

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(80) 28th
Conclusions

COPY NO 80

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 10 JULY 1980

at 10.00 am

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 Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

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 Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

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

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

SECRET

SECRET

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Mr Cecil Parkinson MP
Minister of State, Department of Trade
(Item 2)

Baroness Young
Minister of State, Department of
Education and Science

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant (Item 2)
Mr W N Hyde (Item 1)
Mr D J L Moore (Item 2)
Mr L J Harris (Item 1)

CONTENTS

	Subject	Page
1.	PARLIAMENTARY AFFAIRS	1
	Pay of Ministers and Members of Parliament	1
2.	PUBLIC EXPENDITURE 1981-82 TO 1983-84	3

PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

of
Ministers and
Members of
Parliament

previous
reference:
(10) 27th
conclusions,
page 4

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the draft Order under the Ministerial and Other Salaries Act 1975 giving effect to the agreed increases in the salaries of Ministers in the House of Commons would be laid shortly, together with the resolutions needed to give effect to the increases in the pay of Members of Parliament (MPs). The time taken in the preparation of the draft Order and resolutions, together with the need to allow time for amendments to be tabled to the resolutions, meant that it would not be possible, as had been hoped, for them to be debated on Monday 14 July. The business for the remainder of that week was such that the debate would probably have to be held in the following week. The terms of the Ministerial and Other Salaries Act 1975 did not allow an Order made under it to have retrospective effect, so that the agreed increases in Ministerial salaries could not come into operation until the draft Order had been approved by both Houses. The resolutions on MPs' pay could, however, be given effect from 13 June.

THE LORD PRESIDENT OF THE COUNCIL said that a separate resolution would be introduced in the House of Lords to give effect to the proposed 9.6 per cent increase in the secretarial allowances paid to Ministers in the House of Lords. It had not yet been possible to find a satisfactory way of meeting the Cabinet's wishes to make an additional payment to junior Ministers in the House of Lords who did not receive a Parliamentary salary. Legislation amending the 1975 Act would have to be passed if their Ministerial salary was to be substantially higher than that of their colleagues in the Commons, while the proposal to make them eligible for Peers' expense allowances as well as secretarial allowances was contrary to the decision announced by the Government on 6 March 1980 following earlier consideration of the 13th Report of the Top Salaries Review Body.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet were disturbed to learn of the delay in the date from which the agreed increases in the salaries of Ministers in the House of Commons would take effect. The Chancellor of the Duchy of Lancaster should consider urgently how the proposed timetable could be shortened. It had not been possible so far to find a satisfactory way of giving effect to the Cabinet's wish to improve the remuneration of junior Ministers in the Lords. New proposals could not now be put forward in parallel with the increases in secretarial allowances already agreed, but further efforts should be made to find a satisfactory solution.

CONFIDENTIAL

The Cabinet -

1. Invited the Chancellor of the Duchy of Lancaster, in consultation with the Chief Whip, to consider how to ensure that the Order increasing the salaries of Ministers in the House of Commons was brought into operation with the minimum of delay.
2. Invited the Lord President of the Council to examine further the possible ways of improving the remuneration of junior Ministers in the House of Lords and to report his conclusions to the Cabinet.

IC
NDITURE
2 TO
4
ous
ence:
27th
usions,
e 5

2. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(80) 40), on public expenditure from 1981-82 to 1983-84. They also had before them notes by the Chief Secretary, Treasury (C(80) 38 and 39), covering the interdepartmental report by the official Public Expenditure Survey Committee, and a summary of the main issues by Treasury officials.

THE CHANCELLOR OF THE EXCHEQUER said that, as his memorandum on the economic prospect (C(80) 35) had explained, there would be considerable difficulties in containing the Public Sector Borrowing Requirement (PSBR) and monetary growth in 1981-82 within the ranges allowed for in the medium-term financial strategy. In the later years the prospects were closer to the projections presented at the time of his last Budget, and there should be some scope for tax reductions consistent with the overriding objective of bringing down the growth of money supply and inflation. To achieve those objectives, to retain the confidence of the financial markets, and to make possible some reduction of interest rates, it was essential to keep a tight control on public expenditure and the PSBR.

THE CHIEF SECRETARY, TREASURY, invited the Cabinet to confirm that the objective should be to maintain the net expenditure totals for 1981-82 to 1983-84 published in the Public Expenditure White Paper, Cmnd 7841, as reduced by the reductions in our contribution to the European Community (EC). He had set out in Annex to his paper his proposals for net changes in Departmental programmes. These allowed for some reordering, within the overall expenditure totals, to deal with the industrial and social problems created by the recession and the increased provision which would be necessary for the nationalised industries. He would discuss these proposals with the Ministers concerned, and would report back to Cabinet after the Recess with definite proposals. In the meantime it was necessary to decide in July on the total of local authorities' current expenditure in 1981-82 with a view to a statement before the Recess; to settle before mid-September the totals for local authorities' individual services in 1981-82, so that the Rate Support Grant settlement could be made in November; and to take decisions by the end of September on local authority capital expenditure for 1981-82. Early decisions would also have to be made on the nationalised industries' figures for 1981-82 as a basis for setting their External Financing Limits, and final decisions for 1981-82 on the other programmes would have to be reached in October. It would be convenient to take decisions on the later years of the review at the same time.

The following points were made in discussion -

a. The additional financing problems of the nationalised industries were largely the consequence of recession, and if the Cabinet insisted upon reductions of other public expenditure programmes within the agreed overall totals to offset the additional finance required by the nationalised industries, the effect could be to intensify the depth of the recession. In such a situation there was a case for some flexibility in the PSBR and in public expenditure totals to allow for additional provision to counter the problem of rising unemployment and falling industrial investment during the recession. At a time of low demand, an increase in the PSBR should not lead to higher interest rates. As a proportion of gross national product the PSBR was now lower than at the time of the last recession in 1974-75.

b. The Government was at risk of laying itself open to the charge of not having a coherent strategy for dealing with the problems now facing industry. Painful savings were made by Departments, which were then used to finance increased consumption rather than investment. The Cabinet should be presented with a paper setting out the options for a new package of industrial support. It could then decide whether some reordering of priorities was justified to finance this. Unless action were taken quickly, British industry could be permanently damaged.

c. In principle there would be a case for increasing the PSBR at a time of recession, if the PSBR started at an acceptable level. In fact the PSBR was already very high, and that precluded the Government from adopting this course. Any relaxation on public spending would put at serious risk the objective of bringing down interest rates which were themselves very damaging to industrial development. The problem of British industry at the present time was not shortage of funds to finance new investment but lack of projects offering a sufficiently attractive rate of return.

d. The Government was already assisting industry through its public purchasing policy; the Chancellor of the Exchequer had arranged for further work on possible fiscal measures to reinforce those introduced in his last Budget; and, in the present review, it might be possible to revise spending priorities in favour of support to industry. But it was unrealistic to suppose that very substantial increases on industrial and employment measures could be financed by reductions in the social programmes.

CONFIDENTIAL

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that there could be no increase in the present public expenditure totals, as reduced by the EC settlement. Within those totals there should be scope for giving greater priority to employment and industrial support measures and that could be considered further. The Chancellor of the Exchequer should bring forward a paper to Cabinet at an appropriate time discussing the options for further measures of industrial support.

The Cabinet -

1. Confirmed the objective of keeping to the net public expenditure totals for 1981-82 to 1983-84 published in Cmnd 7841, as reduced by the European Community settlement.
2. Invited the Chancellor of the Exchequer, in consultation with the Ministers concerned, to circulate a paper in due course on the options for further measures of industrial support.

In discussion of individual programmes the following points were made -

e. Local Authorities

It was agreed that, following further discussions between the Chief Secretary, Treasury, and the Ministers dealing with local authority expenditure, a statement should be made before the Recess on the Government's policy on local authorities' current expenditure in 1981-82. There were objections to the Chief Secretary, Treasury's proposal that an increase in the provision for local authority spending should be offset by savings by the Minister responsible from his other programmes. The local authorities, rather than Ministers, decided on the pattern of spending between their services, and it might be fairer to base control on the total of local authority expenditure across the board rather than on the individual programmes attributed to particular Departments. This issue should be discussed by the Treasury and the Departments concerned.

f. Civil Defence

The Defence and Overseas Policy Committee had agreed that there should be an increase in the provision for civil defence of at least £13 million in 1981-82 and slightly more in each of the later years. It was necessary to make an early statement in the House on civil defence policy in response to pressures from Parliament and elsewhere. The Home Secretary was willing to

find his share of this additional expenditure from offsetting savings from within his programmes - if necessary even by limiting the growth of police establishments - and it should be possible to find the balance from relatively small contributions from each of the other Departments concerned. The Secretary of State for the Environment and the Minister of Transport had already undertaken to make their contribution, and the other Ministers involved should urgently consider following suit.

g. Industry

The Secretary of State for Industry would be discussing with the Chief Secretary, Treasury, the possibility of some reductions in his programme to enable him to give more support to research and development by key industries.

h. Employment

The effect of the Chief Secretary, Treasury's proposals for the Department of Employment's programmes would be to reduce the net provision, because some provision for employment measures which had hitherto been met from the contingency reserve had been transferred to the employment programme and the Chief Secretary, Treasury, was calling for offsetting cuts. The Secretary of State for Employment would discuss this further with the Chief Secretary, Treasury, and would also make proposals for new employment measures.

i. Education

It would be very difficult to cut expenditure on schools without putting at risk the Government's commitment to the maintenance of educational standards, though some Ministers thought that there was scope for reducing the provision for non-teaching support without prejudicing educational standards. The Department of Education and Science had put a ceiling on provision for higher education, and was examining the possibilities for student loans and for the rationalisation of courses, but it would take time for any expenditure savings to emerge from such changes. It was questionable whether it made sense to reduce the school-leaving age at a time of high unemployment. Any legislation which might be necessary would be highly controversial and the savings would be relatively small.

j. Health and Social Security

It would be important to reach agreement on the current proposals to introduce charges for road traffic accidents and for foreign visitors, and perhaps to introduce charges for other categories of accident care. Otherwise there would have to be painful, and politically unpopular, cuts elsewhere in the health programme. The Government was committed to the introduction of residential care orders for child offenders and, if local authorities were to implement this policy, additional financial provision would have to be made. There was little prospect of securing legislation to reduce social security benefits to the extent proposed by the Chief Secretary, Treasury. Provision for increases in child benefit had previously been made from the contingency reserve, but it had now been transferred to the social security programme and, if the Chief Secretary, Treasury's proposals were accepted, would have to be financed from off-setting savings there.

k. Scotland

The Chief Secretary, Treasury, had proposed an extra reduction of £150 million a year in planned Scottish programmes on the grounds that there was evidence that the share of expenditure per head of population was higher in Scotland than in Wales and England. This proposal was based on the Needs Assessment Study (NAS) which had been drawn up as part of the last Government's devolution proposals. The Secretary of State for Scotland considered the methodology of this study to be unsound as a basis for Cabinet discussion on the distribution of public expenditure. Even if he were to accept the NAS as a basis for calculation, it would be highly damaging to announce additional cuts in Scottish programmes on that basis. He was prepared to consider additional cuts in Scottish programmes, but it would be important that they should not be seen as being discriminatory. On the other hand, though the methodology of the NAS might be questionable, there was little doubt that the share of expenditure per head was significantly higher in Scotland than in the North of England. The political arguments, and difficulties, were not confined to Scotland.

l. Wales

The Secretary of State for Wales was willing to accept the cuts proposed by the Chief Secretary, Treasury, for his Department, but he would wish to discuss further the need for remedial measures in areas affected by steel closures.

THE PRIME MINISTER, summing up the discussion, said that the Chief Secretary, Treasury, would discuss further with Departmental Ministers the net reductions and additions which he had proposed, taking account of the points made in discussion, and bring back his final proposals to Cabinet in the autumn. The Chief Secretary, Treasury, would also discuss urgently with the Ministers concerned the totals for current local authority services in 1981-82 and put proposals to Cabinet in time for a statement to be made before the Summer Recess. The Cabinet agreed that there should be an early statement on civil defence policy; and the Home Secretary and the Chief Secretary, Treasury, together with the other Ministers concerned, should reach early agreement on how the savings were to be found to finance the additional expenditure.

The Cabinet -

3. Invited the Chief Secretary, Treasury:-

- a. To discuss with the Ministers concerned the net reductions and additions shown in Annex A of C(80) 40, taking account of the points made in the discussion.
- b. To discuss urgently with Ministers concerned the totals for current expenditure on local authority services in 1981-82 and to put proposals to the Cabinet in time for discussion on 24 July.
- c. To report further to the Cabinet in the autumn with final proposals on the remaining programmes.

4. Invited the Home Secretary to agree with the Chief Secretary, Treasury, and the other Ministers concerned the savings necessary to offset the additional expenditure which had been agreed on civil defence measures.

Cabinet Office

10 July 1980