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(1) 41st
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CABINET

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

WEDNESDAY 19 NOVEMBER 1980

at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

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

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

Rt Hon Lord Soames
President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

Rt Hon Sir Ian Gilmour MP
Privy Seal

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

Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

Rt Hon Nicholas Edwards MP
Secretary of State for Wales

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

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

Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

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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

THE FOLLOWING WERE ALSO PRESENT

Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant (Items 4 and 5)
Mr R L Wade-Gery (Items 2 and 3)
Mr D M Elliott (Items 2 and 3)
Mr W N Hyde (Item 1)
Mr D J L Moore (Items 4 and 5)
Mr L J Harris (Item 1)

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

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THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the Debate on the Address would continue up to and including Thursday 27 November. The choice of subjects for each day of the Debate was in the hands of the Opposition, and they would not take a final decision until the meeting of the Shadow Cabinet the following day. On the last two days the Opposition would move amendments and their spokesmen would speak first. Opportunity would have to be found, either by way of a separate statement or during a Ministerial speech, for a number of major Government statements: by the Chancellor of the Exchequer on public expenditure and the economy, by the Secretary of State for the Environment on the publication of the consultative documents containing the Government's proposals for the 1981-82 Rate Support Grant settlement, including the proposed reduction in local authority housing subsidies, and by the Secretary of State for Employment on special employment measures.

In discussion the following main points were made:

- a. It was undesirable for any statements to be made on Tuesday 25 November, when the publication of the latest unemployment figures was expected to lead to a fierce Opposition attack on the Government; the alternative of several statements on Monday 24 November, including one by the Chancellor of the Exchequer, might be unavoidable.
- b. The statutory meeting on the Rate Support Grant (RSG) settlement for 1981-82 had now been arranged for 16 December. The Secretary of State for the Environment had been advised that he would be open to challenge in the courts unless a reasonable period, probably not less than three weeks, was allowed between the publication of the consultative documents and the statutory meeting. This pointed towards a statement, followed by publication, as early as possible in the following week.
- c. Any statement on the proposals for the RSG settlement by the Secretary of State for the Environment would have to be accompanied by similar statements by the Secretaries of State for Scotland and Wales.

d. Because of its implications for expenditure on education, it would be preferable for any statements on the RSG settlement to be made before the Secretary of State for Education and Science had to answer Parliamentary Questions on Tuesday 25 November; for this reason, and in order to avoid a proliferation of statements on RSG settlements, it was for consideration whether the Government's proposals in this area could be included in the statement to be made by the Chancellor of the Exchequer.

e. If a settlement of the prison officers' dispute was reached in time, the Home Secretary might wish to make a statement on Tuesday 25 November. This would not obviate the need for a Motion on Wednesday 26 November to continue the existing powers under the Imprisonment (Temporary Provisions) Act.

f. The Scrutiny Committee had recommended several outstanding European Community documents on fisheries policy for debate. It would be preferable if time could be found for a debate before the next Council meeting on fisheries; it might be held after 10.00 pm during the following week.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it would be undesirable for any statements, other than one on the prison officers' dispute if the Home Secretary were in a position to make it, to be made on Tuesday 25 November. The timing of other statements could not be settled until the topics for each day's debate on The Queen's Speech were known, but it seemed from the Cabinet's discussion that it would be necessary for the Chancellor of the Exchequer's statement on economic policy, announcements on the RSG settlement for 1981-82 (it was for further consideration among the Ministers concerned whether these announcements should be included in the Chancellor of the Exchequer's statement or made separately by the Secretaries of State for the Environment, Scotland and Wales), and the statement on special measures to deal with unemployment to be made before the conclusion of the debate. The Chancellor of the Duchy of Lancaster should arrange the precise timing of these statements in consultation with the Chief Whip and the other Ministers concerned.

The Cabinet -

Invited the Chancellor of the Duchy of Lancaster, in consultation with the Chief Whip and other Ministers concerned, to make appropriate arrangements for the necessary statements in the House of Commons in the following week, and to report the outcome to the Prime Minister.

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2. THE PRIME MINISTER said that the talks which she and the Foreign and Commonwealth Secretary had had with the Federal Chancellor and Herr Genscher in Bonn on 16-17 November had gone well. The Chancellor had shown some concern about the Labour Party Conference decision to work for the withdrawal of the United Kingdom from the European Community, but he had been left in no doubt about the Government's commitment to Europe. As a result of the talks the way was now clear for both countries to go ahead in Europe on a basis of friendship and co-operation.

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, following a series of bilateral meetings in the margins of the Council of Ministers (Fisheries) on 17 November, the best offer made for the United Kingdom quota share had been a Presidency proposal of 35.2 per cent of the total allowable catch of the seven main species, as against a Commission proposal of 32.5 per cent. This allocation had been opposed by France and Denmark, but by the end of the Council the Danes were virtually isolated. Discussion would be resumed at a further Council meeting in the next week or two, at which he hoped to secure an improvement in the United Kingdom figure. Meanwhile the industry were in a better mood and matters were moving in a direction consistent with our national interest.

The Cabinet -

Took note.

4. The Cabinet's discussion is recorded separately.

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5. The Cabinet continued their consideration of a memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury (C(80) 64) proposing changes in public expenditure programmes; they also had before them a further memorandum by the Chancellor of the Exchequer (C(80) 72) which drew together the results of decisions on public expenditure, reached at the Cabinet's earlier meetings, and their wider implications for the Government's economic strategy.

The Cabinet's discussion and the conclusions reached are recorded separately.

Cabinet Office

19 November 1980

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CABINET

LIMITED CIRCULATION ANNEX

CC(80) 41st Conclusions, Minute 4

Wednesday 19 November 1980 at 9.30 am

CONFIDENTIALITY

THE SECRETARY OF STATE FOR SOCIAL SERVICES drew attention to the reports of the Cabinet's discussion of public expenditure which had appeared in a number of newspapers in the following days. These reports had given detailed accounts, with a considerable degree of accuracy, of the views and positions of particular members of the Cabinet. Ministers could contribute helpfully to the sort of public expenditure exercise in train and discuss matters with the requisite degree of frankness among themselves only if they could be sure that the confidence of their proceedings would be respected.

In discussion it was agreed that the disclosures to which attention had been drawn, which included direct quotations of what Ministers had said, could only have come, directly or indirectly, from someone who was present for the discussion. They were in direct contravention of the request made by the Prime Minister at the end of the discussion, when she had asked that comments to the Press should be confined to the form of words which the Cabinet had agreed. Such disclosures called in question the confidence and loyalty among colleagues that ought to subsist in a Cabinet and was indispensable to the system of Cabinet government. When they included details of proposals which the Cabinet in the end decided not to adopt, they could seriously damage the Government's credibility. They had to stop.

THE PRIME MINISTER, summing up the discussion, said that it should serve as a reminder of the need for the preservation of confidence of proceedings in the Cabinet, as a basis for the frankness and openness of discussion and the loyalty among colleagues which were essential to Cabinet government. She trusted that all her colleagues would in future observe the utmost discretion, not only with the Press but also in their own departments and with junior Ministers, about the proceedings of the Cabinet. If this were not done, it could become impossible to discuss sensitive matters in Cabinet.

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The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office

20 November 1980

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CABINET

LIMITED CIRCULATION ANNEX

CC(80) 41st Conclusions, Minute 5

Wednesday 19 November 1980 at 9.30 am

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(80) 72), summarising the results of the decisions on public expenditure reached so far in their discussions and their implications for the Government's economic strategy. They also considered memoranda by the Chancellor of the Exchequer and the Secretary of State for Social Services, circulated at the meeting, on public expenditure on the social security and health programmes.

THE CHANCELLOR OF THE EXCHEQUER said that, depending on the Cabinet's decisions on the outstanding proposals for reductions in the defence, social security, health and Scottish programmes, the total of planned public expenditure in 1981-82 would be between £77.6 billion and £78.2 billion at late 1979 prices. This compared with the planning total of £76.9 billion in the last Public Expenditure White Paper, Cmnd 7841, which was struck before taking credit for the European Community refunds of £0.7 billion which had been agreed subsequently.

The Cabinet then discussed the outstanding proposals for changes to individual programmes.

THE PRIME MINISTER said that the Secretary of State for Defence had now agreed with her and with the Chancellor of the Exchequer that the Defence Budget for 1981-82 should be reduced by £200 million, subject to four conditions. These were:

- i. If the decisions taken by the Government in the light of the recommendations of the Armed Forces Pay Review Body entailed an increase in the Armed Forces' pay bill beyond the 6 per cent which would be provided in the defence cash limit, the limit would be increased by the full amount involved.

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ii. The prices factor for the cash limit on defence budget expenditure other than pay would be 11 per cent, as in other cash limits, but in recognition of the special considerations affecting price increases in this programme the limit would be subject to review in the light of changing circumstances.

iii. The Government would confirm that it adhered to its commitment to the North Atlantic Treaty Organisation to increase defence spending in real terms by 3 per cent a year, economic circumstances permitting, and trusted that economic circumstances would permit the United Kingdom to resume this rate of growth in 1982-83 and later years.

iv. In accordance with agreed cash limits policy, and with the treatment of overspending on the defence cash limits in 1978-79 and 1979-80, any overspend on the 1980-81 defence limit would lead to a compensating deduction from the limit for 1981-82.

THE SECRETARY OF STATE FOR DEFENCE said that he accepted the cut proposed with reluctance, recognising that in the light of present economic circumstances the commitment to a 3 per cent increase in real terms could not be met. He had already made clear to the Cabinet that reductions of the order proposed, coming on top of his agreement to absorb next year any overspend on this year's cash limit, would make it difficult to fulfil the Government's present defence commitments. In his judgment they would involve some risk to the security of the nation. He would now have to consider further the implications for the defence programme of the cut in 1981-82, and he might need to bring recommendations to the Defence and Overseas Policy Committee.

The Cabinet -

1. Agreed that the Defence Budget should be reduced by £200 million in 1981-82, subject to the four conditions set out by the Prime Minister in her statement.

THE CHANCELLOR OF THE EXCHEQUER said that pensions and other benefits would be uprated on 24 November by 16.5 per cent (11.5 per cent for some short term benefits), compared with his latest forecast for inflation over the 12 months to November 1980 of 15.5 per cent. He recommended that this overpayment should be recouped in November 1981 by uprating retirement pensions and

all other benefits by one percentage point less than would be necessary to give full price protection. This would in his view be completely compatible with the Government's pledge that over time increases in pensions should at least keep pace with increases in prices. It would however mean that, if in any future year the uprating were to prove less than the increase in prices over the same period, the Government would then be bound in practice, though not in law, to make a compensating increase at the next uprating. Indeed the Government had already done this in November 1979, when they had made good a shortfall of 1.9 per cent resulting from the decisions of the Labour Government. In so far as public sector pensions were increased in the same way and by the same percentage amounts as retirement pensions, this abatement should also apply to public sector pensions as appropriate. He further recommended that increases in unemployment and sickness benefits and maternity allowances should be abated by another two percentage points to reflect the expectation that earnings would fall behind prices in the coming year and the effect of expected indirect tax increases on alcohol and tobacco prices. The 1 per cent abatement, but not this additional 2 per cent, and some of his other proposals for social security savings would require legislation. The necessary provisions could be added to the Social Security Bill which was already in the programme to give effect to the Employers' Statutory Sick Pay Scheme.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he agreed that it would be defensible to abate all benefits by one percentage point in November 1981 if the increase in prices did indeed show that there had been over-provision of that amount in the November 1980 uprating. The calculation of this abatement would, however, need to take account of the fact that the November 1980 uprating covered a period of 54 weeks. The legislation would undoubtedly be contested, and amendments would be put down on the individual benefits, which included war pensions, war disability pensions and the whole range of benefits for the disabled. He strongly recommended against any additional abatement, over and above the one percentage point, of the uprating of unemployment and sickness benefits and maternity allowances. These groups were already heavily affected by the abatement in benefits of five percentage points this year and by the decision to phase out the earnings related supplement.

In discussion it was argued that, while a 1 per cent abatement might not be inconsistent with the Government's pledges on retirement pensions, it would be much criticised and strongly attacked, and in the course of the passage of the necessary legislation there would be pressure to make exemptions for particular benefits. This pressure would be expressed in the form of a series of amendments,

some of which could well be carried against the Government. As the Chancellor of the Exchequer had pointed out, it would mean that in practice the Government would be bound in future to compensate for any under provision, and this could prove to be expensive. Tying upratings very precisely to the outturn of price increases could entrench index-linking even more deeply, and make it more difficult to achieve the longer term aim of breaking from indexation, as was essential if the Government were to achieve full control over public expenditure. On the other hand it was argued that, provided the abatement was applied without exception to all benefits, it could be presented as fair and defensible action in the light of over-provision this year. Action to compensate for an over-payment on this occasion need not tie the Government's hands in taking action to break with indexation in future. In drafting the legislation, care should be taken to keep the provision in general terms as now, and to avoid any statutory link between the uprating and the Retail Price Index. Although these savings would be unpopular, they were necessary to meet the overall objective of reducing public expenditure and the Public Sector Borrowing Requirement (PSBR); and they were preferable to the alternatives of other public expenditure cuts or increases in taxation which would be harmful to productive investment.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed on balance that legislation should be taken to provide for the increases in all benefits to be abated at the time of the November 1981 uprating to take account of the over-provision, currently estimated at one percentage point, in the November 1980 uprating. The Cabinet's attention had been drawn to the fact that the November 1980 uprating covered 54 weeks, and the decision on the amount of the abatement should take account of this as appropriate. The abatement applied to retirement pensions should also apply in principle, other things being equal, to public sector pensions; the Chancellor of the Exchequer should discuss this further with the Lord President of the Council and other Ministers concerned. The Cabinet did not accept the proposal that unemployment and sickness benefit and maternity allowances should be abated by a further two percentage points. This would place an unacceptable burden on families and on the unemployed at a time of mounting unemployment.

The Cabinet -

2. Agreed that at the November 1981 uprating the increase in all benefits should be abated as indicated in the Prime Minister's summing up to take account of the over-payment in the November 1980 uprating.

3. Invited the Chancellor of the Exchequer to ensure, in consultation with the Lord President of the Council and other Ministers concerned, that this abatement was applied if and as appropriate to public sector pensions.

4. Took note that these decisions would require legislation, although those relating to social security benefits could be dealt with by additions to the Social Security Bill which was already included in the legislative programme.

In discussion of further proposals for savings in the social security programme the following points were made -

a. It was agreed that the increase in child benefit in November 1981 should be abated by the same percentage as tax threshold increases were abated in the next Budget.

b. It had long been argued that the waiting period before flat rate unemployment and sickness benefits were paid should be extended beyond the present three days. It was agreed, however, that this change could not be made at a time when it would add to the burdens on the unemployed and poor families.

c. It was agreed that the pensions earning rule, which at present allows a person to earn up to £52 per week before his pension is docked, should be frozen for one year from November 1981 in addition to the freeze already applying from November 1980. There was a Manifesto commitment to abolish the earnings rule during this Parliament but to freeze it would not break that pledge.

d. It was agreed not to accelerate the phasing out of child dependency additions to unemployment and short-term benefits.

e. It was agreed not to hold back supplementary benefit children's rate in order that the cash differential between this and child benefit did not widen. The majority of families eligible, including two-thirds of the children, received benefit because the parents were either chronically sick or single. The proposal would therefore hit the poorest families and the argument that the present differential was a disincentive to work was largely irrelevant. It was noted that the Chancellor of the Exchequer and the Secretary of State for Social Services would consider the possibility of making changes in the longer term which might deal with the remaining beneficiaries to whom the disincentive argument was relevant.

f. It was noted that it would be contrary to the Government's commitments either to suspend the Christmas bonus or to ignore alcohol and tobacco duties when uprating pensions.

g. It was agreed that the upper earnings limit for National Insurance contribution purposes should be set at £200 a week from April 1981 rather than the £190 a week hitherto envisaged. This decision would not affect public expenditure totals but it would reduce the PSBR by about £100 million in 1981-82.

THE PRIME MINISTER, summing up this part of the discussion, said that, in so far as the changes agreed by the Cabinet required legislation, the necessary provisions could be made in the Social Security Bill already in the programme, and in the legislation required to increase the National Insurance contribution.

The Cabinet -

5. Agreed that the increase in child benefit in November 1981 should be abated by the same percentage as tax threshold increases were abated in 1981-82.

6. Agreed that the pensions earnings rule should be frozen for a further year from November 1981.

7. Agreed that the upper earnings limit for National Insurance contribution purposes should be set at £200 a week from April 1981.

THE CHANCELLOR OF THE EXCHEQUER said that he recommended that 1 per cent should be cut from the cash limited health programme to yield £60 million a year, with the savings being found from improvements in efficiency.

THE SECRETARY OF STATE FOR SOCIAL SERVICES recalled that the Cabinet had previously agreed that, rather than reduce public expenditure on the National Health Service (NHS), there should be an increase in the employees' National Health Service contribution. The most that he could now offer by way of savings on improved efficiency, and without damaging cuts in services, was £25 million a year.

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THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that the public expenditure saving on the health programme should be £25 million a year as proposed by the Secretary of State for Social Services.

The Cabinet -

8. Agreed that the cash controlled health programme in England should be reduced by £25 million a year from 1981-82 to 1983-84 and that corresponding reductions should be made under the formula arrangements in the health programmes for Scotland, Wales and Northern Ireland.

THE SECRETARY OF STATE FOR SCOTLAND recalled that he had advised the Cabinet that the most he could offer under the present arrangements for determining Scotland's share of public expenditure on comparable services was £10 million a year. He had now agreed with the Chief Secretary, Treasury, to consider whether it would be practicable within these arrangements to increase the savings to £20 million in 1982-83 and £30 million in 1983-84. These additional savings could be made only if they were not inconsistent with the present formula arrangements.

The Cabinet -

9. Agreed that, in addition to reductions under the formula arrangements, the Scottish Office programme should be reduced by £10 million in each year from 1981-82 to 1983-84 and that the Secretary of State for Scotland should agree with the Chief Secretary, Treasury, whether these reductions could be increased to £20 million in 1982-83 and £30 million in 1983-84.

THE PRIME MINISTER, summing up, said that the Cabinet had now completed its discussion of public expenditure in 1981-82. The Chancellor of the Exchequer would make a statement in the week beginning 24 November on this and other economic and financial matters. In the meantime it was essential that no details should be revealed of the Cabinet's decisions. The Press would be told simply that the Cabinet had now concluded their discussions on public

expenditure and that the Chancellor of the Exchequer would be making a statement in the following week. The Chancellor of the Exchequer would publish in the Official Report, at the same time as his statement, details of the programmes now agreed for 1981-82. He should clear his text with Ministers responsible for programmes. He should also circulate in time for discussion if necessary at the Cabinet's meeting on 27 November a memorandum summarising the totals for each programme in 1982-83 and 1983-84. The Chief Secretary, Treasury, would announce the External Financing Limits of the nationalised industries in the week beginning 24 November, and sponsor Ministers should now reach agreement urgently with him on any outstanding issues. The Secretary of State for the Environment should clear his statement on local authority expenditure with the Chief Secretary, Treasury, with Ministers responsible for local authority expenditure in England, and with the Secretaries of State for Scotland and Wales. In particular he should reach agreement with them on the question whether his statement should reveal the Government's assumptions for expenditure on individual services. It was essential that these and other major statements, whether oral or written, should be cleared in good time with all Ministers concerned, including the Chancellor of the Duchy of Lancaster and the Chief Whip. The legislative programme was already heavily burdened and the decisions reached on social security measures would add to the pressures on the Parliamentary timetable. The Cabinet noted that it would be very difficult to accommodate any further Bills without re-examining priorities within the present legislative programme.

The Cabinet -

10. Took note, with approval, of the Prime Minister's summing up of their discussion.
11. Invited the Chancellor of the Exchequer to agree with spending Ministers the terms of his statement giving details of each programme in 1981-82.
12. Invited the Secretary of State for the Environment to agree with the Ministers responsible for local authority expenditure in England, the Secretaries of State for Scotland and Wales, and the Chief Secretary, Treasury, the text of his statement on local authority expenditure in England.

13. Invited Ministers sponsoring the nationalised industries to reach agreement urgently with the Chief Secretary, Treasury, on any outstanding issues on the External Financing Limits of the nationalised industries which he would announce in the week beginning 24 November.

14. Invited the Chancellor of the Exchequer to circulate, in time for discussion if necessary at their meeting on 27 November, a memorandum summarising his proposals for each programme in 1982-83 and 1983-84.

Cabinet Office

20 November 1980