



Prime Minister

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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

18 October, 1979

Dear Mr. [unclear]

Following our bilateral on 14th September a further detailed review has been made of all the Departments for which I am responsible. As a result of this review I am able to increase the prospective staff reductions in terms of cost for my four main departments from £39.9m to £53.6m. As a percentage this is an increase from 6.5% to 8.7%.

The whole of the increase comes from the Inland Revenue where the prospective savings go up from £26.3m to £40.0m: this is a saving of 10% of the Inland Revenue costs and represents a saving of 11,000 staff - 13% of the base line figure. Part of this increase (£2.2m) consists of further administrative savings, details of which are given in the annex to this letter. The balance of £11.5m is contingent upon Budgetary changes which, as you will understand, I cannot list in full. Some of the tax changes are ones we would want to make and which colleagues would welcome, but others would entail, for example, abolishing reliefs (e.g. averaging for farmers, overseas earnings), restricting reliefs (e.g. minor personal allowances to existing claimants), or applying PAYE to car benefits. We would have to wear the rough with the smooth. The revenue cost would, moreover, be more than £1 billion in a full year and £500m in the first year and nearly all this yield is lost by raising the percentage cut from the 6.6% I originally offered to the 10% I am now offering. I must make it plain that these amounts are within our reach only if colleagues are prepared to agree the necessary reductions in public expenditure.

As for Customs and Excise, I undertook to consider your two suggestions for further savings, rationalisation of the regional structure and a reduction in effort put into chasing small traders. Rationalisation of the regional structure is the essence of the Customs' Rayner project. Some savings in staff costs will almost certainly

/accrue and

The Rt. Hon. Lord Soames, GCMG, GCVO, CBE.



accrue and some credit for this was taken in the options already put to you. There may be more to come.

As to small traders, Customs have already reduced the amount of effort they devote to small VAT traders in order to meet the 3% cut in this year's cash limit. In practice, some 400,000 small traders (about one-third of all VAT traders) will now be visited for a half or a whole day once every five years (or up to seven in a proportion of cases) instead of once every four years. To extend the frequency still further would destroy the credibility of VAT control. Customs intend to continue their efforts based on operational research techniques to become more selective in choosing VAT traders to visit, but it would be unrealistic to fix a target reduction in the number of staff involved. The strategy of switching from direct to indirect taxation is heavily dependent on obtaining the revenue yield from VAT that is needed.

The options I have already put to you for the Customs amount to 5%. A further review has indicated no additional functions that could be dispensed with. Indeed I must make the point that some of the options already included may not be realised because of political or trade objections. While therefore I hope that further savings may ultimately emerge from the Rayner type exercises I regard it essential to hold these in hand against the possibility of other options being lost.

As regards the Treasury, I have re-examined the scope for securing further savings. The options I have so far identified total 11.7%: this figure is achieved without counting any part of the £14m per annum saving in public expenditure that would accrue from the substantial staff reductions at the Bank of England that would follow on the dismantling of exchange controls. There may be possibilities of further savings but we cannot quantify them at this stage and they need to be kept in hand against the risk that the options specified may not materialise.

I have also considered the scope for further savings in the Department for National Savings. The options already identified will save 9.5% by 1982-83 but the total will increase to somewhat above 11% in 1984-85 as the services we are withdrawing continue to run down. The only way in which further cost savings could be assured would be to withdraw further services, but we have concluded that we could not add to the service cuts we have already offered without incurring a net cost to the PSBR. To increase costs in this way would not be consistent with the policies decided for the exercise. I

/cannot therefore



cannot therefore offer any further contribution from DNS, but I take it that the savings mentioned above effectively meet your 10% target.

There is in conclusion one general point I would make. The present exercise was conceived primarily, although I agree not exclusively, in terms of cutting out functions. A high proportion of the options I have put to you do in fact take the form of cutting out functions. We have and will continue to exert pressure on administrative procedures with a view to improving efficiency. Some not inconsiderable savings are already included under this heading but inevitably much of what can come from this source has been pre-empted by the 3% cut and by the need to make good previously agreed PES increases which now have to be absorbed. There may well be more to come. But against this many of the options I have put to you, not only in the case of the Customs to which I have already referred but elsewhere as well, are subject to a real degree of risk. The money may not be available to finance the changes or not to the extent that we hope. Tax changes which are prejudicial are not popular and we may not be able to carry them. That is why although I have increased my overall offer to 8.7% and that of my biggest department to 10%, I cannot with the best will in the world give you an unconditional commitment.

I am copying this letter to the Prime Minister.

A handwritten signature in cursive script, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

19 OCT 1979

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CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19th October 1979

Dear Jim,

THE LORD PRESIDENT'S EXERCISE

.....
In our haste to meet your deadline, we left out the Annex to the Chancellor's letter of 18th October to Lord Soames. Please find it herewith.

I am copying this letter to Tim Lankester.

Yours ever,

ME

(M.A. HALL)

J. Buckley, Esq.,
Private Secretary to
The Lord President of the Council

LORD PRESIDENT'S EXERCISEINLAND REVENUEFurther Administrative savings

	<u>Numbers Saved</u>	<u>Staff Cost Saved</u>
PAYE on holiday pay	100	£ 0.42m
Further reductions on information slips	300	£ 1.26m
Paying all staff monthly by direct bank transfer*	100	£ 0.45m
Total	500	£ 2.13m
	—	—
Add 4% for 'related staff'	520	£ 2.22m
Total, original offer plus further savings	<u>8263</u>	<u>£28.50m</u>

*This saving could be realised only as the outcome of negotiations between CSD and the National Staff Side