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12 MAR 1981



x Ref Minutes of Meeting FRCS Mr. Griffiths

NOTE OF A MEETING HELD AT 11 DOWNING STREET ON 18 FEBRUARY, 1981
AT 2.30 P.M.

Present:

- Chancellor of the Exchequer
- Secretary of State for the Environment
- Secretary of State for Transport

1981 BUDGET

The meeting was an informal discussions of ideas for the 1981 Budget, based on suggestions made in letters dated 28 January, 5 February and 16 February by the Secretary of State for the Environment, a minute dated 26 January to the Prime Minister on main line electrification and a letter dated 16 February to the Chancellor on private finance for road building.

Private finance for road building and privatisation possibilities

2. Referring to his letter of 16 February the Secretary of State for Transport said it would helpful to have an early steer from the Chancellor on the two main options which he had set out: toll roads, where the plan would be to invite consortia to tender for the design, construction and financing of road projects and earn a return on their investments through tolls, and "pay as you go" roads where private finance would be used to construct the road and the return would come not directly from the user by from Government on the basis of the traffic using the road.

3. The Chancellor said there was obviously no scope for doing anything in this area before the Budget. However he believed that all ideas of this kind deserved the most careful consideration because if private capital could be introduced in a satisfactory way to achieve investment which would otherwise not be possible or easy, this would be well worthwhile. There were a number of

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difficulties, but he felt that the ideas should be explored further by Treasury and Department of Transport officials.

4. In a more general discussion of privatisation, Mr. Fowler said that progress had been made with privatising subsidiaries of British Rail, and there was scope for doing more. The aim was to identify operations or activities which could be separately accounted for and managed. Electrification was in his view a most important question, and would be the crucial test to the Government's railway policy. There was scope for attracting public sector finance.

5. It was suggested that over the next six months a number of important decisions would be needed on privatisation if real progress was to be made. Mr. Heseltine said that while he recognised the objections to leasing deals, he wondered if there was scope for putting out to private contractors particular operations - he had in mind for example the possibility of sewerage treatment systems being built by the private sector on a negotiated charge per gallon of effluent. The Chancellor said that ideas of this kind could certainly be considered - and suggested they should be referred to Mr. Ryrie.

Measures to assist the construction industry

(a) Extension of capital allowances for industrial buildings

6. Mr. Heseltine said he recognised the difficulty that these allowances were one of the main attractions of enterprise zones. However he did not think the argument that it would be hard to hold the line in the case of commercial buildings carried much weight. Commerce was generally doing much better than industry in the recession and he believed the measure would be most valuable. The Chancellor took note, saying that the measure was not ruled out.

(b) Suspension of Development Land Tax

7. Mr. Heseltine said he would give this very high priority because it would persuade people to bring forward land for development particularly if the suspension initially for one year.



Consideration could be given next year to extending the period, but the decision to suspend initially for one year only would have the best effect.

(c) Zero rating of VAT for repair and maintenance work

8. After a brief discussion Mr. Heseltine accepted that this would be too expensive for the potential gain.

(d) Other measures

9. Mr. Heseltine said he did not favour either an NIS reduction or industrial derating. He referred to the proposal in his letter of 28 January to stimulate the private rented sector by extending capital allowances to private landlords. The Chancellor said he was interested in this idea, which could be examined after the Budget though clearly it was not on this time round. He commented that action on rent control, at least for new dwellings, was essential as well; Mr. Heseltine said there was a firm bid for housing legislation for the following year which would include proposals for de-controlling rents.

10. Mr. Heseltine also referred to ideas for equity ownership mentioned in the fourth paragraph of page 3 of his letter of 16 February. He argued that relatively small sums of money could have a very large effect - for example each £ of public expenditure could attract 3 or 4 times as much private finance. He would like to introduce a scheme on an experimental basis, and considered that it was an idea which could be advanced in time for the Budget. It was agreed that Treasury and Environment officials should consider the matter urgently for further consideration at the meeting the following day at 8.45.

Indirect tax changes

11. In a brief discussion, Mr. Fowler said he would be extremely cautious about putting up VED as well as petrol, particularly if it were decided to do more than straightforward revalorisation (which he understood to mean an increase of £10). To do so



would mean a very rough ride politically, putting all the old arguments back on the political agenda. He referred to his agreement to the extension of car tax to motorcycles, and stressed that fiscal rather than safety arguments should be used to justify the change.

P.S.J.

(P.S. JENKINS)

19 February 1981

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