Cc Mr. Scholar

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8 June 1983

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PRIME MINISTER

David Young

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THE FIRST FIFTEEN MONTHS

I attach the paper which David Young promised you at your meeting with him and Keith on 16 May. He will be giving the only other copy to Keith.

The priorities he suggests seem very sensible, although, as he says, having been out at the MSC for more than a year, in one or two cases he has not taken full account of what we are already doing or planning to do. Here is a brief summary of his proposals.

1.1 The Civil Service. Little more to be gained from across-the-board cuts. We must cut functions.

1.2 Local Government. Restricting rate increases won't be enough. We ought to make some local authority fringe activities ultra vires. All direct labour work should be put out to tender.

1.3 The Nationalised Industries. We need an orderly programme to split up each industry by region or function and then sell them off piece by piece. We can turn many of these functions into Companies Act companies without legislation, as McGregor has done to British Steel. Legislation can come at the end, not the beginning, of the programme. David says that E(DL) at present acts as a rubber stamp for Ministerial agreement. It needs a small permanent secretariat to follow through the disposals programme and report to the Chairman. You should be that Chairman.

2.1 Taxation. We must stop the Inland Revenue frustrating the purposes of our tax allowances for business start-up, residential allowance and so on. The House of Lords has already effectively ended Rossminster-type cases in the Ramsay case. I think you need a Tax Effectiveness Group, consisting of the Small Business Minister, David Young himself, an experienced accountant in practice, as well as Treasury Ministers and Inland Revenue representatives to make sure in advance that our enterprise schemes really work. The Group should report jointly to you and the Chancellor.

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2. Investment Income Surcharge. In our first Budget last time, we took the radical steps on earned income that were needed. This time, we should use our first Budget to do the same on investment income.

3. Barriers to Mobility. We must have a radical change on regional policy, relating aid to jobs and not to capital investment. The official work being done for MISC 14 will never produce the right answer. You must take personal charge of a small Ministerial task force to produce the right answer.

3.1 Employment Restrictions. We must remove the barriers to employment set up by the Employment Protection Act.

3.2 Skills Training. David has always wanted to split the MSC into half, giving the Job Centres and the Community Programme back to the Department of Employment; with the rest being transformed into a National Training Commission (NTC) which would report to Education, as well as to Industry and Employment. This NTC could take charge of the funding of colleges of further education while leaving their ownership with the LEAs. I think this a brilliant way to make sure that FE does provide courses relevant to future needs.

David also wants to offer a training voucher scheme. This sounds rather promising and does not have the political difficulties posed by vouchers for schools, and should certainly be further examined.

3.3 Moving People. Like the rest of us, David is trying to find a way to encourage the building of housing for rent without abolishing rent control. He thinks liberalising the residential building allowance may well be the answer. I am sure that capital allowances are the key to many of the obstacles to a high rate of housebuilding. For example, Laurie Barratt has estimated that if capital allowances were extended to shared ownership in the private sector, then the industry would be building an extra 50,000 homes a year. Without capital allowances, it is simply not worth their while. When John Stanley brought this idea to the Family Policy Group, Geoffrey said the objection was one of tax philosophy. However, in talks with Nick Ridley later, the Treasury line had changed. They now say that giving capital allowances would simply cost too much. I am sure that this question needs to be tackled very early in order that private housebuilders should see at least 4 years ahead of them in which they will not be interrupted by political spite.

FM

FERDINAND MOUNT