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E(80) 32nd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 10 SEPTEMBER 1980 at 9.30 am

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 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 Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
(Item 1)

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

The Rt Hon Norman Fowler MP
Minister of Transport
(Item 1)

Mr Paul Channon MP
Minister of State
Civil Service Department
(Item 2)

Viscount Trenchard
Minister of State
Department of Industry

Mr Wyn Roberts MP
Parliamentary Under-Secretary of State, Welsh Office
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore (Item 2)
Mr G D Miles (Item 1)

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1. LOCAL AUTHORITY CURRENT EXPENDITURE: 1980-81

Previous reference: E(80) 24th Meeting, Item 1

The Committee considered memoranda by the Secretary of State for the Environment (E(80) 93) and the Secretary of State for Scotland (E(80) 94) about the revised budgets submitted by local authorities for their current expenditure during the financial year 1980-81 and the steps which might be taken to eliminate overspending.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the original budgets submitted by local authorities in England and Wales in April had forecast expenditure at a level 5.6 per cent over the provision made in the Government's public expenditure plans. Following his call for revised budgets, the forecast excess now totalled only 2.6 per cent (£350 million). Local authorities treated their budgets as cash limits, and on past experience actual expenditure would be somewhat lower than this, perhaps to the point of eliminating the whole of the excess. That experience related mainly, however to periods when there was an expansion of services, and further savings on the scale required would demand a reduction in local authority manpower of 90,000 by the end of the financial year which could not be guaranteed even though an encouraging start had been made. On balance he thought it would be prudent to assume that local authorities were liable to be overspent by about £200 million by the end of the financial year, and be recommended that the Government should now take action on the basis of that expectation. He did not favour cuts in capital programmes, but recommended that the transitional arrangements for reducing the grant available to high-spending authorities should be used; that the urban programme for 1981-82 should be re-ordered, so as to penalise the authorities who were reluctant to reduce their spending, and that there should be an adjustment to the total of Rate Support Grant (RSG) payable to all authorities for the year 1980-81. The adjustment to the RSG should be made on a conditional basis, by withholding £200 million at the first Increase Order stage in November 1980, with an undertaking that the payment could be reinstated in the second Increase Order in November 1981, if the budgeted excess did not in fact materialise. This would provide a massive incentive for local authorities to seek further economies without necessarily damaging those authorities who had made strong efforts to comply with the Government's wishes.

THE SECRETARY OF STATE FOR SCOTLAND said that the revised budgets, or other statements of intent submitted by Scottish authorities, convinced him that the original crude planned excess on current expenditure of 4.9 per cent would ultimately reduce to an expenditure excess of about 2.5 per cent (£40 million). The powers available to him in Scotland differed from those in England and Wales, in that he was able to reduce RSG selectively, where individual authorities had incurred excessive or unreasonable expenditure, although this could only be done on the basis of out-turn figures. He therefore proposed that at the first Increase Order stage £40 million should be withheld from the grant to Scottish authorities, and the second Increase Order stage some or all of this grant would be paid over, depending on the actual overspend which occurred, and that the grant adjustment would be made on a selective basis between authorities.

In discussion the following main points were made -

a. The size of the residual excess of expenditure was difficult to predict. The great majority of authorities were making efforts to achieve reductions. The manpower figures available so far were not a conclusive indicator, since they would not include the change in numbers of teachers and other educational staffs occurring at the beginning of the academic year. Even if the Government now took no action, there might in the event be no overspend; and withholding RSG on the lines proposed would be a blunt instrument, hitting those authorities who had used best endeavours to comply with the Government's wishes as hard as those who had not. On the other hand it was on present information, the latter group who would be hit hardest by the block grant in future years.

b. It was arguable that, if the adjustment to RSG was to be made on a conditional basis, the sum to be withheld should cover the whole of the budgeted excess. If authorities collectively did not overspend, the whole of the money would be released to them in due course, and they would have suffered no penalty, (apart from the loss of interest payments, for which a suitable adjustment might be considered). On the other hand an abatement of the whole budgeted excess would be difficult to defend in the light of the known tendency for some shortfall of expenditure

compared to budgets. To withhold £350 million would therefore be excessive. These were matters of judgement and the proposed cut-back represented a defensible middle position.

c. A local election, or referendum, on the issue of budgets, as discussed in Annex C of E(80) 93, could well lead to perverse results, since industrial ratepayers would not be represented, and the supporters of greater spending might well achieve a higher turnout at the polls than the representatives of ratepayers' interests. These proposals should not be further pursued.

THE PRIME MINISTER, summing up the discussion said that the Committee agreed that the proposals in paragraphs 8 iv. and 8 v. of E(80) 93 dealing with transitional arrangements and the re-ordering of the urban programmes, should be implemented. They also agreed that the RSG for 1980-81 would be abated on a conditional basis at the first Increase Order stage, by £200 million in England and Wales, and by £40 million in Scotland, with an undertaking that further grant would be released at the second Increase Order stage, if this then seemed appropriate in the light of the actual out-turn of expenditure in 1980/81. In Scotland the adjustment of grant would be on a selective basis between authorities, as proposed in E(80) 94. Announcements of the decision should be made on Thursday 18 September by the Secretaries of State for the Environment and for Scotland.

The Committee -

1. Invited the Secretary of State for the Environment to take action under the transitional arrangements for Rate Support Grant allocation, and for re-ordering the urban programme in 1980-82, on the basis proposed in his Memorandum.

2. Agreed that the sums payable under the first Increase Order in respect of 1980-81 Rate Support Grant should be abated by £200 million in England and Wales, and £40 million in Scotland, with an undertaking that the sums might be reinstated at second Increase Order stage, in the light of actual expenditure performance; and agreed that any grant adjustments in Scotland should make use of the selective powers available to the Secretary of State for Scotland.

3. Noted that announcements of these decisions would be made on 18 September, in parallel with the publication of the latest figures for local authority manpower.

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2. BRITISH NATIONAL OIL CORPORATION: REVENUE BONDS SCHEME

Previous reference: E(80) 29th Meeting, Item 3

THE COMMITTEE considered a memorandum by the Secretary of State for Energy (E(80) 95) about possible scheme for the issue of revenue bonds on which the interest would be linked to the level of specified oil revenues of the British National Oil Corporation (BNOC).

THE SECRETARY OF STATE FOR ENERGY said that of the scheme discussed in the report by officials annexed to E(80) 95 he recommended, with the agreement of the Chancellor of the Exchequer, Scheme A which was specifically aimed at the small investor. £500 million revenue bonds would be sold by the Department of National Savings (DNS), probably in the second half of 1981 and with a limit on the amount available to any one purchaser. The capital sum would be risk-free and there would be a floating rate of return linked to revenue from specified BNOC fields. Subject to further examination of the practicalities, the bonds would be tradeable on the Stock Exchange: this would give savers the opportunity of cashing their bonds at a better price than the guaranteed redemption price of par plus interest accumulated. He considered this scheme preferable to the alternative schemes Bond C, which provided for the sale of marketable stock to professional and institutional investors and which would probably attract investment by overseas residents. Although he had no present plans for the issue of equity shares in BNOC's upstream operations, he had considered further the case for taking powers, in the BNOC legislation already planned for the next Session, to enable such issues to be made later if it were so wished. The disadvantage of this course was that it might be criticised both by those opposed to public participation in BNOC and by those who would wish the powers to be used soon. On the other hand he would be ready to argue that, while there was no case for exercising the powers now because of the uncertainties in the oil supply situation and the nature of current participation arrangements, the situation could change, and an opportunity for a measure of privatisation might arise at some later date and should be provided for.

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In discussion the following main points were made -

a. The proposal for revenue bonds did not provide for equity participation in BNOC as had been originally envisaged. The Bonds were in effect a new form of national savings with BNOC's revenues serving as the yardstick for the interest payments. It was uncertain whether this would be a more or less expensive form of borrowing than present instruments. It was nevertheless a way of offering the small investor an attractive form of savings linked to the fortunes of BNOC.

b. If enabling powers were to be taken so that equity shares in BNOC could be issued when opportunity arose, there might be a case when shares came to be issued for redeeming the revenue bonds; in the further work on the details of the scheme, consideration should be given to whether the legislation should provide for this possibility.

c. If the revenue bonds scheme were managed by the DNS they would need, in addition to the temporary staff necessary for the launching, around 100 permanent staff to administer it. The DNS were already planning substantial reductions in their staff numbers but there was a strong case for them absorbing in addition the increase in staff needed for the present proposal.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that Scheme A for revenue bonds should be introduced and enabling powers for equity participation taken. The Secretary of State for Energy should not announce the Government's decision until he had established whether it was practicable for the revenue bonds to be traded on the Stock Exchange, but his aim should be to announce the outcome at the coming Party Conference. The Committee very strongly urged the Chancellor of the Exchequer to arrange for the staff who would be permanently employed on the administration of the scheme to be absorbed within the reducing manpower totals at present planned by the DNS. They accepted that temporary staff would need to be employed to launch the scheme.

The Committee -

1. Agreed to the implementation of revenue bond Scheme A as set out in paragraph 9 of E(80) 95.

2. Agreed to the taking of enabling powers for equity participation and to the legislative proposals in E(80) 95.

3. Invited the Secretary of State for Energy -

i. in consultation with the Chancellor of the Exchequer, to arrange for further work on the details of the scheme, taking into account the points made in discussion;

ii. to consult the Chancellor of the Duchy of Lancaster on the legislative proposals approved;

iii. to announce the Government's proposals after he had established whether the revenue bonds could be traded on the Stock Exchange and, if possible, at the Party Conference beginning on 7 October.

4. Invited the Chancellor of the Exchequer to arrange for the Department of National Savings to absorb, as far as possible, within their present manpower plans the permanent staff who would be employed in administering the revenue bond scheme.

Cabinet Office

11 September 1980