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 Conclusions

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CABINET

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

THURSDAY 13 SEPTEMBER 1979

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 Lord Scames
 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 Mark Carlisle QC MP
 Secretary of State for Education and Science

The Rt Hon John Biffen MP
 Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Mr Paul Channon MP
Minister of State, Civil Service Department
(Items 8 and 9)

SECRETARIAT

Sir John Hunt
Mr M D M Franklin (Items 1 - 3)
Mr P Le Cheminant (Items 4 - 9)
Mr R L Wade-Gery (Items 1 - 3)
Mr P Mountfield (Items 4 - 9)

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1. THE FOREIGN AND COMMONWEALTH SECRETARY said that after a slow start the Rhodesia Conference now had before it a full summary of the constitution we proposed. This was compatible with the existing constitution except on the Public Service Commissions and on white blocking power. Bishop Muzorewa's delegation would probably agree to it, despite some problems. Whether the Patriotic Front leaders would also do so was less clear. Mr Nkomo seemed readier to settle than Mr Mugabe, although there were strong pressures on both. Our aim was to reach provisional agreement on the constitution within two weeks. After an adjournment the Conference would then tackle the even greater problem of transitional arrangements. If final agreement could not be reached the British Government might have to state unilaterally what it was prepared to recommend to Parliament and seek acceptance of this.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the French and Irish Governments had both now banned tours by South African rugby teams. If the proposed tour of Britain went ahead we were likely to face serious problems both in our international relations and as regards public order. The South African Government were considering using their influence to get the tour cancelled. But they hoped we could in return say publicly that our attitude would change in the future if further progress was made towards multi-racialism in South African sport. He would concert with the Prime Minister a Foreign and Commonwealth Office statement which might go some way in that direction while not ignoring our obligations under the Gleneagles Agreement. This statement could then be quoted in a further letter from the Parliamentary Secretary, Department of the Environment, asking the Rugby Union not to proceed with this particular tour.

In a brief discussion it was noted that if the tour went ahead the existing strain on police manpower would be significantly increased. Although this should not be over-emphasised in public, it could usefully be mentioned in private contacts with Rugby Union leaders.

The Cabinet -

Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the European Economic Community (EEC) Commission had now produced their factual report on the United Kingdom budgetary problem which, although not as helpful as we had earlier hoped, nevertheless now produced incontrovertible evidence that we would be the largest net contributor, making net payments of over £1,000 million in 1980, a figure which was likely to increase in future years unless remedial action was taken. At the forthcoming meeting of the Council of Ministers (Finance) on 17 September, the Chancellor of the Exchequer would seek to deal with the arguments which our partners were advancing against us and would make it clear that our target was to reach a broad balance between our contribution and our receipts. It would then be for the Commission to make proposals for solutions and work was in hand to ensure that the Commission were informed what mechanism we favoured. Our Community partners were reluctant to do anything about the basic inequity of the present situation and it would be extremely difficult to secure a satisfactory agreement at the November meeting of the European Council in Dublin.

THE FOREIGN AND COMMONWEALTH SECRETARY further reported that, earlier that day, the Defence and Overseas Policy Committee, Sub-Committee on European Questions, had met to consider the line which the Secretary of State for Energy should take at the forthcoming meeting of the Council of Ministers (Energy) which would discuss the follow up to the decisions of the Strasbourg European Council and the Tokyo Summit on oil import targets for the years up to 1985. With the development of North Sea oil production this presented no difficulty for the United Kingdom but what we said about our import requirements would affect what other EEC countries would need to do in order to comply with the Community target for 1985 of 475 million tons. At one extreme we could merely rest on our national commitment not to import more than we did in 1977 but this would be manifestly unrealistic. At the other extreme we were being pressed by the Commission, on the basis of figures published by the last Government about likely North Sea oil production, to say that by 1985 we would be net exporters of 20 - 30 million tonnes. The Sub-Committee had decided that, in order to retain freedom over our future production policies we should, at the Energy Council, not go beyond saying that we would be self sufficient in 1985. This could be reviewed when the future course of North Sea oil production became clearer. If agreement in the Council could not be reached on this basis we should need to reconsider our position in the light of forthcoming decisions on depletion policy and the possible scope for using this or other energy issues to help our negotiations over the Community Budget.

The Cabinet -

Took note.

3. THE PRIME MINISTER said that at her meeting with the Prime Minister of the Irish Republic, Mr Lynch, on 5 September, it had been agreed that security co-operation against terrorism must be substantially improved. He had undertaken to study a number of specific suggestions she had put forward. These would be the subject of a follow-up meeting in early October between his Foreign and Justice Ministers and the Secretary of State for Northern Ireland. Meanwhile we had agreed not to make them public. But much depended on how far the Dublin Government were actually prepared to go in increasing necessary co-operation. The attitude of Mr Lynch's deputy, Mr Colley, appeared to be less well-intentioned than his own.

The Cabinet -

Took note.

4. THE LORD CHANCELLOR said that he felt it necessary to bring to his colleagues' attention the serious situation arising for the administration of justice in London from the continuation of the strike at Magistrates' Courts. Many activities of the Courts were being seriously interrupted, and he feared that the situation might soon become intolerable.

THE HOME SECRETARY said that, although he shared the Lord Chancellor's concern at the potential effects of the strike, the situation was better than might have been expected. In particular both committals and remands had been kept going. He would be putting a paper next week to the Ministers concerned discussing the possible options open to Government.

The Cabinet -

Took note.

NORTHERN
IRELAND

Previous
reference:
(19) 14th
conclusions,
page 1

MAGISTRATES'
COURTS' STAFF

Previous
reference:
(19) 14th
conclusions,
page 5

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(79) 36) about the continued need to publish White Papers on Public Expenditure covering a five-year forward period.

THE CHANCELLOR OF THE EXCHEQUER said that the Cabinet should distinguish between the internal need to plan on a five-year basis, and the need to publish the Government's provisional decisions. There was no doubt that for some purposes, Government needed to make provisional allocations of resources for some years ahead. These should obviously be very tentative, and should err on the side of caution. Publication was another matter. Figures for the immediately-following financial year, on which the Government had already taken its decisions, had to be published in any case. He now proposed to include these in an early White Paper, which would probably also include the short term economic forecasts required under the Industry Act. Material about later years could be published before the end of the year. Some guidance was needed, for local authorities and other public sector bodies, about the broad scale of resources likely to be available in these later years. Publication would make clear the Government's commitment to reduce public expenditure over this period and would be in line with the practice of successive Governments. To alter course now would invite suspicion. Moreover the new Parliamentary Select Committees would be looking for more information not less. The degree of detail to be included in a White Paper about later years need not be decided now, though in his view, it should at least include totals for the main existing public expenditure programmes. This would help to indicate the Government's own view of priorities.

In discussion, there was general agreement on the need to plan ahead on a five-year basis, at least for some purposes, provided that the increasingly tentative nature of the figures for later years was understood. The necessity for a White Paper covering 1980-81 in detail was recognised and there was also broad support for the publication of a second White Paper covering the period from 1981-82 to 1983-84, in line with the practice of recent years. This was particularly important in the first year of the Government's life, when there had been a significant change in planned levels of expenditure. It was however suggested that the degree of detail about later years could be significantly reduced, particularly since sensitive political issues were often involved. There was a case for publishing only a single global figure for the expenditure of local authorities. This would allow time for genuine consultation with the local authorities about the allocation of their expenditure between the various services. Against this, it was argued that the Government needed to make clear the priority it was giving to Law and Order programmes, and to indicate that, within a reduced education Budget, there would be no need to reduce standards or the level of expenditure on basic education. It had not been the practice to consult with the local authorities about later years of expenditure. The tentative nature of the figures, and the scope for local authority autonomy, could be made clear at the time of publication.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there should be an early White Paper about Public Expenditure in 1980-81, followed by a less detailed one about expenditure in the years to 1983-84. The second White Paper should publish totals for expenditure on the main programmes, together with as much detail as seemed appropriate for Law and Order and Education. The degree of detail given about other local authority services should be kept to the necessary minimum. The tentative nature of the figures for later years should be emphasised. The Cabinet would consider drafts of both White Papers in due course. The case for continuing to publish White Papers covering the full five years should be reconsidered at the time of the 1980 Public Expenditure Survey.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Chancellor of the Exchequer to proceed accordingly.

6. The Cabinet had before it a memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury (C(79) 35) containing proposals for reductions in existing Public Expenditure plans for the years after 1980-81.

THE CHANCELLOR OF THE EXCHEQUER said that the short and medium term economic prospects were gloomy. In the current year, it was proving difficult to finance the present public sector borrowing requirement, and interest rates were necessarily at a very high level. The position might well be no easier in 1980-81 or subsequent years. Although the detailed forecasts were not yet ready, it was clear that he would have great difficulty in cutting taxes in real terms, and it might even be necessary to increase indirect taxation. It was therefore essential to stabilise the level of public expenditure. His paper demonstrated the size and distribution of growth in recent years. He had set out illustratively some of the changes which might be needed to reduce expenditure, by the end of the period, to the levels of 1977-78. Even then, public expenditure would have fallen by only 0.5 per cent a year during the period, compared with a 1 per cent per year increase in the previous five years. This was not a structural change in public expenditure but a series of relatively minor adjustments. But because of the Government's already-agreed political priorities, and of the difficulty of cutting demand-related programmes, the burden of adjustment fell heavily on a limited number of Departments. He therefore suggested that before the Cabinet took final decisions, his proposals should be discussed in detail between the Ministers concerned and the Chief Secretary, Treasury, leading to a further discussion in Cabinet during October.

In discussion, there was general support for the objective of stabilising expenditure at about the level of 1977-78. It was a matter for regret that it had not proved possible to meet this objective in 1980-81, or to contemplate a reduction in the level of expenditure to that ruling during the period of the previous Conservative Administration. In the absence of any medium term economic forecasts, there was no precise economic rationale for a target related to 1977-78, but it was already clear that reductions on at least this scale would be necessary to meet the Government's overall objectives. However, a policy of stabilisation, coupled with the priorities already agreed, meant that large reductions would be needed in certain programmes. The political difficulties arising from such reductions, for example, where they affected education or transport, should not be underestimated. For these reasons it might be necessary to reconsider the absolute priority given to the Defence programme and to Law and Order. Against this view it was argued that the level of Defence Budget proposed by the Chancellor did not necessarily meet our obligations to the North Atlantic Treaty Organisation. It was important both internationally and at home to be seen to be honouring our commitments in this respect.

The timing of any cuts should also be carefully considered. Some of them, like the changes already agreed in regional policy, built up slowly throughout the period. There was a case for concentrating any further reductions at the beginning of the period, and avoiding the need for difficult policy changes towards the end of the Parliament. Full account should be taken of the possibility of additional revenue from North Sea oil taxation. Priority should be given to expenditure which would promote additional investment in wealth-creation. It might be necessary to reduce expenditure even faster than the Chancellor proposed, in order to finance tax concessions which would have the same effect. All these points could be discussed in more detail in bilateral conversations with Treasury Ministers.

It was also argued that the depressive economic background described by the Chancellor carried social as well as economic and political risks. The climate had deteriorated even in the three months since the Budget, as part of the general decline into world recession. The Government should avoid getting itself in to a position where abrupt changes of policy might be needed. Its present monetary stance assumed that the unions would adjust their pay claims in line with what firms could afford to pay. If they did not do so the consequences would be even higher unemployment. The Government had to make this clear at every opportunity. There was no sign that the majority of union leaders wanted a confrontation with the Government over pay this winter. Some critics were arguing in public that the Government's monetary policy would force the economy deeper into recession. But the dynamic effects of the Government's policies had still to work through and there was as yet no sign of a general crisis of company liquidity. Nevertheless the Government's room for manoeuvre was severely limited. It was essential to keep the public sector borrowing requirement within bounds, and this required expenditure cuts on the scale proposed by the Chancellor of the Exchequer. The only alternatives were higher interest rates, higher indirect or direct taxation, or a change in expenditure priorities which would involve cutting the Defence Budget and other protected programmes.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the general line proposed by the Chancellor of the Exchequer, both as to the aggregate level of expenditure in the years in question, and as to the broad order of priority between programmes. He and the Chief Secretary, Treasury, should now conduct bilateral negotiations with all the spending Ministers concerned, reporting the results back to Cabinet during October, when there would be time for further Cabinet discussions.

The Cabinet -

Took note with approval of the Prime Minister's summing up of their discussion, and invited the Chancellor of the Exchequer and the Chief Secretary, Treasury, to proceed accordingly.

7. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(79) 37) about the financial requirements of the nationalised industries in the years 1981-82 to 1983-84.

THE CHIEF SECRETARY, TREASURY, said that the paper outlined the nationalised industries' bids for borrowing in the years under review and outlined options for reducing those bids. The main thrust of his recommendations stemmed from a belief that the nationalised industries could and should make an increasing contribution to the reduction of public expenditure and the public sector borrowing requirement (PSBR). Table 2 of his paper showed his specific proposals for reductions industry by industry. If they were adopted in full it would be possible to look forward to a substantial net repayment of debt by the nationalised industries starting in 1981 and increasing to £½ billion in 1983-84. The particular proposals basically followed the logic of the decisions about nationalised industry finances already taken by the Cabinet in respect of 1980-81. The core of the proposals rested on cuts in investment plans, greater efficiency, upward revision of prices - particularly for gas - and the cancellation of specific projects such as the BAe 146 aircraft. The proposals raised complex issues which he would propose to discuss with those colleagues concerned in bilateral discussion. He hoped nevertheless that colleagues would now agree to endorse all the options set out in Table 2 of the paper, subject to the outcome of bilateral discussions, and thereafter to informing the nationalised industries that they would be responsible for finding ways of keeping within the external financing limits now contemplated.

In discussion attention was drawn to the large number of complicated policy issues which underlay the Chief Secretary, Treasury's, proposals. Major decisions would be required, some of which would require collective discussion.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the general conclusions of C(79) 37 and were content that the Chief Secretary, Treasury, should now enter into bilateral discussions of detail with the Ministers concerned. The Chief Secretary, Treasury, should report back to Cabinet in October when any outstanding issues could be resolved. Meanwhile the Ministerial Committee on Economic Strategy would be having early discussions, relevant to the present operation, on a range of issues including coal and energy pricing.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to be guided accordingly.

8. The Cabinet considered a memorandum by the Lord President of the Council (C(79) 38) reporting his discussion with Departmental Ministers about the scope for reduction in the size of the Civil Service and recommending a 10 per cent target for reductions by April 1982.

THE LORD PRESIDENT OF THE COUNCIL said that the response from Departmental Ministers to his request for staff saving reductions had varied widely, from 15 per cent down to 0.3 per cent. In total, the reductions which Ministers thought feasible amounted to 6 or 7 per cent. Of this, 1.5 per cent would be found by transferring work from the Civil Service to the private sector. The cash savings would be correspondingly lower. This response implied that the Cabinet felt it necessary to continue with some 95 per cent of the tasks which a previous Socialist Government had thought essential. He found this unacceptable. Admittedly it would be difficult to reduce the Service even by 6 or 7 per cent, and much harder to reach 10 per cent reductions. Higher figures than this were unlikely to be practicable, at least in the short term. But the Government was committed to reducing the size of the bureaucracy and would be discredited if it failed. The necessary steps would have to be discussed with individual Ministers. But the Cabinet might establish in advance some general principles. It was clear that, to secure reductions of as much as 10 per cent, the big employers, notably the Ministry of Defence and the Chancellor of the Exchequer's Departments, must reach this target themselves. Secondly, because some areas like Prisons would have to be exempt from cuts, others must make correspondingly larger reductions. Thirdly, transfers of work to private sector were only worth pursuing where there was a reasonable expectation that the work could be done more cheaply. The Cabinet should recognise that the National Staff Side would be strongly opposed to reductions of the scale proposed, which was unlikely to be achieved without redundancies. Industrial action was likely, and the Cabinet would have to consider preparations to withstand this.

In discussion, it was argued that the response to the Lord President of the Council's request had been very disappointing. In a Civil Service which had grown so fast in recent years, there must be scope for economies of at least 10 per cent. However it was recalled that the Government's objective had been to reduce the weight of bureaucracy, especially as it bore upon the individual citizen. This did not necessarily point to the case for substantial cuts in the Ministry of Defence, which had already reduced its staff considerably in recent years. While there was certainly scope for some reduction in such a large Department, the tasks were so complex, and sensitive that this would take time. The Ministry of Defence had already set its own internal reviews in hand. Other Departments, like the Ministry of Agriculture, were co-operating with the Civil Service Department in full-scale management reviews. Sir Derek Rayner's proposals would lead to further economies. Other Departments were able to make very substantial staff reductions, provided the Government was prepared to undertake contentious legislation. In other cases, there was room for substantial contracting-out of work to the private sector. This was often inherently a more flexible way of carrying out a fluctuating work-load, and could lead to substantial savings in overhead cuts such as pensions. Whilst therefore the Lord President of the Council's criterion of cost saving was supported it would be important to ensure that all relevant costs were brought into the comparison. As to the Revenue Departments it was argued that, at any rate for the years before full computerisation, large staff savings could probably only be achieved by exempting considerable numbers of people from tax, at a high cost. Nevertheless, the search for economies should be pressed in these Departments, too, because work done in opposition and the experience of other countries suggested that we employed a relatively high number of tax officials in relation to revenue yield. More generally it was argued that strict control of recruitment, with the direct involvement of Departmental Ministers concerned, was a very effective way of subjecting Departmental tasks to scrutiny. There were however other areas, like the Prison service, where there was little scope for staff reduction. A review of sentencing policy, with more emphasis on monetary penalties, might help; but the prisons were so overcrowded that drastic action would soon be needed. In addition, the forthcoming report of the May Committee might lead to demands for additional staff, and would be likely to create a very difficult situation on which the Home Secretary would shortly be reporting to his colleagues.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the Lord President of the Council's proposals in paragraph 18 of C(79) 38. It would however be presentationally important to avoid any public commitment to a particular target at this stage. In the light of this decision all Departmental Ministers should re-examine their staff levels with the aim of securing savings of at least 10 per cent wherever possible. They should then discuss their proposals with the Lord President of the Council, who would bring detailed proposals to the Cabinet at a later stage.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Lord President of the Council to proceed accordingly.

9. THE PRIME MINISTER said that she had now received a most interesting report from Sir Derek Rayner about his operations to reduce waste, to improve efficiency and to identify unnecessary functions, in Government Departments. She would circulate this to colleagues for discussion at a later meeting which Sir Derek Rayner might be invited to attend. Colleagues would see that Sir Derek Rayner required information from them by 23 November and she urged all Ministers in charge of Departments to co-operate fully in meeting this request. The development of Sir Derek Rayner's activities offered the opportunity of ending the Programme Analysis and Review (PAR) system and, unless any colleagues saw objection, PAR should be phased out as quickly as possible.

In a brief discussion no member of the Cabinet indicated that he wished the PAR system to continue.

The Cabinet -

Took note.

Cabinet Office

13 September 1979

THE RAYNER
EXERCISE

Previous
reference:
C(79) 1st
conclusions,
paragraph 1 j.