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Nat Ind, Policy

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24 November 1980

NATIONALISED INDUSTRIES: EXTERNAL FINANCIAL LIMITS

As indicated in the Chancellor's statement today, the Chief Secretary to the Treasury, the rt. hon. W J Biffen, MP, today announced the External Financing Limits for the nationalised industries for the financial year 1981-82.

In a written Answer to a Parliamentary Question by the rt. hon. Sir R Graham Page, (Crosby) the Chief Secretary announced the figures for individual industries exluding British Steel, whose limit will be announced later.

The text of the Parliamentary Question and Answer is attached.

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181/80

The rt hon Sir R Graham Page:

To ask the Chief Secretary to the Treasury what limits have been set on the external financing of the nationalised industries for the financial year 1981-82.

The limits are as follows:

Nationalised Industries' External Financing Limits 1981-82*

		£ million
National Coal Board		882
Electricity Council & Boards		-210
North of Scotland Hydro-Electric Board		32
South of Scotland Electricity Board		77
British Gas Corporation		-390
British National Oil Corporation		-360
Post Office	(Post & Giro	16
	(Telecommunications	180
British Airways Board		101
British Airports Authority		14
British Railways Board		920
British Transport Docks Board		-5
British Waterways Board		32
National Freight Company		7
National Bus Company		75
Scottish Transport Group		17
British Shipbuilders		150

These limits have been set, following consultations with the industries concerned, on the lines set out in my Rt. Hon. Friend's answer on 4 August 1980. (Hansard W.A. col. 41-42).

Notes

*No figure is included for British Aerospace on the assumption of a sale of shares in a successor company in 1980-81, or for the British Steel Corporation where a limit will be announced in the light of their Corporate Plan expected shortly. As in the past the forecast for BNOC does not represent a limit. The limit for the British Gas Corporation is before the imposition of the proposed Gas levy.

Notes for Editors

External financing limits (EFLs) are "a form of cash limit" for individual industries. They control the amount of finance (grants and borrowing) which an industry can raise in any financial year from external sources. They are thus the difference between very much larger flows of revenue and expenditure, both current and capital. As last year, the limits are being set in the autumn so that the industries can take them into account in wage-bargaining.

2. The White Paper on the Government's Expenditure Plans (Cmnd 7841) emphasised (page 55) the particular uncertainties attaching to the figures for the nationalised industries for the later years because their revenue and expenditure, like those of private sector companies, depend on trading conditions. As the Chancellor explained in his statement, the limits represent an increase of £620m on the White Paper figures reflecting the impact of the recession at home and abroad. To keep to these figures the industries have been asked to make substantial economies of more than £800m. (Both figures are at "1980 survey prices" - roughly £800m and over £1,000m in cash respectively.)

3. The Chancellor of the Exchequer set out on 4 August 1980 (Hansard WA col 41-42)the Government's approach to setting and administering EFLs. This will apply to the figures announced today. The statement made clear the role which EFLs play in the control of public sector borrowing. It also said (as did the April 1976 cash limits White Paper) that since the nationalised industries are trading organisations with large flows of expenditure and revenue, the EFLs cannot be immutable; but that equally there can be no presumption that a financing deficit would be met, as happened before 1976, by a further injection of external finance and went on to define in broad terms the circumstances in which the Government would be prepared to consider adjusting EFLs.

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PUBLIC EXPENDITURE 1981-82

The Chancellor of the Exchequer, the Rt Hon Sir Geoffrey Howe MP, announced in Parliament today a number of Government decisions about public spending programmes for 1981-82. He said that some increases must be expected and planned for in expenditure arising from the recession. In view of this, cuts must be made in the plans for the majority of spending programmes.

Changes now announced from the plans for 1981-82 in the public expenditure White Paper of March 1980 (Cmnd 7841) include (figures at 1980 survey prices):

(i) An increase of £620 million in the external financing limits of the nationalised industries (excluding British Steel), including revised provision for shortfall. The increase reflects the deterioriation in trading conditions. The industries are being required to secure substantial economies exceeding £¾ billion. (See separate Press Notice covering the written answer by the Chief Secretary, Mr W J Biffen, to Sir Graham Page MP.)

(ii) An increase of £245 million in provision for special employment measures, as announced by the Secretary of State for Employment on Friday 21 November.

(iii) A reduction of £200 million in planned defence expenditure, which grew by 3%

in 1979-80 and is now expected to grow by some 2½% both this year and (after this change) next.

(iv) A reduction of about 3% rather than 2% in local authority current expenditure compared with the plans for 1980-81. This means a further reduction of £165 million in England, and corresponding reductions in Scotland and Wales.

(v) Changes in pensions and other benefits. Prices have increased less than the Government allowed for when deciding on the uprating of social security benefits for November 1980. There will accordingly be some increase in the real value of benefits. Subject to the necessary legislation, this over-provision, at present estimated at one percentage point, will be deducted from the 1981 uprating. This will maintain the real value of the retirement pension. Public service pensions will be treated in the same way. The earnings limit for retirement pensioners will remain unchanged.

The summary of expenditure policy decisions so far taken, included in the Official Report (Hansard), is attached.

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NOTES FOR EDITORS

1. Today's announcements relate to policy decisions taken since Cmnd 7841. The next White Paper, to be published with the Budget next spring, will also include details of further changes resulting from revised economic assumptions and from decisions not yet taken, including decisions on the external financing limit of British Steel and the uprating of child benefit next year. It will also include figures for later years of the survey period.

2. 1980 survey prices are explained in the text attached (para 4). Revalued to those prices, the planning totals in the last two full White Papers were:

		£ million	
	1979-80	1980-81	1981-82
Planning total after shortfall:			
Cmnd 7439 (January 1979)(table 1, line 12)	80,340	82,090	83,470
Cmnd 7841 (March 1980)(table 1.1 line 13)	78,340	77,810	76,870

3. Some further background to the main changes is as follows.

Special employment measures: As announced by the Secretary of State for Employment on 21 November, the increase of £245 million will permit the continuation of existing schemes and the expansion of others, in particular the Youth Opportunities Programme which should provide places for 440,000 young people next year, 180,000 more than was planned for this year.

Industrial support: The increase of £52 million covers additional selective assistance for industrial investment, and support for industrial research and development. Upgradings of assisted areas affected by the rundown of the steel industry account (with other minor changes) for a further £10 million.

Local authorities' current expenditure: The Government is now seeking a total reduction in 1981-82 of about 3% compared with the planned level for 1980-81. The White Paper plans, and the provisional announcement in August, envisaged a reduction of about 2%. The local authority associations will be consulted about these proposals before the Rate Support Grant settlements for England, Scotland and Wales are announced next month.

Local authorities' capital expenditure: The reductions in Departments' programmes will include reductions in this expenditure. Details will be announced separately in due course.

Department of Environment (including Property Services Agency): The reduction of £158 million is in addition to the reduction in local authority current expenditure. The breakdown of the reduction between housing, other environmental services and the Property Services Agency will be given in due course.

Department of Education and Science: Education forms a major part of local authority activity and will be affected by the reduction in local authority current expenditure. In addition a reduction of £52 million compared with Cmnd 7841 revalued will be made on the remainder of the programme. The composition of this figure will be announced by the Secretary of State for Education and Science in due course.

Department of Health and Social Security (health): The planned level of health services is to be maintained. The savings of £25 million shown will be found through better use of resources. Gross current spending by Health Authorities will be about 1¼ per cent higher in real terms in 1981-82 than this year, allowing both for demographic changes and improvements in services. The table also shows an addition of £100 million to net expenditure (plus £21 million in Scotland, Wales and Northern Ireland) resulting from decisions not to proceed with some proposals for charges (see Cmnd 7841 page 105, paragraph 9).

Export Credits Guarantee Department: The Trustee Savings Banks have agreed to take over a further £200 million (cash) of outstanding fixed rate export credit refinance in 1981-82 (£166 million in 1980 survey prices).

Department of Health and Social Security (social security): The reduction of £66 million reflects the proposals mentioned above concerning retirement pensions and other benefits, and certain other changes. A decision on child benefit uprating will be taken at the time of the Budget.

Public service pensions will be treated in the same way as retirement pensions. Any further action on index-linked public sector pensions will follow the report of the Scott Enquiry expected next month.

European Community budget contribution: The UK's net contribution to the EC budget has been reduced substantially as a result of the agreement negotiated on 30 May 1980. The refunds are expected to total about £550 million in 1980-81 and about £650 million in 1981-82.

TEXT FOR CIRCULATION IN THE OFFICIAL REPORT

SUMMARY OF PUBLIC EXPENDITURE POLICY DECISIONS

A. Volume

1. The changes in expenditure programmes for 1981-82 due to policy decisions since the March Public Expenditure White Paper (Cmnd 7841) are:

	1981-82 £m at 1980 Survey Prices (b)	
Nationalised Industries		
Increases in EFLs (other than for British Steel) including revised provision for shortfall		+620
Other policy increases (a)		
Special employment measures	+245	
Industrial support	+ 52	
Industry (other)	+ 10	
Health (withdrawal of some proposals for new charges)	+121	
Civil superannuation (accelerated retirement of civil servants)	+ 64	
Trade	+ 21	
		+510
Other significant policy changes: (a)		
(i) Local Authority Current Expenditure (England) - reduction by about 3% instead of 2% from planned level for 1980-81	-165	
(ii) Further changes in Departmental programmes (excluding elements of local authority current expenditure included in (i))		
Agriculture Departments	- 36	
Department of Employment	- 25	
Department of Transport	- 21	
Department of Environment (including PSA)	-158	
Home Office	- 17	
Department of Education and Science	- 52	
Office of Arts & Libraries	- 10	
Department of Health & Social Security (health)	- 25	
(iii) Other Departments		
Defence	-200	
Foreign & Commonwealth Office	- 16	
Export Credits Guarantee Department	-166	
Department of Health & Social Security (social security)	- 66	
Scotland, Wales and N. Ireland (including changes to local authority current expenditure in Scotland and Wales)(c) (about)	- 90	
Other (about)	- 15	
		-1,060
EC refunds agreed on 30 May 1980		- 650

/ Footnotes - see next page

2. The changes take account of the salary savings expected in 1981-82 from the progressive reductions in Civil Service numbers to 630,000 by 1984.

3. The list does not include changes where the exact amount will be decided later eg British Steel and Child Benefit. Nor does it include the estimating adjustments, eg for demographic and economic factors, which will be made in the public expenditure White Paper to be published at the time of the Budget. The White Paper will include further details of the policy changes for 1981-82 and will set out the plans for 1982-83 and 1983-84.

4. The figures are in the prices used for the 1980 Public Expenditure Survey. "1980 Survey Prices" means for most expenditure broadly the prices of late 1979, which were some 18 per cent higher than the 1979 survey prices used in Cmnd 7841. For transfer payments (including overseas aid), 1980 survey prices are generally estimated average prices for 1979-80, ie about the same as those in Cmnd 7841, as a result of a change of definition since that White Paper.

B. Cash limits

5. Cash limits and Votes for expenditure other than pay will allow for an average level of prices in 1981-82 11% higher than the corresponding level in 1980-81.

6. The cash limits for the Rate Support Grant and for the Universities' Grant will include allowance for increases in earnings of 6% in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual settlements due after that date. The allowance for pay in other cash limits, and Votes, will be so set that the pay of the relevant groups is dealt with broadly within the same financial disciplines. The outcome of settlements in particular cases will depend on the way in which the cash is allocated.

(a) The increases and reductions shown include the net effect of various minor policy changes.

(b) Total changes are rounded to the nearest £5 million.

(c) The exact changes to Scotland, Wales and Northern Ireland programmes, in parallel with those to English programmes, will be given in due course.

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1981-82 CASH LIMITS

The Chancellor of the Exchequer, the Rt Hon Sir Geoffrey Howe, QC MP, has written today to the Rt Hon Edward Du Cann, MP, Chairman of the Treasury and Civil Service Committee. The text of the letter is as follows:

'My statement today covers certain general aspects of the 1981-82 cash limits relating to pay in the public services. To avoid any misunderstanding I am writing now to inform you and the Treasury and Civil Service Committee of two further specific points; and I am releasing this letter to the press.

First, the prospective increase in the paybill between financial years. In particular cash limits or Votes the actual percentage increase between 1980-81 and 1981-82 in the provision for pay will differ from the announced provision for the increase in earnings from due settlement dates. The number employed may change. In some cases the settlement date is not 1 April, so each financial year will include a period at the rate before and a period at the rate after the due settlement date. In addition, the increase in the provision for pay between 1980-81 and 1981-82 will be affected in some cases by settlements having been staged in 1980-81 with increases paid later than the usual settlement dates, but such staging not being repeated in 1981-82. This last will contribute some 1% to the increase in the total public service paybill between the two years.

Second, staging. The staging of awards has in the past resulted in a higher rate of pay being carried forward into subsequent years than otherwise would have been consistent with the cash limit. This erodes the effectiveness of the cash limit system and confuses the comparisons of the growth of earnings.

The Government therefore thinks it desirable for the future to avoid the delay or staging of awards, and will avoid it where it is itself the employer. If, this general policy notwithstanding, a public services employer were to delay or stage an award, the Government, when setting the relevant cash limits for the subsequent year, would not allow for the element of the award which had only been made compatible with the cash limit by such delay or staging.'

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NOTE FOR EDITORS

The Chancellor confirmed in his statement today that the Rate Support Grant cash limit will allow for a 6% annual increase in earnings from due settlement dates in the current pay round, and for an increase in prices other than pay of 11% between the average levels for 1980-81 and 1981-82. Expenditure in other parts of the public services will be subject through cash limits to broadly the same financial disciplines.

This letter deals with certain aspects of the application of cash limits to pay, to which the Treasury and Civil Service Committee had drawn attention in their Second and Fifth Reports for the Session 1979-80. (HC584 and 730). The letter:-

(i) points out that the percentage increase in the pay bill between two financial years, and for the percentage increase in the cash limit, will not necessarily be the same as the percentage increase in the level of earnings, particularly where the settlement date is in the middle of the financial year;

(ii) explains the way in which cash limits will be calculated where awards have been staged in the past; and

(iii) states that the Government consider that for the future it is desirable to avoid the delay or staging of awards.

INLAND
REVENUE
Press Release

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[1x] 24 November 1980

OIL TAXATION

The Chancellor of the Exchequer announced today in the House of Commons his intention to introduce a supplementary tax on income from UK oil and gas production. He referred also to possible changes in the Petroleum Revenue Tax (PRT) reliefs.

It is proposed that these measures will be introduced in the 1981 Finance Bill and will take effect from 1 January 1981.

PROPOSED NEW TAX

1. It is envisaged that the new tax will be charged at a single rate on the total value of oil and gas produced ("gross revenues") under a UK licence, after deduction of an allowance. It will be computed on a field-by-field basis and will be deductible for PRT and Corporation Tax.

2. An allowance will be deductible from gross revenues: in this respect the new tax will differ from PRT, for which there is a deduction for actual field expenditures incurred and also an "oil allowance". It follows that companies whose field revenues are greater than the allowance may expect to pay the new tax even though they may not yet be liable to pay PRT. The precise form of the allowance will be decided by Ministers in the light of the Inland Revenue's discussions with industry representatives. For illustrative purposes, an allowance equal in value to a fixed amount of oil - or the value of actual production, if less - for each period might be taken as an indication of the type of allowance Ministers have in mind.

Yield and Rate

3. A further £1,000 million revenue in 1981/82 is expected from the oil taxation measures announced today, mostly from the new tax. For illustrative purposes, the new tax charged at a rate of 20 per cent, with an allowance of 1 million tonnes of oil per year might be expected to raise revenues of this order.

REVIEW OF PRT RELIEFS

4. The Chancellor has asked the Inland Revenue to review the

existing PRT reliefs in the light of the changed circumstances since PRT was introduced in 1975. These include changes both in North Sea economics and in the North Sea tax regime itself.

Scope and Progress of the Review

5. The review is concerned with the operation of, and interactions between, the following reliefs: the "uplift" on certain expenditure, the oil allowance and the "safeguard". (Brief details of these reliefs are given in the Annex.) A main purpose of the review is to ensure that the original objectives of the PRT reliefs - including protection of the post-tax returns to fields of lower profitability - are achieved efficiently and economically.

Discussions

6. The Inland Revenue will be in touch with the industry's representative bodies with a view to arranging discussions of the technical aspects of these matters as soon as possible.

ENQUIRIES

7. Enquiries about this press notice should be addressed to The Secretary, Inland Revenue Policy Division 7, (Oil), Room 55a West Wing, Somerset House, London WC2R 1LB - telephone 01 438 6670 or 438 7437 or the Inland Revenue Press Office 01 438 6692 or 01 438 6706.

PETROLEUM REVENUE TAX

PRT is a tax specifically charged on the profits of winning oil and gas under licence in the United Kingdom (or the United Kingdom continental shelf). The charge is on the landed value of oil and gas less the expenses (licence royalties and field costs - including capital expenditure but not interest) incurred in finding, extracting and landing it. The tax is charged on each field separately, currently at a rate of 70 per cent. Apart from the relief for expenditure already mentioned, the following reliefs are given:

UPLIFT

A supplement of 35 per cent is given on certain expenditure (notably expenditure on bringing the field into production).

OIL ALLOWANCE

An oil allowance equal in value to ½ million tonnes of oil (or to PRT profits for the period where less) is given to each field for each six-month chargeable period, subject to a cumulative maximum allowance of 5 million tonnes for each field.

SAFEGUARD

Where PRT profits for any calendar year (before deducting any "upliftable" expenditure - see above) are less than 30 per cent of total "upliftable" expenditure allowed to date, no PRT is charged. Above this level, there is an overriding limit to PRT payable equal to 80 per cent of the excess over 30 per cent of total "upliftable" expenditure.