Initiative. Even if the provision for pay increases was held back until the pay awards had been settled it would still be possible for the Vote management staff concerned to gain some idea of the pay assumptions underlying the Estimates.

In view of these difficulties I feel that there would be merit in giving further consideration to an alternative method of approach which has, I gather, previously been identified by the Treasury. Under this option, no provision would be made for pay increases in the Main Estimates; instead the necessary Supplementary provision would be sought in the light of the pay awards. This would not only dispose of the problem of concealment but enable us to avoid the need for major changes in the Vote structure and the consequential loss of information which is currently given to Parliament.

I am copying this letter to the Prime Minister, Members of the Cabinet and Sir Robert Armstrong.

Yours ever
Michael

Michael Heseltine

1859/002

CONFIDENTIAL

From: M L Williams
Date: 23 October 1985

1. MR ~~BAILEY~~ AMD 23/10
2. CHIEF SECRETARY

cc PEX
Mr Kemp
Mr Scholar
Mr C D Butler
Mr C C Allan
Mr Gilhooly
Mr G C White
Mr Perfect

Copies attached for:
Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton

This is all very well as far as it goes; but Ministers will have to be pressed on all this when they give evidence to the TCSC's AS inquiry. How is it proposed that Mins respond?

PRESENTATION OF RUNNING COSTS

Mr. Butler's submission of 11th October, on the announcement of the Government's intentions for control of running costs, mentioned that separate advice would be submitted on the presentation of running costs in the Autumn Statement and the PEWP. There are three main occasions when running cost figures might be published; the Autumn Statement; the PEWP (due to be published in January; and the Estimates (published at Budget time). Although the PEWP is some way off, your preliminary reaction would be helpful in view of the long lead times involved in securing departments' agreement to the format, and in programming the computer.

<u>Presentational problems</u>

2. There are two problems:

(i) <u>Totals</u>: Even after severe scrutiny during the Survey, it is likely that there will be an increase of around 6% in aggregate running costs in 1986-87 over 1985-86 Estimates provision. This is awkward to present in relation to pay policy, as well as to the government's objective of reducing administrative expenditure. The bigger the published increase, the more will it encourage pressure for a high pay settlement (e.g., under the proposed long-term pay arrangement, for a pay settlement at or near the upper quartile; the difference between the upper and lower quartile could be £100 million a year).

(ii) Pay assumptions: This crude aggregate increase can be explained in terms of a number of factors besides pay rates. But there will be detailed questions about what is assumed for changes in pay rates. We can say that each department has had to make its own assumptions about the factors affecting its own pay bill. But when figures are published for each department, they are likely to be questioned (by Select Committees etc.) and to have to reveal their underlying assumptions - generally 5 per cent for 1986-87, and varying but lesser amounts for the later years. This will raise further questions about the Treasury's role, and the implications for pay.

3. On both these accounts, there is a general presumption in favour of publishing as late as possible. One reason (relating to (i) above) is that the numbers may move in our favour. The arithmetic is very uncertain at this stage, but the limits published with Estimates **could**, as a result of Estimates scrutiny, be **slightly** lower than those agreed in the Survey. Moreover, the new 1986-87 limits should arguably be compared with 1985-86 outturn rather than plan; and the later we publish, the more complete will be the 1985-86 outturn information available. This **could** mean an increase in the base for comparison, enabling us to show a lower aggregate increase; as you requested, RCM are preparing a note on this point.

Autumn Statement

Ch
I assume you go along with this? AWK

4. We propose that little should be said about running costs in the Autumn Statement. There is no need to include any tables showing running costs. There might be a sentence in

the text to the effect that running costs figures have been agreed in the Survey, and will be shown in detail in the PEWP/Estimates. But the inclusion or drafting of this sentence need not be decided now.

PEWP

5. Hence the issue is how much to publish in the PEWP in January, and how much to leave over for publication with the Estimates at Budget time. This is left open in the Written Answer you gave on Tuesday (22nd October). The earlier Answer in May, spoke of publishing "targets" in the PEWP. But it is arguable that running cost limits are formal control figures for the coming year, like cash limits and Estimates, and should be published at the same time.

6. We have considered this carefully, and do not believe that all running costs information can be held over until Estimates. Running costs are an important component of departmental plans, for the three forward years of the Survey. The PEWP already includes a number of tables and charts which show departmental and aggregate expenditure broken down by economic categories. These categories at present include "wages and salaries" and "other current expenditure on goods and services". In future, to match the key control figures for departments, we propose that "running costs" should be shown in these tables as a separate economic category (combining pay and other administrative spending). This will permit Parliament, the civil service unions and others to calculate broadly the percentage increase in running costs, both in aggregate and by department.

7. These calculations could only be avoided by either:

(i) retaining the existing economic category breakdown (as in Table 2.3 of the 1985 PEWP, Annex A attached). That would mean a split of departmental expenditure which included a separate line for pay; which would in turn invite questions about the abandoned pay assumption, make the reconciliation with the proposed running costs presentation in Estimates meaningless, and sit oddly with the announced emphasis on running costs. (It would also mean retaining a capital/current expenditure split which we had hoped to lose in the new format, to avoid comparison with our chosen method of presenting capital spending elsewhere in the PEWP); or

(ii) further aggregating the economic categories; but there would be no policy or presentational sense in a category comprising, say "running costs and other public sector pay"; or

(iii) dropping these tables. But that would be immediately jumped on by the TCSC, both because they would be suspicious of our dropping **any** information, and because they would be expecting **something** about running costs. In the face of questioning, it would be difficult to conceal our purpose. If, as would seem likely, it also became clear that we had something to hide, we could end up roundly defeating our own objective.

8. Hence we do not believe we can avoid publishing departmental figures in the PEWP.

Split between PEWP and Estimates

9. Nothing more need be included in the PEWP beyond what is described in para 6 above, together with a carefully drafted text explaining that the running costs figures used throughout the PEWP were components of the agreed departmental **planning** totals; and that the figures for 1986-87 would form the basis of running costs limits to be published with Estimates and cash limits at the time of the Budget. The importance attached to running costs control could be re-emphasised.

10. However, there is a risk that splitting the announcement in this fashion, with no separate table showing the breakdown of total running costs by department, would be seen as an unduly low-key presentation of the new system, lacking in clarity or conviction. This could be avoided by showing, in the PEWP, a departmental breakdown of running cost figures for past years and including 1986-87 (but not later years, to be regarded as broader planning figures included in departmental totals).

This breakdown would go further than the departmental tables (para 6), since it would show a separate line for each sub-department, as well as each department, for which a running costs limit is agreed. The text would explain that formal limits, which might vary slightly from these figures, would be published with Estimates (cf cash limits).

11. In our view, once the need to give departmental and aggregate figures in the PEWP is accepted, there is some advantage in volunteering this extra information. It would, for example, match the table of departmental manpower targets already in the PEWP. The presentational problems (para 2 above) would not be made significantly worse. Indeed, the pay policy problems could be eased if we could point to some low increases for individual departments; and since the pay negotiations will extend beyond the Budget, there may also be some advantage in getting any bad news out of the way. Moreover, the extra information would allow us to present the new system, and any necessary defensive remarks, more coherently.

Conclusion

12. Accordingly, we recommended that information on departments' running costs, and the totals, should be published in the PEWP as in paras 6 and 10 above. Formal limits for 1986-87 will then be published with Estimates. If the further course of the Survey, or public or Parliamentary reactions to the PQ and consultations, made it necessary to reconsider this, it could be changed up to about the end of November; but this would risk confusion in departments and mistakes in the PEWP, so we would like to avoid any change if possible. We invite you to agree with this way forward.

M L WILLIAMS

Table 2.7 Planning total by spending authority and economic category

£ million

	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 estimated outturn	1985-86 plans	1986-87 plans	1987-88 plans
Central government									
Current expenditure									
Wages and salaries	12,473	15,618	17,409	18,451	19,462	20,365	21,035	21,820	22,610
Other current expenditure on goods and services	11,148	13,572	15,698	17,936	19,145	21,862	23,261	24,280	24,800
Subsidies	4,151	4,999	4,870	4,769	4,881	5,996	4,790	4,410	4,300
Current grants to the private sector	21,051	25,776	31,177	35,265	36,570	39,289	41,465	43,190	45,300
Current grants abroad	1,836	1,310	1,305	1,821	2,159	2,112	2,229	2,150	2,400
Capital expenditure									
Gross domestic fixed capital formation	1,597	1,853	2,146	2,388	2,478	2,831	3,029	3,100	3,160
Increase in value of stocks	–14	84	7	353	249	327	323	140	150
Capital grants	1,696	2,017	2,059	2,328	2,471	2,499	2,469	2,560	2,350
Net lending to the private sector	145	352	594	79	–29	51	43	40	40
Net lending to nationalised industries and List I and II public corporations (1)	2,461	2,768	1,945	1,591	561	–328	990	–180	–700
Net lending and investment abroad	–334	–525	–282	–106	85	176	87	150	120
Cash expenditure on company securities (net)		–1		371	150	1			
Market and overseas borrowing by nationalised industries and List I public corporations (1)	–437	–639	284	–1,273	–124	840	–1,567	–1,180	–970
of which:–									
Finance for public corporations (including nationalised industries)	–3,344	–3,532	–3,977	–2,476	–2,670	–3,623	–1,694	–680	–410
Total central government (excluding public corporations)	52,429	63,652	73,233	81,497	85,389	92,399	96,459	99,800	103,170
Local authorities									
Current expenditure									
Wages and salaries	12,229	15,097	16,764	18,082	19,290	19,733	19,263	20,110	20,440
Other current expenditure on goods and services	3,028	3,273	3,801	4,216	4,630	5,289	5,402	5,640	5,640
Subsidies	766	1,022	1,117	1,289	1,386	1,385	811	820	810
Current grants to the private sector	1,038	1,287	1,624	1,977	3,563	3,786	3,907	4,030	4,170
Local authority current expenditure not allocated to programmes(2)							675	110	60
Capital expenditure									
Gross domestic fixed capital formation	3,980	3,950	2,678	2,866	3,304	3,114	2,720	3,090	3,410
Capital grants	170	188	274	567	1,230	1,027	552	510	500
Net lending to private sector	404	286	433	257	–239	–41	–73	–40	–140
of which:									
Finance for public corporations (including nationalised industries)	–88	–118	–109	–132	–146	–153	–179	–100	–100
Total local authorities (excluding public corporations)	21,527	24,986	26,582	29,123	33,019	34,140	33,079	34,160	34,780
Nationalised industries external finance									
Current									
Grants and Subsidies	1,081	1,109	1,363	1,782	1,852	2,741	1,741	1,390	1,400
Capital									
Grants	90	83	72	65	44	34	216	230	240
Net lending	2,305	2,652	1,827	1,519	516	–406	943	–250	–790
Market and overseas borrowing	–477	–623	292	–1,223	–127	841	–1,582	–1,190	–970
Total nationalised industries external finance	2,999	3,221	3,553	2,143	2,285	3,211	1,319	180	–110

Table 2.3 continued

£ million

	1979–80	1980–81	1981–82	1982–83	1983–84	1984–85	1985–86	1986–87	1987–88
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans	plans
List I and II public corporations(¹) external finance									
Current									
Grants and subsidies	30	57	94	120	138	167	176	180	180
Capital									
Grants	113	147	193	196	200	186	194	200	200
Net Lending	156	116	118	73	45	77	47	70	90
Market and overseas borrowing	40	–16	–7	–50	3	–2	14	10	
Total List I and II public corporations external finance	339	304	397	338	386	428	431	460	470
List III public corporations(¹)(³)									
Current									
Subsidies	93	124	136	127	145	137	124	140	150
Capital									
Goods and services	444	437	330	301	294	342	199	230	220
Grants	23	29	29	32	36	41	40	40	40
Net lending and other capital transactions	114	287	337	356	–114	–87	–58		10
Total List III public corporations	675	876	832	817	362	433	305	390	420
Adjustments									
Special sales of assets	–999	–356	79	–488	–1,142	–2,000	–2,500	–2,250	–2,250
Reserve							3,000	4,000	5,000
General allowance for shortfall						–500			
Planning total	76,971	92,683	104,676	113,430	120,298	128,111	132,092	136,750	141,480

(¹)Details of individual public corporations included in Lists I, II and III are shown in Table 2.11.
(²)Figures for the last two years show unallocated provision for transport spending (paragraph 57 of chapter 3.6 refers).
(³)Figures include the capital expenditure of List III public corporations and government subsidies to them.

Table 2.4 Planning total by programme and spending authority; plans for 1985–86

£ million

	Central Government							
	Voted expenditure							
	Cash Limited	Other	Other	Local authorities	Nationalised industries external financing limits	List I and II public corporations external finance(¹)	List III public corporations (¹)(²)	Planning total
Defence	18,087		–32		5			18,060
Overseas aid and other overseas services	1,601	–1,514	2,501			43		2,631
Agriculture, fisheries, food and forestry	435	1,470	–3	134	14			2,050
Industry, energy, trade and employment	3,412	1,382	237	160	–442			4,749
Arts and libraries	272			364				636
Transport	1,079	126	–8	2,040	1,256		41	4,534
Housing	34	1,280	–1	1,044			–67	2,290
Other environmental services	319	9		2,873	213	79	–42	3,451
Law, order and protective services	1,158	450	–137	3,747				5,218
Education and science	2,326	41	–4	11,235				13,598
Health and personal social services	10,841	3,208	11	2,408		23		16,491
Social security	863	13,374	22,935	2,933				40,105
Other public services	1,736	208	–9			–6	13	1,942
Common services	618	1,324	–844			–5		1,093
Scotland	2,274	894	–15	3,585	245	130	46	7,159
Wales	916	329	56	1,360	27	49		2,737
Northern Ireland	151		3,067	603		119	314	4,254
Local authority current expenditure not allocated to programmes (England)				594				594
Total	46,122	22,581	27,754	33,079	1,319	431	305	131,592
Adjustments								
Special sales of assets								–2,500
Reserve								3,000
Planning total								132,092

(¹)Details of individual public corporations included in Lists I, II and III are shown in Table 2.11.
(²)Figures include the capital expenditure of these corporations and government subsidies to them.

404.51

FROM: J ANSON
DATE: 7 NOVEMBER 1985

CHANCELLOR

cc: CST
FST
EST
MST
Sir Peter Middleton
Mr Bailey
Mr Wilson
Mr Scholar
HEGs
Mr Culpin
Mr Willis
Mr Lord

Ch
You'll remember this came up at your last bilateral with Pete. You were inclined to write to Robin Ibbs.
R.
7/11

EFFICIENCY SCRUTINIES: REPORT IN "THE ECONOMIST"

You asked about the piece in the Economist (copy attached) on the implementation of efficiency scrutinies.

2. The Economist article is a pastiche of their own views and a fairly superficial reading of the Efficiency Unit report. The Efficiency Unit agree that the middle paragraph is rubbish, and have told us that they did not brief anyone from The Economist.

Who?

3. What the report actually says is that the recurrent savings (or extra income) of £600 million a year identified by 266 scrutinies during 1979-84 can be broken down as follows:

	£m a year	%
Fully implemented by end 1984-85	295	49
Accepted for implementation in 1985-86 or later	75	13
Still being considered	85	14
Unobtainable, because scrutiny reports are optimistic	80	13
Rejected (sometimes for political reasons)	65	11

4. The report says that the cumulative total of savings etc, from these scrutinies so far is about £750 million. It does not cover the question why particular recommendations were rejected as impracticable or unacceptable (ie. the last two categories in the table above). It concentrates rather on the speed with which those recommendations which were accepted were put into effect. The point on which it is critical is that in most cases it has taken at least 2 years to implement those savings which were accepted. It computes that if all departments had implemented the acceptable recommendations within 2 years, the cumulative total could have been £280 million higher by April 1975. This is a fair criticism in overall terms; whether the time taken was excessive for individual scrutinies depends on the nature of the recommendations.

5. The report also stresses the crucial role of the Minister and Permanent Secretary in getting a sense of urgency into the decision-making process which follows the scrutiny. The report does not criticise the Treasury; indeed the main report does not even mention the Treasury. Nor does it particularly criticise the revenue departments, although it lists two revenue department scrutinies among those it studied. Our understanding is that their record is relatively good in this particular respect.

6. The Efficiency Unit have followed up the report by issuing new guidance to departments on scrutiny procedures, stressing the importance of prompt implementation. They discussed this with us before issue. I have also, with the Heads of Expenditure Groups, discussed with the Efficiency Unit how we can best work together to press departments to implement scrutiny savings promptly. The Unit tend to worry that if the Treasury are brought too directly into the scrutiny process, departments will feel discouraged from using scrutinies to identify savings. But they have agreed to cooperate closely with Treasury expenditure divisions so that we will know better where to apply the pressure. We are also developing a new procedure under which expenditure divisions will have regular round-up meetings with the Unit and others concerned with efficiency in Treasury and MPO, to discuss how they can best work together in dealing with a particular department.

7. There is bound to be a certain amount of tension here, because the Efficiency Unit are concentrating on getting greater efficiency, whereas we are also trying to ensure that the benefit accrues primarily to the taxpayer. But it is a travesty to suggest, as the Economist article does, that we have been uncooperative with the Unit in cases where they have enlisted our support.

8. You asked whether you should write to Sir Robin Ibbs. I would be inclined not to do so on the basis of this misconceived article. We have no particular complaints to ventilate at the moment. If we find the Unit are not giving all the help they could, you or the Chief Secretary could revert to the matter at that stage.

JA

(J ANSON)

"THE ECONOMIST" 2-8 NOVEMBER 1985

Wasteland

When Lord Rayner left Mrs Thatcher's side three years ago, covered in glory and honours for rooting out some Whitehall waste, he left behind a loyal band of civil servants under the leadership of Sir Robin Ibbs, his replacement as the prime minister's efficiency adviser, to carry on his good work. They have become known as Ibbs's "Moonies". Each year they suggest a new device to spread the faith: financial management initiatives, activity budgets and now "efficiency scrutinies". They have so far identified 266 areas of waste, with potential savings of £600m a year, in such different branches of government as the Inland Revenue (reportedly sitting on 6m unanswered letters), the government's Property Services Agency and the Ministry of Defence.

Most of the Rayner/Ibbs team's bright ideas are made to wither by the bureaucracies at whom they are aimed. Standard practice in government departments has been to welcome them nicely, give them tea, and delegate their conclusions to a long-term committee. The Treasury, which ought to have been helpful, has preferred chopping items of spending to the greyer business of waste disposal. It has been cross that some of its own satellites, like value-added tax offices, have received unflattering attention.

Sir Robin has now issued a cry of rage, under the genteel title of "Making Things Happen: a report on the implementation of government efficiency scrutinies". Between the lines it is clear that the chief obstacles are some permanent secretaries. The team's ideas are greeted with Yes Minister phrases such as "the minimum we can get away with" and "hope we can live with this". The price, he estimates, has been £280m in possible savings, lost as civil servants obstruct and vacillate. Perhaps the star chamber, currently concluding its vetting of departmental budgets, should be told which ones?

011/1283

FROM: **R J BROADBENT**
DATE: 19 December 1985

PS/INLAND REVENUE

NB an opportunity for PSA to review their disposals programme, where there must be possibilities to do.
M

cc:
Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Turnbull
Mr Monger
Mr Instone

OFFICE AND GENERAL ACCOMMODATION SUB PROGRAMME - PSA

The Chief Secretary has seen Sir Lawrence Airey's minute of 10 December about the consequences for the Revenue of the allocation of PSA funds proposed in Sir George Young's letter of 29 November.

2 The Chief Secretary recognises that decisions on PSA expenditure will require choices to be made between priorities. He has commented that that is true of many Survey decisions - few Departments received substantial additional resources.

3 The Chief Secretary is also conscious that overall provision for PSA in 1986-87 was not cut back. It was increased by £7.2 million. This compared to a bid from PSA initially of £13.5 million and subsequently of £23.5 million. In either case, the shortfall of "essential work" (paragraph 2 of Sir Lawrence Airey's minute) appears very large in relation to the total addition bid for by PSA.

4 However the Chief Secretary is concerned about the progress of COP. He thinks there can be no question of re-opening decisions on provision for PSA. But he agrees

that there may be a need to discuss the priorities adopted by PSA in allocating the additional funds made available to them for 1986-87. He concludes that Treasury and Inland Revenue officials might consider the position in detail with the Financial Secretary, including the costs and consequences of delay. The Financial Secretary could then consider whether to take up the question of PSA's priorities with Sir George Young.

RJ Broadbent

R J BROADBENT
Private Secretary

011/327

UNCLASSIFIED

FROM: S N WOOD
DATE: 9 JANUARY 1986

1. MR WALSH H.W. 9/1

2. PS/CHANCELLOR

cc: PS/EST
PS/Sir P Middleton
Sir G Littler
Mr Cassell
Mr Lavelle
Mr Fitchew
Mr Peretz
Mr Scholar
Mr Kelly
Miss O'Mara
Mr H Davies

Ch / OK?

dwK 9/1

Just watch OK as amended. Mr T may also wish to see what I said on the Ford programme - transcript below.

QUESTION TIME, 9 JANUARY : INTEREST RATES

I understand Mr Tebbit's office has asked you this morning for some briefing on "interest rates and the like" for his appearance on the BBC's "Question Time" tonight.

...2. I attach some short notes on the rise in interest rates and the latest money supply figures, together with a table and charts. They are based on the briefing we provided for yesterday's Cabinet and for Tuesday's provisionals.

S N Wood

S N WOOD

011/327

UNCLASSIFIED

FROM: S N WOOD
DATE: 13 JANUARY 1986

1. MR WALSH
2. MR HUTSON - PARLIAMENTARY

cc: PS/Chancellor
PS/CST
PS/FST
PS/EST
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Lavelle

PS/Chancellor for approval please
Miss R Clynder 13/1

C, OK?

PM'S QUESTIONS : INTEREST RATES

As requested, I attach a draft contribution to the PM's briefing for Questions tomorrow, on interest rates.

2. It follows very closely the briefing prepared for Mr Tebbit's appearance on the BBC's "Question Time" last week.

H.W.
pp S N WOOD

Note
Spoke to S. Wood. He will provide up-to-date, amended, shorter brief tomorrow.
Ro 13/1

We have spoken

011/327

[illegible]

PRIME MINISTER'S QUESTIONS, !4 JANUARY : INTEREST RATES

Factual

1. Early last week sterling weakened, particularly against the Dmark. The index ~~dipped below 78~~ dropped to X. Money market rates began to move up, and on Wednesday morning broke out of their recent trading range to reach 12½ per cent. The Bank of England responded by announcing that it would lend to the market at 12½ per cent, and the clearing banks later raised their base rates from 11½ per cent to 12½ per cent. Market rates have since settled at around 12¾ per cent, and the exchange rate has settled at around 78½. Attached is a table showing how rates have moved over the past year.

[illegible]

2. Money supply figures in December published on Tuesday show £M3 up by 15 per cent over past 12 months and M0 up by 2½ per cent over the same period.

Positive

1. The Bank's action followed the rise in market interest rates.

2. The authorities took prompt ~~and straightforward~~ action. Any delay would have risked giving the wrong signal. No room for doubt about Government's determination to take no chances with inflation.

3. Balance of evidence indicates that monetary conditions are consistent with Government's counter-inflation objectives.

Defensive

1. **Interest rates should be reduced to help industry?**

We will take no risks with inflation. Far greater damage to industry if inflation were allowed again to take hold. Interest rates will be held at whatever level will maintain downward pressure on inflation.

2. **Monetary policy tightest ever?**

No. Necessary to look at all relevant indicators: broad and narrow money supply, asset prices, interest rates and exchange rate. Conflicting signals. On balance policy firm but not excessively tight.

3. **UK real interest rates highest anywhere?**

UK nominal interest rates are high because of this country's long history of inflation. It takes time to convince people that this Government's determination to beat inflation will bear lasting fruit - but we will do it. As inflation is beaten, nominal and real rates will come down.

4. **Role of exchange rate?**

We have no exchange rate target. When money supply figures are hard to interpret, as now, exchange rate must assume greater weight as an indicator of monetary conditions. But we take all the evidence into account.

5. **Money supply/bank lending?**

Sterling M3 well above target range which was clearly set too low. But M0 growth remains slow (below target range in December, but this was result of a distortion due to BT sale in December 1984). Bank lending in December in line with previous two months. Recent figures reflect recent relatively low monthly PSBR, and do not necessarily point to shift in underlying trend.

6. **Mortgage rates?**

[Secretary of Building Societies Association and chief general manager of Nationwide have said they see no immediate need to respond, but hinted that if rates stay up for long they may have to.]

This is a matter for the building societies and banks to decide.

ANNEX : INTEREST RATES AND EXCHANGE RATES SINCE 31 DECEMBER 1984

Closing Rates	Exchange Rates: £ effective	Exchange Rates: £/$	Exchange Rates: DM/£	Short Term Interest Rates (per cent): UK Base Rate	Short Term Interest Rates (per cent): US Prime Rate	Short Term Interest Rates (per cent): 3 month £ inter-bank+++	Short Term Interest Rates (per cent): 3 month Eurodollar+++	Short Term Interest Rates (per cent): Uncovered Differ-ential+++	Long Term* Interest Rates: UK 10 year Gilt	Long Term* Interest Rates: US 10 year T-bond
Mon 31 December	73.0	1.158	3.65	9½-9¾***	++10¾	10.01	8.10	+ 1.07	11.21	11.50
Fri 11 January (base rates up)	71.3	1.130	3.56	10½		10.13	8.08	+ 2.05	11.24	11.50
Mon 14 January (base rates up)	70.8	1.130	3.55	12	10½	12.02	8.09	+ 3.09	11.37	11.56
Mon 28 January (base rates up)	70.5	1.113	3.53	14		13.15	8.07	+ 5.08	11.71	11.13
Tues 26 February	70.2	1.042	3.61			14.02	9.05	+ 4.13	11.82	11.75
Wed 13 March	71.6	1.084	3.648			13.15	9.06	+ 4.09	11.50	11.73
Wed 20 March (base rates down)	74.0	1.138	3.722	13½		13.07	9.03	+ 4.04	11.51	11.94
Thu 28 March	77.5	1.225	3.832	13½-13*		13.04	9.03	+ 4.01	11.34	11.88
Fri 19 April (base rates down)	79.5	1.293	3.846	12¾-12½**		12.04	8.08	+ 3.12	11.03	11.13
Wed 12 June (cut by Barclays and NatWest)	79.2	1.264	3.901	12½	10 A	12.08	7.10	+ 4.14	11.14	10.06
Wed 3 July	81.3	1.312	3.979		9.5 AA	12.09	7.12	+ 4.13	11.03	10.03
Mon 15 July (base rates down)	83.2	1.389	4.003	12		12.00	7.12	+ 4.04	10.80	10.25
Mon 29 July (base rates down)	84.7	1.431	4.033	11½		11.06	8.03	+ 3.03	10.71	10.63
Fri 8 Nov	79.5	1.419	3.721			11.10	8.01	+ 3.09	10.71	9.88
Fri 15 Nov	79.5	1.423	3.726			11.09	8.03	+ 3.06	10.80	9.94
Fri 22 Nov	80.1	1.451	3.736			11.09	8.01	+ 3.08	10.72	9.62
Fri 29 Nov	81.3	1.490	3.744			11.09	8.01	+ 3.08	10.63	9.63
Fri 6 Dec	81.1	1.478	3.733			11.10	8.04	+ 3.06	10.75	9.63
Fri 13 Dec	78.7	1.436	3.621			11.11	7.15	+ 3.12	10.78	9.19
Fri 20 Dec	78.1	1.424	3.583			11.14	8.00	+ 3.14	10.92	9.13
Mon 30 Dec	78.0	1.440	3.546			11.14	8.00	+ 3.14	10.85	9.00
Fri 3 Jan	78.1	1.439	3.547			11.14	8.00	+ 3.14	10.91	9.00
Wed 8 Jan (base rates up)	77.9	1.444	3.536	12½		12.11	7.15	+ 4.12	11.15	8.94
Fri 10 Jan	78.6	1.457	3.565			12.13	8.03	+ 4.10	11.27	9.25

+++NB: In these three columns, numbers to the right of the point are sixteenths

+++ So for example 9.09 represents 9½: 10.12 is 10¾ per cent etc

* Lloyds and Natwest 13 per cent

** Barclays and Midland 12¾ per cent

*** Base rates reduced 22 November

\+ Yields prevailing at close on previous day

++ Prime rates reduced on 19 and 20 December from 11¼

A Prime rates reduced on 19 and 20 December from 10.5

AA Prime rates reduced 18 June from 10

506/33

CONFIDENTIAL

FROM: B O DYER
DATE: 28 January 1986

01-233 4749

CHANCELLOR

cc Mr P Cropper

Ch/ I see some advantage in this approach - perhaps pinning the task now on Tim Sainsbury (to be assisted by Peter Lilley). Brian's letter would spell out the procedural details (touched upon at X).

R 28/1

Rgll. Discuss @ Prayers N.

BUDGET DAY : TEN MINUTE RULE BILL

In recent years attempts have been made (unsuccessfully, I believe) to ensure that a Government Backbencher is first to table a Ten Minute Rule Bill for Budget Day under SO15 (NB. If the Member is to succeed in this respect, notice must be handed in to the Public Bill Office by him, at the earliest opportunity, 15 sitting days in advance of Budget Day). If successful, the Member then either withdraws the Bill at the last moment or declines to move the Bill on Budget Day; thus enabling you to open your Budget immediately Question Time is concluded (3.30pm).

X

2. There would seem no harm in trying again this year. If you agree, there might be advantage in your raising it at Prayers with the Treasury Whip. I can then, if you wish, follow it up in a letter to Mr Sainsbury.

B O DYER
Parliamentary Clerk

CONFIDENTIAL

FROM: VIVIEN LIFE
DATE: 5 February 1986

PS/CHANCELLOR

Mr Parker.
The posn on the Health Services Bill is of interest ~~[illegible]~~ CST's concern & 1985 [illegible] [illegible] for [illegible]

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Mr Gilmore
Mr Jameson
Mr Burgner
Mr Moore
Mr Watson
Mr Kitcatt
Mr Scholar
Mr Pratt
Mr Dyer

QL WEDNESDAY 5 FEBRUARY: 1986-87 LEGISLATIVE PROGRAMME

1. The Financial Secretary attended QL today. In advance of the official minutes he thought the Chancellor would find it helpful to have a general report of the meeting, and an indication of the likely shape of QL's recommendation to Cabinet.

Size of Programme

2. The Financial Secretary saw no reason to argue for a large programme. It was pointed out that the current programme was so crowded it was very likely to require an overspill session. This in turn would compress the time for the 86/87 programme.

Programme Bills

3. It was agreed that the Alleviation of Human Infertility Bill should be dropped. The question then arose of which, if any, DHSS Bill should replace it: the Child Care Bill or, as the Financial Secretary proposed, the Health Services Bill. There was some support for the Child Care Bill and none whatsoever for the Health Services Bill. The Lord President saw considerable difficulty with a Bill which would antagonise doctors prior to the Election. He also said that in his view the draft Green Paper would not get

through H Committee. The minutes will therefore record that this Bill will be pressed in Cabinet by the Treasury and DHSS. The Financial Secretary is very pessimistic about its chances of success.

4. The Lord President, Lord Privy Seal and Lord Chancellor were all opposed to the Water Authorities Privatisation Bill. They also referred to Mr Tebbit's letter of yesterday. Their proposal was that it should be replaced with the Environment Bill. Their argument is that it will be unpopular and controversial in the House. Until now DOE have not been faced with choosing between these two Bills. The Financial Secretary reports that Mr Baker has shown a tendency to be attracted by the 'Green' aspects of the Environment Bill. There is clearly a danger that the Water Privatisation Bill will be dropped. The Financial Secretary thinks we will need to press hard to ensure its retention (and to make sure Mr Baker is on . side)

5. There was no support for the Licensing Amendment Bill from either the Lord Privy Seal or the Lord President. In the Financial Secretary's view this will not be resolved until Cabinet. It is not clear that the Home Secretary will fight for it.

6. The Merchant Shipping Bill looked very likely to be added to the programme under pressure from Mr Ridley.

7. The Banking Bill remains in the programme with strong support from the Chief Whip. The Financial Secretary registered the HMT position on the Customs Powers Bill. There was no opposition, but we need a firm commitment, and agreement, to the Lord Privy Seal's proposal for dealing with it.

8. In general, the Financial Secretary thought that at this stage we were doing rather better in QL than in previous years. He is particularly grateful to Mr Pratt for the work he has done in preparing an overall Treasury line.

VL

VIVIEN LIFE

PRAYERS

FINANCIAL SECRETARY TO THE TREASURY

PS/FST → DYER 5/2

MR DYER

FROM: VIVIEN LIFE

DATE: 5 February 1986

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State

10 MINUTE RULE BILLS

Thank you for your minute of 4 February (copy attached).

2. Despite your paragraph 3, it is clearly, given his reaction yesterday, the Chancellor's wish that the appropriate Treasury Minister should be on the bench during introduction of a 10 minute Rule Bill in which he has the lead interest.

3. It is not clear to me which Minister would write around L, if a 10 minute Rule Bill of interest to the Treasury, but not to the Financial Secretary were to be tabled. But it would clearly be appropriate for that Minister rather than the Financial Secretary to be on the bench.

4. I am therefore circulating this minute to other private offices so that they will be aware of the Chancellor's wishes in this area. I should hope that they could look to Parliamentary Section for some assistance as well.

VL

VIVIEN LIFE

Note
FST writing today RO 7/2

1. Phillips — pl follow up with Bruce & Vivien

2 PRAYERS folder

CHANCELLOR

Has the FST's Office interpreted your wishes correctly at 'X' below? I suspect not. The line the Govt will take on the introduction of such Bills is agreed by 'L' Committee; and 9 times out of 10 it recommends Ministers abstain on the Bill's introduction and block at Second Reading. If a Minister were to attend every introduction stage he could find himself either tacitly endorsing the Bill or drawn into any debate that may ensue - both being contrary to 'L' Committee's wishes. When 'L' Committee judge (rarely) that a Treasury Minister should be present on introduction, it is recorded in the Minutes and the Whip's always alert us on the day.

B. Dyer

B O DYER
6 February 1986

I will move the prayers.

In the interim, I hope the FST has written to Mr F. best he can [illegible]

2155/10

CONFIDENTIAL

Ch
Not a very encouraging report from QL.
You cd do 'x' when you see Mr Tebbit on Thursday morning. On 'y' see separate note from Howard.
It looks increasingly unlikely that the Licensing Amendment Bill, even in Home Office's watered-down version, will make it into the Programme. Worth some lobbying of Colleagues?
AWK 11/2

PSr let me have the answer to A ASAP. I will speak to Mr Tebbit re X & Y: PSr pl. [illegible] a note in the agenda.

FROM: VIVIEN LIFE
DATE: 11 February 1986

PS/CHANCELLOR

cc PS/Chief Secretary
Mr Davies

QL - TUESDAY 11 FEBRUARY

1. Once again, the Financial Secretary thought the Chancellor would find it helpful to have an immediate report of the outcome of QL.

2. Mr Tebbit had not been present at the previous meeting. He had clearly had prior discussions with Lord Whitelaw. Consequently, prior to calling in Ministers to make their individual cases, Lord Whitelaw invited Mr Tebbit to make any comments on the shape of the programme as it emerged from last week's meeting.

3. Mr Tebbit responded by expressing approval of the Environment Bill and Broads Bill while arguing that the Water Privatisation Bill should be dropped. Mr Biffen, Lord Whitelaw, and Lord Hailsham all supported him on dropping the Water Bill. He also argued that the Industrial Relations Bill should be dropped, having clearly previously spoken to Lord Young who did not support the Bill strongly. Any support for this Bill would clearly come from Kenneth Clarke rather than Lord Young. Finally Mr Tebbit supported the Child Care Bill.

4. At this stage the Financial Secretary pointed out the problems with the Environment Bill and suggested that if QL wanted a "Green" Bill the Broads Bill would be a much better option.

MAFF

5. It was clear that Flood Defence would not be included in its own right although the question of including provisions in the Water Privatisation Bill remained a possibility.

CONFIDENTIAL

Education

6. Sir Keith Joseph argued at some length for the Academic Tenure Bill but in the end settled for leaving it to the 1987/88 session with some prior announcement.

Employment

7. Lord Young argued that there was not a need to include the Industrial Relations Bill: all was relatively quiet on the Industrial Relations Front and there seemed no reason to stir things up. Instead, he would like to see the Health and Safety at Work (Amendment) Bill included. If necessary he would be prepared to settle for only those provisions dealing with deregulation of young people's hours. It seems likely, therefore, that Industrial Relations will be dropped and replaced by Health and Safety.

DTI

8. Mr Channon accepted that the Company Audit Bill could not be included. However, he continued to press hard for a Post Office Bill to be included on a contingent basis in order to enable Girobank to be privatised. He also made clear that this would be stripped down to its bare essentials as outlined in his letter. It is not clear how this fits with a November date for Girobank
A privatisation. The Financial Secretary did not comment but clearly there is a need for the Treasury to establish what DTI are doing and decide an HMT line on this Bill. It is not clear that QL will be prepared to recommend such a Bill in conjunction with a Water Privatisation Bill, so there may be a need to decide on Treasury priorities.

OAL

9. Mr Luce accepted that the Museums Bill would not be included in the 1986/87 programme.

FCO

10. It looks unlikely that Crown Agents Bill will be included.

DHSS

11. As expected, Mr Hayhoe argued for inclusion of Child Care while accepting a Warnock Bill could not be included. The

Financial Secretary pointed out the expenditure consequences of not including the Health Services Bill. Mr Hayhoe offered little encouragement that DHSS would find savings elsewhere. In the Financial Secretary's view it is now essential for the Chief Secretary to write to Mr Fowler: it looks virtually certain that the Health Services Bill will not be included in the programme put forward by QL. Some doubts were also expressed about the Child Care Bill: it was suggested that this might be an issue better dealt with in the Manifesto.

draft now attached

Department of Transport

12. Mr Ridley argued strongly for both the Dartford Tunnel Bill and the Merchant Shipping Bill. It looks likely that he will get a Merchant Shipping Bill covering only pilotage and therefore needing only 25 Clauses. The Dartford Tunnel Bill was rejected because hybrid, possibly controversial and not likely to be ready sufficiently early.

DOE

13. Mr Baker argued for four Bills; Water Privatisation, Local Government, Environment, and Broads. He made a very good case for Water Privatisation and said if asked to put the Bills in order of preference he would have Water first, Broads second, Local Government third and could manage without Environment.

14. It looks virtually certain that the shortened Broads Bill will be included. On Water Mr Tebbit appeared to begin to be won round by Mr Baker's arguments. He also accepted that there had been a good reception in the House. There may be a case here for the Chancellor having a further word with Mr Tebbit to ensure that he is finally persuaded and to speak to Mr Baker to encourage him in the good work he has already done.

15. In the Financial Secretary's view there is a danger that Mr Baker is moving away from supporting the Local Government Bill. He claimed that the capital control measures were not yet agreed and would be very controversial with the Local Authorities. The Financial Secretary suggest that the Chief Secretary may wish to consider talking to Mr Baker about this.

General

16. The Chancellor will wish to note that Licensing Amendment was not discussed because no Home Office Minister was present. He may wish to consider what steps he would wish to take to get this included.

17. The apparent outcome is that the following additional Bills are included:

Broads
Merchant Shipping
Health and Safety at Work
Child Care (probably)

While only Industrial Relations has been dropped. This will of course increase pressure to drop Bills currently included - eg Water, Local Government and make it very difficult to add Bills such as Licensing Amendment and Health Services.

VIVIEN LIFE

Debbie
Pl note 'x'. What is the answer to 'y'?
T.

Thanks. I must certainly fix up a factory visit & organise for Feb tour (eg B'ham). But I am not greatly enthused by the other 4. As HJD knows, I do not care for parties of any kind — in principle, quite apart from time — when, probably would be the occasion?

X

FROM: H J DAVIES
DATE: 11 FEBRUARY 1986

CHANCELLOR

cc CST
FST
MST
EST
Sir P Middleton
Sir T Burns
Mr Monck
Mr Cropper
Mr Lord

INDUSTRY YEAR

At the Budget Overview meeting yesterday morning we discussed the problem of presentation to the CBI. In the course of that discussion Sir Peter Middleton pointed out that it was Industry Year.

2. I have been wondering whether there is anything the Treasury could or should do to mark Industry Year. There are a lot of odd things going on around the country. The CBI mention it on their letterhead. We could do that, though I suppose it might be thought satirical.

Y

3. In the last year you have made no industrial visits, and there are ,as yet, none firmly inked into your future programme. Perhaps we should ensure that you are seen at a factory in the next few months. I believe there is still a factory working in Birmingham, where you are going to see Mr Beaumont-Dark.

4. Perhaps you should give a party for the CBI? A party in the Treasury courtyard for the last five years Queen's Award winners? A party for the top 50 exporters? Or, indeed, the top 50 importers or the top 50 recipients of various forms of state assistance? Perhaps a party combined with a Treasury open day at which industrialists would be invited to meet your exciting officials. (Possibly by subscription to defer the cost).

5. As you can see, I have not yet come up with an idea which

enthuses me 100 per cent. An open day might be fun - an opportunity to tidy the place up a bit - but Sir Humphrey will no doubt find a security argument against it.

6. Someone else might have a better idea, or you may think we are too far gone to be helped.

HJD

H J DAVIES

506/52

I do not altogether agree with Brian Dyer's assessment here. It is not proposed that there should be any less time spent on a Bill (nor a Finance Bill), but merely that the time taken (which in the case of the Finance Bill is in any case inflated by the requirement of the Provisional Collection of Taxes Act) should be drawn up more rationally. Nevertheless, I would like ~~to write~~ Brian to write as at X, pointing out that since Finance Bills have no House of Lords stages, it is particularly desirable that there should be no guillotine in their case — altho' the possibility cannot be ruled out as a last resort (in which case it would need much more than 50 hrs of debate to warrant it.) N.

CONFIDENTIAL

FROM: B O DYER
DATE: 17 February 1986

01-233 4749

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Monger
Miss Sinclair
Mr Cropper
PS/Inland Revenue
PS/Customs and Excise

C, Brian has a point. I see no need for you to go to PM on this. Content for Brian to act as at X? RS 17/2

PROCEDURE COMMITTEE REPORT ON PUBLIC BILL PROCEDURE

In his minute to the Prime Minister of 11 February, the Lord Privy Seal indicates that he and the Chief Whip propose to reject the Procedure Committee's recommendation that there should be automatic timetabling (ie 'guillotine') of all Government Bills likely to require more than 25 hours in Standing Committee. I am sure that this is right and suspect it will have the tacit, if not explicit, support of the Official Opposition.

2. However, in the first paragraph of his background note, the LPS suggests seeking some agreement, through the usual channels, to bring forward to 50 hours the normal 'guillotine' point in the Standing Committee proceedings. I find this a little disturbing. It is unclear whether the LPS intends to include Money Bills in his proposal. If he does, it would have implications for the Finance Bill; where the time spent in Standing Committee has averaged 94 hours over the last 10 years (and I believe was last 'guillotined' in the 1960's under a Labour Aministration).

3. I very much doubt that this Government would wish to see such a restriction applied to Finance Bills (ie 50 hours

and then an automatic 'guillotine'); for the following reasons, if for no others. First, almost every year there is criticism both inside and outside the House that insufficient time is given to the consideration of certain elements in the Finance Bill. Secondly, Labour Governments invariably have more Budgets and Finance Bills (albeit mini) than Conservative administrations. If a 'guillotine' came in after 50 hours to limit further debate, a Conservative Opposition would be the main losers. Thirdly, a Labour Government could force through highly controversial legislation of a reversing nature, knowing full well that a Conservative Opposition had very limited opportunity to attack or forestall it.

4. In seeking to clarify the LPS's intentions on Money Bills, I was told by his Private Office that the detail had not yet been fully thought through. But that it was his intention to simply mention the possibility of some accommodation (through the usual channels) in very broad terms during the forthcoming debate on the Committee's Report (probably next week). As a means of softening the Government's outright rejection of the Procedure Committee's recommendation. I also got the impression that it was hoped you would not pursue the question of Money Bills with the Prime Minister. On the understanding that the LPS would consider this aspect in the light of the outcome of the debate.

5. It is essentially for you to judge whether to register your views with the Prime Minister at this stage. If you do, I can readily provide a draft. On the other hand, you may consider it more politic to humour the Lord Privy Seal on this, as he has been quite helpful to us recently (eg with the Building Societies Bill and the Law Officers). In which case, I can fully safeguard your position by placing X our misgivings on record in a letter to my opposite number in the LPS's Office.

B. Dyer

B O DYER
PARLIAMENTARY CLERK

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SWIA OAA
01-219 (Direct Line)
01-219 3000 (Switchboard)

CH/EXCHEQUER
REC. 13 MAR 1986
ACTION MR SCHOLAR
COPIES TO CST, FST, EST, MST
SIR P MIDDLETON
SIR T BURNS
SIR G LITTLER
MR FER BUTLER
MR CASSELL
MR MONCK
MR ANSON
MR KEMP
MR CROPPER
MR LORD
MR H DAVIES.

13/3

TREASURY AND CIVIL SERVICE COMMITTEE

6 March 1986

Rt Hon N Lawson MP
House of Commons

Dear Chancellor,

The Treasury Committee have recently sketched out their programme of oral evidence on the Budget, and I have been asked to invite you to give evidence on Monday 14 April at 4.45 pm in Room 15. I hope very much that the date will be convenient.

As always, the Committee look forward to a stimulating and interesting session.

As ever.

Terence

RT HON TERENCE L HIGGINS
Chairman

HIGGINS → CH/EX 6/3

Lt isn't — as they already know.

Provisional

25 Bk Officials

26 C/X

[9 CBI/TUC]

14 Govr.

1985

BUDGET :	Tuesday 19 March
TCSC :	Wednesday 3 April
RECESS :	Thursday 4 April
EASTER :	Friday 5 April (Good Friday)
HOC RETURNS :	Monday 15 April

1986 PROPOSALS

BUDGET :	Tuesday 18 March
TCSC (OFFICIALS) :	Wednesday 9 April *
TCSC (CHANCELLOR) :	Monday 14 April ø
RECESS :	Thursday 27 March
EASTER :	Friday 28 March
HOC RETURNS :	Tuesday 8 April

ø Chancellor at NEDC from 2.30

* Mr Evans is on holiday 7-18 April but will come in on 9 April for TCSC appearance
Mr Odling-Smee is not available in the week commencing 7 April or 17-18 April inclusive

2656/057

~~REDRAFT TONIGHT COMING FROM MR HAIGH. — the commissioned~~

Ro 17/3

FROM: A B MURRAY
DATE: 17 MARCH 1986

PS/CHANCELLOR

cc Parliamentary
Miss Sinclair
Mr Haigh
Mr Walker, IR
Mr Keenay, IR

BRIEFING FOR PM'S QUESTIONS: LABOUR'S PROPOSALS FOR TAXING HIGH EARNERS

I attach a draft brief, which Parliamentary need to forward to No 10 today. figure in para 3 at [ ] probably in range £5-10 billion: to follow asap.

Andrew M

A B MURRAY

Not v satisfactory. Facts of point are that IIS [illegible] large number of [illegible] (over 1/2 IIS payers [illegible] at basic rate only; many of them pensioners). I don't understand [illegible] CGT reductions [illegible] £550 m [illegible] thresholds [illegible] Para 3 [illegible]

IR (Julian Calder) providing a separate note as requested at Prayers

AWK 17/3

2656/058

LABOUR'S PROPOSALS FOR TAXING HIGH EARNERS

Factual

Mr Hattersley's strategy paper, approved by shadow Cabinet 12 March 1986, (reported 'Sunday Times' 16 March and 'The Times' 17 March) proposes higher welfare benefits financed from 'the £3.6 billion which the richest 5 per cent have received' since 1979, including cuts in higher rate income tax, abolition of investment income surcharge, and cuts in capital gains tax (CGT) and capital transfer tax (CTT).

2. £3.6 billion figure is about right in total for annual gain in 1985-86 (though breakdown in 'The Times' 17 March appears inaccurate). Gain from income tax reductions compared with indexed 1978-79 regime, for top 5 per cent of all tax units (single people and married couples with total income above about £20,000, amounting to some 1.55 million tax units) is around £3 billion in 1985-86. CGT and CTT cut respectively by £550 million and £70 million in 1985-86 compared with indexed 1978-79 regimes (nb. wealthy will have been main gainers from capital tax reductions, but impossible to allocate by income).

?

~~3. Total additional yield from a 100 per cent tax on tax units' total income above £20,000 would theoretically be of the order of £[ ] billion (1985-86) but actual yield closer to zero as few would be prepared to work for nothing.~~

4. Hattersley paper also reported as suggesting revenue could be raised from National Insurance contributions (by abolishing employees' upper earnings limit, and levying NICs on benefits-in-kind and

income from capital) restricting relief for the Business Expansion Scheme and executive share option schemes, and reversing cut in stamp duty on shares to 1% and abolition of Development Land Tax.

Line to take

No apology for cutting absurd rates of income tax under Labour Government (up to 98 per cent including investment income surcharge). Return to penal tax rates would hit some 1½ million households, and have severe disincentive effects for nation's wealth-creators - so damage economy as a whole. Very high tax rates counterproductive - would raise little revenue as few would work for minimal return. Income tax cuts since 1979 not only for rich: 20% real terms increase in personal tax allowances has given greatest proportionate benefit to low paid.

PWP

FROM: **J F GILHOOLY**
DATE: 29 April 1986

1. MISS O'MARA ✓ more 29/4
2. PS/CHANCELLOR
3. PARLIAMENTARY CLERK

cc PS/Chief Secretary
PS/Chief Secretary
PS/Minister of State
PS/Sir Peter Middleton
Mr Kemp
Mr C D Butler
mr Hopkinson
Mr S Willis
Mr Lord

PRIME MINISTERS' QUESTIONS: CIVIL SERVICE PAY

I attach draft briefing for Prime Minister's questions this afternoon.

J F GILHOOLY

Ch

OK for this to go to No.10?
(Margaret O'Mara has seen it.)

AK
29/4

OK, ~~at~~ @ 1st glance. Though have gone to CST for clearance. Send to No10, but ask CST to have a look @ it & phone thro' any changes.

Factual

Agreements reached yesterday on revised pay offer with representatives of great majority of non-industrial civil service. Worth 6 per cent for adult full-time staff (or £4.50 a week if greater); and £3 a week for 16 and 17 year olds. (Details: see press notice attached).

FDA: holding out for increase which will give full comparability with "going rate" outside (6¼ per cent).

Postive

- Greatly welcome agreement with major group of public servants, and that CSU [messengers, paper keepers, etc] has already formally accepted.

- 6 per cent on non-industrial pay bill costs £240 million. Will be contained within running costs set.

- Not return to comparability. Compares with 6¼ per cent settlements found by OME survey, CBI. Lower than major local authority settlements (8.14 per cent for manuals; end - loaded 8.5 per cent for teachers from April 1985).

Defensive

- Agree higher than RPI increase. But lower than settlements outside, and in context of civil service settlements of 4.55 per cent in 1984 and 4.9 per cent in 1985.

- Not "catching up." Do not accept that pay of any group should be determined in relation to past history.

- Not sign of "slackening up on pay". Settlements should follow recruitment, retention, motivation needs, and what can be afforded. Exactly the position here.

- other increases for civil servants (CO/DP restructuring Scientists, etc) offered/agreed over two years. Separate matters, giving worthwhile managerial benefit. Cost of all these initiatives still under 1 per cent of pay bill before allowing for offsetting savings they bring. Total still less than underlying increase in earnings in economy as a whole.

- Prison Officers. No pay discussions while industrial action continues.

- Review Bodies. Reports received. Decisions will be announced in due course.

[A full Q and A brief is attached below.]

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415
Telex: 262405

28 April 1986

NON-INDUSTRIAL CIVIL SERVICE - AGREEMENT ON PAY

Agreements have been reached today on a revised pay offer for non-industrial civil servants. The first is between the Treasury and representatives of the Civil and Public Service Association (CPSA), Civil Service Union (CSU), Inland Revenue Staff Federation (IRSF), the Society of Civil and Public Servants (SCPS), and the Northern Ireland Public Service Association (NIPSA); and the second is between the Treasury and the representatives of the Institution of Professional Civil Servants (IPCS).

This offer, which the General Secretaries of these unions will recommend to their Executives should be accepted, is worth 6 per cent for staff in the grades they represent, as follows; from 1 April 1986 a 6 per cent increase or £4.50 per week, whichever is greater, for full-time adult staff; and £3 per week increase for full-time staff on 16-17 age points of scales.

58/86

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01 233 3415

Notes for Editors

1. There are about 500,000 non-industrial civil servants. The vast majority are represented by unions recommending acceptance of today's offer.

2. Most of the unions have submitted claims worth about 17 per cent. Separate claims and negotiations have been carried out with the "Consortium" (CPSA, CSU, IRSF, SCPS and NIPSA); and the IPCS. Negotiations continue with the First Division Association (FDA).

3. The cost of the offer will be met from within Departmental running costs limits set.

4. Discussions continue with the CCSU generally over their claims in respect of London Weighting, proficiency, responsibility, etc allowances, and hours and leave. There are also certain individual claims submitted by separate unions still discussion.

1986 CIVIL SERVICE PAY

QUESTION AND ANSWER BRIEFING

Q. What is the offer?

A. See Press Notice for details. 6 per cent all round. Against claims from most unions of about 17 per cent.

Q. Who is the offer made to?

A. The consortium (CPSA, CSU, IRSF, SCPS and NIPSA). Also made to the IPCS.

Q. How much would it cost?

A. About £240 million in 1986-87.

Q. What were the claims?

A. This year the CPSA, CSU, IRSF, SCPS and NIPSA submitted a joint claim for 10 per cent plus £10 per week, worth about 17 per cent overall. The FDA submitted a claim for a 17 per cent increase. (The various unions have also submitted claims for increases in London Weighting, reductions in hours, increases in leave; and various sectional claims for individual groups. These are being considered separately and no formal response has yet been made to them.)

Q. Why 6 per cent?

A. Follows further discussions with the unions. Appropriate in the light of various factors including recruitment and retention, motivation and cost considerations, and falling inflation and OME report (see below).

Q. Previous years settlements?

A. In 1984 the settlement was worth about 4.55 per cent (basically 5 per cent for people on maxima and flat rate and 4 per cent for those on scales). In 1985 the settlement was worth about 4.9 per cent (again 5 per cent for people on maxima and flat rate but 4¾ per cent for those on scales) [plus some special increases].

Q. Low in light of "going rate" outside? [CBI says 6¼ on settlemen average earnings underlying 7½ per cent a year.]

A. That may be, but appropriate in light of all factors; outside movements in pay taken into account, but other factors important, including modest settlements in recent years, see above. But note no catching up.

Q. High compared with last year?

A. Appropriate in light of all factors. Must take each year and each group on its merits.

Q. High compared with other public service?

A. On the contrary, LA manuals got 8.14 per cent earlier in round; see teachers also. And Civil Service pay constrained by running cost limits set, and manpower reductions continue. Contrasts with local authorities generally where no comparable control of pay bill costs.

Q. Settlement conflicts with CBI call for lower settlements? [CBI has campaigned for a 2 per cent reduction in pay settlements compared with last pay round].

A. Employers have responsibility for determining pay in the light of their own recruitment, retention and affordability position. This offer reflects these criteria. Lower than recent public service settlements and lower than CBI members generally are achieving.

Q. Offer higher than 6 per cent because of restructuring, etc? CO/DP restructuring, etc?

A. Separate matters. A number of managerially desirable improvements agreed affecting 1986-87. ADP staff, secretaries and typists, lawyers, professional and technology etc. CPSA consulting members on a major restructuring of CO/DP associated with introduction of new technology.

Q. How much did these other additions cost?

A. Even if CO/DP restructuring included (it affects some 2/5ths of civil servants) cost of all these initiatives still under 1 per cent of pay bill before allowing for offsetting savings they bring. And the total still less than earnings growth in the economy as a whole.

Q. OME quartiles?

A. OME does not constrain a settlement, except in the case of ther IPCS. But within the quartiles - 5½ and 7 per cent - and well above RPI increase in year to March. 4.2 per cent; forecast at 3½ per cent by end of year.

Q. Civil servants "falling behind"?

A. No "right" level for the pay of any group, whether in relation to others or to past history. No catching up involved - this is a concept we do not accept.

Q. Offer ignores recruitment, retention and motivation problem? (Civil Service Commission annual report of 17 April described problems in specialised areas of recruitment).

A. Not so. Generally recruitment and retention position not bad; special steps taken in some areas (eg Accountants, Lawyers, Professional and Technology staff, etc). Motivation inevitably a matter of judgment: in all the circumstances think the offer is appropriate.

Q. How will offer be financed?

A. Departments will have to absorb the cost of the eventual pay settlement into the running costs limit set. If pay, or any other element turns out to be greater than an individual Department expected, offsetting savings must be found from elsewhere within its running costs limits.

Q. Aggregate running cost increase in White Paper was about 6 per cent: obviously that was for pay?

A. No. Running costs cover a wide range of administrative expenses: pay, changes in manpower numbers, accommodation, contracted out services etc. The higher the pay settlement, the less there will be to be spent on those other services: jobs at risk.

Q. What is the effect of running costs on pay?

A. No slackening of Government policies on pay. Where Government is direct employer, will look for reasonable and moderate settlements. This agreement compares well with local authority negotiations in recent months. Departmental expenditure on pay will have to be contained within running costs limits. Excessive settlements will therefore, risk jobs. Continuing need for pay moderation in economy as a whole.

Q. What Departmental assumptions were made about settlement in running cost limits?

A. No central pay assumptions or directives on pay and no central record of what Departments assumed. Each Department will be working on its own assumptions about increases in costs (of which pay rates one factor) for a wide range of running costs elements - manpower numbers, grade mix, overtime, etc.

Q. Arbitration?

A. Agreement reached today so question has not arisen.

Q. Low pay/Government in breach of European Social Charter?

A. Offer favours the lower paid. Underpinning of £4.50 per week geared to such people - as is clerical restructuring - (see below).

Government not in breach of European Social Charter. Charter does not define low pay: figure suggested by "Committee of Experts" (68 per cent of national average earnings) as a minimum wage not agreed by any signatory of Charter. Government does not accept concept of a minimum wage: employers should not have to pay more than the rate for the job. Help to lower paid best given through tax and social security system.

Civil Service not in fact a "low paid" organisation. Compares favourably with the rest of the economy in terms of proportion of lower paid employees. Unions' figures suggest otherwise but only because they take no account of various adjustments which need to be made to basic pay to compare like with like (eg London Weighting and non-contributory pension scheme).

Q. Megaw etc?

A. Government remains ready to seek acceptable long-term arrangements for settling Civil Service pay. Its outline proposals of last November have been accepted by two unions (IPCS, POA) and remain on the table for the rest. (**If asked** about talks with IPCS about long-term pay arrangements: no comment.)

Q. Why not a Review Body for lower ranks of Civil Service?

A. Review Bodies are for groups where not sensible to negotiate, and where industrial action either illegal (eg Military) or abstained from in past (Nurses). Not appropriate for other groups, where pay is collectively bargained.

Q. Different treatment for senior Civil Service compared with the rest of Civil Service?

A. Different approaches for determining pay. Generality of civil servants pay determined through negotiation; TSRB makes recommendation on high Civil Service and Government reaches decision on those recommendations. Government decisions on Review Body recommendations take account of same factors as are taken into account in Civil Service pay negotiations, namely cost and what is needed to recruit, retain and motivate staff.

Q. TSRB (or other) Review Body reports received yet?

A. Yes. Government will announce decisions in due course.

Q. Will Review Body groups also get 6 per cent?

A. Wait and see.

Q. Civil Service industrials?

A. There are about 100,000 of these. Their settlement date is 1 July, and they were not involved in these negotiations.

Q. GCHQ?

A. Details of position for FCO: note Sir Geoffrey Howe's statement to unions of 18 March, and to House of 19 March. If asked: negotiations will be held with GCSF.

Q. What is the position with Prison Officers?

A. Civil Service pay increases normally feed into Prison Officer grades through operation of "Wynn Parry formula". But negotiations in jeopardy while current dispute over manning continues. (Details of dispute? - Ask Home Office!).

Q. FDA?

A. Negotiations continue. Would very much like settlement with them on same basis as today's.

Q. Separate deal with IPCS?

A. Basic increase same as others. Sectional claim on scientists agreed ? word ~~with~~ about 2 per cent. Acute recruitment and retention problems, and on account of review MPO have in hand.

Q. Position of CCSU? (hours, leave, London Weighting, etc).

A. To be settled.

Q. Large percentage increase for some? (More than 6 per cent).

A. True, if restructuring etc taken with final settlement. But this is of the nature of restructurings, and additional amounts justified in terms of managerial benefit that accrue (eg clerical restructuring facilitates introduction of new technology) or recruitment and retention. Worthwhile financial savings can result which make the net additional cost very much less.

ILLUSTRATION OF SCALES RESULTING FROM 28 APRIL OFFER

GRADE	NUMBER OF STAFF	NEW PAY RATES £p.a with effect from 1 April 1986 Maximum	Minimum
ADMINISTRATION GROUP			
GRADE 5	2,100	27,065	22,222
GRADE 6	3,400	24,302	18,020
GRADE 7	9,500	19,465	14,318
SENIOR EXECUTIVE OFFICER	7,700	14,629	11,639
HIGHER EXECUTIVE OFFICER	24,500	11,941	9,430
EXECUTIVE OFFICER	44,300	9,452	5,250
CLERICAL OFFICER	81,500	6,671[1]	3,306[3]
CLERICAL ASSISTANT	60,500	5,357[2]	3,055[4]
OTHER GRADES			
TYPIST	18,000	6,063	4,664
MESSENGER	5,200	5,386	4,806

Notes

1 Rising to £6791 wef 1.1.87 and £6947 wef 1.7.87

2 Rising to £5499 wef 1.1.87

3 Rising to £3507 wef 1.1.87

4 Rising to £3157 wef 1.1.87

Allan ✓ Howard [illegible], let me [illegible] on this, [illegible] we would be [illegible] should [illegible] an analysis of the NOP survey [illegible]

CHANCELLOR

FROM: D J L MOORE
DATE: 15 MAY 1986

cc:
PS/Financial Secretary
Mr Grimstone - o.r.
Mr Culpin

FIRST ORDER QUESTIONS: QUESTION 4 (ROGER FREEMAN)

Mr Freeman hopes to ask the supplementary question:

> "Would the Chancellor confirm that since 1979 the proportion of people owning shares has doubled from 7 per cent to 14 per cent? Would he agree that, with the introduction of personal equity plans, a reasonable target to aim for is 20 per cent [by the end of the next Parliament]?"

You might answer:

> "The answer to the first part is, Yes (Sir). While I do not want to set a precise target for further growth in individual shareholdings, I am sure that we will see continuing substantial increases."

<u>**NOTE:**</u> Articles in the Economist and the Guardian questioned the accuracy of the 14 per cent estimate of share ownership produced by the NOP survey commissioned on our behalf by the OPCS.

The NOP reject the charge of double-counting and confirm that the study was properly conducted.

DJLM.

D J L MOORE

Enc :

3394/24

UNCLASSIFIED

FROM: J P McINTYRE
DATE: 13 MAY 1983

1. MR GRIMSTONE

2. FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Sir P Middleton
Mr Monck
Mr Cassell
Mr Moore
Mr M Hall
Miss Sinclair
Miss O'Mara
Mr Gunton
Mr Crompton
Mr Ross-Goobey
Sir T Burns
Mr Culpin
Mr Cropper

The Economist article which sparked this off was quite extraordinary. Its author contacted neither NOP, the OPCS, or ourselves, before writing it. NOP have now gone into this again very carefully and are absolutely happy with the survey. They are prepared to defend 14% publicly as necessary.
S.E.P. 13/5

SHARE OWNERSHIP: PRESS COMMENT ON NOP SURVEY

You may have already seen the articles in the Economist and the Guardian (copies attached) raising doubts about the accuracy of the 14 per cent estimate of share ownership produced by the recent NOP survey commissioned on our behalf by the OPCS.

2. We have discussed the articles with NOP, and NOP are writing to both the Economist and Guardian - copies also attached.

Economist

3. The article suggests that it was "odd" to get NOP to do a new survey when the same organisation, through its Financial Research Services (FRS) subsidiary, has already been carrying out polls on this subject for some years. In theory, the article asserts, the FRS results and those of the new poll should have been the same. The fact that they turned out so very different (9 per cent versus 14 per cent) suggests that the new poll is flawed in some way eg double-counting as a result of a fault in computer programming.

Guardian

4. This largely echoed the Economist, adding that the Stock Exchange "had expressed incredulity" about the "Treasury figures".

I understand that the Stock Exchange are not now disputing our figures
S.E.P. 13/5

OPCS/NOP response

5. As NOP's letters point out, the questions asked in the survey they carried out for the government ranged more widely than those asked in their regular FRS surveys. Furthermore, the FRS questions are asked in the context of savings, and NOP are clear that some people (particularly employee shareholders) do not regard their shares as savings. By contrast, the questions in the survey for the government were designed by ourselves and OPCS (and were accepted as reasonable by NOP) with the aim of making sure that, as far as possible, all categories of shareholders would respond positively.

6. NOP have also checked that there were no technical flaws in the survey which could have resulted in the double-counting alleged in the articles. OPCS have also reviewed the results and can find no reason to cast doubt on them.

Line to take

7. If the Economist/Guardian doubts are raised, you can say:

(i) NOP reject the charge of double-counting and confirm that the survey was properly conducted.

(ii) According to NOP, the difference between the 14% and other (lower) estimates is explained by the wider definition of shareholdings in the survey carried out for the government. eg other surveys may not pick up the full number of employee shareholders.

(iii) A survey carried out last Autumn for the Stock Exchange produced 16 per cent.

Paul McIntyre

J P McINTYRE

NOP
Market Research Limited
Tower House Southampton Street London WC2E 7HN Telephone 01-836 1511 Telegrams NOPRES Telex 8953744

12th May, 1986.

The Editor,
The Economist,
25 St. James's Street,
London, SW1A 1HG

Sir,

Your comments on NOP's survey of share ownership for the Treasury (May 10th) suggest that there could have been an element of double counting arising from a computer error. We are satisfied that the survey was properly conducted and that there were no such computer errors.

The questions were asked on behalf of the Office of Population Censuses and Surveys and the Treasury by NOP of a representative sample of 7,200 adults and were wider ranging than the regular NOP Financial Research Survey which deals with shareholding strictly in the context of savings. The two surveys were not likely to yield the same results given their different questionnaire design.

Yours faithfully,

John Barter
Deputy Chairman

JHB/CEC

NOP
Market Research Limited
Tower House Southampton Street London WC2E 7HN Telephone 01-836 1511 Telegrams NOPRES Telex 8953744

The Editor,
The Guardian,
119 Farringdon Road,
London, EC1R 3ER

12th May, 1986.

Sir,

Your City Correspondent (May 10th) suggests that NOP double counted some categories in the survey of shareholders carried out for the Treasury. We are satisfied that the survey was properly conducted and that there was no such double counting.

The questions were asked on behalf of the Office of Population Censuses and Surveys and the Treasury by NOP of a representative sample of 7,200 adults. They were wide ranging and would certainly pick up substantial numbers of share owners who would not be included in the Stock Exchange's estimates. You quote these estimates at 6% which would be approximately 2.5 million people, not 4.5 million as printed in your article.

Current survey estimates put share ownership at 9% in the context of publicly quoted shares held specifically as savings and up to 14% on a wider definition, which would include employees holding shares in the company for which they work.

Yours faithfully,

John Barter

John Barter
Deputy Chairman

JHB/CEC

...tions (SROs) which report to a new supervisory overlord, the Securities and Investments Board (SIB). Those who work for SIB, as a quasi-official body, were to be exempt from suits for damages by investment firms or disgruntled customers; the self-regulatory organisations were not.

The big securities houses took the lead in protesting that City folk of calibre would refuse to serve on SROs if their assets down to their last cufflink were at risk. And when SIB's power to intervene in SROs' rule-making was expanded, many thought it unfair that, eg, Stock Exchange officials could be sued while those who told them what to do could not. Pragmatism won. People may ask the courts to change regulators' behaviour, but may not sue individuals for damages.

Sorting out the overlap between the Bank of England's bailiwick and SIB's is equally important. The Bank is to retain responsibility for wholesale markets in foreign exchange, gold bullion and money-market transactions, which will be exempted from the retail-oriented legislation that will eventually emerge. A consultative document in the autumn will discuss putting supervision of these markets on a more formal basis.

The fight over SIB's statutory status has ended in a compromise. The board will be designated as the body to which the trade secretary will delegate powers to protect investors. More important, the powers he may delegate are increased. SIB will in time be able to prosecute.

There is much more to be done. The board will issue rules on handling clients' money and licensing in May, followed by capital requirements and revised conduct-of-business rules. Two likely changes are: lighter rules for firms dealing with individual investors; and more leeway to pay for brokers' research through "soft-dollar" commissions. One huge ambiguity remains. The big Eurobond houses claim to deal entirely with professionals and want to be left out of the bill. Mr Michael Howard, minister for consumer and corporate affairs, said on May 8th that there would be more discussion about additional exemptions of markets. It had better not take too long.

London's United States Market?

London's Unlisted Securities Market (USM) is getting the international flavour of its big brother, the Stock Exchange. This month, Mrs Fields, an American chain of cookie stores, will become the latest in a string of overseas companies to join the USM. Mrs Debra Fields, the 29-year-old entrepreneur who founded the company, wants to expand into Europe. She hopes the listing, which will value the company at £200m, will both promote her biscuits and raise money.

Debra is a tough cookie

Of the 15 foreigners on the USM, ten are American. Together they are capitalised at £230m, which is 6% of the total market capitalisation of the 366-company market. There are several reasons for this trend. The USM is cheap. The total cost of a quotation on NASDAQ, America's electronic over-the-counter market, can be between 5% and 7% of the amount raised, compared with 1½% to 2% on the USM. Also, the USM does not ask for too much paper work and is satisfied with profit figures every six months.

So far the enthusiasm of the overseas companies has outweighed that of British investors. This may change. In the past 15 months, several better known American stocks have come to the USM. They include Pacer, a defence engineer, and InfraRed Associates, which makes infra-red detectors.

Share ownership

Double vision?

Put on hold the notion that Britain is turning into a nation of shareholders. The Treasury may have come an unintentional cropper with its claim that the number of individual shareholders in the country has risen from 7% of adults in 1979 to 14% (or some 6m people) today.

Earlier this year, the men at the Treasury asked their fellow civil servants at the Office of Population Censuses and Surveys to find out how many shareowners there were in Britain. They, in turn, commissioned National Opinion Polls (NOP). The pollsters conducted 7,200 interviews, reported back, and put in a bill which would not have left much change from £10,000 ($15,000).

Getting NOP to do a new survey on share ownership was itself a bit odd. Its subsidiary, Financial Research Services, has interviewed people on this subject every week for the past seven years. The results sent regularly to some 50 institutional subscribers—suggested that shareholders accounted for a steady 4-5% of the adult population until the flotation of British Telecom in 1984, when many Britons bought shares for the first time. Thereafter, the figure stuck at 8%, until this March, when it edged up to 9%.

In theory, NOP's poll for the government should have given the same answer as its subsidiary's published one. Yet no alarm bells rang. The chancellor of the exchequer, Mr Nigel Lawson, proudly announced the 14% figure in April without thinking twice—perhaps because it was a count he wanted to believe.

The likeliest explanation for this discrepancy is that NOP counted some shareholders twice. Their questionnaires came back with data on four types of shareholding: employee shares, shares in BT, shares in other privatised industries, and all others. A slip in programming a computer may have skewed the totals by counting some of these different types of holding as belonging to different investors, when in fact one person may own more than one type of share.

Japanese capital outflows

Watanabe-san, can you spare a yen?

The Japanese have taken over as the world's leading net exporters of capital, a role once held by OPEC investors. This has had two effects. The Japanese taste for bonds has increased the securitisation of international financial markets that was brought on by the debt crisis. And Japanese banks have come to the forefront of what is left of international lending.

In 1985, Japanese investors bought $60

FINANCIAL TIMES

Pension fund surplus

7

From Mr J. Russell

Sir,—You report (May 7) the Government's intent to limit pension fund surpluses to perhaps 5 per cent of the actuarial requirement to meet their liabilities.

Some years ago, a Government committee recommended that all industrial pensions be index linked. The sad present position is that there are many poor employers who have not done so. Further, there are many whose pensions are un-necessarily reduced through the replacement of pensionable salary by unpensionable company cars.

Surely before any discussion be made on pension fund surpluses, the question of fund liabilities should be well aired. If this government bill is to proceed, surely it is an ideal instrument with which to force index linking; perhaps to force a general increase in industrial pensions in the light of present economic prosperity. Why should the benefit of this prosperity pass only to present workers, with pensioners excluded?

J. E. Russell.
Over Dinsdale Hall,
Neasham, Darlington.

THE GUARDIAN

Doubts cast on Conservative share figures

19

By Margareta Pagano,
City Correspondent

Serious doubts have been raised over the accuracy of the government's claims that the number of individual shareholders has doubled since it came to power seven years ago.

A recent poll published by the Treasury revealed the startling finding that there are now six million private shareholders—14 per cent of the adult population, compared with half that number in 1979.

The Treasury, which commissioned National Opinion Polls to carry out the survey—based on 7,200 interviews—claimed it was the most authoritative and professional study ever.

But it is now being suggested that NOP may have counted many shareholders twice. Questionnaires asked people whether they held shares through employee share schemes, directly in BT, other privatised industries or other forms. The fear is that many individuals may have recorded their holdings twice. This doubling could have been absorbed by NOP, possibly through computer programming errors.

The Stock Exchange expressed incredulity when it heard the Treasury's figures and said it would be carrying out its own investigations.

The exchange estimates about 6 per cent of the population, or 4.5 million people, are share owners. Its figures come from its own research and from income tax return statistics passed on by the Inland Revenue. It has been estimated that private shareholders numbered about three million before the British Telecom flotation, which added another 1.5 million first-time share investors.

While the Stock Exchange obviously welcomes any increase in private shareholders it also wants to find out what methods the NOP survey used to arrive at its conclusions.

The Treasury said yesterday it was confident in the NOP survey which had been based on a broad spectrum of the population.

The Financial Secretary to the Treasury, Mr John Moore, a keen advocate of popular capitalism, will repeat these figures when he talks later today to the National Association of Pension Funds. He is likely to reiterate the government's commitment to transforming ownership patterns in Britain and removing the mystique involved in buying shares.

9/1

3927.

2783/36

FROM: P N HAYDEN
DATE: 18 JUNE 1986

APS/Chancellor 12/2

cc PS/MST
Mr Crabbie
Mr Mortimer
Mr Bonney
Mrs Imber
Mr Donnelly
Mr Addison
Mr Hutson
Mr Cafolla
Mrs Thomas

C/ I'm afraid that one of the numbers in a PQ we ~~are~~ drafted for the PM was wrong. This minute implies we (HMT) added up figures provided by MAFF incorrectly – in fact MAFF made the error. IAE have taken steps to ensure this does not happen again. Content for PS letter to number 10 - attached - to issue? – I have attached the PQ for your information.
CR 19/6

TOM ARNOLD PQ

Tom Arnold put down a PQ to the Prime Minister for answer on 5 June. The reply was printed in Hansard on 9 June, Vol.99, No 124, Column 40. In the reply the UK share of Agricultural Guidance receipts were shown as 3.2 per cent. This figure, which was calculated from figures provided by MAFF, only relates to direct measures under the guidance section of the European Agricultural Guarantee and Guidance Fund. When receipts under indirect Guidance measures, which represent part-reimbursement of domestic expenditure incurred implementing Community legislation are included, the UK share of receipts increases to 16.1 per cent.

2. We need to correct this figure and consequently the total figure for receipts given in the answer and so I attach a draft letter for you to send to Nicky Roche (Parliamentary Clerk at No 10) enclosing a draft letter for her to send to Mr Arnold.

3. We have discussed with IAE Division how we might avoid this sort of problem in the future.

4. This submission has been agreed with IAE division.

Peter Hayden

P N HAYDEN

Who was responsible for this v. large error? If it was MAFF, then the letter to No.10 (a) needs to make this clear (as no MAFF minister was) & (b) to apologise (which unaccountably the draft doesn't).

PS. If, of course, it wasn't MAFF, (b) still applies.

VL/95

DRAFT LETTER FROM CATHY RYDING

Nicky Roche
No. 10 Downing Street

TOM ARNOLD PQ

I enclose a draft letter which you might send to Tom Arnold MP correcting some information provided in an answer - drafted in the Treasury - given by the Prime Minister on 9 June (Vol 99, No. 124, Col. 40).

The error arose because the figure we obtained for inclusion in the answer excluded agricultural Guidance receipts under the so-called 'indirect measures' - that is the part-reimbursement of domestic expenditure incurred implementing Communit~~h~~y legislation. When these are included, our share of receipts is boosted to some 16.1 per cent.

DRAFT LETTER FROM NICKY ROCHE

Tom Arnold MP
House of Commons
LONDON SW1A OAA

PARLIAMENTARY QUESTION: EC GRANTS

You recently asked the Prime Minister a question about the level of receipts from the EC last year (please see the enclosed extract from Hansard Vol 99, No 144, Col 40).

I regret to say that the figure of 3.2 per cent for UK receipts from the Agricultural Guidance Fund is incorrect. In drawing up the answer to your question receipts relating to indirect guidance measures - ie the part-reimbursement of domestic expenditure incurred implementing Community legislation - were omitted. When these are included the UK share of receipts rises to 16.1 per cent. Our latest estimate of total receipts in 1985 is therefore £1908 million.

London Airports (Traffic Distribution)

Mr. Pollock asked the Secretary of State for Transport whether he has received the final advice of the Civil Aviation Authority on the case for changes to the present rules for traffic distribution between the London airports; and if he will make a statement.

Mr. Michael Spicer: Yes. My right hon. Friend will make an announcement in due course.

Nuclear Fuel and Waste Transportation

Mr. Alton asked the Secretary of State for Transport if he can give details of all incidents and accidents involving the transportation of nuclear waste and spent fuel since 1983.

Mr. Moore: No such incidents or accidents in the United Kingdom in which there was any leakage of radioactive material have been reported to me.

A40 (Improvements)

Mr. Squire asked the Secretary of State for Transport when he will issue the draft orders on improvements to the A40 at Western Circus and Gypsy Corner.

Mr. Peter Bottomley: Draft orders for the Western Circus junction improvement were published in November 1985 and January 1986. We hope to publish draft orders for the Gypsy Corner junction improvement later this year.

A406 (Improvements)

Mr. Squire asked the Secretary for Transport (1) when he received the inspector's report on the proposed improvement to the A406, west of Chingford road to Hale End road; and when he will publish his decision;

(2) when he received the inspector's report on the proposed improvements to the A406, Popes land to Western Avenue; and when he will publish his decision;

(3) when he received the inspector's report on the proposed improvement to the A406, Hanger lane to Harrow road; and when he will publish his decision.

Mr. Peter Bottomley: The decisions on these schemes will be taken jointly by my right hon. Friends the Secretaries of State for Transport and for the Environment. The inspector's report for Chingford road to Hale End road was received at the end of February this year: it is hoped to announce the decision during the summer.

The report for Hanger lane to Harrow road was received in spring last year and the decision should be announced very shortly. The report for Popes lane to Western avenue was received last summer. It raised issues which are taking some time to resolve. I cannot yet forecast when the decision will be announced.

PRIME MINISTER

EC (Grants)

Mr. Arnold asked the Prime Minister what steps she takes to monitor the extent to which each Government Department takes up the European Community grants available to it; and what percentage of such grants were taken up in the last year.

The Prime Minister: The Government keep the level of United Kingdom receipts from the Community budget

under close scrutiny. In 1985 the United Kingdom received a total of £1,853 million from Community funds. The table below shows the percentage share of United Kingdom receipts from the main funds:

	per cent.
Agricultural Guarantee	9·4
Agricultural Guidance	3·2
European Social Fund (ESF)	30·8
European Development Fund (ERDF)	28·9

There is no fixed entitlement for United Kingdom receipts from Community funds with the exception of the ERDF which in 1985 had commitment quota ranges of 21·42-28·56 per cent. Twenty-six per cent. was allocated to the United Kingdom from the ERDF in 1985.

Radiation

Mr. Speller asked the Prime Minister, pursuant to the answer of 8 May, *Official Report*, column *216*, what advisory literature is already available detailing precautions specifically designed for the person and the home in case of radioactive fallout over the United Kingdom.

The Prime Minister: Two booklets are currently available: "Domestic Nuclear Shelters" and "Domestic Nuclear Shelters—Technical Guidance".

Data Protection

Mr. Cohen asked the Prime Minister how many certificates she has signed under section 27 of the Data Protection Act; and if she will describe briefly the subject matter of each.

The Prime Minister: Certificates under section 27 of the Data Protection Act relate to exemption from the provisions of part II and sections 21 to 24 of part IV of the Act, for the purpose of safeguarding national security. Disclosing details of such certificates would itself not be in the interests of national security.

Nuclear Power Stations

Lord James Douglas-Hamilton asked the Prime Minister whether she will make it her policy to seek an international accord for minimum safety standards at all nuclear power stations, leading to the eventual creation of an international inspectorate.

The Prime Minister: The statement made at the Tokyo summit meeting emphasised that each country engaged in nuclear power generation bears full responsibility for the safety of its installations. In recent discussions in the international Atomic Energy Agency there has already been agreement on the need to consider means of improving co-operation in the field of nuclear safety; the ideas mentioned by my hon. Friend are among those which will be considered.

Dog Licences

Mr. Dover asked the Prime Minister if she will make a statement on the co-ordination of Her Majesty's Government's policy towards dog licences between the Secretaries of State for Northern Ireland and the Environment.

The Pri
in Northern
taking into
Great Brita
Ireland is
Kingdom
necessarily

Mr. Ka
her answer
Dundee, W
column 351
she listed
substantiall
reduced are
took in the
how many
completely

The Pr
Gentleman

Dr. Goo
Industry h
Shipbuilder
(b) Strathcl

Mr. Pet
as soon as

Mr. Tor
and Industr
Report, co
prohibition
and if he w

Mr. Ala
of South A
and learned
Commonwe
implemente
licence gran
1954.

Spai

Mr. Ho
Industry wh
Portugal th
Japan.

Mr. Pe
Community
Community
restrictions
existed pri

Lim

Mr. Wa
Industry if

B:15-24

X p1 tonight

CONFIDENTIAL

FROM C D BUTLER
11.10.86

CHANCELLOR OF THE EXCHEQUER

Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Mr Bailey
Mr Anson
Mr Kemp
Mr Scholar
Mr Turnbull
Mr M L Williams
Mr Gilhooly
Mr C H A Judd
Mr C C Allan
Mr Culpin
Mr Cropper
Mr Lord
File

Ch/ Content to agree the points in para. 9? Or discuss with CST? AWK

Subject to any comments the CST may have, I am content with the proposals in para 9. N.

RUNNING COSTS: ANNOUNCEMENTS

This submission seeks your approval to our proposals on the timing, content and other details of an announcement about running costs.

2 We propose that the Chief Secretary should announce the Government's decision to adopt running costs controls from 1 April 1986, and drop the pay assumption, by means of an arranged PQ and Answer, as soon as practicable after the House reassembles (i.e. on 22 October).

--- 3 A draft question and answer is attached. You will see that it follows on from the announcement made in May 1985 (copy also --- attached) and is a fairly flat procedural statement which leads on to indicating that the Government is consulting the TCSC (and PAC).

4 We think that no more is necessary at this stage. The comments that have so far appeared in the Press following the --- Cabinet discussion (copies attached) suggest that dropping the pay assumption will not be unexpected and any suggestion that running costs will be a poor substitute in terms of control can be adequately answered.

BUTLER → CH/EX 11/10

5 Another aspect of timing relevant to this is the need to announce to the Civil Service unions the Government's proposals on long term pay arrangements which were recently agreed in MISC 66. Mr Kemp will be making a separate submission on this today. We have concluded, after discussion with Sir Peter Middleton and Mr Bailey, that Mr Kemp should time his meeting with the unions for early next week (i.e. before the announcement on running costs). This should avoid premature disclosure of the decision on pay, will distance the pay question from running costs and pay assumptions, and ensure that the focus is on the pay arrangements themselves rather than the arrangements for financing them. Questions the unions might have had about the future of the pay assumption will be stilled by the Press comments and can in any case be easily answered.

--- 6 I also attach a proposed draft memorandum for the TCSC. You will see that this does not simply focus on the treatment of running costs in Estimates, but puts that in the context of other proposals on the restructuring of Estimates. This was foreshadowed in Mr Turnbull's submission to you of 19 September. You will recall that you agreed with Mr Higgins that Treasury officials (Mr Scholar and myself) would show this to Mr Higgins and discuss it with him before it was formally submitted to the Committee. If you agree we would do this next week, and the final memorandum would be put to the Committee when the PQ is answered (22 October).

below/

7 There is the question of whether we should put the memorandum to PAC too. Propriety requires that we should. But we shall want to ensure that the actual consultation is with TCSC. No doubt Mr Higgins can arrange this through the Liaison Committee. But we also invite you to agree that Mr Bailey should talk to Sir Gordon Downey to ensure that PAC will be content to take note of the memorandum, and to cover any other points of possible PAC interest.

8 The questions of what should be said at the time of the Autumn Statement and how much detail should be given in the PEWP and how much left to Estimates time will be the subject of separate submissions nearer the time.

9 In summary we invite you to agree

(i) that there should be a statement on running costs and dropping the pay assumption on 22 October

(ii) the terms of the arranged PQ and Answer attached

(iii) the proposed memorandum to the TCSSC and PAC (subject to editorial changes from departments on the references to them)

(iv) that Mr Scholar and I should show Mr Higgins the memorandum in draft and discuss it with him

(v) that Mr Bailey should discuss the PAC's interest with Sir Gordon Downey

(vi) that the memorandum should be put to both Committees on 22 October.

C D BUTLER
RCS

Q To ask the Chancellor of the Exchequer if he has any further announcement to make about the control of expenditure on the running costs of Government Departments.

[CST to reply]

A My predecessor announced the Government's intention to set targets for the control of running costs in departments on 24 May 1985. The Government propose to set limits on running costs for each department, for the financial year 1986-87 and following years, to determine the cash available to finance departmental expenditure on administration.

These limits will be set at a level which continues to apply firm control on aggregate running costs, taking account of the factors expected to affect each department's paybill and other administrative costs. This will replace the single centrally imposed assumption about the pay increases for central government groups (the "pay assumption") which has been applied in previous years.

These limits on total running cost expenditure will be announced to Parliament, as will details of the Government's proposals on public expenditure, early next year. As with cash limits, departments will monitor and control their running costs against these agreed limits and if, exceptionally, a limit has to be changed during the year Parliament will be informed.

This change in the method of control of Civil Service costs will have consequences for the presentation of running costs in Estimates. The Government's proposals on this are being discussed with the Public Accounts Committee and the Treasury and Civil Service Select Committee.

Reference ....

EXTRACT FROM HANSARD
DATED 24 MAY 1985
COL: WA 562

Government Departments (Expenditure)

Mr. Michael Forsyth asked the Chancellor of the Exchequer whether he is satisfied with the control of expenditure on the running costs of Government Departments: and whether he will make a statement.

Mr. Peter Rees: Successive scrutinies of the running costs of Government Departments have shown that in aggregate these costs have been rising more quickly than costs in the economy generally. The Government intend to improve the arrangements for controlling running costs. Targets will therefore be set in the forthcoming public expenditure survey, to cover the running costs, including manpower costs, of each Department. These targets will be published in the 1986 public expenditure White Paper.

WEDNESDAY 9 October

THE TIMES

Target kept under wraps for public sector pay 2

By Donald Macintyre
Labour Editor

The Government is expected to break with past practice by not announcing a target figure for public sector pay rises this year.

The Cabinet has abandoned its regular autumn announcement of a public service pay factor designed to influence bargaining for about three million employees in the National Health Service, local authorities and government itself.

Instead it will be relying on the new system of departmental running cost targets, which it is introducing from the beginning of the next inancial year to keep down overall payroll and administrative costs.

It is being emphasized in Whitehall that the move does not indicate any relaxation of the Government's efforts to keep pay increases down. Lord Young, Secretary of State for Employment, last weekend made the first of what promises to be a series of ministerial pronouncements that pay rises should be below inflation unless extra money could be justified by self-financing productivity improvement with lower unit cost.

But the decision to scrap the pay factor stems partly from the increasingly visible contrast between the publicly announced target and the actual level of rises paid.

Although the move was considered before the negotiation covering one million local authority manual workers, their rise of 8 per cent awarded last month would have sat uncomfortably with a similar pay factor this year.

When the system is introduced it will mean that pay rises which exceed the target will have to be off-set by other reductions – of employee numbers, equipment or other administrative costs.

Despite apprehension in Whitehall about the impact of the local authority manual worker's settlement ministers are hoping that it will not set the pace for other groups.

THURSDAY 10 October

THE GUARDIAN

Public sector pay norm dropped by Treasury 2

By our Labour Editor

The Government's decision not to set a public sector target figure this year came as no surprise to union leaders last night.

But they did not expect it to lead to a softening of the Government's approach to pay, and suggested that it was merely a device to prevent ministers being saddled with a pay norm.

Mr Tony Christopher, general secretary of the Inland Revenue Staff Federation, described it as a "cosmetic exercise." It would not lead to any abandonment in cash limits because the Government was still extremely anxious to reduce costs in individual departments.

This would inevitably have an impact on pay, since most of the costs in most departments were wage-related.

The Government's decision is expected to be confirmed in an announcement soon from the Treasury. It will have little or no significance on how the unions go about their wages business this autumn.

One of the most important settlements so far has been the 8.2 per cent increase for a million manual workers, whose £6 a week pay rise is expected to have a knock-on effect in other low-paid parts of the public sector.

Of more immediate interest are the separate negotiations being conducted by the National Coal Board with the breakaway Nottinghamshire miners' union and the National Union of Mineworkers.

Mr Ian MacGregor, the NCB's chairman, is considering whether to repeat the idea of self-financing productivity deals with the NUM as he did at the British Steel Corporation when he discarded a national agreement with the unions.

EXTRACT FROM THE DAILY NEWS PAPERS

DRAFT MEMORANDUM FOR THE TCSC AND PAC

THE FORM OF SUPPLY ESTIMATES 1986-87

DRAFT MEMO FOR THE TCSC AND PAC

Introduction

This memorandum describes the Treasury's plans for further improvements in the form of Supply Estimates for 1986-87. The Government hopes that these changes, which are in line with the wider programme of developments in expenditure publications, will enhance the value of the Estimates to Select Committees and to the House generally in view of its responsibilities for Supply.

Financial management

2. The Committee will be aware of previous progress in adjusting the form of Estimates to reflect developments in financial management. (Memoranda on the financial management initiative and Estimates in 1984-85 and 1985-86 were sent in December 1983 and July 1984.) The aim is to reflect more accurately in the Estimates the management structures and objectives used by departments to plan and control their expenditure. As financial management systems (especially decentralised budgetary control systems) develop, steady progress is being made in adapting formats to show more clearly the expenditure of each major function or responsibility centre within a vote.

3. These changes mainly affect the presentation of administrative expenditure, including running costs, although some programme votes are also involved. In 1985-86 main Estimates for example, the structure of the Department of Employment administration Estimate (class IV, vote 16) was adjusted to emphasise how running costs were divided between its various organisations; previously the presentation had focussed on a breakdown into pay and several categories of general administrative expenditure. The restructuring mirrored that of a number of other departments

in previous years, as described in the previous memoranda.

4. Other changes in 1985-86 reflected new ways of managing expenditure programmes. The number of Health votes (class XI) increased from two to three and they were re-organised to show clearly which expenditure fell within the responsibility of the NHS management board, formed as a result of the Griffiths enquiry. Some Environment votes (class VIII) were changed to bring together all the expenditure, including finance for local authorities, on the Urban programme.

5. Further developments are expected in 1986-87, often following the same approach as the Employment vote. The main administration votes of the Inland Revenue, Ministry of Agriculture, Fisheries and Food, and Department of Education and Science are all likely to be presented on an organisational basis; and the Home Office, which made major changes in 1984-85, now expects also to restructure its prison department Estimate. The Department of Trade and Industry plans to reduce the number of its votes (excluding votes for privatisation expenses) from seven to four, partly to enable the new larger votes to reflect its developing resource allocation and management systems; and the Property Services Agency plans to reflect the way its administration costs are divided between defence and civil work by including them in the relevant accommodation services votes instead of in a separate administration vote. Most administration votes should have adopted a primary split of running costs by function or organisation in 1986-87, excluding the votes of small homogeneous departments where such a split would have little meaning. In some cases, however, budgetary control systems are not yet sufficiently developed and tested for vote formats to be adjusted next year.

Links with the public expenditure White Paper

6. Supply Estimates are already organised to show how the provision for which Parliamentary approval is sought relates to the Government's expenditure plans - published in the preceding public expenditure White Paper (PEWP). The Treasury has recently clarified the inevitably complex relationship between Supply

and public expenditure in a section in the new Summary and Guide to main Estimates (Cmnd 9450). And Treasury proposals, which the Committee has accepted, on the treatment of receipts will facilitate the read-across between the PEWP and Estimates. As the Committee will be aware, the next PEWP is to be presented primarily on a departmental basis (see Appendix B to the TCSC 10th Report, HC 544). This change offers an opportunity for further improvements in the links between the PEWP and Estimates.

7. An important aim of better links is to enable Select Committees and others to view a department's Estimates in the context of its chapter in the PEWP, which describes the aims and outputs of expenditure and sets out the medium term plans. The TCSC 2nd Report (paragraph 19) drew attention to the distinction between Estimates as an instrument for operating Parliamentary Supply procedures and as an information document. The Treasury believes their value in the former role will be enhanced if they are seen as one among a consistent group of documents, which also includes the information about expenditure plans in the PEWP.

8. As the next step towards this aim, 1986-87 main Estimates will be re-grouped into twenty new classes that each correspond to a single chapter in the 1986 PEWP. At the same time improvements will be made in the way in which information on the functional classification of expenditure in Estimates is presented, for consistency with its presentation in departmental tables in the PEWP. Each class of Estimates will start with a table showing the functional headings used in the PEWP, the allocation of direct public expenditure under each heading to votes and the amount of expenditure which appears in each vote but is not classified as direct public expenditure and does not therefore appear in that form in the PEWP. To help readers follow a particular category of expenditure all the way from the PEWP into the appropriate detailed subheads and items in Estimates, a similar presentation will be used in the Summary part of each Estimate. The technical table in Part IV of Estimates will then no longer contain additional information and will be discontinued.

9. In due course, the Treasury hopes it will prove practicable to show more clearly how Supply expenditure in individual Estimates which is not classified as direct public expenditure is nevertheless consistent with the PEWP plans. This is not possible for 1986-87, but the relationship will continue to be explained in aggregate in the Summary and Guide.

Running costs

10. The Committee will be aware of improvements the Government is making in the way in which it plans and controls its running costs. Further changes in some Estimates, in line with those already made or planned to reflect developments in financial management, are proposed, so that the format of Estimates continues to reflect the way departments manage, monitor and control their running costs in practice.

11. The Chief Secretary to the Treasury announced on 24 May that the Government intended to improve the arrangements for controlling its running costs, under which targets will be set in the public expenditure Survey to cover the running costs, including manpower, of each department (Hansard Col 562). Rather than making provision for pay in line with a central assumption about pay increases, together with a separate estimate of the cost of general administrative expenditure, limits on total running costs expenditure will be set for the following year, and announced to Parliament. As with cash limits, departments will monitor and control their running costs against these agreed limits and if, exceptionally, a limit has to be changed during the year Parliament will be informed. Similarly, should there be any breaches of the limits, these will be published in the annual cash limits outturn White Paper, which is normally published in July. While enhancing central control and the downward pressure on aggregate running costs this approach will also permit greater flexibility to departments in managing their running costs budgets, consistently with developments in financial management.

12. The Treasury proposes therefore to present relevant Estimates

to Parliament in a format that focusses on the total cash provision sought for running costs in each vote. The objective will be to include all categories of running costs on a vote in the same line or lines (ie subheads or items). If votes have been structured to reflect the responsibilities of separate budget holders (see eg the Department of Employment example mentioned in paragraph 3) the total running costs of each would appear as a separate line; but a breakdown into the separate components of running costs (pay, personnel overheads, office services etc) would not generally be shown in Estimates. Budget holders need flexibility to allocate and re-allocate their resources within their total budget if they are to operate efficiently, and the detailed breakdowns hitherto provided in some Estimates have, in any case, often been substantially affected by switching expenditure in the course of the year and they have therefore often proved a poor guide to the actual pattern of expenditure. However, accurate breakdowns of outturn are of course available and some Select Committees may decide to seek this sort of outturn information from their departments.

13. Some details of these changes may need to be deferred beyond 1986-87. For example, some elements of running costs may be held by budget holders apart from the main functional or line management responsibility centres, or practical problems may inhibit complete adjustment of vote structures. Nevertheless, the Government aims to make as many changes as possible in 1986-87 Estimates.

Conclusion

14. This memorandum describes some changes to the form of Estimates designed to bring them closer to the way expenditure is planned and controlled by the Government. Subject to any comments the Committee may have, it proposes to implement these changes as fully as possible in 1986-87.

H M TREASURY
11 October 1985

4664

B/f with advice on ~~5/12~~ ~~6~~ 9/12 4

Pse find out if we are getting any advice on this

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 01-215 7877

From the Minister of State for Industry

Private Secretary to
GILES SHAW MP

CH/EXCHEQUER
REC. 28 JAN 1987 28/1
ACTION MR WETHERELL
COPIES TO CST FST MST EST
SIR P. MIDDLETON
MR F.E.R. BUTLER
MR MONCK
MR ANSON MR BURGNER
MR GRAY MR HAWTIN
MR CROPPER

~~B/f 12/2~~
B/f ~~13/2~~
~~16/2~~

Mark Addison Esq
Private Secretary
Prime Minister
10 Downing Street
London
SW1

27 January 1987

Dear Mark

THANET

As requested in your letter of 13 January, I enclose a report co-ordinated by officials, and a draft letter for the Prime Minister to consider sending to Mr Gale. — Detached.

The report makes a number of proposals, including several which were not covered at the meeting. It is unable to recommend the creation of an Enterprise Zone, but does draw attention to the Simplified Planning Zone procedure and offers a consultancy report, through English Industrial Estates, on the scope for further development by the private sector of commercial and industrial properties.

On the Business Improvement Services, the report sets out the cost and case for extending the schemes to Thanet. It assesses the chances of Commission approval for BIS investment aid in a non-assisted area. It also draws attention to the competing case for such treatment in other non-assisted Travel to Work Areas. If these considerations were not considered to be overriding then the next step would be to extend earlier informal discussion with the Commission to specific consideration of the Thanet case. This should also be on an informal and confidential basis.

The most difficult issue is that of timing. Mr Mitchell has written to Mr Shaw about the damage which special action for Thanet now could inflict on the Joint Consultative Committee and through that on parliamentary consideration of the Bill. This is a compelling point. The draft letter is written in terms which recognise this, whilst being as positive as possible. Although the draft does not suggest that Mr Gale should not give publicity to the correspondence you may wish to consider adding such a request.

Yours ever
Malcolm McHardy
MALCOLM MCHARDY

1WECFS

DRAFT REPLY

Roger Gale Esq MP
House of Commons
London
SW1A OAA

January 1987

When we met on 13 January to discuss the employment and other difficulties faced by the Isle of Thanet, I said that we would consider further what could be done to help.

To deal first with points on which action is already under way, our firm intentions for the 1987/88 TSG settlement include acceptance for TSG of dualling Thanet Way, with work to start as soon as possible. Also accepted is the A253 Ramsgate Harbour Approach Road. On tourism, the English Tourist Board is responding positively to proposals from the District Council for a special showcase project to promote improvements in accommodation, and has recommended Thanet for special informal help with developing the area's tourism potential. The possibility exists of an Action for Jobs exhibition to ensure that local businessmen and others are fully informed of Department of Employment measures available to the unemployed. These possibilities will be pursued in conjunction with the Working Party of Regional Directors which has already been established.

This shows that much is already happening.

We have also considered further ideas. At our meeting we touched on Enterprise Zones. I do not believe that it would be right to create one in Thanet at this stage. Although an informal approach for an EZ there has been made, proposals for new sites are not being considered until we have the results of a report by consultants on the success or otherwise of the EZ experiment nationally. This report is expected in April. However, Thanet may wish to explore the scope for designation of a Simplifed Plan Zone (SPZ). SPZs have a similar planning regime to EZs but without accompanying tax relief or rate holidays. You may wish to follow this up with the local Council.

Looking now at measures which have a public expenditure impact, we have to bear in mind the ongoing work of David Mitchell's Joint Consultative Committee on the Channel Tunnel which, as you know, has commissioned a study of the Tunnel's economic impact on Kent. The report on this is expected in a few months time. Thanet is, I know, making a worthwhile input into this, but if you feel that it needs strengthening, do speak direct to David. Of course, not all of Thanet's problems are linked to the Tunnel project, but the action taken to capitalise on the

1WECFQ

opportunities for business which the Tunnel will create may well be relevant to solving those problems. This is very much the essence of the impact study and I am concerned that it might be counter-productive to introduce assistance measures for Thanet or other areas of Kent piecemeal in advance of the report.

I have nevertheless asked the Department of Trade and Industry to explore further the possibility of introducing the Business Improvement Services package of schemes in the Thanet Travel-to-Work-Area, and to take confidential soundings of the EC Commission (whose approval would be required) about this in advance of a formal notification. I know that you too will not disclose the possibility at this stage. The DTI will also consider with the English Industrial Estates Corporation whether it would be sensible for the corporation to give advice, or to commission a consultancy report, on the extent to which further development by the private sector of industrial and commercial properties would stimulate the local economy of Thanet. They will of course wish to link in with the Impact Study mentioned above.

I suggest that you keep in touch with Giles Shaw about these DTI possibilities.

1WECFQ

FROM: D N WALTERS
DATE: 1 July 1987

FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Mr Scholar
Mr Culpin
Miss O'Mara
Mr R Evans
Miss C Evans

Mr Walker - IR
Ms French - C&E

PS

LOBBY NOTES

I attach a draft set of lobby notes for issue on publication of the Finance Bill this Friday (3 July). They follow the same form as those prepared for the corresponding clauses in the first Bill but updated as appropriate.

2. I would be grateful for your approval to their issue.

D N Walters

D N WALTERS

SUMMER FINANCE BILL 1987

PROFIT RELATED PAY

Clauses 1 to 17 and Schedule 1 introduce the new income tax relief for employees who receive profit-related pay (PRP) under registered schemes which link part of their pay to the profits of the business in which they work. Half of PRP will be eligible for tax relief (to be given by the employer through PAYE) up to the point where PRP is the lower of 20 per cent of the employee's total pay or £3,000. These provisions establish the tax relief and the conditions for its operation, define the employers eligible to introduce a registered PRP scheme, stipulate the conditions to be met by such schemes, and prescribe the method by which schemes may be registered. Employers' applications to the Inland Revenue for registration of PRP schemes will be dealt with after the Finance Bill receives Royal Assent.

PERSONAL PENSION SCHEMES

Clauses 18 to 57 and Schedule 2 introduce the new tax regime for personal pension schemes, to apply with effect from 4 January 1988. The new legislation replaces and extends the existing retirement annuity provisions in S.226 et seq of the 1970 Taxes Act, which will cease to have effect for such arrangements made after 4 January 1988. The main provisions are:

Clause 18 defines various terms used in the legislation.

Clause 19 enables the Inland Revenue to approve personal pension schemes subject to certain conditions.

Clauses 20 to 26 set out who may establish personal pension schemes and the pension and lump sum benefits which may be provided by approved schemes.

Clauses 27 to 30 outline certain administrative requirements which approved schemes must satisfy.

Clauses 31 to 37 set out the rules governing tax relief for contributions by individual members (whether employed or self- employed) of personal pension schemes.

Clause 38 gives tax relief for any contributions to a personal pension scheme by an employer, in respect of any employee of his who is a member of that scheme.

Clause 39 provides a tax exemption for schemes' investment income and gains.

Clauses 40 and 41 concern the tax treatment of members of unit trust based schemes and of annuities paid to members of personal pension schemes.

Clause 42 concerns the 'minimum contributions' which the Secretary of State for Social Services will pay to personal pension schemes which are 'contracted-out' of the State Earnings Related Pension Scheme (SERPS).

Clause 43 enables the Inland Revenue to withdraw approval from personal pension schemes or arrangements in certain circumstances.

Clause 44 imposes a tax charge on certain unauthorised payments to scheme members.

Clauses 45 and 46 concern tax relief for contributions to a personal pension scheme. Such contributions by employees will qualify for basic rate tax relief at source.

Clause 47 concerns appeals procedures.

Clauses 48, 49 and 53 cover procedural matters relevant to tax relief for an individual's contributions.

Clauses 50 and 51 concern the Inland Revenue's powers to obtain information about contributions to, and payments by, personal pension schemes.

Clause 52 enables Government Ministers who are not members of the Parliamentary Pension Scheme in respect of their Ministerial salaries to join a personal pension scheme.

Clauses 54 and 55 concern retirement annuity contracts made before 4 January 1988.

Clause 56 permits applications for provisional approval of personal pension schemes before 4 January 1988.

Clause 57 and Schedule 2 make minor consequential amendments to the Taxes Acts.

GENERAL

Clause 58 and Schedule 3 makes various amendments to the legislation in the 1970 Finance Act concerning occupational pension schemes, to implement the anti-exploitation measures concerning eg excessive lump sums announced on Budget Day, and applying to arrangements entered into on or after that day. Other measures enable occupational scheme members to obtain full tax relief for additional voluntary contributions (AVCs) paid to a separate pension plan, from October 1987.

Clause 59 makes minor adjustments consequential on the Finance Act 1987 provisions which, in the event of a takeover, enable companies to offer participants in Finance Act 1980 and 1984 approved share option schemes the opportunity to exchange their existing share options for options over shares in the acquiring company. The amendments ensure that no unintended CGT charge arises from the operation of the new facility for acquiring companies.

Clause 60 aligns the date on which certain interest and other payments are treated as paid and received for tax purposes where the payment is between companies within a group or otherwise under common control. The new rule applies to payments made on or after 17 March 1987.

Clause 61 makes it obligatory, where the statutory conditions are satisfied, for the Inspector to apportion the income of a close company to its shareholders. Apportionment of convenanted payments to charity (and other annual payments) will also be made obligatory. (The Inland Revenue had believed that the existing legislation had this effect but the Court of Appeal said in 1986 that the Inspector's powers were discretionary.) The apportionment changes apply to accounting periods beginning on or after 17 March 1987.

Clause 62 ensures that a UK resident partner in a foreign partnership is fully chargeable to tax in the UK on his share of the profits of the partnership. It will apply so as to prevent claims to relief from tax for past years.

Clauses 63, 64 and Schedule 4 prohibit dual resident companies, other than certain trading companies, from surrendering their losses after 1 April 1987 to other members of a UK group under the UK group relief rules. They also limit the application of certain other reliefs where a dual resident investing company is involved in intra-group transactions.

Clause 65 amends the legislation concerning controlled foreign companies (in Schedule 17 Finance Act 1984). With effect from 17 March 1987, in addition to the existing conditions, an acceptable distribution policy will be satisfied only if a dividend is paid at a time when the company is not resident in the UK.

Clause 66 introduces a degree of flexibility in applying the conditions which an offshore fund must satisfy to qualify as a distributing fund. For account periods which end after Royal Assent, the Inland Revenue will be able to extend the time limit for making distributions and disregard a failure to comply with the investment conditions in Section 95(3), Finance Act 1984 where the Board are satisfied that the failure was inadvertent and was remedied without unreasonable delay.

Clause 67 changes the rules for calculating banks' taxable income from making a loan to a non-resident. Under the new rules any tax credit for foreign withholding tax paid, or deemed to be paid, on the interest they receive may in future be offset only against the UK tax due on the net profit from that loan. The change applies to interest payable on new loans made on or after 1 April 1987. For existing loans, the new rules apply to interest arising on or after 1 April 1989.

Clause 68 imposes restrictions on double taxation relief, which parallel those imposed by Clause 67, for underlying tax on dividends in circumstances where loan interest is effectively remitted as a dividend to a bank operating from the UK. The change applies to interest payable on new loans made on or after 1 April 1987. For existing loans the new rules apply to interest arising on or after 1 April 1989.

Clause 69 permits the Department of Employment to pass on certain limited information provided to it by the Inland Revenue under Section 58 Finance Act 1969 to local authorities for use in formulating local employment policy. The information consists of employer's names and addresses and the numbers of employees they have under PAYE.

Clause 70 concerns Lloyd's reinsurance to close (RIC) arrangements. The Clause will first take effect for RIC payments in the Lloyd's 1985 account, which closes at the end of 1987.

Clause 71 amends Section 37, Finance Act 1980 to put it beyond doubt that tax relief against income is not available for losses arising as a result of capital gains indexation on withdrawals for share accounts in Building Societies and Industrial and Provident Societies.

Clause 72 extends by five years from 31 March 1987 to 31 March 1992 the period during which capital allowances are available to companies for costs of construction of properties for letting on assured tenancy terms. It also makes provision for effect to be given to certain initial allowances whose benefit might otherwise have been lost.

Clause 73 deals with the tax treatment of securities traded on new recognised investment exchanges (RIEs) which may be established under the Financial Services Act 1986. The Clause provides an enabling power for regulations to be made (after Royal Assent) which will allow securities traded on a new RIE to be treated in the same way for tax purposes as securities traded on the existing Stock Exchange.

CAPITAL GAINS

Clause 74 and Schedule 5 amend the rules for taxing companies capital gains so that they are taxed at the same rates as companies' income instead of the present 30 per cent effective rate. For small companies the rate will thus be cut to 29 per cent from 17 March 1987 and again to the new 27 per cent small companies rate from 1 April. Companies will be able to set advance corporation tax against corporation tax on gains as well as on income. These changes apply to disposals on or after 17 March 1987. There are transitional arrangements for accounting periods straddling that date.

Clause 75 makes consequential changes to the special provisions for life assurance companies, and ensures that the rate of tax on gains reserved for policyholders remains 30 per cent.

Clause 76 makes technical changes to the provisions relating to the set-off of advance corporation tax against corporation tax on income from oil extraction activities. These changes are consequential on the extension to capital gains of the set-off for advance corporation tax and ensure that from 17 March 1987 farmout gains will be included with oil extraction income for the purposes of the restrictions on ACT set-off.

Clause 77 makes minor technical amendments to the provisions relating to the interaction of advance corporation tax and double taxation relief. The amendments reflect the extension to capital gains of the set-off for advance corporation tax.

Clause 78 makes it explicit that established tax law will continue to apply where an investor in a multi-portfolio unit trust switches from one portfolio to another. It prevents doubts about the tax position arising because of a detailed provision in the Financial Services Act.

Clause 79 brings Building Societies within the capital gains regime for groups of companies.

Clause 80 gives effect to the Government's 14 May announcement to introduce legislation to make clear that gains on the disposal of oil licence interests do not qualify for CGT roll-over relief. This legislation will apply to such gains made at any time.

Clause 81 brings, subject to certain conditions, the treatment of over-the-counter futures and options into line with that of traded options and of transactions on recognised exchanges. The main effects are that profits on over-the-counter transactions will always be treated as capital gains unless they arise in the course of trading, and that a capital loss will arise when an over-the-counter option expires without being exercised.

TAXES MANAGEMENT PROVISIONS

Clauses 82-95 and Schedule 6 introduce a new system for the collection of corporation tax known as Pay and File. This will come into effect from a date, not before 31 March 1992, which will be announced nearer the time. Under Pay and File a company will make its own estimate of its corporation tax liability and pay this by its normal due date. It will then have until one year after its accounting date to make its return with automatic penalties if it is late. Where the estimate turns out to be too low, interest will be charged, and where the estimate was too high, interest will be paid on the tax outstanding after the due date.

Clause 82 allows a new style of company return to be introduced for Pay and File and sets a one year time limit for its completion.

Clauses 83-84 set automatic penalties for returns not made within the time limit and provide a right of appeal against a penalty assessment.

Clauses 85-89 provide for interest to be charged on overdue corporation tax and on recoveries of overpayments, for interest to be paid on repayments of corporation tax, income tax and tax credit, and for interest rates to be altered where necessary.

Clause 90 provides for corporation tax to be payable without assessment.

Clause 91 makes the amendments needed to the tax on loans to participators in close companies for Pay and File.

Clause 92 provides enabling powers to introduce regulations applying an interest charge on PAYE paid late in circumstances where the Inspector has formally to determine the amount due; and clarifying the meaning of 'payment' for PAYE purposes.

Clause 93 provides enabling powers to introduce regulations requiring the Inland Revenue to be informed of the change of control of a company holding a '714' subcontractor certificate; giving the taxpayer a right of appeal against cancellation of a subcontractor certificate; and requiring the production to the Revenue of contractors' records.

Clause 94 improves the drafting of the present S.118(2) Taxes Management Act (which provides that a person's failure to do something such as render a tax return, shall be ignored when there was reasonable excuse for failure) for cases of continuing excuse.

Clause 95 provides for Pay and File to come into effect on an appointed day which will not be before 31 March 1992.

Schedule 6 makes relieving provisions for certain special cases where Pay and File would otherwise operate unfairly, and amends certain provisions which would otherwise not work correctly.

INHERITANCE TAX

Clause 96 abolishes the existing inheritance tax charge on certain transfers made more than seven years before death involving interest in possession trusts (IIP trusts). Transfers to and from IIP trusts will be potentially exempt transfers (PETs) on the same basis as transfers of property owned absolutely. Schedule 7 imposes, in certain circumstances, a special rate of charge where property that has been the subject of a PET on its transfer into an IIP trust becomes held on discretionary trusts in the next seven years and the person who made the PET is still alive. The special rate takes account of any chargeable transfers made by that person in the seven years before he made the PET. The changes apply to transfers made on or after 17 March 1987.

Clause 97 provides that if property is accepted in satisfaction of estate duty or pre-1985 capital transfer tax on terms that the value of the property is determined as at a date earlier than the acceptance, the terms may also provide that the tax so satisfied will not carry interest from the earlier date.

Clause 98 extends to personal pension schemes the existing inheritance tax reliefs for pension schemes and retirement annuities.

MISCELLANEOUS AND SUPPLEMENTARY

Clause 99 amends Section 50 Finance Act 1987 which exempts from stamp duty options in respect of gilt edged and other exempt securities.

Clause 100 further amends the reserve tax. The main change is the introduction of special rules for public issues. These provisions were contained in an amendment to the pre-Election Bill which was tabled but not moved. The Clause also clarifies the application of the reserve tax to agency contracts.

Clause 101 and Schedule 8 make technical amendments to Part V of the Finance Act 1987, mostly to the PRT nomination scheme in Section 61 and Schedule 10. In particular they introduce a provision -to take effect when triggered by Treasury Order - to counter certain arrangements to circumvent the scheme.

Clause 102 confers on Ministers the power to prescribe the amount of any fees or charges for the provision of any services or facilities.

Clause 103 allows goods such as food and fuel oil, imported as stores for ships engaged on international voyages, to be relieved from duty when used in port before departure. Major beneficiaries from this relief will be factory ships processing fish in UK ports. Without the relief there is a risk that these ships, which provide a significant market for UK, and particularly Scottish, fishermen would stop using British ports.

Clause 104 and Schedule 9 provide for the short title interpretation and repeals.

3757/029

FROM: P D P BARNES

DATE: 3 July 1987

PS/CHANCELLOR

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Miss Sinclair
Miss Evans
Mr Cropper
Mr Tyrie

Mr Rank: Fine. (but small changes). N.

10 MINUTE RULE BILL

I understand that, at Prayers, the Chancellor requested the Economic Secretary to provide a draft letter for him to send to the Leader of the House on the possibility of ending the 10 Minute Rule Bill slot on Budget Day.

2. The Economic Secretary's draft is attached.

PB

P D P BARNES
PRIVATE SECRETARY

Wakeham.

~~DRAFT~~ LETTER FROM THE CHANCELLOR TO ~~THE LEADER OF THE HOUSE~~

I would be grateful if you could take up with the Select Committee on Procedure the question of ending the 10-minute Rule Bill slot on Budget Day.

As you will recall, the 10-minute Rule procedure can be used to disrupt the Budget timetable quite extensively. The delay can be over half an hour if Members oppose, and force a division. This can create problems for the media and the markets as well as the Treasury in programming the tight schedule of post-Budget speech meetings and briefings. And there is every incentive for Opposition members to exploit this slot as they are assured of live radio coverage and an unusually large radio audience.

To prevent this happening Treasury PPSs have had to queue in relay for increasingly long periods to pre-empt teams of Opposition Members also queueing to secure the Budget Day 10-minute Rule Bill slot when it is allocated a fortnight before Budget day. If the Treasury PPSs are successful they are obliged to submit a bogus Bill and subsequently withdraw it from the order paper. This futile procedure and press coverage of competitive queueing does nothing to raise the standing of Parliament in the minds of the public. Furthermore, there can never be a guarantee that the Opposition will not on some future date start queueing even earlier than the Treasury team and secure the slot.

The remedy for this is presumably for the Select Committee on Procedure to rule that ~~automatically~~ there will be no 10-minute Rule Bill slot on Budget Day and, to ensure backbenchers' opportunities are not curtailed, to add one extra 10-minute Rule

Bill day later in the session.

I do hope we can agree this before the Select Committee on Procedure agree on the timetable of 10-minute Rule Bill days.

NIGEL LAWSON

CE38

CONFIDENTIAL

FROM: MISS C EVANS
DATE: 8 JULY 1987

MUS 8/7

1. **MR SCHOLAR**

2. **CHANCELLOR OF THE EXCHEQUER**

Advance drafting authority for water, & reduce time between Royal Assent & first privatisation [refer pts 14 ... /op 8]

(Housing)

MIGA – early ratification (really causes a plan ... exemptions ...)

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Burgner
Mr Gilmore
Mrs Lomax
Mr Moore
Mr Odling-Smee
Miss Peirson
Mr Peretz
Mr Turnbull
Mr Hawtin
Miss O'Mara
Mr Cropper
Mr Tyrie

C(87)12: 1987-88 LEGISLATIVE PROGRAMME

Cabinet tomorrow is to take final decisions on the 1987-88 legislative programme in the light of QL's review which is reported in C(87)12.

2. The Lord President invites the Cabinet to decide whether a main Water Privatisation Bill should be included in the 1987-88 programme. Mr Kuczys' minute of 3 July records that (below) you have accepted deferral of the water bill to the second session. As a quid pro quo Lord Whitelaw said that he would propose that the Water Bill alone should be given advance drafting authority for the 1988-89 session so that it was ready for introduction at the very beginning of the session. It would be useful to get on record that DoE should explore the scope to reduce the time between Royal Assent and the first sale.

3. In the light of the decision on the main Water Bill the Lord President asks the Cabinet to approve the programme agreed provisionally in March (Annex A) subject to the deletion of the Prohibition of Torture Bill [and the addition of a paving measure for electricity privatisation]* and the Financial Markets Bill. The list includes the Ports Bill although Ministers have not yet decided whether to proceed with this. We are content with this list.

*overtaken by the decision this morning to add electricity to the existing water vires Bill

8/7

4. On timing the Cabinet are asked to note the Secretaries of States' agreement that the Housing and Education Bills must be introduced before the end of November. The Treasury preference is for delaying or dropping a number of elements of the Housing Bill eg Housing Action Trusts and tenants' rights to opt, on grounds of insufficient preparation. Also on timing you might wish to mention the need for early introduction of the MIGA Bill so that the UK can ratify the MIGA convention: delay will be inconsistent with our strong support for MIGA and could also mean that we lose the opportunity to have a say in early policy formulation. [illegible]

5. Cabinet are also asked to endorse QL's view that the scope of the Housing and Rent (Scotland) Bill must be reduced. This could be done either by including the Scottish rent deregulation provisions in the England and Wales Housing Bill or by dropping the proposal to set up Scottish Homes as a new body to take over housing association provision in Scotland. The Scots are likely to argue for the former course but we would prefer deferral of Scottish Homes since the implications and costs have not yet been put to E(LF).

6. Finally Cabinet are asked to remit to Q(L) the selection of Bills to be given advance drafting authority for the 1988-89 session. You will wish to support the Lord President in suggesting that water should be the early approved candidate. ~~[If possible without prejudicing the primacy of water, it would be useful to record the need for the drafting of the electricity legislation also to proceed in time for early introduction in the 1988-89 session.]~~

Perhaps better not to muddy the water
MCS

D N Wall
pp MISS C EVANS