

CONFIDENTIAL

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY
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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

16 February 1982

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

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

A handwritten signature in blue ink, appearing to be 'JC'.

1982 BUDGET

We have discussed the 1982 uprating of social security benefits, and I am writing to you separately about that. The purpose of this letter is to mention a number of other matters relevant to the Budget which have implications in my field.

National Insurance Surcharge

As you know, you would have my strong support if you felt able to offer employers at large a reduction in the national insurance surcharge. A change in rate during a tax year would pose problems for my Department, but I regard these as a small price to pay for the relief to industry that such a reduction would bring. (As you know, the problems arise mainly because of the increased errors which result from having two sets of contribution tables operative in the same year and also from adverse effects on our checking system; the adverse effects are less the further the change is from the middle of the tax year.)

I should be opposed to any move to apply relief from the surcharge selectively, for example by size or type of employer. This would not only seriously complicate the national insurance contribution arrangements, but would also give rise to problems of policing, classification and adjudication, necessitating, at a broad estimate, some 500 extra staff in my Department.

You have, I think, already rejected the idea of preparing alternative sets of tables for employers for issue in the Spring after a decision on surcharge rates. This indeed is a non-runner. Employers - particularly ones with computerised payrolls - insist that they must have the tables eight weeks before the start of the tax year. This means sending the tables out to over a million employers no later than the beginning of February, the alternative being a real risk of serious disruption in pay and deduction arrangements in the first weeks of the tax year.

Tobacco and Alcohol

I hope that in considering duties on alcohol and tobacco you will again take into account the implications for health of smoking and excessive consumption of alcohol.

On tobacco, the increases in duty in March and July last year were welcome to Health Ministers and we are pleased to note that they seem to have led to a fall in cigarette consumption, though I understand that this may not be as great as the industry claim. But cigarettes are still cheaper in real terms than they were when the effects of smoking on health were first fully appreciated in the mid-sixties. I hope, that you will feel able to increase the duty on cigarettes to the extent necessary to ensure that their price at least keeps pace with the movement of prices generally since the last Budget.

These comments apply equally to the duty on hand-rolling tobacco. However, I would not be unduly concerned should you decide not to increase the duty on pipe tobacco and cigars.

As to alcohol, there are many arguments on health and social grounds, put forward by bodies concerned about preventing alcohol misuse, for not allowing the value of duty overall on alcoholic drinks to fall in real terms. These are set out in Chapter IV and VII of 'Drinking Sensibly', the discussion document on alcohol misuse which I published in December last year. Health Ministers could find it difficult to defend the position if the real value of duties on alcoholic drinks were allowed to fall in the coming Budget.

Private Hospital Development

You will remember that, when Patrick Jenkin wrote to you at the beginning of last year about our Manifesto commitment to restore tax relief to employee - employer medical schemes, he noted that our officials had prepared jointly a paper on a request from BUPA for capital allowances to promote hospital building, and that the paper had concluded that there was quite a strong case for making this change. You concluded that it was then more important to make progress directly related to the Manifesto commitment. Now that the commitment has been fulfilled, however, I should like to ask you to consider seriously a further relief of this kind in your forthcoming Budget.

The case for such a concession is, I think a strong one. Although there has been some private building of hospitals and nursing homes in the past year, the prospects are that we still run the risk of a shortfall in supply in future years unless development can be encouraged. Moreover, we want to encourage health authorities to use private facilities. The supply of private facilities needs to be increased to complement expansion of private insurance, and to accommodate NHS use of them.

A tax concession would help to support our general policy of encouraging private care alongside the NHS. We need to look increasingly to commercial rather than charitable bodies for private hospital development; and they are likely to prefer more profitable investments unless the rate of return on hospital development can be improved. A capital allowance would also benefit the construction industry.

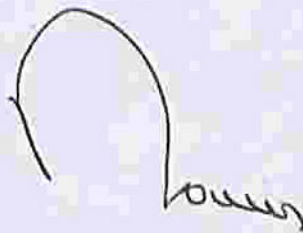
Patrick was understandably concerned about political difficulties from such a concession. In my view, however, the risk of such difficulties would be much reduced if, as I would like to suggest, we went for the 20 per cent rate of allowance available for hotel building rather than the much higher rate for industrial building. Private hospitals and nursing homes offer many hotel-style amenities, so this would be logical. Its revenue cost should not be too high; the 1980 report estimated that it would rise to around £10 million after a number of years when buildings provided for 1,500 hospital and nursing home beds were being completed each year.

Help for the most vulnerable

A valuable and politically effective part of your earlier budgets was the package of measures which showed concern for disabled people and other vulnerable groups. I hope you will be able to give a further boost to the voluntary bodies helping these people. There is, as you will have seen, a lot of publicity for charities' claim for VAT relief. If there really is no way of overcoming the obstacles in the way of relieving their VAT burden, I hope you will look sympathetically at the idea of some additional financial support for voluntary bodies working in the broad social services field.

The Raison Group is already examining this issue, but I suspect that it would be sensible to relax somewhat the criterion which Treasury colleagues wish to apply, that any growth of voluntary activity that is supported must be in substitution for public services. It should, I believe, be sufficient for them to supplement public services in a valuable way.

I am copying this letter to the Prime Minister, Patrick Jenkin, Jim Prior, George Younger, Nicholas Edwards and Sir Robert Armstrong.



NORMAN FOWLER