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(10) 4th  
conclusions

COPY NO

81

CABINET

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

THURSDAY 31 JANUARY 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 Francis Pym MP  
Secretary of State for Defence

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-Stevs MP  
Chancellor of the Duchy of Lancaster

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education and Science

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

The Rt Hon Angus Maude MP  
Paymaster General

**SECRET**

THE FOLLOWING WERE ALSO PRESENT

Hon Norman Fowler MP  
Minister of Transport

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

Paul Channon MP  
Minister of State, Civil Service Department  
(Items 6 and 7)

Earl Ferrers  
Minister of State, Ministry of  
Agriculture, Fisheries and Food

SECRETARIAT

Sir Robert Armstrong	
Mr M D M Franklin	(Items 2-4)
Mr P Le Cheminant	(Items 5 and 7)
Mr P J Harrop	(Item 1)
Mr R L Wade-Gery	(Items 2-4 and 6)
Mr P Mountfield	(Item 7)
Mr R M Hastie-Smith	(Item 6)
Mr W N Hyde	(Item 1)
Mr G D Miles	(Item 5)

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PARLIAMENTARY  
AFFAIRS

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

FOREIGN  
AFFAIRS

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that in spite of the South African withdrawal from Beithbridge, which had now been announced, a debate was being held in the United Nations Security Council at African insistence. The upshot was likely to be a resolution unacceptable to Britain, which would have to be vetoed if (as seemed possible) it secured the requisite nine votes. The matter would probably then be raised under the Uniting for Peace procedure in the General Assembly, where over 100 votes might be cast against Britain. President Nyerere of Tanzania, who had never wanted the settlement at Lancaster House, appeared to be the prime mover on the African side; and the Russians were of course active in support. One unfortunate effect of these developments might be to decrease the prospects for general acceptance of the results of the forthcoming Rhodesian elections. It was ironical that this disruptive, dishonest and dishonourable course was being followed at a time when the situation was developing reasonably satisfactorily inside Rhodesia, where the war had been ended and the election campaign begun. The only serious irregularities were being committed by the partisans of Mr Mugabe, who would certainly escape censure at the United Nations. The Governor's estimate was that Mr Nkomo might win 25-30 of the 80 non-white seats, and that Mr Mugabe might secure rather more of the remainder than Bishop Muzorewa. Mr Jan Smith's recent speech in support of Mr Nkomo seemed to have been designed to damage the Muzorewa faction and was unlikely to benefit the Nkomo faction.

Foreign

Reference:

(180) 3rd

Conclusions,

Page 2

Afghanistan

THE FOREIGN AND COMMONWEALTH SECRETARY said that President Giscard d'Estaing's visit to India had produced a communique which was ambivalent on the subject of Afghanistan. But the Islamic Conference in Islamabad had passed resolutions satisfactorily condemning the Russians over Afghanistan and also calling on them to withdraw from the Horn of Africa. International support for the American attitude to the Olympic Games appeared to be growing. The Germans disliked President Carter's approach but would probably come into line; and even the French were showing signs of movement. The position of the International Olympic Committee was likely to be clearer after their meeting on 10 - 12 February.

Reference:

(180) 3rd

Conclusions,

Page 2

The Cabinet -

Took note.

3. THE PRIME MINISTER said that most of the time during the Anglo-Italian Ministerial talks on 29-30 January had been taken up with the United Kingdom's budget problem. Signor Cossiga had shown a strong desire to reach a solution to the problem and, while it would not be helpful to him in his forthcoming discussions with other Heads of Government for us to say so publicly, he was anxious to be as helpful to us as possible. Part of the Italian desire to be helpful stemmed from their dislike of the Franco-German axis within the Community. Although progress towards a solution was not as far or as fast as she would have liked, the efforts of the Foreign and Commonwealth Secretary and the Lord Privy Seal appeared to have produced some movement. Nevertheless a substantial gap still remained, and it was essential to stick firmly to our position that the prospective United Kingdom net contribution was intolerably high. There would be no point in having an early meeting of the European Council unless there were good prospects of a settlement, and it now seemed likely that the matter would come up at the meeting scheduled for the end of March. What action should then follow if a satisfactory agreement could not be reached was still under consideration. There would be attempts to link with the Budget other matters, such as agreement on a sheepmeat regime: but it would not be possible for the United Kingdom to accept a sheepmeat regime on the basis now being proposed by the French Government.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Council of Ministers (Fisheries) had been able to reach agreement on the levels of Total Allowable Catches (TACs) for 1980 and a system of catch reporting. The success of the meeting owed much to the fact that he had reached a prior understanding with the French Minister of Fisheries. This good Anglo-French collaboration would be more severely tested when the Council moved on in March to the difficult questions of quotas and access. It was planned to hold a fisheries debate in the House of Commons shortly, and it would be necessary to explain why we had allowed a decision on TACs to be taken in the Council before the matter had been debated in the House. The fishing industry had been content with what had happened in the Council. Their present anxieties were not with the Common Fisheries Policy but with their current financial difficulties. Increased imports, in themselves perfectly legitimate, had depressed market prices. At the same time, fishermen were facing higher costs and higher interest charges on their borrowing. THE SECRETARY OF STATE FOR SCOTLAND added that the leaders of the Scottish fishing industry would come under strong pressure from the rank and file at a mass meeting to be held on the following Saturday in Peterhead. The poor state of the fishing industry was stirring up Nationalist feeling in Scotland.

THE SECRETARY OF STATE FOR EMPLOYMENT said that Commissioner Vredeling had made misleading statements about the failure of the Government and the British Steel Corporation to claim money from the European Community to help finance redundancies in the steel industry. As the Prime Minister had pointed out in the House, the Commission's agreement to provide £7.7 million towards the cost of redundancies at Shotton had been approved by Commissioner Vredeling himself.

In a brief discussion, it was pointed out that Commissioner Vredeling seemed to be trying to score points because of his disappointment that not only the United Kingdom but most other members of the Council had not supported his proposal for a worksharing scheme in steel plants threatened with closure. There had been previous cases where Commissioner Vredeling had made accusations against us which had been proved to be unfounded. Although the situation over Community finance for steel closures was a complicated one, it would be important to rebut firmly the Commission's unwarranted criticisms.

The Cabinet -

Took note.

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the Conference on the future government of Northern Ireland had now started to consider the central question of how a devolved system for the Province would actually function. The Social Democratic Labour Party were at this stage participating actively. The positions of the parties represented at the Conference were of course far apart, and no rapid progress could be expected. Contrary to Press reports, however, the Conference did not appear to be on the verge of breakdown; and the mere fact of its existence was having a beneficial effect on the parties, who were now on the whole treating each other with less rancour than might have been expected.

The Cabinet -

Took note.

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 Previous  
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5. THE SECRETARY OF STATE FOR INDUSTRY said that there were now signs that the Iron and Steel Trades Confederation (ISTC) might be willing to resume negotiations. Even if the will to reach a settlement existed, it would take time to convene the ISTC delegates to approve any settlement which might be reached with the leadership. Although the smaller unions would have been willing to settle last week, they had held off, in the hope of achieving a united front with the ISTC. The effect of the strike on industry was still relatively small. A few companies would run short of stocks within 2 to 3 weeks, but the majority could last for a further 3 to 4 weeks.

In discussion it was noted that the House of Lords was considering that morning whether to allow an appeal against the ruling in the Court of Appeal against an extension of the steel strike into the private sector. If the House of Lords did allow the appeal to proceed, they would consider the case on Friday 1 February. It was suggested that the ruling from the Court of Appeal had provided a rallying point around which both moderates and militants within the trades union movement could combine in opposition to the Government. Whatever the outcome of the House of Lords judgment, it would be desirable to handle all relations with the trade unions with especial delicacy in the coming weeks.

The Cabinet -

1. Took note.

Water Industry  
 Previous  
 Reference:  
 (10) 3rd  
 Conclusions,  
 page 5.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, although no agreement had been reached at Monday's meeting between management and unions on the pay of water industry manual workers, it had been agreed that negotiations should resume on Friday, 1 February. The management had made a firm offer involving a comparability element, as well as an annual uprating of pay, and in these circumstances it was unlikely that the unions would contemplate any precipitate industrial action.

The Cabinet -

2. Took note.

Port of London

THE MINISTER OF TRANSPORT said that the Port of London Authority (PLA) had this week warned the unions concerned that, unless agreements on improved working practices could be implemented in full by June, the financial position of the PLA would require the closure of one of the Upper Docks. There had so far been no adverse union reaction, but it seemed likely that, if such a closure was eventually necessary, there would be some strike action within the Port of London. It was unlikely, however, that this would spread to other ports.

The Cabinet -

- 3. Took note.

Ambulancemen

THE SECRETARY OF STATE FOR SOCIAL SERVICES reported that there was a risk of industrial action by ambulancemen in some areas of England and Wales in opposition to attempts by the Health Authorities to reduce restrictive practices in the Ambulance Service.

The Cabinet -

- 4. Took note.

6. The Cabinet considered a memorandum by the Secretary of State for Defence (C(80) 8) to which was attached a draft of the 1980 Statement on the Defence Estimates.

THE SECRETARY OF STATE FOR DEFENCE said that this year's Defence White Paper sought to offer a more coherent basic explanation of policy and roles than the statements of the previous Administration. The Defence and Overseas Policy Committee had already considered a draft of the White Paper, and the version before the Cabinet incorporated certain changes they had suggested. Following discussion with the Chancellor of the Exchequer, he now proposed to publish the White Paper shortly after the publication of the Public Expenditure White Paper.

In discussion some concern was expressed about the contents of paragraphs 628 - 643 which dealt with civilian personnel. Their role in the defence field was an important one; and it was right to be concerned for their morale, which was not as high as that of the uniformed services. But their position was comparable to that of their colleagues in other Departments of central government, such as the Department of the Environment, and in local government; and there was a danger that statements about recruitment levels or pay in these paragraphs might be used to cause difficulties in other contexts.

The following additional points were made:-

- a. Paragraph 634, which dealt with improvements in efficiency and the curtailment or elimination of functions, should be amended to make it clear that this was a continuing review rather than one which had now been completed within the Ministry of Defence.
- b. Consideration should be given to some expansion of the section of the White Paper dealing with the Territorial Army and other reserve forces, not least in order to encourage recruitment to them.
- c. The figures for the Defence Budget in Chapter 8 of the White Paper and elsewhere would be filled in when decisions had been taken on public expenditure, in consultation with the Chancellor of the Exchequer, who might also wish to suggest further amendment to the reference to economic strategy and public expenditure in paragraph 803.

THE PRIME MINISTER, summing up the discussion, said that subject to the points made in discussion the Cabinet approved the draft Statement on the Defence Estimates 1980. As the Ministry of Defence employed one-third of the Civil Service it was obviously important that no hostages to fortune should be given by the White Paper's references to civilian personnel; the paragraphs on this



subject should therefore be revised and shortened. The Secretary of State for Defence should then arrange for the White Paper to be published after the publication of the Public Expenditure White Paper.

The Cabinet -

Invited the Secretary of State for Defence to amend the draft Statement in accordance with the points made in discussion, in consultation as appropriate with the Chancellor of the Exchequer, the Secretary of State for the Environment, the Secretary of State for Employment and the Minister of State, Civil Service Department; and to arrange for its publication after the Public Expenditure White Paper.

PUBLIC  
EXPENDITURE

Source:  
C(80) 3rd  
Discussions  
para 7

7. The Cabinet considered a joint memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury, (C(80) 9) reporting on his further discussions with Ministers about reductions in the planned level of public expenditure in the years 1980-81 to 1983-84, and making further proposals for changes. The Cabinet's discussion is recorded separately.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had now completed its examination of public expenditure in 1980-81 and subsequent years, subject to some minor points raised in discussion which should be resolved before the end of the day and subject to an outstanding decision on the cash limits to be applied to Civil Service manpower. The Cabinet would consider this and any related issues at a meeting in the following month.

The Cabinet -

1. Agreed to the reductions in public expenditure set out in C(80) 9, subject to the alterations, additions and exclusions agreed in discussion.
2. Invited the Secretary of State for Employment, the Secretary of State for Industry, the Chancellor of the Duchy of Lancaster, the Secretary of State for the Environment and the Secretary of State for Education and Science, to consider again certain of the points made in discussion and to inform the Chancellor of the Exchequer before the end of the day of any further reductions in their programmes which might be possible.
3. Took note that the totals of public expenditure for 1980-81 and later years would be announced by the Chancellor of the Exchequer in the course of the presentation of the Budget and the White Paper on Public Expenditure.
4. Invited the Ministers concerned, in consultation with the Chancellor of the Exchequer and the Prime Minister, to consider further the timing of any announcements of specific decisions.
5. Invited the Chancellor of the Exchequer to circulate the text of a draft White Paper on public expenditure in due course.

Cabinet Office

31 January 1980

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CABINET

## LIMITED CIRCULATION ANNEX

CC(80) 4th Conclusions, Minute 7

Thursday 31 January 1980 at 10.00 am

The Cabinet considered a joint memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury, (C(80) 9), reporting on their further discussions with Ministers about reductions in the planned level of public expenditure in the years 1980-81 to 1983-84, and making further proposals for changes.

THE CHANCELLOR OF THE EXCHEQUER said that, as a result of his discussions, he had now identified potential savings of about £800 million in 1980-81, and of between £1,750 million and £2,200 million in the subsequent years, compared with the Cabinet's approved target of reductions of £1,000 million in 1980-81 and of £2,000 million in each of the later years. All these figures - both the potential savings and the targets - were exclusive of any reduction in the United Kingdom contribution to the Budget of the European Community. Some of the proposed changes had been agreed by the Ministers concerned subject to approval by the Cabinet. Others were in dispute. Some, both of those agreed and of those not agreed, were politically sensitive. He therefore sought the Cabinet's decisions on all of the proposals made.

The Cabinet then considered in turn the possible savings listed in Annex A to C(80) 9. The following main points were made in discussion, and the following conclusions reached.

The Cabinet was reminded that the original proposal had been that short-term benefits should be increased by ten percentage points less than the movement in prices at the next annual up-rating. This had been felt to be too drastic a curtailment, and the proposal now was that the abatement should be five percentage points. It was suggested in discussion that an abatement of  $7\frac{1}{2}$  percentage points would produce a larger contribution to the Chancellor's target, and would be consistent with the objective of improving the incentive to work; but the Cabinet agreed that the abatement should be limited to

five percentage points less than the movement in prices. That should be regarded as a temporary adjustment pending the taxation of these benefits. The Cabinet also agreed all the other proposals listed on page 1 of Table 1 of Annex C to C(80) 9. As for Child Benefit, it was argued that, now that child tax allowances had been abolished, this was the only fiscal provision for families; it went to families at all income levels; and a substantial increase was needed to maintain fiscal equity between families with children and those without. Child Benefit was also important in helping to maintain the income differential between those in work and those out of work, because other benefits to those out of work were subject to abatement in respect of Child Benefit. Against this, it was argued that this was the only major benefit not yet formally indexed to prices or earnings, and that it would be inconsistent with the Government's new policy on benefits to compensate fully for price movements. The Cabinet agreed to increase Child Benefit by 75p from November 1980. The Cabinet also agreed that there should be no premium paid for fourth and subsequent children; that there should be no restriction on the lines proposed in the increases in supplementary benefit child rates; and that a special supplement should be introduced for one-parent families at an annual cost of about £5 million. The Cabinet further agreed that the £10 pensioners' Christmas bonus should be continued, but that the pensioners' earning rule should be frozen at the present level of £52 instead of increasing in line with earnings.

The Cabinet endorsed the savings already agreed by the Secretary of State, and approved the additional savings on public sector housebuilding, council house improvements and assistance to private sector housing proposed by the Chancellor of the Exchequer, as set out in paragraph 5 of C(80) 9. They noted that it would not be possible to make further savings by transferring part of the financing of the Housing Corporation to the private sector in view of past criticism from the Public Accounts Committee.

The Cabinet approved the further savings agreed by the Secretary of State for the Environment as set out in paragraph 6 of C(80) 3. The Cabinet also agreed to seek further savings of approximately 10 per cent a year in the expenditure of the Property Services Agency.

The Cabinet approved the savings already agreed with the Secretary of State for Education and Science, set out in paragraph 7 of C(80) 9. It was noted that further savings might be possible in the provision for teaching and non-teaching staff in the years in question, and the Secretary of State for Education and Science was asked to re-examine these provisions.

An increase of prescription charges to £1 would be politically troublesome, coming on top of the recent and prospective increases already agreed; but less troublesome than removing all the exemptions (particularly for the elderly) or further cutting health service expenditure. The Cabinet agreed therefore to increase prescription charges to £1 from December 1980, and to impose charges for prescriptions provided to outpatients at hospitals, for dental treatment for young people between 16 and 21 no longer at school and for ophthalmic sight testing, but otherwise to maintain the present exemptions from charges.

It was noted that the Manpower Services Commission had recently increased its staff by 300, and that there might be scope for savings on this account. In addition, the Cabinet noted with approval an undertaking by the Secretary of State for Employment to secure savings of about £40 million a year from 1981-1982 onwards, from the transfer of financial responsibility for the Industrial Training Boards to industry, subject to the passage of the necessary legislation.

The Cabinet approved the remaining changes set out in C(80) 9.

The following further points were made in discussion:-

- a. After all the savings now agreed, the total reductions were still some way short of the targets which the Cabinet had set themselves. Ministers in charge of Departments should as a matter of great urgency consider and report to the Chancellor of the Exchequer and the Chief Secretary, Treasury, what further savings they could offer. There might be some small further savings to come from the Department of Industry; and the programme of the Office of Arts and Libraries should be further reviewed for possible savings.

b. The cash limits already approved or shortly to be approved by Cabinet for 1980-81 might impose a further volume squeeze on expenditure in that year, the extent of which could not yet be accurately measured. Because of these and other uncertainties, no decision could be taken at this stage about the size of the Contingency Reserve for that year. The timing of any announcement of the Government's decisions would require further consideration. Where it was necessary for an individual Minister to announce or act upon a decision bearing on his responsibilities, he should clear beforehand both the text and timing of any such announcement with the Prime Minister and the Chancellor of the Exchequer.

c. That apart, the Cabinet's decisions must remain secret. In due course steps would be needed to secure the complete support and understanding of Ministers not in the Cabinet and of the Parliamentary Party for the decisions reached.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had now completed its examination of public expenditure in 1980-81 and subsequent years, subject to some minor points raised in discussion which should be resolved before the end of the day and subject to an outstanding decision on the cash limits to be applied to Civil Service manpower. The Cabinet would consider this and any related issues at a meeting in the following month.

The Cabinet -

1. Agreed to the reductions in public expenditure set out in C(80) 9, subject to the alterations, additions and exclusions agreed in discussion.
2. Invited the Secretary of State for Employment, the Secretary of State for Industry, the Chancellor of the Duchy of Lancaster, the Secretary of State for the Environment and the Secretary of State for Education and Science, to consider again certain of the points made in discussion and to inform the Chancellor of the Exchequer before the end of the day of any further reductions in their programmes which might be possible.
3. Took note that the totals of public expenditure for 1980-81 and later years would be announced by the Chancellor of the Exchequer in the course of the presentation of the Budget and the White Paper on Public Expenditure.

4. Invited the Ministers concerned, in consultation with the Chancellor of the Exchequer and the Prime Minister, to consider further the timing of any announcements of specific decisions.

5. Invited the Chancellor of the Exchequer to circulate the text of a draft White Paper on public expenditure in due course.

Cabinet Office

1 February 1980