

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR : 26 OCTOBER

I have agreed the following agenda with the Chancellor's office:

1. Barlow Clowes

I gather that the Chancellor wants a word with you about the attitude to lifeboats etc. You may like to mention to him your conversation yesterday with Lord Young.

2. NEDC Membership

The Chancellor has been discussing with Lord Young and Norman Fowler how best to arrange for some non-TUC union membership of NEDC. I gather he envisages

- (i) reducing the number of nationalised industry chairmen representatives from two to one;
- (ii) keeping the existing number of TUC representatives but adding one non-TUC union person;
- (iii) keeping the same number of CBI representatives but adding one non-CBI industry representative.

Ch. of Commerce

The net effect would be to increase Council membership by one.

The Chancellor will want to take your mind on this approach. You may also like to see Norman Fowler's minute of 19 October on the similar approach he is planning for bodies within his responsibilities, on which Robin Butler has just commented (papers at Flag A).

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3. Public Expenditure

I do not think there is much left to discuss here. All the main programmes are settled and the Treasury are

finalising the detailed figures for presentation to Cabinet on Tuesday 1 November. The Chancellor is planning to make his Oral Statement the same afternoon. (See my exchange of letters with the Chancellor's office yesterday at Flag B informing Cabinet members of these plans.)

4. Other aspects of the Autumn Statement

As usual the Autumn Statement will include the latest Industry Act Forecast and the NICs proposals for 1989-90.

The Treasury will be letting us have the latest forecast in the next day or so and I will put it in your weekend box. But you may want tomorrow to ask the Chancellor what some of the key figures are - e.g. RPI and balance of payments forecasts.

The Chancellor will hand over to you tomorrow an aide memoire on the NICs proposals. I understand this is a minimal change package:

(i) leaving contribution rates unchanged (the main employees' rate is 9%);

(ii) uprating the lower and upper earnings limits in line with inflation to £43 and £325 per week respectively;

(iii) uprating lower contribution rates again in line with inflation. For employees the starting rate of 5% will cover earnings from £43 - 75; the 7% band will cover earnings from £75 - 115; and 9% will apply above that up to the upper earnings limit of £325.

As you know there is a growing surplus in the National Insurance Fund. In 1988-89 it is forecast to rise a further £3 billion to reach £10 billion, some 40% of annual expenditure. Partly to offset this growing surplus the Chancellor is proposing two measures:

(i) abolish the Treasury supplement. Legislation will be introduced in the next Session's Social Security Bill;

(ii) increase the "health stamp" element of NICs to the maximum extent permissible within existing legislation. Currently the health elements are 0.8% for employers and 0.95% for employees; these will each be increased by the maximum of 0.1%.

But even after these changes it is expected that the surplus in the NIF will rise by a further £1¹/₂ billion next year.

You mentioned to the Chancellor earlier your interest in an increase in the health stamp element. I see problems as well as advantages in any move more clearly to hypothecate revenue raised for the NHS. But you may want to consider raising with the Chancellor the possibility of making a legislative change (?also in the Social Security Bill) further to increase the health element. Even if it was not the main motive for such a change this would also have the side effect of reducing the NIF surplus - the health stamp element is transferred from the NIF to the Consolidated Fund.

Rec 6.

(PAUL GRAY)

25 October 1988

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