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CC(82) 46th
Conclusions

COPY NO 79

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 2 NOVEMBER 1982
at 10.30 am

P R E S E N T

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 Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Foreign and
Commonwealth Affairs

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

The Rt Hon James Prior MP
Secretary of State for Northern
Ireland

The Rt Hon John Nott MP
Secretary of State for Defence

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 Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of
Lancaster and Paymaster General

SECRET

The Rt Hon Lord Cockfield
Secretary of State for Trade

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr M S Buckley

C O N T E N T S

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FOREIGN
AFFAIRS

Falkland
Islands:
Argentine
Resolution
in the
United
Nations
General
Assembly

Previous
Reference:
CC(82) 45th
Conclusions,
Minute 3

1. THE PRIME MINISTER said that she had just received a message from the President of the United States to the effect that the United States Representative in the United Nations would be voting for the Argentine resolution on the Falkland Islands which (in its amended form) was about to be discussed in the General Assembly of the United Nations. After the unstinted support which the United States Administration had given to the United Kingdom in the course of the war in the South Atlantic, and in the light of the views which had been expressed by United States public opinion at that time, it would be extremely dismaying if the United States Representative were to vote in favour of a resolution so hypocritical and untimely as that proposed by the Argentine Government. She would be sending a strongly worded message to the President, urging him to reconsider his decision and to instruct the United States Representative to vote against the resolution, or at least to abstain.

The Cabinet -

Took note.

PUBLIC
EXPENDITURE
SURVEY 1982

Previous
Reference:
CC(82) 38th
Conclusions,
Minute 5

2. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(82) 38), about public expenditure in 1983-84, 1984-85, and 1985-86.

THE CHIEF SECRETARY, TREASURY, said that at their previous discussion of the subject the Cabinet had agreed that the aim in the 1982 review of public expenditure should be to hold to the planning totals which the Government had announced earlier in the year: that is, for 1983-84 and 1984-85, the aggregate of programmes plus contingency reserve in the 1982 White Paper (Cmnd 8494) as modified by the decisions announced in the Budget and with some minor estimating changes. He had been invited to hold bilateral discussions with spending Ministers with a view to securing this objective. Those meetings had made good progress: he was most grateful to colleagues for their constructive help. As a result, he was able to recommend to the Cabinet a set of changes in expenditure programmes, set out in Annex A to C(82) 38, which had been agreed bilaterally with the spending Ministers concerned and which produced expenditure totals at or within the previously published planning totals. This was the first time that a Government had achieved such a result since 1977. The totals gave scope for a number of desirable increases in expenditure within certain programmes, such as housing, health, and law and order. They involved a reduction in the contingency reserve for 1983-84 from the figure of £4 billion at which it had provisionally been set to £1.5 billion. He intended to keep the precise figure under review until the next Public Expenditure White Paper was published, but he was satisfied that £1.5 billion would be broadly adequate.

Finally, he had agreed with the spending Ministers concerned on a number of measures which ought to be drawn to the attention of the Cabinet. He would describe these separately.

He accordingly sought the approval of the Cabinet, subject to any technical revisions of detail, for:

- i. the expenditure programmes set out in Annex A to C(82) 38;
- ii. the external financing limits for the nationalised industries set out in Annex B to C(82) 38; these had been agreed with sponsoring Ministers and were approximately at the baseline in 1983-84, £250 million above it in 1984-85, and £370 million below it in 1985-86; and
- iii. the figures for Civil Service manpower at 1 April 1984 set out in Annex C to C(82) 38; most of these had been agreed bilaterally with the Minister responsible; in total they were just below the Government's target of 630,000.

The Cabinet's decisions should be announced as part of the Autumn Statement by the Chancellor of the Exchequer. This would, as in the previous year, contain brief descriptions of the changes to programmes, together with a summary, for 1983-84 only, of the revised programme and planning totals and such other statistical information as could be provided in the time available. Full details of the revised programmes for all years would be provided in the Public Expenditure White Paper, which he hoped to publish at the end of January or early in February 1983.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet congratulated the Chief Secretary, Treasury, on his successful conduct of the Public Expenditure Survey, and endorsed the proposals in C(82) 38. The decisions should be announced in the Autumn Statement on the lines proposed. Until then, press briefing would say only that the Cabinet had completed this year's discussions of public expenditure and that the results would be announced at the appropriate time by the Chancellor of the Exchequer.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals in C(82) 38.

Public Expenditure Survey 1982: Specific Issues

The Cabinet then discussed certain measures affecting particular public expenditure programmes in 1983-84 and later years. Their discussion and the conclusions reached are recorded separately.

INDUSTRIAL AFFAIRS

National Coal Board Pay Negotiations
Previous Reference: CC(82) 44th Conclusions, Minute 4

3. THE SECRETARY OF STATE FOR ENERGY said that the result of the miners' ballot, which had just been published, showed a majority of 61 per cent to 39 per cent against strike action; this would be regarded as in effect a vote in favour of accepting the pay offer made by the National Coal Board (NCB). This would be seen as a humiliating defeat for the President of the National Union of Mineworkers, Mr Scargill. He would congratulate the Chairman of the NCB, Mr Siddall, on his skilful presentation of the NCB's case. It would be important to make it clear, in the context of other pay negotiations, that the NCB offer, while composed of an increase of 7.2 per cent on base rates and £1.50 a week in productivity incentives, was expected to involve an increase of only 6.4 per cent on average earnings.

The Cabinet-

Took note.

PUBLIC ORDER

4. THE HOME SECRETARY said that on the previous day the Metropolitan Police had been called upon to maintain public order in Brixton in order to permit the demolition of three derelict houses which had been illegally occupied. The situation had been quiet during the daylight hours but there were disturbances after dark. The police had then put into operation new tactics which had been prepared for use in such situations throughout the country and, as the press had acknowledged, the streets had been cleared quickly and effectively.

The Cabinet -

Took note.

Cabinet Office

2 November 1982

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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 46th Conclusions, Minute 2

Tuesday 2 November 1982 at 10.30 am

PUBLIC
EXPENDITURE
SURVEY 1982---
Specific
Issues

The Cabinet discussed certain measures affecting particular public expenditure programmes in 1983-84 and later years.

THE CHIEF SECRETARY, TREASURY said that in bilateral discussions he had agreed with spending Ministers a small number of politically important items which he wished to draw to the attention of the Cabinet. These were:

i. Local Authority Housing

The Secretary of State for the Environment had initially favoured an average increase in council house rents of £1.50 (11 per cent) per dwelling per week, but now favoured an average increase of 85p (6 per cent). An increase of rents by the higher amount would have made it possible to afford some £75 million additional capital expenditure within the planning total; but it was impossible to force local authorities to increase rents by a particular amount, the figure now proposed was reasonably consistent with the general levels of wage and price inflation, and it would probably be accepted by most local authorities.

ii. Social Security

The uprating of social security benefits in November 1982 would be based on a forecast, made at the time of the 1982 Budget, of an increase in prices during the previous 12 months of 9 per cent. It now seemed likely that the increase would be between 6.1 and 6.5 per cent. There was a cogent case for recovering the resulting excess, just as the Government had previously made good shortfalls: otherwise, there would be a 'ratchet effect' whereby beneficiaries could never do worse than the rate of inflation but would sometimes do better, as a result of forecasting errors rather than of conscious policy decisions. He had accordingly agreed with the Secretary of State for Social Services that the uprating in November 1983 should be abated by an amount to be decided at the time of the Budget but in any case by no more than 2½ per cent. An abatement of the increase by 2½ per cent would save £250 million in 1983-84 and over £700 million in a full year. The abatement was likely to encounter difficulties in both Parliament and the country: it might well be hard to secure the passage of the necessary

primary legislation. Opposition to the abatement might be reduced if the size of the abatement was less than the full 2½ per cent, or if some of the savings were devoted to making a number of improvements in social security benefits, or by a combination of the two. He had agreed with the Secretary of State for Social Services on figures of net savings of £180 million in 1983-84, £530 million in 1984-85, and £600 million in 1985-86; these figures were subsumed in the proposals in Annex A to C(82) 38. The amount of the abatement and the nature of any offsetting improvements in benefits would be decided and announced at the time of the 1983 Budget: it would be much easier to present them in the context of other measures affecting the financial position of beneficiaries.

iii. Student Grants

Existing expenditure plans made provision for the basic student grant to rise by 6 per cent in the following autumn. The Secretary of State for Education and Science proposed to reduce this to 5 per cent; to eliminate the minimum maintenance award (currently £410) payable to those with parents earning more than £20,000 a year; and to reduce the amount set aside for extra travel costs. These measures would save £15 million. The money would be used to index parental contribution scales in line with earnings (at a cost of £5 million) and to increase provision for extra research graduates and new courses in high technology areas, including information technology.

THE CHANCELLOR OF THE EXCHEQUER said that there was likely to be some shortfall in the Public Sector Borrowing Requirement (PSBR) in 1982-83. It was not yet possible to judge whether there would be a similar shortfall in 1983-84. The Government Actuary, in his report on the finances of the National Insurance Fund, was likely to recommend an increase of 0.4 per cent in both employers' and employees' National Insurance Contributions (NICs). This would require primary legislation: the maximum increase possible without primary legislation was 0.25 per cent on each of the employers' and employees' NICs. In agreement with the Secretary of State for Social Services he intended that the increase should be limited to this smaller amount, and that the decision should be announced in the Autumn Statement. He also intended that the upper limit on earnings reckonable for NICs should be increased by a moderate amount. He wished to find a way of protecting employers from any increased burden on their costs and he would deal with this in his Autumn Statement.

In discussion of local authority housing there was general agreement that the proposed average rent increase of 85p a week was right. It would bring home to a section of the population which did not always benefit directly from some of the Government's economic policy measures the advantages of lower inflation and interest rates; it could also have a helpful effect on pay negotiations. There was, however, a potential problem about the corresponding arrangements in Scotland, which would need further detailed study.

In discussion of social security, there was general agreement that benefits should not in principle be increased by more than inflation taking one year with another and that the case for recovering at least part of the excess provision for inflation in the uprating of November 1982 was conclusive. There was, however, considerable concern about the presentational aspects. The following main points were made -

- a. Current forecasts suggested that the rate of increase in prices between November 1982 and November 1983 was likely to be of the order of 5 per cent. If an uprating of this amount was abated by 2½ per cent, the resulting increase in pensions and other benefits would appear very small. This would face the Government with serious problems in both Parliament and the country.
- b. In public presentation the Government should lay most emphasis on the fact that it was protecting retirement pensioners against the effects of inflation over the life of this Parliament, as it was pledged to do. Words like 'recovery' or 'clawback' should not be used. It should also point out that as inflation fell the nominal size of increases in pensions was also bound to fall.
- c. It might well be better to use whatever money was available within the planning totals to moderate the reduction in the November 1983 uprating rather than to make improvements in other aspects of the social security system. Such improvements were often poorly understood and ineffective in securing public support. Nor was it clear that the particular improvements which had been identified would necessarily bring advantages which would justify their cost.
- d. There was much attraction in deferring final decisions and their announcement until at least the time of the 1983 Budget. More generally it was for consideration whether uprating decisions should in future be announced later in the year, as late as operational constraints allowed.
- e. It would require primary legislation to uncouple increases in public service pensions from increases in national retirement pensions.

In discussion of student grants, the following main points were made:

- f. The proposal to abolish the minimum maintenance award would have serious effects on a group in society whom the Government particularly wished to encourage. Its effects would be equivalent to a large increase in taxation on higher earners. Similarly, it would be undesirable to leave the scales of parental contributions unchanged for a further year.

g. There was a case for further reducing the proposed increase in the basic student grant to 4 per cent, or even to 3½ per cent in line with the public service pay factor for 1983-84, though it had to be remembered that the increase in student grants had been held down last year.

h. The proposed increase of £10 million to provide for extra research graduates and new courses in high technology areas was admittedly arbitrary in amount; and it could be deferred without obvious damage. But it was vital to the health of university science and technology departments to maintain a flow of able new young graduates. This was proving difficult at present.

j. It was surprising that it was not possible to accommodate a sum of £15 million within the education and science programme, which amounted to over £12 billion. On the other hand, it was argued strongly that much of the programme was outside the control of the Government; that all feasible economies had been made; and that it was equally reasonable, if the Cabinet attached high priority to the expenditure under discussion, to find the money for it elsewhere in the public expenditure programmes.

In further discussion the following point was also made -

k. In view of the proposed shortfall in the PSBR in 1982-83 it would be wrong now to introduce a scheme of end-year flexibility in public expenditure, since that would encourage Departments to spend less and to carry forward the underspending. The matter should however be considered further in due course, possibly with a view to introducing a scheme in time for the end of the financial year of 1983-84.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the proposals on local authority housing provisionally agreed between the Secretary of State for the Environment and the Chief Secretary, Treasury. Any consequentials for Scotland should be contained within the agreed programme totals, and should be resolved as necessary between the Secretary of State for Scotland, the Chief Secretary, Treasury, and any other Ministers concerned. The Cabinet endorsed the principle of allowing in next year's uprating for the excess provision for inflation in the November 1982 uprating of social security benefits, up to a maximum of 2½ per cent, and agreed that the figures proposed by the Chief Secretary, Treasury, should be used in any announcement of the Government's expenditure plans. Final

decisions on policy measures, within those constraints, should be taken later: there was much attraction in leaving any announcement as late as possible. The Ministers most closely concerned should give further consideration to the presentational aspects, bearing in mind the need to stress the Government's positive achievement in maintaining the real value of retirement pensions; they should also consider whether it would be possible to break the existing statutory link between increases in the State retirement pension and index-linked pensions in the public services. On student grants, the Cabinet considered that the minimum maintenance grant of £410 should be preserved; that the parental contribution scales should be indexed in line with earnings in 1983-84; and that some additional provision should be made for extra research graduates and new courses in high technology areas, including information technology; but that it was unnecessary to increase the basic student grant by as much as 5 per cent. The Secretary of State for Education and Science should discuss urgently with the Chief Secretary, Treasury, how such a package could be financed: he should report the result of his discussions to the Cabinet. The Cabinet took note of the intention of the Chancellor of the Exchequer to announce in the Autumn Statement that NICs would be increased by 0.25 per cent for both employers and employees. The Cabinet would consider at an appropriate time whether a scheme of end-year flexibility should be introduced for 1983-84.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2.
 - i. Endorsed the principle of recovering the excess provision for inflation in the November 1982 uprating of social security benefits, up to a maximum of 2½ per cent.
 - ii. Agreed that the figures of savings proposed by the Chief Secretary, Treasury, for this measure, net of the possible offsets mentioned in discussion, should be used, to the extent necessary, in announcements regarding the Government's expenditure plans.
 - iii. Took note that the Prime Minister would make arrangements for a group of Ministers to discuss the presentational aspects of these matters, and the possibility of breaking the existing statutory link between increases in State retirement pensions and index-linked pensions in the public services.

SECRET

3. Invited the Secretary of State for Education and Science to hold discussions urgently with the Chief Secretary, Treasury, on the lines indicated by the Prime Minister in her summing up; and to report.

Cabinet Office

4 November 1982

SECRET