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E(79) 7th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held
at 10 Downing Street on
TUESDAY 11 SEPTEMBER 1979 at 4.15 pm

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 Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

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

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland
(Items 1 and 2)

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
(Items 1 and 2)

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The Rt Hon Mark Carlisle QC MP
Secretary of State for
Education and Science
(Items 1
and 2)

The Rt Hon Nicholas Ridley MP
Minister of State, Foreign
and Commonwealth Office
(Item ~~3~~ 4)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item ~~3~~ 4)

Sir Kenneth Berrill
Head of Central Policy Review Staff

SECRETARIAT

Sir John Hunt
Mr P Le Cheminant
Mr P Mountfield (Items ~~2~~ 3 and ~~3~~ 4)
Mr G D Miles (Items 1 and 2)

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1. STANDING COMMISSION ON PAY COMPARABILITY

The Committee had before them a note by the Chancellor of the Exchequer E(79) 38, covering a Report by an inter-Departmental Group of officials reviewing the work of the Clegg Commission in the light of their first two reports.

THE CHANCELLOR OF THE EXCHEQUER said that in general the Official Group considered the Clegg Reports to be skilful, and to represent a better outcome than could have been negotiated in the circumstances of last winter. The Commission had however been able to take little account of relative efficiency, job security, or labour supply and demand in making their recommendations and this represented a significant weakness in their work. The Commission itself had also expressed doubt about the proper valuation of pension rights although they had adopted the procedure already used by the Government Actuary in assessing the value of Civil Service pensions. The central question was however whether the Government was prepared to keep the Standing Commission in being as a long term instrument. His own view inclined to keeping it as preferable to the alternative of unco-ordinated ad hoc enquiries. It would suffice for present purposes if the Commission were allowed to complete its existing references, and to provide it with General Government evidence ~~on the lines of the draft attached at Annex 2 of the paper.~~ In addition officials should be asked to do further work on the items identified in paragraph 21 of their report.

In discussion it was argued that the deficiencies identified in the Clegg Report in respect of efficiency, conditions of service, labour supply and demand, and pensions, were common also to the other bodies dealing with pay

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by comparability means; ie the Civil Service Pay Research system, and the standing Review Bodies dealing with the pay of the Armed Forces, Doctors and Dentists and the top salary groups. Methods should be sought for taking these factors into account for the pay of all these groups. On the question of valuing the index-linking of pensions, it would be desirable to examine also the assumptions about long-term inflation rates, which were used in the calculations.

On job security, it was noted that an appreciable amount of work had already been carried out by officials, and the Lord President would be submitting a report to the Prime Minister shortly. It had to be noted that the introduction of supply and demand considerations into pay determination could result in potentially expensive pressures for additional payments for categories of employees who were in short supply as well as opening the possibility of savings elsewhere.

THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed that the Clegg Commission should complete its work on its existing references and that no attempt should be made to alter the terms of reference for these studies. The Government should aim to submit its own evidence to the Commission in the near future, and any Ministers wishing to propose amendments to the draft evidence annexed to the Chancellor's paper should let him have their suggestion by the end of the week. The aim should be to produce evidence which emphasised the Government's message, but which was couched in terms which would not give offence to the members of the Commission, whose work so far had been valuable. As to the longer term future of the Commission, the Chancellor of the Exchequer should arrange, in consultation with the Lord President, the Secretary of State for Employment, and

the Secretary of State for Industry, to bring forward to the Committee in about 3 weeks time, recommendations on the future of the Clegg Commission, taking account of the items identified as requiring further study in paragraph 21 of the report of the Official Group. The Committee would also welcome a considered view on whether the terms of reference of any future references to the Commission should require them to provide the basis for negotiation between parties, rather than to arrive as binding pay awards. The Committee also wished to have recommendations on the way in which efficiency, job security, and the influence of labour supply and demand could be allowed for in future pay settlements for Groups referred to the Standing Commission, the Civil Service, and the groups covered by the standing Review Bodies. Finally the Committee wished to have advice on how best the value of index-linked pensions could be subjected to independent scrutiny.

The Committee -

Took note with approval of the summing up of their discussion by the Prime Minister, and invited the Ministers concerned to be guided accordingly.

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2. FINANCING THE COST IN 1979-80 OF THE FIRST CLEGG REPORTS

The Committee had before them a memorandum by the Chancellor of the Exchequer E(79) 33, which discussed the cost during the current financial year of the pay increases recommended in the first Clegg Reports, and made proposals for offsetting reductions in public expenditure.

THE CHANCELLOR OF THE EXCHEQUER said that the Budget arithmetic had implicitly allowed about 6-7 per cent in the current year for the cost of the Clegg awards for these groups. In fact the awards would cost 11 per cent on average, and there was a gap to be bridged. The Clegg Reports had identified a number of areas in which there was inefficiency and had recommended that management should try to eliminate it. No offset had however been made in the pay awards on this account. In order to apply pressure on the managements, and to make it clear to the staff concerned that large pay awards must result in offsetting savings, it was important that the Government should now announce that some further offsets were being required from each of these programmes. He therefore proposed some increase in the cash limits for each of the services, but not the amount that would be necessary if the full cost were to be met by Government.

In discussion it was argued that the Government had given repeated assurances about their intentions for financing the National Health Service (NHS). The Government had said that it would honour the previous Government's commitment to the Health Authorities, which implied that they would fund the Clegg increases unless these were "unreasonable". The National Health Service had already absorbed £24 million in respect of the excess cost of pay settlements in 1979-80. There had been no increase in their cash limit for price increases, nor for the effects of Value Added Tax, and these items in combination had already squeezed the Health Authorities considerably. While the Health Authority managements were committed to reducing inefficiencies, these were often deep-seated, and could only be altered by protracted negotiation. The scope for any major savings in costs in the current year was very small. Thus any further squeeze on the NHS cash limits would be thought by the Health Authorities to be contrary to earlier Government assurances, and would inevitably fall on patient services. It could lead Health Authorities who were now trying hard to implement the cuts, to "throw in the towel".

Against this it was argued that the Government should not be seen to finance the whole cost of the Clegg Reports, as applied to the existing labour force, when there was acknowledged inefficiency in these services concerned. Some offset must be seen to be made.

On the Rate Support Grant, it was argued that a decision could be deferred until November. The Government had already announced that a reduction would be made in the amount of the Rate Support Grant Increase Order, in the light of the 1978-79 pay settlements. The local authorities would not expect an announcement of the figure before November. If a decision was deferred, this would leave time to consider whether the money could be obtained from elsewhere in local authority expenditure, rather than from an adjustment to the Increase Order. This might seem preferable, since alterations to the Increase Order would inevitably flow through into future rate demands. Against this it was argued that the Government's message would be weakened, unless an early announcement could be made about the actions that had been taken in response to the Clegg Reports.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Government should not meet the whole extra cost of the awards arising from the Standing Commission findings. The Secretary of State for Education had accepted the Chancellor's proposals so far as his Department was concerned and the Committee endorsed their agreement. The Chancellor of the Exchequer had indicated a willingness to move part way towards meeting the extra costs arising in the NHS and should seek agreement out of Committee with the Secretary of State for Social Services about the precise arrangements to be made. Unless, however, some offset were made the Government's credibility would be at risk. As to the Local Authority settlements, the Secretary of State for the Environment accepted that the full excess cost of the settlements should be offset either in the Rate Support Grant or from savings elsewhere in his programmes. The Chancellor of the Exchequer, the Secretary of State for the Environment, and other relevant Ministers should consider the most appropriate way of making the necessary offsets bearing in mind the need to bring home the Government's basic message to both employers and employees. The Chancellor of the Exchequer should report the outcome of both sets of consultations to her.

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The Committee -

Took note, with approval, of the summing up of their discussion by the Prime Minister, and invited the Ministers concerned to be guided accordingly.

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3. PUBLIC ATTITUDES TO PAY DETERMINATION

Previous Reference: E(79) 4th and 5th Meeting.

The Committee had before them a Memorandum by the Paymaster General on Public Attitudes to Pay Determination, E(79) 37, covering a speaking brief for Minister's use in the first stage of a publicity campaign, and a Memorandum by the Chancellor of the Exchequer, E(79) 32, about proposals to hold a special meeting of the National Economic Development Council (NEDC) to discuss the economic prospects of the country and to influence the approach to pay in the next pay round.

THE CHANCELLOR OF THE EXCHEQUER, introducing E(79) 37 in the absence of the Paymaster General, said that no fresh decisions were needed at this stage. A campaign of Ministerial speeches designed to influence attitudes in the immediate future had already begun, based on briefing provided by the Paymaster General and circulated to the Committee. Further proposals would be made shortly for the second stage of the campaign.

Turning then to E(79) 32 he said that as requested he had taken soundings of the Trades Union Congress (TUC) and the Confederation of British Industry (CBI). It was clear that there was no prospect of TUC support for a special forum or for a public debate in the NEDC. The CBI, too, while welcoming the Governments approach had doubts about the wisdom of a public discussion at this stage. He therefore suggested that the opportunity of the December meeting of the NEDC should be taken for a more extended, private, treatment of economic prospects, which might help to influence attitudes to pay negotiations. He hoped to make changes in the membership of NEDC before that meeting, within the existing allocation of seats, which would in particular allow the Governor of the Bank of England to take part. The December meeting was a little late for the purposes of influencing the next wage round, but it would allow the discussion to take place on the basis of the Government's Public Expenditure White Paper if that had then been published.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee took note of the Paper E(79) 37 by the Paymaster General. It invited all Ministers concerned to use the speaking material provided as fully as possible in the next few weeks including, where appropriate, at meetings with industrialists. It noted that a further paper, with proposals for the second stage of the campaign, would be brought forward shortly. The Committee also agreed that the Chancellor of the Exchequer should arrange for a special meeting of the NEDC in December on the lines outlined in E(79) 32 to consider economic prospects generally, with a view to influencing attitudes to pay determination.

The Committee -

Took note, with approval, of this summing up of their discussion by the Prime Minister, and invited the Chancellor of the Exchequer and the Paymaster General to be guided accordingly.

4. DISPOSAL OF PUBLIC SECTOR ASSETS

Previous Reference: E(79) 5th Meeting

The Committee's discussion and the conclusions reached are recorded separately.

Cabinet Office

12 September 1979

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(79) 7th MEETING, MINUTE 4
TUESDAY 10 SEPTEMBER 1979 AT 4.15 pm

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4. DISPOSAL OF PUBLIC SECTOR ASSETS

Previous Reference: E(79) 5th Meeting

The Committee had before them a Memorandum by the Secretary of State for Energy (E(79) 36) about the Disposal of the Assets of the British National Oil Corporation (BNOC); and a Memorandum by the Chancellor of the Exchequer (E(79) 31) about Disposal of Public Assets in 1979-80.

THE SECRETARY OF STATE FOR ENERGY said that, in the Committee's previous discussion, he had been asked to find ways of raising £400 million from the disposal of the assets of BNOC and of the British Gas Corporation (BGC). He had decided not to pursue the option of sales of BGC, which could not readily be done in the time available. He was satisfied that £400 million could be found from sale of BNOC's interests in the Viking Gas field and adjacent gas finds which had not yet been contracted, and of the BNOC's interest in the United Kingdom part of the Statfjord field. But it would take time to agree a valuation of these fields, to negotiate with the other partners over their contractual rights, and to enact the necessary legislation. It was doubtful whether the proceeds could be made available in 1979-80. There would be considerable opposition to these sales, but he thought BNOC could be brought to accept them, provided no further disposals were in prospect. If these did not realise sufficient funds, the sale of the Dunlin field would yield the balance, but this might lose the co-operation of BNOC. To bridge the gap in time, he suggested that BNOC should be authorised to sell oil for delivery in future years in exchange for cash now, subject to adjustment of the price at the time of delivery. The equity oil available to BNOC in 1980-81 should permit sales which would yield at least £400 million in 1979-80. To sell more

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would involve trading in participation oil, which he would prefer not to do. However, if this option of selling oil were acceptable, it could be rolled forward into future years, thus avoiding the need for any asset sales.

THE CHANCELLOR OF THE EXCHEQUER said that his overriding objective was to secure the total £1,000 million from sale of assets promised in his Budget Speech. He needed a further £685 million to achieve this objective. It looked as though at least £400 million could be found from forward oil sales, and he was satisfied that this would count towards reducing the public sector borrowing requirement (PSBR). The remainder would require the sale of some part of the Government's holding of BP shares; a sale of 7 per cent of the total would yield about £285 million at the prices then ruling. The remainder of the disposal programme was relatively straightforward, although there were a number of details to be agreed with the Ministers concerned.

In discussion, it was argued that there was already a substantial precedent for the forward sale of oil, undertaken under the previous Administration. There was thus no doubt of BNOC powers to make such sales. They would involve only a small proportion of total North Sea oil production. There was a slight danger that other oil producers would seek to copy the procedure, thus bringing forward their own cash flow at the expense of consuming countries. But this had not happened on the previous occasion. If oil producing countries wished to act in this way, they would do so, irrespective of the behaviour of BNOC. Additional sales of oil, beyond the £400 million suggested by the Secretary of State for Energy, would allow the Government to sell fewer BP shares. It was desirable to retain a 25 per cent blocking holding in BP if possible. 20 per cent of the shares were still subject to an action by their previous owners, the Burmah Oil Company, against the Government. Until this was resolved, there was a strong case for limiting disposal of BP shares to about 5 per cent. Indeed there was a case for further delay in disposing of BP shares. It was possible that there would be shortfall in other Government expenditure, particularly on housing, which would allow the sale to be postponed. Against this, it was argued that the market now expected a substantial sale of BP shares. To disappoint these expectations might have damaging effects on market confidence. However, if the Government decided to retain a blocking interest in BP, this implied that it would be prepared to take up its share of any future rights issue, at least until the uncertainties surrounding the former Burmah shares were removed. Provided the forward oil sales could be repeated in future years, there would be no need for further sale of BNOC assets to oil companies.

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They could instead be vested in a new subsidiary of BNOC, as proposed by the Secretary of State for Energy at the Committee's previous discussion. Shares in this subsidiary could in due course be sold to the general public. He would now bring forward more detailed proposals to this end. The public presentation of these various oil proposals would need great care, and should be agreed with the Prime Minister. The remaining details of the disposals package remain to be agreed with the Ministers concerned. No public announcement of the sale of the British Sugar Corporation should be made until the agreement over the future of Tate and Lyle had been agreed, for fear of prejudicing detailed negotiations with the company and with the unions concerned. The Secretaries of State for Scotland and for Wales should be consulted about the relatively small land disposals which concerned them.

THE PRIME MINISTER, summing up the discussion, said that the Committee had now approved the whole package of £1,000 million disposal in 1980-81. They agreed that the Government should sell 5 per cent of the total capital of BP, thus retaining blocking control over the company for the time being. They agreed that BNOC should be instructed to make forward oil sales which, together with the proceeds of the sale of BP shares, would yield a total of £685 million in 1979-80. It followed that there need be no sale of BNOC assets this year. The Chancellor of the Exchequer should agree with the Ministers concerned the details of the remaining sales to make up the total of £1,000 million. The terms of any announcement about the oil transactions should be agreed between the Chancellor of the Exchequer and the Secretary of State for Energy, and cleared with her before any statement was made. The Statement could be made in the context of the Governments intention to introduce private capital into BNOC. The Secretary of State for Energy should bring forward detailed proposals to this end at the earliest opportunity.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Chancellor of the Exchequer and the Secretary of State for Energy to proceed accordingly.

Cabinet Office
12 September 1979

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