

Briefing Note

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WIDER OWNERSHIP: THE GOVERNMENT'S ACHIEVEMENT

The Conservative Government came to office pledged to achieve wider ownership as the basis of a property owning democracy. The 1979 General Election Manifesto said:

"Unlike Labour, we want more people to have the security and satisfaction of owning property...We will expand and build on existing schemes for encouraging employee share-ownership and our tax policies generally will provide incentive to save and build up capital."

These pledges have been implemented in three main areas:

1. Home Ownership. The Conservative goal of a property owning democracy is being achieved most significantly through the sale of their homes to public sector tenants. The 1980 Housing Act gave council tenants, new town tenants, and the tenants of non-charitable housing associations the right to buy their houses or flats and the right to a mortgage. Those tenants unable to afford to buy outright can purchase a two year option to buy at the original price. If at the end of that time they are still unable to buy, they have a right to buy their public sector home on a shared-ownership basis, again at the original price.

The Government has also assisted home ownership in other ways - over and above the general beneficial effect of exerting downward pressure on interest rates through the pursuit of prudent fiscal policies. The sale of publicly owned land for starter homes, partnership schemes between local authorities and private housebuilders, grants for improvement for sale, homesteading and shared ownership schemes: all are further means of encouraging home ownership.

Already about a quarter of a million families have bought their council and new town homes. A further 350,000 'right to buy' applications have been accepted. Some two-thirds of local housing authorities have said that they intend to pursue one or more of the further schemes to help low income families acquire the capital stake which owning a home represents.

2. Employee Share Ownership. It is becoming more widely recognised among employees that they share with their employers a vital interest in the success of the firms in which they work. The Government is keen to encourage this trend, and in particular to encourage employee share ownership.

i) The provisions of the Labour Government's 1978 profit sharing legislation have been made significantly more generous. The value of shares which can be allocated to any one participant in a single year has been increased from £500 to £1250. The period during which the shares must be held in trust has been reduced from five years to two, and the time after which they can be drawn out free of income tax has been reduced from ten years to seven.

ii) In 1980, the Government introduced new tax reliefs for participants in approved savings related share option schemes. An employee of a company running such a scheme can be given an option to buy shares at a special price which must be not less than 90% of the value of the shares at that time. In 1982, a new relief was introduced: this enables directors and employees who face an income tax charge on exercising a share option outside a 1980 approved scheme to pay their tax bill by instalments over three years, instead of in a lump sum.

iii) The 1981 Companies Act provisions enabling companies to repurchase their own shares - reinforced by the tax provisions in the 1982 Finance Act - will encourage share ownership by making employees' shares in small companies more marketable.

Employee share schemes have a longer history in some other European countries and in the USA than here; and in France, for example, there is a compulsory element. However, considering the relative novelty of such schemes in Britain progress under this Government has been considerable. Over 470 approved profit sharing and share option schemes are now in operation, compared with only 30 in May 1979. They cover over 270,000 employees. When one considers that before these developments, there were only about 1,500,000 individual share holders in the UK, that is a major achievement. Moreover, despite the effect of the recession on company profits, shares worth over £30 million were given to employees participating in profit sharing schemes in the year to April 1980, and a further £50 million worth in the year to April 1981.

3. Privatisation and Employee Share-Ownership. The Government's measures to achieve real public ownership - that is ownership by the public, not by the State - have been accompanied by the promotion of share ownership by employees in enterprises returned to the private sector. This has been accomplished by:

(a) Giving employees preference in the allocation of shares (as in British Aerospace, Cable and Wireless, BP and Amersham).

(b) Making free offers of shares (as in British Aerospace, Cable and Wireless and Amersham).

(c) Making provision for matching shares. In the equity sales of British Aerospace, BP, Ferranti and Amersham, for every share an employee bought and put in a trust he or she was given another; the trusts were drawn up to meet the tax relief conditions on profit sharing made in the 1978 Finance Act - see above

(d) Establishing savings-related share option schemes (in the BP, Ferranti and Amersham sales).

(e) Selling the National Freight Company to a consortium of its managers and employees.

The results have been encouraging. Shares were acquired by almost all employees of Cable and Wireless and Amersham International, nearly 90% of those of British Aerospace, 43% of those of BP, and 18% of those of Ferranti. Plans have been announced to introduce private capital into a number of other major public sector concerns, including the oil production part of BNOC and British Telecom.

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