



NBPTT
AT 17/15

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

17 May 1984

Jim Peter.

VAT ON BUILDING ALTERATIONS: EFFECTS ON EDUCATION AND SCIENCE

I am writing to you about this subject following exchanges between officials here and in the Treasury.

The FSBR said that the proposals to widen the VAT base would involve some additional costs for the public sector and added "It is the Government's intention that these be absorbed within existing programmes wherever possible." I am clear that such a course is not possible for the education programme. The sums involved are not large - about £8m this year and a little more in later years - but they represent up to 10 per cent of the planned expenditure on buildings of the three biggest groups of institutions, namely the voluntary-aided schools, the universities and the research councils. The Anglican and Roman Catholic Bishops have made representations to me about their schools; and I do not think that we should expect them to curtail the volume of their building work because of the new tax when all other schools maintained by local authorities will escape it. The same is true of the universities in relation to the local authority colleges. Indeed, it is not our intention, as I read the speeches by Treasury Ministers in the Budget Debate and on the Finance Bill, to reduce the level of activity in the building industry.

You have already agreed to amend the Finance Bill to relieve listed buildings (including, as it happens, some university buildings) and you propose to make some special arrangements for the housing associations. More important, I gather that you are considering sympathetically measures to remove most of the burden of VAT (£70m) that would otherwise fall on alterations to hospitals (including some teaching hospitals whose capital expenditure is partly financed from my programme).

/I understand

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
LONDON SW1P 3AG

CONFIDENTIAL

I understand your concern to avoid the increase in public expenditure which would result from an addition to my programme. The alternative, which you may think preferable even though its effect on the PSBR would be similar, would be either to find some way of applying clause 11 of the Finance Bill to the research councils and perhaps even to the universities and voluntary schools so as to relieve them from VAT on alterations or to amend the Bill so as to exclude them in the same way as listed buildings.

I shall be grateful for an early reply since the schools and other institutions concerned must know where they stand well before 1 June.

I am copying this letter to the Prime Minister, Patrick Jenkin, Norman Fowler, George Younger and Nick Edwards.

Tom...

Ken

97 MAY 1984





CCNYO

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
 Secretary of State for Education
 and Science
 Department of Education and Science
 Elizabeth House
 York Road
 LONDON
 SE1 7PH

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 29/5

29 May 1984

Dear Secretary of State,

VAT ON BUILDING ALTERATIONS: EFFECTS ON EDUCATION AND SCIENCE

Thank you for your letter of 17 May.

I am advised that, because Clause 11 of the Finance Bill applies to government departments as defined in the VAT legislation, there can be no question of extending the refund arrangements to universities or voluntary schools, even if we were persuaded that on policy grounds this was the right course to take. Although some Research Councils might, perhaps, be included within the purview of Clause 11 (the legal position is unclear) I am afraid that we could not contemplate, on wider VAT policy grounds, exempting them from VAT on alterations, given the pressures this would generate for our stance on VAT on non-departmental public bodies and charities generally.

I have carefully considered the case you make for agreeing an addition of some £8m to your programme as compensation for the additional VAT burden. Our general position under cash planning is that Budget changes should, like other price changes, be accommodated within the existing cash provision for departments. Furthermore, the Reserve is already under considerable pressure (you will recall that the forecast in the FSBR was that the whole of the Reserve will be spent) and I am most anxious to minimise any further claims upon it. Finally, although I appreciate the difficulties which the education sector faces these are no more acute than those facing many in the private sector generally which were brought to our attention in the Finance Bill Committee debates. It would, I think, be difficult for us to justify a more accommodating approach to the education sector than that which we are pursuing generally. I must, therefore, ask you to absorb these sums within your existing programme.

I am copying this letter to the Prime Minister, Patrick Jenkins,
Norman Fowler, George Younger and Nick Edwards.

*Yours sincerely,
Paul Rees*

P PETER REES

*(Approved by the Chief Secretary
and signed in his absence)*

Education Pt 4

Expenditure

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DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON, SE1 7PH
TELEPHONE 01-928 9222

FROM THE [REDACTED] - SECRETARY OF STATE

4 June 1984

Jan Peter

VAT ON BUILDING ALTERATIONS

Thank you for your letter of 29 May.

For several reasons, I do not think that your request to me to absorb the cost of this budget proposal is reasonable:-

- i. The voluntary aided schools, universities and voluntary colleges and research councils should not be expected to make a volume cut of up to 10 per cent in their capital expenditure which does not affect most other parts of the public sector.
- ii. Your comparison with the private sector is wholly invalid. It can at least try to pass on its increased costs - or some of them - as well as absorb some of them: these educational and scientific institutions cannot.
- iii. Your proposal is discriminatory in relation to schools. It treats the two parts of the dual system (voluntary aided schools and other maintained schools) separately and differently. We have again and again stated our commitment to the dual system and the voluntary sector, most recently in last month's Green Paper on School Government (Cmd 9242). There is no basis on which I could defend this discrimination to the Churches.
- iv. Similarly, you are proposing to discriminate against the universities and voluntary colleges but not the polytechnics and other local authority colleges, which together form our system of higher education.

/There is

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
London SW1P 3AG

There is also an important general issue. If Budget changes are to be absorbed within cash limits, then cash limits must be determined in the knowledge of Budget changes. It makes nonsense of cash planning if, shortly after the cash provision in Estimates has been agreed between spending Ministers and Treasury Ministers on one set of assumptions about taxation, you can then revise the rules on taxation to reduce the value of what the cash will buy. (If the rate of VAT had been reduced, I cannot believe that you would not have sought to reduce my programmes to take account of this, just as they are reduced to take account of changes in National Insurance.) Indeed, although your letter is silent on this point, I understand that you have recognised its validity by agreeing to compensate the NHS at least for part of the much bigger bill (£70m) which it would otherwise face as a result of the VAT proposals. I ask for the same treatment.

Like you, I am advised that clause 11 of the Finance Bill is not an appropriate instrument for the change which I believe to be essential. But if you are unwilling to increase my programme this year and beyond, it appears that there is another possibility which would require neither an amendment to the Bill nor an increase in public expenditure. As you will know, Section 20 of the VAT Act 1983 enables the Commissioners to refund VAT to certain bodies - including local authorities - named in the Section and also to "any body specified for the purposes of this Section by an order made by the Treasury." If such an order were made so as to exempt altogether from VAT the voluntary aided schools, universities etc. and research councils, we could then agree on a reduction in the expenditure provision for those bodies in such a way as to restore the position which obtained before the budget.

I hope that you will see your way very quickly to action by one or other of these methods, which would be entirely defensible in relation to charities and so on which are not dependent on public funds.

I am sending copies of this letter to the Prime Minister, Patrick Jenkin, Norman Fowler, George Younger and Nick Edwards.

Yours ever,
Ken.

Education Pt 4
Expenditure



10 JUN 1984



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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State for Education
and Science
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

12 June 1984

John Kerr

VAT ON BUILDING ALTERATIONS

Thank you for your letter of 4 June.

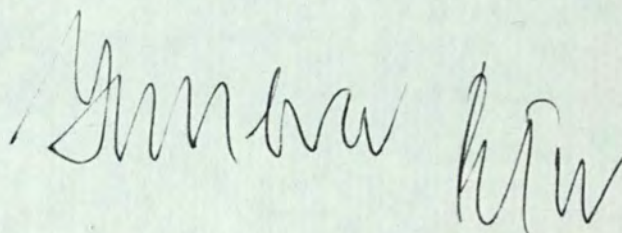
2. I am afraid that I cannot agree to the inclusion of voluntary schools, universities and research councils in section 20 of the VAT Act 1983. The purpose of section 20 was to fulfill a pledge which we gave before VAT was introduced that it would not be allowed to fall as a direct burden on local authority rates or the rate support grant. Many bodies have sought inclusion in the section since VAT was introduced. We have therefore adopted a strict policy, and in fact the only bodies added to the section since then are one which was originally overlooked and those which have come into being subsequently and which have local authority functions and are rate financed. The inclusion of universities, research councils and voluntary schools in section 20 would cut right across this policy and would lead to renewed pressure for inclusion from a wide range of bodies - including charities - who would see themselves as having an equally strong case. The revenue consequences of this could be quite serious.

3. I have very little to add, I am afraid, to my letter of 29 May. I do not accept that the cash plans are based on specific assumptions about individual taxes or prices, and I can only reiterate my earlier view that changes like this are of the kind which cash limits are meant to absorb, and need to be seen against the wider background: as you know, our published view of general inflation in 1984-85 has been somewhat reduced since we published the plans for 1984-85 in the Autumn Statement. As I explained in my last letter, the Reserve from which this year's

cash limit adjustments would have to be found is under pressure: you will know for example of the extent of local authority likely overspending as indicated by their budgets. Finally, so far as the National Health Service is concerned, the measure which you mention is being implemented as part of the arrangements to encourage government departments to contract out certain services (Clause 11 of the Finance Bill), and does not add to public expenditure.

4. I regret, therefore, that I must repeat my request that you absorb the cost of the VAT change within your existing programme.

5. I am sending copies of this letter to the Prime Minister, Patrick Jenkin, Norman Fowler, George Younger and Nick Edwards.

A handwritten signature in dark ink, appearing to read 'P. Rees', written in a cursive style. The signature is positioned above a horizontal line.

P REES



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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Peter Rees QC MP
 Chief Secretary
 Treasury
 Parliament Street
 London SW1P 3AG

19 June 1984

Dear Peter.

VAT ON BUILDING ALTERATIONS

Thank you for your letter of 12 June.

I do not accept your arguments. They ignore my point about equity and are mutually inconsistent. In paragraph 2 you reject the Section 20 solution for education, which would reduce public expenditure, because of its impact on the revenue. In paragraph 3 you take credit for using the Clause 11 solution for the NHS because it does not add to public expenditure - and ignore its much larger effects on the revenue.

So far as later years are concerned, we shall need to come back to this issue in the 1984 Survey, when I shall press my additional bid very hard. And I reserve the right to seek supplementary provision for 1984-85 to avoid a reduction in the volume of investment.

I am copying this letter as before.

*Yours faithfully,
 Peter Rees*

EDUCATION: Expenditure 194

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