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The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

Prime Minister ²
To be aware in
relation to your meeting on
Workfare on Monday.
Des 30/s
30th May 1986

MB
Dear Chief Secretary,

1. I am writing to let you know the DE Group's bids for PES 1986, and the reduced requirements and other offsetting savings we have identified. Fuller supporting justification, and other relevant detail, is in Annexes 1 and 2. My officials will be giving yours fuller information as required.

2. The policy of containing all bids within baseline presents particular difficulties for the DE Group. Some 80 per cent of our baseline is accounted for by employment, training or enterprise measures, whose importance to the government's anti-unemployment strategy has been recognised in the significant expansions announced in recent Budgets. We are nevertheless undertaking to meet the cost of all proposed additions to our programmes, save where (as described in Part A of Annex 1 and paras 3-8 below) there is a clear precedent or other special consideration justifying an additional allocation.

RESTART

3. I am asking for £37 million (rising to about £40 million) to extend the whole Restart programme, to allow the 6-months unemployed to benefit from it. The pilots are proving very successful, and I am convinced that the results from the six month unemployed will, if anything, be greater than the 12 month group. Though technically a net additional bid for DE, the extension will (even on our original cautious assumptions) yield net savings both in public expenditure and net exchequer terms.

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INNER CITIES INITIATIVE

4. Treasury agreed to a contribution from the Reserve to pilot this initiative during the current year. I am asking for provision to maintain the present modest, potentially cost effective, level of expenditure throughout the PES period.

DE RUNNING COSTS

5. I am seeking extra resources to cover the consequentials for DE of DHSS proposals to replace NUBS by 1990; to introduce a Common Rules Package from April 1987; and to implement the Social Security Review. All these proposals stem from DHSS policies. NUBS 2 will yield net running cost savings (to DHSS) from 1990-91, the Social Security Review substantial benefit savings (again to DHSS) from 1989. A bid is also made for the extra DE costs stemming from technical delays to implementation of the DHSS-led TRES project.

6. Additional running cost bids are also made to cover the impact of higher unemployment assumptions (affecting the NUBS); and of the above average costs to the DE Group of the proposed salary restructuring for clerical and ADP grades, resulting from our exceptionally high proportion of clerical staff. It is not practicable to absorb these extra costs - nor those of the DHSS linked additions - given the limited scope for further efficiency improvements (compared with the major gains of recent years, already reflected in the baseline); and the extent to which, since 1985, the Group has already absorbed pay increases above the reflation factors allowed.

PROPERTY REPAYMENT SYSTEM

7. A bid is presented - as required by Treasury - for our extra costs arising from the transfer to departments of PES bidding responsibility for all major works, from April 1987. A bid is also necessary for Part II works and minor maintenance, for which PSA's baseline is known to be insufficient.

TOTAL NET ADDITIONS TO BASELINE

8. Our proposed net additions total some £75m, £79m and £84m, of which the running costs element is £35m, £43m and £49m.

PROPOSED SWITCHES WITHIN THE DE GROUP BASELINE

9. Part B of Annex 1 describes in detail the areas where I propose to fund additional provision from savings made within the baseline. Among the smaller increases, I propose to



provide for a National Council for Vocational Qualifications; small-scale initiatives by City Action Teams (to continue the provision announced in connection with shipbuilding redundancies in the North East); a new programme to promote enterprise formation by young people; a further expansion of £5m-£6m a year for tourism; and a modest increase for sheltered employment.

10. The major element in my proposals is however the extension of TVEI on a national basis to begin in September 1987. I am writing separately to you and colleagues in parallel with this letter with my proposals which I would like to discuss urgently with you because of the need to announce the terms of the extension in my forthcoming June White Paper on education and training of young people. All I do now is to note that I am proposing that the extension be funded through the MSC on a basis equivalent to £30,000 in the pilot stage.

11. To cover these bids, and also the excess requirement for Redundancy and Insolvency Payments (£9.3m, £5.1m and £2.6m net of our reduced requirements), which I undertook to find as part of the 1986 Budget deal, I need to find savings of £35m, £56m and £80m. You will see from Annex 2 that I propose to find £20m a year of this from the Community Programme. The resources available provide for 255,000 filled places, which I now intend to operate as a ceiling for the programme.

12. I have considered whether part or all of the remaining savings required could be found from the adult training budget but have decided that we should not further reduce a budget which has already fallen steadily in real terms in recent years. To do so would in my view sit very uneasily with our range of policies for mitigating the effects of unemployment and of making the labour force more flexible and competitive. We would have considerable presentational problems both publicly and with the Commission in defending any cuts, which would I believe be wrong in any case. The better strategy is to seek to make better use of the money we have, particularly to stimulate enterprise business growth and to increase support for the long-term unemployed - increasingly end-on to our RESTART offerings. We need too to continue a range of programmes designed to stimulate employers to provide training provision themselves to a greater degree. I have instituted a further review with the MSC of our policies to continue the momentum for change established last year so that we can look to significant re-shaping (to begin in 1987/88 and to take full effect in 1988/89) which will allow us to offer training to even more people than at present.

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13. I am therefore prepared instead to undertake to find the remaining required savings (£15m, £36m, £60m) from the Youth Training Scheme. Various policy options that could yield savings of this order have been identified in our officials' agreed paper on the funding of the TVEI. One of those, the freezing of YTS basic grant and managing agents fee for 1987/88 at present levels (with protection for premiums and umbrella places), which would save the £15m required for 1987/88, and the same amount in each subsequent year towards the larger savings required then, I am prepared to say now we should adopt. As regards the further savings required for the subsequent two years, given that none of the other options is desirable for its own sake - and the impracticability of forecasting spending out-turn until we have more experience of 2-year YTS - I would wish to defer a decision until future PES rounds.

I am copying this letter to the Prime Minister, the Lord President, the Home Secretary and the Secretaries of State for Wales, Social Services, Northern Ireland, Environment and Scotland.

Yours sincerely,

Iain Mackinnon

[PRIVATE SECRETARY]

[Approved by the Secretary of State and
signed in his absence]

ADDITIONAL BIDS

A PROPOSALS FOR NET ADDITIONS TO BASELINE1 Re-start: extension to 6 month unemployed

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total additions required:	37.3	39.9	40.5
Of which:			
- Programme cost: MSC	20.1	22.4	22.6
- Running costs: MSC	15.0	15.4	15.8
UBS	0.9	0.8	0.8
DHSS	1.3	1.3	1.3
Manpower	<u>Man-years</u>		
MSC	1000	1000	1000
UBS	239	221	221
DHSS	140	140	140

2 Extra provision is sought to widen the scope of the Restart Programme to include the six month unemployed as well as the twelve month unemployed. A net addition to the DE baseline is considered well-justified, as likely to present net savings both in terms of public expenditure and exchequer cost. The scale of these savings depends on the numbers off the count and length of time they stay off, neither of which can be firmly estimated without a pilot examination. Nonetheless net public expenditure savings on the extension to Restart would be of the order of £6.5m in 1987/88 and £15m in later years if an additional 5% of the client group left the count on average for 22 weeks. Break even in all years would be achieved from 18 weeks. Net exchequer savings of some £13m and £25 could be achieved at 22 weeks - break even by 14 weeks.

3 These assumptions are based on experience of the behaviour of the 12 month unemployed in the pilot areas. They may be too pessimistic, as prima facie there is scope for extra effect among the 6 month unemployed. Statistical comparisons over the first

3 months of the pilots suggest a potential 6-8% extra effect on the long term unemployed, and these figures may well rise over the coming months. It is early yet to estimate the length of time off the count, but analyses of mid April data are showing satisfactorily growing percentages. For example, of those leaving the count after a first letter from MSC but before an interview, 39% have already been off over 11 weeks (at a time when the scheme had only been running some 15 weeks).

4 The count effect implied by the 5% for 22 weeks assumption would be as follows averaged over the year:

1987/88	1988/89	1989/90
22,660	28,700	28,700

5 The additional provision would allow for:

- an extra 1.3 million interviews by MSC (with consequent adjudication work in UBS or DHSS)
- 20% of these people to attend Restart courses; and
- 10,000 more to take up the Jobstart allowance.

Output and performance data would be monitored separately, in the same way as for the twelve month unemployed. Requirements for the later two years would be reviewed in the light of findings of any pilot or of the first year's operation.

6 The consequence of not allowing the bid would be to forgo the potential net public expenditure and Exchequer savings, and favourable effects on the unemployment count.

7 Inner Cities Initiative

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total addition required:	8.2	8.5	8.6
of which:			
- Programme cost	7.2	7.4	7.5
- Running costs	1.0	1.1	1.1
Manpower	<u>Man-years</u>		
DE	41	41	41

8 The Inner Cities Initiatives (ICI), first announced by Ministers on 6 February 1986, aims to achieve a better coordination of Government help to certain small inner city areas. It provides through some additional funds a measure of flexibility in supporting innovative projects bringing direct help to local people which do not otherwise sit squarely within existing programmes. The overall objective is to increase the effectiveness of central Government programmes in meeting the needs of communities in urban areas suffering from particularly severe problems - in particular through improving their employment prospects and encouraging enterprise.

9 The bid is to maintain expenditure throughout the PES period at the level agreed by Treasury for 1986-87. The implication is that the initiative will continue during this period without modification. The sums involved represent only about 10% of what Departments are already spending in these areas. The initiative is to use the money in part to 'lever' substantially larger resources from the private sector into the areas so that the overall effect on the communities is considerably greater than the £8m would suggest.

10 The method of evaluation is currently being considered by a group of officials who will be reporting to MISC 104 in July. The aim is to establish a framework of evaluation criteria which will enable informed judgements to be made about the success of this experimental programme. Subject to such fuller evaluation, Ministers regard this as a valuable policy initiative likely to yield significant policy benefits at relatively low cost.

To the extent that the programme succeeds in reducing numbers on the unemployment count, there would be offsetting benefit savings.

11 Net additional resources are sought, as a logical corollary of Treasury's agreement to fund the bulk of the current year's requirements from the Reserve. It is not feasible to absorb the cost within baseline in addition to the other extras which DE is undertaking to find (paras 35 to 80). If the bid is not allowed, the potential benefits mentioned in para 10 will be forgone.

12 National Unemployment Benefit System (NUBS) 2

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement (all running costs)	0.1	0.3	7.2
	<u>Man-years</u>		
Manpower	9	18	578

13 The DHSS National Unemployment Benefit System (NUBS) computers are due for replacement by 1990. The system uses an obsolete programming language and is generally ill equipped for the increased complexity of programming requirements since NUBS' development at the end of the 1960s. The suppliers, ICL, will not maintain the present system after 1990. The project is part of the DHSS operational strategy and DHSS will bear most of the cost. The new system will have major implications for the methods of processing benefits in local offices and UBS staff will be heavily engaged in the planning and implementation of the programme.

14 The NUBS 2 system is not a straight replacement of NUBS 1. The system will provide new facilities including the transfer of claims between offices and the automatic link to other computerised benefit systems including Incomes Support and the Departmental Central Index. There will be a radical examination and assessment of all procedures and it is hoped to eliminate all manual claims. The resultant staff savings, in 1990-91 and beyond, should more than offset the implementation costs.

However, during the PES period there will be additional costs to develop the system and to train all users. Training will involve many new procedures and staff will have to understand and be able to operate the links to other computer systems. A minimum of five days training is expected for each member of staff.

15 The bid arises for reasons quite outside DE's control. It cannot be absorbed, for the general reasons described in paras 22-23 and 29-30. If the additional resources bid for are not provided, the department could find it impossible to implement NUBS 2 with the consequential breakdown of the payments system with the demise of NUBS 1. The net staff savings provisionally expected (para 14) would be forgone.

16 Social Security Review and Common Rules Package

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement (all running costs)	4.5	7.5	6.5
	<u>Man-years</u>		
Manpower	493	863	713

17 DHSS are introducing a Common Rules Package from April 1987 and are forecasting major reductions in programme expenditure. The intention is to treat claimants under similar rules whichever benefit they claim. Unemployment benefit rule changes are being introduced by DHSS causing unavoidable administrative cost increases in DE. The increases are due largely to more claimants having (and exercising) their right to appeal on questions of benefit entitlement, to the greater numbers of overpayments to be recovered under the new rules and to the recovery of the other benefits eg sickness benefit, from the new income support payments. DHSS are still working up the detailed procedures but at this stage continuing costs of 230 staff are estimated.

18 Proposals in the Social Security Review are expected to yield some 2,000 staff savings in DHSS from 1989 onwards. The proposals will, however increase UBS administrative costs because

the new Social Fund loans being introduced from April 1988 will be recoverable from unemployment benefit and income support payments. Recovery is costly as individual arrangements will have to be made and DHSS are forecasting 1 million loans a year. A second change being introduced from April 1987 (which allows long term unemployed claimants to earn a higher wage before their income support payments are abated) will also increase staff costs. The current forecast is for 280 staff in 1987-88 and 650 thereafter. The bid assumes that a computer programme for identifying eligible claimants can be devised by 1989-90, enabling a fall of 140 in staff costs.

19 The bid arises for reasons over which DE has no control and cannot be absorbed, for the general reasons discussed in paras 22-23 and 29-30. If the bid is not allowed, DE will be unable to implement the Social Security Review (with its associated DHSS savings) and Common Rules package.

20 Revised Economic Assumptions

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Addition required (all running costs)	3.7	6.0	6.1
	<u>Man-years</u>		
Manpower	255	255	255

21 Following the higher unemployment assumptions issued in the Treasury letter of 6 November, Treasury agreed to an increase in the manpower baseline. This is reflected in the 1986 Public Expenditure White Paper. No corresponding financial adjustment was made. The present bid is to cover this; and also to allow for manpower and money consequences of the further increase in unemployment assumptions, issued by Treasury on 28 November.

22 As described in the 1986 Public Expenditure White Paper and in the PES Report, UBS productivity, in terms of the ratio of claimants to staff, has improved steadily in recent years.

The improvement is expected to continue, due to more efficient working methods, notably the TRES programme (1900 staff savings). The bid takes account of these expected savings; and also of decisions taken, since PES 1985, to reduce the level of scrutiny of UBS claims, and to continue 6-monthly signing for postal claimants.

23 The proposed post-Tres survey may possibly identify additional savings, but those cannot be anticipated. Hence no scope is seen for finding the resources to cope with higher unemployment, from further efficiency savings. Not allowing the bid would mean placing further burdens on an already overstretched system, with consequent delays in payments, and increases in payment errors. The latter could well lead to an even greater increase in costs on DHSS' benefit programmes.

24 Terminal Replacement Enquiry System (TRES): Slippage

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement (all running costs)	2.1	0.2	-
	<u>Man-years</u>		
Manpower	325	35	-

25 Some 1900 staff savings in local offices, resulting from TRES, are allowed for in the baseline. However, now that implementation has begun, DHSS have found they cannot maintain required serviceability, due to hardware and software problems; or support implementation to the necessary level because of the loss of key computer staff. Implementation has therefore been held up while the problems are rectified. The bid reflects the resulting delay in achieving UBS savings (the total to be achieved is not affected). The reasons why the bid cannot be absorbed, and the consequences of not allowing the addition, are as described in paras 22-23 and 29-30.

		£M		
		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
(i)	<u>CO/CA/ADP</u> <u>restructuring</u>			
	Additional requirement (all running costs)	8.8	9.3	9.7
	Of which: DE	5.8	6.1	6.3
	MSC	3.0	3.2	3.4
(ii)	<u>Treasury</u> <u>incremental Factors</u>			
	Additional requirement (all running costs: DE)	1.0	0.8	-

27 The CO/CA/ADP restructuring will cost, on average, an additional $\frac{1}{3}\%$ across the civil service. The DE Group faces an above-average cost because of our relatively high proportion of clerical staff: 73%, compared with 37% in the civil service as a whole. The bid at (i) represents the cost to the Group in excess of $\frac{1}{3}\%$.

28 The baseline assumes incremental progression factors, provided by Treasury, of +1.2% in 1987-88 and +0.7% in 1988-89. Latest Treasury information gives incremental progression factors of +1.6% and +1.0%. The bid at (ii) is to cover this increase.

29 The DE Group has already absorbed, or is preparing to absorb:

- the 1.9% excess cost of the 1985 pay award (£11m for the DE Group in 1987-88);
- The 1% excess cost of the 1986 award (£6m for the Group); and

- the first $\frac{1}{3}$ % effect of the 1986 CO/CA/ADP restructuring package (£2.2 m for the Group).

All these increases carry forward into later years.

30 As explained in more detail in para 22, virtually no scope is seen for further efficiency savings in the UBS. Similarly, in the rest of DE, significant staff savings compared with baseline have already been allowed for: through a reduction in the scope of wages inspection, closure of DE's typist training centres, contracting out of security services, implementation of planned review reports, organisational improvements and other efficiency savings. The present bids already allow for significant reductions made to divisions' PES proposals, following intensive scrutiny and consideration by senior management and Ministers. Further reductions could not be achieved without significantly curtailing activities in ways which Ministers would find difficult to defend politically.

31 Changes in the Property Repayment System (PRS)

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
(i) Part I			
Additional requirement (non-running costs)	6.5	4.5	3.7
(ii) Part II			
Additional requirement (non-running costs)	2.5	2.1	2.1

32 Part I (major new works: over £150,000). From April 1987 departments will be required to carry on their own programmes the cost of major new works previously borne by PSA. The existing DE baseline provides only for the UB0 improvement programme.

The bid covers known requirements for DE HQ and out-stations, and for PSA resource costs. The additional bid represents the minimum necessary for upkeep of the DE estate. If these resources are not made available, there could be serious effects on staff moral and efficiency; with higher costs in later years through delaying essential work.

33 Part II (minor works: up to £150,000) and maintenance up to £5,000. Departments will also assume responsibility for these works from April 1987. Increased charges to DE will be partly offset by reductions in PSA's accommodation charge; but PSA admit their baseline provision is insufficient. The bid reflects the additional amount necessary for the upkeep of the DE estate. The consequences of rejecting the bid will be similar as for Part I.

34 Total Net Additions to Baseline Proposed

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total additions	74.7	79.1	84.4
Of which:			
running costs	35.4	42.7	48.5

B ADDITIONAL BIDS FOR WHICH OFFSETTING SAVINGS CAN BE FOUND

35 Redundancy and Insolvency Payments

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Net additional requirement	9.3	5.1	2.6

36 DE Ministers undertook, as part of the 1986 Budget package, to find offsetting savings to cover the excess of current forecast requirements for redundancy and insolvency payments, over agreed PES provision. Following the April meeting of the DE/Treasury monitoring group, the excess requirements totalled £20.2m, £23.0m and £24.3m. We assume (following earlier discussion with Treasury officials) that the reduced requirements shown in Annex 2,/-^{paras 1-6} totalling £10.9m, £17.9m, £21.7m - may be offset against these overbids. This leaves the net overbid of £9.3m £5.1m £2.6m, shown above, for which further offsetting savings need to be found.

37 National Council for Vocational Qualifications

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	3.0	3.0	1.0

38 The bid is net, and assumes a combined contribution to the costs of the NCVQ of £2m, £2m, £1m for the three years from DES, Welsh Office and Northern Ireland Office (ie the total costs to government are £5m, £5m, £2m). It is intended that contributions from other departments would be channelled through the DE.

39 It is proposed to establish the NCVQ under the joint sponsorship of DE, DES, Welsh Office and Northern Ireland Office. It would act as a national focus for the reform of the vocational qualifications system and for the establishment of a new framework of national vocational qualifications. Reform is needed to facilitate the creation of a better skilled, better qualified and more competent workforce.

40 In 1987-88, the gross provision of £5m would be allocated as follows:

- £3m on the NCVQ's running costs and its research programme.
- £2m on publicising and marketing the new national vocational qualifications framework.

It is likely that substantial expenditure on marketing will be needed for at least another year, but the allocation of expenditure after 1987-88 will be reviewed in the light of developments. There are no running cost or manpower implications for DE. The NCVQ will begin to earn income once it becomes established, and it will be expected to become largely self-financing after 1989-90.

41 The NCVQ will be expected to provide a new structure for vocational qualifications which will be acceptable to existing examining bodies and to employers, and to provide a "seal of approval" for qualifications which meets its criteria for national vocational qualifications. The NCVQ's performance will be judged by the quality and acceptability of the new framework by the target date of 1991. Further, the NCVQ is intended to become largely self-financing from the income it will earn by charging examining bodies for the use of its "seal of approval". Income will depend upon the NCVQ's effectiveness and credibility, and performance will therefore also be judged on financial grounds.

42 The NCVQ is an entirely new and radical development and there is no existing programme which could be expected to absorb the cost. If the bid is not allowed, the NCVQ cannot be established. The existing poorly structured assortment of unrelated vocational qualifications would then continue to inhibit attempts to modernise and improve the skills of this country's workforce.

43 COMETT

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	0.5	0.8	1.3

(Note: The bid may be reduced if a German proposal to reduce the programme's budget is accepted).

44 COMETT is a European Community action programme to improve education and training for new technology by encouraging closer co-operation between higher education and industry to their mutual benefit. The programme should give firms improved access to high level training and should enable higher education provision to be more closely related to industry's needs. The programme will include:

- the development of university-enterprise training partnerships;
- transnational exchanges to provide work experience for students and academic staff and academic fellowships for industrial staff;
- the joint development of advanced training programmes by higher education and industry;
- training projects involving multi-media systems including open and distance learning.

Ministers have agreed that costs will be shared between DES (the Lead Department) DTI and DE in the ratio 45:35:20.

45 The "outputs" of the programme in the UK will depend on what share eventually comes to us. However, the indications are that the UK is well placed to derive a share of the programme at least equal to the UK contribution. In some areas (eg distance learning) the UK comparative advantage is substantial. Moreover, many projects can be expected to be developmental, so that the ultimate benefits will be spread more widely. Since, however, the exact allocation of funds will be for the Commission to decide, it is not possible to give details in advance.

46 This is a wholly new programme, and there is no existing budget that could absorb the cost. It is, however, not possible to leave this provision unchanged. UK Ministers' have agreed the programme at the Social Affairs Council and DE has agreed to pay its share.

47 ILO Subscription

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement -	0.2	0.2	0.2

48 The UK is a founder member of the International Labour Organisation and has a permanent seat on its Governing Body. The purpose of this expenditure is to meet the UK's share of the ILO's budget. That share is determined in relation to an agreed scale of assessment. The ILO scale of assessments is a slightly adapted form of the UN scale. A revised UN scale, putting up the UK share was agreed in December 1985. The ILO is expected to finalise its own scale at this year's Conference in June. As a consequence of that revision the UK's ILO subscription will increase from 4.63% of the budget to 4.87% in 1987, ie an increase of 5.18%.

49 60% of ILO costs are incurred in Geneva. The current annual Swiss inflation rate is around 2½% and the budget can be expected to increase annually by at least that rate. The revaluation factors included in the baseline are therefore sufficient to cover this increase but not the additional 5% already described and we therefore have to increase the existing baseline by this percentage.

50 Department of Employment monitor ILO budget proposals carefully and are prominent among delegations seeking to control expenditure and secure value for money. The UK strongly supports the ILO's central role of adapting and monitoring international labour standards and its useful technical work on employment issues. It has shown itself resilient to political attacks on its essential functions from countries opposed to these objectives.

51 Failure to pay the increased subscription in full would mean that we would be in breach of our ILO membership obligations with the ultimate consequence that we would lose our voting rights.

52 City Action Teams (CATs)

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	1.0	1.0	1.0

53 The bid is to continue the £1m a year provision for special initiatives, announced in connection with British Shipbuilders redundancies in the North East. At Treasury's request a detailed case, covering specific objectives and evaluation criteria, is being prepared.

54 Youth Enterprise

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	2.0	2.0	2.0

55 The bid covers a contribution towards a fund for giving small loans (under £5,000) to young people setting up in business. It would be associated with the establishment of some 35 Youth Enterprise Centres around the country, where young people who are thinking of going into business on their own can receive specialist advice, counselling and some limited workshop or office space. The Centres would be grafted onto existing Local Enterprise Agencies or enterprise workshops wherever possible. A contribution to some administration costs associated with the establishment of the Centres may also be involved.

56 For both parts of the bid the assumption is that the department's funds would only be made available on a matching basis and that the other partner in the programme would be a private sector umbrella organisation bringing together the various bodies already undertaking small-scale activities in this field. The original proposal for this programme came from the private and voluntary sector bodies themselves.

57 The provisional breakdown of the annual £2 million bid is £½ million for the running costs of the Youth Enterprise Centres and £1½ million for the contribution to the loan fund.

58 Administrative support to the programme within DE would be provided by existing HQ and regional staff, particularly those already engaged in support for the Local Enterprise Agency movement.

59 Some repackaging of MSC's training and other measures in support of this programme is envisaged, from within existing resources.

60 The programme's objectives are:

- (a) to overcome the well-documented difficulties experienced by young people in obtaining suitable advice, finance and premises to help them go into business in their own right.
- (b) to offer an alternative way into employment for an age group (especially the current 18-25 year olds) which is disproportionately affected by long term unemployment and has not benefitted from the full range of other training and employment measures now available.
- (c) to encourage the existing private and voluntary sector bodies working in this field to come together in a more effective national grouping.

61 Measurement of success will be in terms of the number of young people entering self-employment or setting up small firms; survival rates; and numbers of other employees taken on by the new enterprises. Some positive evidence is already available from pilot youth enterprise work (eg in Newcastle) undertaken by the private sector.

62 Tourism

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	5.2	6.3	6.4

63 The Tourism budget is used to fund three activities:

- The British Tourist Authority (BTA) which has responsibility for promoting tourism to the UK from overseas.
- The English Tourist Board (ETB) which promotes tourism within England to both domestic and overseas visitors.
- Section 4 grant aid for tourism projects - administered by ETB.

64 The proposed additional bid reflects the Secretary of State's wish to give continued emphasis to tourism as a vehicle for job creation, especially in areas of high unemployment. In seeking this extra funding the Secretary of State is responding to the bids by the Boards for an increase of 25% over baseline to maintain and develop the present policies and programmes. This is seen as unrealistic in the present economic climate and he has decided that a 10% increase for the first year, on top of a baseline uprated by the 2½% inflation factor, and continued through the PES period, is appropriate and reasonable. This gives an extra £5.2 million in the first year and consequential increases in subsequent years.

65 The division of the additional money between the Boards and the proportion to be allocated to Section 4 has not yet been agreed and will have to be discussed with the Boards. However the Secretary of State has been impressed by the result of the departmental study to assess cost-per-job generated from Section 4 projects and wishes to give greater emphasis to this scheme, encouraging both 'honeypot' projects and assisting small businesses. (A separate submission has been made to the Treasury on the future of the Section 4 scheme in England.) He also wishes the Boards to continue their promotion of areas of high unemployment with tourism potential which, it is recognised, is likely to attract a lower than average percentage contribution from the trade for joint marketing ventures, and to maintain BTA overseas operations and promotions at current levels.

66 The results of the Section 4 study show that, taking into account extra spending and business generated both directly and indirectly from Section 4 aid, the gross cost per new job at regional level is around £5,000. This takes no account of savings to the Exchequer from taxes and reduced social security benefits.

67 More generally, the job creation from tourism can be directly related to the amount of money spent by visitors, both domestic and foreign. The Boards estimate a potential for growth of 50,000 jobs per year on average, and in 1985 - a record year for overseas visitors - that 70,000 new jobs were created. The effect of the Boards marketing activities in generating visitors and spending is hard to assess, but the UK is perceived, internationally, to be a very successful generator of tourism business in a highly competitive market, and other countries look to BTA for example. Because of marketing activity by BTA and the industry, the UK has a very wide spread of markets, and is developing more (eg Far East) and relatively good seasonal distribution. This has considerable benefit in difficult times, for example, the UK will suffer less than other countries from a drop in the number of American tourists due to terrorism, even though the USA represents our biggest single overseas market.

68 A Financial Management Review of the Boards being undertaken this year will include the mechanism for measuring the cost-effectiveness of marketing programmes, complementing the work done earlier on Section 4.

69 If the bid is not allowed, and because (due to an oversight) no reflation has been built into the 1987-88 and 1988-89 baseline, the Boards would face a significant reduction in provision in real terms. They would find great difficulty in giving sufficient emphasis to the marketing campaigns directed at areas of high unemployment as these are unlikely to generate as much revenue from the trade as more popular destinations. The effect of ceasing a campaign so quickly would be to undermine the effect of the first year's efforts. It takes several seasons to build up an effective campaign. Promotions overseas would suffer, and depending

on the relative levels of inflation, BTA might have to withdraw from some markets altogether and close offices (though this would not generate savings in the year of closure). The number and/or size of Section 4 projects would have to be limited, with consequential reductions in jobs created.

70 Sheltered Employment

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	3.9	4.8	6.5
Of which Remploy	1.2	3.4	5.1

71 The bid (which in respect of Remploy is considerably less than the company itself proposed) aims to maintain an acceptable balance between the various parts of the sheltered employment programme. As the following table shows, the bid implies a small percentage reduction over the period in the number of Remploy places (though less than the reduction that would occur if no additional provision was made), with a more-than-offsetting increase in sheltered placements:

72	<u>March 1987</u>	<u>March 1988</u>	<u>March 1989</u>	<u>March 1990</u>
Remploy	8,950 (8,750)	8,800 (8,250)	8,650 (7,750)	8,500 (7,250)
Workshops	5,600 (5,675)	5,600 (5,200)	5,600 (4,950)	5,600 (4,750)
SPS	2,900 (2,750)	3,200 (3,100)	3,500 (3,500)	3,800 (3,950)

Note Figures in brackets show estimated places if the bid is not allowed.

73 A reduction of some 450 in Remploy's manpower is assumed. The possibility of a greater reduction cannot be ruled out; particularly as no estimate can be made now of costs which would be incurred in the termination of employment - including for non-approved workers. The assessments as a whole are highly provisional, as the reduced bid has not been discussed with Remploy.

75 Technical and Vocational Education Initiative (TVEI)

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	10.0	33.0	58.0
Of which: MSC			
running costs	1.0	1.5	2.4

76 TVEI is at present a pilot scheme and will, at its peak, cover only three to four per cent of the pupils in the 14-18 age group. The Initiative is designed to improve the relevance of the school curriculum to adult and working life and to enable pupils to acquire skills which will be of direct use to them in employment. The objective of the proposed expenditure is to allow an extension of TVEI into all schools and colleges throughout England, Wales and Scotland, so that all 14-18 year olds will have the opportunity to be involved in courses which place emphasis on acquiring skills relevant to work. This will lead the way to a more flexible, adaptable and better-motivated young workforce.

77 In the 1987-88, the proposed provision of £10m will enable those education authorities whose funding for pilot projects is coming to an end to maintain the momentum of the changes which have taken place in a few schools and colleges, and to extend the changes throughout the authorities' areas. Expenditure in later years increases as more authorities progress from pilots into full TVEI extensions. The proposed funding is on a basis equivalent to £30,000 per participating school, compared with the average of £80,000 in the pilot stage.

78 The TVEI extension is expected progressively to apply to the bulk of schools and colleges in every education authority throughout the country. Output therefore will be measured in terms of the number of authorities, schools, colleges and pupils benefitting from the extension. The fundamental nature of TVEI makes it difficult to quantify performance measures. However, records will be maintained of the cost per pupil involved, the qualifications gained by TVEI pupils and their destinations after leaving TVEI.

79 In the absence of the proposed extension, the benefits provided by the TVEI pilot schemes will be dissipated as current funding runs out. The opportunity to bring about a radical and permanent change in the relevance and effectiveness of the curriculum for 14-18 year olds will have been lost.

80 TOTAL ADDITIONAL BIDS FOR WHICH OFFSETTING SAVINGS CAN BE FOUND:

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total additions	35.1	56.2	79.0
Of which running costs	1.0	1.5	2.4

REQUIREMENTS, AND FURTHER OFFSETTING SAVINGS PROPOSED

REDUCED REQUIREMENTS

1 The following reductions have already been taken into account in arriving at the net additional bid for Redundancy and Insolvency payments described in Annex 1 (paras 35 to 36).

2 Small Firms

	£m <u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	-	0.6	1.1

The decreases reflect the reducing level of grant available to Local Enterprise Agencies viz:

First two years	£20,000 maximum
Third year	£15,000 maximum
Fourth/fifth years	£10,000 maximum,

partly offset by small assumed growth in the number of LEAs supported.

3 CP/CI Grants

	£m <u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	0.2	0.3	0.3

These are small residual savings from the October 1985 restructuring of National Insurance contributions.

4 Job Release Scheme

	£m <u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	10.7	16.2	18.1

These forecasting reductions are as agreed by the joint DE/Treasury monitoring group.

5 Career Development Loans

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	-	0.8	2.2

The savings reflect a re-profiling of expenditure, following agreement with the banks on a 2-tier portfolio guarantee (18 months at 40% and 18 at 20%), rather than a uniform 30% guarantee as originally proposed. (It is proposed to absorb a corresponding increase in expenditure in 1987-88).

6 A TOTAL REDUCED REQUIREMENTS

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	10.9	17.9	21.7

B PROPOSED FURTHER OFFSETTING SAVINGS

7 It is proposed to make the following further savings to cover the additional bids set out in Annex 1, Part B.

8 Community Programme

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Proposed savings	20.0	20.0	20.0

The savings would be achieved by operating the 255,000 figure for CP places, announced in the 1986 Budget, as a ceiling rather than a target. The planning profile would assume an actual total of filled places running slightly below the ceiling, to ensure that it is not exceeded.

Youth Training Scheme

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Proposed savings	15.1	36.2	60.0

10. The bulk of the remaining excess requirement is accounted for by the proposed TVEI extension (Annex 1, paras 75 to 80). The recently agreed DE/Treasury paper on the funding of TVEI recognises that the YTS budget is the prime candidate; but that there are severe difficulties in forecasting at this stage the savings that might arise naturally, for example from a shortfall in numbers joining YTS, or in average length of stay. The paper identifies policy options that could yield additional savings if required. It is proposed to adopt one of those now, the freezing of YTS basic grant and managing agents fee for 1987/88 at present levels (with protection for premium and umbrella places) which would save some £15m in each year. DE Ministers wish to leave any further selection of options, to yield the balance of the savings required in later years, until future PES rounds. Meanwhile they are prepared to make a non-specific commitment to find the total savings, shown above, for 1988-89 and 1989-90, required to cover the TVEI and other remaining overbids in Annex 1, Part B.

11. B TOTAL FURTHER OFFSETTING SAVINGS PROPOSED

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	35.1	56.2	80.0

