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E(81) 29th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 23 SEPTEMBER 1981 at 3.00 pm

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 Keith Joseph MP
Secretary of State for Education and
Science

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

Mr Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP ✓
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP ✓
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Lord Privy Seal
(Item 3)

The Rt Hon Norman Fowler MP ✓
Secretary of State for Social Services

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The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Rt Hon Tom King MP
Minister of State, Department of the
Environment (Minister for Local
Government and Environmental Services)
(Item 1)

The Rt Hon Sally Oppenheim MP
Minister of State, Department of
Trade (Minister for Consumer Affairs)
(Items 2 and 3)

Mr Malcolm Rifkind MP
Parliamentary Under-Secretary of
State, Scottish Office
(Item 1)

Mr J R Ibbs
Central Policy
Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

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HOTOCOPYING WORK

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- 1. Mr Gregson ^{RG}
- 2. Sir Robert Armstrong ^{RA}

E MEETING MINUTES (23/9/81)

DJLM 24/9/81

ITEM 1

LOCAL AUTHORITY RATES

Previous Reference:
E(81)27th Meeting,
Item 1.

THE COMMITTEE considered a memorandum by the Secretary of State for the Environment (E(81)93) on measures to improve the accountability for the levying of rates by local authorities in England and Wales, and a memorandum by the Secretary of State for Scotland (E(81)90) proposing similar measures for application to the Scottish local authorities.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Committee had asked him to make recommendations on how to give effect to their decision that any ^{second} supplementary rate increases proposed by a local authority should be subject to a mandatory referendum. He recommended that the question to be asked should be specified in the legislation and that it might be in the form 'do you agree that a supplementary rate of - p should be levied?'. The local authority would be free to issue separately, if they wished, a leaflet explaining why they needed the money and they should be required to finance the largest opposition party in printing and posting a leaflet opposing the proposal. If the referendum were favourable, the council could then levy a rate or precept no higher than that specified in the referendum. If the referendum were not approved, the council might be able to trim its expenditure to meet its revenue but, since by then it would be November, it was more likely that the council would find it impracticable to make sufficient economies in the remaining months of the financial year. In that event, he recommended that he

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should ^{be empowered to} grant temporary borrowing approval sufficient ^{for the council} only to meet its committed expenditure and that, to prevent the problem recurring in the following year, ~~that~~ he should have powers to prevent the authority from making the rate for that year before he had approved its budget. He ~~said~~ ^{feared however,} that this procedure could be exploited by hostile local authorities who would seek confrontation with the Government over details ^{about} ~~over~~ which Departments had little information and over the priorities to be given to services for which several Secretaries of State were responsible. ^{foreign countries} A controlling party, which had lost a referendum vote, ^{might} ~~could~~ resign its committee chairmanships and then make it impossible for the minority opposition party to carry on business. In view of these difficulties, his strong preference was to make the second supplementary rate subject to re-election of the council rather than to referendum.

THE SECRETARY OF STATE FOR SCOTLAND said that he proposed that he should include in the Local Government and Planning (Scotland) Bill provisions to enable him to intervene in the rate fixing process. If he were satisfied that, in determining its rate poundage, ^{Scottish} an authority had planned for an excessive and unreasonable level of expenditure he would direct it to use from the start of the financial year a lower rate of a prescribed amount. This lower rate would stand throughout the year unless a proposal to re-adopt ^{the} higher rate were endorsed by a referendum by 31 July. This new power, which was unlikely to be effective before 1983-84, would supplement his present powers to reduce Rate Support Grant to individual authorities; If necessary he could make use of both powers in dealing with an authority during the year.

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~~on~~

In discussion the following ~~were the~~ main points ~~made~~
*were made on the Secretary of State for the Environment's proposals for
England and Wales;*

(a) It was generally agreed that, for the reasons advanced at the Committee's earlier discussion, it was preferable to make the second supplementary rate subject to referendum rather than re-election of the council. While there were undoubtedly risks that referenda could ~~in some cases~~ lead to difficult confrontations between the Government and a local authority, the problems ~~were~~ ^{would} not necessarily ^{be} so acute as envisaged by the Secretary of State for the Environment. Lothian Regional Council had just decided to make the full £30 million cut demanded of them, and to find the necessary savings in the rest of the financial year without compulsory redundancies or other painful consequences which they had hitherto claimed would follow. ~~Since~~ The new system, taken together with the detailed arrangements which ~~would~~ ^{would} be incorporated into the Rate Support Grant settlement, ~~were~~ ^{were} ~~designed~~ ^{so} to act primarily as a deterrent; ^{and so} relatively few local authorities would in practice reach the point of having to submit their proposals to referendum.

(b) Rather than ~~incur the difficulties of~~ providing for the Secretary of State to approve the budget of a local authority which, in the previous year, had been permitted temporary borrowing following a referendum, it might be better to provide in the legislation for ~~an~~ automatic formula to limit the second year budget of any authority which lost a referendum in the first year; If the limit were imposed automatically

*The Secretary of State for Wales
had made one detailed
suggestion on this line
in his letter of*

*22 September to the Secretary of
State for the Environment*

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in this way, the Secretary of State could avoid the problem of having to make a detailed scrutiny of individual local authority budgets prior to exercising his discretion on the total to be approved. The possible disadvantage of ~~this course~~ was that an automatic formula would not be suitable for dealing with the exceptional circumstances which could arise in any of the 413 local authorities in England.

(c) Care should be taken to ensure ^{so far as possible} that the procedures under which the majority party and the opposition ^{have} gave ^{their} views on the issue subject to referendum ~~was~~ not such as to invite ^{protracted} ~~wrangles~~ ^{and delays}. In spite of the potential difficulties, it was nevertheless right that where a local authority circulated their views, possibly in the same envelope as the literature on the referendum, there should be provision for the opposition views to be similarly printed and circulated.

argued during the passage of the Bill and subsequently.

(d) Further consideration should be given to whether councillors might be liable to surcharge during the year a referendum took place. This might be possible if they were required to authorise the commitment of expenditure only to the extent that they could be confident of financing it; ^{it was arguable that} ~~that is,~~ they would not be able to authorise expenditure without risking surcharge, in the hope that ~~it~~ ^{they} could be financed from the proceeds of ^{the} ~~the~~ second supplementary rate approved in a referendum.

THE PRIME MINISTER, summing up the discussion, said that the Committee confirmed their decision that the second supplementary rate should be

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subject to referendum rather than to re-election of the council. They agreed that the question should be specified in legislation and that it should be made clear that it referred to the second supplementary rate. A local authority distributing leaflets setting out its case for the increased expenditure and rates should be required to provide for the similar distribution of opposition views, ~~the Secretary of State for the Environment and the Paymaster General should consider the details of this further.~~ If the referendum were not approved, the Committee agreed that the Secretary of State should have powers to grant temporary borrowing approval, where necessary, sufficient to meet ~~the~~ local authority's committed expenditure. There would be formidable problems in ensuring the passage of the Bill through both Houses of Parliament in time for the measures to be effective in 1982-83, and the Secretary of State for the Environment should, ~~therefore,~~ ensure that the Bill was introduced on the first day possible in the new Session of Parliament.

THE COMMITTEE -

1. Invited the Secretary of State for the Environment:

- (i) to announce, as soon as possible, ^{the Government's intention} ~~their decision~~ to introduce a Bill to provide for interim rating measures, including a provision for referenda on any proposals for second supplementary rates, to take effect in England and Wales in the financial year 1982-83.

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(ii) To decide, in consultation with the Paymaster General, the ^{precise} method of giving effect to the ~~the~~ decision that local authorities publishing their reasons for proposing the rate increase should also provide for the distribution of a statement of the opposing views.

(iii) To consider further, with the Secretary of State for Wales, and with the Chief Secretary, Treasury, whether it would be better to control the following year's budget of an authority which had lost a referendum by the method proposed in E(81)93 or by that proposed by the Secretary of State for Wales in his letter of 22 September.

(iv) To consider further, with the Chief Secretary, Treasury, and the Attorney General, the possibilities for making councillors subject to surcharge for excessive expenditure incurred in the financial year in which a referendum took place.

(v) To consider urgently, with ~~the Lord Chancellor,~~ the Attorney General and with the business managers, the advice on the timing of the Bill given to him by the Attorney General in his letter of 21 September and by the Lord Chancellor in his letter of 22 September.

(vi) To take account, in formulating his detailed proposals, of the other points made by the Prime Minister in her summing up of their discussion.

2. Approved the proposals made by the Secretary of State for Scotland in E(81)90.

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5pm

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1. Mr Gregson
2. Sir Robert Armstrong

RP
24/5

DJM.
DJLM 24/9/81

E MINUTES - 23/9/81

Mr [unclear] has a copy of this. He will need to consider urgently whether it is possible both to recruit an expert and to complete the exercise by 2 October. The answer is probably No but the Treasury will be upset if there are delays; they want to take the NI figures on board for their public expenditure paper for 20 October.

ITEM 2
NATIONALISED INDUSTRIES:
1981 INVESTMENT AND
FINANCING REVIEW.

THE COMMITTEE considered a memorandum by the Chief Secretary, Treasury, (E(81)92) on the 1981 Investment and Financing Review of the Nationalised Industries.

Previous Reference:
E(81)26th Meeting,
Item 1.

THE CHIEF SECRETARY, TREASURY, said that the Committee had agreed at their meeting on 31 July that the nationalised industries should be asked to find savings sufficient to eliminate the total provision for their External Financing shown in the 1981 Public Expenditure White Paper, Cmnd 8175, adjusted by the addition of £750 million from the Contingency Reserve in each of the three years starting in 1982-83. The response of the industries had varied considerably, but the total of their net savings so far agreed was severely disappointing: there remained total excesses of £1309 million in 1982-83 rising to £1971 million in 1984-85. It was unsatisfactory that, of those savings agreed, less than half represented reductions in working capital and in current costs. Annex B to his memorandum showed that the industries were still assuming a general level of pay settlements considerably in excess of the 4 per cent pay factor which had been announced for cash limits in the public services, and, in a number of cases, of settlements in double figures. ~~Sponsor~~ Ministers had already been asked to approach chairmen on the question of their pay assumptions. He recommended that sponsor Ministers should now hold ^{further} urgent discussions with their industries with a view to securing the additional savings necessary, in

assumptions in several industries, for example British Shipbuilders, appeared to take little account of the realities of their competitive position

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would have particularly harmful consequences for the private sector.

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particular reductions in the ~~current~~ assumptions adopted ~~on~~ pay, and to report the outcome to him by 2 October.

In doing so they should remind the industries that without detailed plans for reducing their bids as indicated the Government would, as the Committee had agreed at their last discussion, hold back investment approvals beyond the levels approved last year. While the Government did not want to cut back on investment, the onus was on the nationalised industries to find other savings to prevent this from happening.

THE SECRETARY OF STATE FOR ENERGY said that, as their oil producing business was to be privatised in 1982-83, the ~~External~~ Financing of the British National Oil Corporation should no longer be shown in Public Expenditure White Papers. The figures for the National Coal Board ~~was~~ ^{were} still uncertain but good progress was being made in agreeing savings in the two later years. He expected that both the British Gas Corporation (BGC) and the Electricity Supply Industry (ESI) would agree to ^{a figure for the assumption on} lower pay settlements. BGC should find ~~the~~ savings to bring them close to their target for 1982-83, but they could ~~only~~ close the gap in the two later years ~~if~~ ^{only if} legislation were enacted in time to enable him to direct them ~~Corporation~~ to sell their oil assets. He expected to secure substantial further economies in the electricity industry, and he would look ^{again} ~~further~~ at the possibilities for disposals, it would not be practicable, however, to eliminate the excess for this industry; ^{their investment was largely in their nuclear} programme which should not be cut.

THE SECRETARY OF STATE FOR INDUSTRY said that ~~he~~ acknowledged that the position of British Telecoms was unsatisfactory. The pay assumption of 11 per cent was unacceptable, and this had already been made clear to the Chairman, Sir George Jefferson. A cut in the telecommunications investment programme would have particularly harmful consequences for the private sector.

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THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that sponsor Ministers should hold urgent discussions with their industries with a view to securing the additional savings shown in E(81)92, ~~in particular reduction in the current assumptions adopted on pay,~~ and to report the outcome to the Chief Secretary by 2 October. The Chief Secretary could then take account of the outcome in making his proposals for the public expenditure exercise as a whole which the Cabinet would start to discuss on 20 October. The Committee had noted the position in the industries for which the Secretary of State for Energy ~~was~~ responsible and that other sponsor Ministers were pressing their industries for further savings; it could be assumed that the Chairman of British Airways would do all that was possible to secure the maximum savings in his industry. It was particularly important that sponsor Ministers should continue to urge the chairmen to adopt lower assumptions for pay settlements. It ~~would~~ ^{might} be helpful if ~~Ministers could~~ ^{it were possible to arrange for Ministers to} be supported in their further discussions with the chairmen by an advisor^e, with suitable industrial and financial expertise, who could attend all the meetings with the main industries. The Head of the Central Policy Review Staff (CPRS) should consider urgently whether a suitable candidate could be found and whether he could make an effective contribution within the time available. The present exercise to find savings illustrated a number of general problems in the relationship between the Government and the nationalised industries; Ministers would consider these again in their further discussions of the CPRS ~~report~~ ^{the CPRS} on the nationalised industries and of the report which ~~they~~ ^{the CPRS} were now preparing on ~~monetary~~ ^{monitoring} arrangements.

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The Head of the CPRS should also report on the progress being made in the use of the outside consultants Maynard and Barry.

THE COMMITTEE -

1. Invited the Head of the Central Policy Review Staff:

(i) to advise urgently on the possibilities for appointing an assessor to assist sponsoring Ministers in their further discussions with their industries and on the practicability of his making an effective contribution within the time-scale envisaged.

(ii) To report on progress in the use being made, in investigations of nationalised industries' efficiency, of the consultants Maynard and Barry.

2. Agreed that, subject to the outcome of 1(i) above sponsor Ministers should hold urgent discussions with their industries with a view to securing the additional savings shown in E(81)92, in particular by reductions in the assumptions for pay, and to report the outcome to the Chief Secretary, Treasury, by 2 October.

2-308
5pm
E(81)29th Minutes: 23.9.81

RWA

3. HEAVIER LORRIES: THE ARMITAGE REPORT

THE COMMITTEE discussed a Memorandum by the Secretary of State for Transport (E(81)91) on proposals to increase maximum lorry weights, together with a package of environmental measures, in response to the Armitage Report on Lorries, People, and the Environment.

THE SECRETARY OF STATE FOR TRANSPORT said that the Government had already announced, in reply to a Supply Day Debate on 17 June, that it did not accept Armitage's recommendation that the maximum lorry weight on 6 axles should be increased to 44 tonnes. He now proposed that maximum lorry weights should be increased up to 40 tonnes on 5 axles, but that the weight limit for 4 axle lorries should remain at 32.5 tonnes and should not be increased to 34 tonnes as Armitage had recommended, because of the increased road damage this would cause. It was recognised that even these proposals would meet opposition in many quarters, including some of the Government's own supporters. It had therefore been agreed in earlier discussions in the Ministerial Sub-Committee on Economic Affairs in July that any announcement about increased lorry weights should form part of a package of measures designed to reduce the impact of lorries on the environment. He had listed a number of these measures in his memorandum, notably the construction of more by-passes, reductions in lorry noise by the end of the decade and a new research and development programme to develop quieter and cleaner lorries. In addition the Government should stress the economic case for using lorries more productively, which was one of the few measures which the Government could take to help industry significantly without incurring any further public expenditure.

The following were the main points made in discussion -

- a. The economic benefits of raising the limits for 4 axle vehicles from 32.5 to 34 tonnes were considerable for the United Kingdom's transport and shipping industries, since this would enable containers to be packed more fully. Although the addition of this proposal would increase opposition and there would be more road damage, the Armitage Report had, in an objective and independent assessment, reached the conclusion that the balance of costs and benefits was in favour of making the increase.
- b. The implications of the proposed maximum weights for UK lorry manufacturers needed to be considered carefully; however it seemed likely that the effects of the proposed increases for both 4 axle and 5 axle vehicles would be neutral in that respect.
- c. The environmental package was in general on the right lines but the presentation would need to be improved. There appeared to be little point in increasing the maximum rate of grant under Section 8 of the 1974 Railways Act from 50 per cent to 60 per cent when no additional resources were available for the scheme. The most important proposals were those relating to new by-passes. It would be helpful if this section could be strengthened by looking even further ahead and listing a few more by-passes which might be built eventually. The proposal for double glazing in "lorry action areas" was worth serious consideration but there was the risk that the costs of such a scheme would be excessive.
- d. There was already concern about the ability of some of the major estuarial bridges, notably the Severn Bridge, to withstand present day heavy traffic. It would be unfortunate if the increase

in maximum lorry weights was seen as aggravating these problems. It was however clear that extensive work on the strengthening of the Severn Bridge would be necessary whether or not maximum lorry weights were increased.

e. The timing of an announcement needed to be looked at in relation to the development of proposals by the European Commission. It was undesirable that increases in lorry weights should be seen as a measure imposed on the United Kingdom by membership of the European Community. The balance of advantage appeared to favour the publication of the United Kingdom's own firm proposals in advance of agreed EC measures.

f. A strong reaction could be expected from some of the Government's supporters in the House of Commons, particularly if the proposal for increasing the weight limit for 4 axle vehicles to 34 tonnes was included, but this could be mitigated if care was taken, in advance of publication of the proposals, to explain their rationale to appropriate backbenchers. Although heavier lorries would mean fewer jobs for lorry drivers, there were considerable net benefits for industry and employment; it was to be hoped that some sectors which would benefit particularly, for example the food manufacturing industry, would campaign vigorously in support of the proposals.

THE PRIME MINISTER, summing up the discussion, said that the balance of argument was in favour of not only increasing the maximum weight for 5 axle lorries to 40 tonnes, but also increasing the maximum weight for 4 axle lorries to 34 tonnes. Depending on the reception of the proposals, the Government might wish to reconsider whether a concession should be made on this latter point but only after those who would benefit economically from the proposal had had an opportunity to argue

the case for it. The package of environmental measures should be revised by making the presentation in general as positive as possible, by deleting the proposed increase in the rate of grant under Section 8 of the 1974 Railways Act and by listing a few more by-passes; this might be done by drawing attention to some by-passes built recently, by listing proposed by-passes which might be built within a longer time scale, ^{and} ~~or~~, if this proved possible, by adding some additional projects which could be undertaken in areas of high unemployment by re-ordering priorities within existing public expenditure ceilings. The aim should be to publish the proposals in a White Paper, together with draft amending regulations, in November so as to give time for adequate briefing of Government backbenchers but to forestall the promulgation of agreed EC measures.

THE COMMITTEE -

1. Agreed that the Government should announce its intention to increase maximum lorry weights to 34 tonnes for 4 axle vehicles and to 40 tonnes for 5 axle vehicles, and that the announcement should be accompanied by a package of environmental measures as revised in the light of the Prime Minister's summing up.
2. Invited the Secretary of State for Transport -
 - i. To arrange, in consultation with other Ministers concerned, for the publication of a White Paper setting out the Government's proposals, together with draft amending regulations, in November.
 - ii. To consider, in consultation with the Chief Whip, how the thinking behind the Government's proposals might best be explained to the Government's supporters in the House of Commons before publication of the White Paper.

C.O.
25 September 1981