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PRIME MINISTER

DEREGULATION

1. You are chairing a meeting of senior colleagues on Monday, 1st July, to discuss the work of the Ministerial Group on Deregulation (MISC 114) which is now nearing completion. In preparation for this meeting, I will be sending to you and colleagues the full text of the White Paper but at this stage I simply attach the first chapter, which, I believe, sets the whole of our work in context, and the chapter which deals with new arrangements to control regulation.
  
2. As Chairman of MISC 114, I should report that we have held a number of very useful discussions. I am grateful to the members of MISC 114 for their positive contributions. We have identified a number of policy changes which will relieve the burdens on business in a significant number of areas. In some instances we might have put forward more radical changes but on the whole I think we have assembled a strong package of measures which will go down well with the business community.
  
3. I also believe that those of our supporters who concern themselves with economic policy issues will be well pleased with our efforts, while the various vested interests which argue in favour of regulation should not be able to mount a convincing attack on our proposals. It is a pro-enterprise package but it adopts a balanced approach, recognising that some degree of regulation will always be both necessary and desirable.
  
4. There are a few unresolved issues which I will identify by square brackets when I circulate the draft of the White Paper. But overall we have put together a series of reforms - some major, some minor - which add up to a substantial package. This reflects

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the 'Burdens on Business' report which made it clear that it was the cumulative effect of many, sometimes ostensibly unimportant, regulations which firms found so debilitating. We have therefore identified many smaller candidates for deregulation which, taken together, will start to relieve the burden. They also complement the major items of our package which are:

- (a) Simplified planning zones; to extend to other areas the type of simplified planning regime already established successfully in Enterprise Zones.
- (b) Strong new DoE guidance to authorities on 'Planning and Enterprise', to put into practice the main recommendations of the Sainsbury Group, plus a new booklet for small firms explaining the planning system (and especially 'working from home').
- (c) A fundamental review of the Use Classes Order which currently inhibits changing the use of premises; the aim will be a substantial simplification of the present system to allow changes of use to take place far more easily than now and to remove artificial and outdated dividing lines.
- (d) Building regulations; simplified regulations come into effect in November and a further review will start shortly with the aim of reducing regulations to the minimum required to secure their essential function which is the preservation of public health and safety.
- (e) Substantial changes to the General Development Order to enable a wider range of developments to go ahead without planning permission (for example, extensions of up to 25% to factories and warehouses).

- (f) VAT threshold: we can announce our intention to negotiate with the EC on a higher limit.
- (g) Statutory Sick Pay: we have decided that employers should be allowed to opt out. (DHSS say agree to consult on this proposal)
- (h) Elimination of statutory audit for small companies: we can refer to the public consultation which is under way, with a September deadline for comment.
- (i) Organisational improvements: a new requirement for Departments to assess compliance costs coupled with a central task force.

5. The last item is, I believe, a key element in our package. A majority of members of MISC 114 took the view, as I do, that there should be both a system of monitoring proposed regulations in individual Departments and, firmly linked to it, a central task force. The latter would have two main roles. First, it would work with Departments by providing advice on how their own monitoring functions might best be undertaken: I believe it is crucial that individual Departments should retain responsibility for their own regulations. Second, it would be responsible for providing Ministers with an analysis of Departments' progress on deregulation and would itself scrutinise certain selected proposals, especially as regards their likely costs on business and employment.

6. A minority of members of MISC 114 would prefer in this respect to rely solely on individual Departments but, in the light of experience both here and abroad, most of us felt that there needed to be a central unit. As to where the unit should be located, the choice lies essentially between the DTI, Treasury or Cabinet Office and most of us felt that the natural location would be the latter, probably as part of the Enterprise Unit.

7. The business community will welcome the establishment of a central unit. Far from seeing this as an addition to bureaucracy, they strongly support the concept, as is evident from the CBI's recent submission.

8. There will, of course, be some who say, in relation to our package as a whole, that we should have gone further but that is inevitable. I accept that individual Departments have had throughout to balance the impetus for deregulation against their other problems and preoccupations. And, of course, this is not the end of the exercise; I very much hope that we shall make deregulation a continuing priority. There are, however, a few areas where I think we might usefully consider going further now. For example:

- (a) On Wages Councils, the White Paper would clearly have even greater impact if it could announce that we have decided to abolish them or, alternatively, that we have decided to exclude young people from their coverage pending a final decision on the future of the Councils more generally.
- (b) On health and safety at work, I think employers would welcome the reinstatement of a unit within HSE to review the continuing need for specific regulations.
- (c) On consumer credit, although there are counter-arguments, in addition to making ad hoc changes in response to particular urgent problems, I would prefer to see a commitment to a general review of the Act after one year.
- (d) On the controls on late night refreshment houses, I think we should consider whether the White Paper should canvass the possibility of abolition. The Ministry of Agriculture, although not on MISC 114, have put forward this item as one where they feel reform is overdue.

*Continuing review.*

*Review on licensing*

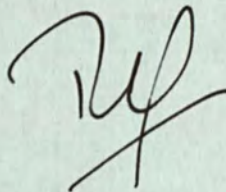
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PUBLICATION

9. It is my intention, subject to our discussion on Monday, to seek to clear the text of our White Paper with E(A) colleagues (and, of course, with MISC 114) with a view to publication on or about 15th July. I hope we can publish well before the Recess so that we can obtain the maximum Parliamentary and publicity advantage. I am sure that the package will be welcomed as a major step in our continuing strategy to promote enterprise and generate jobs.

10. I am copying this minute to Willie Whitelaw, Geoffrey Howe, Leon Brittan, Nigel Lawson, Patrick Jenkin, John Biffen, Norman Fowler, Norman Tebbit, Tom King, Grey Gowrie, John Wakeham, Tim Renton, David Trippier, Sir Robin Ibbs and Sir Robert Armstrong.



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26th June, 1985

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CHAPTER 1

1. There are two key elements in the Government's economic policy: to keep down inflation and offer real incentives for enterprise. Low inflation is the very bedrock of an expanding economy but is not sufficient in itself. It is the growth of Enterprise, the efforts of millions of our people engaged in the creation and development of businesses large and small that is the real driving force of the economy. This paper is about one important aspect of helping enterprise to grow - by reducing burdens imposed on business by administrative and legislative regulation.

It sets out the case for more freedom in the business sector and the need to deregulate. It reinforces the Government's commitment to reducing unnecessary constraints on the creation of jobs and wealth. It reviews what the Government has done already. It outlines the way in which a new permanent mechanism will operate - to ensure that all proposed new legislation and regulation will be examined for its impact on business and systematically to review existing rules and remove or simplify them where they impose unnecessary burdens.

But this must be done with care. The line between liberty and licence is fine and can easily be crossed. We have to bring about the conditions to promote growth but not abuse. It is on this basis that this paper is presented.

2. The Government want to see an economy in which firms, large and small, have the ability to expand - and thereby win extra business and create more jobs. That is now happening. Published estimates indicate that the employed labour force has increased by more than 600,000 since the Spring of 1983. New business formation and self-employment are greatly increasing. Between 1980 and 1984 the VAT register shows that 140,000 more new businesses set up than closed down. This decade has seen an increase of over half a million in the number of self-employed people to over 2½ million - the highest figure in the last 60

years. Indeed last year our economy created more jobs than the rest of Europe put together. But this is still not good enough.

The Government must do all it can to accelerate the process for without healthy business, and the jobs and wealth they create, the country will simply not be able to afford the things we all desire: pensions, health services, education and all the other calls on government expenditure.

3. The amount of regulation which new and established firms face acts as a brake on enterprise and the wealth and job creating process. Deregulation means two things. First, freeing markets and increasing the opportunities for competition. Second, lifting administrative and legislative burdens which take time, energy and resources from fundamental business activity.

#### **FREEING MARKETS**

4. On the first, the Government have made good progress and there are more proposals in the pipeline. We have freed up long distance coach services, domestic and international air services, spectacles and mobile cellular radiophones. The Government have abolished controls on foreign exchange, dividends, hire purchase and bank lending. In every case that has brought benefits in terms of more choice, better services, lower prices, greater international competitiveness, freedom from bureaucratic control and the clear potential to increase employment.

#### **LIFTING THE BURDEN**

5. On the second aspect of deregulation, the Government believe that despite considerable efforts to get the balance right the scales are still tipped too far against business. For the best of motives, regulations have grown over the years to a stage where many of them are too heavy a drain on our national resources. Too many people in central and local government spend too much of their time regulating the activities of others. Some regulations were framed a century and more ago, have been added to or amended, and now bear little relevance to the modern business world. Other

regulations are too complex and confusing even to professional advisers (and sometimes to the people who administer them, too). Many regulations are necessary and it is, of course, Government's responsibility to ensure that flexibility and freedom are not abused by those who would flout the proper interests of customers, consumers and employees. We must maintain our quality of life. But we have to strike the right balance.

6. This is not just a British problem. The tide of legislation has risen inexorably over the years in all countries of the western world. The United Kingdom has not been immune. The chart shows - as a rough guide - how the volume of UK legislation has grown since the 1930s.

	<u>STATUTES</u>	<u>STATUTORY INSTRUMENTS</u>	<u>TOTAL NUMBER OF PAGES OF LEGISLATION</u>
1930	800	2000	2800
1935	1520	1800	3320
1940	500	2685	3185
1945	890	2985	3875
1950	1000	4065	5065
1955	750	3240	3990
1960	1160	4225	5385
1965	1820	6455	8275
1970	1510	6810	8320
1975	2810	8655	11460
1980	2875	7390	10300

(figures rounded to nearest 5)

Of course, not all of this legislation directly impinges on business. Some of the more recent legislation has been necessary in order to restore greater freedom and flexibility to citizens



and the economy - for example, enabling sales of council houses to take place, and through returning nationalised industries to the private sector. But overall there is no doubt that we suffer from the sheer weight of legislation and controls. That is why, like administrations in the U.S.A., The Netherlands and West Germany, the Government wants to stem this flow. The cumulative weight of legislation must clearly be examined rigorously to ensure that its benefits outweigh its costs. We want less - and better - regulation.

7. Moreover, the evidence shows that although individual regulations may themselves be minor, the cumulative effect is time-consuming and costly. In a competitive environment, businesses already have enough to do. They have to respond quickly to changing consumer needs, to plan and monitor their financial, marketing, personnel and investment activities skilfully and flexibly. The impact of regulation takes its toll in diverting precious time and energy that would be far better used in generating products, services, sales - and, in the end, jobs.

8. The burden is that much greater on small business where the owner/manager is wholly responsible for all aspects of the business and the people he or she employs. Every hour spent on form filling is one less hour spent on running the business. Moreover, this can put off the potential entrepreneur or drive him or her unwillingly into the 'informal economy'. These small and new businesses are precisely those we need to encourage to set up, expand and take on employees.

9. Regulation also imposes burdens on the state itself through the need for the explanation and enforcement of often complex rules to businesses. A good deal of the time and energy of officials in central and local government is taken up by enforcing and applying regulation; simplification will save time, money and staff effort for government itself as well as making life more straightforward.

## THE JOB TO BE DONE

10. The present White Paper is not the first step on the road. Deregulation has been a continuing priority of the Government since 1979 and much has already been achieved. For example, over a million fewer statistical forms are sent to businesses today compared with 1979. A central mechanism has been established to ensure that all business surveys are reviewed in detail on a regular basis and only allowed to continue if approved by the responsible Minister. Planning procedures have been speeded up and local authorities have been encouraged to grant permission to business development unless there are pressing reasons to the contrary. The burdens of the Employment Protection Act on business have been considerably reduced and, by taking advantage of flexibility in the European Community directives on company law, disclosure requirements on annual returns have been reduced for small firms.

11. The Government are now making a concerted drive to speed up this process of reviewing existing regulation and ensuring that new regulation is examined carefully for its impact on firms both large and small. We have considered carefully the work done in other countries, in particular in the U.S.A. In the first two years of President Reagan's administration, the concerted deregulation strategy which he introduced has reduced the pages of regulation in the Federal Register by one third as compared with the final two years of the previous administration. The United States Government estimate that this has produced once-off savings of \$9-11 billion and annual savings of \$6 billion in costs to government and business. They also report that the number of new businesses in deregulated industries increased faster than in the overall economy in 1982 and 1983. Definitions in the U.S. and U.K. are, of course, different but the clear indication is that deregulation stimulates economic activity. It will never be possible to prove a direct causal relationship between deregulation and job creation. But the evidence suggests that there is a link. And commonsense dictates that if unnecessary restraints are removed, then people are more likely to set up businesses or expand them.

12. The package of measures presented in this paper is the result of an intensive exercise within Government Departments, carried out in close consultation with business. Work in the Department of Trade & Industry had previously revealed much dissatisfaction among small businesses with the costs and complexity of regulation. This led to an inter-departmental scrutiny of administrative and legislative burdens on small businesses announced by the Prime Minister on 1st August, 1984. The report of the scrutiny 'Burdens on Business' (ISBN 0 11 513820X) was published in March 1985.

13. 'Burdens on Business' identified options for change and was published to stimulate debate and comment. Among the key findings the report concluded that:

"Compliance with Government requirements imposes real additional costs on business, particularly on small firms and 'new starters'. They can be a barrier to market entry"

and

"Though most firms are managing to cope with the burdens, action to reduce it offers benefits for jobs and for the 'white economy'."

14. In a survey conducted among 200 businesses by Research Associates, as part of the 'Burdens on Business' report, 52 firms reported they had lost or not taken on an average of 6.5 employees each year over the last five years due to the inhibiting or costly effect of regulations. Some jobs were gained by some 15 firms in order to deal with regulation but the net job loss judged to have taken place in this sample of 200 firms was over two hundred. And there are 1.6 million businesses in the country.

15. Complementing the 'Burdens on Business' exercise, the Department of Trade & Industry conducted a survey among large firms to identify the extent to which regulation impacts on their business activities. This showed that action to reduce the burden of regulation was as relevant to larger businesses as to small.

16. Following publication of the 'Burdens on Business' report, a Ministerial committee, under the chairmanship of the Minister without Portfolio, was set up to carry forward this initiative and the findings in the survey of large firms. The opportunity was given for outside organisations and individuals to offer their views. Many submissions have been received from individual businesses and representative organisations. They include numerous individual recommendations. But overall their message is clear. Regulation remains a major obstacle to the growth of employment and enterprise in this country. That is a message which we cannot ignore.

17. This White Paper is largely concerned with deregulation within the United Kingdom but there is, of course, a European dimension which is likely to become increasingly significant. The European Community imposes regulation on business and the Government are working with their partners towards similar reviews of existing and future burdens. Chapter 00 deals with this aspect.

18. In Europe there is clear recognition of a common problem and a shared resolution to take action. Within the United Kingdom there is a similarly widespread acceptance of the need to review regulations. As a result of the Government's initial review of the scope of deregulation, following up the 'Burdens on Business' Report, they have identified a number of areas where reforms should be made, covering the responsibilities of a range of Departments. Chapters 00 to 00 set out what is proposed - a series of practical, carefully thought out reforms. Some of these are major; others are not. But it is the cumulative burden of regulation - both major and minor - that saps the energy of business. It is that burden which the Government is determined to reduce - but with care and concern for all in our society.

CHAPTER 18: NEW ARRANGEMENTS TO CONTROL REGULATION

"Burdens on Business" recommended a three-pronged approach to deal with the flow of government regulations:-

- (i) a structured analysis of each new proposal, to be prepared and published by the initiating agency concerned, including a systematic assessment of its impact on business enterprise
- (ii) critical scrutiny of the proposal, in particular of the assessment, by a small task force in central Government with real teeth; and
- (iii) regular overviews by the task force of proposals in the pipeline and the scope for eliminating, simplifying or rationalising existing requirement systems.

Experience of other countries such as the USA, the Netherlands, and the Federal Republic of Germany, suggests that systematic assessments of the likely effect of regulations, coupled with central monitoring, is an effective way of restraining the growth of regulations. The representations the Government have received from the business community are very much in favour of such an approach. [And as part of its response to the Prime Minister's initiative on European deregulation, the European Commission are developing a similar procedure to deal with their regulations (see Chapter 00). In the United Kingdom we intend to complement these European arrangements by setting up our own system of assessment and monitoring.]

While the Government have no wish to set up a new bureaucratic system they do see considerable merit in applying a more objective and systematic approach to the regulatory process. Accordingly, each Department will in future prepare assessments of the compliance costs of their regulatory proposals. They will nominate officials with special responsibility for this work, reporting to a minister.

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The main channels of communication between government and business interests will continue to be the departments which "sponsor" the sector concerned and the departments responsible for individual regulations. ["Burdens on Business" recommended that the latter should review and strengthen the arrangements for consultation with small business organisations. This recommendation is endorsed by the Government. Departments will be taking action and will be reporting back to a central task force by April 1986.]

The small central task force will be set [up as part of the Enterprise Unit of the Cabinet Office] - and bringing in expertise from the private sector. It is important, managerially and constitutionally, that responsibility for assessing regulations rests with the originating departments. But the task force will act as a focus of expertise. It will assist departments in the preparation of their assessments. It will carry out an "audit" function, by receiving regular reports from Departments on their systems of assessment and their results, and by scrutinising selected proposals and advising ministers about their acceptability, especially their likely effect on business. In addition, the task force would be involved in occasional reviews of particular subjects, such as the review of central and local government notification, licensing, and inspection requirements mentioned in Chapter 00.

It is not intended that these new arrangements would duplicate or disturb existing arrangements for consultation with business on specific proposals, such as the Department of Trade and Industry's existing links with business. The task force will be concerning itself, selectively, with regulations which have an impact on business, whatever the originating Department. It will not, however, be involved in consideration of Budget and revenue raising issues, which will remain the responsibility of the Chancellor of the Exchequer.

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[The Government have carefully considered whether there should be a regular annual report to Parliament on the work of the task force. They have concluded that, on balance, there is probably no need for such a formal arrangement, though the question will be kept under review.] In order to prevent the setting up of permanent machinery which may outlive its usefulness - and to serve as an example to others - the Government have decided that the life of the task force should be limited to about three years, in the first instance, at which stage there will be a review of its performance and achievements. The task force should be fully operational later this year, following further consultations with business, and the review will therefore be carried out in the Autumn of 1988.

The Government believe that the preparation of assessments, and the setting up of a central task force, will provide a strong mechanism for curbing undue regulation in future. These developments will complement the efforts being made within individual Departments, summarised in Chapters 00 to 00. They are a clear sign that the Government is determined to remove unnecessary regulations and to take more fully into account the interests of the business community - in order to promote enterprise, create jobs, and generate wealth.