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Telephone Direct Line 01-213 6400
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The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

27 April 1984

Dear Peter

ENTERPRISE ALLOWANCE SCHEME

Thank you for your letter of 18 April. attached

I welcome your agreement that more money should be made available for the scheme this year in order to increase the rate at which the Manpower Services Commission is able to take people on to it over the next 3 months, although, I am naturally disappointed that you have not felt able to agree at this stage to an increase in the overall size of scheme this year, or to a larger increase in the rate at which people are taken on to the scheme, which would have enabled us to begin to make significant inroads into the current significant waiting lists. As you say, an increase in the take-on rate of the size you have proposed is not likely to do much more than stop these waiting lists lengthening further. However, this in itself should provide some welcome relief and we will be asking the Commission to implement it straight away.

We will of course, have the chance to consider this issue again and take decisions before the summer recess as part of the annual review of special measures, and I have little doubt that the case for an expansion of the scheme this year and its continuation next will be seen to be a very strong one. Like you I hope we can hold the line until then, but I must reserve the right to come back before then if I judge the situation requires it.

I am sending a copy of this letter to the Prime Minister.

Yours

1) PTF
2) pa

DMS 24/4

cc NO

Prime Minister (2)
The Chief Secretary offers Mr King some help to ease his difficulty with waiting lists for the Enterprise Allowance scheme.

DMS 19/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Tom King MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NA

18 April 1984

Dear Tom

Thank you for your letter of ~~5~~ attached April about the Enterprise Allowance.

I understand that the future of the scheme is currently being looked at as part of the annual review of special measures; and that particular attention is being paid to the question of how best to deal with the imbalance between the supply and demand for places. In view of this I think it would be premature to take any decisions just yet on whether there should be additional places in 1984-85.

However, the waiting lists to which you refer are clearly troublesome and I think it should be possible to ease the position without pre-empting the outcome of the annual reviw. What I would suggest is an increase in the allocation of new allowances - within the existing ceiling - sufficient to prevent the queues getting any longer. I believe our officials have agreed that 1000 new allocations a week, compared with the present 600 plus, would do the trick; and that were this increased rate to apply between May and the end of July the additional cost in 1984-85 would be some £6.8 million.

I hope you would agree that this is a realistic way of proceeding pending our discussions on the annual review, which will no doubt take place before the end of July. We will need to look, after that discussion, at the extent to which this additional cost can be offset by savings elsewhere.

A copy of this goes to the Prime Minister.

Yours ever Peter

PETER REES

cc PS/Mr Monson
PS/Mr Clark
PS/Secretary
Mr Dex
Mr Tayler
Mr Kelan
Mr Fair
Mr Waring

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The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Great George Street
LONDON
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DF

5 April 1984

Dear Peter

will request if required

You will recall that at the end of February I wrote to Nigel suggesting that an expansion of the Enterprise Allowance this year (1984/5) be included in the Budget.

Nigel did not feel it would be appropriate to include such an announcement on a scheme of this kind in the Budget. He suggested then that we should review the situation again in the light of the review of special employment measures generally, which officials will be carrying out over the next 2 months.

I raise this again now because of my concern at the extent to which waiting lists are continuing to build up (15 weeks on average is the latest figure). There is growing criticism of the long wait involved for people ready to start their own business instead of being unemployed. Moreover, a scheme which is popular, cost-effective and wholly in tune with this Government's approach, and initially brought us great credit, is now starting to have the opposite effect.

I feel I must therefore ask you if you could consider this again. Ideally on the basis of MSC's latest estimates of demand and their accumulated waiting lists we would like to go for an expansion to just under 60,000 new allowances in the year, which would involve additional expenditure on the scheme of the order of £24m this year and £29m next. The net costs over a 2 year period would of course be significantly lower if we apply the assumptions arrived at by officials in the light of the experience of the trials in 5 pilot areas. A lower amount of extra cash would of course also enable us to start to cut the waiting lists now but would involve an increased risk of queues again later in the year.

However, if such a solution were not acceptable at this stage in advance of our review of special measures, I should like at least to allow the Commission to bring forward grants they have earmarked for later in the year (the cash limit implies a regular rate of entry to the scheme throughout the year) in order to begin to cut into the waiting lists now. This course of action also has expenditure implications. It would mean in effect an increase in expenditure in 1984/5 counterbalanced by an equivalent decrease in 1985/6. To increase the allocation of new allowances from 600 plus a week to 1200 from May would involve a transfer of about £13m betwwen the 2 years. On this basis the allowances available would run out in the autumn. This is a situation I would be prepared to live with if I have to; I consider it preferable to living through a long period with demand greatly outstripping supply. Moreover, in the meantime we will have discussed the results of officials' review of special measures, and we should then be able to come to a more definite view on the future of the Enterprise Allowance Scheme (including possible changes in the rules) and the resources that might be available for it. I hope you feel able to give sympathetic consideration to this request in the near future. I and Alan Clark will be ready to discuss the matter with you whenever is convenient.

I am sending a copy of this letter to the Prime Minister and to Nigel Lawson.