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E(82) 4th Meeting COPY NO 66

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 9 FEBRUARY 1982 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

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 Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Britann QC MP
Chief Scretary, Treasury

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 1)

The Rt Hon Humphrey Atkins MP
Lord Privy Seal

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
(Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury
(Item 1)

The Rt Hon Nicholas Ridley MP
Financial Secretary, Treasury
(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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1. ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

The Committee considered a memorandum by the Chancellor of the Exchequer (E(82) 8) on the role of the Comptroller and Auditor General (C & AG).

THE CHANCELLOR OF THE EXCHEQUER said that the Government's White Paper on the role of the C & AG (Cmnd 8323) had been severely criticised by Members on both sides of the House of Commons when it was debated on 30 November 1981. Subsequently Mr Joel Barnett MP and Mr Edward du Cann MP had put down an Early Day Motion supporting the Report of the Public Accounts Committee (PAC) and calling on the Government to reconsider its position. This motion had attracted substantial support and the Government now needed to make further proposals which would avoid concessions on important points of principle while moving sufficiently to hold the Government's supporters in the House of Commons. As a basis for further discussions, he had prepared the draft statement at Annex A of E(82) 8. This re-asserted the important principle that the C & AG's responsibilities, and PAC inquiries, should not extend beyond the range of Ministerial responsibility; it was on the assumption that the Government would not offer legislation to provide for statutory changes in the present arrangements. He proposed, that the Government should now accept that the C & AG should be made responsible to the House, through the PAC, and that there should be an undertaking that, in the event of legislation, the Government would be prepared to make the C & AG directly accountable to the House. This move would have the advantage of being welcome to the critics of the Government's present policy, but it represented a substantial shift from the stance previously taken by the Government, and by the C & AG himself. It could compromise the C & AG's independence by exposing him to direction by the House of Commons; and it could lead to requests from other Committees of the House that the C & AG should undertake investigations on their behalf. He recommended that it should be made clear that the Government re-affirmed its intention that the Prime Minister should consult the Chairman of the PAC before advising The Queen on the appointment of a new C & AG. Staff of the Exchequer and Audit Department (E & AD) would continue to be civil servants but they were exempted from the current Civil Service manpower cuts. Assurances would be given that pending amending legislation the Treasury would exercise its powers under the Exchequer and Audit Act 1921 to extend the range of the C & AG's audits in consultation

with the PAC. The PAC's proposal that the Treasury should appoint auditors for the E & AD would be accepted. He recommended that the Government should welcome systematic hearings by Select Committees on nationalised industry questions on the understanding that the industries would not be subjected to a multiplicity of inquiries by different Select Committees. The statement would confirm the Government's view that enquiries by the Monopolies and Merger Commission (MMC) were the most effective way of examining efficiency in the nationalised industries; it would indicate that the Government was willing to consult the PAC about the programme of references to the MMC and that it would welcome action by the PAC to assist in the follow-up to MMC reports. He invited the Committee to agree that he should open discussions on this basis with Mr du Cann and Mr Barnett.

In discussion the following were the main points made -

a. The proposal that the C & AG should be made directly accountable to the House was ill-defined and would lead to an unacceptable constraint on his independence and an unwelcome extension of the scope and nature of his investigations. It was inconsistent with the Government's view, published in the Green Paper of 1980 (Cmnd 7845), that independence in the exercise of his responsibilities, and in deciding on the disposition of his staff resources and on audit priorities, was of fundamental importance to a national auditor; and that the nature and balance of the C & AG's work under the statutes should not be subject to direction from any quarter. If the C & AG were to be made directly accountable to the House it would then be difficult not to accept, contrary to the Chancellor of the Exchequer's recommendations, that he should be appointed by the House and staff of the E & AD made servants of the House. Any such change would diminish his standing and profoundly affect his relationship with the Executive. If the C & AG were to be directed to help other committees of the House, and to make use of his rights of access to departmental papers, he would in practice find himself concerned with the examination of policy questions rather than, as now, with the propriety of expenditure and the "value for money" effectiveness with which policies were implemented.

b. It was acceptable to give an assurance that the Treasury would use its powers, under Section 3 of the Exchequer and Audit Act 1921, to extend the range of C & AG's audit to new accounts only after the PAC had agreed. It was not desirable that the PAC themselves or Parliament should have power to direct the C & AG on these matters.

c. In discussion of the possibilities for increased scrutiny by Select Committees of nationalised industries' annual accounts some reference might be made to the potential role of the Liaison Committee of Select Committee Chairmen in deciding how to exercise the options already available to Parliament for scrutinising the nationalised industries. It might be better not to refer to the possibility of reviving the Select Committee on Nationalised Industries, since this would be unwelcome to a number of Members of Parliament.

d. It was essential to stand firm on the principle that the C & AG should not have access to the books of the nationalised industries, public corporations, and all companies and other bodies in receipt of public funds. Those who currently supported this change should be reminded that it would mean that the C & AG's responsibilities, and PAC inquiries, would then extend beyond the range of Ministerial responsibility, and that, if Ministers were not to be put in the position of being less informed than Parliament, they would need a significant increase in their staffs. The audit and scrutiny of nationalised industries would be duplicated or triplicated; this was unlikely to improve their performance or the effectiveness of audit; it would mean an unacceptable degree of diversion of effort by nationalised industries in responding to audits and scrutinies, would demand additional staff and lead to additional costs in the nationalised industries themselves, and would be inconsistent with the commercial approach which public corporations should practise and which the Government should seek to encourage. In the case of the nationalised industries, the right course was to place the emphasis on the new arrangements for systematic investigations by the MMC and on the importance of avoiding duplicating these arrangements by an extension of the C & AG's role. It was unfortunate that critics of the Government's

policy would be given an opportunity to press their case further when, as was expected, the C & AG told the PAC that, because he had been denied access to British Leyland's books, he could not report fully to them on the sale of the company's plant at Bathgate.

e. The Government should not offer to consult the PAC about the programme of nationalised industry references to the MMC. The PAC had not asked for such consultations and they would certainly not reciprocate by offering to consult the Government on which industries they should investigate. There was a risk that the consultations would lead to delays in getting ahead with the MMC's programme. The point should be conceded only if, in discussions of the Government's proposals as a whole, it seemed prudent to do so.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Government should not propose that the C & AG should be made responsible to the House of Commons, through the PAC; for the reasons put forward in their discussion, this would be a fundamental and unacceptable change. Subject to the deletion of all references to future legislation, they would be content with the proposals in Annex A of E(82) 8 for the appointment of the C & AG, for the staffing and the audit of the E & AD, and for consultation of the PAC on the issue of directions under Section 3 of the Exchequer and Audit Act 1921. They approved the proposed approach to scrutiny of nationalised industries by Select Committees, subject to the Chancellor of the Exchequer agreeing with the Lord President of the Council how this should be presented. They would strongly prefer not to offer the PAC the right to be consulted about the programme of references of nationalised industries to the MMC, and agreed that this point should be conceded only if it were judged to be in the interest of securing acceptance of the Government's proposals as a whole. It would be acceptable for the Government to welcome action by the PAC in assisting in the follow-up to MMC reports. It was agreed that no commitment should be given at this stage on the audit arrangements for the combined National Enterprise Board and National Research and Development Corporation. By introducing legislation to provide for an Audit Commission for local authorities in England and Wales, the Government had already rejected the PAC's proposals for audit of local authorities; it was

important that nothing should be said in further discussions that could be quoted against the Government during the passage of the Bill providing for the Audit Commission. The Chancellor of the Exchequer, in consultation with the Lord President of the Council and with the Chief Whip, could now discuss these matters further with Mr du Cann. The object should be to make as few concessions as possible, beyond the proposals already announced in the White Paper, within the limits of what the Committee was prepared to contemplate. The Chancellor should not therefore show Mr du Cann any papers at this stage. Any discussions with Mr Barnett should be held separately and subsequently. In the meantime the Secretary of the Cabinet should arrange, in the light of the discussion, for the preparation of a memorandum on the limits to scrutiny by the C & AG and by the PAC beyond which a responsible Government could not be expected to go; this memorandum should set out the constitutional case for preserving the independence of the C & AG, and for ensuring that his responsibilities, and PAC enquiries, did not extend beyond the range of Ministerial responsibilities. The memorandum would serve as a basis for explaining the Government's stance, and the importance of the principles underlying it, in any further discussions with Conservative Members of Parliament and in presenting the Government's proposals to Parliament. The Secretary of State for Industry should arrange for the preparation of a note on the present practices for investigation by the C & A G, and for examination by Select Committees of the House, of private sector companies in receipt of public money, and of problems arising. The Committee would consider these questions further, and the Government's response to the Early Day Motion, in the light of progress in the discussions with Mr du Cann and any others and of the memoranda by the Secretary of State for Industry and by the Secretary of the Cabinet.

The Committee -

1. Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council and with the Chief Whip, to be guided by the discussion, and by the conclusions recorded in the Prime Minister's summing up, in any further discussions with Mr du Cann MP of the role of the Comptroller and Auditor General, and to report the outcome of these discussions.

2. Instructed the Secretary of the Cabinet to circulate a memorandum, as indicated by the Prime Minister in her summing up of their discussion on the appropriate limits to scrutiny by the Comptroller and Auditor General and by the Public Accounts Committee.

3. Invited the Secretary of State for Industry to arrange for officials of his Department in consultation with the Treasury to prepare a note, as indicated by the Prime Minister in her summing up of their discussion on the scrutiny of private sector companies in receipt of public money, and to report.

2. FIXED CROSS-CHANNEL LINK

The Committee considered memoranda by the Secretary of State for Transport (E(82) 7) and by the Central Policy Review Staff (E(82) 9) on the possible financing arrangements for a fixed cross-channel link.

THE SECRETARY OF STATE FOR TRANSPORT said that he would put proposals to the Committee in March as a basis for a decision on whether to reject a fixed cross-channel link or to go ahead with a bored tunnel or to commission further studies. In the meantime he wished to respond to the French Government's requirement that, if the link were to go ahead, the two Governments should exchange reciprocal compensation guarantees whereby either Government would reimburse the costs of the other if work on the link was abandoned as a result of a political decision to withdraw or of failure of the Government's chosen instrument for building the link. In his view, if the Government eventually decided it wanted a cross-channel link, it would be necessary to provide these reciprocal compensation guarantees. Given the contingent liability that would then be placed on the Government, it would be prudent to reinforce the position of the United Kingdom promoter by issuing a completion guarantee whereby, in the last resort and subject to financial penalties on the promoter, the Government would ensure the provision of finance to enable the project to be completed.

MR IBBS said that, if the Government were to agree to reciprocal compensation guarantees, the Central Policy Review Staff recommended that, in accordance with normal commercial practice, the completion guarantee should be given to the Government by the promoter and not the other way round.

In discussion it was generally agreed that the Government should not enter into reciprocal compensation guarantees, as proposed by the French Government, or into completion guarantees. Such guarantees would leave the Government with an open-ended commitment to supplement the funding of a cross-channel link and would be wholly inconsistent with the declared objective of leaving the commercial risks, and the costs, with the private sector promoters. If a cross-channel link were a commercial and viable proposition, the private sector promoters ought to be able to raise the

money without Government guarantees. Although the Government had acknowledged that it could be necessary to give some guarantee or indemnity to the private promoter against a political decision to cancel the project, it would in practice be very difficult to define what was a political decision and to avoid entering into a commitment from which it would be very difficult to withdraw.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Government should not accept the French Government's proposals for reciprocal compensation guarantees and should not entertain the idea of offering completion guarantees to the United Kingdom private sector companies which might be involved in promotion of the link. This should now be made clear to the French Government and the difficulties of defining what was meant by a political decision to withdraw should be explored further. Careful consideration would however need to be given to the handling of the matter with the French Government, and the public presentation of the Government's position.

The Committee -

1. Agreed that the Government should not undertake to enter into reciprocal compensation guarantees with the French Government, in the event of agreement to build a cross-channel link, and should not offer completion guarantees to prospective United Kingdom promoters of the link.

2. Invited the Secretary of State for Transport and the Lord Privy Seal, in consultation with the Chief Secretary, to consider, in the light of their decision, how best to conduct further negotiations with the French Government on the cross-channel link.

Cabinet Office

10 February 1982