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SECRETARY OF STATE FOR EMPLOYMENT

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Rt Hon John Biffen MP
Chief Secretary
Treasury
Great George Street
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R 3/10

3 October 1980

Dear John

LOANS TO THE NDLB

You wrote to me on 22 attached September suggesting that I find offsetting savings for the extra loans of £13m at 1980 Survey prices to the NDLB.

I am sure that we must confine the contingency reserve to those claims for which it is designed but these loans are exactly in that category. They could not possibly have been foreseen when the Estimates were drawn up. At our meeting with the Prime Minister we were agreed that it was necessary to make the loans to help avoid a docks strike; had there been a dock strike there would, of course, have been extra expenditure in a number of departments. Moreover, the loans are in a non-cash limited vote. I hope you will be able to consider again the eligibility of these loans as a claim on the reserve.

You repeat the proposal that the raising of the redundancy rebate should be delayed until next April to save £7m towards the extra loans. My previous agreement to a delay to meet an earlier loan of £1.5m was taken most reluctantly as I explained in my letter of 5 September.

However, my unwillingness to agree to a further delay requires explanation. The question of the rate of rebate which should be payable from the Redundancy Fund is now being viewed from several different angles. Originally the CBI and I were concerned at the way in which an embarrassingly large surplus in the Fund was growing steadily larger, and pressed for an increase in the rate of rebate from 41% to 60%. You will remember that last February we settled on a compromise figure of 50%, to be applied next November.

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In fact the surplus reached a peak (of £144.7 million) in March and then started to decline slowly. The latest figure we have for it is £125.6m at the end of August. From the point of view of bringing the surplus down to a reasonable figure - say, £40m at most - without too much delay, I still advocate a rise in rebate to 50% from 24 November (that is, a postponement from 1 November designed to produce the saving of £1.5m I promised in my letter of 5 September). Postponing the increase to next April, as you are now proposing on public expenditure grounds, would mean that the surplus in the Fund at the end of next March would still be so large - perhaps about £90m - that we should find it hard to justify our inaction even in terms of the size of the surplus.

But in addition some of our colleagues, as you know, have now begun to canvass the merits of an increase in the rebate, to 60% rather than 50%, as a measure of industrial support. I can see the attraction of this, and I do not think it is affected by the fact that if the rise to 60% were applied from November (as I assume would be the intention) it would be necessary to increase the contribution rate from next April.

It will be clear from all this that there is much to be said for increasing the rebate from this November (to 50% both to get the surplus down more quickly, and as a measure of industrial support, or to 60% as a more marked measure of industrial support). The alternative you propose of leaving it at 41% until next April would certainly produce a saving in public expenditure, as this is calculated, but would run directly counter to both of the other two aims.

In these circumstances I think you will agree that since the question of industrial support is now bound up with that of the rebate we should not take a decision on the latter between the two of us, but should submit it to our colleagues collectively. I should make it plain, however, that though the cost of an increase to 50% from November is covered in my existing PES allocation, I could not agree that the additional cost of an increase to 60%, which would be a measure of industrial support, should be a charge on my Department.

Your other suggestion is that the level of compensation under the short time working scheme should be reduced. Changing the level of compensation cannot be separated from the review of special employment measures which we shall be discussing later this month and in which the scheme has an important role. The present level was announced for the current year and to reduce it now would prejudice our making an effective presentation of the special employment measures package on which we have yet to agree. Moreover, there is very little in it. If the level of compensation were reduced from 75% to 50%, which would be a major retreat, it would have to be confined to new entrants and would only produce an estimated £3m allowable savings in the rest of this financial year.

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You also raise the question of increases in severance payments saying that there can be no question of automatic approval if they are proposed. The position is set out in my minute to the Prime Minister of 16 September. I proposed that the level of severance payments should be regarded as a matter for NAPE and that we should not resist any reasonable adjustment. I believe that was agreed between us and that is what NAPE have been told.

I am copying this to recipients of your letter and to colleagues in E(EA), to whom I am also sending copies of your letter of 22 September.

Yours ever

Tom

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1

22 September 1980

Dear Jim,

LOANS TO THE NATIONAL DOCK LABOUR BOARD (NDLB)

At the meeting held by the Prime Minister on 16 September it was agreed that your proposals for improving the severance terms for dockers at a cost of about £13 million should be accepted, but no decisions were taken on how this cost should be financed.

You are well aware of the difficult position we face this year on public expenditure and on the PSBR. The contingency reserve is under severe pressure and it is necessary to seek offsetting savings whenever additional expenditure is proposed. In the minute which I sent on 16 September I proposed that the cost of the measures we are taking to avert a dock strike should be met by further deferring the proposed increase in the Redundancy Fund rebate. Deferment until next April should save about £7 million of the £13 million required. I suggested that it might be possible to offset the remaining cost of the loan by reducing the level of compensation offered under the temporary short time working scheme. But you may prefer to make the necessary offsetting savings in other areas.

In your minute of 16 September to the Prime Minister you said that you would be quite unable to meet the costs involved from your existing programmes. Whilst I appreciate your difficulties, we have to face up to the problem of controlling public spending and, in present circumstances, it is imperative to seek offsetting savings for additional expenditure. I can see the attractions of giving some help to industry's cash flow by an early increase in the Redundancy Fund rebate. As far as industry is concerned, however, it stands to benefit much more from our success in avoiding a dock strike than it would have done from an additional £7 million of redundancy money or additional compensation for short term working. I hope therefore that, bearing these considerations in mind, you will be able to offer the necessary offsetting savings.

I should, perhaps, add that I should also have to seek additional offsetting savings if you were to be presented with a request for further sums for the NDLB to finance any further increase in the level of severance payments. I am sure that you will have conveyed to NAPE the thought that, whilst we will look sympathetically on any request which they may make for a further increase in severance payments, there can be no question of automatic approval because of the public expenditure consequences.

I am copying this letter to the Prime Minister, Keith Joseph, George Younger, Nick Edwards, Norman Fowler and Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

- 3 OCT 1980