

PO-CH/NL/0569

Part C

Part C.

SECRET

(Circulate under cover and
notify REGISTRY of movement)

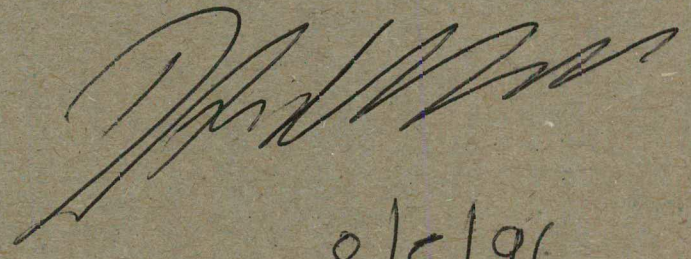
Begins : 26/10/88
Ends : 2/12/88

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

PO - CH | NL | 0569.
PT.C.

Chancellors (Lawson) files:
Treasury Parliamentary Business 1988.

DD's: 25 Year



8/5/96.

PO - CH | NL | 0569.
PT.C.



PUP

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1

CH/EXCHEQUER	
REC.	26 OCT 1988
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

26 October 1988

✓26/10

Dear Lord President,

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

Thank you for your letter of 21 October with which you circulated drafts of the Queen's Speeches.

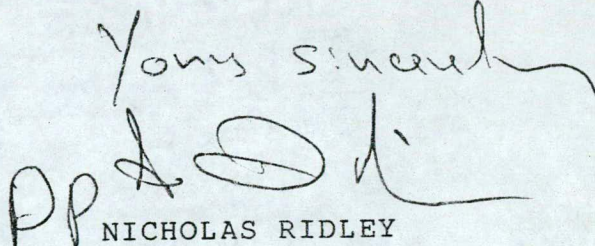
There are two changes to the Opening Speech which I would like to see made. First, the draft as it stands on the Local Government and Housing Bill (paragraph 15) is incomplete since it does not include a reference to the reform of the home improvement grants system. The term "housing finance" is normally used to refer to local authority and housing association finance, and, particularly given the focus on this section on local authority reform, will not be taken to cover grants to private homeowners. We cannot very well omit any reference to home improvement grants because they will account for a substantial part of the Bill. I therefore propose that the draft should read:

"- A Bill will be brought forward to reform the law on local government capital and housing finance; the system of home improvement grants; and the legislation governing the conduct of local authority business."

Second, I would like in the introductory paragraphs to record the Government's commitment to the protection of the environment, since public expectations have increased following the Prime Minister's speech to the Royal Society and our policies in this area have increasingly important international implications. I propose a new paragraph to read:

"- My Government will continue to attach the highest importance to protecting our environment, both nationally and internationally."

I am copying this letter to the Prime Minister, Cabinet colleagues, Patrick Mayhew, Kenny Cameron, David Waddington, Richard Luce, Bertie Denham and Sir Robin Butler.

Yours sincerely

PP
NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)

FROM THE PRIVATE SECRETARY



HOUSE OF LORDS,
LONDON SW1A 0PW

26 October 1988

Miss Alison Smith
Private Secretary to the Lord President of
the Council
Privy Council Office
Whitehall
LONDON SW1

MP

CH/EXCHEQUER	
REC.	27 OCT 1988
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

✓ 27/10

Dear Alison,

QUEEN'S SPEECHES ON THE PROROGATION AND THE OPENING OF PARLIAMENT

This is just to confirm that the Lord Chancellor is now content with the draft Prorogation and Opening speeches circulated under cover of the Lord President's letter of 21 October.

I am copying this letter to the Private Secretaries to Members of the Cabinet, Murdoch MacLean (Chief Whip's Office), Eleanor Godison (OMCS), Rhodri Walters and to Trevor Woolley.

Yours,

Andrea

Ms A J Smith



FROM: B O DYER
DATE: 26 October 1988

01-270 4520

CHANCELLOR

Ch
1 gates may need to do
PAC reports & Thursday
which will involve FST.
AA

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr J Gieve
Mr P Cropper *Mrs. S. Chaplin*
Mrs J Thorpe

CABINET : THURSDAY 27 OCTOBER 1988
PARLIAMENTARY AFFAIRS

Following is the business, **currently**, proposed for the Commons next week (but could be revised in the light of Shadow Cabinet representations):

Monday 31 October

- 2.30pm: Welsh Questions
- 3.30pm: **Rate Support Grants Bill: Second Reading and associated Money Resolution**

Tuesday 1 November

- 2.30pm: Health Questions
- 3.15pm: PMs Questions
- 3.30pm: Ten Minute Rule Bill (Amdt. of Trade Descriptions Act 1968 - labelling of furs: Mr J Browne)
- 3.40pm: [AS: C/Ex]
- [4.30pm]: **Health & Medicines Bill: Consideration of Lords Amendments**
- 10.00pm: EC Debate: Air Pollution from Motor Vehicles

Wednesday 2 November

- 2.30pm: Environment Questions
- 3.30pm: Ten Minute Rule Bill (Unleaded Petrol - Engine Adjustment: Mr K Mans)
- 3.40pm: **Firearms (Amendment) Bill: Consideration of Lords Amendments**
[Debate on Broadcasting and Terrorism]

CONFIDENTIAL



Thursday 3 November

2.30pm: Home Office Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: Rate Support Grants Bill: Committee Stage

Friday 4 November

9.30am: Debate on a motion for the Adjournment: subject likely to be an environmental issue

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

B O DYER

Parliamentary Clerk

msj

FROM : MISS J C SIMPSON
DATE : 26 OCTOBER 1988

CHANCELLOR OF THE EXCHEQUER

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

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

TREASURY FIRST ORDER QUESTIONS : THURSDAY, 27 OCTOBER
EB CENTRAL BRIEF

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

Changes from the draft brief have been sidelined.

3. You agreed that it would be desirable to go no further than Mr Burt's question on manufacturing productivity. You also agreed that supplementaries should be particularly encouraged on Mr Hunter's question on manufacturing investment, and Ms Widdicombe's on growth and Mr Burt's, together with that from Messrs Jones and Powell on the international meetings.

4. Subject briefs have been prepared on

- the general economy (EA1)
- balance of payments (EA2)
- interest and exchange rates and credit (MG1)
- international issues (IF1, IF2 and AEF2)

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

5. The September trade figures will have been published at 11.30 tomorrow morning. The usual separate briefing has been provided and the subject brief will be updated to take them into account. The Secretary of State for Social Security is expected to make his benefit updating statement immediately after Questions.

B

MISS J C SIMPSON

BULL POINTS

1. Output

GDP up 4 per cent in year to 1988H1.

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

Manufacturing output in three months to August at highest ever level; up 8½ per cent on 1979H1 and 3½ percent on 1974Q3. Fell between 1974H1 and 1979H1.

DTI Investment Intentions Survey (June) projects 16 per cent rise in manufacturing investment in 1988, and further increase in 1989.

2. Jobs

Adult unemployment (seasonally adjusted) fallen 26 months in a row, by nearly 950,000 in total and now at lowest level since 1981. Fall in unemployment longest and largest since War.

Employment risen by over 2 million since 1983; performance over last five years best since War.

3. Living standards

Real take-home pay of married man with 2 children on male average earnings risen over 27 per cent between 1978-79 and 1988-89; up only ½ per cent between 1973-74 and 1978-79.

Real personal disposable income at highest ever level in 1988H1. In 1988Q2 up 2½ per cent on a year earlier.

R LIND
EB Division
Ext 5206

MAIN ECONOMIC INDICATORS PUBLISHED SINCE 26 SEPTEMBER AND TO BE
PUBLISHED BY 27 OCTOBER

27 September Balance of payments current account and
overseas trade figures (August)

- August current account deficit of
£1313 million

- In 3 months to August export volumes (excl.
oil and erratics) up $2\frac{3}{4}$ per cent on previous
3 months and up $5\frac{1}{4}$ per cent on a year
earlier.

- In 3 months to August import volumes (excl.
oil and erratics) up $9\frac{1}{4}$ per cent on previous
3 months and up $15\frac{1}{4}$ per cent on a year
earlier.

28 September Industrial and Commercial Companies (Q2)

- Gross trading profits (net of stock
appreciation) of non-North Sea industrial and
commercial companies virtually unchanged
between 1988Q1 and 1988Q2. In Q2, 22 per cent
higher than a year earlier.

29 September Monetary Statistics (August)

- M0 annual growth rate 7.8 per cent

- M3 annual growth rate 20.1 per cent

- M4 annual growth rate 17.3 per cent

- M5 annual growth rate 16.5 per cent

30 September

Personal income and expenditure (Q2)

- Real personal disposable income fell by 1 per cent in 1988Q2 to a level 2½ per cent higher than a year earlier.

3 October

Retail Sales (August - final)

4 October

UK official reserves (September)

- Underlying fall of \$143 million

10 October

Producer prices (September)

- Annual rate of output prices 5.0 per cent

- Annual rate of input prices 3.2 per cent

13 October

Labour market statistics

- Unemployment (sa, excl. school leavers) (September) down 6,000 to 2,267,000. 'Headline' total up 20,000 to 2,311,000.

- Workforce in employment up by 42,000 in 1988Q2, to level 439,000 higher than year earlier.

- Manufacturing employees (September) down 5,000 from August to 4,990,000.

- Vacancies (September) little changed from August at 242,000.

- Average earnings (August) underlying increase for whole economy of $9\frac{1}{2}$ per cent.
- Manufacturing unit wage costs in 3 months to August up $\frac{1}{4}$ per cent on a year earlier.
- Manufacturing productivity in 3 months to August up $7\frac{1}{2}$ per cent on year earlier.

14 October

Retail prices index

- Annual rate 5.9 per cent

Tax and prices index

- Annual rate 3.9 per cent

Index of output of the production industries
(August)

- Industrial production in 3 months to August up $1\frac{1}{2}$ per cent on previous 3 months and $4\frac{1}{2}$ per cent on a year earlier.

- Manufacturing output in 3 months to August up $2\frac{3}{4}$ per cent on previous 3 months and nearly 7 per cent on a year earlier.

17 October

Retail sales (September-prov)

- Fell between August and September, but in 3 months to September up 2 per cent on previous 3 months and up 6 per cent on a year earlier.

18 October

Public Sector Borrowing Requirements
(September)

- Provisionally estimated to have been £1.0 billion in September. Cumulative total of minus £3.7 billion in first six months of 1988-89.

- Cumulative, excl. privatisation proceeds, of £1,2 billion.

25 October

CBI Industrial trends survey (Q4)

27 October

Balance of payments current account and overseas trade figures (September)

(SEE MONTHLY BRIEFING NOTE)

GENERAL BRIEFING : TOPICAL ISSUES

1. Economy overheating?

- As I/my RHF have made clear, economy has been growing at above its long-term sustainable rate and within that domestic demand even faster. Both need to slow down, but that can be achieved without any drama
- Government's determination to ensure that this happens demonstrated by recent interest rate rises
- effects of these will take time to come through but are clearest evidence that will not take risks with inflation.

2. Interest rate rises have yet to achieve desired effects

- early days yet; policy has tightened considerably since early June, but full impact will take some time to come through; already signs of effect on housing market
- Chancellor has made clear that prepared to maintain interest rates at whatever level necessary to achieve aim
- recognise that increased interest rates unwelcome to borrowers, especially small businessmen and home owners, but battle against inflation must be paramount
- We had inflation blip of similar sort in 1985 - got over that and will get over this.

3. Real interest rates penalising industry

- Industry doing very well: output up, profitability up, investment intentions highest for fifteen years
- renewed inflation would damage industry's confidence and willingness to invest
- no evidence that UK interest rates inhibiting growth or investment
- 1 per cent increase in interest rates, even if sustained for full year, would cost industry much less than 1 per cent increase in wage settlements.

4. All fault of Budget - stimulated demand etc

- No. Budget boosted supply, not demand - supply-side benefits will improve output and trade performance in long term
- fiscal policy still tight; surplus likely to exceed FSBR forecast of £3¼ billion by comfortable margin, despite PSBR being set £7 billion lower than projected in 1987 MTFS

- and Government has kept public spending under control, so that has fallen as percentage of GDP from peak in 1982 and set to fall again for present year. Hardly an irresponsible stimulus for demand
- Budget did not reduce tax burden because of overriding concern to maintain prudent fiscal stance
- Budget tax cuts will not be reversed.

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

- Income tax cuts will not be reversed and will bring long term benefits by improving supply side performance
- interest rates vary from time to time as necessary to keep control of inflation
- public has much more to fear from rapidly rising prices than from current fluctuations in mortgage rates.

6. If Government has so much money, why not spend it on necessary public expenditure, eg benefits or infrastructure

- Full result of public expenditure survey will be announced when it is completed
- but I/my RHF has made clear that have not taken steps to curb private spending in order to let public spending off leash
- excessive public spending not way to successful economy and more jobs. Essential that infrastructure spending should be justified on merits. Otherwise increased spending would just distort economy with no permanent benefits on rate of employment
- [on benefits] spending on social security up 40 per cent in real terms since we took office. Changes to social security regime since April 1988 particularly help families and disabled
- [on health] spending on NHS now stands at nearly £23½ billion - an increase of nearly £2 billion or 9.6 per cent over 1987-88
- [on infrastructure] not true that Government underinvesting in necessary infrastructure eg spending on health increased by 40 per cent in real terms since we took office, and on motorways and trunk roads by 30 per cent
- overall level of public investment kept broadly at level of Labour's last year. Under them it fell in real terms by almost a quarter. And some areas where deliberately changed policy are capital intensive. Anyway, overall level of investment, not just public sector, much more important - and that is at record levels.

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

- As I/my RHF said on 28 September, current account deficit may be around 2½ per cent of GDP, but no hint of balance of payments crisis
- deficit reflects rapid rise in investment and increased individual wealth combined with confidence to spend it. Combination of circumstances not seen for some time.
- present deficit financing high investment spending by private sector, contrary to period of 1960s and 1970s when current account deficit financed public sector deficit. Private investment adding to productive capacity which will boost exports and displace imports in future
- Government has taken appropriate action and deficit will correct itself in time. No cause for concern provided firm financial framework in place, as it is. Meanwhile, general strength of economy and high level of overseas assets mean no problems in financing temporary deficit.

8. Manufacturing trade deficit

- Since 1981, UK share of world trade in manufacturing broadly stable after decades of relative decline
- Manufacturing export volumes up 8½ per cent in three months to August, compared to same period year earlier.

9. Manufacturing output still below June 1979?

- No. Manufacturing output has risen under this Government (in three months to August, up nearly 8½ per cent on 1979H1) and at all-time high
- it fell under Labour
- and on almost all objective indicators, manufacturing performance has been transformed: productivity, profitability exports etc.

10. Manufacturing investment still below 1979

- Manufacturing investment now growing strongly. In year to 1988H1 up over 13 per cent on year earlier
- DTI investment intentions survey (June) suggested further growth of 16 per cent in 1988. CBI industrial trends enquiries continue to show confidence - October quarterly survey showed balance of firms expecting to increase capital expenditure over next 12 months remains high

- not just quantity but quality of investment that is important. Quality improved since 1979 as evidenced by improvement in productivity and profitability.

11. Changes in tax have consistently favoured rich

- Real take-home pay of married man with two children on average male earnings rose less than 1 per cent under Labour. Taking account of Budget tax cuts, it is likely to have risen over 27 per cent under this Government
- even after last Budget changes, top 5 per cent of taxpayers pay fifth more in real terms and higher share of total income tax burden than in 1978-79
- since 1979, main tax allowances increased by 25 per cent more than inflation; as result, nearly 1 and three-quarter million fewer taxpayers compared with indexed 1978-79 regime
- basic rate cuts and indexation of allowances benefit all taxpayers; 1988 cut reduces marginal rate for 94 per cent.
- Tax cuts mean everyone will keep more of own earnings and take about 65,000 off income-related benefits altogether - and hence out of poverty/unemployment traps

12. BP and KIO

(a) Decision to accept MMC findings incompatible with Government's commitment to market forces

- No. MMC undertook entirely independent and objective investigation. After due consideration came up with this recommendation. My RH and Noble Friend simply accepted it. Is the RHG suggesting that he should have rejected it?

(b) Will Government/BP buy back holding?

- No: Purpose was to dispose of Government's stake and to make clear that BP not controlled by HMG
- If BP want to buy back shares, will have to do so under normal market conditions. No question of change in tax law to waive liability, which would require general legislation.

13. MMC report on BG indicates claimed benefits of privatisation a sham; ordinary investor misled on value of shares

- No. Fact that privatisation legislation allowed for possibility of such a referral shows Government commitment to making sure privatised industries are exposed to discipline of market place
- practices at issue relic of period of state ownership, when legal relationship between Government and BGC made it impossible for HMG to force their abandonment

- prospectus made clear that contract sector of supplies was subject to general competition law. Effect of recommendations is to make these rules more explicit. Do not change basis of privatisation
- gas tariff market (for domestic consumers) fully regulated by OFGAS
- [if reference made to 'excessive' BG profits] Relevance of report's remarks unclear. Report was about BG's contract market. No conclusion can be drawn on appropriate rate of return for a regulated activity or for utilities generally.

14. Barlow Clowes

- Nothing to add to statements made by my RHF the Minister of Trade and Industry.

Miss J C Simpson
EB Division
Ext 5211

CONFIDENTIAL

CHANCELLOR

Handwritten notes in red ink:
A box with a checkmark and the word "agreed" written vertically next to it.

FROM: A G TYRIE
DATE: 26 October 1988
cc: Financial Secretary
Mr Culpin
Mr Dickson
Mr Eason
Mr O'Connor
Mr Hudson
Mrs Chaplin
Mr Call

PRIORITY WRITTEN PQ FROM IAN GILMOUR

Ian Gilmour has annoyingly tabled the attached PQ on the combined effects of mortgage increases and tax cuts since the budget.

2. We cannot avoid giving the figures that show that these people are worse off. On the other hand, as the Revenue suggest we could point out in a concluding paragraph that these cases are not typical. Rather than do it the way the Revenue have suggested in the note I think something along the following lines might be better:

"The examples in the table, in which the mortgage is at three times annual income, is not typical. Outstanding mortgages of three times annual income and above represent X% of mortgagors and Y% of taxpayers".

3. I have asked the Revenue and FIM for these figures. I think they will both be very low and defuse the PQ a good deal.

4. I do not think we should answer this until after oral questions tomorrow and, if it takes an extra day to fill in the numbers in the final paragraph, so be it.

5. The Financial Secretary agrees with this approach.

Handwritten signature: A.G. Tyrie
A G TYRIE

PRIORITY WRITTEN
THURSDAY 27 OCTOBER 1988

C - Chesham & Amersham

SIR IAN GILMOUR: To ask Mr Chancellor of the Exchequer, if he will publish figures setting out the net incomes, after payment of mortgage interest, of a married couple with two children in March 1988 and in October 1988, in each of the following circumstances: (a) the father earns £200 and has a mortgage of £30,000, (b) the father earns £300 and has a mortgage of £45,000, (c) the father earns £500 and has a mortgage of £75,000, and (d) the father earns £500, the mother earns £200, and the mortgage is £100,000.

DRAFT REPLY

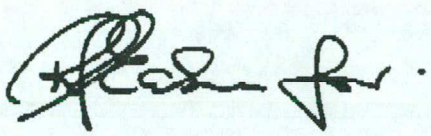
The information requested is shown in the table.

Net weekly income after payment of mortgage interest of a married couple with two children

	<u>March 1988</u>	<u>October 1988</u>
(a) Father earns £200 Mortgage = £30,000	£119.04	£111.02
(b) Father earns £300 Mortgage = £45,000	£153.92	£140.24
(c) Father earns £500 Mortgage = £75,000	£237.71	£216.23
(d) Father earns £500 Mother earns £200 Mortgage = £100,000	£318.39	£291.52

The examples in the table, in which the mortgage is approximately three times the annual income are not typical of the circumstances of many mortgagors. For instance, the average outstanding mortgage for those earning about £200 per week is about £18,000, rather than £30,000.

/BACKGROUND NOTES


J R CALDER
STATISTICS DIVISION/IR
26 October 1988

The examples in the table, in which the mortgage is at approx 3 times annual income (or more) represents X% of mortgagors and Y% of taxpayers.



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

Mr. Lynch

Re from Sie Inn Europe.

Some of the extra information you requested is as follows:

Mortgage Rates

1978-79	10.11
79-80	12.83
80-81	14.75
81-82	13.83
82-83	11.79
83-84	10.97
84-85	11.84
85-86	13.25
86-87	11.70
87-88	11.02
88-89 (est.)	11.60

Average Mortgage in 1988 89. About £23,000 - £24,000.

Therefore increased payments (gross) due to 2 1/2% rise in mortgage rate is £530. This is more than the Budget gains for people who about £23,000 a year.

Specimen Case £200 p.w. If mortgage only £18,000 (as in extra paragraph) net loss is £3.22 p.w.

We cannot produce anything on number of cases where mortgage is more than 3 times income in time available. Hope this is of some help.

BACKGROUND NOTES

SIR IAN GILMOUR

1. The Question is sensitive for the Government since the draft answer shows how, for the cases specified in the Question, the rises in mortgage interest rates since March have more than eliminated the gains from the income tax reductions in the Budget. To help mitigate this, we have included a paragraph to explain that the levels of mortgage are high, relative to income, and that average mortgage levels are much lower. This paragraph may be deleted if Ministers do not consider it necessary.

2. At 1 March 1988, the typical mortgage interest rate was 10.25%, the current typical mortgage interest rate is 12.75%.

3. The estimates given in the reply to the last part of the question are based on the wife making a wife's earned income election. We have assumed that the same rules apply in March 1988 and October 1988, when allocating mortgage interest relief between the husband and wife. That is, where one spouse pays a higher marginal rate of tax than the other, it is possible to make an election to allocate the eligible relief to that spouse.



NORTHERN IRELAND
 WHITEHALL
 LONDON SW1A 2AZ

Alison Smith
 PS/Lord President
 Privy Council Office
 70 Whitehall
 LONDON SW1

CH/EXCHEQUER	
REC.	28 OCT 1988
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

-28/10

27 October 1988

Dear Alison,

QUEEN'S SPEECH ON THE PROROGATION AND OPENING OF PARLIAMENT

I am responding in the absence of the Secretary of State to the letter from the Lord President to the Lord Chancellor of 21 October, covering draft speeches.

Before his departure for the Far East, Mr King considered the terms of the paragraph relating to Northern Ireland in the opening speech (paragraph 24). He would like it to read as follows:

"In Northern Ireland my Government will continue to support to the campaign against terrorism; while encouraging economic development and greater involvement by elected representatives in the affairs of the Province. They will maintain close co-operation with the Republic of Ireland. A Bill will be laid before you to strengthen the law of Northern Ireland on Fair Employment. Legislation will be introduced to extend the franchise for local elections and to require from candidates a declaration against terrorism."

The Minister of State has reinforced this view.

As regards the final sentence, I should explain that the candidate's declaration, as currently drafted, will not involve a repudiation of terrorist violence.

CONFIDENTIAL

SH/4019

I am copying this letter to Private Secretaries of Members of the Cabinet and Sir Robin Butler.

Yours sincerely

S SPARROW

Sirius Sparrow.

CONFIDENTIAL

SH/4019



CH/EXCHEQUER	
REC.	28 OCT 1988
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

✓ 28/10

PRIME MINISTER

Prup.

QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

I wrote to James Mackay on 21 October with drafts of The Queen's Speeches on the Prorogation and Opening of Parliament and inviting colleagues' comments on them.

No changes of substance to the draft of the Prorogation Speech were suggested by colleagues, and the attached version, which I submit for formal approval, has been revised to incorporate a number of minor drafting amendments only. I will, if I may, assume that you and Cabinet colleagues are content with it unless I hear to the contrary by close on Monday 31 October. I will, in due course, circulate for Cabinet consideration a Memorandum on the draft Opening Speech.

I am copying this minute to Cabinet colleagues and Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'JW'.

JW

27.10.88

CONFIDENTIAL

PROROGATION SPEECH

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. The Duke of Edinburgh and I were pleased to receive the State Visits of His Majesty King Hassan II of Morocco in July 1987, His Majesty King Olav of Norway in April of this year, His Excellency the President of the Republic of Turkey in July, and the President of the Republic of Senegal and Madame Diouf earlier this month. I was pleased to receive President Reagan of the United States after his visit to Moscow in June.
2. We recall with pleasure our visit to Canada in October last year, where I was also present on the occasion of the Commonwealth Heads of Government Meeting in Vancouver. Earlier this year we visited Australia in her Bicentenary year and the Netherlands to mark the William and Mary Tercentenary. Also to mark the Tercentenary, I received Loyal Addresses from both Houses in July. We remember with much satisfaction our State Visit to Spain in October.
3. My Government have helped to promote better relations between East and West and have played an active part in the Vienna Review Conference on Security and Cooperation in Europe.
4. My Government have continued to enhance Britain's defences and have played a full part in the Atlantic Alliance.
5. My Government have worked vigorously for balanced and verifiable agreements on arms control in respect of nuclear and conventional weapons and for the abolition of chemical weapons. They have supported the Treaty between the United States and the Soviet Union for the elimination of their intermediate and shorter range missiles, as a result of which cruise missiles are being removed from the United Kingdom.

6. My Government have fully supported the United Nations in its recent efforts to negotiate a ceasefire between Iran and Iraq. They have welcomed the start of the Soviet troop withdrawal from Afghanistan and have supported efforts to restore that country's independence and non-aligned status. My Government have encouraged the forces for change in Southern Africa and have urged the countries of that region to settle their problems peacefully.

7. My Government have reached agreement with our European Community partners on the restructuring of the Community's finances and on certain measures of reform of its Common Agricultural Policy. They have continued to play a full and active role in negotiations to achieve the completion of a single market within the European Community by the end of 1992, and have encouraged business to prepare for the opportunities and challenges that this presents.

8. My Government welcomed the agreement reached on their initiative to provide debt relief to some of the poorest countries in Africa. They have continued to provide a substantial aid programme, both directly and through the European Community, including emergency assistance to the victims of natural disasters in Asia, Africa and the Caribbean.

9. My Government have continued their vigorous efforts to combat international terrorism. They have signed agreements with the United States, Canada, Australia and the Bahamas to provide reciprocal assistance in combatting trafficking in drugs.

10. My Government and the Chinese Government have continued to make good progress in implementing the Sino-British Joint Declaration on Hong Kong. My Government have stood by their commitments to the people of the Falkland Islands, while continuing to seek more normal relations with Argentina.

MEMBERS OF THE HOUSE OF COMMONS

11. I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

12. My Government have continued to pursue sound financial policies designed to keep inflation under control and to sustain economic growth. They have made a public sector debt repayment. The national output has continued to grow, as has the number of people in work. Further steps have been taken to help unemployed people into work through the introduction of the Employment Training programme and the extension of the Youth Training Scheme.

13. As part of my Government's programme to encourage enterprise and improve the performance of the economy, the basic rate of income tax has been further reduced and all but the lowest of the remaining rates have been abolished. Legislation has been enacted to reform and simplify the tax system and to provide for the independent taxation of married couples.

14. In further pursuit of my Government's commitment to encourage greater industrial efficiency and to promote wider share ownership, legislation has been enacted to provide for the sale to the public of shares in British Steel and to enable the water authorities and the electricity supply industry to prepare for privatisation.

15. An Act has been passed for England and Wales to replace domestic rates with the community charge and to introduce uniform non-domestic rates.

16. An Act has been passed to reform the legislation on rented housing and to give local authority tenants new rights to choose their landlord.

- 17 Legislation has been enacted to promote further competition in the provision of local authority services.
18. An Act has been passed to reform the education system by widening parental choice, by making provision for a national curriculum and by increasing the autonomy of educational institutions.
19. An Act has been passed to provide for greater democracy and accountability within trades unions and to provide further protection against trade union enforcement of closed shops.
20. Legislation has been passed to improve the working of criminal justice; to reform the law of extradition; and to improve the assistance available to victims of crime.
21. An Act has been passed to strengthen the controls over the possession of firearms.
22. Legislation has been enacted to reinforce firm but fair immigration control.
23. An Act has been passed for England and Wales to introduce greater flexibility in licensing hours and to strengthen provisions to curb the misuse of alcohol.
24. Further progress has been made in the consolidation of our statute law. Legislation has been passed to improve the arrangements for legal aid.
25. An Act has been passed to reform the law of copyright and to make improvements in other areas of intellectual property law.
26. A reformed system of social security has been introduced.

27. An Act has been passed further to reform the law on shipping and safety at sea.

28. An Act has been passed to authorise the construction of a railway tunnel under the English Channel to link Britain and France.

29. Legislation has been enacted to authorise a third crossing of the Thames at Dartford.

30. In Northern Ireland, my Government have continued their efforts to combat terrorism. They have developed their constructive relations with the Republic of Ireland through the Anglo-Irish Agreement and have continued to promote the economic revival and political stability of Northern Ireland.

31. For Scotland, measures have been passed to create a new housing agency and to encourage the provision of private rented housing, to improve the management of schools and to reform the law on civil evidence.

32. An Act has been passed to establish a statutory authority for the Norfolk and Suffolk Broads.

33. Legislation has been enacted to encourage the planting of farm woodlands and diversification by farmers.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may attend you.



FROM: A C S ALLAN
DATE: 27 October 1988

MR TYRIE

cc PS/Financial Secretary
Mr Culpin
Mr Dixon
Mr Hudson
Mrs Chaplin
Mr Call

Mr Eason - IR
Mr O'Connor - IR

PRIORITY WRITTEN PQ FROM SIR IAN GILMOUR

The Chancellor was grateful for your minute of 26 October and agrees with what you propose.

A handwritten signature in black ink, appearing to read 'ACSA' with a flourish underneath.

A C S ALLAN

CONFIDENTIAL

FROM: G F DICKSON

DATE: 27 OCTOBER 1988

MR TYRIE

cc PS/Chancellor
PS/Financial Secretary
Mrs Lomax
Mr Culpin
Miss Noble o.r
Mr Hudson
Mrs Chaplin
Mr Kroll
Mr Eason
Mr O'Connor IR

PRIORITY WRITTEN PQ FROM SIR IAN GILMOUR MP

You asked for figures on the number of outstanding mortgages of 3 times annual income and above compared to the number of mortgagors and taxpayers.

2. I imagine that only the Inland Revenue could provide a definitive answer to this question and it would require some effort. Lenders only record the income of the borrower at the time the loan is taken out, so the figures available for financial institutions will therefore be for new advances. Most do not publish this information because it is commercially sensitive. However, the Building Societies Association and DoE take a 5 per cent sample of building society mortgage completions and analyse the detailed figures. To my knowledge, these are the only publicly available figures relating mortgage advances to income.

3. The recent figures from this source show that during 1987 there were 84,000 advances by Building Societies of greater than 3 times income. There were total of 1,048,000 advances during the same period, so only 8 per cent of Building Society new advances were greater than 3 times income. The equivalent figures for the first half of 1988 were 69,000, 601,000, and 11½ per cent respectively. I should also warn that the income figures should be treated with caution because there is considerable variation in the income recorded by different building societies. It may, for instance, include the combined incomes of a couple buying a house.

4. If you wish to use the figures I recommend that you do so with caution. Something on the lines of the following may be appropriate:-

"Recent building society figures suggest that only around 12 per cent of their ^{new} mortgages are of 3 times annual income and above. The figure for outstanding mortgages is likely to be even lower."

5. I can provide further building society mortgage figures for average advances and average income of borrowers if you require them.



GRAEME DICKSON

THURSDAY 27 OCTOBER 1988

TREASURY

C - Cardiff North

r William Powell C - Corby

MR GWILYM JONES: To ask Mr Chancellor of the Exchequer, if he will make a statement on the outcome of the joint annual meeting of the International Monetary Fund and the World Bank.

DRAFT REPLY

C/EX

With permission, Mr Speaker, I will answer this Question and Question number [2] together.

Finance Ministers of the main industrialised countries renewed their commitment to policies leading to sustained growth, low inflation and exchange rate stability.

We welcomed the agreement reached by the Paris Club on the proposals which I first made in April 1987 to provide substantial relief on the official debts of the poorest and most indebted countries in Africa which pursue internationally agreed adjustment policies.

more the debt

The current approach to the debt strategy was reaffirmed, emphasising the central role of the IMF and the importance of not transferring risks from the private to the public sector. Market-based schemes - including debt conversions, buybacks, debt-equity swaps - were encouraged.

(I'll have a go at a better draft next week - right point, priority, not?)

you psr

D.A. Barr

D A BARR
IF1 Division
x 5566

HPE

H P EVANS
IF x4430

Ch
OK? *pr*
OK as

REVISED DRAFT REPLY TO GWILYM JONES

AA
of sound finance as factor for rate stability

With permission, Mr Speaker, I will answer this question and question number [8] together.

2. ~~We had a successful series of meetings.~~ The major industrialised countries agreed to continue to work closely together ^{and} to pursue the policies ^{in the world economy} which have led to ~~steady and sustained~~ ^{improved} growth. This was widely welcomed. All countries accepted the need for vigilance against any build-up of inflationary pressures.

3. On the debt of the poorest, ^{we secured final agreement on} ~~there was widespread satisfaction that the Paris Club have worked out~~ ^{we secured final agreement on} (the necessary arrangements to implement a scheme to ease the official debt burden of the poorest and most heavily indebted countries in sub-Saharan Africa, following the initiative I launched in April 1987.

4. On middle income debt, support for the current strategy was reaffirmed, with emphasis on the central role of the IMF and on the importance of encouraging new market-based schemes, without transferring risk from the private to the public sector.

Todd Bridges *pm*

PRINCIPAL PRIVATE SECRETARY

FROM: M C MERCER
DATE: 27 OCTOBER 1988

cc: Mr Lankester
Mr R I G Allen
Mr Dyer
Miss Simpson
Mr Evans

Ch/
Looks OK. Content?
OK. *27/10*

FIRST ORDER QUESTIONS

I attach some briefing on the story in yesterday's "Guardian" on EC spending and additionality. If you are content, could you please arrange for the material to be sent to No 10 for PM's questions this afternoon.

Handwritten red scribbles and notes covering the bottom half of the page.

M.C. Mercer

M C MERCER

EC STRUCTURAL SPENDING

LINE TO TAKE AND SUPPLEMENTARIES ON GUARDIAN LEAD STORY OF 26 OCTOBER ("BRUSSELS FORCES BIG SPENDING")

Line to take

A number of outstanding issues on the new implementing regulations for the structural funds are currently being discussed. One such issue concerns the way in which member states treat receipts from the structural funds in terms of their own public expenditure accounting. The story in the Guardian seems to be based on an earlier Commission proposal which has already been amended and is still the subject of detailed negotiation.

Will the UK be forced to spend more in the regions and inner cities?

A hypothetical question. The regulation has not yet been agreed. We have reserved our position because the provision in question is poorly drafted and its implications are unclear.

The Guardian talks of a £6 billion increase in UK spending

The figure has no basis in reality. The regulation deals with the increase in the structural funds agreed at the February European Council. That increase will amount to around £9.0 billion (in 1988 prices) for the Community as a whole between 1987 and 1992. I hope that the UK will receive a reasonable share of that extra spending, but £6 billion is manifestly out of the question.

What about the Government's share of the cost of EC-assisted projects?

The Guardian story implies that the UK has somehow avoided paying its proper share in the past. That is totally and demonstrably false. Projects cannot go ahead unless member states provide their share of the money.

Has the Government simply used EC money to finance expenditure which would have gone ahead anyway?

No. Grants from the structural funds mean that public expenditure programmes are maintained at higher levels than would otherwise be the case. And there is of course no question of those grants being used for anything other than their intended purpose.

Does the UK have no power of veto?

The implementing regulations are based on Article 130e of the Treaty and are therefore subject to qualified majority voting. But I repeat, there are a large number of issues on the table and many member states are concerned about one aspect of the regulation or another. Discussions are continuing and the detailed implications of the regulations are still being explored.

BACKGROUND

The Guardian's lead story of 26 October (by John Palmer) asserted that the Council of Ministers was likely to agree new EC rules which might force the UK to increase spending in the regions and inner cities by £6 bn over the next four years.

2. The issue concerns the Government's policy on the public expenditure treatment of EC receipts (non-additionality). The policy aims to ensure that receipts finance, rather than add to, domestic expenditure.

3. Our ability to apply the policy could be threatened by a provision in one of the draft regulations required to implement the increase in and reform of the structural funds agreed at the February European Council (the so-called horizontal regulation). Under the provision the Commission and member states would have to ensure that receipts stemming from the increase in structural fund appropriations resulted in "at least an equivalent" increase in public expenditure.

4. The UK is isolated in opposing this clause. But most member states have problems with other aspects of the draft regulations (which are subject to QM voting) and negotiations in COREPER are continuing. The Presidency will seek to establish a common position at the November FAC. Meanwhile, FCO and UKREP are trying to persuade the Commission to accept and the Presidency to propose an alternative text which we could live with.

5. The Palmer story is misleading in several respects:

- there is no foundation for the £6 billion figure;
- the question of member states' matching contributions (eg of 50% or 30%) is not at issue;
- the regulation relates to the increase in the structural funds agreed in February, not to the totality of the funds.

Dalai Lama:
the long road
back to Lhasa

Edward Heath:
what Europe
means to me

30p

Wednesday
October 26
1988

Published in London
and Manchester

The

EEC may make Britain lay out £6bn more on regions

Brussels forces big spending

Exclusive

John Palmer in Brussels

THE Government may be forced by new European Community rules to increase public spending in the poorer regions and inner cities by as much as £6 billion more than it had planned over the next four years.

The EEC decided to increase regional and social development expenditure earlier this year, but Treasury ministers are furious that new regulations likely to be agreed to by the EEC Council of Ministers will in future force the British Government to match EEC spending pound for pound.

The Foreign Office minister, Mrs Lynda Chalker, refused to agree to the new scheme when it was debated by EEC foreign ministers in Luxembourg this week. Mrs Chalker was appalled at the consequences for British public spending restrictions, and by the bonus the scheme would bring to Labour authorities in the regions and inner cities. But Britain has now been told that, under the Single European Act, the Council can decide on the new rules

by a majority vote. Britain will have no power of veto.

In Whitehall there is bound to be bitter resistance to the Commission's right to vet regional and social spending policies in the United Kingdom. But for the mainly Labour local and regional authorities who will benefit, the new rules promise a big increase in the flow of public sector resources to tackle unemployment, training and other development priorities.

At the Brussels European summit in February, the EEC heads of government agreed to double spending on regional and social development, particularly in the poorer regions, as part of the move to the single European market of 1992. Of the £36 billion total, Britain is expected to contribute about 15 per cent.

The new rules require national governments to put up either 50 per cent of the money or 30 per cent in special cases, such as projects in Northern Ireland. Although similar conditions applied in the past in theory, only now are a majority of EEC governments willing to give the Commission real powers to be satisfied that "the extra resources committed by the member states are real and additional".

In the past, the British Gov-

ernment has simply reshuffled its existing spending plans so that some projects which it would have financed anyway have been funded by Brussels instead. The resulting saving has reduced the Public Sector Borrowing Requirement but denied the regions the full impact of spending which the European Community had intended.

In Northern Ireland, Scotland and other regions, the flow of resources has been halved compared with what it should have been under EEC law. But until the Single European Act was passed last year, the Brussels Commission was powerless to stop national governments pocketing EEC money intended for deprived regions.

"For the first time, other governments are willing to see the rules implemented, if only because they want to make sure that the southern European states, who are the big beneficiaries, also back development with resources of their own," one senior Commission source said last night.

"The British do not like it. They can always refuse to take the money on offer from the Community's structural funds, but that would be difficult to justify in the regions and the areas hit by industrial decline."



Typhoon aftermath . . . Pres died on the mainland and up

Lawson fierce La

John Carvel, Chief
Political Correspondent

MP

FROM: P T SHERIDAN

DATE: 27 OCTOBER 1988

PS/PAYMASTER GENERAL

cc: PS/Chancellor
 PS/Chief Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Miss Peirson
 Mr Turnbull
 Mr Luce
 Mr Dixon
 Mr MacAuslan
 Mr McIntyre
 Mr Ramsden
 Mrs Ryding
 Mr Call
 Parliamentary Clerk
 Mr Tubb - PGO

Ch/ This is a pretty poor piece of advice. Subject to the (crucial) operational question in para 6, do you agree there shd be a "clean hands" overrating?

APRIL 1989 UPDATING AND THE RPI ERROR: PUBLIC SERVICE PENSIONS

In your note of 24 October, you asked for a PQ on public service pensions.

2. I attach a draft arranged PQ agreed with Mr Luce. We have kept the reply brief and factual in line with Mr Moore's statement.
3. The updating of 5.9% includes both the correction for the error and the rise in prices since then. Because, however, the updating of 5.9% may seem too low to public service pensioner interests who could be expecting a higher figure - we have already received a couple of letters on this issue - there seems to be a case for writing to all MPs setting out in detail the methodology employed. MPs could then use this standard letter for replies to constituents who wrote to them. This might avoid some of the heavy volume of correspondence which we might otherwise experience. There may also be a case for supplying with their pensions a short note to all public service pensioners setting out how their pensions have been updated.
4. You should be aware that on SERPS, because of the way the entitlements are calculated, using a constant, the one step route of 5.9% gives a slightly lower answer than the corrected route and some claimants would have their entitlements undervalued.

Accordingly, DSS have proposed (and ST have agreed) that the uprating should be described as 5.9% - the figures in public are always quoted to one decimal place - but to insert into the computer a very slightly higher figure i.e. on implied uprating of 5.91%. In this way, there are neither losses nor windfall gains. Public service pensions do not use constants, and that problem does not arise for us.

5. The 5.9% meets the PMG's pledge of no loss but does not offer, as Mr Moore has, the best of both worlds. For example, using the average CS pension as a starting point the following results are produced applying the two methods.

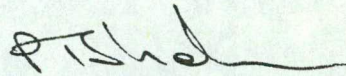
	3 STAGE METHOD		SIMPLE METHOD
	£2967.00		£2967.00
1987 (2.2%)	£3032.27	(2.1%)	£3029.31
1988 (4.3%)	£3162.66	(4.2%)	£3156.54
1989 (5.7%)	£3342.93	(5.9%)	£3342.78
	(12.6705%)		(12.6651%)

Both routes yield the correct uprating percentage but, when applied to actual pensions, there is a slightly lower figure in the one step route than when using the corrected route, which in fact, yields a very slight overcompensation. Since the three stage route is being published, some public service pensions might feel (incorrectly) that the one step route was in some way undercompensating them and that they were being less well treated than social security beneficiaries.

6. In order to overcome this a percentage increase of 5.905% could be used for the single step method. The result would be to bring the annual rate up to that for the 3 stage method i.e. £3156.54 increase by 5.905% = £3342.93. There would be then no doubt that the Government was fulfilling its obligation to restore the rates to what they should have been. Once again, the uprating would be described as 5.9% but the actual uprating would be very slightly more. (I understand, however, that the PGO may not be geared up to update to three decimal places.) Is the Paymaster General content for the PGO to put this method of uprating into

shirred! Should have sorted this out before he put up advice

Effect for the complete avoidance of doubt?



P T SHERIDAN

SUPERANNAUTION DIVISION

To ask Mr Chancellor of the Exchequer if he will make a statement about the uprating of public service pensions from April 1989.

- A. Public service pensioners were affected by the understatement in the retail prices index announced in December 1987. In my written answer of 18 December (col 845-6), I made clear that, in order to ensure that these pensioners suffered no continuing loss, levels of public service pensions from April 1989 would be what they would have been if the error in the RPI had not occurred.

Under the Social Security Pensions Act 1975, the Treasury is required to increase public service pensions in line with state earnings related pensions. In the forthcoming Pensions Increase (Review) Order public service pensions will therefore be uprated by the 5.9% increase announced yesterday by the Secretary of State for Social Security for SERPS. In consequence, they will have the value from April 1989 that they would have had if the RPI error had not occurred.



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: IAN STEWART

DATE: 28 OCTOBER 1988

Ch
I suspect figure
for new mortgages
wd be much higher

Content with
reply attached
to this note?

ASP

OK
M.

PS/Financial Secretary

PRIORITY WRITTEN PQ FROM SIR IAN GILMOUR

1. Mr Tyrie, in his minute of 26 October to the Chancellor, suggested that the reply to the PQ from Sir Ian Gilmour on the combined effects of mortgage rate increases and tax cuts should include a reference to the percentage of mortgagors whose mortgage exceeded three times their annual income. I understand that the Chancellor has agreed to Mr Tyrie's proposal.

cc. PS/Chancellor
Mr Culpin FP
Mr Dickson FIM
Mr Tyrie
Mr Hudson
Mrs Chaplin
Mr Call

Mr Calder
Mr Eason
Mr O'Connor
P.S.I.R.

2. We have made some estimates of the number of mortgagors of the type described by Mr Tyrie and those figures were provided to Mr Tyrie on 27 October. The draft reply which was submitted on 26 October has been amended to take these points on board and I attach a copy of the revised reply and background note. I would be grateful if you would submit the attached version to the Financial Secretary.



IAN STEWART

C - Chesham & Amersham

SIR IAN GILMOUR: To ask Mr Chancellor of the Exchequer, if he will publish figures setting out the net incomes, after payment of mortgage interest, of a married couple with two children in March 1988 and in October 1988, in each of the following circumstances: (a) the father earns £200 and has a mortgage of £30,000, (b) the father earns £300 and has a mortgage of £45,000, (c) the father earns £500 and has a mortgage of £75,000, and (d) the father earns £500, the mother earns £200, and the mortgage is £100,000.

DRAFT REPLY

The information requested is shown in the table.

Net weekly income after payment of mortgage interest of a married couple with two children

	<u>March 1988</u>	<u>October 1988</u>
(a) Father earns £200 Mortgage = £30,000	£119.04	£111.02
(b) Father earns £300 Mortgage = £45,000	£153.92	£140.24
(c) Father earns £500 Mortgage = £75,000	£237.71	£216.23
(d) Father earns £500 Mother earns £200 Mortgage = £100,000	£318.39	£291.52

The examples in the table, in which the mortgage is approximately three times the annual income, are not typical. Outstanding mortgages of three times annual income and above represent about 5% of mortgagors and 2% of taxpayers.

/BACKGROUND NOTES

Lan Stewart

for J R CALDER
STATISTICS DIVISION/IR
28 October 1988

1. The Question is sensitive for the Government since the draft answer shows how, for the cases specified in the Question, the rises in mortgage interest rates since March have more than eliminated the gains from the income tax reductions in the Budget. To help mitigate this, a paragraph has been included to explain that the levels of mortgage are high, relative to income, and that only a small proportion of mortgagors have an outstanding mortgage which is three times or more their annual income. The number of mortgagors in this situation is tentatively estimated to be about 1/2 million, or 5% of all mortgagors in round terms. A substantial number of these mortgagors are on low incomes.

2. At 1 March 1988, the typical mortgage interest rate was 10.25%, the current typical mortgage interest rate is 12.75%.

3. The estimates given in the reply to part d) of the question are based on the wife making a wife's earned income election. We have assumed that the same rules apply in March 1988 and October 1988, when allocating mortgage interest relief between the husband and wife. That is, where one spouse pays a higher marginal rate of tax than the other, it is possible to make an election to allocate the eligible relief to that spouse.

SECRET

mp



10 DOWNING STREET

RESTRICTED DISTRIBUTION REQUIRED

SEE INSTRUCTIONS IN LETTER

SECRET

Action ^{with} CST : No Copies taken.



SECRET

CH/EXCHEQUER	
REC.	31 OCT 1988
ACTION	CST
COPIES TO	

✓ 31/b

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

28 October 1988

John Arden,

HEALTH AND MEDICINES BILL

The Prime Minister held a meeting this morning with your Secretary of State, the Lord President, the Lord Privy Seal, the Chief Secretary and the Chief Whip about the prospects for securing the passage in both Houses of Parliament of the clauses in the Health and Medicines Bill on charges for teeth and eye examinations. I should be grateful if you could ensure that this letter is seen by named officials only on a strictly need to know basis and that no copies are made without the authorisation of No.10.

After the meeting had considered the business managers assessment of the voting position, the Prime Minister said that the Government's tactics should be based on the following:

- (1) The Government should not offer any concessions, beyond those already given, to secure the passage of the charging provisions in the Bill. It would be preferable to lose the provisions rather than to offer concessions. Indeed, it might be better to be ready to see the Bill itself fail. Your Secretary of State should urgently consider the consequences of the loss of the Bill so that Ministers concerned could come to a view on this possibility.
- (2) If the clauses were lost, and the money from the higher charges was not secured, there would need to be offsetting savings made within the NHS budget or higher charges levied for other medical provision. There should be no extra money from the Exchequer to compensate. It was noted that your Secretary of State reserved his position regarding additional resources.
- (3) Briefing should be given to the Sunday newspapers covering the following points:-
 - (a) The Government would make no more concessions on the Bill beyond those already given (which should be

specified).

- (b) The Secretary of State for Social Security's announcement yesterday would result in 75,000 extra people being exempted from the charges levied under the Health and Medicines Bill. [This figures needs to be checked and there needs to be a short explanation of why the extra exemptions arise.] It should be emphasised that this was a new factor which had arisen only as a result of yesterday's announcement, and subsequent to previous consideration in both Houses of the Bill.
- (c) The charging provisions in the Bill were part of a settlement where extra resources were provided for the NHS. The passage of the relevant provisions was necessary to honour that settlement.

In conveying this guidance to the press, care should be taken not to provoke the Labour opposition or the minor parties to secure a higher turn out of their MPs in the votes on Tuesday.

- (3) The Autumn Statement, and notably the generous PES settlement for the NHS, to be announced on Tuesday, should help the passage of the charging provisions. The Chancellor of the Exchequer should use his presentation of the Autumn Statement to the House of Commons and to Conservative backbenchers to make clear that the NHS was benefiting considerably and so help undermine the case of those opposed to the charging provisions in the Bill. She would need to be provided with material for Questions on Tuesday which would reinforce the Government's position on the Bill.
- (4) The Business Managers should consider in the light of the discussion in this meeting the arrangement of business on Tuesday. It was helpful that the clause on charges for dental examinations would be taken before the clause on charging for eye examinations. There might be advantage in ensuring that there was a gap of some hours between the two votes with the more difficult vote on eye charges taking place late in the night. The Business Managers in the Lords should consider the case for delaying the debate in the Lords to as close to Prorogation as possible. Their Lordships should then recognise that a vote against the charging clauses would put the Bill itself at risk.

I am sending a copy of this letter to Alex Allan (Chancellor of Exchequer's office), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office), Carys Evans (Chief Secretary's Office), Murdo Maclean (Chief Whips Office) and to Anthony Langdon (Cabinet Office).

Nigel Wicks
Nigel Wicks

N.L. Wicks



FROM: Assistant Parliamentary Clerk
DATE: 28 October 1988

01-270 5007

PS/CHANCELLOR

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- PS/C&E
- PS/IR
- Mr B Fox - DM2
- Mr J P McIntyre - ST1
- Mrs Brown - PE2
- Mr O' Donnell - EA2
- Mr Farthing - HE2
- Mr Pickford - EB
- Mr Williams - PE1
- Mr Dyer

Oh. Sorry - do you mean CHE? shld. be aware of this in briefing, or that LAY shld. "tell" the oil companies, in answering this PQ, that there will be no further concessions?

Yes

Placed on to PS/C&E

Thank you for this

no!

2F 31/10

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

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

ORAL QUESTIONS

Wednesday 2 November Lord Stoddart of Swindon - To ask Her Majesty's Government whether they are satisfied with the response of the oil companies to the tax concession given in favour of unleaded petrol by the Chancellor of the Exchequer in his last Budget.

Government spokesman: Lord Young of Graffham. Customs & Excise in the lead.

WRITTEN QUESTIONS

Tuesday 9 November The Lord Chelwood - To ask Her Majesty's Government whether the re-nationalisation of major industries that have been privatised would be consistent with the amended Treaty of Rome and which are the Articles relevant to such action.

Government spokesman: To be confirmed. PE2 in the lead.

They said that they would be no further concessions in the 1989 Budget.

BUSINESS OF INTEREST TO HM TREASURY

ORAL QUESTIONS

Tuesday 1 November The Lord Taylor of Blackburn - To ask Her Majesty's Government whether they will now reconsider paying the full cost of security at Party Political Conferences from central funds.

Government spokesman: Earl Ferrers. Home Office in the lead.

Wednesday 2 November The Lord Graham of Edmonton - To ask Her Majesty's Government whether the profit made by British Aerospace from their purchase of the Royal Ordnance Factories is satisfactory to the taxpayer.

Government spokesman: Lord Trefgarne. MOD in the lead

Wednesday 9 November Lord Ezra - To ask Her Majesty's Government whether, in view of the present adverse trend in the balance of payments, they contemplate giving greater support to export promotion.

Government Spokesman: Lord Young. D.T.I. in the lead

Thursday 10 November Lord Nugent of Guildford - To ask Her Majesty's Government whether they will increase their subvention to the Universities Funding Council to compensate for the loss of revenue which universities will suffer as a result of the decision by Customs and Excise to charge VAT on gifts by private companies to universities.

Government Spokesman: Viscount Davidson. DES in the lead.

The Lord Campbell of Croy - To ask Her Majesty's Government what progress has been made in removing discrimination against whisky produced in Scotland in the Japanese tax regime.

Government spokesman: Lord Strathclyde. DTI in the lead.

UNSTARRED QUESTION

Tuesday 1 November **The Baroness Turner of Camden** - To ask Her Majesty's Government whether consideration has been given to the effect on employment in Northern Ireland of the decision to privatise Short Brothers.

Government spokesman: Lord Lyell. NIO in the lead.

Tuesday 8 November **Lord Ezra** - To ask Her Majesty's Government whether it is their intention to introduce a measure of competition in the water industry on privatisation.

Government spokesman: Lord Arran. D.O.E. in the lead.

WRITTEN QUESTION

Monday 24 October **The Baroness Jeger** - To ask Her Majesty's Government what additions are to be made to housing benefit and other social security payments to assist people in difficulty due to increases in mortgage interest payments.

Government spokesman: Lord Skelmersdale. DSS in the lead.

Mari Rogerson

Mari Rogerson

FROM: A J C EDWARDS
DATE: 28 OCTOBER 1988

CHIEF SECRETARY

cc **Chancellor**
 Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr Turnbull
 Mr Potter o/r
 Mr Richardson
 Mrs Butler
 Mr White
 Mr Wood
 Mr B O Dyer
 Mr Laite
 Mr Pegler
 Mr Call

*WPK views for the
 v. complete etc the
 Assoc of presidents of the
 Assoc of LA
 Assoc of LA
 Assoc of LA
 Assoc of LA*

for a v. long time since

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
 CASH LIMITS AND END YEAR FLEXIBILITY**

We now have preliminary returns for local authority financial transactions in the April/June quarter which suggest that the main cash limit on local authority capital expenditure, the notorious DOE/LA1, is likely once again to show a net underspend of some £½ billion this year, comprising a gross overspend of £850 million offset by receipts some £1600 million in excess of the level assumed in setting the cash limit.

2. If no action is taken, we shall almost certainly find ourselves obliged once again to concede extra capital allocations under the end year flexibility (EYF) arrangements. The figure is likely to be £135 million this year as against £142 million last year (see table at annex).

3. As you yourself have frequently commented, it goes against the grain to reward local authorities with substantial extra capital allocations when they are awash with receipts and are already overspending massively in gross terms.

RESTRICTED

4. We have discussed accordingly with officials from DOE and, to a lesser extent, other departments concerned, as well as our GEP colleagues, how best the Government can get rid of its obligation to make further EYF payments on this cash limit. Our conclusion is that the best course is the radical one of discontinuing the cash limit and the associated EYF arrangements, for this year and next. Since the WO/LA1 cash limit in Wales exactly parallels the DOE/LA1 cash limit in England, we would need to treat the two limits in the same way.

5. The characteristic difficulty in this area, as you will recall, is how to make changes which we believe will be to the Government's advantage without running the risk of legal challenge on grounds of unreasonable behaviour or confounding legitimate expectations. Based on advice from DOE lawyers, we believe that discontinuing the cash limit would not involve any serious risk. The main considerations are:

- first, the proposal would have an upside for local authorities (no penalties in case of a net overspend on the cash limit) as well as a downside (no end year flexibility payments in case of a net underspend); and

- second, provided that DOE does not publish projections for the outcome of this year's cash limit until after we have announced its discontinuation, it would seem hard for local authorities to contend that legitimate expectations of an EYF bonus were being dashed.

It would however be important to be punctilious, as always, about formally consulting with Local Authority Associations rather than presenting them with a total fait accompli.

6. DOE have already consulted informally with their own lawyers about this. We are consulting separately with the Treasury Solicitor. We think it right in addition, as envisaged in the accompanying draft letter, to give the Attorney General himself the opportunity to comment if he wishes.

RESTRICTED

7. The obverse of the point above about the upside for local authorities (no penalties in the event of a net overspend) is that there is, in principle at least, a potential downside for the Government in discontinuing the cash limit. The existing regime provides that, if the net cash limit is exceeded (as has happened in Wales in every year of its existence: see annex), the cash limit in the following year or the year after that will normally be reduced by an offsetting amount or account will be taken of the excess in fixing the levels of allocations in those years. It is by no means impossible that the cash limit will be overspent, especially next year, whether as a result of higher than expected gross spending or of lower than expected RTB receipts.

8. We have, I think, to weigh this risk seriously. In my view, however, the correct course is to abolish the cash limit even so. It is virtually certain that receipts will massively exceed the assumptions built into the cash limit for this year. Next year, the position is more debatable. A net overspend is much more possible. Realistically, however, the Government has barely ever succeeded in enforcing penalties on local authorities in the past, and it must be especially doubtful whether this could be achieved simultaneously with introduction of the new capital control system. The power to impose penalties would, I fear, like Nothing, come to pieces in our hands.

9. The other important point which we shall need to watch is that it will be essential in presenting abolition of the two existing cash limits to make clear that in no sense is the Government retreating from its general policy on cash limits. To that end, we recommend that the Government should announce simultaneously that with effect from 1990-91, when the new public expenditure planning total and local authority capital control systems are to be introduced, the Government proposes to impose cash limits on central government grants and credit approvals.

10. If abolition of the cash limits is agreed to be the correct course, it is for consideration whether you or Mr Ridley should announce it. We understand that Mr Ridley, or DOE officials on his behalf, would prefer that you should do so. Since the issue

RESTRICTED

primarily concerns the operation of cash limits and end year flexibility arrangements, and since it applies to Wales as well as England, I think it would in fact be appropriate for you to make the announcement. As to format, we would recommend an arranged written question and answer for Friday of next week, if possible, or failing that Monday/Tuesday of the week after.

11. I attach accordingly a draft letter from you to Mr Ridley and a draft arranged written question and answer.

12. I am much indebted to Mr Laite and Mr Richardson for help with this submission and to Mr Potter for conducting the discussions with DOE officials.

AJCE
A J C EDWARDS

Annex

Cash limit overspends, underspends and EYF: 1984-85 to 1988-89

£million (% in brackets)

	Cash Limit (Net Provision)	Net overspend (+) Net underspend (-)	Penalty (-) EYF Payment (+)
<u>DOE/LA1</u>			
1984-85	2453	1067 (43.5)	-
1985-86	1911	998 (52.2)	[Penalty for 1983-84]
1986-87	2369	329 (13.9)	-
1987-88	2834	-772 (-27.2)	142 (granted in Feb and May 1988)
1988-89 (Estimate)	2693	-779 (-28.9)	135 (Estimate)
<u>WO/LA1</u>			
1984-85	237	21 (8.9)	-
1985-86	248	16 (6.5)	-
1986-87	267	81 (30.3)	-
1987-88	298	89 (29.8)	-
1988-89 (Estimate)	288	61 (21.2)	-

DRAFT LETTER FROM CHIEF SECRETARY

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

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END YEAR FLEXIBILITY**

I understand from my officials that we face the prospect of another massive net underspend this year, possibly of the order of £½ billion, on the main cash limit for local authority capital expenditure in England (DOE/LA1). The prospective net underspend is made up of a large overspend on gross provision, of the order of £850 million, offset by an addition of over £1600 million to projected receipts.

Since the end year flexibility regime for DOE/LA1, unlike those generally applying to departments, is based on expenditure net of receipts and not on gross expenditure, we should as things stand be obliged on these figures, this year as last year, to reward local authorities by conceding substantial additional capital allocations. I understand that the cost on this occasion would be likely to be some £135 million, charged to the 1989-90 Reserve.

It is, I think, beyond doubt that we must act swiftly so as to remove any obligation to give local authority this end year flexibility bonus. I do not see how we could again defend giving them extra capital allocations when they are likely to have overspent their 1988-89 gross provision by the large margin mentioned above; when they will continue over the next 18 months to have an unprecedented level of accumulated receipts and unique incentives to spend them; and when they have never been properly penalised for overspending their cash limits in the past.

RESTRICTED

More generally, I think it is clear that, given the large and unpredictable levels of receipts from RTB sales, a control system based on expenditure net of receipts no longer makes much sense. It means that the more successful our own policies are, the more freedom local authorities have to increase their expenditure. It has been clear for sometime, moreover, that most local authorities pay no attention to the Government's cash limits.

In the medium term, we are tackling these problems through our proposals for the new capital control system for local authorities. The immediate question is what action we can best take to avoid giving local authorities further unjustified end year flexibility bonuses over the next 18 months.

Officials have concluded after studying the matter that the best solution will be to discontinue the DOE/LA1 cash limit, and the end year flexibility arrangements associated with it, for this year and next. I agree with this conclusion. For consistency, we would need similarly to discontinue the WO/LA1 cash limit in Wales.

In taking this step, we would need to make quite clear that in no sense are we retreating from our policy on cash limits. To that end I suggest we should announce simultaneously that with effect from 1990-91, when the new public expenditure planning total and local authority capital control systems are to be introduced, the Government proposes to impose cash limits on central government grants and credit approvals. So far as the intervening period is concerned, we would need to emphasise that a cash limit applied to expenditure net of receipts no longer makes any sense in present conditions.

I would hope, subject to any further points which Patrick Mayhew may have, that there would be no serious risk of legal challenge on grounds of unreasonable behaviour or confounding legitimate expectations. Discontinuing these cash limits would have an upside for local authorities (no penalties in case of a net overspend) as well as a downside (no end year flexibility payments

RESTRICTED

in case of a net underspend). And provided that DOE does not publish projections for the outcome on this year's cash limit until after we have announced its discontinuation, it will be difficult for local authorities to argue convincingly that legitimate expectations of an end year flexibility bonus were being dashed. To minimise any risk of challenge, however, I imagine you would agree that our announcement should make clear that we intend to consult with the Local Authority Associations in the usual way.

If you feel, as I imagine you will, that it would be more apposite for the Treasury than DOE to make the announcement, I would propose to arrange a written question and answer for issue on Friday of this week (4 November), if possible, or failing that on Monday or Tuesday of next week. A draft is attached.

With apologies for the short notice, I would be grateful to receive any comments from colleagues by close on Wednesday. I hope I may assume, unless I hear to the contrary, that colleagues who have not commented by then will be content to proceed in the way suggested.

I am copying this letter to the Prime Minister, Peter Walker, Malcolm Rifkind, Patrick Mayhew, Douglas Hurd, Kenneth Baker, Paul Channon, Kenneth Clarke and John MacGregor, and to Sir Robin Butler.

DRAFT ARRANGED WRITTEN QUESTION AND ANSWER

M...to ask Mr Chancellor of the Exchequer what plans he has for cash limits on local authority capital spending.

MR JOHN MAJOR

As already announced, the Government plans to introduce with effect from 1990-91 the new public expenditure planning total set out in Cm441 and, subject to the approval of Parliament, the new system to regulate the capital finance of Local Authorities in England and Wales about which my Rt Hon Friends the Secretaries of State for the Environment and Wales have consulted local government. I propose that, with effect from 1990-91, cash limits should be applied to the sources of finance for local authority capital expenditure which will fall within the new planning total, viz central government grants and credit approvals. The main existing cash limits on local authority capital spending in England and Wales (DOE/LA1 and WO/LA1) apply to expenditure net of receipts. With the recent surge in receipts, and given the difficulties of predicting future levels of receipts, these cash limits are no longer appropriate as instruments of financial management and control. Subject to consultation with the Local Authority Associations, therefore, I propose that these cash limits, and the associated end-year flexibility and penalty arrangements, should be discontinued with effect from the current financial year.

CONFIDENTIAL

MP

FROM : MISS J C SIMPSON
DATE : 31 OCTOBER 1988

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/CST
PS/FST
Mr Odling-Smee
Mr Mountfield
Mr Dyer

QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

The Lord President's minute of 27 October to the Prime Minister attached the text of this speech as approved by QL. He is now seeking formal approval from Cabinet colleagues. This should reach him by close today, 31 October.

2. The only change from previous versions is the substitution of 'agreement' for 'consensus' in line 1 of paragraph 8. I assume that this causes us no difficulties.

Ch/
OK?

mpw

JC

MISS J C SIMPSON



CONFERENCE	
NO.	28 OCT 1988
NAME	MISS SIMPSON
POST	FST, CST
MR DYER	
MR PICKFORD	

PRIME MINISTER

QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

I wrote to James Mackay on 21 October with drafts of The Queen's Speeches on the Prorogation and Opening of Parliament and inviting colleagues' comments on them.

No changes of substance to the draft of the Prorogation Speech were suggested by colleagues, and the attached version, which I submit for formal approval, has been revised to incorporate a number of minor drafting amendments only. I will, if I may, assume that you and Cabinet colleagues are content with it unless I hear to the contrary by close on Monday 31 October. I will, in due course, circulate for Cabinet consideration a Memorandum on the draft Opening Speech.

I am copying this minute to Cabinet colleagues and Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'JW'.

JW

27.10.88

CONFIDENTIAL

PROROGATION SPEECH

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. The Duke of Edinburgh and I were pleased to receive the State Visits of His Majesty King Hassan II of Morocco in July 1987, His Majesty King Olav of Norway in April of this year, His Excellency the President of the Republic of Turkey in July, and the President of the Republic of Senegal and Madame Diouf earlier this month. I was pleased to receive President Reagan of the United States after his visit to Moscow in June.
2. We recall with pleasure our visit to Canada in October last year, where I was also present on the occasion of the Commonwealth Heads of Government Meeting in Vancouver. Earlier this year we visited Australia in her Bicentenary year and the Netherlands to mark the William and Mary Tercentenary. Also to mark the Tercentenary, I received Loyal Addresses from both Houses in July. We remember with much satisfaction our State Visit to Spain in October.
3. My Government have helped to promote better relations between East and West and have played an active part in the Vienna Review Conference on Security and Cooperation in Europe.
4. My Government have continued to enhance Britain's defences and have played a full part in the Atlantic Alliance.
5. My Government have worked vigorously for balanced and verifiable agreements on arms control in respect of nuclear and conventional weapons and for the abolition of chemical weapons. They have supported the Treaty between the United States and the Soviet Union for the elimination of their intermediate and shorter range missiles, as a result of which cruise missiles are being removed from the United Kingdom.

6. My Government have fully supported the United Nations in its recent efforts to negotiate a ceasefire between Iran and Iraq. They have welcomed the start of the Soviet troop withdrawal from Afghanistan and have supported efforts to restore that country's independence and non-aligned status. My Government have encouraged the forces for change in Southern Africa and have urged the countries of that region to settle their problems peacefully.

7. My Government have reached agreement with our European Community partners on the restructuring of the Community's finances and on certain measures of reform of its Common Agricultural Policy. They have continued to play a full and active role in negotiations to achieve the completion of a single market within the European Community by the end of 1992, and have encouraged business to prepare for the opportunities and challenges that this presents.

8. My Government welcomed the agreement reached on their initiative to provide debt relief to some of the poorest countries in Africa. They have continued to provide a substantial aid programme, both directly and through the European Community, including emergency assistance to the victims of natural disasters in Asia, Africa and the Caribbean.

9. My Government have continued their vigorous efforts to combat international terrorism. They have signed agreements with the United States, Canada, Australia and the Bahamas to provide reciprocal assistance in combatting trafficking in drugs.

10. My Government and the Chinese Government have continued to make good progress in implementing the Sino-British Joint Declaration on Hong Kong. My Government have stood by their commitments to the people of the Falkland Islands, while continuing to seek more normal relations with Argentina.

MEMBERS OF THE HOUSE OF COMMONS

11. I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

12. My Government have continued to pursue sound financial policies designed to keep inflation under control and to sustain economic growth. They have made a public sector debt repayment. The national output has continued to grow, as has the number of people in work. Further steps have been taken to help unemployed people into work through the introduction of the Employment Training programme and the extension of the Youth Training Scheme.

13. As part of my Government's programme to encourage enterprise and improve the performance of the economy, the basic rate of income tax has been further reduced and all but the lowest of the remaining rates have been abolished. Legislation has been enacted to reform and simplify the tax system and to provide for the independent taxation of married couples.

14. In further pursuit of my Government's commitment to encourage greater industrial efficiency and to promote wider share ownership, legislation has been enacted to provide for the sale to the public of shares in British Steel and to enable the water authorities and the electricity supply industry to prepare for privatisation.

15. An Act has been passed for England and Wales to replace domestic rates with the community charge and to introduce uniform non-domestic rates.

16. An Act has been passed to reform the legislation on rented housing and to give local authority tenants new rights to choose their landlord.

17 Legislation has been enacted to promote further competition in the provision of local authority services.

18. An Act has been passed to reform the education system by widening parental choice, by making provision for a national curriculum and by increasing the autonomy of educational institutions.

19. An Act has been passed to provide for greater democracy and accountability within trades unions and to provide further protection against trade union enforcement of closed shops.

20. Legislation has been passed to improve the working of criminal justice; to reform the law of extradition; and to improve the assistance available to victims of crime.

21. An Act has been passed to strengthen the controls over the possession of firearms.

22. Legislation has been enacted to reinforce firm but fair immigration control.

23. An Act has been passed for England and Wales to introduce greater flexibility in licensing hours and to strengthen provisions to curb the misuse of alcohol.

24. Further progress has been made in the consolidation of our statute law. Legislation has been passed to improve the arrangements for legal aid.

25. An Act has been passed to reform the law of copyright and to make improvements in other areas of intellectual property law.

26. A reformed system of social security has been introduced.

27. An Act has been passed further to reform the law on shipping and safety at sea.

28. An Act has been passed to authorise the construction of a railway tunnel under the English Channel to link Britain and France.

29. Legislation has been enacted to authorise a third crossing of the Thames at Dartford.

30. In Northern Ireland, my Government have continued their efforts to combat terrorism. They have developed their constructive relations with the Republic of Ireland through the Anglo-Irish Agreement and have continued to promote the economic revival and political stability of Northern Ireland.

31. For Scotland, measures have been passed to create a new housing agency and to encourage the provision of private rented housing, to improve the management of schools and to reform the law on civil evidence.

32. An Act has been passed to establish a statutory authority for the Norfolk and Suffolk Broads.

33. Legislation has been enacted to encourage the planting of farm woodlands and diversification by farmers.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may attend you.

MP
FROM: MISS M P WALLACE

DATE: 31 October 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Mr Edwards
Mr Turnbull
Mr Potter o/r
Mr Richardson
Mrs Butler
Mr White
Mr Wood
Mr B O Dyer
Mr Laite
Mr Pegler
Mr Call**LOCAL AUTHORITY CAPITAL EXPENDITURE: CASH LIMITS AND END YEAR FLEXIBILITY**

The Chancellor has seen Mr Edwards' minute of 28 October. He has commented that we need to be very careful about the timing and presentation of this. Abolition of the cash limit on LA capital could give a dangerous signal.

MPW.

MOIRA WALLACE


RESTRICTED



PPS PL

FROM MISS C EVANS
DATE 31 October 1988

MR A J C EDWARDS

cc: Chancellor 
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr Gieve
Mr Richardson
Mrs Butler
Mr White
Mr Wood
Mr B O Dyer
Mr Laite
Mr Pegler
Mr Call**LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END YEAR FLEXIBILITY**

The Chief Secretary discussed with you today your minute of 28 October. He is sure that it is right to abolish the DOE/LA1 cash limit, but he is concerned about the legal position. Local authorities are already aware of the likely underspend this year and may well have formed a reasonable expectation of carry forward next year. In formulating advice on the legality of abolition, the Attorney General must be in no doubt that we and the local authorities expect an underspend this year, which will become even clearer after the Autumn Statement. You agreed to amend the draft letter accordingly.

2 The Chief Secretary is also concerned about presentation. If the Opposition realise the significance of this they will allege that, having encouraged local authorities successfully to sell council houses, the Government is making sure that they do not benefit from the saving in net provision by getting extra allocations next year, as they would under the present rules. This will be presented as the Government cutting back on the extra provision for special needs and other housing which, it will be argued, is needed as a result of council house sales.

3 You said that in response to these criticisms the Government could argue that the cash limit was a nonsense, that although abolition would work to the authorities' disadvantage this year, next year could well be different. And following 1990 an entirely new cash limit would be in place.

4 Mr Potter said that the local authorities' reaction would be made worse by the level of allocations announced in the Autumn Statement which would be lower than they were expecting.

5 On handling, the Chief Secretary decided that a written statement was acceptable, but this should not be on a Friday. He concluded that the best day would be Tuesday of next week. You agreed to ensure that the Attorney General's officials were given the revised draft letter in advance, to ensure that they had plenty of time to formulate their advice, but the Chief Secretary would not write until after the Autumn Statement, in order to reflect any presentational points in his letter.

6 The Chief Secretary said that it would be vital to ensure that the Press Office had detailed Question and Answer briefing on what the Government was doing and why, and what will happen when the new capital control system is put in place.

Carys Evans

MISS C EVANS
Private Secretary

RESTRICTED

MS P2

FROM: A J C EDWARDS
DATE: 31 OCTOBER 1988

CHIEF SECRETARY

cc **Chancellor**
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Gieve
Mr Potter
Mr Richardson
Mrs Butler
Mr A M White
Mr Wood
Mr B O Dyer
Mr Laite
Mr Pegler
Mr Call

BF 2/11

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
POSTSCRIPT ON CASH LIMITS AND END YEAR FLEXIBILITY**

Further to our discussion this morning, Mr Potter and I have considerably expanded the paragraph in the draft letter to Mr Ridley which deals with the possibility of legal challenge. We have also amended the draft so as to provide for an arranged written question and answer on Tuesday of next week, 8 November, rather than Friday of this week. We have taken the opportunity to make one or two other small improvements as well, both in the draft letter and in the draft Written Answer. Revised drafts are attached.

2. If you agree, the way should now be open for the letter to issue tomorrow (Tuesday) evening. In the meantime I am, as we agreed, letting the Attorney General's officials have an advance copy of the draft letter so that they can prepare themselves to give expeditious advice to the Attorney General.

3. Postscript. In response to the Chancellor's comment on presentation (just received) I have strengthened the last sentence and underlined three key words in paragraph 7 of the draft letter. We will also, of course, cover the Chancellor's point carefully in the Q & A briefing for you and the Press Office. As to timing, announcement on 8 November should help to preclude prominent coverage.

AJCE

A J C EDWARDS

DRAFT LETTER FROM CHIEF SECRETARY

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

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END YEAR FLEXIBILITY**

I understand from my officials that we have the prospect of another massive net underspend this year, possibly of the order of £½ billion, on the main cash limit for local authority capital expenditure in England (DOE/LA1). The prospective net underspend is made up of a large overspend on gross provision, of the order of £850 million, offset by an addition of over £1600 million to projected receipts.

The end year flexibility regime for this cash limit, unlike those generally applying to departments, is based like the cash limit itself on expenditure net of receipts and not on gross expenditure. As things stand, therefore, we should be obliged on the above figures, this year as last year, to reward local authorities by conceding substantial additional capital allocations. I understand that the cost on this occasion would be likely to be some £135 million, charged to the 1989-90 Reserve.

It is, I think, beyond doubt that we must act swiftly so as to remove any obligation to give local authorities this end year flexibility bonus. I do not see how we could again defend giving them extra capital allocations when they are likely to have overspent their 1988-89 gross provision by the large margin mentioned above; when they will continue over the next 18 months to have an unprecedented level of accumulated receipts and unique incentives to spend them; and when they have never been properly penalised for overspending their cash limits in the past.

RESTRICTED

More generally, I think it is clear that, given the large and unpredictable levels of receipts from RTB sales, a control system based on expenditure net of receipts no longer makes much sense. It means that the more successful our own policies are, the more freedom local authorities have to increase their expenditure.

In the medium term, we are tackling these problems through our proposals for the new capital control system for local authorities. The immediate question is what action we can best take to avoid giving local authorities further unjustified end year flexibility bonuses over the next 18 months.

Officials have concluded after studying the matter that the best solution will be to discontinue the DOE/LA1 cash limit, and the penalty and end year flexibility arrangements associated with it, for this year and next. I agree with this conclusion. For consistency, we would need similarly to discontinue the WO/LA1 cash limit in Wales.

In taking this step, we would need to make quite clear that in no sense are we retreating from our policy on cash limits. To that end I suggest we should announce simultaneously that with effect from 1990-91, when the new public expenditure planning total and local authority capital control systems are to be introduced, the Government proposes to impose cash limits on sources of finance for local authority expenditure which fall within the new public expenditure planning total. So far as the intervening period is concerned, we would need to emphasise that a cash limit applied to expenditure net of receipts no longer makes any sense as an instrument of control in present conditions.

Subject to any points which Patrick Mayhew may have, I would hope that the solution we have in mind would not involve any serious risk of legal challenge. Local authorities may be somewhat disappointed anyway by our decision to continue with the policy of cutting capital allocations, and we cannot exclude that they might consider challenging our proposed solution on grounds of legitimate expectations. Their argument would have to be that the existing DOE circular provides for a cash limit system with end year flexibility as well as penalty provisions; that the Government issued £75 million in extra allocations last November because of the net underspend in prospect on the cash limit for

RESTRICTED

1987-88; and that the Government later gave a further £141.7 million in allocations under the end year flexibility scheme itself. For 1988-89, local authorities are already aware, from the projections in their own capital expenditure returns reported to the Capital Programmes Working Party in July, that a net underspend is in prospect for 1988-89, and the Autumn Statement tables will confirm this. Local authorities might therefore seek to argue that they have a right to expect at least end year flexibility allocations this year.

Against that, however, end year flexibility allocations are in the nature of a bonus from the point of view of individual authorities; and our proposal to have no cash limit or end year flexibility this year or next would have an upside for local authorities in 1989-90 (no penalties in case of a net overspend) as well as a downside for this year (no end year flexibility bonus). To minimise the risk of challenge, I believe our announcement should (as suggested above) underline the unsatisfactory nature of the cash limit itself in present circumstances (a point which the PAC have already made) and make it clear that we intend to consult the Local Authority Associations in the usual way.

If you feel, as I imagine you will, that it would be more apposite for the Treasury than DOE to make the announcement, I would propose to arrange a written question and answer for issue on Tuesday of next week, 8 November. A draft is attached.

With apologies for the short notice, I would be grateful to receive any comments from colleagues by close on Thursday. I hope I may assume, unless I hear to the contrary, that colleagues who have not commented by then will be content to proceed in the way suggested.

I am copying this letter to the Prime Minister, Nigel Lawson, Peter Walker, Malcolm Rifkind, Patrick Mayhew, Douglas Hurd, Kenneth Baker, Paul Channon, Kenneth Clarke and John MacGregor, and to Sir Robin Butler.

DRAFT ARRANGED WRITTEN QUESTION AND ANSWER

M...to ask Mr Chancellor of the Exchequer what plans he has for cash limits on local authority capital spending.

MR JOHN MAJOR

As already announced, the Government plans to introduce with effect from 1990-91 the new public expenditure planning total set out in Cm441 and, subject to the approval of Parliament, a new system to regulate the capital finance of Local Authorities in England and Wales about which my Rt Hon Friends the Secretaries of State for the Environment and Wales have consulted local government. The Government's broad intention is that, with effect from 1990-91, cash limits should be applied to the sources of finance for local authority capital expenditure which fall within the new planning total. The main existing cash limits on local authority capital spending in England and Wales (DOE/LA1 and WO/LA1) apply to expenditure net of receipts. With the recent surge in receipts, and given the difficulties of predicting future levels of receipts, these cash limits are no longer appropriate as instruments of financial management and control. Subject to consultation with the Local Authority Associations, therefore, the Government proposes that these cash limits, and the associated end-year flexibility and penalty arrangements, should be discontinued with effect from the current financial year.



FROM: A P HUDSON

DATE: 31 October 1988

APH

PS/FINANCIAL SECRETARY

cc Mr Culpin
Mr G Dickson
Mrs Chaplin
Mr Tyrie
Mr Call
PS/IR
Mr Stewart IR

PRIORITY WRITTEN PQ FROM SIR IAN GILMOUR

The Chancellor is content with the draft reply attached to Mr Stewart's 28 October minute.

APH

A P HUDSON



FROM: B O DYER
DATE: 31 October 1988

01-270 4520

CHANCELLOR

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

**CABINET : TUESDAY 1 NOVEMBER 1988
PARLIAMENTARY AFFAIRS**

Following is the business I expect to be provisionally proposed for the Commons next week - subject to progress in the Lords and Shadow Cabinet representations:

Monday 7 November

- 2.30pm: Energy Questions
- 3.20pm: Civil Service Questions (Mr Luce)
- 3.30pm: Rate Support Grants Bill: Committee and remaining stages
Copyright, Design and Patents Bill: Consideration of
Lords Amendments

Tuesday 8 November

- 2.30pm: Education and Science Questions
- 3.15pm: PMS Questions
- 3.30pm: Ten Minute Rule Bill (British Rail Privatisation -
Mr N Bennett)
- 3.40pm: School Boards (Scotland) Bill: Consideration of Lords
Amendments

Wednesday 9 November

- 2.30pm: Scottish Questions
- 3.30pm: Ten Minute Rule Bill (Parental Leave - Mr H Cohen)
- 3.40pm: Housing Bill: Consideration of Lords Amendments

CONFIDENTIAL



Thursday 10 November

2.30pm: Northern Ireland Questions

3.15pm: PMs Questions

3.30pm: Business Statement

3.50pm: [Opposition Day]

[Road Traffic Bills: Committee - Att. Gen]

[*Criminal Evidence N.I. Order (right to remain silent)*]

Friday 11 November

9.30am: Debate on a motion for the Adjournment - subject to be decided: possibly Homelessness and Housing.

B O DYER

Parliamentary Clerk



FROM: J M G TAYLOR
DATE: 31 October 1988

MS ROGERSON

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr B Fox
Mr J P McIntyre
Mrs Brown
Mr O'Donnell
Mr Farthing
Mr Pickford
Mr Williams - PE1
Mr Dyer

PS/IR
PS/C&E

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

The Chancellor was grateful for your minute of 28 October.

A handwritten signature, likely of J M G Taylor, consisting of stylized initials.

J M G TAYLOR

make
2.55 p.m.

told BD
told JG re → Gallery
before Ch sits down



* → NF to bring back

told him

31/10/88.

pnp

CHANCELLOR

GIVING COPIES OF ORAL STATEMENT ETC TO OPPOSITION AND OTHERS

We need to decide when and to whom we give advance copies of your oral statement, and whether we give advance copies of any of the documentation.

2. Under the normal conventions, Gordon Brown and Neil Kinnock would get a copy of your oral statement via the usual channels by 3pm at the latest. It would cause a major row, including no doubt points of order, if we were to decline to do this. But given the involvement of the Labour front bench in the use of the 'check against delivery' copy of your speech last week, I see no reason for going out of our way to give it to them early.

3. Last year, Nigel Forman took across to the House complete packages of press notices etc for Kinnock, Smith, Owen, Steel, Molyneaux, William Clark, Sheldon and Higgins. At about 3pm he rang each of their offices and said that the packages were available for collection for their personal use. This is standard practice. We have a choice whether or not to do this this year (substituting Brown for Smith and Ashdown for Steel). One possibility is to follow the Budget precedent and hand round all packages in the Chamber as soon as you sit down. This would no doubt be resented by Clark and Higgins, but there would obviously be a real danger of a row if you gave information to them but not opposition party leaders. Again, follow usual practice, but no earlier than strictly necessary?

A C S ALLAN

(* Gordon Brown has already rung asking when he could see this - we of course refused to confirm that AS was tomorrow)

RESTRICTED

BF4/4

cc:
 Chancellor ⁻²
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Mr Turnbull
 Mr A J C Edwards
 Mr Gieve
 Mr Potter
 Mr Richardson
 Mrs Butler
 Mr A M White
 Mr Wood
 Mr B O Dyer
 Mr Laite
 Mr Pegler
 Mr Call



Treasury Chambers, Parliament Street, SW1P

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

2 November 1988

Dear Secretary of State

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
 CASH LIMITS AND END YEAR FLEXIBILITY**

I understand from my officials that we have the prospect of another massive net underspend this year, possibly of the order of £½ billion, on the main cash limit for local authority capital expenditure in England (DOE/LA1). The prospective net underspend is made up of a large overspend on gross provision, of the order of £850 million, offset by an addition of over £1600 million to projected receipts.

The end year flexibility regime for this cash limit, unlike those generally applying to departments, is based like the cash limit itself on expenditure net of receipts and not on gross expenditure. As things stand, therefore, we should be obliged on the above figures, this year as last year, to reward local authorities by conceding substantial additional capital allocations. I understand that the cost on this occasion would be likely to be some £135 million, charged to the 1989-90 Reserve.

It is, I think, beyond doubt that we must act swiftly so as to remove any obligation to give local authorities this end year flexibility bonus. I do not see how we could again defend giving them extra capital allocations when they are likely to have overspent their 1988-89 gross provision by the large margin mentioned above; when they will continue over the next 18 months to have an unprecedented level of accumulated receipts and unique incentives to spend them; and when they have never been properly penalised for overspending their cash limits in the past.

More generally, I think it is clear that, given the large and unpredictable levels of receipts from RTB sales, a control system based on expenditure net of receipts no longer makes much sense. It means that the more successful our own policies are, the more freedom local authorities have to increase their expenditure.

In the medium term, we are tackling these problems through our proposals for the new capital control system for local authorities. The immediate question is what action we can best take to avoid giving local authorities further unjustified end year flexibility bonuses over the next 18 months.

Officials have concluded after studying the matter that the best solution will be to discontinue the DOE/LA1 cash limit, and the penalty and end year flexibility arrangements associated with it, for this year and next. I agree with this conclusion. For consistency, we would need similarly to discontinue the WO/LA1 cash limit in Wales.

In taking this step, we would need to make quite clear that in no sense are we retreating from our policy on cash limits. To that end I suggest we should announce simultaneously that with effect from 1990-91, when the new public expenditure planning total and local authority capital control systems are to be introduced, the Government proposes to impose cash limits on sources of finance for local authority expenditure which fall within the new public expenditure planning total. So far as the intervening period is concerned, we would need to emphasise that a cash limit applied to expenditure net of receipts no longer makes any sense as an instrument of control in present conditions.

Subject to any points which Patrick Mayhew may have, I would hope that the solution we have in mind would not involve any serious risk of legal challenge. Local authorities may be somewhat disappointed anyway by our decision to continue with the policy of cutting capital allocations, and we cannot exclude the possibility that they might consider challenging our proposed solution on grounds of legitimate expectations. Their argument would have to be that the existing DOE circular provides for a cash limit system with end year flexibility as well as penalty provisions; that the Government issued £75 million in extra allocations last November because of the net underspend in prospect on the cash limit for 1987-88; and that the Government later gave a further £141.7 million in allocations under the end year flexibility scheme itself. For 1988-89, local authorities are already aware, from the projections in their own capital expenditure returns reported to the Capital Programmes Working Party in July, that a net underspend is in prospect for 1988-89, and the Autumn Statement tables will confirm this. Local authorities might therefore seek to argue that they have a right to expect at least end year flexibility allocations this year.

Against that, however, end year flexibility allocations are in the nature of a bonus from the point of view of individual authorities; and our proposal to have no cash limit or end year flexibility this year or next would have an upside for local authorities in 1989-90 (no penalties in case of a net overspend)

as well as a downside for this year (no end year flexibility bonus). To minimise the risk of challenge, I believe our announcement should (as suggested above) underline the unsatisfactory nature of the cash limit itself in present circumstances (a point which the PAC have already made) and make it clear that we intend to consult the Local Authority Associations in the usual way.

If you feel, as I imagine you will, that it would be more apposite for the Treasury than DOE to make the announcement, I would propose to arrange a written question and answer for issue on Tuesday of next week, 8 November. A draft is attached.

...

With apologies for the short notice, I would be grateful to receive any comments from colleagues by close on Thursday. I hope I may assume, unless I hear to the contrary, that colleagues who have not commented by then will be content to proceed in the way suggested.

I am copying this letter to the Prime Minister, Nigel Lawson, Peter Walker, Malcolm Rifkind, Patrick Mayhew, Douglas Hurd, Kenneth Baker, Paul Channon, Kenneth Clarke and John MacGregor, and to Sir Robin Butler.

Yours sincerely

Caingis Evans

JOHN MAJOR

*(approved by the Chief Secretary
and signed in his absence)*

DRAFT ARRANGED WRITTEN QUESTION AND ANSWER

M...to ask Mr Chancellor of the Exchequer what plans he has for cash limits on local authority capital spending.

MR JOHN MAJOR

As already announced, the Government plans to introduce with effect from 1990-91 the new public expenditure planning total set out in Cm441 and, subject to the approval of Parliament, a new system to regulate the capital finance of Local Authorities in England and Wales about which my Rt Hon Friends the Secretaries of State for the Environment and Wales have consulted local government. The Government's broad intention is that, with effect from 1990-91, cash limits should be applied to the sources of finance for local authority capital expenditure which fall within the new planning total. The main existing cash limits on local authority capital spending in England and Wales (DOE/LA1 and WO/LA1) apply to expenditure net of receipts. With the recent surge in receipts, and given the difficulties of predicting future levels of receipts, these cash limits are no longer appropriate as instruments of financial management and control. Subject to consultation with the Local Authority Associations, therefore, the Government proposes that these cash limits, and the associated end-year flexibility and penalty arrangements, should be discontinued with effect from the current financial year.

AUSTIN MITCHELL PQs

folder

Prayers
known



FROM: B O DYER
DATE: 2 November 1988

01-270 4520

PS/FINANCIAL SECRETARY

cc

PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
PS/Inland Revenue
Mrs Chaplin

*Ch. NB Also
Mr Calder's note,
behind of.*

*Ch. This really does seem
a pretty gross abuse of the
system. Didn't you once respond to a similar excess on the lines
that the Official Report was not an economics textbook? A
near case for something of the sort here, I think.*

AUSTIN MITCHELL PQs

2/11

Appearing on today's Order Paper for the first time are over 50 written PQs from Mr Austin Mitchell - list attached. Most are for answer tomorrow, and the remainder within a week or so. The bulk are time and resource consuming questions of a statistical nature, and fall to the Inland Revenue and the Financial Secretary to answer. Clearly, few if any can be answered substantively on the due date, and a goodly number may take some weeks to prepare.

2. This raft of questions from Mr Mitchell - acting, I suspect, as a conduit for his research assistant - borders on an abuse of the system, using the Official Report as a statistical abstract or analysis. The Financial Secretary may wish to discuss with Ministerial colleagues - possibly at Prayers - whether a robust negative response might be appropriate on this occasion?

3. This is not the first time Mr Mitchell has tabled a grossly excessive run of such questions. Given the resource cost, I would have thought the very least officials should do is to ensure that the advisory cost figure of £250 is scrupulously adhered to; and, wherever possible, refer Mr Mitchell to published sources.

B O DYER
Parliamentary
Clerk

- 23 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of the saving to the Exchequer in a full year at 1988-89 rates of taxation and income of: (a) abolishing mortgage interest relief against higher-rate tax, (b) offsetting unearned income in excess of £200 a year against the relevant interest payment and (c) combining both (a) and (b); and if he will publish in the Official Report a table showing in each case his estimate of the numbers affected and the consequential saving by income bands.
- 24 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, further to his written reply of 19th October concerning higher-rate taxpayers, whether he will publish in the Official report a table showing for a married couple without wife's earnings his estimate of the number of wives in each income band with investment income and the average amount of such income together with his estimate of the cost, in terms of: (i) higher-rate and (ii) basic rate tax in 1988-89 of disaggregating the wife's income from that of her husband for tax purposes.
- 25 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, further to his written reply of 19th October concerning higher-rate taxpayers, whether he will publish in the Official Report a table showing for married couples (a) with wife's earnings and (b) with no earnings election, his estimate of the number of wives in each income band with investment income and the average amount of such income together with his estimate of the cost in terms of: (i) higher-rate and (ii) basic rate tax, of disaggregating the wife's income from that of her husband for tax purposes.
- 26 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, further to his written reply of 19th October concerning wife's earnings election, whether he will provide the information requested on the same total income basis as that given in his written reply of the same date concerning higher-rate taxpayers with a wife's earnings election together with the information on investment income and mortgage interest relief.
- 27 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, if further to his written reply of 19th October concerning higher-rate taxpayers with a wife's earnings election, he will provide for each income band figures showing the numbers and average amount of investment income held by each spouse together with the cost to the revenue in 1988-89 of disaggregating the wife's investment income from that of her husband for charging higher-rate tax; and if he will distinguish the cases where liability for higher-rate tax falls only on: (i) the husband, (ii) the wife and (iii) both.
- 28 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether it is proposed that when separate taxation of men and women is introduced in 1990/91 partners in a partnership shall be allowed to admit their spouses to the partnership on the same basis as themselves to reduce their liability to higher-rate tax even where the spouse is no more than a sleeping partner in the partnership.
- 29 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether the state pension for wives and the pension of a widow based on an occupational pension is treated as earned income for income tax purposes; and if he will publish in the Official Report his estimate of the number of earning and non-earning wives with income in 1988-89 by range of wife's total income up to the level of the personal allowance and thereafter by steps of £1,000 from £3,000 to £10,000 and subsequent steps to £50,000.

- 100 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report a table showing by range of total income the estimated number of one-earner and two-earner married tax units above and below pensionable age paying tax and their income tax liability in the current financial year on the basis of a transferable married allowance of £5,000 and a band of £3,000 at 15 per cent. followed by bands of £2,000 at 25 per cent. £7,500 at 35 per cent., £8,500 at 40 per cent., two bands of £9,000 at 45 and 50 per cent. and a band of £20,000 at 55 to a maximum rate of 60 per cent. on income in excess of £64,000, assuming that, apart from all other income tax allowances and reliefs are abolished.
- 101 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will include in the Official Report a table showing the expansion of domestic credit in cash terms and as a percentage of M3 at the beginning of each period for each of the years 1980 to 1987 and for each quarter since the beginning of 1986; and if he will specify in each case the contribution made by the overseas sector.
- 102 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the revenue yield in the current financial year of a tax surcharged equal to 10 per cent. of unearned income.
- 103 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the direct: (a) gain and (b) loss to the revenue from ending all double-taxation agreements for (i) profits and (ii) personal income.
- 104 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what was the principal reason for the reduction between 1985 and 1986 in the amount allocated by industrial and commercial companies out of income for the payment of United Kingdom taxes.
- 105 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, why the net operating surplus in manufacturing fell in 1980 and 1981; whether he will publish in the Official Report tables showing the estimated gross and net operating surpluses as a percentage of, respectively, gross and net added value in: (a) manufacturing and (b) industry plus transport and communication for 1987 and his tentative forecast for 1988 on the same basis as in tables 7.1 to 7.4 of the Organisation for Economic Co-operation and Development, Historical Statistics 1960-1986; and to what extent the improvement in the net operating surplus in manufacturing is due to an increase in the return on overseas investment.
- 106 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report his estimate of the increase in yield from: (a) higher rate and (b) income tax in 1988-89 by adding to the income for tax purposes of employers and their employees, respectively, an amount equal to the full cost, on a lease-back basis, of the provision of a passenger road vehicle other than a light van for personal as well as for business use grossed up to take account of the individual's marginal rate of tax, assuming that: (i) a mileage allowance is given and assessed to tax where business journeys have been authorised and properly recorded and (ii) no such allowance is given.
- 107 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the gain to the revenue from disallowing as a business expense the cost of acquiring, fuelling and maintaining passenger road vehicles, other than light vans in business livery, assuming that the properly recorded mileage actually driven on business is catered for by a mileage allowance.
- 108 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report his estimate of the increase in taxable: (a) corporate and (b) other profits in 1988-89 if the cost of leasing, purchasing and depreciating all passenger road vehicles other than light vans is disallowed as an expense, assuming that: (i) a mileage allowance for business use is given where journeys have been authorised and properly recorded and (ii) no such allowance is given.
- 109 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report a table showing the numbers of earning and non-earning married women with investment income by range of total income of the married couple in cases where neither spouse is paying higher rate tax.

- 110 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether his estimates of the amount of tax paid on investment income are derived from the tax returns showing the investment income of husband's and wives separately.
- 111 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the value of the pension contribution holidays which have been declared by public companies for the benefit of: (a) their shareholders and (b) their employees in each of the past three years to date; and what has been the benefit to the revenue therefrom.
- 112 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the tax yield from taxing: (a) the income of pension funds at the basic rate of tax and (b) the employee's pension contributions at a rate equal to the difference between the employee's marginal rate and the standard rate in respect of that part of the contribution which exceeds the threshold for higher rate tax when it is aggregated with the contributors' income for tax purposes.
- 113 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of: (a) the value of actual and notional pension contributions in the current financial year of the state and other kinds of pensions schemes detailed in paragraph 5 of the Inland Revenue consultative document issued in September 1983, (b) the value of the pensions paid under such schemes and (c) the amount of tax payable in each case assuming, in the case of disbursements, that the pensioner has no other income.
- 114 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the percentage of gross national product at factor cost taken by total taxes and social security contributions, respectively, in the current financial year and in 1973.
- 115 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the percentage of total personal income taken by: (a) direct taxes on households and (b) employees' social security contributions in the current financial year; and if he will provide corresponding figures for 1973.
- 116 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what is his estimate of the amount which public companies have appropriated from their pension funds for the benefit of their shareholders in each of the past three calendar years and current year to date; and at what rate such appropriations are subject to tax having regard to the relief given in earlier years.
- 117 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer,
W whether he will publish in the Official Report tables showing by income band for single persons and one-earner and two-earner married couples the direct gain to the revenue from, respectively: (a) abolishing the relief for the employees' pension contributions and (b) including as part of income the employer's pension contributions.
- 118 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer,
W whether he will publish in the Official Report a table showing for each of the relevant income bands for single persons and one-earner and two-earner married couples of non-pensionable age the increase in revenue yield in 1988-89 from: (a) disallowing mortgage interest relief against higher rate tax and (b) not including the amount of interest paid as an allowance against income in assessing the starting point for higher rate tax.
- 119 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer, what
W is the reason for not setting off investment income against mortgage interest tax relief in cases where investment income amounts to more than £500 a year; and if he will publish in the Official Report his estimate of the revenue yield from disallowing mortgage interest relief against all investment income in excess of £500 a year gross.
- 120 **Mr Austin Mitchell** (Great Grimsby): To ask Mr Chancellor of the Exchequer,
W what is the reason for the real decline in net domestic fixed capital formation in manufacturing industry between 1979 and 1987: what has been the effect on output and employment of the decline in the real fixed capital of manufacturing industry between 1979 and 1987; and what was the corresponding figure for 1974 to 1979.

141 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 19th October, Official Report, columns 936-8, he will publish in the Official Report a table showing for each income group in each category the loss of revenue in the current financial year as a result of the reduction in higher-rate tax to a uniform 40 per cent.

142 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 19th October, Official Report, columns 936-8, concerning higher-rate taxpayers, he will publish in the Official Report a table showing his estimate of the average of mortgage interest paid in each case.

145 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 19th October concerning farm incomes for tax purposes, Official Report, columns 923-6, he will publish in the Official Report tables showing for each year since 1970 the information in Tables 1 and 2 and the vertical totals in Tables 3 and 4.

148 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will bring up to date the figures for output per head of the working population given in his Answer dated 2nd March 1987 Official Report, column 521, including an estimate for the current year; and if he will add broadly comparable figures for 1958, 1963 and 1968 together with the average annual increase between 1958 and 1973, 1973 and 1988, and 1979 and 1988.

149 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report the number of cases concerning fraudulent claims for mortgage interest relief which have been prosecuted in each of the past three years and the current year to date, the amount of tax recovered, and the penalties exacted.

4-11-88

37 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 19th October, Official Report, columns 925-0, the number of tax units includes as one unit both husband and wife where a wife's earnings election is in operation.

9-11-88

9 Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 19th October, Official Report, columns 925-0, his estimate of the gross cost of raising child benefit to £20 for the first and £15 for subsequent children, the net cost after making the benefit taxable, and the savings from each of the other allowances for children on the assumption that these are reduced by: (a) 50 per cent. and (b) 100 per cent. of the increase in child benefit.

10 Mr Jim Marshall (Leicester South): To ask the Secretary of State for Northern Ireland, if he will make a statement on: (a) the precise reasons why his negotiations with Mr Ravi Tikkoo broke down and (b) the efforts presently being made by his Department to help secure the Ultimate Dream cruise liner order from Harland and Wolff.

Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will bring up to date the figures for receipts of corporation tax given in his written reply dated 6th April 1987, Official Report, column 83, together with a forecast in each case for: (a) receipts in 1988-89 and (b) the liability to tax arising out of profits earned in 1988; and if he will include an estimate of the revenue yield under (a) and (b) from an increase in the rate to 50 per cent.

Mr Austin Mitchell (Great Grimsby): To ask Mr Chancellor of the Exchequer, whether he will bring up to date at 1988-89 incomes the figures given in his reply dated 25th July 1986, Official Report, column 670, for tax liabilities under an alternative regime for taxation of incomes, but increasing the nil-rate band for single persons to £2,500 and reducing that for married couples to £2,000, increasing the exempt allowance for marrieds to £3,000, reducing the 15 per cent. band for singles from £2,000 to £1,500, reducing the standard rate from 28 to 25 per cent. and the band to £7,250 for singles and £9,500 for married couples, respectively, increasing the rate of claw-back under (c) to 50 per cent. of total income above £5,000 and £10,000 for singles and marrieds, respectively, instead of 25 per cent. above £6,000 and £8,000, and excluding from the claw-back under (d) the relief for superannuation contributions and donations to charities.

- 121 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of the revenue loss in: (a) basic rate and (b) higher rate tax in the current financial year of allowing husbands to set off the wife's earned income allowance against her unearned income where her earned income is less than the allowance; and if he will publish in the Official Report a table showing by range of income the gain to one-and two-earner families above and below pensionable age.
- 122 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of the revenue yield at current income and tax rates from withdrawing tax relief on the employee's actual and notional pension contributions for tax purposes; and if he will provide a comparable figure for the self-employed, including partnerships, &c.
- 123 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of the annual pension contribution required by an employer and an employee, respectively, as a percentage of earnings to provide a pension equal to the maximum allowed under Inland Revenue rules in the event of all tax privileges being withdrawn; and if he will state the revenue yield from the withdrawal together with the revenue loss from exempting such pensions from tax on the basis that the amount of the pension is not excluded from taxable income in estimating liability to higher rate tax.
- 124 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report his estimate of the proportion of single persons and married couples with a state pension who also have an occupational pension together with a table showing by income range the number in each case of those of less than pensionable age who make pension contributions under the national insurance scheme towards an occupational pension.
- 125 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report a table bringing up to date for the current financial year the calculations in Appendix B to the paper by the Inland Revenue on the cost of tax reliefs for pension schemes issued in September 1983.
- 126 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of: (a) actual and (b) notional pension contributions made by employers for themselves and their employees in the current financial year together with his estimate of the direct revenue yield in each case from withdrawing relief for such contributions as a business expense; and if he will add his best estimate of the United Kingdom profits after tax out of which such payments would be made.
- 127 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of the amount of debt interest paid in 1987-88 by companies liable to corporation tax.
- 128 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether, further to his replies dated 29th July concerning mortgage interest relief, Official Report, columns 732-5, he will publish in the Official Report the rate of mortgage interest assumed in each case in calculating the amount of relief.
- 129 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether, further to his written reply dated 25th July concerning mortgage advances, Official Report, column 537, he will provide separate figures for the banks and insurance companies, respectively, from 1983 together with his estimate of the value of the average mortgage in each case.
- 130 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 29th July, Official Report, column 738, he will publish in the Official Report a table showing the percentage increase since 1978-79 in the combined amount of income tax, residential rates and employee's national insurance compared to; (i) the percentage increase in personal incomes and (ii) the percentage increase in the average amount of income tax and the national insurance contributions paid by higher-rate taxpayers; and if he will add figures showing the combined amount as a proportion of total incomes in 1978-79 and as forecast for the current financial year.

14 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether, further to his reply dated 19th October concerning the direct revenue yield from abolishing allowances and reliefs, Official Report, column 933-4, he will revise the figures to include the abolition of the wife's earned income allowance and to exclude the employee's superannuation contributions and donations to charities.

8 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer whether he will publish in the Official Report a table showing by range of total income for single persons above and below pensionable age the number of tax units paying tax and their income tax liability on the basis of a single allowance of £2,500 followed by tax bands of £1,500 at 15 per cent., £1,000 at 25 per cent., £6,250 at 30 per cent., three bands of £5,000 at 40, 45 and 50 per cent. and one band of £10,000 to a maximum of 60 per cent. at £36,250, assuming that all their allowances and reliefs are abolished apart from superannuation contributions and donations to charities.

16-11-88

1 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether further to his written reply dated 14th June concerning the yield of a tax on property, Official Report, column 144, he will update the end-1986 figures for the value of all land and buildings to take account of the increase in residential and in commercial properties in the City of London and elsewhere the current to the end of year; and if he will include a figure for agricultural land and buildings.

2 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is his estimate of the likely revenue from a six months' amnesty for those who have failed to disclose their liability to tax.

3 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, whether he will publish in the Official Report a table showing for those above and those below pensionable age the direct revenue yield/cost in the current financial year of abolishing the wife's earned-income allowance, reducing the single allowance to £2,500 and increasing the married allowance to £5,000.

4 **Mr Austin Mitchell (Great Grimsby):** To ask Mr Chancellor of the Exchequer, what is the estimated excess of receipts over payments in the National Insurance fund in 1986/87 and 1987/88; and what is his forecast for the current financial year.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	- 3 NOV 1988
ACTION	CST
COPIES TO	

3 November 1988

Dear John

LOCAL AUTHORITY CAPITAL EXPENDITURE
CASH LIMITS AND END YEAR FLEXIBILITY

Thank you for your letter of 2 November.

Subject to what follows, I am content with your proposal to discontinue the DOE/LAL cash limit and the associated end year flexibility and penalty arrangements and with the terms of the written question and answer which you suggest.

Your officials will have drawn your attention to legal advice that we should not take any firm decision until after the Local Authority Associations have been consulted. It would be desirable for a Treasury paper to be circulated to the Capital Programmes Working Party simultaneously with the announcement. Please could your officials ensure that this paper is with the Secretariat of the Working Party by Monday afternoon.

It is important that we should make clear that there is indeed an "upside" for local authorities as well as a downside. The Treasury paper should therefore make clear that an overspend in 1989-90 against what would have been the cash limit will not result in penalties in 1990-91 (or any later year).

I am sending copies of this letter to the recipients of yours.

*Yours
Nicholas*

NICHOLAS RIDLEY

BF 4/11

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434



CHIEF SECRETARY	
REC.	- 3 NOV 1988
Mr A J C Edwards	
TO Mr Sir P Middleton	
Mr Phillips, Mr Turnbull, Mr Potter	
Mr Richardson, Mrs Botcher	
Mr A M White, Mr Wood, Mr Laithe, Mr Peggler	
Mr Allen	

My ref:

Your ref:

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

3 November 1988

2

Dear John

LOCAL AUTHORITY CAPITAL EXPENDITURE
CASH LIMITS AND END YEAR FLEXIBILITY

Thank you for your letter of 2 November.

Subject to what follows, I am content with your proposal to discontinue the DOE/LA cash limit and the associated end year flexibility and penalty arrangements and with the terms of the written question and answer which you suggest.

Your officials will have drawn your attention to legal advice that we should not take any firm decision until after the Local Authority Associations have been consulted. It would be desirable for a Treasury paper to be circulated to the Capital Programmes Working Party simultaneously with the announcement. Please could your officials ensure that this paper is with the Secretariat of the Working Party by Monday afternoon.

It is important that we should make clear that there is indeed an "upside" for local authorities as well as a downside. The Treasury paper should therefore make clear that an overspend in 1989-90 against what would have been the cash limit will not result in penalties in 1990-91 (or any later year).

/ I am sending copies of this letter to the recipients of yours.

James
Nicholas

NICHOLAS RIDLEY



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: J R CALDER
DATE: 3 NOVEMBER 1988

FINANCIAL SECRETARY

PQs FROM MR AUSTIN MITCHELL

1. Yesterday Mr Mitchell tabled some fifty Questions of which 38 fall to Statistics Division. A breakdown is as follows:

Income tax: higher rate, independent taxation	
investment income	16
mortgage interest relief and fringe benefits	9
pension contributions and schemes	8
Other taxes	5
	<hr/>
	38

cc. PS/Chancellor	Mr Painter
PS/Chief Secretary	Mr Isaac
PS/Paymaster General	Mr Mace
PS/Economic Secretary	Mr Kuczys
Mr Dyer	Mr Eason
Mrs Chaplin	Mr Fitzpatrick
	Miss White
	Miss Dougharty
	Mr Stewart
	Mr Calder
	PS/IR

2. Many of the Questions are complicated. Several ask for further analyses of earlier Answers given to Mr Mitchell on 29 July and 19 October (following the large batch of Questions he tabled just before the Summer recess).

3. For some of the Questions, information is not available. For a small number the Answer is straightforward. But for most Questions the analysis required would be extensive, although in a number of cases it might be prepared within the cost limit of £250. The difficulty is that the Questions fall to a small number of Statisticians and the work on the Answers would delay statistical analyses needed in the next week or two for submissions to Ministers on Budget Starters.

4. We therefore propose to provide those analyses that are readily available and to refer Mr Mitchell to previous answers where these provide relevant information (but not in the precise form he is currently seeking). We would say that any further information could only be provided at disproportionate cost, although - as I have explained above - this would not necessarily mean that the *Answer as a whole* would cost more than the advisory limit of £250.

5. This line seems consistent with the 'minimalist approach' to which the Chancellor referred in July. However, if you feel that we should adopt either a more accommodating approach or an even more negative line to the whole batch of Questions, it would be helpful to know very soon as drafting is proceeding.

6. If you are content for us to follow the line in para 4 above we shall aim to send up draft Answers in groups during the next few days and avoid wherever possible the need for you to write to Mr Mitchell with any Answers which had not been completed before the end of the Session.



J R CALDER



01-936 6269

ROYAL COURTS OF JUSTICE
LONDON WC2A 2LL

The Rt. Hon. John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

CHIEF SECRETARY	
REC.	- 47001/88

Mr A J C Edwards,

Mr R S P Middleton

4 November 1988

2 *Mr Aspin, Mr Phillips, Mr Tomblin,*
Mr Porter, Mr Richardson, Mr Butler,
Mr Smith, Mr Wood, Mr Laité

Dear Chief Secretary Mr Pegg, Mr Call

LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END YEAR FLEXIBILITY

You copied to Patrick Mayhew your letter of 2 November to Nicholas Ridley in connection with your proposal to discontinue the present system of cash limits and associated end year flexibility and penalty arrangements, with effect from the current financial year.

Although there is a statutory framework, in Part VIII of the Local Government Planning and Land Act 1980, for the control of local authority capital expenditure, the fixing of the global cash limit and the determination of the amounts of allocations to local authorities for particular financial years is entirely for the Ministers concerned. The existing bonus and penalty system is purely administrative in character, but it has been in place since 1983 for local authority capital expenditure and the principles by reference to which it is operated are published, currently in DOE Circular No.5/87.

It is clearly arguable that the published statement of principles, together with past practice in earlier years, provide the basis for a legitimate expectation by local authorities that the existing system will continue in operation throughout this financial year and for the purpose of fixing the relevant cash limits for 1989-90. I therefore see some likelihood that certain authorities which have been expecting this year's net underspend to be reflected in an enhancement of next year's cash limits will, when they discover that the rules are to be altered, seek to challenge the change by way of judicial review.

UNCLASSIFIED



The doctrine of legitimate expectation is still a relatively undeveloped area of law, the precise boundaries of which are presently unclear, so that there must, in my judgment, at least be some risk that a challenge based on that doctrine might succeed. Nevertheless, provided that any final decision to discontinue the existing system is preceded by early consultation in the way you propose, the Government would have strong arguments to deploy in any judicial review proceedings which may be mounted. An early announcement of your proposals, followed by an effective consultation of those likely to be affected by the change, will deprive disgruntled authorities of any argument that they had set their 1989-90 budgets in the expectation that their allocations would be increased to reflect this year's net underspend. In any event, no individual authority would be in a position to quantify its expectation for budgeting purposes before it had been given its own allocation under the global cash limits. There is, moreover, built into the existing principles set out in Circular 5/87 a statement that, in the event of an underspend, Ministers will "if appropriate, increase the amount available for allocation in the following year". Those words in themselves arguably confer a wide measure of discretion in the exercise of which Ministers may properly take the view that it would appear absurd to increase allocations against the background of a large overshoot in gross expenditure for the second year running.

In the light of these considerations it is my view that if, after appropriate consultation, the Government should decide to discontinue the existing system of cash limits and end year flexibility, any challenge to that decision by way of judicial review could probably be defeated.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, Peter Walker, Malcolm Rifkind, Nicholas Ridley, Douglas Hurd, Kenneth Baker, Paul Channon, Kenneth Clarke and John MacGregor, and to Sir Robin Butler.

Yours sincerely
Peter Lyell

NP NICHOLAS LYELL

Approved in draft by the Solicitor General



CHIEF SECRETARY	
REC.	- 4 NOV 1988
ACTION	Mr A J C Edwards
COPIES	2 - Mr Phillips, Mr Anson
TO	Mr Phillipps, Mr Turnbull, Mr Potter
	Mr Richardson, Mr Butler, Mr Am White
	Mr Wood, Mr Laute Mr Pegler,
	Mr Call

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

4 November 1988

2
Dear Cary,

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END-YEAR FLEXIBILITY**

The Chief Secretary copied to the Home Secretary his letter of 2 November seeking a response by 3 November. I passed the gist of this to your office on the telephone.

We are not opposed to the Chief Secretary's proposals and are content with the terms of the announcement. As you will be aware, we have recently issued a consultation document on the treatment of law and order services under the proposed new capital controls system. It is important that if the point arises it is made clear that the cash limiting of law and order services capital expenditure is still under consideration.

Copies of this go to the Private Secretaries to the recipients of your letter.

Your sincerely
Nick

N C SANDERSON

Miss G C Evans
Private Secretary to
the Chief Secretary

RESTRICTED



ROYAL COURTS OF JUSTICE
LONDON WC2A 2LL

01-936 6269

The Rt. Hon. John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

CH/EXCHEQUER	
REC.	- 8 NOV 1988
ACTION	CST
COPIES TO	

✓ 8/11

4 November 1988

Dear Chief Secretary

LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END YEAR FLEXIBILITY

You copied to Patrick Mayhew your letter of 2 November to Nicholas Ridley in connection with your proposal to discontinue the present system of cash limits and associated end year flexibility and penalty arrangements, with effect from the current financial year.

Although there is a statutory framework, in Part VIII of the Local Government Planning and Land Act 1980, for the control of local authority capital expenditure, the fixing of the global cash limit and the determination of the amounts of allocations to local authorities for particular financial years is entirely for the Ministers concerned. The existing bonus and penalty system is purely administrative in character, but it has been in place since 1983 for local authority capital expenditure and the principles by reference to which it is operated are published, currently in DOE Circular No.5/87.

It is clearly arguable that the published statement of principles, together with past practice in earlier years, provide the basis for a legitimate expectation by local authorities that the existing system will continue in operation throughout this financial year and for the purpose of fixing the relevant cash limits for 1989-90. I therefore see some likelihood that certain authorities which have been expecting this year's net underspend to be reflected in an enhancement of next year's cash limits will, when they discover that the rules are to be altered, seek to challenge the change by way of judicial review.

RESTRICTED



The doctrine of legitimate expectation is still a relatively undeveloped area of law, the precise boundaries of which are presently unclear, so that there must, in my judgment, at least be some risk that a challenge based on that doctrine might succeed. Nevertheless, provided that any final decision to discontinue the existing system is preceded by early consultation in the way you propose, the Government would have strong arguments to deploy in any judicial review proceedings which may be mounted. An early announcement of your proposals, followed by an effective consultation of those likely to be affected by the change, will deprive disgruntled authorities of any argument that they had set their 1989-90 budgets in the expectation that their allocations would be increased to reflect this year's net underspend. In any event, no individual authority would be in a position to quantify its expectation for budgeting purposes before it had been given its own allocation under the global cash limits. There is, moreover, built into the existing principles set out in Circular 5/87 a statement that, in the event of an underspend, Ministers will "if appropriate, increase the amount available for allocation in the following year". Those words in themselves arguably confer a wide measure of discretion in the exercise of which Ministers may properly take the view that it would appear absurd to increase allocations against the background of a large overshoot in gross expenditure for the second year running.

In the light of these considerations it is my view that if, after appropriate consultation, the Government should decide to discontinue the existing system of cash limits and end year flexibility, any challenge to that decision by way of judicial review could probably be defeated.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, Peter Walker, Malcolm Rifkind, Nicholas Ridley, Douglas Hurd, Kenneth Baker, Paul Channon, Kenneth Clarke and John MacGregor, and to Sir Robin Butler.

Yours sincerely

Peter Lyell

NP NICHOLAS LYELL

(Approved in draft by the Solicitor General
and signed in his absence)



SYDDFA GYMREIG
GWYDYR HOUSE

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

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE

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

From The Secretary of State for Wales

THE RT HON PETER WALKER MBE MP

4 November 1988

Dear Chief Secretary

**LOCAL AUTHORITY CAPITAL EXPENDITURE
CASH LIMITS AND END YEAR FLEXIBILITY**

You copied to me your letter of 2 November to Nicholas Ridley.

I accept that there is no merit in preserving cash limits under a flawed control system which we are in the process of replacing. I am therefore content for WO/LA1 to be abolished and for the announcement to be made by you in answer to a written PQ as suggested.

Copies of this letter go to the Prime Minister, Nigel Lawson, Nicholas Ridley, Malcolm Rifkind, Patrick Mayhew, Douglas Hurd, Kenneth Baker, Paul Channon, Kenneth Clarke and John MacGregor and to Sir Robin Butler.

*Yours sincerely
A Clement*

Approved by the Secretary of State
and signed in his absence

Rt Hon John Major MP
Chief Secretary to the Treasury
H M Treasury
Parliament Street
London SW1

CH/EXCHEQUER	
REC.	- 7 NOV 1988
ACTION	CST
COPIES TO	

✓ 7/11



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

4 November 1988

Dear Caryl,

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
CASH LIMITS AND END-YEAR FLEXIBILITY**

The Chief Secretary copied to the Home Secretary his letter of 2 November seeking a response by 3 November. I passed the gist of this to your office on the telephone.

We are not opposed to the Chief Secretary's proposals and are content with the terms of the announcement. As you will be aware, we have recently issued a consultation document on the treatment of law and order services under the proposed new capital controls system. It is important that if the point arises it is made clear that the cash limiting of law and order services capital expenditure is still under consideration.

Copies of this go to the Private Secretaries to the recipients of your letter.

Your sincerely
Nick

N C SANDERSON

Miss G C Evans
Private Secretary to
the Chief Secretary

CH/EXCHEQUER	
REC.	- 7 NOV 1988
ACTION	CST
COPIES TO	

✓ 7/11

WARNING.



FROM: B O DYER
DATE: 7 November 1988

POD

Harry Brown thinks this is incorrect - Gaitskell took over after the '55 Election.

CHANCELLOR

01-270 4520

cc Mr J Gieve

PNQs FROM THE LEADER OF THE OPPOSITION

The last time the Leader of the Opposition tabled a PNQ to a Departmental Minister - that we and the Table Office can find - was on 11 May 1954: Mr Gaitskell to the Chancellor of the Exchequer. Moreover, that was allowed by the Speaker in error as there was a similar question on the Order Paper - see extract from Hansard attached.

2. You could use the following formulation:

"Records seem to show that the Leader of the Opposition has not tabled a PNQ to a Departmental Minister since 1954."

(and we all know what happened to that Leader of the Opposition!)

3. Of course, for many years a weekly private notice question on the business for the following week has been asked on Thursdays, normally by the Leader of the Opposition, after any other private notice questions have been disposed of.

B O DYER
Parliamentary Clerk

[MR. MACLEOD.] functions and allow ordinary matters of industrial relations to be dealt with in a normal way, in general, by the National Joint Council.

There will be opportunity to consider the other, minor recommendations. Any Order that I make amending the scheme—as the right hon. Gentleman knows, because I think that he was the Minister when the Act was introduced—has to be laid. Therefore, there will be opportunity later, if required, to comment upon or, indeed, to debate such alterations as are proposed.

Mr. Isaacs: May I say that I accept what the Minister has said and that I entirely agree with his attitude on that point? There were some recommendations for and against, and I had some doubts as to whether extending this scheme in the way which was suggested might not bring with it some dangers. I think that the right hon. Gentleman has been quite right in his decision.

Sir J. Hutchison: Now that the Devlin Committee has done such good work in this connection, would my right hon. Friend consider keeping it in operation to inquire into the methods of voting in the Electrical Trades Union?

Mr. Ellis Smith: That is asking for trouble.

Mr. Awbery: Is the right hon. Gentleman aware that the introduction of this scheme in our ports wiped out one of the blackest spots in the country's industrial history? Is he aware that since the scheme has been in operation there has been better understanding between employers and workpeople and fewer cases of misunderstanding and fewer strikes than ever before in its history? Is he aware that we on this side of the House want to express our appreciation of the Report and that we hope to hear something more about it later?

Mr. Mellish: While associating myself with everything that my right hon. Friend the Member for Southwark (Mr. Isaacs) said, may I ask the Minister whether he is aware that one of the greatest problems still facing dockland is the continuing scourge of unemployment? We know that these men receive a guaranteed wage, but it is not all that large, especially in view of today's cost-of-living problems. Is the Minister aware

that at the height of the Christmas season, when there ought to be work for everyone, there is a great deal of unemployment in my constituency and, I believe, elsewhere?

Mr. Macleod: The matter goes a little wider than my Answer this afternoon. I hope very much that, now that the basic principle of the scheme has been reaffirmed and has been settled and accepted most willingly and co-operatively by everyone concerned, it will be easier to discuss, in the spirit of partnership, all these problems which ought to be discussed among the matters that are bound to arise under the Scheme.

PRIVATE NOTICE QUESTIONS (LEADER OF THE OPPOSITION)

Mr. C. Pannell: I wish to raise a point of order, Mr. Speaker, of which I have given you notice, and which would appear to be a matter of substance. I think it may appear that a decision that you gave reflects on the status in this House of the Leader of the Opposition. I refer to a Ruling you gave on 10th December, when my right hon. Friend the Member for Llanelly (Mr. J. Griffiths), who is acting as Leader of the Opposition while the Leader of the Opposition is abroad sought to ask a Question by Private Notice.

My right hon. Friend wanted to ask the Prime Minister what proposals His Majesty's Government would put forward at the Conference of the North Atlantic Treaty Organisation. My right hon. Friend said he was well aware that a Question in those terms had been put down before and answered by the Foreign Secretary. During the short debate, if I may use that term, about that matter on 10th December, the objection which was felt was because you, Mr. Speaker, rested your decision not to allow that Private Notice Question on the fact that a similar Question had been previously answered. You referred to the Answer which the Foreign Secretary had previously given in reply to that similar Question, and you said:

"That Answer is a complete answer and a reply to a Question which is indistinguishable in matter from that submitted by the right hon. Member for Llanelly."—[OFFICIAL REPORT, 10th December, 1957; Vol. 579, c. 1082.]

I am not arguing about that, but merely stating these facts so that the House will know the context in which I am raising this point of order. The argument which developed on that occasion was that the substance of the Question was a matter of urgency and importance. No one doubts the importance of that conference, which has probably been the most distinguished conference in Paris since 1919. No one argued about the importance of the conference. The argument was that in the rapidly changing circumstances of the time a Question, though the same in words as another Question not long previously answered, became different in its application. However, you did not accept that.

I should have been satisfied but for what happened the next day. The next day a Private Notice Question submitted by my right hon. Friend the Member for Llanelly was accepted and permitted to be asked and, substantially, it was in exactly the same terms as the Question that he had sought to ask the day before. It was substantially the same, but the word "now" was added. That seems to me to be a distinction without very much difference.

That brings me to a further question, Sir. I thought that your Ruling put the Opposition at a considerable disadvantage. As you know, I have been into the precedents of the Rulings on Private Notice Questions by the Leader of the Opposition. I am not armed today with any Standing Orders, but there is no question that by custom, precedent and convention the Leader of the Opposition is deemed to be in a position different from that of all other Members of the House. He does not speak on behalf of himself. He does not normally put Questions on the Notice Paper. He asks Questions by Private Notice on matters which he, as Leader of the Opposition, considers are urgent or important to the Opposition itself.

I am fortified in thinking this by what happened in 1945. The right hon. Gentleman the Member for Woodford (Sir W. Churchill) was then Leader of the Opposition and he used the procedure of the Private Notice Question and in so doing came under some fire from this party then on the other side of the

House. Mr. Speaker Clifton Brown ruled:

"It is not the custom for the Leader of the Opposition to put Questions on the Order Paper. The only way in which he can put a Question is by Private Notice."—[OFFICIAL REPORT, 30th October, 1945; Vol. 415, c. 242.]

The Private Notice Question asked by the right hon. Gentleman would not appear to have been a matter of urgency and importance. The right hon. Gentleman was asking what were the total numbers of troops disposed in various countries. Nevertheless, it was, in the opinion at least of the right hon. Gentleman the Member for Woodford, important. Two days later Mr. Speaker Clifton Brown again said:

"It is the custom of this House for the Leader of the Opposition not to ask many Questions but to ask those which are of an urgent important character, and he never puts a Question on the Order Paper but puts it by Private Notice."—[OFFICIAL REPORT, 1st November, 1945; Vol. 415, c. 629.]

I could cite many other cases but you, Mr. Speaker, will know the sort of examples to which I am referring. I have been through these precedents, but one does not need to go back any further than 1945, and before and since then a convention seems to have grown that the Leader of the Opposition, speaking on behalf of half of the House, has a status different from that of any other Member of the House. This has grown by custom, practice and convention. [Interruption.] I hope that hon. Gentlemen on the other side of the House will not become impatient, because I have been speaking of the right hon. Gentleman the Member for Woodford when he was the champion of their rights when they were in opposition. Right hon. and hon. Gentlemen opposite may want another champion of their rights after the next Election.

This custom and precedent which were extended to the right hon. Gentleman the Member for Woodford did not disappear when he ceased to be Leader of the Opposition, and I think I speak for many of my hon. Friends when I say that a degree of affront was felt on this side of the House the other day. We felt that the Leader of the Opposition, or his deputy, in his absence, was not allowed to put a view which was strongly held on this side of the House.

You will understand, Mr. Speaker, that in asking you for your Ruling I appreciate

[MR. PANNELL.]

that your position is a great one as the interpreter and custodian of our Standing Orders and our privileges. The Leader of the Opposition, too, has a great position, and I would ask you, Sir, to bear in mind that the Leader of the Opposition is the principal critical voice of the country—

Mr. F. M. Bennett (Torquay): What a voice.

Mr. Pannell: The hon. Member would not deny what I am saying if the right hon. Gentleman the Member for Woodford were sitting in the place of the Leader of the Opposition.

The voice of the Leader of the Opposition is the principal critical voice in the country. His is a position as responsible and as honoured as that of anybody in this House. It should, if possible, be enhanced.

I should be grateful, and the disquiet on this side of the House would be alleviated, Mr. Speaker, if you could tell us what is the result of your investigations into this matter.

Mr. Speaker: The hon. Member for Leeds, West (Mr. C. Pannell) gave me notice that he would raise this matter in a general way, and I am very glad indeed to answer his question if it dispels the misunderstanding which, apparently, exists about it.

The question which he really put to me was how far I could refuse to accept a Private Notice Question from the Leader of the Opposition. The matter is really quite simple. Past Speakers have ruled that it is the custom in this House for the Leader of the Opposition not to ask any Questions but to ask those which are of an urgent, important character, and that he never puts a Question on the Order Paper but puts it by Private Notice. I accept that. That is the custom of the House. Indeed, the factor of urgency is not, in practice, insisted on in the case of the Leader of the Opposition.

The hon. Member will see in Erskine May, page 362 of the latest edition, that "Questions which are asked without appearing on the paper are governed by the same rules of order as questions of which notice has been given." Some, though not all, of these rules are listed in May, pages 358 to 360 under

the title, "Examples of inadmissible questions." For instance, paragraph (26) says:

"Repeating in substance Questions already answered or to which an answer has been refused."

The hon. Member refers to a Question which the right hon. Gentleman the Member for Llanelly (Mr. J. Griffiths) sought to put on 19th December last. The right hon. Gentleman was as much bound as any other hon. Member by the ordinary rules, and I had to refuse it because, though important, it was not fully answered by the Foreign Secretary in answer to a Question by another hon. Member on 4th December.

I have already dealt with this matter at some length, when it was raised before, and today the only thing I should like to say, since the hon. Member has now raised his difficulty, is why I allowed on the subsequent day, a Question by the same right hon. Gentleman, which, the hon. Member says, differed from the other only because the word "now" was in it.

That is not the case. If the hon. Member has it, he will see that the original Question as I recollect it, and paraphrasing it as well as I can, was: would the Prime Minister make a statement as to the proposals which Her Majesty's Government proposed to lay before the N.A.T.O. conference? I think that that was the gist of it. I have not got it with me. That had been answered already in the sense that the Foreign Secretary, answering for the Government, had said they would not make a statement on the subject before the conference.

The Question which I allowed to be answered on the following day was to ask the Prime Minister

"whether he will now give an assurance that Her Majesty's Government will not, at the forthcoming N.A.T.O. Conference, enter into any commitment involving a fundamental change in the structure of N.A.T.O. and the surrender of any degree of national sovereignty without the prior approval of Parliament." [OFFICIAL REPORT, 11th December, 1957; Vol. 579, c. 1270.]

That was quite a different Question. It had not been answered by the Government beforehand, so I instantly allowed it. That is the effect of the rule.

I would like to say this. A less strict view is, by custom, taken of Private Notice Questions from the Leader of the

Opposition just because it is not customary for him to put any other kind of Question. It is less strict in that urgency is not insisted on. The factor of importance is left to the right hon. Member himself to decide. In other words, these two factors, which result in many Private Notice Questions being disallowed for ordinary Members, are not applied in the case of the Leader of the Opposition. He is himself supposed to be the judge of the importance of the matter, and the Speaker accepts his view on the subject. Neither is it necessary for him to show urgency, as it is in the case of an ordinary Member, who has an opportunity to put a Question on the Order Paper, because the right hon. Member does not put Questions on the Order Paper. So these two factors are waived but, beyond that, all the other ordinary rules apply. I am bound by the rules and I am bound to apply them.

The hon. Member for Leeds, West (Mr. C. Pannell) mentioned that he had not been able to find any precedent on this matter. That is natural because what happens in my office, and between myself and the hon. Member who seeks to put a Private Notice Question, is not recorded in HANSARD or in the Journals of the House, and does not appear anywhere else, so precedents on it are not easy to find.

If I may say what sometimes happens, it is that if I do not think that the Question is sufficiently urgent to warrant it being dealt with by Private Notice, and there is a convenient opportunity for it to be answered in the ordinary way—as in the case of ordinary Members putting Questions on the Order Paper—I ask the hon. Member concerned to put it on the Order Paper. It can be phrased in another way which will not transgress the rules. I sometimes suggest to the hon. Member how he can get over the difficulty of the rules of order if I think that the Question, on its merits, deserves to be given the priority of a Private Notice Question.

But when a Question is flatly against one of the rules of the House, as this one was, I am bound by the rules. There is nothing I can do. I hope that I have succeeded in clearing up the matter and that the House will acquit me of any desire to affront either the right hon.

Member or any other section of opinion in the House.

Mr. C. Pannell: I am grateful to you, Sir, because this Ruling will be on the record and it will clear up a great deal of the ambiguity that might arise from your previous Ruling in HANSARD. It had not entered my mind to feel that you were guilty of affronting us, but it is not sometimes the man we are that matters; it is the man other people sometimes think we are that is important. May I interpolate here that I sought for previous Rulings on the subject, but the only Ruling that I could find appears in column 1018, on 11th May, 1954. On that date the Leader of the Opposition appeared to be out of order in a comparable circumstance, and you said that on that day you would have called for a statement from the Chancellor which would have given him his answer, and so, consequently, I had only that to guide me.

I hope you will appreciate, too, Sir, that it is necessary not only that we should agree with your Ruling but that we should reconcile it with Rulings that have gone before, if it is only to put Mr. Speaker Clifton Brown in order. Thank you very much, Sir.

Mr. J. Griffiths: May I say at once, Sir, that I accept your assurance, and that I never suggested that there was any personal affront in this matter. There is one further point I want to put to you. I accepted your Ruling that I was asking for a statement and that there had already been a refusal to make a statement. I urged, however, that in a situation which changes as rapidly as does the international situation in the context of the N.A.T.O. conference, to ask for a statement was legitimate because the situation changed from day to day, there were many rumours, and Governments of various kinds were bringing forward proposals. That was why I sought to put a Private Notice Question on that day.

Mr. Speaker: I appreciate that. The way in which the right hon. Gentleman put the Question on the following day was correct, and his Question was answered. I have to try to see that Questions conform to the rules.

Now may I deal with one small matter which the hon. Member for Leeds, West also raised? He referred

[MR. SPEAKER.]
to an incident that took place on 11th May, 1954, and he was good enough to mention this to me last night when he spoke to me in the Chair. I looked it up, because I did not remember it at the time. According to the OFFICIAL REPORT, the Leader of the Opposition:

"Mr. GAITSKELL (by Private Notice) asked the Chancellor of the Exchequer whether he has any statement to make in regard to his recent conversations with the West German Government."

I allowed that, and then the right hon. Gentleman the Member for Bassetlaw (Mr. Bellenger) rose in his place and said:

"On a point of order. Would you kindly advise the House, Mr. Speaker, what is the procedure when a similar Question appears on the Order Paper? I thought you ruled the other day that Private Notice Questions are not to be accepted."

It is a rule that I do not accept a Private Notice Question if it anticipates a Question which someone else has put on the Order Paper. That is one of the rules. The right hon. Gentleman continued:

"I thought you ruled the other day that Private Notice Questions are not to be accepted. I do not want to prejudice the information being given, but I think we should have some consistency."

I replied, I think correctly:

"I was not aware that another Question was on the Paper; I must have overlooked it. Otherwise, I should not have allowed this in the form of a Private Notice Question. I should, instead, have asked the Chancellor of the Exchequer, if he so desired, to make a statement."—[OFFICIAL REPORT, 11th May, 1954; Vol. 527, c. 1017 and 1018.]

Of course, on that occasion I was accepting absolutely from the right hon. Gentleman the Member for Bassetlaw (Mr. Bellenger) that there was another Question of a similar character which would have barred it. I knew nothing to the contrary, and I accepted his assurance. Although I have not the details here, I remember that at the time there was some distinction in the Question on the Order Paper which allowed the Question to be put. One of the first things I always do when a Private Notice Question is submitted is to have a search made to ensure that it does not anticipate another Question on the Order Paper.

Mr. Benn: I should like to put a different point relating to the same problem, Sir. The Standing Order that governs the admission of Questions after half-past three o'clock is Standing Order No. 8,

which states that they may not be asked, week after week, the Leader of the House to state the business for the following week is not repetition of a question. It is the business for next week, and what has already been answered is the business for the week that is over.

If I may speak for myself, Sir, I took the Private Notice Question of the Leader of the Opposition last Tuesday week to be, in effect, a statement about business. It asked whether the Prime Minister would be making a statement about the view of the Government. Clearly, the rules of anticipation which apply to ordinary Parliamentary Questions also apply to Private Notice Questions. They could not, by any stretch of the imagination, apply to business Questions, because the Leader of the Opposition asks the same Question, like clockwork, every Thursday afternoon half-past three, and it is then traditional for hon. Members to press their own particular claims upon the Leader of the House.

Therefore, I would like to ask you, Sir, whether my right hon. Friend the Member for Llanelli (Mr. J. Griffiths) was not exercising a rather different function when he brought forward this Question, and was actually ascertaining whether there was to be a rearrangement of business to permit the House to be informed of the Government's intentions. It is rather confusing. I certainly did not realise until I read this Standing Order, that there is not a distinction between a business Question and a Private Notice Question, and I should be most grateful, Mr. Speaker, if you could add any words of clarification which would help the House.

Mr. Speaker: Whether it was a question on business or a question on policy it was barred by the previous Answer. As a matter of fact, it was not really a question on business. It was a request for a statement on what proposals were to be put. The question was to ask the Prime Minister

"... whether he would state what proposals Her Majesty's Government will put forward at the forthcoming Conference of the North Atlantic Treaty Organisation."

That is not business. It may be the business of the North Atlantic Treaty Organisation conference, but it is not the business of this House.

The fact that the right hon. Gentleman asks, week after week, the Leader of the House to state the business for the following week is not repetition of a question. It is the business for next week, and what has already been answered is the business for the week that is over.

BILL PRESENTED

OVERSEAS RESOURCES DEVELOPMENT

Bill to make provision as to the areas in which the Colonial Development Corporation may operate, and to increase the sums which may be borrowed by the Corporation or advanced to them by the Secretary of State, presented by Mr. Lennox-Boyd; supported by Mr. Alport and Mr. Profumo; read the First time; to be read a Second time Tomorrow and to be printed. [Bill 50.]

BUSINESS OF THE HOUSE

Proceedings on the Motion standing in the name of Mr. R. A. Butler relating to Standing Orders exempted, at this day's Sitting, from the provisions of Standing Order No. 1 (Sittings of the House).—*[Mr. Heath.]*

ORDERS OF THE DAY

IMPORT DUTIES [MONEY]

Resolution reported,

That, for the purposes of any Act of the present Session to confer new powers to impose duties of customs in place of the powers conferred by the Import Duties Act, 1932, and to make other provision in connection therewith, it is expedient—

(a) to authorise the payment out of moneys provided by Parliament of certain expenses in connection with any board constituted by the Act of the present Session for the purpose (among others) of giving assistance to the Treasury and the Board of Trade in connection with their functions under the Act, namely—

(i) in respect of members of the board, any expenses on account of their remuneration or allowances or on account of payments made to or in respect of them by way of pension, allowance or gratuity on ceasing to hold office or by way of provision for such a pension, allowance or gratuity; and

(ii) in respect of the officers and servants of the board, any expenses on account of their remuneration, and any increase in the sums payable under the Superannuation Acts, 1834 to 1950, out of moneys provided by Parliament; and

(iii) such expenses incurred by the board as may be authorised by the Act; and

(b) to authorise the payment out of moneys provided by Parliament of any expenses which a Government department may incur under any provision for giving relief from duties imposed by the Act, and the payment into the Exchequer of any fees which a Government department may receive under any such provision.

Resolution agreed to.

IMPORT DUTIES BILL

Considered in Committee.

[Sir CHARLES MACANDREW in the Chair]

Clause 1.—(NEW POWER TO CHARGE PROTECTIVE DUTIES.)

4.2 p.m.

Mr. Arthur Holt (Bolton, West): I beg to move, in page 2, line 3, after "section" to insert:

(2) The rate of import duty imposed by order on any goods under this section shall not exceed one half the rate of duty on those goods in force immediately before the beginning of nineteen hundred and fifty-nine:

Provided that where an order has the effect of charging a rate of duty on any goods in such a way that the new rate is not strictly comparable with the old, the order may not



FROM: R C Berwick
DATE: 7 November 1988

01-270 5183

PS/CHANCELLOR

cc Mrs Brown - PE2

A handwritten signature in red ink, appearing to be 'R.C. Berwick'.

BACKERS FOR THE WATER PRIVATISATION BILL

The Parliamentary Clerk to the Secretary of State for Environment has asked if the Chancellor would be prepared to be counted as a backer for the above Bill.

2. The purpose of the Water Bill is to allow the privatisation of the Water Authorities and provide for Water metering.

3. As the Chancellor may be aware, being counted as a 'Backer' does not involve him in any work on the Bill in the House, where Department of Environment Minister's will remain responsible for all stages of its progress.

4. PE2 Division are content.

5. I understand that the following Minister's have also been asked to back the Water Bill in addition to Environment's Departmental Ministers:-

- The Prime Minister
- The Secretary of State for Scotland
- The Secretary of State for Wales
- The Secretary of State for the Home Department
- The Secretary of State for the Energy
- The Minister for Agriculture Fisheries and Food
- The Minister for Health

6. I should be grateful if the Chancellor could give his consideration to these requests, by noon on Wednesday 9 November 1988.

R.C. Berwick

R C BERWICK
Parliamentary Section



FROM: R C Berwick
DATE: 7 November 1988

01-270 5183

PS/CHANCELLOR

cc Mr Williams - PE1

OK

**BACKERS FOR THE ELECTRICITY AND THE PETROLEUM ROYALTIES (RELIEF)
AND CONTINENTAL SHELF BILLS**

The Parliamentary Clerk to the Secretary of State for Energy has asked if the Chancellor would be prepared to be counted as a backer to the two above Bills.

2. The purpose of the Electricity Bill is to bring into effect the Government's proposals for the privatisation of the Electricity Supply industry in Great Britain as set out in the White Papers covering England and Wales (cm 322) and Scotland (cm 327)

3. The Petroleum Royalties (Relief) and Continental Shelf Bill has two purposes: to abolish royalty for certain fields onshore and in the North Sea; and to enable an agreement between the UK and Republic of Ireland Governments on the delimitation of the Continental Shelf between the two countries to be implemented.

4. As the Chancellor may be aware, being counted as a 'Backer' does not involve him in any work on the Bill in the House, where Department of Energy Minister's will remain responsible for all stages of its progress.

5. PE1 Division are content.

6. It is hoped that Introduction will be in the opening week of the new Session.

7. I understand that the following Minister's have also been asked to back the Electricity Bill in addition to Energy's Departmental Ministers:-

The Prime Minister
The Secretary of State for Scotland
The Secretary of State for Wales
The Secretary of State for the Environment
The Secretary of State for the Home Department
The Secretary of State for Employment
The Secretary of State for Transport
The Chancellor of the Duchy of Lancaster

and the following Ministers, in addition to Energy's Departmental Ministers have been asked to back the Petroleum Royalties (Relief) and Continental Shelf Bill:-

The Secretary of State for Foreign and Commonwealth Affairs.

8. I should be grateful if the Chancellor could give his consideration to these requests, by noon on Wednesday 9 November 1988.

R.C. Berwick

R C BERWICK
Parliamentary Section

FROM: MRS S-K HOLMANS
Reference.....
Date 7 November 1988

MR HUDSON

OWNER-OCCUPATION BY PENSIONERS

In the General Household Survey for
1985 Table 5.10 tenure by age is
given as follows:

<u>Age</u>	<u>% owner-occupiers</u>
65 - 69	52
70 - 79	48
80 +	46

Stephane K Holmans

219 6837

PRIVATE NOTICE QUESTION:
MONDAY 7 NOVEMBER

THE RT. HON. NEIL KINNOCK [LA - ISLWYN]

TO ASK MR CHANCELLOR OF THE EXCHEQUER, IF
HE WILL MAKE A STATEMENT ON HIS INTENTIONS
TO INTRODUCE MEANS-TESTED BENEFITS FOR
PENSIONERS.

DRAFT ANSWER

UNDER THIS GOVERNMENT THE TOTAL INCOME OF
PENSIONERS HAS INCREASED BY WELL OVER

20 PER CENT IN REAL TERMS, COMPARED WITH ONLY 3 PER CENT UNDER THE LAST LABOUR GOVERNMENT.

PENSIONERS' INCOMES HAVE INCREASED FASTER THAN THOSE OF THE POPULATION AS A WHOLE. DESPITE THE MASSIVE INCREASE IN THE NUMBER OF PENSIONERS, WE HAVE MAINTAINED THE REAL VALUE OF THE STATE RETIREMENT PENSION AND ARE PLEDGED TO CONTINUE TO DO SO.

HOWEVER, WHILE THE REAL INCOMES OF PENSIONERS AS A WHOLE HAVE IMPROVED SUBSTANTIALLY, THERE REMAINS A MINORITY, WHO HAVE NOT DONE SO WELL - PARTICULARLY THOSE WHO DID NOT HAVE THE OPPORTUNITY TO

BUILD UP A SERPs ENTITLEMENT OR ACQUIRE AN OCCUPATIONAL PENSION.

I HAVE THEREFORE BEEN DISCUSSING WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SECURITY POSSIBLE WAYS OF PROVIDING EXTRA HELP TO THESE POORER PENSIONERS.

WE SHALL PROVIDE IT AS AND WHEN WE HAVE WORKED OUT A PRACTICAL AND AFFORDABLE SCHEME.

I AM SURE THE HOUSE WILL WELCOME THIS.

PRIVATE NOTICE QUESTION: MONDAY 7 NOVEMBER

THE RT. HON. NEIL KINNOCK [La - Islwyn]

To ask Mr Chancellor of the Exchequer, if he ~~would~~ ^{will} make a statement on his intentions to introduce means-tested benefits for pensioners.

Draft answer

massive increase in the number of pensioners, we have maintained the real value of the state retirement pension and are pledged to continue to do so.

Under this Government the total income of pensioners has increased by ^{well} over 20 per cent in real terms, compared with ^{only} 3 per cent under the last Labour Government. Pensioners' incomes have increased ~~twice~~ ^{or than} as fast ^{as} those of the population as a whole. Despite the ^h

However, while the real incomes of pensioners as a whole have improved substantially,

there ~~are~~ ^{remains} however a minority ^{who have not done so well} whose income has not increased as fast as this, particularly those who did not have the opportunity to build up a SERPs entitlement or acquire ^{an} occupational pension.

~~[Depending on their circumstances, these pensioners are already eligible for some x means-tested benefits.]~~ The Government is

~~committed to exploring~~ ways of providing extra help to these poorer pensioners. ~~By definition, this extra help will be targeted on those pensioners who do have difficulty in making ends meet.~~ We shall provide it as and when we have worked out ^a ~~an~~ ^{practical and affordable} affordable and practical scheme. I am sure the House will welcome this.

I have therefore been discussing with my r/hf the Secretary of State for Social Security ~~services~~ ^{possible}

219 6837

Paul

PRIVATE NOTICE QUESTION:

MONDAY 7 NOVEMBER

THE RT. HON. NEIL KINNOCK [LA - ISLWYN]

TO ASK MR CHANCELLOR OF THE EXCHEQUER, IF HE WILL MAKE A STATEMENT ON HIS INTENTIONS TO INTRODUCE MEANS-TESTED BENEFITS FOR PENSIONERS.

DRAFT ANSWER

UNDER THIS GOVERNMENT THE TOTAL INCOME OF PENSIONERS HAS INCREASED BY WELL OVER

20 PER CENT IN REAL TERMS, COMPARED WITH ONLY 3 PER CENT UNDER THE LAST LABOUR GOVERNMENT.

PENSIONERS' INCOMES HAVE INCREASED FASTER THAN THOSE OF THE POPULATION AS A WHOLE.

DESPITE THE MASSIVE INCREASE IN THE NUMBER OF PENSIONERS, WE HAVE MAINTAINED THE REAL VALUE OF THE STATE RETIREMENT PENSION AND ARE PLEDGED TO CONTINUE TO DO SO.

HOWEVER, WHILE THE REAL INCOMES OF PENSIONERS AS A WHOLE HAVE IMPROVED SUBSTANTIALLY, THERE REMAINS A MINORITY, WHO HAVE NOT DONE SO WELL - PARTICULARLY THOSE WHO DID NOT HAVE THE OPPORTUNITY TO

BUILD UP A SERPS ENTITLEMENT OR ACQUIRE AN OCCUPATIONAL PENSION.

I HAVE THEREFORE BEEN DISCUSSING WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SECURITY POSSIBLE WAYS OF PROVIDING EXTRA HELP TO THESE POORER PENSIONERS.

WE SHALL PROVIDE IT AS AND WHEN WE HAVE WORKED OUT A PRACTICAL AND AFFORDABLE SCHEME.

I AM SURE THE HOUSE WILL WELCOME THIS.

CONFIDENTIAL

FROM: BARRY H POTTER
DATE: 7 November 1988

CHIEF SECRETARY

cc PS/Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Case
Mr Edwards
Mr Turnbull
Mr MacAuslan
Mr Dyer
Mr White
Mr Call

WRITTEN PQ ON ABOLITION OF DOE/LA1 AND WO/LA1 CASH LIMITS

You wrote to the Environment Secretary on 2 November proposing that the main cash limits on local authority capital spending (DOE/LA1 in England and WO/LA1 in Wales) should be abolished, with effect from the current year.

2. Mr Ridley replied on 3 November accepting the proposals but drawing attention to the legal advice from within DOE that no firm decision should be announced until after the Local Authority Associations had been formally consulted. The Home Secretary and the Welsh Secretary (letters of 4 November) have also agreed. The Solicitor-General wrote on 4 November confirming the point about consultation with the local authorities made by Mr Ridley and indicating that, if a local authority were to challenge the proposal, in his view the Government could probably defeat it.

3. No.10 have decided not to trouble the Prime Minister with this matter and Cabinet Office (Mr Wilson) have indicated that the way is now clear for you to answer the PQ as proposed in Mr Edwards' submission of 28 October. I understand your Private Office has now made the necessary Parliamentary arrangements.

4. Attached at Annex A is the draft question and answer. At Annex B is press briefing in the usual Q and A form, which I am sending separately to Mr Gieve. Finally at Annex C is the Treasury paper which will go to the Local Authority Associations

CONFIDENTIAL

tomorrow evening, setting out the proposal. (This is how we "consult" the local authorities on this issue.) The paper will probably be discussed in the Capital Programmes Working Party (CPWP) (a joint local authorities/Government official body) in due course - probably not before early December. I will attend as the Treasury representative on the CPWP.

Barry H. Potter

BARRY H POTTER

ANNEX A

DRAFT ARRANGED WRITTEN QUESTION AND ANSWER

M...to ask Mr Chancellor of the Exchequer what plans he has for cash limits on local authority capital spending.

MR JOHN MAJOR

As already announced, the Government plans to introduce with effect from 1990-91 the new public expenditure planning total set out in Cm441 and, subject to the approval of Parliament, a new system to regulate the capital finance of Local Authorities in England and Wales about which my Rt Hon Friends the Secretaries of State for the Environment and Wales have consulted local government. The Government's broad intention is that, with effect from 1990-91, cash limits should be applied to the sources of finance for local authority capital expenditure which fall within the new planning total. The main existing cash limits on local authority capital spending in England and Wales (DOE/LA1 and WO/LA1) apply to expenditure net of receipts. With the recent surge in receipts, and given the difficulties of predicting future levels of receipts, these cash limits are no longer appropriate as instruments of financial management and control. Subject to consultation with the Local Authority Associations, therefore, the Government proposes that these cash limits, and the associated end-year flexibility and penalty arrangements, should be discontinued with effect from the current financial year.

LOCAL AUTHORITY CAPITAL SPENDING AND CASH LIMITSSummary

From 1990-91, the Government plans to introduce a new public expenditure planning total, as set out in Cm 441, and a new system of regulating the capital finance of local authorities in England and Wales. The Government's proposals on the latter were published on 7 July by DOE and Welsh Office in "Capital Expenditure and Finance, A Consultation Paper". The necessary legislation will be included in the Housing and Local Government Bill in the 1988-89 Parliamentary session.

It is the Government's broad intention that from 1990-91 cash limits should be applied to sources of finance for local authority gross capital expenditure which fall within the new planning total; ie credit approvals and capital grants.

The main existing cash limits on local authority capital spending in England and Wales are DOE/LA1 and WO/LA1 and they apply to expenditure net of receipts. Experience has shown that these cash limits are not effective as a means of controlling capital spending. Subject to consultation with the Local Authority Associations, the Government proposes that these cash limits should be discontinued with effect from the current financial year.

A. CASH LIMITS UNDER THE NEW PLANNING TOTAL POST 1990

1. Under the new planning total what will be included in the cash limits for local authority capital spending?

Specific proposals will be put before the local authorities in due course. It is proposed that cash limits will be applied to those elements of gross local authority capital spending which will be within the new planning total, that is capital grants and credit approvals, and which will be directly under the control of central government.

2. What will be the other sources of finance for local authority capital spending under the post 1990 regime?

The other main source is receipts. Under the new system local authorities will have free use of their capital receipts once they have set aside 75 per cent of receipts from council house sales and 50 per cent of other capital receipts for debt redemption or to finance expenditure in place of new borrowing. Local authorities will also be free to finance extra capital spending from revenue contributions to capital outlays (rccos), subject to the discipline of the Community Charge. (Note attached at Appendix A)

3. Why are you seeking to control credit approvals and capital grants?

All capital grants and most credit approvals will be financed by the Exchequer and thus from national taxation. Controls will be necessary for a number of reasons, including the need to manage the national economy; to ensure that investment by local authorities responds to national priorities; to maintain accountability; to safeguard the interests of future local taxpayers; and to maintain the high credit standing which local authorities generally still enjoy.

ABOLITION OF PRESENT CASH-LIMITS DOE/LA1 AND WO/LA1

1. How do DOE/LA1 and WO/LA1 operate?

DOE/LA1 and Wo/LA1 cover the main local authority services in England and Wales respectively. Each cash limit is set on net capital expenditure and is equal to gross provision for capital spending less forecast in-year receipts from the sale of assets (including Right-to-Buy sales of council houses). Since 1983, as an administrative arrangement, there has been a penalty (end-year flexibility) mechanism on the cash limits which could reduce (increase) the level of capital allocations in the event of an overspend (underspend) on the cash limit. The principles by which it operates in England were set out in DOE Circular No.5 1987.

2. What are the problems with the cash limits - DOE/LA1 and WO/LA1?

The Public Accounts Committee (PAC) in 1986 has already drawn attention to the shortcomings of the present cash limit, concluding that ".....the present system is seriously flawed as a means of exercising effective control over aggregate local authority spending". The recent history of both cash limits is of relatively large gaps between the cash limit and outturn. For DOE/LA1, there has been a pattern of overspends followed more recently by underspends. WO/LA1 has consistently overspent. The data is at Appendix B.

3. Why have the cash limits proved ineffective?

Because they are set on net rather than gross capital spending, and because capital receipts have proved difficult to forecast in practice, the cash limits do not provide effective control over local authorities' aggregate expenditure. Moreover neither Government nor local authorities are in practice in a position to ensure that the cash limits are observed. DOE and Welsh Office are not able to determine the level of gross spending or receipts. And for local authorities, the outturn depends, not only on their own gross spending but also on unpredictable demand led activity, in particular the generation of RTB receipts.

4. Do the cash limits affect individual authorities?

Experience has shown that the scheme makes little sense from the individual local authority's point of view. No individual authority can plan its future capital programme with certainty: whether penalties are or are not imposed, and extra allocations are or are not issued under end-year flexibility depends upon aggregate local authority spending behaviour and total RTB sales - not an individual authority's own pattern of spending and asset sales.

5. Are the other local authority cash limits on capital spending being abolished; if not, why not?

There are four other cash limits:

- (i) HO/LA1 - the law and order cash limit in England and Wales;
- (ii) DOE/UA1 - the urban aid cash limit in England;
- (iii) SO/LA1 - the Scottish non-housing cash limit; and
- (iv) SO/LA2 - the Scottish housing cash limit.

These are not being abolished because they have acted as genuine control totals. The first two are cash limits on gross expenditure. The last two are net cash limits. However, there is a different control system in Scotland which operates on net expenditure, allowing authorities free use of receipts, in-year.

6. Is the Government abolishing the cash limits because of the huge underspend projected on DOE/LA1 which indicate that it may have to concede EYF for the second year running?

It is a consequence of the proposal to discontinue DOE/LA1 and WO/LA1 that the associated EYF and penalty arrangements will be abolished. On present indications, EYF might have been justified for DOE/LA1 in England and a penalty for WO/LA1 in Wales for 1988-89. In 1989-90, either penalties or extra allocations might have been triggered in England or Wales, depending on the outturn of the cash-limit.

IF PRESSED: On present indications the underspend on DOE/LA would lead to extra allocations of around £135m for England in 1989-90, under the end-year flexibility mechanism. It would be difficult to defend issuing extra allocations given the large overspend on gross capital spending in prospect, as indicated by the latest returns on capital spending from local authorities.

7. Have cash limit penalties been imposed?

Yes, but not since 1983-84. Because of the nature of the present local authority capital control system in England and Wales cash limit penalties have proved ineffective.

8. Is the Treasury relaxing its controls on local authority capital spending.

No. Local authority gross capital spending will continue to be subject to the borrowing controls in the Local Government Act 1972 and the controls on expenditure under Part VIII of the Local Government, Planning and Land Act, 1980 as present. The Government has taken into account the increased amount of receipts available to local authorities in setting the levels of allocations for 1989-90 to ensure they are consistent with gross provision as announced in the Autumn Statement on 1 November. The Government remains concerned that local authorities aggregate capital spending should be consistent with overall public expenditure plans and will therefore continue to monitor closely the development of this spending.

THE NEW LOCAL AUTHORITY CAPITAL CONTROL REGIME

The control of capital expenditure by local authorities will change in 1990. The present system seeks to limit capital spending directly; the post 1990 system will control the money used to finance capital expenditure.

2. Under the new system, the main sources of finance for capital spending to be controlled are as follows:-

i. **Borrowing:** this will be regulated within annual limits (credit approvals) set by central government. LAs will also receive an indication of future credit approvals for the two years in advance.

ii. **Government grants:** local authorities will be able to use capital grants from central government (and EC) to finance additional capital spending.

iii. **Revenue contributions (RCCOs):** Local authorities may pay for capital spending from revenue contributions. This will provide them with a significant degree of extra flexibility. Although not annually controlled they will be subject to the accountability of the Community Charge.

iv. **Capital receipts:** Local authorities will be able to use 25% of their housing receipts and 50% of their other capital receipts (both accumulated and in-year, each year) to finance new capital spending. The balances will have to be set aside for debt redemption.

3. At the beginning of each financial year, the Government will place a limit on the borrowing or credit arrangements which the local authorities can use to finance capital commitments. Ministers will be able to take account of all the likely use of other sources of spending power - capital receipts; the expected levels of capital grants; EC grants and rccos when they decide what total of credit approvals can be afforded each year.

4. The new system also aims to match resources more closely to needs. To do this Ministers need to take account of the distribution of other main sources of spending power, in particular capital receipts, in deciding how to issue credit approvals.

5. Accordingly the mechanics for distributing credit approvals will work as follows. A figure for Receipts taken into Account (RTIAs) will first be added to credit approvals to give aggregate Annual Capital Guidelines (ACGs) for all local authorities. (To give local authorities a continued incentive to generate capital receipts Ministers will set RTIAs lower than the actual forecast of receipts.) The ACGs will then be divided amongst the relevant service blocks by formula (still to be agreed); and each Department responsible for a service block will decide on the distribution of its ACGs amongst local authorities. DOE will add up the different ACGs for the individual authority and net off its RTIA to arrive at the credit approval. Each LA will thus receive up to five ACGs from the service blocks and a note from DOE of its RTIA; its combined ACGs less the RTIA will equal its credit approvals.

6. The basic credit approvals (BCAs) may be enhanced by supplementary credit approvals (SCAs) covering particular projects or programmes. SCAs will specify the period within they must be used, but this will not necessarily be a single financial year, unlike BCAs which will only be valid in the year of issue.

CASH LIMIT OVERSPENDS, UNDERSPENDS AND EYF: 1984-85 TO 1987-88

£million (% in brackets)

	Cash Limit (Net Provision)	Net overspend (+) Net underspend (-)
DOE/LA1		
1984-85	2453	1072 (44)
1985-86	1911	997 (52)
1986-87	2369	329 (14)
1987-88	2834	-772 (-27)
WO/LA1[†]		
1984-85	237	19 (8)
1985-86	248	17 (7)
1986-87	267	77 (29)
1987-88	298	89 (30)

Footnote:

A cash-limit reduction was made on DOE/LA1 in 1985-86 in respect of the overspend in 1983-84 and additional allocations were issued for 1988-89 in respect of the net underspend in 1987-88.

†:

Defined on an equivalent basis to DOE/LA1.

CPWP(88)12

CAPITAL PROGRAMMES WORKING PARTY

LOCAL AUTHORITY CAPITAL SPENDING AND CASH LIMITS

Note by HM TREASURY

The Government has reviewed the present and future arrangements for setting the main cash limits on local authority capital expenditure in England (DOE/LA1) and Wales (WO/LA1).

2. Like its predecessor the new planning total will act as a control total, set in cash terms, for aggregate spending. Within the total, it will be the Government's intention to operate cash limits over as wide an area as possible. As announced by the Chief Secretary to the Treasury on 8 November, the Government's intention is that cash limits should be applied to those elements of gross local authority capital spending which are within the new planning total and directly under the control of central government. Specific proposals on the cash limit will be brought forward in due course.

3. The Government as proposes that the present cash limit on net capital expenditure within DOE/LA1 and WO/LA1 should be discontinued with effect from the current financial year, together with the associated penalty and end-year flexibility arrangements.

DOE/LA1 and WO/LA1 cash limit

4. The cash limits, DOE/LA1 and WO/LA1, are set on aggregate net capital expenditure on the main local authority services, that is gross provision less a projection of in-year capital receipts. The cash limit itself is thus the difference between two much larger numbers. There can be an excess or shortfall because of differences between gross provision and actual gross spending; because of higher or lower than forecast receipts; or because of

some combination of the two. The recent history of both cash limits is of relatively large gaps between cash limit and outturn: for DOE/LA1 there has been a pattern of overspends and more recently underspends. For WO/LA1, there have been consistent overspends. The data are set out in table 1.

5. In 1986 the Public Accounts Committee (PAC) drew attention to the shortcomings of the present cash limit, concluding that "... the present system is seriously flawed as a means of exercising effective control over aggregate local authority spending". The review within the Government has identified the following major weaknesses.

6. First, experience has shown that a cash limit on net expenditure can produce perverse results in a situation where receipts projections are subject (as they are) to wide margins of error. If receipts fall short of their projected levels, capital programmes are subject to penalty cuts. When receipts exceed their projected levels (as has happened in England in recent years), local authorities not only have extra spending power associated with the receipts themselves but also the possibility of additional capital allocations under the End Year Flexibility arrangements, even if gross capital spending has in fact exceeded gross provision. This problem does not arise with most other capital spending cash limits, which are set on gross expenditure, and indeed with the smaller local authority capital cash limits, which have acted as genuine control totals.

7. Second, neither the Government nor local authorities are in a position to ensure that the DOE/LA1 and WO/LA1 cash limits are observed. This is a further reason why they cannot be considered effective instruments of management or control. The DOE, though formally responsible for the cash limit, is not in practice in a position to determine the level of gross spending or the level of receipts. And neither are local authorities singly or in aggregate in such a position: the outturn depends not only on their own gross spending but also on private sector activity, in particular the generation of RTB receipts.

8. In short, neither central government nor local authorities in aggregate can be expected to manage the cash-limit and deliver an outturn within provision. And neither central government nor local authorities can fairly be held accountable for the performance of the cash limit.

9. Finally, experience has shown that the scheme makes little sense from the point of view of individual authorities. As with other cash limits, there is an associated penalty mechanism for overspending. There is also an end-year flexibility (EYF) arrangement whereby subject to certain conditions underspends can be carried forward. The triggering of such penalties or bonuses depends upon collective local authority and private sector behaviour. No individual authority can plan its capital programme for the years ahead with certainty either that penalties will or will not be imposed or that extra capital allocations will or will not be issued under EYF. Either penalty or bonus could be unwarranted in terms of an individual authority's activity; and this can lead to arbitrary and inefficient capital programming and expenditure.

Conclusion

10. The Government therefore considers, in the light of experience, that the existing DOE/LA1 and WO/LA1 cash limits on local authorities' net capital expenditure should be discontinued with effect from the current year and replaced with effect from 1990-91 by new cash limits applied to grants and credit approvals under the proposed new capital finance system. The Government remains concerned however that local authorities' aggregate capital spending should be consistent with overall public expenditure plans and will therefore continue to monitor closely the development of this spending.

11. The views of the local authority associations are sought on the proposal to discontinue the present DOE/LA1 and WO/LA1 cash limits for 1988-89 and 1989-90. Responses are requested by December 9th 1988, though it is likely there will be an opportunity for the Working Party to discuss the matter at a meeting before the date.

CONFIDENTIAL

BF 14/11



FROM: P T WANLESS
DATE: 8 November 1988

BF 15/11

[Handwritten signature]

MR POTTER

23/11

MP

- cc: PS/Chancellor
- Sir Peter Middleton
- Mr Anson
- Mr Phillips
- Mrs Case
- Mr Edwards
- Mr Turnbull
- Mr MacAuslan
- Mr Dyer
- Mr White
- Mr Call

**WRITTEN PQ ON ABOLITION OF DOE/LA1
AND WO/LA1 CASH LIMITS**

The Chief Secretary was grateful for your submission of 7 November.

2 He has approved the draft Parliamentary Question and Answer at Annex A, the press briefing at Annex B and the Treasury Paper to go to the Local Authority Associations which you attached at Annex C.

P. Wanless

**PETER WANLESS
Assistant Private Secretary**

purp

JMC 8/11

- 1. MR ~~MCINTYRE~~
- 2. CHIEF SECRETARY

FROM: J C J RAMSDEN
 DATE: 8 November 1988

- cc **Chancellor**
 Mr Anson
 Mr Phillips
 Miss Peirson
 Mr Turnbull
 Mr Gieve
 Mr Call

CHILD BENEFIT: PQ BY MR TIMOTHY RAISON

I attach a PQ on Child Benefit which Mr Raison has put to DSS Ministers, together with a suggested reply which we have agreed at official level with DSS. The reply needs to go forward today. I would be grateful to know if you are content with it.

J.C.J. Ramsden

J C J RAMSDEN

*Ch/ Just to be aware.
 I assume this will be
 answered tomorrow*

*passed on
 to P McI.*

*Yours too late,
 better with ~~the~~
 2 changes*

Mr T Raison: To ask the Secretary of State for social security at what level the latest public expenditure projections for 1990-91 and 1991-92 assume an uprating of Child Benefit.

Suggested Reply:

The new public expenditure plans include provision for uprating child benefit in line with prices in April 1990 and April 1991. For this purpose the retail price index is assumed to rise by ~~5.5~~ ^{5½} per cent for the uprating in 1990/91 and by 4 per cent for the uprating in 1991/92. However the level of child benefit in April 1990 and April 1991 will be decided by the Secretary of State following the review which he is required to conduct each year.

actual



FROM: J M G TAYLOR
DATE: 8 November 1988

MR BERWICK

cc Mrs Brown

A handwritten signature in cursive script, appearing to be "Pup".

BACKERS FOR THE WATER PRIVATISATION BILL

The Chancellor has seen your note of 7 November. He is content to be counted as a backer for this Bill.

A handwritten signature in cursive script, appearing to be "JMG".

J M G TAYLOR



FROM: J M G TAYLOR
DATE: 8 November 1988

A large, stylized handwritten signature in black ink, possibly reading "PMP".

MR BERWICK

cc Mr Williams

**BACKERS FOR THE ELECTRICITY AND THE PETROLEUM ROYALTIES (RELIEF)
AND CONTINENTAL SHELF BILLS**

The Chancellor has seen your note of 7 November. He is content to be counted as a backer to these Bills.

A handwritten signature in black ink, appearing to be "JMG".

J M G TAYLOR



1. Alex
2. Pyp
FROM: Deputy Parliamentary Clerk
DATE: 9 November 1988

01-270-5006

ALL ASSISTANT SECRETARIES

cc PPS
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/ Economic Secretary
All Under Secretaries
PS/Inland Revenue
IR Parliamentary Unit
PS/Customs and Excise
Mr Bridgeman - RFS/BSC
Mr Ward - DNS

PROROGATION OF PARLIAMENT

The date for prorogation has not yet been announced, but it is likely to be early next week, probably Tuesday 15 November. The State Opening is planned for Tuesday 22 November, when a new Parliamentary Session begins.

2. Just as Parliamentary Questions may not be tabled for the new session of Parliament in the present session, Questions from a previous session may not be answered by Ministers in the new session. Therefore, any Questions left outstanding at the time of prorogation will receive a standard reply from the appropriate Minister promising to write to the Member. Divisions are urged to make all efforts humanly possible to answer Questions before prorogation.

3. Command Papers and Statutory Instruments may be presented while Parliament is prorogued, but papers under Act cannot be laid until the State Opening.

Richard Savage

RICHARD SAVAGE

CONFIDENTIAL



FROM: B O DYER
DATE: 9 November 1988

01-270 4520

CHANCELLOR

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

CABINET : THURSDAY 10 NOVEMBER 1988
PARLIAMENTARY AFFAIRS

The Lord President is likely to confirm that Parliament will prorogue on Tuesday 15 November, subject to the passage of business; and that The Queen will Open Parliament on Tuesday, 22 November (with the Economic day of the Debate on the Address on Tuesday 29 November, if the practice of previous years is repeated).

2. The business currently proposed for Monday 14 November is as follows:

- 2.30pm: Social Security Questions
- 3.10pm: Attorney General's Questions
- 3.20pm: ODA Questions
- 3.30pm: Debates on motions to take note of EC documents on safety in the workplace, labelling of tobacco products and titanium dioxide industry waste.
Any Lords Amendments which may be received.

3. On Tuesday 15 November - if there is no essential business to complete - the House is likely to meet in the morning simply for the Speaker to announce Royal Assent to Bills, with prorogation following immediately thereafter.

4. The Lord President may also review the successful completion of the Session's legislative programme, and matters that have come before the House in the spillover.

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

B O DYER
Parliamentary Clerk



pay

FROM: Ms K ELLIMAN
DATE: 10 November 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Dyer
Mr Bush
Mr Gieve
Mrs Chaplin
Mr Tyrie
Mr Call

PQs ON PENSIONS ROW

The Paymaster General has seen Mr Gieve's minute of 9 November.

2. He has commented:

"Reading Jack Warden's shorthand text, I wonder if the problem did not arise out of the question about the health charges rebellion and the need for education of backbenchers. I understand the Chancellor's answer perfectly, and it was wholly uncoded, but the other journalists are describing it as an affirmative answer. It wasn't but I can just see how the misunderstanding could have arisen".

KIM ELLIMAN
Private Secretary

~~BF 1910~~ py
My



No-Me roads
propagation
no need to
spoil - so
from

Ch

FST is being briefed
to give up on "For only
the second time since the
beginning of the 1950s,
my Government has made a
repayment of public sector
debt" and go instead for
v flat "They have made a
public sector debt repayment."

I should have thought
FST should have had a go
@ pressing this, even if not
a l'outrance AA

cc Mr. Grieve

[Signature]

Alex

For info.

Another PQ in the Pensions Sage for answer on Monday, 14 November. Paul McIntyre has recommended we keep and will provide a draft reply.

Bureau D.
10/11/82

74 Mr Max Madden (Bradford West): To ask the Chancellor of the Exchequer, when, pursuant to his remarks of 7th November, Official Report, columns 21-27, he will give details about help to pensioners, the net cost of the new scheme, estimates as to how many pensioners will benefit, what extra cash benefit they will receive, and when the new scheme will start.

I'm wrong on the SL keep that. It is 888 thinking, tho' we will need to approve the answer before it is put down.

Told R-Savage Ch content for it to be transferred

[Signature]

10/11.

Draft Letter to Come
from Parliamentary. pp
BF 25/11 dealt

DR. MICHAEL CLARK, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

⇒ Maura

Tony: pl try to
establish from
Party what the
Chancellor's
interest

11th November 1988

is.

M.

Dear Nigel,

Consumer Protection (Registration of Professional Chemists) Bill

I introduced the attached Bill in the House of Commons on Tuesday 25th October 1988.

In view of Clause 8 and the provisions therein, I am writing to ask you formally to confirm that the Queen's Consent be signified to the Second Reading of the Bill.

[Handwritten signature]

Rt Hon Nigel Lawson M.P.
Chancellor of the Exchequer
HM Treasury
Whitehall
London
SW1



1. Alex

2. Ch

(50 20s from Dalyell
& Binick rejected)

Thomson

Gordon Brown has tabled
PNQ to us (behind) and
asks for S.O. 20 debate
if PNQ disallowed. We

shd know outcome @

12.30 or so.

PNQ DISALLOWED

We also now have G Brown
letter to PM, which No 10
received only this morning.

Copy behind. Demands
"full and frank explanation"
in House today.

Meir.

Gordon Brown

F.W.D.

MP

if he will make a statement
on the discrepancy between the records of
the journalists and his own explanation
of his plans for means tested benefits

14/11/88.

R 14



HOUSE OF COMMONS
LONDON SW1A 0AA

CH/EXCHEQUER	
REC.	14 NOV 1988
ACTION	Mr McIntyre / Mr Grieve
COPIES TO	CST, Sir P Middleton,
	Mr Anson, Mr Phillips,
	Mr Turnbull, Miss Pearson
	Mr Saunders, Mrs Chaplin
	Mr Tyrie, Mr Call.

Rt Hon Margaret Thatcher
10 Downing Street
London

November 13th

Dear Prime Minister

I am writing about the fresh and disturbing accounts of the content and meaning of the Chancellor's briefing of last Friday (November 4th) on the future of the welfare state and to bring to your attention the further and important evidence which, I suggest, makes it imperative that you reconsider your earlier position, and that of the Cabinet, that there be no new statement by the Chancellor

What is new this morning is not only the unanimity of the accounts of the journalists present, and across the spectrum of newspapers, but also the independent corroboration of the Chancellor's means-testing objectives in a separate Saturday Treasury briefing to the highly respected political editor of I.T.N.

What is new also are reports that senior Department of Social Security officials were called over the weekend of November 4th to November 7th to provide some relief for the difficulties the Chancellor had created for himself. The result was to unwrap a proposal which had, I understand, been abandoned at least for implementation in 1988. This gives rise to the serious question about whether what emerged was a cynical attempt to misrepresent the record of what the Chancellor truly said to the lobby and about which the journalists present are unanimous.

Since Monday afternoon the Chancellor has refused to give full answers to written Parliamentary questions or respond in detail to the specific questions put by me to him (and all of which I now enclose). By refusing to answer these detailed questions the Chancellor is making a mockery of the Government's responsibilities to Parliament. What are required are straight answers to straight questions, not a partisan defence of the Chancellor's general record, masquerading as an answer to the specific questions. In view of the fact that the journalists present reject the Chancellor's explanations as a travesty of the facts and in view of the great public disquiet, felt especially by the elderly, I hope you will now agree that the Chancellor should offer a full and frank explanation by making a statement about those matters to the House on Monday and answering the many outstanding questions

Yours faithfully
Gordon Brown
Gordon Brown
Labour Treasury spokesman

cc The Chancellor

1597 CONDUCT OF SOUTH WEST WATER AUTHORITY (No.2)

Mrs Ann Clwyd
Mr Roland Boyes

★ 2

That this House notes the report in the Observer newspaper on 13th November 1988 and the comments of Dr Neil Ward, a leading toxicologist, who investigated the 'cocktail of chemical events' following the pollution of drinking water at the Lowermoor sewage treatment works in North Cornwall in July; is concerned by Dr Ward's claims that the South West Water Authority has ignored the 'vast effects on both the environment and the residents living within the area'; and calls upon the Secretary of State for the Environment to investigate and report urgently on allegations that South West Water Authority has tried to cover up the long-term health problems which 20,000 people may suffer as a result of the pollution.

✓
pay

1598 SELECT COMMITTEE ON THE CONDUCT OF THE CHANCELLOR OF THE EXCHEQUER

Mr Neil Kinnock
Mr Roy Hattersley
Mr John Smith
Mr Gordon Brown
Mr Frank Dobson
Mr Derek Foster

★ 6

That a Select Committee on the conduct of the Chancellor of the Exchequer be appointed to investigate whether the account which the Chancellor of the Exchequer gave to the House on Monday 7th November of his meeting with Sunday newspaper Lobby journalists on Friday 4th November was a true and accurate account of what took place at that meeting; that it have powers to call for persons, tapes, papers and records; and to consider if the conduct of the Chancellor of the Exchequer on Monday 7th November was consistent with the standards which the House is entitled to expect from its Members.

1599 CONGRATULATIONS TO THE DAILY MAIL

Mr Archy Kirkwood
Mr James Wallace
Mr Malcolm Bruce
Mr Menzies Campbell
Mr Alex Carlile
Mr Simon Hughes

★ 6

That this House congratulates the Daily Mail in its campaign against lead in petrol; welcomes the initiative of councils such as Democrat-run Adur council to raise public awareness of the availability of lead-free petrol; and urges the Government to introduce further tax relief for unleaded petrol forthwith.

FROM : MISS J C SIMPSON
DATE : 14 NOVEMBER 1988

SIMPSON
→
1 ODLING-SMEE
2 CHEX
14/11

- 1. MR ODLING-SMEE 00-8 14/11
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Sir P Middleton
- Mr R I G Allen
- Mr D J L Moore
- Mr Mountfield
- Mr Gieve
- Miss O'Mara
- Mr S Wood
- Miss Barber
- Mr Dyer

[Social security para is 26]

See para 3 & 14

CABINET, TUESDAY 15 OCTOBER : C(88)15 QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Cabinet tomorrow is to discuss the latest version of the Queen's speech for the State Opening of Parliament on 22 November, circulated under cover of the Lord President's paper C(88)15.

2. This is virtually unchanged from the version which went to QL on 18 October, with which we were content. The Treasury's own passages are in paragraphs 11-13.

3. There is only one change which we are unhappy about. In paragraph 14, the Secretary of State for the Environment has proposed a new paragraph on the environment which reads "My Government will continue to attach the highest importance to protecting our environment, both nationally and internationally." LG are uneasy about the reference to "the highest importance", and would prefer this to be toned down slightly so that it read simply 'high' or 'great'. A speaking note is attached for you to use if you wished to pursue this point.

4. There are only four other changes. In paragraph 4, the passage on conventional arms reduction has been expanded to read

CONFIDENTIAL

"[My Government] will work for the elimination of disparities in conventional forces in Europe with the aim of achieving a stable balance at lower levels". DM division are content with this. In paragraph 15, a reference has been inserted to home improvements grants. LG support this. Paragraph 25 on Northern Ireland and paragraph 28 on road transport have also been slightly amended. Neither of these causes any difficulty.

J

MISS J C SIMPSON

SPEAKING NOTE ON PARAGRAPH 14

Background

The new paragraph which the Secretary of State has asked to have inserted reads "My Government will continue to attach the highest importance to protecting our environment, both nationally and internationally".

Line to take

This has the right flavour, but read literally suggests environmental protection overrides all other considerations, even excessive costs. It might be better, therefore, to say "great importance". This too would convey the right impression of the Government's overall policy, but would be consistent with the line we have been taking with our EC colleagues and at home on environmental issues.



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 4QU

01 211 6402

CH/EXCHEQUER	
REC.	14 NOV 1988
ACTION	MISS SIMPSON ✓ 14/11
COPIES TO	FST, CST,
	MR DYER
	MR PICKFORD

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

14 November 1988

Dear Lord President

PICKFORD
 →
 WAKEHAM
 14/11

THE QUEEN'S OPENING SPEECH TO PARLIAMENT

You circulated the draft of the Queen's Opening Speech to Parliament under cover of your Memorandum to the Cabinet dated 11 November (C(88)15) which we are to consider tomorrow.

I should like to suggest that the reference to the electricity privatisation legislation in paragraph 17 of the draft should reflect the fact that we are to restructure substantially the electricity industry, as well as to sell it.

I should therefore be grateful if paragraph 17 could be amended to read:

"Legislation will be introduced to provide for the restructuring and subsequent sale of the electricity supply industry in Great Britain".

I am copying this to the Prime Minister and other Members of the Cabinet.

Yours sincerely

CECIL PARKINSON
 Approved by Secretary of State
 & signed in his absence

CONFIDENTIAL



FROM: B O DYER
DATE: 14 November 1988

01-270 4520

CHANCELLOR

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

CABINET : TUESDAY 15 NOVEMBER 1988
PARLIAMENTARY AFFAIRS

The House will meet at 11.25am on Tuesday 22 November to attend the House of Lords for The Queens Speech on the Opening of Parliament. At 2.30pm the Loyal Address will be moved and seconded by two senior backbenchers. Traditionally, the Speaker then calls the Leader of the Opposition, followed by the Prime Minister and the Leaders of the minor parties.

*Kinnock
first. Sorry,
I had
misremembered. #11*

2. The Debate on the Address will continue until Tuesday 29 November - which is expected to be the Economic day and when the Opposition move their Amendment and divide the House. On the final 'Economic' day it is customary for the Chancellor to open for the Government with the Leader of the House winding up.

3. It is likely that separate days will be allocated to Foreign and ODA Affairs, Health and Social Security, the Environment and Transport, Home Affairs and Education or Industry and Employment (or some combination of these).

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

B O DYER
Parliamentary Clerk

QUESTIONS FOR WRITTEN ANSWER—continued

- You have the PQs addressed to the C/Ex. There are others tabled at the same time - presumably for the same purpose!*
- Brian*
- PST La* 145 **Mr Gordon Brown (Dunfermline East):** To ask Mr Chancellor of the Exchequer, what was the **investment income and earned income** in 1987-88 of: (a) the top 1 per cent., (b) the top 5 per cent., (c) the top 20 per cent., (d) the top 30 per cent., (e) the bottom 70 per cent., (f) the bottom 50 per cent. of taxpayers and (g) all taxpayers. ¶
- PST La* 146 **Mr Gordon Brown (Dunfermline East):** To ask Mr Chancellor of the Exchequer, what has been the **increase in: (a) investment income, (b) full-time earnings and (c) part-time earnings since 1979.** ¶
- 147 **Mr Gordon Brown (Dunfermline East):** To ask the Chancellor of the Duchy of Lancaster, what is the number of households to which promotional literature about the sale of British Steel has been sent; and what has been the cost. ¶
- E* 148 **Mr Gordon Brown (Dunfermline East):** To ask Mr Chancellor of the Exchequer, what his estimate of the **average income of women of working age with: (a) no dependent children, (b) at least one dependent child under five years and (c) children aged five to 16 years giving for (b) and (c) the average number of children per family.** ¶
- PST La* 149 **Mr Gordon Brown (Dunfermline East):** To ask Mr Chancellor of the Exchequer, what is his estimate for 1988-89 of the **average reduction in income tax liability for: (a) working men, (b) working women and (c) pensioners, as a result of the changes in income tax announced in the 1988 Budget.** ¶
- 150 **Mr Gordon Brown (Dunfermline East):** To ask Mr Chancellor of the Exchequer, if he will list the **single person's pension as a percentage of average earnings for each year since 1979.** ¶
- PST La* 151 **Mr Gordon Brown (Dunfermline East):** To ask Mr Chancellor of the Exchequer, what is the number of **households qualifying for age allowance in £1,000 income bands beginning at £1,000 up to £20,000, and £10,000 bands thereafter, stating the average household income for those not qualifying for age allowance.** ¶
- 152 **Mr Gordon Brown (Dunfermline East):** To ask the Secretary of State for the Environment, what is the number of people whose drinking water has above the recommended EEC level of nitrates. ¶
- 153 **Mr Gordon Brown (Dunfermline East):** To ask the Secretary of State for Transport, whether he has made any estimate of the additional road traffic generated by reductions in British Rail's operating subsidy. ¶
- 154 **Mr Gordon Brown (Dunfermline East):** To ask the Chancellor of the Duchy of Lancaster, what is his estimate of fixed investment by manufacturing industry by size of establishment for establishments with: (a) over 2,000 employees, (b) 500-2,000 employees, (c) 100-500 employees and (d) under 100 employees for the first and second quarters of 1988; and what is the percentage increase over the equivalent period for 1987 in real terms. ¶
- 155 **Mr Gordon Brown (Dunfermline East):** To ask the Chancellor of the Duchy of Lancaster, what was the fixed investment by manufacturing industry for the first and second quarters of 1988 for each of the G7 countries; and what was the percentage increase over the equivalent period for 1987 in real terms. ¶
- 156 **Mr Gordon Brown (Dunfermline East):** To ask the Secretary of State for Health, what figures he has for the total expenditure by health authorities on: (a) rates, (b) water rates, (c) electricity and (d) national insurance, for each year from 1987-88 to 1989-90. ¶
- PST La*

QUESTIONS FOR WRITTEN ANSWER—*continued*

- 157 Mr Gordon Brown (Dunfermline East): To ask the Secretary of State for Social Security, how many pensioner couples will receive only one £10 bonus this Christmas.
-

TREASURY

NAL

par

- 143 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what is his estimate of the **total reduction in capital gains tax liability** resulting from the changes in the 1988 Budget for the year 1988-89. ¶
- 144 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what is his estimate of the reduction in **annual liability to inheritance tax** resulting from the changes in the 1988 Budget for the years 1988-89 and 1989-90. ¶
- ✓ 145 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what was the investment income and earned income in 1987-88 of: (a) the top 1 per cent., (b) the top 5 per cent., (c) the top 20 per cent., (d) the top 30 per cent., (e) the bottom 70 per cent., (f) the bottom 50 per cent. of taxpayers and (g) all taxpayers. ¶
- ✓ 146 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what has been the increase in: (a) investment income, (b) full-time earnings and (c) part-time earnings since 1979. ¶
- ✓ 148 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what his estimate of the average income of women of working age with: (a) no dependent children, (b) at least one dependent child under five years and (c) children aged five to 16 years giving for (b) and (c) the average number of children per family. ¶
- ✓ 149 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what is his estimate for 1988-89 of the average reduction in income tax liability for: (a) working men, (b) working women and (c) pensioners, as a result of the changes in income tax announced in the 1988 Budget. ¶
- transferred to 149*
- 150 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, if he will list the single person's pension as a percentage of average earnings for each year since 1979. ¶
- ✓ 151 Mr Gordon Brown (Dunfermline East): To ask Mr Chancellor of the Exchequer, what is the number of households qualifying for age allowance in £1,000 income bands beginning at £1,000 up to £20,000, and £10,000 bands thereafter, stating the average household income for those not qualifying for age allowance. ¶

MR NORMAN LAMONT

I regret that it has not been possible to provide an answer before Prorogation, therefore, I shall write to the hon Member and place a copy of the letter in the library.

CONFIDENTIAL

CHANCELLOR

*Thank -
 Altho' no work
 and sharp up,
 1-4 (esp 1&2)
 are useful backst
 information when
 Brown is talk
 all pensions (the
 was then he is
 on ext other
 matters),
 1 was
 with
 2 1 w/ to recha
 fleep 6 for
 m. r. j.*

FROM: A G TYRIE
 DATE: 15 November 1988
 cc: Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Mr Hudson
 Mrs Chaplin
 Mr Call

QUEEN'S SPEECH DEBATE: POSSIBLE INTERVENTIONS

1. Would the Labour Party restore the pensions link with earnings?
2. Are Labour committed to abolishing all means tested benefits?
3. Do Labour stand by their pledge immediately to increase the single pension by £5 a week and the pension for a married couple by £8?
4. Do Labour stand by their pledge to take pensions to a level of one third average earnings for single people and one half average earnings for a married couple?
5. Does the RHG for Dunfermline East agree with his colleague the Member for Warley East when he said that: "Since the press gallery is well renowned for partisanship and frequent misrepresentation ... would it not be better to clear out the whole damned lot?" [This is definitely not a point for you but if the atmosphere permitted it, might be useful contribution from our side.]
6. Does the RHG for Dunfermline East intend to try and fiddle the official report again, as he did on 25 October?

You may want to keep some of these for yourself.

Andrew Faulds

AGT

A G TYRIE

Mr. Winnick: Mr. Harris said:

"It is unfair of the Chancellor to blame distorted reporting ... Ten people got exactly the same impression from the briefing."

I should like to ask a simple question: if the Chancellor did not tell the truth, and if the journalists are telling the truth—

Mr. Speaker: Order. I shall not adjudicate on such matters. Every hon. Member must be responsible for what he says in the House.

Mr. Dennis Skinner (Bolsover): On a point of order, Mr. Speaker. As you will know, under the House of Commons (Administration) Act 1978 you have some responsibility for members of the Press Gallery. To that extent you have a degree of responsibility—albeit not a very happy one—to intervene in this matter. May I make a few suggestions?

Mr. Speaker: As among chairmen, yes.

Mr. Skinner: I shall speak as one chairman to another. Perhaps, Mr. Speaker, you might be able to call the teenage scribblers together and provide us with a list of those who were present at the meeting. You would then be able to inform us, in a briefing capacity, of what took place, and the chances are that we should take your word for it. Finally, will you ensure that you do not take the Chancellor's tape recorder with you?

Mr. Speaker: I shall now take another point of order.

Mr. Andrew Faulds (Warley, East): On a point of order, Mr. Speaker. Since the Press Gallery is well-renowned for partisanship and frequent misrepresentation of what actually takes place in Parliament, since it is so easily bought in political terms, and since some of us have the sense to have very little to do with it, would it not be better to clear out the whole damned lot?

Mr. Speaker: I shall take one more point of order.

Mr. Max Madden (Bradford, West): On a point of order, Mr. Speaker. The Chancellor of the Exchequer confirmed yesterday that a briefing took place, and my hon. Friend the Member for Holborn and St. Pancras (Mr. Dobson) has now revealed that there is a tape recording of it. Would it be in order for us to ask for the tape recording to be put into the Library, as it is a public tape recording, paid for at Treasury expense? May we ask for it to be put in the Library so that all hon. Members can hear what was said at the briefing? If that is not done, the whole episode will become known as Lawsongate.

Mr. Harry Ewing (Falkirk, East) *rose*—

Mr. Speaker: Order. I shall deal with one point of order at a time.

I am not responsible for having tape recordings put in the Library. As the House knows, I cannot be responsible for off-the-record briefings.

Mr. Dobson: On a point of order, Mr. Speaker. Will you advise the House whether you are prepared to entertain a motion to exclude the 10 Lobby journalists from the Press Gallery? I should not want to support such a motion, but those who are convinced of the Chancellor's

accuracy yesterday would, no doubt, happily vote for it. That would at least give those journalists the opportunity to defend their reputations in public, where they are entitled to defend them.

Mr. Geoffrey Dickens (Littleborough and Saddleworth) *rose*—

Mr. Speaker: Order. We have an important debate ahead of us.

Mr. Dickens: I shall not take long, Mr. Speaker.

Mr. Speaker: I ask the hon. Gentleman to sit down. Surely the hon. Member for Holborn and St. Pancras (Mr. Dobson) does not suggest seriously that I should table such a motion. If he wishes to do so, he may.

Mr. Dickens: On a point of order, Mr. Speaker. Is it right that you should be put to the test of giving rulings on so many bogus points of order raised by Opposition Members? The Opposition are clearly unhappy that we shall not take away the pensioners' Christmas bonus and that we shall not take money off the pensioners. In fact, they are unhappy that we shall help pensioners more. They cannot beat us in that way, so why do they spend so much time on bogus points of order, which are raised for political purposes?

Mr. Speaker: Order. I shall take one more point of order.

Mr. Michael Foot (Blaenau Gwent): Further to that point of order, Mr. Speaker. Is it not a rule of the House that if a Minister refers to a document and quotes from it he has to provide it for the House at a later stage? Is it not the case that the Chancellor referred yesterday to a report in the Treasury Office, and is it not now his duty under that rule to lay the document before the House?

Mr. Speaker: That would be absolutely right had the Chancellor been quoting from a state paper, but I do not think that an off-the-record briefing could be regarded as a state paper.

Mr. Harry Ewing: On a point of order, Mr. Speaker.

Mr. Speaker: I said that the point of order raised by the right hon. Member for Blaenau Gwent (Mr. Foot) would be the last one that I would take. This is positively the last one.

Mr. Ewing: My point of order is in the same helpful vein as that raised by my hon. Friend the Member for Bolsover (Mr. Skinner). Ten days ago, Mr. Speaker, you were rightly very angry with me because I had a copy of the Chancellor's speech and read it a line ahead of the Chancellor. Since then I have lost half a stone in weight getting up and down trying to catch your eye—without any success until today.

On reflection, do you agree that it would be far better if the Chancellor gave me a copy of every speech that he is to make, because when I read his speech he was accurately reported the following day? If I read everything that the Chancellor intended to say a line ahead of him, even the *Daily Express* would report it accurately.

Mr. Speaker: That was a very good try.

Fox), does the Leader of the House think that the hon. Member for Shipley is best placed to judge who is the most appropriate Member to serve on a particular Committee?

Official Report

Mr. Wakeham: I am quite sure that my hon. Friend the Member for Shipley (Sir M. Fox) is fully equipped to make such judgments and is aware of his responsibilities to the House. If the hon. Gentleman has any complaints, he should take the matter up with the Select Committee on Members' Interests.

5.28 pm

Mr. Tim Yeo (Suffolk, South): On a point of order, Mr. Speaker. I am concerned about the way in which changes are made in the *Official Report* which are damaging to Back-Bench Members.

On Tuesday the hon. Member for Dunfermline, East (Mr. Brown) responded to an intervention by my hon. Friend the Member for Bolton, North-East (Mr. Thurnham) on the subject of the Labour party's £38 million spending measures by saying:

"there are no such commitments."

In using those words the hon. Gentleman was effectively repudiating every pledge that we have had from the Labour party during the 16 months since the general election. Therefore, not surprisingly, the hon. Gentleman then went to the *Official Report* and requested that the words be changed. He was then reported as saying:

"there is no such commitment."—[*Official Report*, 25 October 1988; Vol. 139, c. 174.]

Those words convey a completely different meaning from the words used in the debate.

I do not attach any blame to the Editor of the *Official Report* or its Reporters, who may not entirely have appreciated the significance of the change. Nevertheless, it is of the greatest importance that hon. Members who were not present at 3.45 on Tuesday afternoon should immediately be made aware of the fact that the Labour party is now renegeing on every pledge that it has made on—

Mr. Speaker: Order. The hon. Gentleman raised a point of order with me about a change in the *Official Report*. I have to tell him that he is correct and that the original words were:

"there are no such commitments"

and that these were changed to:

"there is no such commitment."

On reflection, the *Official Report* accepts that this change should not have been made and has expressed its regret.

Mr. Yeo: Further to that point of order, Mr. Speaker. I very much welcome the fact that that regret has been expressed, but I am sure you will agree with me that many Members rely exclusively on the daily issue of *Hansard* to learn what has been said in a debate. How, therefore, can you help us to ensure that all those Members who are not present are immediately informed of this very important change in the wording?

Mr. Speaker: They should read today's *Hansard* and they will be so informed.

Mr. Peter Thurnham (Bolton, North-East): Further to that point of order, Mr. Speaker. Will you give some guidance as to which is the true record? If there is a difference between the electronic *Hansard* and the written *Hansard*, which should be regarded as the true record? There is a time limit of 24 hours in which to point out such matters. If that is not done, the written record presumably remains as it is.

Mr. Speaker: The published *Hansard* is the *Official Report*.

PERSONAL

CHANCELLOR

*1. Author you will
Para 2. But, all to you, press handle
No post-debate press to Mr. Gieve
SWS to Mr. Gieve*

FROM: A G TYRIE
DATE: 15 November 1988
cc: Chief Secretary
Mr Gieve

PRESS HANDLING BETWEEN NOW AND THE DEBATE ON THE ADDRESS

I think we have got to give that minimum level of press service which is consistent with the appearance of "business as usual".. If we start refusing to take any calls at all we will create a siege mentality. Of course, we must avoid providing the basis for any further stories.

U

2. I think it would be best if only one person handled calls on this subject (and that should be John Gieve) which will minimise the opportunities for the reptiles to obtain new information or use differences of nuance to run "Treasury in disarray" stories. We should be soporifically repetitive.

3. After the debate. The briefing done in the Lobby after the Queen's Speech debate will be important. We will need to convince them of several points about which they are still doubters:

- { That when you discussed targeting with the Lobby you had a new scheme in mind.
- { That the scheme was not hastily unfrozen on Sunday and the Monday morning.

4. In particular we need to get favourable stories out of would-be allies such as Robin Oakley (Times), Trevor Kavanagh (Sun) and John Deans (Daily Mail).

5. For the television news I doubt that there would be any advantage in your giving interviews. But I see considerable advantage in getting a senior backbencher to come on and give you firm support. Best of all would be Barney Hayhoe. Is there any chance of that? Terence Higgins would also be good.

AGT
A G TYRIE

CONFIDENTIAL

pup



FROM: A C S ALLAN

DATE: 16 NOVEMBER 1988

MR TYRIE

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Hudson
Mrs Chaplin
Mr Call

QUEEN'S SPEECH DEBATE: POSSIBLE INTERVENTIONS

The Chancellor was grateful for your minute of 15 November. Although the words need shaping up, he feels that your first four points (and especially the first two) are useful back bench interventions when Brown is talking about pensions (but not when he is on about other matters); he would not use your fifth point at all; and would be inclined to keep your sixth point (on 'fiddling' the official report) for himself.

A handwritten signature in black ink, appearing to read 'ACSA' with a large flourish underneath.

A C S ALLAN

PERSONAL



pyj

FROM: A C S ALLAN

DATE: 16 NOVEMBER 1988

MR TYRIE

cc: PS/Chief Secretary
Mr Gieve

PRESS HANDLING BETWEEN NOW AND THE DEBATE ON THE ADDRESS

The Chancellor was grateful for your minute of 15 November. He entirely agrees with your paragraph 2 that it would be best if only one person handled calls on this subject, and that that should be John Gieve. But, all being well, the post-debate press handling should be left to John Moore.

ACSA

A C S ALLAN

FROM: H J BUSH
DATE: 16 November 1988

PS/CHANCELLOR

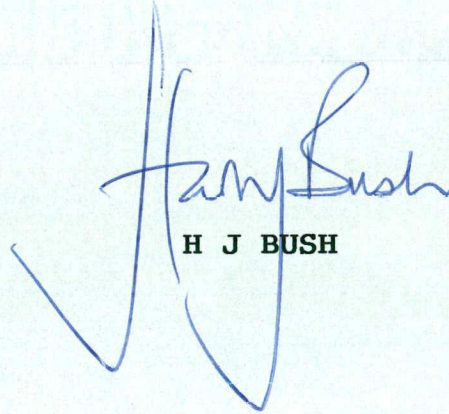
cc Mr Gieve
Mr Evans
Mr Segal

QUEEN'S SPEECH: LOBBY BRIEFS

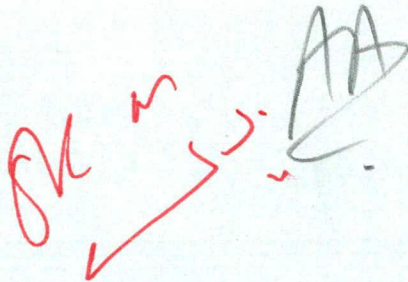
No 10 have, as usual commissioned briefs from departments which will be distributed to the Lobby as background to the Queen's Speech. I attach the three draft Treasury contributions which you may wish to see before they go over to No 10 tomorrow morning.

2. As in previous years we have sought to keep these short and uncontentious. In practice, they are likely to receive less attention than those of other departments with new proposals.

3. The drafts have been cleared with divisions.


H J BUSH

OK
OK?
(also PM notes below)


AA

BACKGROUND BRIEFING
ECONOMIC STRATEGY

My Government will continue to pursue firm financial policies designed to bear down on inflation. They will continue to promote enterprise and to foster the conditions necessary for the sustained growth of output and employment.

The defeat of inflation remains the Government's central objective. ~~Accordingly, monetary policy was progressively tightened during the summer. As a result, inflation will fall after peaking at some point in the middle of next year.~~

Demands that the Government has
will not hesitate to take whatever action is necessary to maintain downward pressure on inflation.

The Government believes that policies which will sustain and promote an enterprise culture and improve the supply performance of the economy are essential to creating new jobs. The process of privatisation, encouraging wider share ownership and removing obstacles to better functioning of markets will continue.

Growth this year is likely to turn out @ 4 1/2 %
guiltless & vigorous
~~The economy is set to grow by 4 1/2 per cent in 1988.~~ This represents the seventh year of expansion, a period which has seen a combination of strong and steady growth not matched since the War. Coupled with low inflation and supply side improvements, this has resulted in the creation of over 2 million new jobs since 1983. Unemployment has fallen by nearly 1 million over 27 successive months, the longest continuous fall since the War. The success of the enterprise economy is also demonstrated by the increased proportion of self-employed and the development of new businesses, the number of which has recently been growing in net terms at over 1,000 per week.

Press Office
HM Treasury
Parliament Street
London SW1P 3AG

01 270 5238

BACKGROUND BRIEFING

PUBLIC EXPENDITURE AND TAXATION

{My Government} "will maintain firm control of public expenditure so that, while allowing further improvements in priority services, it continues to fall as a proportion of national income, thus providing scope for further reductions in taxation."

In 1988-89 general government expenditure, excluding privatisation proceeds, as a proportion of national income is expected to be below 40 per cent for the first time in over 20 years. The proportion will have fallen by 7 percentage points since 1982-83 and it is expected to fall further over the next three years.

In his Autumn Statement (Hansard 1 November 1988, Col 823-827; "Autumn Statement", published 8 November 1988, HC 695), the Chancellor of the Exchequer, Mr Nigel Lawson said that the public expenditure planning total for 1988-89 is now expected to be £153.6 billion, £3.3 billion lower than the plans in the last Public Expenditure White Paper. (The Government's Expenditure Plans 1988-89 to 1990-91, published 20 January 1988, Cm288)

The public expenditure planning total has been set at £167.1 billion for 1989-90, unchanged from previous plans. Planning totals of £179.4 billion for 1990-91 and £191.6 billion for 1991-92 were also announced in the Autumn Statement. Compared with previously published plans further resources have been made available for the Government's priorities including substantial additional sums for health, law and order, defence and roads.

The basic rate of income tax has a been cut from 33 per cent in 1978-79 to 25 per cent in 1988-89. In his Budget speech (Hansard 15 March 1988, Col.1015), Mr Lawson said "Our aim should be now be to get it down to a fifth - a rate of 20 pence in the pound - as soon as we prudently and sensibly can." The top rate of tax, which was 83 per cent in 1978-79, has now been reduced to a single higher rate of 40 per cent. The Government believes that "Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas." (Mr Lawson, Budget speech Hansard 15 March 1988 Col 1014).

Other ~~reductions in taxation~~^{tax reforms} have included cutting the main rate of corporation tax from 52 per cent in 1978-79 to 35 per cent, and the small companies ' rate from 32 per cent to 25 per cent, The investment income surcharge, the national insurance surcharge, development land tax, capital transfer tax on life time gifts, and capital duty have been abolished.

*coupled with reform
of capital allowances*

Press Office
HM Treasury
Parliament Street
London SW1P 3AG

01-270 5238

22 November 1988

BACKGROUND BRIEFING

SUPPLY ESTIMATES

"Estimates for the Public service will be laid before you."

Supply Estimates are the means by which the Government seeks Parliamentary authority for expenditure by Government departments and certain other public sector bodies. Main Estimates for 1988-89 were presented to Parliament on Budget Day.

The Government needs to ask Parliament to authorise extra expenditure on some services during the financial year and this is done through Supplementary Estimates. Summer Supplementaries were presented to Parliament in June and July and together with main Estimates were approved by Parliament in an Appropriation Act in July.

Winter Supplementary Estimates were presented on 10 November 1988 and Spring Supplementary Estimates will be presented in February. Consolidated Fund Bills to give Parliamentary approval to these Estimates will be introduced later in the financial year.

Similarly, main Estimates for 1989-90 will be presented in March 1989, and any Supplementary Estimates, as necessary, thereafter.

Press Office
HM Treasury
Parliament Street
London SW1P 3AG

01-270 5238

22 November 1988

BACKGROUND NOTE

BUDGETARY DISCIPLINE

"My Government will continue to work with our European Community partners to reinforce budgetary discipline."

The European Council meeting of 11-13 February 1988 agreed five major improvements to the budget discipline arrangements for agriculture:

- a legally binding guideline limit for agriculture spending, which will grow at not more than 74 per cent of the growth of Community gross national product;
- creation of a monetary reserve of up to 1 billion ecu to compensate for large fluctuations in ecu/dollar exchange rates but no catch all "exceptional circumstances" arrangement;
- sector by sector management of spending on agricultural market support to ensure that the guideline is not breached;
- automatic stabilisers for the main commodity regimes, designed to trigger price cuts whenever production exceeds maximum quantities set by the Council;
- introduction of systematic depreciation arrangements to achieve a normal stock situation by 1992.

As regards non-compulsory expenditure, the Inter-Institutional Agreement (IIA) between the European Council, the European Commission and the European Parliament provides a procedural and financial framework for implementing the conclusions of the European Council on budgetary discipline and the level of expenditure. The financial perspective attached to the IIA represents ceilings on European Community expenditure between 1988 and 1992 which the signatories to the agreement have bound themselves to respect.

Press Office
HM Treasury
Parliament Street
London SW1P 3AG

01 270 5238

22 November 1988



Treasury Chambers, Parliament Street, SW1P 3AG

Gordon Brown Esq MP
House of Commons
London SW1A 0AA

17th November 1988

Gordon Brown

There was not enough time before Prorogation to answer the following Question from you which first appeared on the Order Paper on 15 November:

To ask Mr Chancellor of the Exchequer, what is his estimate of the total reduction in capital gains tax liability resulting from the changes in the 1988 Budget for the year 1988-89.

The reduction in tax liabilities on disposals made in 1988-89 are estimated at £150 million capital gains tax for disposals by individuals and trusts and £250 million corporation tax for disposals by companies.

Norman Lamont
NORMAN LAMONT



FROM: A C S ALLAN
DATE: 17 November 1988

MR BUSH

cc Mr Gieve
Mr H P Evans
Mr Segal

A handwritten signature in dark ink, appearing to be 'Pry'.

QUEEN'S SPEECH: LOBBY BRIEFS

The Chancellor was grateful for your minute of 16 November. He is content with the draft Lobby briefs, subject to the following points.

Economic strategy

2. In the brief on economic strategy:

- (i) delete the second and third sentences of the first paragraph. Substitute "Government has demonstrated that it will not hesitate to take whatever action is necessary to maintain downward pressure on inflation.";
- (ii) amend the beginning of the third paragraph to read "Growth this year is likely to turn out at 4½ per cent. This represents the seventh successive year of vigorous expansion ...".

Public expenditure and taxation

3. In the brief on public expenditure and taxation:

- (i) amend the beginning of the final paragraph to read "Other tax reforms have included ...". And end the sentence "... to 25 per cent, coupled with reform of capital allowances."

A large, stylized handwritten signature in dark ink, reading 'ACSA'.

A C S ALLAN



Treasury Chambers, Parliament Street, SW1P 3AG

Gordon Brown Esq MP
House of Commons
LONDON
SW1A 0AA

21 November 1988

Dan Gorman

There was not enough time before Prorogation to answer the following Question from you which first appeared on the Order Paper on 15 November:

To ask the Chancellor of Exchequer, what is his estimate of the reduction in annual liability to inheritance tax resulting from the changes in the 1988 Budget for the years 1988-89 and 1989-90.

The reductions in liability to inheritance tax resulting from the 1988 Budget changes are estimated to be £220 million in respect of 1988-89 and £240 million for 1989-90. These reductions in liability are relative to the 1987-88 rate scale indexed by reference to the statutory formula.

Norman Lamont

NORMAN LAMONT



Treasury Chambers, Parliament Street, SW1P 3AG

Gordon Brown Esq MP
House of Commons
LONDON
SW1 0AA

21 November 1988

Dear Gordon

There was not enough time before Prorogation to answer the following Question from you which first appeared on the Order Paper on 15 November.

To ask Mr Chancellor of the Exchequer, what was the investment income and earned income in 1987-88 of: (a) the top 1 per cent; (b) the top 5 per cent; (c) the top 20 per cent; (d) the top 30 per cent; (e) the bottom 70 per cent; (f) the bottom 50 per cent of taxpayers and (g) all taxpayers.

Provisional estimates for 1987-88 and 1988-89 based on projections of the 1985-86 Survey of Personal Incomes are given in the table enclosed. I have included estimates for 1988-89 because those given in my reply to you on 4 July have now been revised. All estimates of investment income are subject to a considerable measure of uncertainty since some investment income on which tax is deducted at source is not reflected in the Survey.

Yours
N

NORMON LAMONT

Encl.



TOTAL INVESTMENT INCOME AND EARNED INCOME

£ billion

Group of income tax payers ⁽¹⁾	1987-88		1988-89	
	Investment Income	Earned Income	Investment Income	Earned Income
Top 1 per cent	2.7	12.8	3.4	14.1
Top 5 per cent	5.5	37.7	6.6	41.4
Top 20 per cent	8.9	96.9	10.6	106.6
Top 30 per cent	10.4	125.9	12.3	138.5
Bottom 70 per cent	7.1	109.2	8.2	120.5
Bottom 50 per cent	4.8	64.0	5.5	70.4
All taxpayers ⁽¹⁾	17.5	235.1	20.5	259.0

(1) Married couples and single people



Treasury Chambers, Parliament Street, SW1P 3AG

Gordon Brown Esq MP
House of Commons
LONDON
SW1A 0AA

23 November 1988


Dear Gordon

There was not enough time before Prorogation to answer the following Question from you which first appeared on the order Paper on 15 November.

Shows substantial increase in investment income.

To ask Mr Chancellor of the Exchequer, what has been the increase in : (a) investment income, (b) full-time earnings and (c) part-time earnings since 1979.

I enclose a copy of Table 4.9 of United Kingdom National Accounts, 1988 edition which gives the available information for all households. I regret that separate estimates of full-time and part-time earnings (in total) are not available.

Yours

NORMAN LAMONT

Encl.

Households: income and expenditure

£ million

		1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
INCOME												
Direct money income from work and property:												
Wages and salaries including pay in cash of HM Forces	GITN	73 742	84 260	98 710	116 899	125 591	133 734	142 769	152 250	165 417	179 129	194 350
Income from self-employment ¹	GITO	10 095	11 514	12 760	13 831	15 411	17 984	20 267	22 872	23 253	25 403	27 596
Rent, dividends and interest (gross receipts)	GITP	5 150	5 781	8 949	11 850	12 677	14 110	14 181	15 336	19 868	20 533	22 617
Total	GITQ	88 988	101 555	120 419	142 580	153 679	165 828	177 217	190 458	208 538	225 065	244 563
Income in kind ²		1 175	1 386	1 734	2 106	2 293	2 511	2 700	2 867	3 151	3 485	3 841
Pensions, social security benefits and other current transfers:												
Pensions and other benefits from life assurance and pension schemes ³	GITS	5 856	6 785	8 052	10 018	12 866	14 802	16 820	18 723	21 034	24 178	27 310
State retirement pensions, widows' benefit, etc.	GITT	7 029	8 015	9 194	10 943	12 844	14 220	15 351	16 063	17 084	18 817	19 409
Family benefits	GITU	960	1 637	2 727	3 048	3 527	3 938	4 302	4 664	4 928	4 995	5 075
Supplementary benefit	GITV	1 752	2 095	2 255	2 737	4 259	6 635	5 799	6 449	7 668	8 230	8 253
Unemployment benefit	CSOI	635	667	636	1 097	1 763	1 590	1 546	1 602	1 632	1 768	1 600
Other social security benefits	GITX	2 601	3 002	3 310	3 588	4 609	5 294	5 436	5 705	6 308	7 019	7 489
Other current transfers	GITY	2 045	2 618	2 943	3 645	4 306	4 806	7 267	8 269	8 828	9 140	9 339
Total	GITZ	20 878	24 820	29 117	35 476	44 174	51 285	56 521	61 475	67 482	74 148	78 475
Total household income	GIUA	111 041	127 761	151 270	180 162	200 146	219 624	236 438	254 800	279 171	302 698	326 879
less United Kingdom taxes on income	GIUB	-17 957	-19 246	-21 629	-25 892	-29 197	-31 585	-35 130	-37 716	-41 373	-44 247	-47 686
less Social security contributions (excluding employers' contributions)	GIUC	-3 797	-4 009	-4 548	-5 545	-6 907	-8 498	-9 965	-10 791	-11 665	-12 385	-13 494
less Contributions of employees to occupational pension schemes	GIUD	-1 667	-1 950	-2 426	-2 926	-3 604	-3 922	-4 189	-4 430	-4 726	-5 150	-5 612
Total household disposable income	GIUE	87 610	102 556	122 667	145 799	160 438	175 619	187 154	201 863	221 407	240 916	260 087
EXPENDITURE												
Expenditure on goods and services ⁴	GIUF	79 397	91 633	108 408	125 513	139 112	152 226	166 342	177 499	193 434	212 439	231 747
Interest paid	GIUG	3 827	4 118	5 884	8 564	10 064	11 597	9 965	11 667	15 174	16 692	18 803
Life assurance, etc. premiums paid by individuals ⁵	GIUH	2 436	2 741	3 037	3 494	4 581	5 390	6 827	8 416	9 753	12 821	15 064
Other current transfers	GIUI	1 226	1 544	1 685	1 966	2 102	2 297	2 469	2 535	2 980	3 239	3 617
Total current expenditure	GIUJ	86 886	100 036	119 014	139 537	155 859	171 516	185 603	200 117	221 341	244 991	269 231
Balance	GIUK	724	2 520	3 653	6 262	4 579	4 103	1 551	1 746	66	-4 075	-9 144
Total	GIUE	87 610	102 556	122 667	145 799	160 438	175 619	187 154	201 863	221 407	240 916	260 087

1 After deducting interest payments, depreciation and stock appreciation.

2 Shown separately for completeness, these estimates should not be interpreted as an authoritative measure of the level of, or trends in, the value of income in kind.

3 As in table 4.10 but excluding pensions paid to overseas residents.

4 As in table 4.7 but excluding imputed rent of owner-occupied dwellings and administrative costs of life assurance and pension schemes.

5 Whether as lump sum or regular payments.

% increase
87 on 79
97
116
153
103
239
811
751
169



Treasury Chambers, Parliament Street, SW1P 3AG

Gordon Brown Esq MP
House of Commons
LONDON
SW1A 0AA

23 November 1988

Dear Gordon

There was not enough time before Prorogation to answer the following Question from you which first appeared on the Order Paper on 15 November:

To ask Mr Chancellor of the Exchequer, what is his estimate for 1988-89 of the average reduction in income tax liability for: (a) working men, (b) working women and (c) pensioners, as a result of the changes in income tax announced in the 1988 Budget.

I regret that estimates are not available in the precise form you asked for. Provisional estimates for various types of taxpayer, based on a projection of the 1985-86 survey of personal incomes, are enclosed. Comparisons are with the 1987-88 tax regime.

Yours
NL

NORMAN LAMONT

Encl.



Average reduction in income tax liability from the
1988 Budget changes in income tax allowances,
thresholds, and rates

	Number (million)	Average reduction (£ per annum)
Non-Aged		
Single	8.7	190
Married couples		
- wife not earning	4.2	420
- wife earning	6.0	450
Aged		
Single	1.3	200
Married couple	1.3	450
All taxpayers	21.0	330



Treasury Chambers, Parliament Street, SW1P 3AG

Gordon Brown Esq MP
House of Commons
LONDON
SW1A 0AP

23 November 1988

Dear Gordon

There was not enough time before Prorogation to answer the following Question from you which first appeared on the Order Paper on 15 November.

To ask Mr Chancellor of the Exchequer, what is the number of households qualifying for age allowance in £1,000 income bands beginning at £1,000 up to £20,000, and £10,000 bands thereafter, stating the average household income for those not qualifying for age allowance.

Estimates of the numbers of taxpaying single persons and married couples aged 65 and over who benefit from the age allowance in 1988-89 are given in the table enclosed. Some 600,000 aged taxpayers with average total income of just over £22,000 per annum are not entitled to the age allowance.

Yours

NORMAN LAMONT

Encl.

TAXPAYERS⁽¹⁾ AGED 65 AND OVER⁽²⁾ BENEFITTING
FROM AGE ALLOWANCE, 1988-89⁽³⁾

Total income (lower limit) £ per annum	Thousands
3,000	230
4,000	300
5,000	330
6,000	280
7,000	260
8,000	210
9,000	160
10,000	210
12,000	10
15,000	0
ALL ⁽⁴⁾	2,000

¹ Single persons or married couples liable to income tax, excluding approximately half a million aged tax units who would be liable to income tax if there were no age allowances. In addition about 4.8 million aged tax units have income less than the appropriate basic allowance.

² Either husband or wife is aged 65 or over.

³ Estimates are based on a projection of the 1985-86 Survey of Personal Incomes and are provisional.

⁴ Estimates do not sum to the total, due to rounding.



FROM: Assistant Parliamentary Clerk
DATE: 25 November 1988

01-270 5007

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mrs Brown - PE2
Mr Geive - IDT
Mr Hansford - RC1
Miss O'Mara - MG1
Mr McIntyre - ST1
Mr Dyer

Ch/NB x, y, z overleaf

[Red handwritten signature]

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

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

ORAL QUESTIONS

Wednesday 7 December Lord Dormand of Easington - To ask Her Majesty's Government what progress is being made in **relocating** government departments in the regions.

Government spokesman: To be confirmed. RC1 Division in the lead.

BUSINESS OF INTEREST TO HM TREASURY

ORAL QUESTIONS

Wednesday 30 November Lord Mackie of Benshie - To ask Her Majesty's Government whether, they are satisfied that takeover bids on borrowed money are in the interests of a healthy capitalist economy.

Government Spokesman: Lord Young of Graffham. D.T.I. in the lead

X
Thursday 8 December Lord Ezra - To ask Her Majesty's Government what is their policy towards unattributable press briefings.

Government Spokesman: Lord Belstead. No10 in the lead.

Y
Thursday 8 December Lord Dean of Beswick - To ask Her Majesty's Government what Criteria were used to set the value of shares in British Steel.

Government spokesman: To be confirmed. D.T.I. in the lead.

Z
Thursday 15 December The Countess of Mar - To ask her Majesty's Government whether they consider that the increase in family credit announced in the Autumn Statement will adequately compensate families on low pay for the lack of an increase in child benefit.

Government Spokesman: To be confirmed. D.S.S. in the lead.

UNSTARRED QUESTION [debate]

Wednesday 7 December The Baroness Ewart-Biggs To call attention to the high level of consumer debt; and to move for papers.

Government spokesman: Lord Strathclyde. D.T.I. in the lead.

Mari Rogerson
MARI ROGERSON



FROM: MISS M P WALLACE

DATE: 2 ~~November~~ 1988

December.
M P

MS ROGERSON

cc Mr Dyer

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

The Chancellor was grateful for your minute of 25 November.

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE