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Subject (1)  
cc master

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10 DOWNING STREET

From the Private Secretary

7 November 1985

Dear Leigh,

ENTERPRISE AND EMPLOYMENT

The Prime Minister today discussed with your Secretary of State his minute to her of 1 November which set out a strategy for enterprise and employment. The Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Paymaster General and the Chief Secretary were also present.

Your Secretary of State explained that his proposals were a package, not a shopping list. He regretted that they had not come forward before the public expenditure round, but this had been unavoidable. They formed a coherent strategy, aimed towards creating an entrepreneurial society. They looked towards the 1990s. In the shorter term they would also produce more directly a declining path for unemployment. Unemployment was still the major concern in the country, more important even than law and order. The intention would be to implement the proposals in two or three stages, some immediately, some in the Budget and some to be kept in reserve if the unemployment figures seemed to warrant them. Your Secretary of State then took the meeting through the proposals set out in his minute. He concluded by commending them in the strongest terms for the benefits they would bring to the country and to the Government both in the short and the long term.

The Prime Minister welcomed the proposals. She found them most exciting and imaginative. They were well worth further study and evaluation and this should now be done in conjunction with the Treasury. The Prime Minister said however that the meeting could not agree to immediate announcement of expensive proposals before they had been properly evaluated, and particularly against a background that the Cabinet had only this day brought the public expenditure survey to a successful conclusion. To agree the proposals now would be unfair to other colleagues, and would

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be likely to unsettle the markets. The Chancellor agreed strongly with this assessment, but said he would be willing to consider extra expenditure on employment measures for the 1986 Budget, as he had been for the 1985 Budget.

After further discussion, the following points were also agreed:

(i) the Department of Employment should mount pilot schemes for the long term unemployment guarantee scheme, subject to agreement on the details of the proposal with the Chief Secretary; the cost should be modest and absorbed this year within the programme of the Department of Employment; the possibility of mounting five or six pilot schemes was mentioned, and it was suggested that they should be set up in difficult as well as favourable areas;

(ii) the Paymaster General should discuss further with the Chief Secretary and the Secretary of State for Health and Social Security whether the pilot schemes should also include the enterprise scheme for the long term unemployed; the Paymaster General argued that this was essential in order to counter the accusation that the guarantee scheme was simply part of a fraud drive against the long term unemployed;

(iii) the extension of the Loan Guarantee Scheme and the terms on which this would be done should be further discussed with the Treasury;

(iv) the cut-off point for the small firms exemption from abolition of the Redundancy Rebate should be set at 9 employees if the Department of Employment felt unable to increase the figure to 20;

(v) the timing and content of announcements about abolition of the Redundancy Rebate, extension of the Loan Guarantee Scheme, creation of the pilot schemes, and other measures agreed during the course of the Survey should be discussed urgently between the Department of Employment and the Treasury; any announcement of the pilot schemes should be made in a way which did not encourage the belief that the schemes would necessarily be extended. Your Secretary of State argued that the announcements should be made as a package: the Chancellor felt that an announcement on Tuesday on the abolition of the Redundancy Rebate was unavoidable.

After the meeting you told me that your Secretary of State would wish to announce the funding for Local Enterprise Agencies as part of the proposed package of

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announcements. As you know, the Prime Minister continues to have doubts about the provision of public money for the Local Enterprise Agencies, and I should be grateful to know before close of business tomorrow night if it is your Secretary of State's intention to make an announcement on Tuesday.

I am copying this letter to Tony Kuczys (HM Treasury), Richard Broadbent (Chief Secretary's Office), Jacob Franklin (Paymaster General's Office) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

*Yours ever,  
David*

(David Norgrove)

Leigh Lewis, Esq.,  
Department of Employment.

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