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(81) 31st Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 2 NOVEMBER 1981 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Michael Heseltine MP
Secretary of State for
the Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food
(Items 1 and 2)

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Norman Fowler MP
Secretary of State for Social
Services

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Mr P L Gregson
Mr D J L Moore

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1. LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING MEASURES
Previous Reference: E(81) 29th Meeting, Item 1

The Committee considered a minute from the Secretary of State for the Environment to the Prime Minister of 29 October proposing some revisions to the interim rating measures for England and Wales approved by the Committee on 25 September (E(81) 29th Meeting). Their discussion and conclusions reached are recorded separately.

2. INTERIM RATING MEASURES FOR SCOTLAND
Previous Reference: E(81) 29th Meeting, Item 2.

The Committee considered a letter from the Secretary of State for Scotland to the Home Secretary of 28 October proposing a modification to the interim rating measures for Scotland approved by the Committee at its meeting on 25 September (E(81) 29th Meeting).

THE SECRETARY OF STATE FOR SCOTLAND said that powers under the Local Government (Miscellaneous Provisions) (Scotland) Act 1981 to restrain high spending local authorities in Scotland were already extensive, and in Scotland supplementary rates had never existed. . He had earlier envisaged adding a power, to protect the ratepayer, through occasional referenda, from excessive rate increases. He had however now concluded that the objective would be met more simply and less controversially not by a referendum power but by a minor amendment to the 1981 Act which would enable the Secretary of State to insist that a high spending local authority should reduce its rates poundage as an alternative to losing grant.

The Committee -

Approved the revised proposals for interim rating measures in Scotland set out in the Secretary of State for Scotland's letter to the Home Secretary of 28 October.

3. INDUSTRIAL TRAINING

The Committee considered memoranda by the Secretary of State for Employment (E(81) 96, 98, 99 and 100) and by the Central Policy Review Staff (E(91) 109) on industrial training measures, and a memorandum by the Secretary of State for Education and Science (E(81) 106) on the links between the education service and the Government's training strategy.

THE SECRETARY OF STATE FOR EMPLOYMENT said that his proposals for the development of the training objectives, which had been approved by the Government and by the Manpower Services Commission (MSC) earlier in the year, were summarised in E(81) 96 and explained in more detail in his 3 other papers. They served the dual purpose of providing for a substantial reduction in the number of people, particularly young people, on the unemployment register and of providing for better training. His main proposal was for the introduction of a comprehensive youth training scheme from September 1983 to replace the present Youth Opportunities Programme (YOP). Under the new scheme, all 16 and 17 year olds unemployed on leaving school, or becoming unemployed during their first year after school, would be eligible for up to 1 year's training. To avoid the costs of the scheme being too open-ended he had agreed with the Chief Secretary, Treasury, that there would be no guarantee of places for eligible 17 year olds. Supplementary Benefit would no longer be available to 16 year olds: when unemployed they would be regarded as dependent on their parents who would draw Child Benefit; when on a training scheme they would get an allowance for expenses and a sum equivalent to Child Benefit which would be paid directly to them. 17 year olds would get Supplementary Benefit plus expenses; £20 in all at present rates. The changes in the Supplementary Benefit and Child Benefit arrangements would require primary legislation in the 1982-83 Session. The low allowance - less than Supplementary Benefit for 16 year olds - would be controversial and could well be criticised by youth organisations and by the trade unions; they could, however, be readily justified as the means of financing a markedly better training scheme than was available under YOP which would be much closer to the higher standards of training which had operated for many years in other European countries. To encourage training for young people in jobs, he proposed to expand the Unified Vocational Preparation (UVP) programme from 18,000 places in 1982-83

to 50,000 in 1984-85. He recommended that apprentice training support should be kept at around 35,000 places to September 1985 on the understanding that this support would be made increasingly conditional on acceptance of greater flexibility in apprenticeship arrangements. To promote better adult training, and to remedy potential shortages when the economy recovered, he proposed some re-allocation of existing MSC schemes, the introduction of an Open Tech programme for existing training, and additional provision for the development of new training initiatives not covered by present arrangements. He had set out in Annex 2 of E(81) 96 detailed proposals for strengthening advisory arrangements at both national and local level. He had now completed his consultations on the Industrial Training Boards (ITBs), and he recommended that the number of statutory boards should be reduced from 23 to 7; the details were set out in E(81) 100. Government financial support for the operating costs of these surviving boards would be cut off in March 1982 but he had agreed with the Chief Secretary, Treasury, that some provision should be made to meet operating and wind-up costs of the rest. To bring the present uncertainty over the future of the ITBs to an end he wished to announce his decisions on them early in November; there would undoubtedly be a hostile reception. In the meantime he wished to develop the details of his other proposals with a view to a general statement on the reform of training at around the turn of the year. Subject to the Committee's approval of his training policy, he had reached agreement with the Chief Secretary, Treasury, on the necessary additional public expenditure.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he generally supported the Secretary of State for Employment's proposals. One of the best and cheapest ways of reducing youth unemployment was, however, to get more young people to stay on in full time education and he would welcome agreement in principle that around £40-50 million of the funds to be made available to the MSC should, if necessary, be transferred to the education programme for the purpose of enabling more young people to stay on and for the development of appropriate pre-vocational courses for them. He further recommended that it was essential to maintain the principle embodied in existing schemes for the unemployed that there should be an effective partnership between education and training interests. He had set out his

specific proposals to this end in paragraph 9 in E(81) 106: in particular, he wished the education services to be involved in the development of UVP and to fill half the places on the steering body of the Open Tech.

In discussion there was general support for the Secretary of State for Employment's proposals. Their announcement would signal a major initiative by the Government to bring about a long needed reform of great economic, social and political importance. In discussion of particular proposals the following were the main points made -

- a. On the assumption that a scheme of youth benefit applying both to trainees and to young people in full time education was not to be introduced, the allowances under the comprehensive youth training scheme seemed about right. If possible, Supplementary Benefit should be withdrawn from 16 year olds earlier than September 1985, but this would be defensible only if the new training scheme could be brought into operation before that date.
- b. The proposed expansion of UVP was a further example of the State taking on more of the responsibility, which should lie primarily with the private sector, of financing training. The CPRS had questioned whether, without more financial incentive, employers would in practice co-operate in providing more places to enable the expansion to take place.
- c. It was particularly important that the opportunity should be taken to use the funds available to support apprentice training as a lever to bring about much greater flexibility in apprenticeship arrangements.
- d. While the education services should be represented on the steering body for the Open Tech, most Ministers thought they should not have half the places. It would be much better for a majority of the places to be given to representatives of private sector industry. The Open Tech should make use of the excellent scientific programmes which had been developed by the Open University.

THE PRIME MINISTER, summing up the discussion, said that the Committee approved the Secretary of State for Employment's proposals for new training measures subject to the points of detail made in their discussion, and to the agreement reached with the Chief Secretary, Treasury, and to expenditure implications. The Secretary of State for Employment should discuss the details of the arrangements and the allowances under the comprehensive youth training scheme with the Secretary of State for Social Services. The Secretary of State for Employment had also undertaken to discuss further with the Secretary of State for Education and Science the question of whether some MSC funds might be switched to the education services; the Committee had not, however, been persuaded that a case had yet been made for such a switch. The Committee recognised the importance of links between the training and education services in developing the new arrangements; they had not, however, had time to consider these proposals in detail and the Chancellor of the Exchequer should now arrange for his Steering Group on Government Strategy (MISC 14) to consider them further. The Committee did not accept that 50 per cent of the places on the steering body of the Open Tech should be given to representatives of the education services.

The Committee -

1. Endorsed the proposals for new training measures, and for the study of the possibility of taxing employers who did not train, set out in paragraphs 4 and 6 of the Secretary of State for Employment's memorandum, E(81) 96, subject to the agreement reached with the Chief Secretary, Treasury on the public expenditure implications of these proposals and to 2.ii. and 3. below.
2. Invited the Secretary of State for Employment -
 - i. to announce in November his decisions on the financing and future of the Industrial Training Boards.
 - ii. to develop the details of his other recommendations, consulting other Ministers as necessary and taking account of the points made in their discussion, with a view to a later statement on the reform of training at around the turn of the year.

3. Invited the Chancellor of the Exchequer to arrange for his Steering Group on Government Strategy, MISC 14, to consider further the proposals by the Secretary of State for Employment in E(81) 96, by the Secretary of State for Education and Science in E(81) 109 and by the Central Policy Review Staff in E(81) 106 for strengthening the links between full time education and training.

4. SPECIAL EMPLOYMENT MEASURES

The Committee considered memoranda by the Secretary of State for Employment (E(81) 97) and by the Central Policy Review Staff (CPRS) (E(81) 109) on special employment measures.

THE SECRETARY OF STATE FOR EMPLOYMENT said that, since he had circulated his memorandum, he had decided to withdraw and to modify a number of his proposals. Though worthwhile, these were of lower priority than the package of employment and training measures which he had agreed, in further discussion with the Chief Secretary, Treasury, was the maximum that could be recommended in the context of the current public expenditure exercise. He had withdrawn his proposals for expansion of the Community Industry Scheme and for the introduction of a new employment subsidy for the long term unemployed on the lines advocated by Professor Layard. The Chief Secretary, Treasury, had accepted his proposal for net additional expenditure to enable him to continue to provide places under the Community Enterprise Programme (CEP) at a rate of 30,000 a year; he would be willing to consider further the CPRS' proposal that more places might be provided for the same sum if the CEP were based on 'benefit plus premium' instead of a wage, though he very much doubted whether this was practicable. In preparation for the introduction in September 1983 of the comprehensive youth training scheme he proposed to finance, from within his existing provision, 100,000 12-month places on the Youth Opportunities Programme (YOP) in 1982-83. He would increase the YOP allowance in November 1981 from £23.50 to £25, and this would represent a further reduction in the real value of the allowance. Use of the Temporary Short Term Working Compensation Scheme was now falling and, to provide for public expenditure savings, he recommended that the period of support under the scheme should be reduced from 9 months to 6 with effect from the end of September 1982 and that the scheme should be withdrawn from April 1984. Subject to the agreement of the Chancellor of the Duchy of Lancaster, he recommended savings on the Job Release Scheme (JRS) by withdrawal of the concession whereby, in contrast to the standard conditions for the scheme, civil servants could use JRS even though their post was not filled by someone from the unemployment register. He recommended that the JRS allowance should be up-rated from April 1982 by 9 per cent; and that he should announce that the present arrangements whereby the disabled could

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enter the scheme from age 60 should be continued to April 1984. Subject to final proposals from the Manpower Services Commission on YOP and CEP, he invited the Committee to approve these proposals for announcement at an appropriate time in the new Session.

THE PRIME MINISTER, summing up a short discussion, said that the Committee approved the Secretary of State for Employment's recommendations subject to the Chancellor of the Duchy of Lancaster having the opportunity to consider the change in JRS as it applied to civil servants. The Committee noted that if the savings on JRS could not be achieved the Chief Secretary, Treasury, might need to reconsider his agreement to the public expenditure implications of the proposals.

The Committee -

1. Invited the Chancellor of the Duchy of Lancaster to consider urgently the proposal to change the arrangements for civil servants under the Job Release Scheme and to advise the Secretary of State for Employment and the Chief Secretary, Treasury, whether the proposal was acceptable to her and whether she agreed with their estimate of the public expenditure savings which would flow from it.
2. Subject to 1. above, approved the Secretary of State for Employment's proposals for special employment measures.

Cabinet Office
3 November 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(81) 31st Meeting Minutes, Item 1
MONDAY 2 NOVEMBER 1981 at 10.30 am

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LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING MEASURES: ENGLAND AND WALES

The Committee considered a minute from the Secretary of State for the Environment to the Prime Minister of 29 October proposing some revisions to the interim rating measures for England and Wales approved by the Committee on 25 September (E(81) 29th meeting).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the proposals approved earlier by the Committee had envisaged two supplementary rates - the first in the summer and the second, which would be dependent on the outcome of a referendum, later in the year. Consultation on the proposed interim rating measures generally had, as expected, provoked a strong reaction. Of those who were favourably disposed towards the proposals, several had argued that it was better to have only one supplementary rate, which would be subject to a referendum in June. This would simplify the proposals and would have certain advantages, notably in restraining high spending authorities earlier in the year. He therefore favoured this approach. Further work on the draft Bill had also shown that authorities who failed to secure support for a supplementary rate in a referendum, but wished to defy the Government, could not be controlled simply by a limit on their temporary borrowing. He had therefore concluded that he would need a specific power of direction relating to the provision of services and the level of fees and charges, including council house rents and fares; this would be subject to approval by Parliament. It was also necessary to include in the legislation the power to exempt classes of

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local authority, or local authorities satisfying certain conditions, so that those Councils who went over the limits by only small amounts would not be obliged to hold referenda.

The following points were made in discussion -

- a. The proposed Bill had major political and constitutional implications and it was becoming increasingly apparent that these had not been fully thought through. There were for example doubts as to whether the revised proposals could be made to work in respect of transport authorities and police authorities, which were legal entities separate from local government. Although there was a strong case for introducing legislation quickly, so as to affect the level of rates in 1982/83, it would be unwise for the Government, through allowing inadequate time for preparation, to put a Bill before Parliament which could be shown to be unworkable and indefensible, and was unlikely to be enacted without substantial amendment.
- b. There was serious concern among many Conservative controlled Councils which had a good record in controlling expenditure and keeping down rates, that they would be forced to use the referendum procedure unless they were prepared to take unpopular measures such as severe increases in council house rents. It seemed likely that the legislation would have to come before Parliament before an announcement could be made on the Government's decision about the Rate Support Grant, which would enable Councils to judge whether their fears were justified.
- c. The power to give specific directions would arouse major political controversy. It would also draw the Government into difficult areas of confrontation with local authorities which sought to defy the outcome of a referendum. It was for consideration whether these additional powers were needed. So far as transport authorities were concerned, it might be preferable to return to the approach, discussed by the Committee earlier, of setting External Financing Limits. If a power of direction were to be included in the Bill it might be desirable to ensure that in this respect, as well as in other respects, the power could be exercised differently in Wales.

d. Although the power to exclude some local authorities from the referendum provisions was welcome, difficulties could arise justifying the basis on which such exclusions were decided. There could be no question of using the power selectively by reference to the political composition of the Councils concerned.

e. Some of the Government's supporters in both Houses had serious objections of principle to the use of a referendum, on the grounds, for example, that it would be more difficult to resist pressure to have referenda on other issues such as capital punishment and reform of the House of Lords.

f. Proposals relating to the Rate Support Grant and local authority public expenditure were under discussion in special Ministerial groups. It was possible, but not certain, that decisions could be reached on these matters which would substantially reduce the number of local authorities likely to be caught by the referendum provisions.

g. Expectations had been aroused that the Government would be taking vigorous and early action to restrain rates; there would be a political cost in disappointing these expectations.

THE PRIME MINISTER, summing up the discussion said that the Committee was not yet ready to reach decisions on the Secretary of State's revised proposals for the Local Government Finance Bill. While legislation to restrict rate increases was of very high priority and should, if possible, take effect in time to influence the level of rates in 1982/83, the Government could proceed only on the basis of proposals which were workable, defensible and had a reasonable chance of acceptance by Parliament. The Secretary of State for the Environment would need to reconsider his proposals in the light of the discussion; in particular he would want to look again at the approach which was being adopted in Scotland and at other options for dealing with transport

authorities, and should consider whether it might be possible to do without a specific power of direction. The Committee would resume discussion of the proposals at its next meeting.

The Committee -

Invited the Secretary of State for the Environment to reconsider his proposals, in consultation with other Ministers concerned, in the light of the Prime Minister's summing up and to report to the Committee at its next meeting.

Cabinet Office

2 November 1981