

file

R H

PRIME MINISTER

Ewan PA

cc:- Mr Thatcher
Miss Thomas
Miss Scriven

Sir Leo Pliatsky would love to come to lunch on Boxing Day. As he does not drive Mr Thatcher has very kindly agreed to meet him at Amersham. There are no trains on Boxing Day but the Underground is running and he will catch the 1108 from Baker Street, arriving at Amersham at 1158 and return to London on either the 1507 or 1547.

CAROLINE STEPHENS

23 December, 1980

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

12 September, 1980

cc: D. Ind
D. Energy
C/D/Jan
C. Whip
Sir L. PLIATZKY
John Howkins
Master
Econ Pol K.H.

Proposal for a National Investment Trust

As you know, the Prime Minister held a meeting this morning to discuss Sir Leo Pliatzky's report which he submitted under cover of his minute of 17 July on the proposal for a National Investment Trust to promote a wider ownership of property. Besides Sir Leo, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Energy were present. In addition to the report and Sir Leo's covering minute, they had before them the Chancellor's minute of 1 August, Sir Keith's minute of 4 August and Mr Howell's comments contained in a letter from Denis Walker of 25 July.

Sir Leo said that of the three possible schemes he had examined, the Brittan-Riley proposal or the National Investment Trust variant which he had suggested had both looked attractive in principle as a means of widening property ownership. But both schemes would involve major problems - in particular, the expense of managing them and the resources which would be pre-empted which might otherwise be used to reduce the PSBR or to reduce taxation. If either scheme were to be in place before the next election, detailed planning would need to start fairly shortly. But before doing any further work on the proposals, a political judgement was needed on whether it was worth carrying them forward.

The Chancellor said that he was quite sure that the resources which would be pre-empted by either of the schemes would be in excess of what could possibly be afforded in the foreseeable future. He had, therefore, concluded that the proposals should be dropped for the time being. Mr Howell and Sir Keith Joseph both emphasised the importance of extending property ownership and making "earners into owners"; but they agreed that the arguments against proceeding with the schemes discussed in the report this side of the election were decisive.

/The Prime Minister

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- 2 -

The Prime Minister said that she too agreed that the idea of introducing anything this side of the election should be ruled out. However, it would be worth giving some publicity to the fact that the various options had been considered. She suggested that there should be a Private Member's Debate in the coming session on the whole question of the wider ownership of shares - it should not be difficult to persuade a Government supporter to choose this as a subject for debate - and that whoever spoke for the Government could reveal the conclusions of Sir Leo's report.

I am sending a copy of this letter to Ian Ellison (Department of Industry), Julian West (Department of Energy) and Sir Leo Pliatzky; and also to Robin Birch (Chancellor of the Duchy of Lancaster's Office) and Murdo Maclean (Chief Whip's Office).

CLERK LANCASTER

A J Wiggins, Esq
HM Treasury

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Evon B.

MR PATTISON

A NATIONAL INVESTMENT TRUST (OR NATIONAL OIL TRUST)
TO PROMOTE WIDER PROPERTY OWNERSHIP

As arranged, I am letting you have this brief for the Prime Minister's meeting on this subject arranged for 8.30 am on Friday 12 September.

2. The purpose of the meeting is to decide whether or not to pursue further one or other of the schemes discussed in the report which I submitted on 17 July, with a covering minute copied to the other Ministers concerned. The Chancellor has come out (in his minute of 1 August) against going any further, but Sir Keith Joseph (and up to a point Mr Howell) have so far been less categorical, so it is a question whether or not the Chancellor's advice prevails.

[A]

[B]

[C & D]

3. I was concerned at the outset to get a clear statement of the object of the exercise, and was told that it is concerned essentially with a property-owning democracy. Of the schemes which I was asked to examine, one based on the British Columbia Resources Investment Corporation (BCRIC) would not be well designed for this purpose; the Chancellor and Sir Keith Joseph (in his minute of 4 August) both agree that it would be impracticable, and Mr Howell appears to share this view. It would be useful to establish agreement on this.

4. This leaves us with the Brittan-Riley proposal for a National Oil Trust (which I have developed under the title of National Investment Trust) under which there would be a free distribution of stock financed out of North Sea revenue. Unlike the Brittan-Riley paper, my report assumes that only part of this revenue would be given away, but that even so at least £2,000 million a year at 1980 prices would have to be involved. Nobody so far has disputed this as a minimum figure.

5. So the question is whether the Government can commit itself in advance to allocating this sum at a future date, and to putting in hand meanwhile the legislation and the large administrative apparatus which would be needed. The Chancellor does not think that this commitment can be accepted. Mr Howell takes a similar view, though wanting to keep an open mind about introducing a scheme of some sort later on. Sir Keith Joseph, however, thought that the idea of a National Investment Trust had possibilities and promised considered views after the summer holiday. At the time of preparing this brief, there had been nothing further in writing from him, and I understand that Sir Keith Joseph is unlikely to write again before the meeting.

6. If the Chancellor's view is accepted, the only remaining issue is whether or not to publish something on the subject - hardly a White Paper but perhaps an article in the Treasury's monthly Economic Progress Report or possibly an adapted version of my report, which could be referred to in a written answer and made available to MPs, the press, etc, on request. I do not urge this course, but it might be useful in showing the great administrative problems which there would be in any free distribution of public assets, eg the Bow Group's idea of giving away shares in the British Gas Corporation.

7. But if the idea of a National Investment Trust (or National Oil Trust) is kept alive, then there will be quite a number of questions to be resolved - which variant of the scheme is preferred, whether legislation is to be introduced before the next election or whether this is to be a feature of the next Conservative manifesto, and what procedure is to be used for further processing of the scheme.

8. As regards the type of scheme, I am sure that any version of it would be controversial, but I do feel that my variant - in effect, giving everyone a free savings account in which they could allow their annual stock entitlement to accumulate with tax-free interest - would be rather more defensible as a means of promoting property ownership than the pure Brittan-Riley proposal, under which the capital value of the North Sea stock would diminish each year.

9. Sir Keith Joseph seems to favour my variant, i.e. a National Investment Trust, and he may also have been advised in favour of the further development of this approach which would enable the Trust to invest stockholders' money on their behalf not merely in government securities but also in an industrial portfolio (to which Mr Howell does not seem to be attracted). Sir Keith Joseph may also have been advised in favour of issuing the proposed North Sea stock as bearer bonds, with a view to simplifying administration and shortening the timetable for introduction of the scheme. I should advise strongly against this, partly because of the increased likelihood of theft and fraud which would be involved in a bearer bond scheme, and also because, with bearer bonds, I should think it impossible either effectively to tax the distribution (as the Brittan-Riley paper proposes) or to police a limited tax exemption (which is proposed in my report). There would therefore be an added incentive for people with money to buy up the bonds as a handy tax-free investment, thus defeating the object of spreading property ownership more widely. Moreover, I doubt whether bearer bonds would be compatible with the "savings account" variant of the scheme, since the Trust would not know to whom each account belonged.

10. If the matter is to be taken any further, there is the question which I raised in my earlier minute of bringing in Departments such as the Home Office, DHSS, Treasury and Inland Revenue at senior official level. There is also the question of whether and at what stage to put other Ministers in the picture. One further possibility, in theory at least, is that the government might at some stage publish a non-committal document as a basis for public discussion of the subject.

11. However, none of this arises unless it is decided that the idea is a genuine starter in spite of the heavy financial and administrative cost. I have enjoyed doing this piece of work but did not feel that I should go on without some reaction on this crucial question.

L.T.

From Pat.

MR. PATTISON

Sir Leo rang and confirmed 0830 on Friday 12 September. He will be preparing a special brief for you on Tuesday 9 September and asks in the meantime whether we could ask Sir Keith Joseph if he had had any thoughts on this subject and if so could they please be sent to Sir Leo c/o Sir Douglas Wass' office before 9 September.

Would you like me to do this for you?

Caroline

Yes pl

C.S.

M.P. / x.

1 September 1980

Please file .
cf. 2/9.

PRIME MINISTER

I was asked to set up a meeting with Sir Leo Pliatzky, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Energy to discuss Sir Leo's report on a proposal for a national investment trust.

The only time I am able to get you all together is at 0830 on Friday 12 September and I hope you have no objection.

Amend
out

es.

1 September 1980

FROM: Sir Leo Pliatzky KCB

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Limited**

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Please reply to: 27 River Court,
Upper Ground,
London SE1 9PE

Tel: 01.928.3667

M. A. Pattison Esq.,
No. 10 Downing Street,
London SW1

13 August 1980

Dear Mike

As arranged I enclose a list of my firm engagements for September as they stand at present. It is not so far much of a programme. But the gaps may get filled in nearer the time so perhaps, before you fix the proposed meeting, we could have a word on this number or my home number - but any confidential papers should still be sent c/o Douglas Wass's office.

I think it would be useful to stick to the idea of my providing a personal brief for the meeting, so I should need to know if you get any further reactions after the holiday period. I have given up my Whitehall office but would go in on an ad hoc basis to do the brief.

*Yours,
Leo Pliatzky*

Leo Pliatzky

Directors

Sir Leo Pliatzky KCB Chairman; A J Gooding Deputy Chairman; S Young Deputy Chairman; F Essex Managing Director; D J Basinger; H Bowman; G V Sherren; J E G Stevens; A Thompson CBE; C V Wintour MBE.
Registered in England No. 1490363



15 AUG 1980

SEPTEMBER

Tuesday 2	9.00 a.m.	Daybreak Board meeting
Thursday 4	10.00 a.m.	British Airways Committee
Friday 5	10.00 a.m.	British Airways Board meeting and lunch
Monday 8	10.30 a.m.	Daybreak Board meeting and lunch (Elstree)
Wednesday 10	1.00 p.m.	Ultramar lunch and Board meeting
Thursday 11	10.30 a.m.	Christopher Reeve
Thursday 18	10.00 a.m.	AOC Board meeting and lunch

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15 AUG 1980

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HM
Sir L.P.

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10 DOWNING STREET

From the Private Secretary

5 August 1980

B F 8-9-80

The Prime Minister was grateful for the comments from your Secretary of State, the Chancellor of the Exchequer and the Secretary of State for Energy on Sir Leo Pliatzky's report on a proposal for a National Investment Trust to promote a wider ownership of property.

She has noted the view of the Chancellor that this proposal should not be pursued further, and she has concluded that Sir Leo should not be asked to undertake any further work on it for the present. But she would like to have a discussion about the proposal with the Ministers who have seen the report before taking a final decision, and she has concluded that this might best be left until September.

We will be in touch again to arrange a meeting sometime after 8 September.

I am sending copies of this letter to John Wiggins (HM Treasury), Julian West (Department of Energy) and to Sir Leo Pliatzky.

Ian Ellison, Esq.,
Department of Industry.

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02



PRIME MINISTER

NATIONAL INVESTMENT TRUST

I understand that you would like comments on Sir Leo Pliatzky's report before holding a meeting to discuss how to proceed.

2 I agree with Sir Leo's conclusion that it is impracticable to set up a scheme in the UK based on the British Columbia model. I do, however, think that the idea of a national investment trust has possibilities; this could help us with the PSBR and might also help small firms. I would prefer to think about the matter over the summer holiday and let you have my considered views on my return.

3 I am sending copies of this minute to the Chancellor of the Exchequer and to the Secretary of State for Energy.

KJ

K J

4 August 1980

Department of Industry
Ashdown House
123 Victoria Street

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10 DOWNING STREET

From the Private Secretary

1 August 1980

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Econ file

I attach copies of the comments from the Chancellor of the Exchequer and the Secretary of State for Energy on your minute to Mr. Whitmore of 17 July and the accompanying report. I expect to receive something from the Secretary of State for Industry on Monday.

Sir Keith Joseph is due to leave the country on 8 August, and it looks as if any meeting will therefore have to take place on the afternoon of 7 August. Would this be possible for you?

The Chancellor's verdict is so clear cut that the Prime Minister might conceivably wish to decide not to take this any further without calling a meeting. I should know more of this by Tuesday. Perhaps you could telephone me when you are in the office.

MAP

Sir Leo Pliatzky, K.C.B.

PRIME MINISTER

through Mr Whiteford

*MM
1/12*

MS

I attach notes from the Chancellor (Flag A) and Mr. Howell (Flag B) commenting on Sir Leo Pliatzky's preliminary report (Flag C) of his work on a possible national investment fund.

We expect a response from Sir Keith Joseph early next week, but you will see that both the Chancellor and Mr. Howell are now dubious about these ideas, given the high initial cost to the Exchequer and the long period before any practical benefits can be expected. The Chancellor firmly recommends that we should not pursue the proposal any further, although he feels that somebody might usefully explain to Mr. Sam Brittan what has come out of the work. He suggests that an alternative would be to publish a report based on Sir Leo's study.

Sir Leo deliberately chose to submit an early synopsis of his work, because he anticipated this kind of reaction and felt that a halt should be called sooner rather than later if Ministers were likely to find this a blind alley.

If those who have seen the report unanimously recommend bringing this work to an end, it would make sense to reach that decision before the recess.

Subject to the comments from Sir Keith Joseph, will you want a discussion with the three Ministers concerned before reaching a decision? If so, should we arrange this for Thursday afternoon next week, with Sir Leo Pliatzky present?

MA

1 don't think we have to reach this decision before the recess. Surely we can wait until Sept or

1 August 1980



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

A NATIONAL INVESTMENT TRUST

I have read Sir Leo Pliatzky's analysis of the idea of a National Investment Trust with the greatest interest, and have obtained the reaction of my Ministerial team, advisers and key officials.

2. The unanimous view seems to be that the original "British Columbia" proposal (and the variants discussed by Sir Leo) are all too ambitious for us to entertain and, moreover, that their possible benefits are, at best, uncertain.

3. It is now clear that a distribution of shares to the whole adult population of the United Kingdom (some 40 million) would be a huge undertaking - if it could be done at all in a watertight way - and quite different in scale from that carried out in British Columbia. Sir Leo's report speaks of a minimum time lag of 3-4 years from announcing the scheme to starting the issue of stock certificates. Furthermore, the maintenance of a share register and a dividend distribution network would thereafter involve substantial manpower and computer resources.

Three main variants are recognised:-

- (i) a scheme very like the British Columbian model, embodying principally energy industry assets

/rather than the



rather than the primary resources and exploration rights involved in the Canadian scheme.

(ii) a scheme involving the transfer to individuals, free, of rights to revenue from the North Sea, along the lines of Sam Brittan's North Sea stock proposal.

(iii) a national investment trust, which would start off with a hypothecation of North Sea revenues, but gradually build up a more diversified portfolio out of retained income.

4. It is our feeling that the commercial assets available for inclusion in a British Columbia type scheme would be far more difficult to handle than the predominantly natural resource assets available to the Canadians. The trust could hardly acquire the shares of nationalised industries without inheriting their problems, and we agree with Sir Leo that there would be great practical difficulties in such a scheme.

5. Transfer to individuals (free of charge) of rights in North Sea revenue would be much simpler; this was the base originally identified by Sam Brittan for his scheme, and it is central to the national investment trust proposal. However, this proposal would encroach massively upon the whole Medium Term Financial Strategy.

6. Sir Leo argues, probably rightly, that this operation would only be worthwhile if the Government were to forgo a revenue flow of the order of a basic £2,000 million a year, at 1980 prices, for ten years.

/I am by no means



7. I am by no means sure that we want to commit ourselves in advance to any precise application of the hoped-for "fiscal adjustment". This particular proposal - literally giving away a large part of the proceeds - certainly does not strike me as the strongest candidate. Further tax cuts and a further reduction of the Public Sector Borrowing Requirement are much stronger contenders for the use of those North Sea revenues, as indeed would be some relaxation in the present austerity of the public services.

8. A giant scheme of this nature would, of course, introduce many people to the idea of share ownership for the first time. But one is bound to have doubts whether shares doled out free to all would represent any effective lesson in the responsibility of ownership. Indeed I would expect many people to criticise the very idea of such a give-away at a time of real austerity. It is also likely that a great proportion of the allotted shares might quite soon be realised for cash - to the possible hazard of monetary control. A more modest approach along the lines of our present privatisation plans and our Finance Bill wider ownership proposals may well be better, and is almost certainly the only realistic option for the immediate future.

9. My own conclusion is that we should not pursue this proposal any further. I think we might be well advised to let Sam Brittan know quietly that we have looked carefully at his ideas, for he has invested a good deal of enthusiasm in his North Sea equity scheme. Alternatively, it may be felt that we should publish a report based on Sir Leo's study, to show that we have considered the matter seriously.

/Sir Leo's



10. Sir Leo's investigation will have been very useful in confirming negatively that there is no short cut to a property owning democracy. We have to keep working away at the removal of obstacles to share ownership and keep constantly in mind the need to restore profitability to our company sector. The truth is that if we want to spread the habit of owning shares we need to succeed in making shares worth owning - and worth buying. And departments are, of course, already looking to the next stage of our work in this area.

11. I am copying this minute to Keith Joseph and David Howell.

Amiggins

for G.H.

1 August 1980

(Approved by the Chancellor &
signed in his absence)



-1 AUG 1954

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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

D
Await other responses
Econ MAF
PSL

M Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
SW1

25th July 1980

Dear Mike,

PROPOSAL FOR A NATIONAL INVESTMENT TRUST TO PROMOTE A WIDER OWNERSHIP OF PROPERTY

My Secretary of State has seen the Report for a National Investment Trust, circulated under cover of Sir Leo Pliatzky's minute of 17 July to Clive Whitmore. You told me on the phone that the Prime Minister would welcome any comments which Mr Howell might have on the Report.

My Secretary of State would be happy to discuss the Report further. His general reactions are:

- a) that a National Investment Trust might acquire corporatist qualities and raise political dangers for the future;
- b) that in the light of current economic pressures it seems unlikely that we could release the resources necessary to make a go of such schemes, but that we should certainly keep an open mind on introducing them either as part of an election package in 1984 or in the Government's next term as part of the long-term evolution of British Society from collectivism.

Yours ever,

Denis

Denis Walker
Private Secretary



28 JUL 1980

FROM SIR LEO FLIATZKY

MR WHITMORE

Proposal for a National Investment Trust
to promote wider property ownership

1. I was asked by the Secretary of State for Industry, Sir Keith Joseph, to examine alternative ideas for promoting a wider ownership of property and to report to the Prime Minister, the Chancellor of the Exchequer and Sir Keith Joseph.

2. I enclose a report setting out the results of this examination so far. Its findings and the issues which it poses are summarised below.

3. Of the alternatives considered, the one which emerges as the more promising is the proposal for a North Sea Stock, administered by a National Oil Trust, on which annual dividends would be paid out of the royalties and tax revenue from North Sea oil. This proposal was put forward a couple of years ago in a paper by Mr Sam Brittan and Mr Barry Riley.

4. Unlike their paper, my report envisages that only a part of North Sea revenue would be allocated for this scheme. Nevertheless, if the scheme is to be credible as a general extension of property ownership, and if the massive administrative effort involved is to be worth while, a judgment has to be made on the minimum amounts to be distributed. The report puts a figure of £50 a head each year at 1980 prices on the minimum dividend, for which about £2,000 million a year would be needed. (If one were thinking in terms of a lump sum, something like £500 a head would be needed to be credible as a distribution of property). Special advisers concur in this judgment.

Prime Minister 1.
 This is a preliminary report from Sir L. Fliatzky, seeking ministerial guidance before he takes his work further.

Should we encourage the three Ministers who have copies to comment to you in writing, with a view to a discussion about the time the House rises?

Yes please
 mt

MAJ
 12/1/61

5. A drawback of the original Brittan-Riley proposal is that the North Sea Stock would diminish in value each year, instead of increasing, because its capital value would be the discounted value of the dividends over the future life of the stock, which would itself become shorter each year. As it stands, therefore, this scheme would not make a lasting contribution to wider property ownership.

6. In an attempt to overcome this drawback the report develops a variant of the scheme under the heading of a National Investment Trust. Under this variant, instead of simply drawing their dividends each year, stockholders would have the option of keeping their holdings in a tax-free interest-bearing account with the Trust. The principal features of this scheme are summarised in paragraph 32 of the report. It would give each citizen a savings account, at no cost to himself, which could go on earning interest even after the dividends from North Sea revenue had come to an end.

7. The other alternative examined is a scheme modelled on the British Columbia Resources Investment Corporation (BCRIC) in which residents of British Columbia were given free shares. The report does not find BCRIC itself (which is in some respects a sort of miniature National Enterprise Board) a particularly useful model for promoting property ownership, but it discusses variants more suited to this objective. This type of scheme would involve creating an institution in which shares in the energy industries would be vested and which would distribute the revenue from those industries as dividends.

8. However, even if the nationalised gas and electricity industries, as well as BNOG, were reconstituted as companies for this purpose, the resulting revenue, in conjunction with the dividends from the publicly owned shares in BP, is estimated to amount to perhaps £1 billion a year at 1980 prices - that is, about half the amount judged to be required for the scheme. Although this is a rather speculative estimate, there is no doubt that a National Investment Trust financed out of North Sea revenue would have a more adequate and assured source of funds, and it would not raise similar issues concerning the reorganisation and control of the energy industries.

9. It would, however, be possible to graft some features of a "British Columbia" type of scheme on to the scheme for a National Investment Trust by giving the Trust additional income (eg from BP and BNOG) for investments in the energy industries which would produce revenue later on. These possible supplementary features of the National Investment Trust are discussed in paragraphs 33 and 36 of the report.

10. The Trust would require both a headquarters with a computer system and the use of some decentralised organisation for dealing with applications for stock certificates and verifying the identity and eligibility of applicants. The electoral registration system comes closest to providing a set of records covering every citizen and an administrative machinery which could be adapted for the purposes of this scheme, subject to legislation and the co-operation of the local authorities, including those who might not be sympathetic towards the scheme. But it would be necessary to consider a narrower definition of citizenship and stricter residential qualifications than are accepted for electoral purposes.

11. It is difficult at this stage to assess the staff numbers which would be needed, but the local authorities would need some thousands of extra staff to launch the scheme, and the Trust headquarters would probably need a good many thousand staff on a continuing basis. Illustrative figures are given in the discussion of this aspect of the scheme in paragraphs 58 - 67 of the report.

12. From the date of announcing a decision on the scheme the report estimates that 3 - 4 years or more would be needed to get it into operation, so that 1984 might be the earliest year in which substantial dividend payments could take place. Ministers therefore have to judge now what the situation is likely to be in 1984 and what relative priority this scheme should command at that date as compared with reducing taxation and/or the PSBR or relaxing the austerity in the public services. Even if it is judged that the period of austerity will have come to an end by then, a decision to go ahead with the scheme immediately would entail a build-up of the administrative arrangements at a time when there is still likely to be great stringency in staff expenditure generally.



13. The report therefore concludes by posing a number of questions on the basis of which Ministers could move towards a decision in favour either of a commitment to the scheme or its rejection or possibly some more non-committal course. I was asked to report by September so that a decision could be taken in advance of the Queen's Speech, but I am making an earlier submission because it seems desirable to get Ministerial reactions at this stage before deciding what further work should be done.

14. I doubt whether any amount of further work would lead to a substantially different general appraisal. If it is decided, on the basis of this appraisal, to take the work a stage further, it will be desirable to get comments on the report from, eg, the Home Office and the DHSS on the possible use of the electoral registration system rather than the social security system, from Inland Revenue and the Bank of England on the taxation and monetary aspects, and so on, though wider consultation will make it harder to maintain the present degree of confidentiality in handling the subject. The Prime Minister may in any case wish to consider whether to put other colleagues in the picture about this piece of work.

15. I expect to be in the United States and Canada during the week beginning 21 July, but otherwise I can be available in the period ahead. While I am away Mr O'Shea of the Department of Industry, who has been helping me with the work, can take delivery of any queries. (He is on 212 6106).

16. I am sending copies of the report and this covering minute to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Energy. I am also sending copies of the report without the covering minute to the officials and special advisers shown in the attached list.

A. P.

LEO PLIATZKY
17 July 1980



Non-Ministerial Distribution List

Civil Service Department

Sir Ian Bancroft

Treasury

Sir Douglas Wass

Mr Adam Ridley

Mr Peter Cropper

Department of Industry

Sir Peter Carey

Mr David Young

Mr Michael O'Shea

Department of Energy

Mr Charles Henderson

17 JUL 1980

17 JUL 1980



CONFIDENTIAL

REPORT ON A PROPOSAL FOR A
NATIONAL INVESTMENT TRUST
TO PROMOTE A WIDER OWNERSHIP
OF PROPERTY

JULY 1980 .

Report on a proposal for a
National Investment Trust
to promote a wider ownership
of property

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PROPOSAL FOR A
NATIONAL INVESTMENT TRUST

Proposal

1. The proposal examined here is that the country's adult population should be given a free distribution of shares or stocks carrying a right to dividends from publicly owned industries or assets or to a stream of income from public revenue.

Objectives

2. The objectives stated by Ministers are:-

- (a) to extend the scope of property-owning democracy by promoting the widespread holding of property other than home-ownership;
- (b) to decentralise the ownership of public property.

3. If a scheme could be introduced which would also further the Government's policy of bringing the disciplines of private shareholdings into publicly owned industries, Ministers would regard that as an additional advantage though not an essential feature of the scheme.

Types of Scheme

4. Three types of scheme have been examined.

5. The first is a "British Columbia" type of scheme, inspired by the creation in Canada in 1978 of a company called the British Columbia Resources Investment Corporation (BCRIC) to which the provincial government transferred its shares in three forest product companies and in a pipeline company, together with certain Crown land and exploration rights for oil and gas.

The purposes of this measure, as described in BCRIC's literature, were to provide an investment opportunity for British Columbians and to create a new pool of investment capital owned and managed in the province. The amounts involved are as follows:-

- (a) the total value of the assets at the time of transfer was about \$150 million;
- (b) about 2 million residents of British Columbia applied for and received free shares in BCRIC;
- (c) about 40,000 of them subscribed \$487 million for additional shares in BCRIC.

6. BCRIC is empowered to make new investments and has done so. It still has large liquid resources from the sale of shares. Interest on the investment of this money exceeded other net revenue in the company's first year. The company paid no dividends in that year.

7. Special advisers have suggested the energy industries (oil, gas, coal and nuclear power) as candidates for inclusion in a scheme derived from the BCRIC precedent. They do not now suggest the inclusion of telecommunications, on which there may be other proposals.

8. The second scheme involves a North Sea Stock on the lines proposed in 1978 in a paper by Mr Sam Brittan and Mr Barry Riley. Under this scheme total receipts from oil royalties, Petroleum Revenue Tax (P.R.T.) and corporation tax arising from North Sea oil would be distributed to citizens of the UK from 1980 onwards. The right to this income would be transferable and would therefore have a capital value realisable in the stock market. The scheme would be administered by a National Oil Trust. Dividends on the stock would be taxable. The key figures at 1977 prices (the price basis is particularly important in a period of high inflation and

the figures on a later price basis would be much higher) were estimated in the paper as follows:-

- (a) total North Sea revenue would build up to £4,000 million by 1985;
- (b) the number of stock certificates (not allowing for the issue of certificates to people becoming adults after the start of the scheme) would be 41 million;
- (c) annual dividends would rise from something over £50 per certificate in 1980 to something under £100 in 1985, and would decline from 1990 onwards to zero in the year 2000;
- (d) the discounted capital value in 1980 on certain stated assumptions was estimated at a little over £2,000 per household of 2.3 adults.

9. The Brittan-Riley paper floats the idea of extending their scheme so as to include the profits (if any) of all State enterprises, but advises against doing this at the outset, for fear of jeopardising or delaying the North Sea Stock.

10. The third option discussed in this report is a National Investment Trust, which would be a development of the Brittan-Riley scheme, and to which some features of a British Columbia type of scheme could possibly be added.

11. The report is not concerned with "privatisation" schemes of the kind designed to secure the investment of private equity capital in what are now publicly owned industries, which have different objectives and in which only people who already have some investment capital can participate. The present exercise is primarily concerned with distributing capital rather than raising it.

Costs and Benefits

12. The paper by Brittan and Riley does not exclude partial application of their idea or its introduction by stages. But if the scheme were to be credible as a general extension of property ownership, it would have to involve a minimum dividend of, say £50 per adult person per annum at 1980 prices for a period of years, or a minimum capital value of £500 per head. The latter figure is not intended as the discounted value of the former, but as the kind of amount which might have a similar psychological effect.

13. The choice of figures has to be an arbitrary judgment, but any smaller dividend than this would surely seem derisive in relation to, say, the size of various social security distributions, while any smaller capital value would be paltry in relation to, say, the cost of a car or the deposit on a house. Even the figures just mentioned are not very impressive from this point of view, but they become somewhat more so if considered as £100 a year or a capital value of £1,000 per average household.

14. A scheme for paying these amounts to 40 million adult beneficiaries would require the allocation of £2,000 million a year and a large administrative apparatus involving a good many thousands of man years, whether in a new organisation or spread over existing organisations. The administrative cost would be much the same whatever the level of dividends, and that is a further reason why these benefits would have to be fairly sizeable, so as to make the organisational effort reasonably worth while.

15. Before too much time and effort is spent on the details of possible schemes, it will be sensible for the Government to consider whether they are prepared to commit themselves to the allocation of resources on the scale involved in the foreseeable future. On the other hand, Ministers will be better placed to make this judgment if they have a somewhat fuller picture of what would be involved in the various possible schemes, and these are considered in turn below.

A British Columbia Scheme

16. The only feature common to the British Columbia scheme and the proposed North Sea stock is the free distribution of shares or stock, and this is probably the only respect in which the British Columbia scheme provides a valid precedent for the purpose of this exercise. It is important to bear in mind the objects of the exercise. BCRIC itself is mainly aimed at future development (a similar effect would be achieved by distributing shares in the National Enterprise Board) and the amount involved in BCRIC, whether in total or per head, is too small to do much to spread property ownership.

17. A UK version of BCRIC which was designed to achieve this objective would have to be on a much bigger scale and there would have to be big institutional differences. Those publicly owned industries which are constituted as public corporations are not companies; they do not have equity capital and it is not possible to create a marketable equity in them as at present constituted. This point was examined in detail in the work on British Airways, when it was decided to achieve the desired effect by creating a new company and transferring the airline's assets to it. The same approach is being adopted in the case of British Aerospace.

18. The proposed institution could therefore be endowed in one of four ways:

- (a) the Government could transfer to it their existing shareholdings in companies which they own in whole or part and their potential holdings in any companies which are to replace public corporations under present intentions;
- (b) the "British Airways method" could be applied to further public corporations - in particular, the British Gas Corporation and the electricity industry - with the specific object of vesting their shares in the new institution;

- (c) the institution could be given interest-bearing bonds entitling it to a stream of income from the public corporations;
- (d) it could be enabled to take part in joint ventures with the public corporations.

19. If course (a) were adopted, the only shares which the Government already holds or is considering acquiring and which would give the new institution a significant dividend income are the existing shares in BP and the potential holding in BNOG. The value of the potential shareholdings in British Airways and British Aerospace is problematical, while the government's shareholdings in British Leyland and Rolls Royce are more of a liability than an asset. The figures for BP and BNOG are as follows:-

B.P.

Dividends on the publicly owned shares in BP (including those at present held by the Bank of England) may be about £200 million in 1980. No long term forecast of these dividends is available.

BNOG

The post-tax profits of BNOG, after meeting very large capital requirements, have been projected in its corporate plan as rising from £113 million in 1981-82 to £200 million in 1984-85 at 1980 prices. If BNOG were transformed into a company and half its shares sold - and this is understood to be one possibility which has been under consideration - the dividend on the other half retained by the government would depend on the proportion of profits distributed, but in any case could not, on these figures, exceed £100 million in 1984-85. The projections do not go beyond then.

20. Therefore, though BP and BNOG might form a useful element in a wider portfolio, they would not by themselves produce sufficient dividend to make course (a) a viable means of achieving the objective of this exercise, even if the whole of BNOG's profits, and not merely a half, were allocated for the purpose.

21. Course (b), by casting the net wider in the public sector, would bring in a further major source of revenue, i.e. the British Gas Corporation (B.G.C.), whose surplus funds, whether in terms of profits or net cash flow, are estimated at over £400 million in 1984-85 at 1980 prices.

22. In the case of the electricity supply industry, whose large internal resources are at present more than accounted for by its capital expenditure, a surplus of internal resources over capital expenditure is now projected for future years as a result of planned price increases. This surplus is projected to rise to £300-£400 million by 1983-84 at 1980 prices, of which something like £200 million is shown as profit.

23. Thus the potential revenue from courses (a) and (b) combined, i.e. from BP, BNOG, the British Gas Corporation and the electricity supply industry, might - as a very rough order of magnitude - be the better part of £1 billion at 1980 prices in 1984. This could make a substantial contribution to launching a "British Columbia" scheme but would still be only a half of the minimum amount assumed to be needed, and we have no assurance about the amounts which could be produced in this way over the subsequent decade.

24. Moreover course (b) would involve a massive constitutional restructuring of the industries involved, and the creation of a powerful new institution. It would also give rise to important questions of control, and of pricing policy, in view of the monopoly position of BGC and the electricity boards. (The same would be true of any similar proposals with regard to the telecommunications side of the Post Office, and in addition the investment programme for telecommunications more than swallows up the industry's internally generated resources).

25. The feasibility of course (c), i.e. the creation of prior charge bonds in BNOG and the British Gas Corporation, would depend on our being able to determine for a long enough period in advance the amount of bond interest which the two Corporations could afford to service. In the absence of any long-term projections it is assumed for the present purpose

that course (c) might yield about the same revenue as course (b). This course would have the advantage that it would not raise any new issues of control, but it would have the political and psychological disadvantage that the new institution would have no relationship with the corporations from which it was drawing interest. This arrangement would be tantamount to financing the scheme by a tax or levy on the energy industries, which might be better raised by the government and used to help finance the scheme.

26. Course (d), i.e. joint ventures, would require the investment of funds by the new institution in the first place, and would provide it with revenue only when the investments paid off. This course would not help to launch the scheme but could help to finance it in later years, and this possibility is considered further later in the report.

A North Sea Stock

27. Courses (a) to (d) which have just been discussed are all variants of a British Columbia type of scheme. We now revert to the Brittan-Riley proposal for a North Sea Stock already summarised in paragraph 8. Hardly anything needs to be added to that summary by way of description of the scheme, which is conceptually straight-forward. Since it would be financed wholly by hypothecation or allocation of government revenue, it need not directly involve any of the publicly owned industries or give rise to any new problems of control of these industries. Because of the high percentage of the government's "take" from the North Sea, and because it is derived from all the North Sea oil fields and not merely those in which BNOC has a stake, there would be no doubt about the adequacy of the revenue available if this scheme were given priority over all other claims.

28. So far as the administration of the scheme is concerned, the Brittan-Riley paper glosses over the problems of organisation which would arise from the sheer size of the scheme and the volume of the new securities which would be created; but these problems, which are considered further in a separate section of this report, would be common to any of the schemes discussed.

29. However, one drawback which is particular to the Brittan-Riley proposal is the fact that the value of the North Sea Stock certificates would diminish with time instead of increasing. That is to say, if the capital value of a certificate in Year 1 was the discounted value of the prospective dividends in Years 1-20, in Year 2 the amount would be the discounted value of the dividends for Years 2-20, that is, one year less, and so on. Moreover, in the later years the prospective dividends would be smaller, so that the realisable value of the certificates would be further reduced.

30. The Brittan-Riley paper argues that it is a positive virtue of the scheme that the amount distributed would taper off pari passu with the decline in North Sea revenue, but its contribution to a property-owning democracy would be very ephemeral if the property started to lose value from the outset. It may be that in the event there will be large North Sea revenues for a longer period than the Brittan-Riley paper assumes, but nevertheless there must be a limit on the period ahead for which the Government could commit itself to allocating these funds for a North Sea Stock.

A National Investment Trust

31. What follows is an attempt to see whether the Brittan-Riley scheme can be developed so as to overcome the drawback of having a North Sea Stock which would be a wasting asset. Moreover, since the scheme could not now be introduced until some time in the 1980s, rather than in 1980 itself as envisaged in the Brittan-Riley paper, a 10-year period, instead of 20 years, is assumed for the hypothecation of North Sea revenues.

32. This version of the scheme would involve the following basic features:-

- (a) A National Investment Trust would be set up.
- (b) It would be administered by National Investment Trustees. They need not constitute a non-Departmental body (or quango) since they could be appointed as part of the apparatus of

central government (perhaps as an Exchequer sub-Department) but with a special status and responsibilities in their own right, on rough analogy with the Board of Inland Revenue or the Public Trustee.

- (c) The Government would allocate to the Trust a basic £2,000 million a year at 1980 prices for 10 years.
- (d) The annual allocation would be inflation-proofed in line with an appropriate index - perhaps related to oil prices.
- (e) The Trust would issue stock certificates to about 40 million eligible adults in the UK.
- (f) Each certificate would carry an entitlement to a dividend of £50 a year at 1980 prices for 10 years.
- (g) Each annual dividend would be index-linked up to the date of payment on the same basis as in (d) above. Once paid it would not be further index-linked in line with subsequent inflation, even if kept on deposit in a Trust account.
- (h) Certificates would be transferable (ie they could be bought and sold) with accumulated interest, subject to transfers of ownership being registered.
- (i) Dividends would be tax free, subject to an upper limit on the tax exemption for owners of more than one certificate.
- (j) A stockholder would have the option of drawing his dividend or leaving it on deposit in his Trust account.

- (k) The Trust would invest each stockholder's deposits in gilt-edged securities. Compound interest from these investments would be credited to his Trust account.
- (l) Interest would be tax-free, subject to an upper limit on the tax exemption for multiple certificate ownership, but accumulated interest would not be index-linked.
- (m) At the end of the initial 10-year period stockholders could continue to leave the sum accumulated in their accounts on deposit and to earn further interest exempt from tax.

33. It would be possible further to develop this basic scheme so as to involve the following supplementary features:-

- (n) An additional amount could be made available to the Trust in each year for 10 years, either from a further hypothecation of North Sea revenue or by transferring to the Trust the rights to dividends on publicly owned shares in, say, BP and in BNOG if the latter had been reconstituted as a company; but any right of control arising from these shareholding could in other respects be exercised by the appropriate Minister.
- (o) These funds would not be used for paying dividends in the first 10 years of the scheme but would be invested so as to yield income from year 11 onwards, out of which the Trust would pay a discretionary annual dividend.
- (p) The funds would be invested in either:-
 - (i) joint ventures with publicly or privately owned energy industries, or
 - (ii) gilt-edged securities.

34. The basic scheme would have the effect of giving each citizen a savings account at no cost to himself. The element of indexation in it, and the tax exemption, would play an important part in making the scheme worthwhile and, in conjunction with the tax-free interest on sums kept on deposit, would provide an incentive to accumulate the resulting capital amount. Otherwise the objective of spreading property ownership would be frustrated. To the extent that stockholders kept their money on deposit in the Trust, either during the initial 10-year period or after it, the net outflow from the Exchequer would be reduced, though there would be a corresponding deferred liability which would have to be met if the money was later withdrawn.

35. The Brittan-Riley paper argues against a special tax exemption and dismisses the problems of mechanics which would be involved in making a free distribution out of tax revenue and then collecting part of it back again. But taxation of the dividends and deposits would greatly reduce the incentive to save; it would be a great complication of the tax affairs of many people who at present pay tax only on their wages under PAYE or who pay no tax at all; and it would add to the cost of a scheme which in any event would pose great administrative problems. The purpose of limiting the tax concession in the case of multiple stockholdings would be to avoid giving excessive encouragement to high tax payers to buy up additional stock from others.

36. If the supplementary features set out in paragraph 33 were grafted on to the scheme, this would correspondingly increase the period in which dividends could be paid to stockholders, even if at a reduced rate. If the supplementary funds made available to the Trust in this way could be invested in sources of energy for the future, and if suitable projects could be found on a scale sufficiently large for the purposes of this scheme, that would go some way to meet the argument that North Sea revenue ought to be used to make provision against the day when the oil runs out. One possibility which might be explored would be the creation of a joint company with the CEEB for the construction of nuclear

power stations; the Trust would provide the company with finance on deferred terms, to be recouped out of future sales of electricity from the power stations, while the CEEB would provide the management. A similar arrangement for coal might be considered. Any such arrangement would of course represent a relaxation of the policy of self-financing by the nationalised industries, and on present projections the electricity supply industry's planned price increases will eliminate the need for external finance in the next few years, but we are concerned here with a date some years away from the present.

37. There is no provision in this scheme for giving stockholders a right, as in the original British Columbia scheme, to buy additional stock from the Trust. One reason for this is that the Trust's objectives are so different from BCRIIC's function in mobilising (rather than distributing) capital for investment in British Columbia; opportunities for bringing private capital into the public corporations are being provided by a more direct route through the plans for British Airways, British Aerospace and the National Freight Corporation, and possibly BNOG. A further important reason is that, if the Trust were to be financed wholly or mainly from an allocation of public revenue, it would be out of place to give investors a chance to buy a share of tax revenue.

Eligibility and Administration

38. The Brittan-Riley paper is written in terms of a free distribution to "citizens" without going into the finer points of citizenship. The narrowest category of citizenship is "citizen of the United Kingdom and Colonies", and a natural approach would be to confine eligibility to citizens in this category resident in the United Kingdom.

39. But no comprehensive register or set of records has so far been identified which is compiled in these terms. Nor has any existing payments system been identified which could be used as it stands, or adapted without too much difficulty, for paying dividends on the basis of citizenship.

40. The National Insurance system, which provides both a set of records and a payments system, is geared to National Insurance contributions. It therefore excludes, for instance, housewives who do not pay contributions in their own right and various categories of people, such as many of the disabled, who have no paid employment, but it includes many people who have foreign citizenship. Moreover many of the addresses in its records in respect of past contributors will be out of date. It is not used for making payments in the course of a year to everyone in the system, but perhaps to around 10 million of them; a whole new apparatus would have to be added for the purposes of a universal payments scheme. The National Insurance system does not therefore appear to meet the present requirement either as a set of records or as a payments machinery.

41. The electoral registration system is the one which comes closest to the desired coverage; but it does not, of course, include a payments system, which would have to be added.

42. The electoral registration system is for practical purposes administered by over 400 local authorities, though each Electoral Registration Officer, who is in other respects a senior local government official, has responsibilities in his own right for the electoral arrangements and is answerable to the Courts in this matter.

43. The Electoral Registration Officer brings his records of those entitled to vote up to date every year through forms issued to each household in October. People of 18 or more on that date are registered as eligible to vote if they have citizenship of the Commonwealth or the Republic of Ireland and if they are normally resident at the address in question. The residential qualification is not strictly defined or interpreted and is taken to mean living at the address in question, even if for only part of the time, over a period of about six months. People with more than one place of residence can register in each place and can vote in local authority elections at each of them.

44. A piece of research carried out some years ago suggested that the electoral register was about 96% accurate when brought up-to-date each year and then lost accuracy at about a rate of 1% per month.

45. Subject to legislation, and to the co-operation of the local authorities, this machinery could be used on a repayment basis for issuing literature and application forms for the new scheme, and for collecting and vetting application forms. But the same forms could not be used both for electoral purposes and for the new scheme. The forms for this would have to be different and more detailed in a number of respects.

46. A political decision would be needed whether to exclude voters from the Commonwealth and the Republic of Ireland who were not also citizens of the United Kingdom and Colonies. (This would not in any event exclude those people from the Republic of Ireland who can acquire UK citizenship by registration after five years here). Local authorities can in some respects check the accuracy of statements made on registration forms, but there are already problems over checking the eligibility of some immigrants who are not Commonwealth citizens, and local authorities could probably not check which Commonwealth citizens were also citizens of the United Kingdom and Colonies. It would probably be necessary to take statements on this aspect on trust in the first instance.

47. Ministers would in any event need to consider whether it would be satisfactory to issue stock certificates, with a fairly substantial value and a 10-year validity, to visitors from the Commonwealth or the Republic of Ireland who might have come to the address in question just before registration date and who might then stay for only a short period - notwithstanding which they could get on to the electoral register. It would be possible, as a further condition of eligibility, to require previous residence for a period of years either at the address in question or at other addresses either in the same area or elsewhere in the United Kingdom. The local authority could probably, up to a point, check statements about residence at the same address, or even in the same area, but not statements about residence elsewhere.

48. There would be a time lag between registration and initial issue of stock certificates, and at later stages there would be further intervals of a year between annual dividend payments. As further conditions of the scheme, issue of certificates and payment of dividends could be confined to people resident in the United Kingdom at the time of issue and payment, though there would be problems about the administration of these arrangements. These conditions would not prevent the accumulation of money, which could be withdrawn later, in the Trust accounts of stockholders who served or worked overseas during the lifetime of the scheme, but would be part of the safeguards to prevent people staying in the UK purely to apply for free stock certificates and then leaving to draw the benefits from a distance.

49. It would be necessary to consider separate arrangements for enabling people from EEC countries to apply for stock certificates if they satisfied the residential qualifications. The EEC complication would be a further reason for attaching to the scheme conditions about prior residence additional to those which are regarded as sufficient for electoral purposes.

50. There need not necessarily be any ban on the transfer of stock certificates by stockholders to foreigners generally (as distinct from giving them a free issue) but they would come under any rule, such as that suggested in paragraph 48, confining payment of dividends to people resident in the UK at the time.

51. This report has been written so far in terms of a once-for-all issue of stock certificates to people qualifying on a particular date. The Brittan-Riley paper raises the question whether there should be subsequent issues to people reaching the age of 18 at later dates, but leaves this question rather open. If there were one or more stock issues after the initial distribution, it would be necessary to consider extending eligibility to people who satisfied the residential

conditions by then, having failed to do so at the original date, as well as to those coming of age.

52. The Trust would of course need to have a headquarters organisation, to which the local authorities would send the application forms after they had taken the vetting process as far as they could. Subject to any further checking at the centre - eg to try to eliminate duplication of payments to applicants with more than one address - the Trust would use this material as a basis for a computerised system of Trust accounts, and for the initial issue of stock certificates. These might be accompanied by a counterfoil which could be used for drawing the first dividend through banks or post offices, with whom arrangements would have to be made for that purpose.

53. It is inherent in the scheme described here that the new securities would not be bearer certificates issued with counterfoils to cover the whole 10-year period, or perhaps on the basis that the next year's counterfoil could be drawn from the bank or post office each time that an existing counterfoil was cashed. An arrangement of that kind, though it would in some respects simplify the administration of the scheme, would conflict with the requirements of a scheme involving registration of holdings and the keeping of Trust accounts with accumulating interest. Bearer certificates not involving a registered account would also be incompatible with an arrangement for tax exemption subject to an upper limit in the case of multiple stock holdings; it would become necessary to dispense either with the limit or with the tax exemption - more probably the latter, in order to avoid accumulation of certificates by high tax payers. Bearer certificates would therefore drive us back to the pure Brittan-Riley scheme in all its simplicity but with the major drawback that, without these further features of a tax-free interest-bearing account, the stock would be a wasting asset.

54. Moreover, even with a basic Brittan-Riley scheme there would be still a great difficulty over bearer certificates because of the problems of security involved. There would be a distinct risk of loss or theft during the life of the

certificates, and the loser would have no remedy or redress.

Enforcement

55. Every piece of mass administration involving such things as taxes or benefits or ration entitlements depends to a large extent on the average citizen's tendency to comply with the law, but every such system must also make provision to deal with a certain degree of non-compliance. Even with substantial safeguards against abuse, there will always be some percentage of cases of evasion or fraud.

56. The proposed new scheme would be without precedent as a free distribution of transferable assets with a capital value. Many households would be in possession of a fairly valuable security for the first time. There would be temptations and opportunities on a great scale for fraud and theft and probably a risk of forgery.

57. These dangers could be kept within certain limits by suitable provisions of the scheme, eg by requiring registration of sales or other transfers of stock certificates rather than by treating them as bearer bonds, and by making each year's dividend distribution a fresh operation, instead of issuing in advance counterfoils which would be useable over the whole 10-year period. But a suitable enforcement staff would also be needed, and even then the number of cases of abuse would probably be such as to attract a good deal of criticism, especially while the scheme was having its inevitable teething troubles.

Staff and Administrative Cost

58. The cost of maintaining the electoral register at present has been put at £14 million a year. There are no statistics of the number of local authority staff engaged on this work, which will fluctuate during the year, but enquiries suggest that it may work out at the equivalent of 3,000 full time staff a year.

59. Although the same facilities could up to a point be used for the new scheme, local authorities would have to undertake a great deal of additional and in some respects more difficult work if they handled the applications. There is at present no basis for an accurate estimate of the extra cost and staff requirement, but at a guess the existing staff numbers might have to be doubled or trebled for the initial operation. The size of any continuing local costs would depend on the extent of local authority involvement in, say, helping to keep the central records up to date and on decisions about further issues of stock certificates for people qualifying after the initial issue.

60. The cost and staff requirement of the Trust headquarters is even harder to estimate. At the initial stage, if the processing of the 40 million applications and feeding the data into the computer were spread over a whole year of about 250 working days, and eight hours a day including overtime, that would mean dealing with 160,000 applications a day and 20,000 an hour. It is impossible to say now how long it would take to process one application. If the average time were 6 minutes, 2,000 staff would be needed for the processing of applications, not allowing for leave and other absences; if the average time were 10 minutes, the number of staff on this task would be over 3,000. Administrators, legal advisers, secretarial and clerical staff, computer programmers and so on would also be needed.

61. Once the scheme was in operation, the bulk processing of initial applications would not recur, but there would be other tasks related to the annual distribution of dividends, transfers of holdings and such like. There could well be a continuing requirement for some thousands of Trust staff.

62. For comparison, the National Savings Bank at Glasgow employs 4,500 staff to deal with 22 million accounts. There are 200,000 transactions a day, giving an average of 45 transactions per head each day.

63. The reasons for having a computerised system of registered accounts, rather than unregistered bearer certificates, have already been set out. But even if a system of bearer certificates were adopted, and the use of a computer were eliminated, the manpower involved in the initial processing of applications and the issue of certificates by manual methods could be very large indeed.

64. For comparison, when the family allowance scheme was first launched in 1946 after two years preparation, the centralized handling of about 2½ million claims for the initial take-on involved 2,200 staff; when the initial phase was over this number was reduced to 1,400.

65. Later, when benefit for the first child was introduced, nearly 3,000 staff were recruited to deal with over 3 million initial applications from families with only one child; in subsequent years the number of staff dropped to 1,300.

66. If we scale these figures up for an operation involving the processing of 40 million applications and the issue of 40 million stock certificates by purely manual methods, on a purely arithmetical basis - roughly 1,000 staff for every million applications - a massive staff requirement emerges.

67. The plans for the 1981 Census of Population, estimated to require the recruitment of about 115,000 temporary staff, illustrate the numbers involved in a more concentrated exercise with universal coverage. It does not, incidentally, appear feasible to combine the census with the handling of applications for the proposed new stock certificates. The timetables involved are different, the data required are not the same, and information collected for the census may not be used for other purposes.

Timetable

68. From the date of taking and announcing a decision to go ahead with a scheme on these lines, the main stages involved before the issue of stock certificates could take place would include the following, not necessarily in this sequence:

Stage 1	Legislation.
Stage 2	Appointment of Trustees, creation of Trust headquarters and staff.
Stage 3	Production and installation of the computer with its programme.
Stage 4	Printing and issue of application forms, collection and vetting of forms by local authorities.
Stage 5	Processing of applications at Trust headquarters.
Stage 6	Production and issue of Stock certificates and counterfoils for dividend payments.
Stage 7	Cashing of dividend counterfoils by banks and Post Office under arrangements to be negotiated.

69. Some of these pieces of work could proceed together. Trustees designate and a skeleton staff could be appointed while the legislation was going through, and carried on the strength of the appropriate department, so as to get on with planning and consultation. There are precedents for starting to incur financial commitments on a new scheme after the Bill in question has had Second Reading, but preparations could not go beyond a certain stage until after passage of the legislation.

70. It is difficult to assess how far some of the other stages could sensibly be taken in advance of availability of the computer, and further consultation would be needed, on the basis of a fairly detailed job specification, to get a better idea how long it would take from the date of ordering the computer to get it into operation. Meanwhile, if we assume that the computer system, though capable of dealing with large batches of work, did not involve the complexities of access from a multiplicity of terminals, that preliminary design work went ahead during the passage of the Bill, and that a firm order was placed after Royal Assent, at a guess a minimum of 2-3 years

would be needed from the latter date, but it might well be longer. If all the other stages had been completed by then, this would give a minimum time lag of 3-4 years (which might well be exceeded) from announcing the scheme to starting the issue of stock certificates. If the scheme were announced in the next Queen's Speech, the first year in which there was a substantial dividend distribution might be 1984.

Financial and Economic Implications

71. Oil revenue in 1984 and the following decade will depend on a number of variables. Among other things, the price basis will be important for this as for other financial estimates in this report.

72. The following projection of North Sea revenue up to 1983-84 at 1980-81 prices has been provided by the Treasury:

<u>(£ billion)</u>	1979-80	1980-81	1981-82	1982-83	1983-84
	2½	4	4½	6½	6½

This projection does not go beyond 1983-84, but it is thought that oil revenue might peak around 1985 and decline in the later 1980s and in the 1990s, but relatively slowly, so that it should still be higher in 1994 than in 1980-81.

73. The minimum requirement of £2 billion which has been postulated for this scheme will therefore be amply covered, and from one point of view the scheme could be regarded as a means of allocating the increment in North Sea revenue between now and 1984. It would, however, be in competition for the use of these funds with other objectives - reducing taxation, reducing the public sector borrowing requirement (PSBR) or relaxing the present austerity in the public services.

74. From another point of view North Sea revenue has to be regarded as part of total revenue and the financing of this scheme as one among other public expenditure claims. Whether there is £2 billion to spare in 1984 will depend not simply on this increment to North Sea revenue but on what happens to revenue and expenditure as a whole. There are also political

and presentational as well as real considerations involved in hypothecating North Sea revenue for this scheme; if the principle of hypothecation is conceded, Scottish Nationalists may be encouraged to renew their claims for North Sea revenue to be hypothecated for the exclusive benefit of Scotland, while others will argue that it should be hypothecated for funds for Britain's economic development.

75. The Brittan-Riley paper argues that their scheme would have no impact on the PSBR or the money supply "compared with tax reduction or increased public spending". There would, however, be an effect on the PSBR, with potential implications for interest rates, if the PSBR were maintained at a higher level than would otherwise be the case because of this scheme. Moreover, the capital value of the stock issue would be a multiple of the annual dividend, so that the inception of the scheme would see a substantial increase in the volume of securities which could be used for obtaining credit; this too would have to be taken into account in monetary management.

76. Under the variant of the scheme discussed in this report, to the extent that stockholders' funds were kept on deposit with the Trust and invested in government securities, to that extent the scheme would either not increase the PSBR above what it would otherwise be or, if this transaction were treated as a public sector borrowing, it would automatically provide a certain amount of financing for the PSBR, with a future repayment liability as in the case of all government debt.

77. Thus, if a decision on the scheme were to be taken now, it would be necessary to judge what the situation is likely to be in 1984 and how the Government's relative priorities are likely to appear at that time. Even if it can confidently be anticipated now that the distribution of a minimum of £2 billion a year in dividends for the scheme will be a feasible and desirable course, allowance must be made for the fact that the build-up for the scheme will begin and continue for some time in circumstances of austerity and manpower stringency.

78. If a later timetable were adopted, so that substantial payments began later than 1984, by the end of the 10-year period of dividend payments it would be the more likely that North Sea revenue was on the decline, though it could still be sufficient to cover the £2 billion. If it were relevant to the decisions to be taken that an attempt should be made to get a more considered projection of North Sea revenue in the longer term, it would be necessary to bring Inland Revenue among others into the exercise.

Options

79. In these circumstances, the Government will have to take a view, on the basis of this report or of further work to be carried out in the light of it, on the following questions:

- (a) Do they in principle give a higher priority in the medium and long term to a National Investment Trust or some such scheme than to reducing taxation and/or the PSBR or to relieving austerity in the public services, if resources are available for one or more of these objectives?
- (b) If not, or if they feel that the question is too hypothetical for an affirmative answer, do they consider that study of these proposals should now be discontinued, with or without issuing some document or statement to show the study so far given to the subject?
- (c) If the answer to (a) is affirmative, do they feel able to take a view now on the availability of resources in 1984 or later and to commit themselves immediately to introduction of the scheme?
- (d) Or do they feel that, however desirable the objective, present difficulties, and uncertainty about the future, preclude any commitment now?

- (e) In that case do they wish to decide now against the scheme on the grounds that the difficulties and uncertainties are unlikely to be resolved in the foreseeable future?
- (f) Or do they wish to postpone a decision for, say, one or two years, with or without some public statement and some continuing work in the meanwhile?

July 1980

