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SPECIAL EMPLOYMENT MEASURES 1980-81

Memorandum by the Secretary of State for Employment

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1. The programme of special employment measures operated by the Department of Employment (DE) and the Manpower Services Commission (MSC) is reviewed annually against the unemployment prospect. Decisions are now required on the programme for the year from 1 April 1980. The main question is the future of the three DE measures on which a range of options is set out in Annex 1.

ROLE OF THE MEASURES

2. The special employment measures operating this year are listed in Annex 2. Their purpose is not merely to reduce the general level of unemployment but to provide specific help to groups and areas which are particularly hard-hit by high levels of unemployment - for example by providing work experience and training courses for the least qualified unemployed young people. The schemes, apart from the now tiny Small Firms Employment Subsidy (SFES), no longer involve the payment of employment subsidies. The measures cannot solve the unemployment problem but they can make a useful contribution at the margin and at an extremely low net Public Sector Borrowing Requirement (PSBR) cost. The average gross cost of the measures per person taken off the unemployment register is about £2,500 a year but the net cost, after allowing for savings in unemployment benefits etc, is only about £1,000. In addition some of the measures attract significant financial support from the European Social Fund.

3. The scope of some of the measures was substantially reduced in June 1979 as part of our 1979-80 expenditure cuts, mainly by concentrating some of them on the areas of highest unemployment. This reduced the target impact of the measures on registered unemployment in March 1980 from about 300,000 to just over 200,000.

## THE PROGRAMME IN 1980-81

4. The MSC have proposed that their Special Temporary Employment Programme and Community Industry (CI) should continue in 1980-81 at their existing scale of 12-14,000 and 6,000 filled places respectively and that, in the face of a likely very sharp increase in youth unemployment, the Youth Opportunities Programme (YOP) should be increased from 82,000 to 100-105,000 filled places. I endorse these proposals for the three MSC schemes which can be financed from within the much reduced MSC budget for 1980-81 and beyond.

5. The main issue for decision is the future of the three DE measures - the Job Release Scheme (JRS), the Temporary Short-Time Working Compensation Scheme (TSTW) and the SFES. In my view, with unemployment expected to increase sharply over the next year, we should continue these measures in 1980-81 in their present forms which, along with the MSC measures, should keep the impact on unemployment of the measures above 200,000 through 1980-81, reaching about 220,000 by March 1981. If I had to find some further reductions in the scope of the special measures, the SFES is the least cost-effective measure and would have a very small impact on unemployment in 1980-81. I am anxious to avoid any reduction in the scope of JRS which is a very cost-effective early retirement scheme to open up jobs for the unemployed, or TSTW which provides a valuable but strictly limited breathing space to companies in temporary difficulties and helps to keep teams of skilled workers together.

6. There is one secondary issue and that relates to the taxation of the JRS allowance. When JRS was extended to 62-year-old men this year our predecessors announced that the JRS allowance would become taxable for the first time from 1 April 1980. People have been entering the scheme during 1979 with an assurance that the allowance will be grossed up to compensate for the taxation. This change would require increased public expenditure of £34 million in 1980-81 and an extra 120 staff to collect the tax at source. I propose that we should avoid these extra requirements, which have no effect on the scheme other than to make it more complicated and less attractive, by deferring taxation of the allowance for one year and reviewing the matter 12 months from now.

## EXPENDITURE AND MANPOWER REQUIREMENTS

7. The MSC's proposals for their measures can be met from within their overall budget. No advance public expenditure provision is made for the DE measures, and the Chief Secretary, Treasury, accepted earlier in his paper to Cabinet on our expenditure plans that if Cabinet decided to continue measures of this kind, the cost would have to be found from the Contingency Reserve. The costs of continuing the three DE measures for one year is shown in Annex 1 including alternative options for JRS and TSTW. The total gross costs of my proposal to continue them in their present forms if the JRS

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allowance is taxed are estimated as £78 million in 1980-81 and £91 million in 1981-82 with substantial but falling costs on JRS in subsequent years. If my proposal to defer taxation of the JRS allowance for one year is accepted the total gross costs would be reduced to £44 million in 1980-81. Because of savings in unemployment benefit etc the net PSBR cost is about one half of the expenditure required for the measures.

8. The Treasury point out that the proposal to extend these measures would add to public expenditure in 1980-81 and beyond when current effort is to secure substantial reductions. As a technical point, if any addition were agreed now it would appear in the next White Paper as an addition to the DE programme. The question of charging the Contingency Reserve does not arise since all programmes are currently under review.

9. The staff required for the continuation of the DE measures if the JRS allowance remains untaxed would be 185 at 1 April 1981 for which there is already sufficient provision in the existing public expenditure Survey allocation for DE staff. One hundred and fifty extra MSC staff on top of current levels would be required for the proposed expansion of YOP, the cost of which can be contained within the existing financial provision for administration. Staff requirements for the special measures are wholly offset by consequential reductions in staff otherwise needed to pay unemployment benefit. There is already provision for the further 120 staff in DE and Inland Revenue which would be required if the JRS allowance is taxed.

#### EUROPEAN COMMUNITY CONSIDERATIONS

10. Substantial support from the European Social Fund is obtained for YOP (£38 million in 1979) for CI (£3½ million in 1979) and SFES (about £2 million if extended in current form). Extensions of SFES have to be notified to the Commission.

#### TIMING OF ANNOUNCEMENT

11. It would be desirable to make an announcement before the end of January to allow sufficient time for receiving applications and planning the programmes to take effect from 1 April 1980 and to notify any proposals on SFES to the Commission.

#### CONCLUSION

12. With the prospect of a sharp increase in unemployment over the coming year and major redundancies in the steel, shipbuilding and other industries, in my view we should not make any further reductions in our special employment measures. The DE Group has already found major savings on planned expenditure for 1980-81 of about one-third (over £550 million), and through the special measures we can make an important

contribution to helping hard-hit groups and areas at a very low cost to the Exchequer when savings of unemployment benefit, increased tax and national insurance receipts and support from the European Social Fund are taken into account.

13. I therefore recommend that:

- i. We should continue the DE special employment measures in 1980-81 in their present form and agree to the MSC proposals for their programmes.
- ii. Taxation of the JRS allowance should not come into effect from 1 April 1980 but should be deferred for a year in order to save both public expenditure and staff.

J P

Department of Employment

22 January 1980

	£ million (1979 Survey Prices)				Effect of continuing measures on Unemployment Register March 1981
	1980/81	1981/82	1982/83	1983/84	
1. SHORT-TIME WORKING SCHEME					
(a) Continue throughout the country	26	15	-	-	11,000
(b) Restrict to Assisted Areas	16	9	-	-	7,000
2. SMALL FIRMS EMPLOYMENT SUBSIDY					
- Continue as now	10	6	-	-	3,000
3. JOB RELEASE SCHEME <sup>1</sup>					
(a) if eligibility ages remain at 59/62 with allowances taxed	42 <sup>2</sup>	70	53	25	33,000
(b) if eligibility ages changed to 59/63 with allowances taxed	19	22	5	-	14,000
(c) if eligibility ages changed to 59/64 with allowances untaxed <sup>3</sup>	-14	-3	-6	-1	10,000
(d) scheme abolished and allowances to current beneficiaries remain untaxed	-28	-17	-6	-1	-

Notes on JRS:

1. This range of options assumes that payments under a scheme paying allowances for more than one year would be taxable as long-term benefits but that payments under a scheme restricted to people within one year of the pension ages would be exempted from tax.
2. If taxation of the JRS allowance were deferred for one year as proposed by the Secretary of State for Employment this figure would be reduced by £34 million to £8 million.
3. If the eligibility age for disabled men were retained at 60 under this option and their allowances taxed there would be an extra cost of £4 million in 1980-81 and £7 million in 1981/82, 1982/83 and 1983/84 and an extra register effect of 3,000. There would be similar but lesser amounts if the special provision for disabled people were maintained with 59/63 eligibility ages. The expenditure figures for the 59/62 option include the costs of continuing the special provision for disabled people.

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LIST OF SPECIAL EMPLOYMENT MEASURES

The special employment measures currently in operation are outlined below. For each scheme DE estimates are given of the gross and net cost per person off the register per annum and of the expected impact on the unemployment register in March 1980.

(a) Measures operated by the MSC

(i) Youth Opportunities Programme: provides a range of work experience and training courses for unemployed young people as an alternative to unemployment and to improve their prospects of finding permanent jobs.

Cost per person off the unemployment register per annum - Gross £1800, Net £950  
Number off unemployment register March 1980 - 80,000

(ii) Community Industry: provides temporary jobs on projects mainly in areas of high unemployment for unemployed young people who are particularly personally or socially disadvantaged and are finding it difficult to find and keep jobs.

Cost per person off the unemployment register per annum - Gross £2700, Net £1350  
Number off unemployment register March 1980 - 5,500

(iii) Special Temporary Employment Programme: provides temporary jobs on projects for long-term unemployed adults (aged 19-24 unemployed for more than 6 months, aged 25 and over unemployed for more than 12 months) in the Special Development Areas, Development Areas and designated inner city areas.

Cost per person off the unemployment register per annum - Gross £3400, Net £1400  
Number off unemployment register March 1980 - 12,000

(b) Measures operated by DE

(iv) Job Release Scheme: offers allowances to women aged 59, disabled men aged 60 to 64 and men aged 62 to 64 throughout the country provided they retire from employment and their employers agree to recruit a replacement from the unemployment register.

Cost per person off the unemployment register per annum - Gross £2500, Net £900  
Number off unemployment register March 1980 - 77,000

(v) Temporary Short-Time Working Compensation Scheme: designed to encourage employers to adopt short-time working as an alternative to redundancy by offering them compensation for a period not exceeding 6 months for payments made to employees on short-time. The scheme covers the whole country.

Cost per person off the unemployment register per annum - Gross £3700, Net £1100  
Number off unemployment register March 1980 - 11,000

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(vi) Small Firms Employment Subsidy: designed to encourage the creation of additional employment in small firms by providing a subsidy of £20 per week for six months for each extra job provided in manufacturing firms with less than 200 employees in Special Development Areas and Development Areas.

Cost per person off the unemployment register per annum - Gross £5200, Net £1700

Number off unemployment register March 1980 - 3,000