E(80) 25th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 16 JULY 1980 at 11.00 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 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 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

Lord Cockfield
Minister of State, Treasury
(Item 2)

Mr Michael 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

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1. STRATEGY FOR COAL

The Committee considered a memorandum by the Secretary of State for Energy (E(80) 67) on the financial strategy for the National Coal Board (NCB).

THE SECRETARY OF STATE FOR ENERGY said that the agreed financial strategy for the NCB provided for the complete withdrawal of Government operating grants by 1983-84 and for limits on the total external finance available to them in each year. Since the strategy had been approved in October 1979, the task of achieving it had become harder because of the fall in demand for coal. He recommended, nevertheless, that the Government should persevere with the strategy; and should continue to place firmly on the NCB the responsibility for implementing it, and taking the key decisions on closures and on pay. It was important to maintain the NCB's investment programme, and he recommended that it should be approved in full. The achievement of the strategy was of central importance and it should not be put at risk by the imposition of additional requirements on the Board, such as the sale of ancillaries. It would be necessary to settle the Board's External Financing Limit (EFL) for 1981-82 in time to influence the miners' pay negotiations which would begin in September. He recommended that the EFL should be the figure agreed in the strategy for 1981-82 re-valued on a basis to be agreed by his Department and the Treasury. It should not be necessary to impose on the NCB the further requirement of achieving a target related to costs per unit of output.

In discussion the following points were made -

a. While it was essential that the NCB should remain responsible for implementing the strategy, the Government needed a full and quantified assessment of their chances of doing so successfully. This should cover the industry's market prospects, the likely level of their stocks, their assumptions for pay settmements and price increases and the levels of the closure programme which would be needed. It should also assess the possible costs of failure. If the Board could not meet their objectives, and the Government had to provide extra financing, painful offsetting cuts on other programmes would be necessary.

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b. It was premature to accept that there should be no cuts in the NCB's investment programme. Some of this investment was directed to creating new capacity. At a time of falling demand this could be justified only if in parallel the Board were closing high cost, uneconomic pits. If it were accepted that the Board could not simultaneously fight for an acceptable pay settlement in the coming round, and for acceleration of the closure programme, it would be important to assess which of these alternatives was the more important to the financial success of the industry.

c. The sales prospects of the NCB turned in part on the willingness of the Central Electricity Generating Board (CEGB) to maintain their demand for coal and to provide for stocks. The Secretary of State for Energy would cover this question in a memorandum which he would put forward shortly on the options for keeping within the 1980-81 EFL for the electricity industry in England and Wales.

d. To encourage acceptance of closures there could well be a case for considering even more generous redundancy schemes than those at present on offer. Any proposals for changes would however have to take account of their impact on the parallel scheme for steel workers.

e. It would be important over the next few years to insure against the consequences of over reliance on home-produced coal by developing alternative sources of energy and, in particular, facilities for importing coal. Availability of these alternatives, and determination by the CEGB not to contract to buy from the NCB regardless of price, could be an important factor in impressing on the miners the need for restraint in their pay demands.

THE PRIME MINISTER, summing up the discussion, said that while the Committee agreed that the NCB should continue to take full responsibility for implementing the strategy for coal, they wished to have by September a further report from the Secretary of State for Energy covering all the points raised in discussion and providing a comprehensive and quantified assessment of the

NCB's financial outlook on various assumptions about pay and prices in the coming year, the actions the NCB could take to keep within their financial limits, their chances of success, and the possible costs to the Government if they were to fail. In the meantime the Committee were not in a position to take any decisions on the Board's investment programme, their EFL for 1981-82, or the proposal that they should not be subject to an additional target related to costs per unit of output. The question of the disposal of NCB assets should continue to be pursued by the Sub-Committee on the Disposal of Public Sector Assets.

The Committee -

1. Took note with approval of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Energy to circulate early in September a memorandum on the lines indicated by the Prime Minister.

3. Invited the Chancellor of the Exchequer and the Head of the Central Policy Review Staff to send to the Secretary of State for Energy a list of suggested topics and questions which they would wish him to cover in his report.

2. COMPUTERISATION OF PAY AS YOU EARN: PROCUREMENT OF EQUIPMENT

THE COMMITTEE considered memoranda by the Chancellor of the Exchequer and the Lord President of the Council (E(80) 68); the Secretary of State for Industry (E(80) 69); and the Central Policy Review Staff (E(80) 70) on the procurement of computer equipment for the Inland Revenue's Pay As You Earn (PAYE) system.

THE CHANCELLOR OF THE EXCHEQUER said that it had been decided to replace the Inland Revenue's largely manual PAYE system by a computerised system which should be fully operational by April 1987. Under the Government's present computer procurement policy, the contract for £30 million of computer equipment could be offered by single tender to International Computers Limited (ICL), provided that they could give satisfactory assurances of price, delivery and performance. Following detailed appraisals by the Inland Revenue and by the Civil Service Department's Central Computer and Telecommunications Agency (CCTA) he had concluded that ICL could not give these assurances. Unlike their multi-national competitors they could not offer a proven system. It was likely that their involvement would lead to at least a year's delay; and the deferment of staff savings would cost £40 million a year. Even then the system was likely to be less than fully satisfactory in operation, with serious risk of breakdown. This could inhibit changes in tax policy, and any deficiencies would effect 27 million employees and a million employers. With great reluctance he had concluded that the hazards were too great to justify a single tender and he recommended competitive tender, open to all.

THE SECRETARY OF STATE FOR INDUSTRY said that he considered the case to be overwhelming for going to ICL by single tender. The CCTA had now accepted that ICL could provide a system which would meet the requirement. ICL would need until June 1981 to demonstrate their hardware but, apart from that three month period, any further delay would not be the responsibility of ICL. If they were awarded the contract they would work closely with Logica and other United Kingdom systems and software companies. If they were not to be offered single tender, this would be seen as a public expression of lack of Government confidence in the company and it could seriously affect their prospects, and those of other United Kingdom electronics firms, in export markets. An open tender decision would call in question the credibility of the Government's recently launched public purchasing policy, particularly when all of ICL's multi-national competitors had benefited from substantial orders from their own Governments.

In discussion the following points were made -

a. Part of the case against ICL was that they could not offer proven systems for a project of this size and sophistication. They would never be able to do so if the Government failed to support them with orders. Their success and growth in recent years justified such support.

b. It was important to encourage the growth of new United Kingdom companies in the field of information technology, and especially in the development and provision of computer software, in which the United Kingdom now had considerable capacity. If the present contract went to IBM, it was likely that it would insist on building its own software, and United Kingdom firms would fail to benefit from a Government contract worth well over £100 million for computers, terminals and software.

c. It was thought that ICL could not offer a full demonstration of their system until September 1981. Even if this was satisfactory, experience suggested that the introduction of a new system took longer and cost more than a proven system. To choose ICL was thus to risk an inferior and more expensive system, and failures which could affect a high proportion of the population.

THE PRIME MINISTER, summing up the discussion, said that the Committee were not yet in a position to decide between single and competitive tender. They had received conflicting accounts of the technical assessment of the ICL proposals when these were central to the decision which had to be taken. The Lord President of the Council should therefore now arrange for the CCTA to prepare a full and up to date assessment taking account of the suggestions in paragraphs 8 and 9 of the memorandum by the CPRS, E(80) 70, of any other

assessments already available to the Government, and of the points raised in discussion. He should consider whether the Committee might also usefully be provided with a new independent assessment of the options, perhaps from Computer Sciences International.

The Committee -

Invited the Lord President of the Council, in consultation with the Chancellor of the Exchequer, the Secretary of State for Industry and the Head of the Central Policy Review Staff -

a. to arrange for the preparation of a further technical assessment on the lines indicated by the Prime Minister;

b. to consider whether, in addition, an urgent independent assessment could be commissioned;

c. to report further as soon as possible.

Cabinet Office

17 July 1980