



cc: A. S. G. G. G.

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Handwritten initials and scribbles in blue ink, including 'M.M.', 'R.', and 'S/S'.

Handwritten signature in blue ink, appearing to be 'D. G. G.'.

EMPLOYMENT AND TRAINING BILL - ENTERPRISE ZONES

Thank you for your letter of 29 April in reply to mine of the 23rd. You will also have seen the letter from the Private Secretary to the Prime Minister of 27 April.

In the light of your views, and of those of the Prime Minister, I agree that we should seek to restore to the Employment and Training Bill some kind of provision about exempting establishments in Enterprise Zones from levy imposed by an industrial training board, and from the obligation to provide information to such a board. However, if we do this, I am very much in favour of seeking to restore the clause in the amended form referred to in paragraph 4 of my letter, which the Prime Minister seemed to favour.

You referred in paragraph 3 of your letter to the fact that it is undesirable to discriminate between one firm and another in an enterprise zone. I quite agree with this, and that is one of the reasons why I rejected the possibility of expressed exclusion of the Construction Industry. I understand that the pressures to which you referred were pressures to exclude particular sectors, such as retailing, from the relief from rates available in the zones, or pressures to confine relief to new establishments. I can see that if it were proposed that we should exclude a particular sector, such as Construction, from the relief in respect of industrial training levy, then this might give rise to further pressures from other sectors for special treatment in relation to other enterprise zone benefits. However this is not what the proposed amendment would involve. It can best be seen not as discriminating between firms within an enterprise zone, but as getting right the definition of what counts as being in an enterprise zone for the purpose of relief from industrial training board levy. For the same reason I think that the proposed amendment is quite different from a provision which would confine relief to



new establishments. In the light of this I do not think that such an amendment need lead to pressures of the kind you describe, but insofar as it did they could surely be resisted by pointing out the essential difference to which which I have just referred.

I do not think that it would be particularly difficult to restore the clause as amended as I suggest, but I do think that it would be difficult to seek to restore it as originally drafted, as it has aroused criticism on the ground that it could have the effect of extending the benefit of relief from levy to many people working outside the zone. Peter Morrison accepted in Committee that this was a problem, and said that we would be looking at it. We can hardly use the argument that an amendment to deal with this problem would entail giving way to other pressures because, as I have explained above, the situations are not comparable. Thus the only reason we can put forward is that the amendment, as compared with the original clause, would involve a marginal increase in form filling, in that some employers would have to provide information in respect of their employees who work outside the zone. This does impose a slight extra burden on establishments in the zone, but it would not be justifiable, in order to try to avoid this, to permit the large scale anomalies that the clause as originally introduced could lead to. There is a real danger that the Enterprise Zone concept may be damaged if companies can make use of it to avoid paying levy on large numbers of employees outside the Zones.

I think that an order making power to restrict the scope of the clause later if the potential loop-hole were seriously exploited would be difficult to get through the House, because we would obviously be under pressure to draft the clause now in a way which does not permit abuse rather than take a power by order to redraft it later when such abuse had already happened.

For the above reasons I now think that we should seek to restore the clause in the amended form referred to in my earlier letter. I understand that Report Stage is unlikely to be before 11 May, but we need to get this resolved quickly so that the necessary clause can be tabled in reasonable time. In the meantime my Department is asking Parliamentary Counsel to draft the amended provision so as to keep open this option.

I should be grateful if you would let me know by Wednesday 6 May whether you can agree what I now propose.

I am sending copies of this letter to the recipients of the previous correspondence.

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