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DEPARTMENT OF HEALTH AND SOCIAL SECURITY
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The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
LONDON
SW1

Prime Minister (4)

MCS 15/4

13 April 1982

Dear Mr Brittan

will request is required

REDUCTION IN NATIONAL INSURANCE SURCHARGE: LOCAL GOVERNMENT IMPLICATIONS

Tom King copied to me his letter to you about possible ways of clawing back from local authorities the benefit of the reduction in the national insurance surcharge (NIS) in the current year.

Let me say at once that I do of course share your and our other colleagues' concern that we should stand by the principle which Geoffrey Howe set out in his Budget Speech, that local authorities should not make a gain as a result of the change in the NIS. However, I am afraid that the approach which Tom King set out in his letter would present serious difficulties of both principle and practice for my Department.

You will know that we have steadfastly resisted over the years any attempt to apply a differential rate of surcharge (apart from the very special and easily operated exception of registered charities), on the grounds that it would create appalling difficulties of policing, classification and adjudication. It would also introduce an unwelcome complication into an already overburdened national insurance contributions scheme by creating a large number of new contribution rates and categories. This was why, when I wrote to Geoffrey Howe before the Budget, I made it clear that while I wholeheartedly supported any blanket reduction in the surcharge, I would have to oppose any suggestion that it should be applied selectively. I remain convinced that this is right, and I am worried that Tom King's proposal, although limited to the current tax year, would inevitably give rise to fresh demands for a selective application of the surcharge. Indeed, even the arrangement that he put forward would add 11 new rates of contribution to the existing 33; once we had been seen to accommodate these within our system, however briefly, it would be that much harder to resist pressure for a continuing system of selectivity. Tom's solution would in any case only be possible if we amend the Finance Bill, and to do so on those lines would, I fear, be to declare open season for anyone who wished to introduce further amendments to give specific reliefs - or the reverse - to particular groups. The consequences of this could be serious.

While the practical difficulties of accepting Tom King's approach are not insurmountable, they are nevertheless greater than he suggests. I think that we should get the scale of the problem into perspective. It is true, as Tom said, that there are only 420 authorities in England, but my social security responsibilities do of course extend to the whole of Great Britain, so that we should not exclude the Scottish and Welsh authorities from consideration (apart from the implications for Jim Prior on the Northern Ireland system). In addition, many of these authorities operate separate payrolls for the various services for which they are responsible, so that we could find ourselves involved with perhaps 2,000 or more different "schemes" (ie grouped documents for particular payrolls sent to my Newcastle office), each subject to special sorting and checking arrangements to make sure that the authorities concerned had not benefited from the surcharge reduction. I do not want to burden you with the detailed administrative problems involved, but the identification of relevant schemes and the introduction of new programs to cater for them would undoubtedly call for some extra staff both here and in the Inland Revenue. While I cannot put a precise figure on how many people I would need - and you will be in a better position to quantify the Inland Revenue requirements - you will know of the difficulties that we already face in coping with a backlog from last year's industrial action, without imposing fresh tasks on our contributions checking and policing system.

I am afraid that the upshot of this is that I regard Tom King's suggestion as providing a solution to the particular problems that face him during the current year at the expense of creating new and longer-term ones for me. My main worry is that it could lead to a most undesirable permanent feature in the basic structure of the national insurance contributions scheme, and I have to say that I do not think that the game is worth this candle. I therefore hope very much that Tom will find it possible to think again about ways in which the clawback of the NIS reduction might be achieved through DoE funding machinery, even if the solution which it can provide is less finely-tuned than that which could be achieved by the kind of arrangement which he suggested but at the price which I have tried to set out in this letter.

I am copying this letter to members of MISC 21, Jim Prior and Tom King, and to Sir Robert Armstrong.

yours sincerely
Bojorman

pp. NORMAN FOWLER

(letter approved in draft
by the Secretary of state
and signed in his absence)