

1 MACRO-ECONOMIC POLICY

(i) Economic forecasts

A revised forecast covering 1981-82 and the medium term is now being prepared and will be submitted to Ministers in the first half of January. The policy assumptions to be used in the forecast have been approved by the Chancellor. The next Industry Act forecast will be published at the time of the Budget in the FSBR.

Minister in lead: Chancellor
Official in lead: Mr H P Evans
Interested departments: Bank of England, Inland Revenue,
Customs & Excise

(ii) Budget Starters

An updated list of Budget starters was submitted to the MST(C) on 8 November. The next update will be submitted shortly after the Christmas break, and updated at regular intervals until the Budget.

Minister in lead: MST(C)
Official in lead: Mr Corlett
Interested departments: Inland Revenue, Customs & Excise,
Parliamentary Counsel

(iii) Monetary Targets

On 24 November, the Chancellor announced that the existing monetary target range of 7-11% annual rate from February 1980 to April 1981 would continue, but said he would announce a new target in the Budget. A decision on next year's target range will be needed soon after we have the provisional figures for banking January on 30 January. Discussions will need to begin early in the New Year and a special effort will be made to keep the Bank to the timetable.

Minister in lead: Financial Secretary
Official in lead: Mr Britton/Mr Monck
Interested departments: Bank of England

(iv) Monetary control techniques

Work will be in hand between now and the Budget to follow up the Chancellor's statement on 24 November. The main topics for decision will be the future of the Reserve Asset Ratio, on which interim decisions may be needed by early January, and of alternative prudential arrangements for the banking system; changes in the Bank of England's open market operations and last resort lending; the future of the cash ratio and alternative sources of income for the Bank; and the collection of banking retail deposits figures.

Minister in lead: Chancellor
 Official in lead: Mr Monck/Mr Britton
 Interested departments: Bank of England

(v) Treasury and Civil Service Select Committee

Ministers will need to consider early in the New Year whether there should be a formal Government response to the Select Committee's 18 December report on economic policy and, if so, what form it should take. The Committee will also be publishing a report on its monetary enquiry, probably at the end of January. Again, the Government's response to this will need to be considered.

* | With the monetary enquiry completed, the Committee can be expected to turn its attention to other matters: the long-threatened hearing with officials about the nationalised industries may well materialise and hearings can be expected on the Armstrong Committee's proposals. On the latter, officials have already submitted a draft Treasury response to the Chancellor and it is hoped to get an approved version across to the Committee before Christmas. In the Spring the Committee can be expected to take evidence on general economic policy in the light of the Budget. Advice on this and other Select Committee matters will be submitted as necessary.

Minister in lead: Chancellor
 Official in lead: Mr Unwin

* Now approved by the Chancellor & about to be transmitted to the Treasury Committee.

Unwin
 19/11

2. FINANCE

(i) Indexed gilts

Ministers have discussed the possible introduction of Indexed Pensions Stocks (IPS) but have not reached a conclusion. A decision of principle could be taken on the basis of a paper the Financial Secretary will be putting to the Prime Minister, subject to further work on eligibility and to favourable conditions for an issue.

Minister in lead: Financial Secretary
Official in lead: Mr Monck
Interested departments: Bank of England, Department of Trade,
Inland Revenue, Government Actuary's
Department

(ii) National Savings

Increased reliance on National Savings and the target of £3 billion for 1981-82 will involve further decisions on extending eligibility for the new index-linked issue or on conventional certificates.

Minister in lead: Financial Secretary
Official in lead: Mr Monck
Interested departments: DNS

(iii) Issue of non-marketable stock to the National Debt Commissioners

Details as in previous Report. Submission to Chancellor expected before Christmas.

Minister in lead: Financial Secretary
Official in lead: Mr Monck
Interested departments: Bank of England

(iv) BNOG Revenue Interest Scheme

Mr Howell announced the scheme at the Party Conference in October. A reply is now awaited to the Chancellor's request for Mr Howell's views on marketability following officials' report on this aspect.

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Decisions will have to be reached quite soon to ensure that the bonds can be issued in 1981-82. The scheme is a joint initiative with the Department of Energy.

Minister in lead: Chancellor
Official in lead: Mr Monck
Interested departments: Department of Energy, Inland Revenue, DNS, CSD, Bank of England

(v) Long-term corporate borrowing

A number of proposals have been put forward for encouraging the company sector to switch borrowing from the banks to the bond market. The primary aim would be to ease the serious banking liquidity problem and hence to reduce interest rates for given monetary growth, ^{also} though maturity pattern of the company sector's liabilities might/be improved. The proposals are being considered together under the auspices of WGTS and it is expected a report for Ministers will be ready early in the New Year.

Minister in lead: Chancellor
Official in lead: Mr Middleton
Interested departments: Bank of England, Inland Revenue
Department of Industry

(vi) Deposit Protection Scheme

The issue is whether or not to implement the scheme included in the last Administration's Banking Act. A submission on this should reach the Financial Secretary early in the New Year.

Minister in lead: Financial Secretary
Official in lead: Mr Monck
Interested departments: Bank of England

(vii) £1 coin

Further action, including the possibility of proposals for consultation with interested parties will depend on the outcome of the discussion with the Prime Minister on 16 December.

Minister in lead: Chancellor
Official in lead: Mr Monck
Interested departments: Bank of England, Royal Mint

3 TAX

(i) Tax and Savings

Mr Middleton's Working Group, sitting both with and without outside experts, is considering a number of issues in this area. Their reports are expected to be submitted after Christmas.

Minister in lead: Chancellor
Official in lead: Mr Middleton
Interested departments: Inland Revenue, DOI, DOT, Bank of England

(ii) NIS

The Chancellor announced on 24 November that the rate of NIS from April 1981 will remain unchanged; but employers' payments will rise in cash terms as a result of revalorisation of the NI earnings limits and increased earnings. This does not preclude a mid-year rate change announced in the Budget or during the early summer. A decision will be needed by mid-February.

A report on the scope for making the NIS more flexible in its coverage and speed of change will soon be available.

Minister in lead: Chancellor
Official in lead: Mr Battishill
Interested departments: Treasury (in lead), Inland Revenue, DHSS

(iii) Benefits, taxation and incentives

A further report by a group under Treasury Chairmanship looking into work incentives at the lower end of the income scale and effects, inter alia, of benefits on this, will be submitted to Ministers shortly. The Chancellor has written to the Secretary of State for Social Services proposing a wide look at the interaction of Social Security and taxation systems, with a view to considering, in the first place, whether some kind of "outside" look might be taken at the way the whole system has grown since the war. Following a Treasury study initiated by the Prime Minister, the CPRS have been invited to look into aspects of youth unemployment, with reference, amongst other things, to possible modifications of the Social Security system in this respect, and a report is expected before the Budget.

Minister in lead: Chancellor
 Officials in lead: Mr Battishill, Mr Kemp, Mr Dixon
 Interested departments: DHSS, Inland Revenue, and others

(iv) Heavy fuel oil duty

An inter-departmental group under Treasury Chairmanship is currently studying the implications of abolishing or reducing the heavy fuel oil duty; and whether there is any case for treating differently fuel oil and gas oil. Its report should be available by early in the New Year.

Minister in lead: Chancellor
 Official in lead: Mr Battishill
 Interested departments: Customs & Excise, DOI, DEN.

(v) Bank profits

In the light of the Financial Secretary's meeting with clearing bank chairmen about export credit, Ministers will need to consider whether further action on the bank profits should be taken, eg in the Budget.

Minister in lead: Financial Secretary
 Official in lead: Mr Monck
 Interested departments: Inland Revenue, Bank of England

(vi) Taxation of financial services

An interim report on the scope for extending the tax base in the financial sector, seeking guidance on the direction of future work, will reach Ministers this week.

Minister in lead: Financial Secretary
 Official in lead: Mr Battishill
 Interested departments: Customs & Excise, Inland Revenue, Bank of England

(vii) FASE

FASE, which includes outside experts, has been looking at means to encourage equity investment in small firms. The Chancellor has now

A note
 will
 come
 forward
 to the
 Chancellor
 later
 today.
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authorised confidential discussion with representative bodies on a possible scheme. The Group is intending to look at other related issues (possibly without the outsiders for some of them), including investment through intermediaries.

Minister in lead: Chancellor (Chairman of MISC 14)
Official in lead: Mr Battishill
Interested departments: Inland Revenue, DOI, DOE, CPRS

(viii) Future of domestic rates

Ministers have still to consider collectively whether work on an alternative to domestic rates should be pursued, although this looks increasingly unlikely. Instead, it will probably be necessary to consider ways of making the domestic rating system more tolerable, eg more extensive rebates.

Minister in lead: Chancellor
Official in lead: Mr Battishill, Mr Kitcatt
Interested departments: DOE, WO, SO, Inland Revenue, Customs & Excise

4. PUBLIC EXPENDITURE

(i) Public Expenditure White Paper

A draft of part I, incorporating the planning totals agreed in the 1980 Survey, will be submitted in the second half of January.

The full White Paper will have to be circulated in draft to Cabinet early in February, if it is to be published on Budget Day.

GEP/GEA will report shortly on how we think we can best meet Ministers' wishes for some cash figures for 1981-82 in the White Paper.

Ministers in lead: Chancellor, Chief Secretary
Official in lead: Mr Bridgeman
Interested departments: All

(ii) 1981-82 Main Estimates

The Estimates will be submitted to Ministers for approval in mid-January, for publication on Budget day. The timetable is affected by the need to carry-over cash figures to the White Paper.

Ministers in lead: Chief Secretary, Financial Secretary
Official in lead: Estimates Clerk
Interested departments: All

(iii) 1980 Survey and cash limits

The outstanding issues are:-

(a) the planning totals for the next 3 years. A submission on them will be made in mid-January. Treasury Ministers will need to clear this with Cabinet - hopefully by correspondence.

(b) confirmation of the cash limits factors of 11% and 6%.

Ministers in lead: Chancellor, Chief Secretary
Official in lead: Mr Bridgeman
Interested departments: All

(iv) Follow-up to the 1980 Survey

Groups and the CPRS are considering possible topics for policy reviews following the 1980 survey. Proposals will be put to the Chief Secretary early in the New Year.

Minister in lead: Chief Secretary
Official in lead: Mr Bailey
Interested departments: CPRS, other departments selected for study

(v) Price basis of the survey

Following the Chancellor's meeting on 3 November, officials are doing further work on the 'cost terms' and 'year 1 cash' options. A submission will come forward to Treasury Ministers by mid-January, with a view to putting proposals to departments by the beginning of February so that any changes can be implemented for the 1981 Survey (beginning late March).

Minister in lead: Chancellor
Official in lead: Mr Littler
Interested departments: All

(vi) 1980-81 Spring Supplementary Estimates

These will have to be published in mid-February, slightly earlier than usual if the Budget is on 10 March. They will cover any significant breaches in cash limits, notably Defence.

Minister in lead: Chief Secretary, Financial Secretary
Official in lead: Estimates Clerk
Interested departments: Defence and others (as yet unknown)

(vii) Smoothing the PSBR

The Prime Minister has commissioned further work on this. A report on the tax aspects is expected to be ready in the New Year.

Minister in lead: Chancellor
Official in lead: Mr Battishill
Interested departments: Inland Revenue, Customs & Excise

(viii) Local authority borrowing

An urgent study involving officials from other departments will look at the options for more accurate forecasting and better control of local government borrowing. If possible the report will be available in time to introduce legislation to take effect from 1982-83.

Minister in lead: Financial Secretary
Official in lead: Mr Bailey
Interested departments: DOE, WO, SO, Bank

(ix) Local authority pensions

An inter-departmental study under DOE chairmanship will consider the feasibility and implications of defunding of local authority pensions. No date for completion can yet be forecast, but guidance from Ministers, particularly on the involvement of the Centre for Policy Studies, may be needed before it is finalised.

Minister in lead: Financial Secretary
Official in lead: Mr Kitcatt
Interested departments: DOE, WO, SO, DES, DHSS, DEm, CSD, DTp, GAD, CSO

(x) RSG percentages

A review of the needs and resources of England and of Wales, possibly including Scotland and Northern Ireland as well, should provide an objective method of calculating relative rate support grant percentages. This will be needed in good time to consult local authorities about the recommendations before the RSG settlements next autumn.

Minister in lead: Chief Secretary
Official in lead: Mr Kitcatt
Interested departments: DOE, SO WO

(xi) Defence Policy

Following the £200m public expenditure reductions in 1981-82, 1982-83 and 1983-84, the Defence Secretary will be reviewing the range of defence commitments. He is expected to report his conclusions to OD

early next year.

Minister in lead: Chancellor
Official in lead: Mr Hansford
Interested departments: MOD, FCO

(xii) Defence cash limit

The defence cash limit for 1980-81 is likely to be overspent by perhaps £350m. Discussions are continuing at official level on measures to constrain spending. Treasury Ministers have been kept informed and will be involved when the Defence Secretary seeks Supplementary Estimate provision at the beginning of January.

Minister in lead: Chief Secretary
Official in lead: Mr Hansford
Interested departments: MOD

(xii) A common budget for defence and external affairs

Reports from an official inter-departmental committee (MISC 42) on the possibility of amalgamating the defence, aid and diplomatic budgets, and on a number of minor issues falling in the penumbra between these budgets, have been submitted by Sir Robert Armstrong to the Prime Minister for discussion in due course between her and the Chancellor and the Foreign and Defence Secretaries, if necessary. Advice will be submitted shortly.

Minister in lead: Chancellor
Officials in lead: Mr Hansford, Mr Mountfield
Interested departments: FCO, MOD, Cabinet Office

(xiv) Health

DHSS Ministers propose to publish a Health Strategy Document early in the New Year setting out the Government's long term health priorities. A draft should be circulated shortly. DHSS and Treasury are preparing a paper on longer term health spending policy which should be submitted to Ministers early in the New Year. This will involve longer term questions of the role of private health care and private money in the NHS, and possibly the long term future of charging. A report on improved steps to monitor and encourage

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better efficiency in the NHS should be put to Treasury Ministers around the end of the year. Work continues on ways of bringing the non-cash limited Family Practitioner Service within a cash limit discipline.

Minister in lead: Chief Secretary
Official in lead: Mr Kemp
Interested departments: DHSS, SHHD, WO

(xv) Social Security

Treasury officials are heavily engaged, with DHSS, in ensuring that the Social Security (Contributions) Bill reaches the Statute Book unscathed by the end of January. Detailed Social Security upratings need to be decided prior to the Budget, in the light inter alia of the Budget forecast of price inflation and decisions on tax thresholds. Legislation to recover the 1 per cent excess at November 1981 is in preparation. Legislation is also in preparation for the Employers' Statutory Sick Pay scheme and further decisions may be needed here. Papers concerning a review of the contributory system and reform of housing benefit should be with Ministers over the next month or so.

Ministers in lead: Chancellor, Chief Secretary
Official in lead: Mr Kemp
Interested departments: DHSS principally

(xvi) Civil Service Pensions

The report of the Scott Committee on the value of index-linked pensions is expected shortly, and will call for difficult Ministerial decisions. These will involve not just the position of existing public sector employees but also the continued index-linking of present pensioners. Treasury and CSD officials are tentatively looking at ways in which the cost of the Civil Superannuation could be better brought to the attention of Department managers

Minister in lead: Chancellor
Official in lead: Mr Kemp
Interested departments: CSD and many others

(xvii) Public Service Pay

A group of officials under Mr Ryrie's chairmanship is considering future policy for the determination of public service pay including, in particular, how expenditure considerations can best be brought to bear. A major related issue is the future of Civil Service pay research, on which the Lord President is in the lead.

Minister in lead: Chancellor
Official in lead: Mr Dixon
Interested departments: CSD, CPRS, Employment, Cabinet Office

(xviii) Property Service Agency

Decisions are required on the PSA programme for new capital works to start in 1981-82, following the recent public expenditure cuts. A report by officials under Treasury chairmanship on the possibilities of applying repayment to PSA Services is to be submitted by Sir Derek Rayner to the Prime Minister shortly and may call for further work. Proposals are expected from DOE for the private financing of the cost of the new Conference Centre; it may be that the refurbishment of Richmond Terrace could be funded similarly.

Minister in lead: Chief Secretary
Official in lead: Mr Kemp
Interested departments: PSA, CSD and others

(xix) Other Allied Services

Officials are examining further aspects of the implementation of repayment for COI services, and will be reporting shortly. Officials are also examining aspects of the pricing policy of HMSO. Ministers may be asked to consider aspects of Ordnance Survey, following the Serpell report, with particular reference to the Ordnance Survey's efficiency and the options for improving their self-financing position. Following a meeting between the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster on the one hand, and the House of Commons Commission on the other, efforts may be pressed forward to reduce the costs and increase the efficiency of Parliament.

Ministers in lead: Chancellor, Chief Secretary, Financial Secretary
Official in lead: Mr Kemp
Interested departments: CSD, DOI, DOE

(xx) Inner London Education Authority

H Committee have considered a Report by the Ministerial Committee (IL) advocating the retention of a single authority. Officials in MISC 41 are now re-examining the financial controls over ILEA. Revised proposals are being considered by IL Committee.

Minister in lead: Minister of State (C)
Official in lead: Mr Judd
Interested departments: DES, DOE, HO

(xxi) Schools Expenditure

A working group of Treasury and DES officials has examined the basis of expenditure plans for schools, in relation to the Government's political commitments on education. A report is to be submitted to Ministers before the end of the year.

Minister in lead: Chief Secretary
Official in lead: Mr Judd
Interested departments: DES

(xxii) Arts and Heritage

Treasury are associated with OAL studies into export controls of works of art (cf the Leicester Codex), sales of publicly owned works of art and income producing activities of national institutions. Reports may be coming forward. DOE are reviewing a number of aspects of policy and administration in their Ancient Monuments directorate.

Minister in lead: Chief Secretary
Official in lead: Mr Kemp
Interested departments: OAL, DOE

(xxiii) ITV levy

Home Office preoccupation with the delayed passage of the Broadcasting Bill and the companies' preoccupation with the franchise awards has inhibited progress on the Treasury's proposed two-tier (part revenue, part profits) levy formula. We now also have to deal with the consequences of reversion to Welsh TV broadcasting on the Fourth Channel. The issue is not likely to come to Ministers before the

end of the first quarter, after consultations with the companies.

Minister in lead: Chancellor
Official in lead: Mr Gulvin
Interested departments: Home Office

(xxiv) Satellite television

The Home Office is likely to complete its study of a UK direct broadcasting satellite system and report early in the New Year. The study covers, inter alia, the potential industrial benefits of such a system and the financial and other implications for existing television services: decisions are likely to focus on the balance between these, though it will be necessary to take into account wider resource allocation issues.

Minister in lead: Chancellor, Chief Secretary
Official in lead: Mr Gulvin
Interested departments: Home Office, Department of Industry

(xxv) Data Protection

Pressure is building up, from CPRS, DOI, the Select Committee on Home Affairs, and from outside interests, for legislation to provide protection for personal data stored in, and processed, by, computer systems. There will, however, be costs to central and local government, and to private sector users, and Treasury has been concerned to secure a proper assessment of both costs and benefits. H Committee recently referred the Home Secretary's proposals back for further study. Discussion is likely to drag on into the New Year, possibly leading to the production of a discussion document.

Minister in lead: Chief Secretary
Official in lead: Mr Gulvin
Interested departments: Home Office, CPRS, Industry and Trade, DHSS, Inland Revenue

(xxvi) Review of the Exchequer and Audit Department Acts

The Green Paper on "The Role of the Comptroller and Auditor General" was issued in March 1980. Subsequently the Public Accounts Committee decided to stage their own enquiry. They finished taking evidence at the beginning of December and their report is expected fairly

early in the New Year. Their report will need inter-departmental discussion with the Treasury in the lead. The decisions to be taken by Ministers on the basis of this work will probably lead to legislation in the 1981-82 Session.

Minister in lead: Financial Secretary
Official in lead: Mr Carey
Interested departments: (in principle) all

5 NATIONALISED INDUSTRIES, ENERGY ETC

(i) Nationalised Industry Policy

Continuing work on market borrowing (HF in lead), greater involvement of private capital etc.

Ministers will need to consider again the topic of monitoring nationalised industry pension schemes (perhaps in the light of the Scott Inquiry Report). Work is in hand on efficiency audits (and this links with further work on the role of C & AG).

Minister in lead: Chancellor, Chief Secretary, Financial Secretary
Officials in lead: Mr Ryrie, Mr Burgner
Interested departments: All sponsor Departments, CPRS

(ii) Finances of nationalised industries

1980-81 External Financing Limits. Further recession-induced increases in individual industries' EFLs seem inevitable, in addition to those already agreed for BSC, BS and BRB. Our current estimate is for an aggregate excess of £1 bn (cash).

At this level the excess would be found from the contingency reserve relocated to nationalised industries

Minister in lead: Chief Secretary
Official in lead: Mr Burgner
Interested departments: All sponsor Departments

(iii) Rail Policy Review

Mr Fowler will circulate early in the New Year a paper examining major issues of rail policy and their financial consequences. He will probably seek additional funds for investment, including investment in a major programme of electrification, as well as some increase in support for the subsidised railway if present network and service levels are to be maintained.

Minister in lead: Chief Secretary
Official in lead: Mr Burgner
Interested Departments: Department of Transport

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(iv) British Steel

Mr MacGregor's long-awaited corporate plan is to be published in outline on 12 December, and will come before Ministers for collective consideration in January. Decisions will be needed before the end of January, when BSC run out of cash; a final EFL for 1980-81, and a new EFL for 1981-82, will then need to be set, and other measures consequent on the corporate plan will need to be considered, such as setting a financial target and performance aims, and the case for an interim capital reconstruction.

Minister in lead: Chief Secretary
Official in lead: Mr Burgner
Interested departments: Industry

(v) National Coal Board

Mr Howell will circulate in the New Year a paper indicating the action necessary by the NCB to keep within their financial strategy and agreed public expenditure allocation. This will probably require substantial pit closures (causing particular problems for the regions, especially South Wales) and substantial reductions in the Board's capital programme. Mr Howell may seek some relaxation of the Board's financial strategy (and therefore increase public expenditure in 1981-82 and thereafter) in order to spare the NCB's investment programme from the substantial cuts involved.

Minister in lead: Chief Secretary
Official in lead: Mr Burgner
Interested departments: Dept of Energy & Scottish & Welsh
Offices interested particularly in regional aspects

(vi) Rolls Royce

Ministers have accepted that up to £150 million government finance will be provided to Rolls Royce in 1981 subject to the company's operating plan confirming that the agreed cash ceiling of £200 million will be held. Officials are considering whether there is any scope for savings on other DOI programmes to accommodate some

of the funding requirement; the prospects of finding any savings are bleak.

Minister in lead: Chancellor, Chief Secretary
Official in lead: Mr Hansford
Interested departments: DOI, MOD, Cabinet Office

(vii) Ports

The ports of London and Liverpool face serious financial problems. The port of London already receives financial assistance from the Government in support of a plan to return it to profitability. Its latest results, however, indicate that it is failing to meet its objectives. The port of Liverpool is effectively insolvent and Ministers recently agreed in E(EA) to guarantee a £3 million addition to its overdraft. Decisions on its longer term future were deferred pending a further paper from the Minister of Transport dealing with port finances generally. This is expected to come forward in January.

Minister in lead: Chief Secretary
Official in lead: Mr Burgner
Interested departments: Department of Transport, Employment, Industry, Agriculture and Environment

(viii) Public Sector Asset Disposal (Privatisation)

There is likely to be some shortfall on the 1980/81 target (depending on decision on BAe flotation and progress with New Towns asset sales) Apart from BAe, there are unlikely to be major decisions about flotation in the period up to March.

Minister in lead: Financial Secretary
Official in lead: Mr Burgner
Interested departments: All those responsible for assets being disposed of

(ix) Royal Mint and Bank of England Note Printing Privatisation

The Chief Secretary has been requested by E(DL) Committee to submit a report on the possible privatisation of the Royal Mint and the

Bank of England's banknote printing operations. Aim is for officials to submit papers to the Financial Secretary before Christmas.

Minister in lead: Financial Secretary
Official in lead: Mr Monck
Interested departments: Bank of England, CSD, CPRS, Royal Mint, DOI

(x) Royal Ordnance Factories (Privatisation)

Within MOD, the Study Group chaired by Lord Strathcona in response to the E(EA) remit is expected to put forward recommendations shortly as to the future status of the Royal Ordnance Factories. A similar study is in train on the future of International Military Services Ltd in response to an E(DL) remit.

Ministers in lead: Chief Secretary, Financial Secretary
Official in lead: Mr Hansford
Interested departments: MOD, DOI

(xi) BNOC Privatisation

Mr Howell may seek a collective decision on the use of the powers, which it has been agreed should be included in the forthcoming Petroleum and Continental Shelf Bill to enable equity to be introduced into BNOC's upstream operations. Questions to be decided include the timing of the use, if any, of the powers and the extent of the introduction of equity capital into the Corporation's offshore activities.

Ministers in lead: Chancellor, Financial Secretary
Official in lead: Mr Burgner
Interested departments: Department of Energy

(xii) British Aerospace

It has been announced that BAe will be vested as a limited company on 1 January 1981. Ministers have also agreed that there should be an early reconsideration of the BAe 146 feeder-liner project by

E Committee. The date of flotation remains uncertain. If it has to be delayed by more than about six months after vesting it will be necessary to consider new funding arrangements for the company.

Ministers in lead: Chief Secretary, Financial Secretary
 Official in lead: Mr Hansford
 Interested departments: DOI, MOD

(xiii) Royal Dockyards

The Ministry of Defence will in the New Year put papers to E(EA) on the recommendations of the Speed Report on the future of the Royal Dockyards. Treasury Ministers will be particularly concerned with the recommendation to set up a Trading Fund for the Dockyards.

Minister in lead: Chief Secretary, Financial Secretary
 Official in lead: Mr Hansford
 Interested departments: MOD, CSD

(xiv) Depletion Policy

BP have now submitted an application to the Department of Energy for a consent to increase production from their Forties field - "An upward profile variation". The Treasury interest is that increased production from Forties would increase substantially Government take from the North Sea. The Department are likely to be reluctant to grant the full consent requested. There may need to be a discussion in E Committee if the Chancellor and Mr Howell cannot come to agreement.

Minister in lead: Chancellor
 Official in lead: Mr Middleton
 Interested departments: Department of Energy, Inland Revenue

(xv) Energy Pricing

E Committee have still to discuss in depth Mr Howell's paper on energy pricing (E(80)120 and 128) and the subsequent reports of the CBI and NEDO. There will also need to be discussion of Sir Keith Joseph's proposals to tilt the electricity bulk supply tariff in favour of large industrial users at the expense of other

parts of industry, commercial and domestic users; to subsidise industrial gas prices by increasing domestic prices; and for abolishing the heavy fuel oil duty (on which FP Division are preparing a report in consultation with interested Departments). Reduction in the planned rate of increase in energy prices would have substantial consequences for the PSBR unless offset by other action.

Minister in lead: Chancellor
 Official in lead: Mr Ryrie
 Interested departments: Department of Energy, Industry, Scottish Office (Scottish electricity)

Mr Ryrie has also commissioned a further Treasury look at the question of UK fuel prices in comparison with those in other countries.

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(xvi) Oil prices

There is likely to be an increase in world oil prices some time this month with an increase in North Sea prices almost certainly following. There will also be continuing discussions in eg the IEA about international action to restrain increases in the world oil price. The Treasury interest here is for the increase in world prices to be kept to the minimum but for North Sea prices to be raised to the extent possible without triggering off an increase in the world price of oil.

Minister in lead: Chancellor
 Official in lead: Mr Middleton
 Interested departments: Department of Energy, FCO

(xvii) Fast Breeder Reactor

Mr Howell is likely to put proposals to E either before or after Christmas for collaboration with the French or possibly the Americans on the fast breeder reactors, probably the largest single civil project ever funded from public expenditure. We may advise Treasury Ministers to oppose his proposals because despite the ostensible collaboration proposed, the outcome might be a virtual independent, and enormously expensive, British FBR and because in any event our policy should be licence in the best FBR technology when it is required.

Minister in lead: Chief Secretary
 Official in lead: Mr Burgner
 Interested Departments: Department of Energy, Industry, FCO

6. SUPPLY SIDE

(i) NEDC

Discussion of macro-economic items in NEDC will continue at the February meeting when the Prime Minister will take the chair. The discussion will focus specifically on industrial trends and prospects.

Minister in lead: Chancellor
Official in lead: Mr Dixon
Interested departments: Industry, Trade, Employment, Environment

(ii) Strategy Exercise

Ministers in MISC 14 have agreed that the Strategy exercise should continue, with work increasingly focused on a smaller number of areas of major concern such as the removal of burdens on industry, and ways of improving labour mobility. Reports on these and other items will come to Ministers over the next few months. Where Ministerial decisions are involved, it is likely that the reports will be presented to other Committees, such as E(EA), although MISC 14 will continue to structure the work and act as progress chaser.

Minister in lead: Chancellor
Official in lead: Mr Dixon
Interested departments: CPRS, DOI, DEm, DES, DOT, DOE, Regional Ministers

(iii) Enterprise Zones

Consultations are going ahead with the local authorities responsible for the sites provisionally selected by Ministers for Enterprise Zones. Decisions will need to be reached on the boundaries and planning regime for each zone.

Minister in lead: Chancellor
Official in lead: Mr Dixon
Interested departments: DOE (in lead), DOI, Regional Ministers

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(iv) Loan Guarantee Scheme

Consultations will begin shortly with the Bank, DOI and the clearing banks on a possible loan guarantee scheme. A proposal could be put to Ministers before the Budget.

Minister in lead: Chancellor
Official in lead: Mr Dixon
Interested departments: DOI, Bank

(v) Industrial Training

The MSC is preparing a major consultative document (with which they hope the Government will be associated) on a "new training initiative", which would seek to secure a commitment from the two sides of industry to make major changes in apprenticeship and other forms of training and for the Government to take various measures, including an expansion in vocational preparation for young people. One idea under consideration is that 16-17 year olds might be given special status as "trainees" and, for example, exempted from National Insurance contributions. Mr Prior is also considering publishing a White Paper on training policy in connection with his forthcoming Bill to amend the Employment and Training Act. The remit to the CPRS to study the problems of youth unemployment is also relevant.

Minister in lead: Chief Secretary
Official in lead: Mr Dixon
Interested departments: Employment, Industry, Education, CPRS

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7. PROCEDURE AND ORGANISATION

(i) Parliamentary Supply Procedure

The Select Committee on Procedure will probably be established early in the New Year. It will probably be necessary for the Leader of the House and a Treasury Minister (?Chief Secretary) to give oral evidence. There will also need to be an official background paper, largely prepared by the Treasury. The Cabinet Office propose that work should be co-ordinated through the Ministerial and Official Committees on Procedure.

Minister in lead:	Chief Secretary
Official in lead:	Mr Bridgeman
Interested departments:	Primarily Treasury and Chancellor of the Duchy's Office. But also all major spending departments.

(ii) Review of Treasury/CSD

A report on the feasibility of Treasury/CSD integration has been submitted to the Prime Minister, together with advice from Treasury Ministers and Permanent Secretaries on the policy issues involved. The Prime Minister has now received the views of the Treasury/Civil Service Select Committee. Depending on her decision on the main issue, there may then be decisions to be taken about the process and timetable of implementation: a response to the Treasury/Civil Service Committee will anyway have to be prepared (CSD in the lead) covering their recommendations.

Minister in lead:	Chancellor
Official in lead:	Sir Douglas Wass
Interested departments:	CSD, No 10

(iii) Central Control

Arising out of the reviews of expenditure divisions and other Rayner work, the Chancellor has asked for a note summarising central control responsibilities, for circulation to his colleagues.

Minister in lead:	Chancellor
Official in lead:	Sir Douglas Wass
Interested departments:	CSD, No 10, the rest

The Prime Minister has now decided against merger, though no announcement will be made until the New Year.

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(iv) Manpower cuts

A manpower target for the Chancellor's Departments as a whole has now been made public. The published figure is some 5,000 below the target originally offered by the Chancellor. Ministers are considering how these additional savings might be achieved. The size and phasing of the Treasury's own contribution turns in part on the decision on integration but Ministers will in any case need to consider the future of RGPD (MST(L) has asked for advice from LG on the implications for local authorities), the outcome of the outstanding Sector Reviews (action on these reviews has been held up pending a decision on integration) and the outcome of revisions of supporting services.

Minister in lead:	MST(L)
Officials in lead:	Mr F E R Butler on Treasury numbers Mr McConnachie (Inland Revenue) on co-ordination of Chancellor's Departments
Interested departments:	IR, C&E, DNS, Chancellor's minor departments, CSD

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8 INTERNATIONAL

(i) South Africa

Discussion is likely in OD Committee of our attitude in the event of pressure at the UN for economic sanctions (eg over Namibia)

Minister in lead: Chancellor
Official in lead: Mr Lavelle
Interested departments: FCO (in lead), DOI, DOT

(ii) Energy: talks with the United States

Ministers will be consulted about the possibilities for an exchange of views with US officials on the outlook for oil prices and related matters. The timing will depend mainly on when the new administration is in a position to talk.

Minister in lead: Chancellor
Official in lead: Mr Lavelle
Interested department: D.En, FCO

(iii) Iran

Ministers may need to be consulted on issues arising from the dispute with Iraq, the US freeze of Iranian assets and its possible unwinding, and the sanctions against Iran.

Minister in lead: Chancellor
Official in lead: Mr Lavelle
Interested departments: FCO (in lead), DOT, DOI, Bank

(iv) Exchange Control Powers

Ministers may need to be consulted on issues arising from the proposed inclusion in the next Finance Bill of amendments to the exchange control legislation, to close gaps in existing powers to control inflows.

Minister in lead: Financial Secretary
Official in lead: Mr Lavelle
Interested departments: Bank of England, DOT, DOI, FCO

(v) CAP prices/CAP reform

The Commission have just tabled ideas for introducing a general principle of producer co-responsibility into the CAP. In January they will table proposals for the 1981 price fixing which will presumably incorporate this principle. The UK's negotiating stance will be determined in OD(E). Decisions in Brussels are due by the end of March.

Minister in lead: Chancellor
Official in lead: Mr Lovell
Interested departments: MAFF, CO

(vi) Future policy on the SDR

Between now and the Interim Committee in April, Ministers may need to consider a number of questions related to the SDR, in particular the UK line on a general allocation of SDRs, the proposal that any new issue should be weighted in favour of the developing countries, and whether the substitution account proposals should be revived.

Minister in lead: Chancellor
Official in lead: Mrs Hedley-Miller
Interested departments: Bank of England, FCO, ODA

ITEMS DELETED FROM PREVIOUS NOTE

Health

The response has now been given to the Third Report from the Social Services Committee. The White Paper on the Elderly has now gone into a limbo and is unlikely to surface for some months yet.

Arts and Heritage

A decision has been taken to make a start on the new British Library building. Responsibility for the so-called "douceur" arrangements have been passed to OAL and DOE. The Treasury's Memorandum on Capital Taxation and the Heritage has been issued.

National Insurance and Social Security

Decisions have been taken on National Insurance Contribution rates to take effect from next April. Decisions have also been taken, in the same context, on the future of the Treasury Supplement to the National Insurance Fund. A reply has been given to the Third Report from the Social Services Committee. A White Paper on Frequency of Payment of Social Security Benefits has been published.

Civil Service

A flexible early retirement scheme for civil servants has been approved. Work on improving job prospects for civil servants in London has gone into CSD limbo.

Forestry policy

The Government's general support for expansion of forestry, with particular emphasis on the private sector will be announced to Parliament on 10 December and a Forestry Bill permitting the sale of Forestry Commission assets is about to be introduced.

Common Fisheries Policy

Decisions are expected in the Fisheries Council on 15/16 December.

Foreign Currency Debt

Papers are being submitted

Public Purchasing

E Committee reaffirmed in November the general policy, and agreed future policy on computer procurement.

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PRT

Chancellor made announcement on 24 November.

Business taxation (stock relief)

Chancellor made announcement on 24 November

National Insurance Contributions and Income Tax

Report submitted to MST(L)

Industrial rates

Report submitted to Treasury Ministers

CUSTOMS AND EXCISE ITEMS

(i) Alcoholic Drink Duties: Infraction and Harmonisation

Depending upon the outcome of the EC Fiscal Council on 22 December, the outstanding Infraction proceedings before the European Court on the UK duties on beer and table wine are likely to require further Ministerial consideration in the context of the Budget.

Minister in lead: MST(C)
Official in lead: Mr Freedman
Interested departments: Treasury, MAFF, FCO, Cabinet Office, Health Departments

(ii) Cigarette tax harmonisation

Negotiations are likely during the first part of 1981 on a possible further stage of harmonisation of cigarette taxation in relation to the specific proportion of total taxation on cigarettes and on the continuation of the UK derogation allowing a surcharge on health grounds on higher tar cigarettes.

Minister in lead: MST(C)
Official in lead: Mr Freedman
Interested departments: Treasury, DOI, Health Departments, FCO, Cabinet Office

(iii) Excise duty warehousing of wine and spirits

Two reports, one of them the result of a Rayner exercise, have recommended a number of changes in revenue controls at warehouses and distilleries. Opposition is expected from the Trade Union Side and, to a lesser extent, from trade associations. We expect to report to Ministers with our recommendations in January/February 1981.

Minister in lead: MST(L)
Official in lead: Mr Freedman
Interested departments: Health Departments, MAFF, CSD

(iv) VAT liability of supplies by the Construction Industry

The inadequacies in present VAT liability law affecting supplies by the construction industry have become increasingly recognised and the subject of growing public criticism over recent years. Continuing effective operation and control of the tax in this area is now coming into question. The recommendations of an earlier policy review will very shortly be updated and re-presented.

Minister in lead: MST(C)
Official in lead: Mr Scholes
Interested departments: DOE, Treasury

(v) Review of VAT second-hand schemes

Following a decision of the House of Lords in the Corbitt case Customs and Excise are reviewing the treatment of second-hand goods.

Minister in lead: MST(C)
Official in lead: Mr Scholes

(vi) Review of appealability of discretionary decisions in VAT

As a result of the House of Lords decision in the Corbitt case Customs and Excise are also reviewing the appealability of discretionary decisions in VAT.

Minister in lead: MST(C)
Official in lead: Mr Scholes

(vii) VAT registration and deregistration

It will be necessary to consider for the 1981 Finance Bill whether the VAT registration and deregistration limits should be revalorised. At the same time certain other minor registration changes will be proposed to Ministers.

Minister in lead: MST(C)
Official in lead: Mrs Strachan
Interested departments: Treasury

(viii) Possible extension of car tax

A proposal to extend car tax to include motor cycles has been submitted. An inter-departmental review of the possibility of extending car tax to caravans is currently in hand.

Minister in lead: MST(C)
Official in lead: Mr Scholes
Interested departments: Treasury, Department of Transport, DOI