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E(80) 5th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held in the  
Prime Minister's Room, House of Commons  
on WEDNESDAY 13 FEBRUARY 1980 at 4.00 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 Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Peter Walker MP  
Minister of Agriculture, Fisheries  
and Food (Items 1 and 2)

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

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP  
Secretary of State for Defence  
(Item 1)

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

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services  
(Items 1 and 2)

Mr Paul Channon MP  
Minister of State  
Civil Service Department  
(Items 1 and 2)

Mr Hugh Rossi MP  
Minister of State  
Northern Ireland Office  
(Items 1 and 2)

Baroness Young  
Minister of State  
Department of Education and Science  
(Item 1)

Sir Kenneth Berrill  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr G D Miles

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1. PUBLIC SERVICE PAY NEGOTIATING MACHINERY

The Committee considered a Note by the Chancellor of the Exchequer (E(80) 8) covering a report by officials on the possibilities for decentralisation of pay bargaining in the public services.

THE CHANCELLOR OF THE EXCHEQUER said that the official paper arose from a remit following Cabinet discussion last year (CC(79) 14th Conclusions, Minute 6) about industrial Civil Service pay. It had been felt that the widespread system of centralised negotiation did not adequately reflect variations in local labour markets and did not adequately face local management with its responsibilities in respect of efficiency within the cash limits system. The view had been that greater decentralisation of key bargaining might improve performance and reduce costs. These objectives obviously stood. But the official paper pointed out the considerable dangers involved in a move towards local negotiation. It would be difficult in practice to devise a system proof against the inexperience of local managers in wage bargaining. Past experience suggested that the unions would exploit the situation, and that there would be a pattern of leap-frogging claims, which could lead to a rise of overall unit costs. Nevertheless in spite of these risks, he felt it desirable to study further whether any progress could be made, and he proposed several possibilities; a study in collaboration with the local authorities, of the possibilities for more decentralisation in local authority wage bargaining; steps to bring financial and management responsibility and pay bargaining in the National Health Service closer together; examination of the scope for geographical pay variations among the non-mobile grades in the non-industrial Civil Service; and the completion of the study currently in hand between the Ministry of Defence and the Civil Service Department on the possibilities for local productivity bargaining and allowances for certain of the Defence establishments.

In discussion the following main points were made -

a. Local Authorities

A study of the kind proposed would be viewed with suspicion by the local authorities, and was unlikely to produce any worthwhile results. The quality of local authority management varied very widely. No

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doubt local authorities with a tradition of strong management would negotiate toughly on pay as well as on local matters; but they would be vulnerable to being undermined by the failure of less strong authorities to negotiate as toughly. The local authorities voluntarily participated in the centralised negotiating arrangements under the Local Authority Conditions of Service Advisory Board (LACSAB), presumably because they believed that it was to their advantage to have a national framework of this kind, within which local productivity schemes could be achieved. If anything the arguments pointed to strengthening rather than weakening centralised control of wage-bargaining among local authorities.

b. Home Office Services

The Home Secretary was involved in the pay determination of the police, fire, probation service and Courts staff. For all these services it would be undesirable for individual authorities to be able to make their own decisions about pay rates.

c. National Health Service

In the professional grades, the National Health Service operated in a national market, and there was a need for national pay scales. For ancillary staff the markets were more localised, but even there the dangers of leap-frogging, noted earlier, were very real. There was however scope for local productivity deals; the cash limits on the Health Service were tight, and local managers had an incentive to improve productivity by such measures.

d. Non-industrial Civil Service

The Civil Service Department were already examining the possibilities for some geographical variation in wage rates, to be agreed as part of central negotiations.

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e. Industrial Civil Service

The Civil Service Department and the Ministry of Defence had in hand a study of the productivity of the Royal Dockyards. It would be necessary to consider carefully the detail of any possible scheme, since earlier attempts to deal with productivity in the Dockyards had resulted in large payments, with virtually no productivity improvement.

THE PRIME MINISTER, summing up the discussion, said that although the Committee were agreed on the objectives from which the decentralisation proposal had originated, they accepted that the risks identified in the official paper meant that only limited progress was possible in the short term. They agreed that the possibility of a study with the local authorities should not be pursued, but noted that the Secretary of State for the Environment would, following informal discussions with local authority representatives, be bringing forward proposals directed to promoting efficiency in local authority services. They agreed that there should be no change in the arrangements for Home Office services. In spite of the National Health Service reorganisation, all possible steps should be taken to encourage a responsible attitude to wage-bargaining, and in particular to productivity agreements, at local level in the Service. The Civil Service Department should pursue its studies of the possibility of geographical variation in rates of pay for the non-industrial Civil Service, and should bring forward proposals within three months. There should be more scope for effective local productivity agreements in the Royal Dockyards, and the Civil Service Department and the Ministry of Defence should pursue the possibilities vigorously. They should however, in doing so, take note of the potential implications for the Property Services Agency (PSA) staff who might work in close local proximity with Ministry of Defence staff. The Stationery Office (HMSO) was another service with possibilities for more decentralisation, but this should be considered in the first instance in the Ministerial Sub-Committee on Economic Affairs. The Secretary of State for Industry should bring forward to colleagues on the Ministerial Sub-Committee on Disposal of Public Assets suggestions for moving certain of the Government's industrial establishments towards, or wholly into, the private sector.

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The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. Invited the Secretary of State for the Environment to bring forward proposals for methods of improving efficiency in local government services.
3. Invited the Secretary of State for Social Services to take steps to encourage a responsible attitude to local productivity bargaining within the management of the National Health Service.
4. Invited the Minister of State, Civil Service Department, to bring forward, within three months, a paper discussing the possibilities for geographical variation in the rates of pay for non-industrial civil servants.
5. Invited the Secretary of State for Defence, in consultation with the Minister of State, Civil Service Department, to bring forward proposals for methods of improving productivity in the Royal Dockyards, and possibly in other Defence establishments, taking account of the possible repercussions for the Property Services Agency.
6. Invited the Secretary of State for Industry to put his proposals for changes in the structure of the Government Industrial Establishments to the Ministerial Sub-Committee on Disposal of Public Assets.
7. Agreed that the Ministerial Sub-Committee on Economic Affairs should keep in mind the possibilities for flexibility in local pay bargaining, when they considered the proposal for a comparability study for industrial staff in the Stationery Office at an early meeting.

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2. TAXATION OF BENEFITS PAID TO THE UNEMPLOYED  
Previous Reference: E(80) 2nd Meeting - Item 1

The Committee considered a Note by the Chancellor of the Exchequer (E(80) 9) discussing the staff requirements, and the timing, for the introduction of a scheme for the taxation of benefits paid to the unemployed.

THE CHANCELLOR OF THE EXCHEQUER said that the Committee had agreed at the meeting on 23 January to a scheme for the taxation of benefits to the unemployed by the "subsequent" method. They had invited him to consider how quickly such a scheme could be brought in, and whether it was possible to reduce the staffing requirement envisaged for it. Further study had shown that the Inland Revenue would be able to implement a scheme from November 1981, but the Department of Employment, and the Department of Health and Social Security believed that it would be impossible, with certainty, to achieve their elements of the scheme before April 1982. A complex computerised system would need to be devised, and all past experience suggested that it would be dangerous to impose an unrealistically tight timescale on such a project. The staff estimate of 2,000 for the 3 Departments combined was the lowest estimate that could be given at present. Every effort would be made to reduce the figure, but it was already much lower than earlier estimates had suggested. The Department of Health and Social Security would be able to absorb their element within existing staff projections, but the Inland Revenue, and the Department of Employment, felt unable to take on this new additional task, while still achieving the staff reduction for these Departments which had been agreed. He therefore proposed that the staff cost for the project should, if necessary, be offset against the staff savings agreed for these Departments.

THE PRIME MINISTER, summing up the discussion, said that the Committee accepted that the scheme could not be introduced until April 1982. As regards the staff savings, the Government were committed to reducing the size of the Civil Service, and additional tasks could not necessarily command additional staff. The Committee had noted that the Department of Health and Social Security would accommodate their element of the staff

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within agreed staff projections. The Chancellor of the Exchequer and the Secretary of State for Employment should make every effort to reduce the staff requirement for their part of the scheme, and should find as many offsets as possible within their own Departments. The overall staff requirement should not exceed 2,000, and some proportion of that figure would offset the reductions in Civil Service manpower being achieved by other measures.

The Committee -

1. Agreed that the scheme for the taxation of benefits to the unemployed should be introduced from April 1982.
2. Noted the intention of the Secretary of State for Social Services to find the extra staff needed by his Department to implement the scheme from within his already agreed staff limits.
3. Invited the Chancellor of the Exchequer and the Secretary of State for Employment to examine whether the number of staff needed to operate the scheme could be further reduced, and to find as many as possible of the staff required from within their agreed complements.

5. EQUITY INVESTMENT SCHEME  
Previous Reference: E(79) 19th Meeting, Item 2

The Committee considered a Note by the Central Policy Review Staff (E(80) 11) discussing several proposals for a scheme of tax relief for investment in small firms. They also had before them minutes dated 5 February from the Chancellor of the Exchequer to the Prime Minister; dated 6 February from the Secretary of State for Industry to the Prime Minister; and dated 7 February from the Secretary of State for the Environment to the Prime Minister; all dealing with aspects of the proposed equity investment scheme.

THE CHANCELLOR OF THE EXCHEQUER said that there was general agreement among colleagues that it would be desirable to encourage investment in small firms by some form of tax relief. In spite of extensive study it had not proved practicable to devise a scheme which was reasonably broad in coverage, and yet was not open to widespread abuse, and therefore of great expense to the Exchequer. He therefore proposed a small firms "enterprise package" involving a combination of items which although individually small, could be presented as having a significant cumulative effect. When the Committee had considered this issue earlier, he had been invited to consider the "start-up" scheme as being a preferable alternative to the "risk-sharing" scheme. He had done so, but had concluded that to avoid abuse the start-up scheme would have to be so narrowly drawn as to be in his view indefensible, and would require very complex legislation. It would not be practicable to pursue such a scheme on the time-scale needed for the current Budget, although work on it could continue, in the hope of devising something more workable for the future.

In discussion it was suggested that the fact that the "start-up" scheme would need to be narrowly drawn need not make it indefensible. People would acknowledge that a scheme must prevent tax avoidance, and so it would need to exclude the self-employed, or the firm wishing to expand in its present field. But the scheme would allow an employee to establish his own company, and would double his rate of return on early investment. On the other hand it was argued that, if there was to be a change in the pattern of investment in industry, it needed to come from radical and exciting new measures. The "start-up" proposal, for all its disadvantages, was more exciting and potentially rewarding than the "risk-sharing" proposal. There was a danger that excessive preoccupation with

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the risk of abuse - which was not necessarily, in terms of revenue at stake, as serious as seemed to be suggested, could obscure the value of the scheme in revitalising small industry. It was important to keep in mind that there would inevitably be a long time between the introduction of new measures and the time when their benefits began to show. Unless such measures could be introduced early in the life of a Parliament, the benefits would not be visible before its end. If it were not possible to introduce the scheme in the Budget on 26 March, it would be worth considering the possibility of introducing it during the year before the next Budget.

THE PRIME MINISTER, summing up the discussion, said that decisions on the content of the Budget must be a matter for the Chancellor; and the Committee could only give an indication of their views, which he could take into account in formulating his proposals. There remained misgivings on the part of the Committee that the package of proposals currently envisaged would not be sufficiently exciting or effective to provide a substantial stimulus to industrial investment. The Committee would therefore wish to see work on the possibilities of a "start-up" scheme continued with a view, if a suitable scheme could be found, to its introduction later. They would also not rule out the possibility of any necessary legislation being introduced outside the normal annual framework of the Finance Bill.

The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. Invited the Chancellor of the Exchequer to take the points made in discussion into account in framing his proposals.

Cabinet Office  
15 February 1980

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