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PART A



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PUBLIC EXPENDITURE AND  
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C(P)(83)5  
*June 1983*

Copy No. **357**

**CABINET : PROCEDURE**

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**QUESTIONS OF PROCEDURE FOR MINISTERS**

NOTE BY THE PRIME MINISTER

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I circulate herewith a revised and up to date memorandum giving guidance to Ministers on matters of procedure.

2. It replaces the memorandum which I circulated in May 1979 (C(P)(79)1). All that I said in my covering note to that memorandum remains as valid as ever; I am therefore also recirculating a copy of that covering note as an annex to this note.

M.H.T.

10 Downing Street  
27 June 1983

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C(P)(79)1  
May 1979

ANNEX TO C(P)(83)5

**CABINET : PROCEDURE**

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**QUESTIONS OF PROCEDURE FOR MINISTERS**

NOTE BY THE PRIME MINISTER

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1. I circulate herewith a memorandum giving guidance to Ministers on matters of procedure. Much of it is more appropriate as a day to day handbook for Private Offices but a Summary draws attention to the main contents and I ask all Ministers to be aware of these and to refer to the full text on any points on which they are doubtful.

2. I attach the highest importance to the principles enunciated in the memorandum concerning collective and Ministerial responsibility. These must inform all our work, in Departments, in our collective deliberations and in our public activities.

3. It is of the essence of collective responsibility that decisions reached by the Cabinet and its Committees are binding on all members of the Government. The quality of these decisions will in large measure depend on our ability to have free and frank discussions amongst ourselves in an atmosphere of mutual confidence that the confidentiality of our deliberations will be maintained.

4. There are other rules of conduct which Ministers should uphold: consulting Ministerial colleagues about matters concerning their responsibilities; giving colleagues sufficient time to consider matters which they bring before them; attending personally meetings of Cabinet Committees of which they are members or to which they are invited; accepting that appeals to the Cabinet must be the exception rather than the rule; and avoiding conflict between their private interests and their public duties.

5. In our public activities we must take every opportunity to propound our policies, in Parliament and in the media. But we must always remember that as Ministers we cannot speak publicly only for ourselves. In all cases we speak as Ministers and are bound by the principle of collective responsibility. Ministers must therefore neither anticipate decisions not yet made public; nor refer to subjects which are the responsibility of another Minister without prior consultation.

M.H.T.

10 Downing Street  
24 May 1979

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### QUESTIONS OF PROCEDURE FOR MINISTERS

#### SUMMARY

##### Section I

###### **Privy Council** (paragraph 2)

Attendance at a Privy Council meeting takes precedence over all other engagements.

##### Section II

###### **Cabinet Procedure** (paragraphs 3–24)

Cabinet and Cabinet Committee business consists mainly of questions that engage the collective responsibility of the Government, and of questions on which there is an unresolved argument between Departments, or on which a Minister wishes to have the advice of his colleagues.

Cabinet meetings take precedence over all other business except Privy Council meetings. Requests for absence must be made personally to the Prime Minister.

Cabinet Committees relieve the pressure on Cabinet and ensure that decisions not taken by the full Cabinet are nevertheless authoritative and fully considered. Appeals to Cabinet must be infrequent and are at the Prime Minister's discretion. Ministers should attend meetings in person when invited. Cabinet and Cabinet Committee memoranda should be circulated at least seven days before the meeting on which they are due to be discussed; should reflect requirements to consult other Departments concerned (particularly the Treasury); and should be no longer than two pages.

Decisions reached by the Cabinet or Cabinet Committees are binding on all Ministers. They are normally announced and defended as the decision of the Minister concerned. No indication of the manner in which other Ministers have been consulted should be given.

##### Section III

###### **Propriety and Security in the Conduct of Government Business** (paragraphs 25–31)

Ministers must protect the Government's reputation for integrity and the confidentiality of its proceedings. Premature or unauthorised disclosure of matters under discussion within Government must be avoided. Knowledge of such matters must be confined to those who need to know. Ministers should personally ensure good security in their Departments.

##### Section IV

###### **Junior Ministers** (paragraphs 32–36)

A Minister in charge of a department is alone answerable to Parliament for the exercise of his powers, but may delegate authority for a defined range of Departmental work to a junior Minister. The Prime Minister's approval must be sought for the arrangements for supervising the work of a Department when the Minister in charge will be absent.

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## Section V

**Parliamentary Private Secretaries (PPSs) (paragraphs 37–40)**

Ministers choose and appoint their own PPSs but must consult the Chief Whip about their choice and obtain the Prime Minister's approval before offering any such appointment. PPSs, as Private Members, should be afforded as great a liberty of action as possible, but in view of their close and confidential association with Ministers must act with responsibility and discretion. They may not vote against the Government or speak in Parliament on matters affecting their Department. Official information given to PPSs should be limited to what is necessary for the discharge of their Parliamentary and political duties.

## Section VI

**Ministers' Visits (paragraphs 41–56)**

Overseas visits, except for European Community meetings, should normally be made only in the recess or at weekends. The Foreign and Commonwealth Office should be consulted in good time before the programme for an overseas visit is drawn up. Ministerial parties should be kept as small as possible.

A Cabinet Minister who wishes to be absent from the United Kingdom should seek the Prime Minister's approval before any commitment is made. After the Prime Minister's approval has been obtained a member of the Cabinet should additionally, except for visits on European Community business, seek The Queen's permission.

A Minister planning an official visit to Scotland, Wales and Northern Ireland should inform the Secretary of State concerned and the Chief Whip. A Minister making a visit within the United Kingdom should inform the Members for the constituencies included in the itinerary for the visit. A Minister visiting a town in the United Kingdom should also inform the Local Authority. Ministers should not accept offers of free travel. Travelling expenses of spouses accompanying a Minister on official duties may in certain circumstances be met from public funds.

## Section VII

**Relations with Other Governments (paragraphs 57–61)**

Ministers should send to the Foreign and Commonwealth Secretary a note of the salient points of any discussions they may have with representatives of foreign countries.

The Foreign and Commonwealth Secretary should be informed before a Minister in a foreign Government is invited to pay an official visit.

## Section VIII

**Acceptance of Gifts and Services (paragraphs 62–64)**

No Minister should accept gifts, hospitality or services which would, or might appear to, place him or her under an obligation. The same principle applies in respect of a Minister's family. In cases of doubt the Prime Minister should be consulted.

Special rules apply in the case of gifts from foreign Governments.



## Section IX

**Ministers' Private Interests** (paragraphs 65–86)

Ministers must so order their affairs that no conflict arises, or appears to arise, between their private interests and their public duty. In cases of doubt the Prime Minister must be consulted.

Where a private interest is retained it must be declared to other colleagues where appropriate.

Special rules apply in respect of appointments; directorships; partnerships; shareholdings; "names" at Lloyd's; pressure groups; and participation in the Parliamentary Contributory Pension Fund and in other pension schemes.

## Section X

**Constituency Interests** (paragraphs 87–90)

Ministers should have their constituency work done at their own expense. A Minister should consider any request by a member of the public to submit a case to the Parliamentary Commissioner for Administration (PCA) on its merits in deciding whether to refer it to the PCA, to take it up with the Minister of the Department concerned, or to refer it to another MP (if the complaint is not from the Minister's constituency). A Minister will generally investigate personally any complaint against his own Department. However if the Minister, or another Minister in the Department has been involved in the case, the PCA should be asked to investigate.

Ministers may not take part in public representations or deputations to other Ministers.

## Section XI

**Appointments by Ministers** (paragraphs 91–97)

Special procedures apply to proposals by Ministers to set up Royal Commissions, independent Committees of Inquiry or Committees consisting partly of civil servants and partly of individuals outside government; to appointments to Royal Commissions, Nationalised Industry Boards, Public Boards including Regional Health Authorities, and the more important departmental committees; and to appointments of members of Boards, Commissions or Committees of Inquiry where the appointment is likely to have political significance.

Ministers should consult their Permanent Secretaries if they wish to make personal appointments.

Separate guidance is issued about the appointment of Special Advisers.

## Section XII

**Changes in Ministerial Responsibilities** (paragraphs 98–105)

The Prime Minister's approval should be sought on proposals to reallocate functions between Ministers and on the allocation of new functions where Ministerial responsibility is not clear.



## Section XIII

**Parliamentary Statements and Papers and Other Government Announcements**  
(paragraphs 106–129)

The Leader of the House of Commons and the Chief Press Secretary at No. 10 should be given as long an opportunity as possible to comment on the content and timing of all important Government announcements, whether in the form of a statement in Parliament, White Paper or Press conference, and whenever possible they should also be shown the draft announcement in advance.

When Parliament is in session important announcements of Government policy should be made in the first instance to Parliament. Ministers proposing to make a statement after Questions or to make an important announcement by means of a Written Answer should, before giving any undertakings that a statement will be made at a particular time, inform the Prime Minister and the Leader of the House of Commons. Ministers should, if possible, avoid any announcement of this kind on Thursdays.

Six copies of oral statements must be given to the Chief Whip in the House of Commons as early as possible, and certainly no later than 3.00 p.m. (10.30 a.m. in the case of statements made on a Friday) in order that they can be shown to the Opposition Parties. The final text should also be sent in advance to The Speaker.

Ministers planning to publish a White or a Green paper should give as much notice as possible of their intention to the Prime Minister, the Leader of the House of Commons and the Secretary of the Cabinet. It is customary to circulate all White Papers to the Cabinet before publication.

Ministers must bear in mind in making speeches or broadcasts that in all cases they speak as Ministers and are bound by collective responsibility. They must keep within Government policy and not anticipate decisions not yet made public. They should consult other Ministers concerned about any reference to matters within their responsibility.

Ministers must be ready to accept invitations to take part in radio and television programmes which provide an opportunity to propound Government policies or to clear up a misunderstanding.

Ministers may not practice regular journalism. Nor may they write and publish, while in Office, books on their Ministerial experiences.

## Section XIV

**Ministerial Memoirs and Other Writings** (paragraphs 130–132)

Former Ministers contemplating the publication of material based upon their recollection of the conduct of Government business in which they took part are required to submit their manuscript to the Secretary of the Cabinet and to conform to the principles set out in the Radcliffe Report of 1976 (Cmnd. 6386).

Ministers who wish to keep a diary of their Ministerial experiences must first consult the Prime Minister.

## Section XV

**Political Impartiality of Civil Servants** (paragraphs 133–134)

Civil servants should not be asked to engage in activities likely to call in question their political impartiality.



## QUESTIONS OF PROCEDURE FOR MINISTERS

1. Throughout this memorandum Ministers comprehend all members of the Government, including Assistant Government Whips. They do not include Parliamentary Private Secretaries (who are dealt with in section V).

### I. Privy Council

#### *Attendance at Meetings of the Privy Council*

2. Once a Minister has accepted a Summons to a meeting of the Privy Council this should take precedence over all other engagements. If a Minister is subsequently unable to attend because of illness, or should some inescapable public duty intervene, the Clerk of the Council must be informed immediately. If a Minister has a meeting immediately before a Council, the agenda should be arranged to leave ample time to reach the Palace. In no circumstances is it permissible for a Minister not to attend because an earlier meeting has overrun its time. The failure of a Minister to attend a Council after a summons has been accepted is not only discourteous to The Queen but could result in no quorum being present to transact essential Government business.

### II. Cabinet Procedure

#### *Cabinet and Cabinet Committee business*

3. Cabinet and Cabinet Committee business consists, in the main of—

- (i) Questions which significantly engage the collective responsibility of the Government, because they raise major issues of policy or because they are likely to occasion public comment or criticism.
- (ii) Questions on which there is an unresolved argument between Departments.

Matters wholly within the responsibility of a single Minister and which do not significantly engage collective responsibility as defined above need not be brought to the Cabinet or to a Cabinet Committee unless the Minister wishes to have the advice of colleagues. A precise definition of such matters cannot be given; in borderline cases a Minister is well advised to seek collective consideration. Questions involving more than one Department should be examined interdepartmentally, before submission to the Cabinet, so that the decisions required may be clearly defined.

#### *Meetings of the Cabinet and Cabinet Committees*

4. Cabinet meetings take precedence over all other business except meetings of the Privy Council. Requests by Cabinet Ministers for permission to be absent should be made only in the most exceptional circumstances, and should be made at the earliest opportunity and by a personal Minute to the Prime Minister. A personal Minute can however be dispensed with when the reason for absence from Cabinet is an overseas visit for which the Prime Minister's approval has already been obtained. As is indicated in paragraph 44(i) below, a copy of the letter seeking the Prime Minister's approval for the overseas visit should be sent to the Secretary of the Cabinet. (See paragraph 8 below for attendance at Cabinet Committees.)



5. In order not to disturb the proceedings of the Cabinet and Cabinet Committees, Ministers should see that messages are not sent to them during meetings unless this is absolutely essential. A Minister invited to attend for a particular item will be called into the meeting by the Prime Minister's Private Secretary (or the Secretary of the Committee) as soon as the item for which he or she is required has been reached.

6. The Secretary of the Cabinet should be informed of Ministers' out of town engagements, and also of their weekend and holiday arrangements, so that, if a sudden emergency arises, he can inform the Prime Minister which Ministers are immediately available.

#### *Cabinet Committees*

7. The Cabinet is supported by Ministerial Committees which have a two-fold purpose. First, they relieve the pressure on the Cabinet itself by settling as much business as possible at a lower level; or failing that, by clarifying the issues and defining the points of disagreement. Second, they buttress the principle of collective responsibility by ensuring that, even though an important question may never reach the Cabinet itself, the decision will be fully considered and the final judgment will be sufficiently authoritative to ensure that the Government as a whole can be properly expected to accept responsibility for it. When there is a conflict between Departments, it should not be referred to the Cabinet until other means of resolving it have been exhausted, including personal correspondence or discussions between the Ministers concerned.

8. If the Ministerial Committee system is to function effectively, appeals to the Cabinet must clearly be infrequent. Chairmen of Committees are required to exercise their discretion in advising the Prime Minister whether to allow them. The only automatic right of appeal is if Treasury Ministers are unwilling to accept expenditure as a charge on the contingency reserve: otherwise the Prime Minister will entertain appeals to the Cabinet only after consultation with the Chairman of the Committee concerned. Departmental Ministers should normally attend in person meetings of Committees of which they are members or to which they are invited; unless they make it possible for their colleagues to discuss with them personally issues which they consider to be important, they cannot—except where their absence is due to factors outside their control—expect the Prime Minister to allow an appeal against an adverse decision taken in their absence.

#### *Preparation of business for Cabinet and Cabinet Committees*

9. The Secretary should be given at least seven days' notice of any business (including business to be raised orally) which a Minister wishes to bring before the Cabinet or a Cabinet Committee. Memoranda should be circulated in sufficient time to enable Ministers to read and digest them, and to be properly briefed on them. The rule is that memoranda for Cabinet and Cabinet Ministerial Committees should be circulated at least seven days in advance of the meeting at which they are to be discussed. When there is no time constraint, or when a subject is of major importance or complexity, this rule should be complied with. If decisions are urgently required, and an interval of seven days is not possible, memoranda should be circulated as long before a meeting as possible, and at the very least two full working days before they are to be discussed. This exception to the seven-day rule will normally be made only for papers commissioned at one meeting of the Cabinet or Cabinet Committee for consideration at its next meeting. Apart from that, papers submitted late for the seven-day deadline will be taken off the agenda of the meeting for which they were intended,



unless the Cabinet Office is satisfied that the delay was unavoidable and that the dispatch of public business requires them to be taken on the date originally intended. To ensure that the seven-day rule is complied with in the case of Cabinet memorandum, drafts will have to be received by the Private Secretary to the Secretary of the Cabinet early in the afternoon (certainly not later than 4.00 pm) of the Wednesday, eight days ahead of the Thursday Cabinet at which the memorandum is to be discussed.

10. Ministers' Private Secretaries can help the Secretary by indicating which Ministers other than members of the Cabinet or Committee are likely to be concerned with a subject, so that arrangements may be made for their attendance.

11. Proposals involving expenditure or affecting general financial policy should be discussed with the Treasury before being submitted to the Cabinet or to a Ministerial Committee; and the results of those discussions together with the best possible estimate (or estimates, if the Department's figures cannot be reconciled with the Treasury's) of the cost to the Exchequer, should be indicated in the memorandum. Where proposals affect United Kingdom obligations or interests as members of the European Community this should be clearly explained. If proposals have manpower implications or may give rise to problems of recruitment, these should be clearly stated after consultation (in the case of manpower) with the Treasury. Attention should also be drawn to any accommodation problems, after consultation with the Property Services Agency. No memorandum should be circulated to the Cabinet unless any legal implications which it raises have been cleared, or at least clarified, with the Law Officers. The Cabinet Office will not normally accept a memorandum for circulation to the Cabinet or a Ministerial Committee unless these steps have been taken.

12. These rules do not limit the right of Ministers to submit to the Cabinet memoranda setting out their views on general issues of policy.

13. Memoranda for the Cabinet and Committees of the Cabinet should be as clear and as brief as possible, not exceeding two pages. Time spent in making a memorandum short and clear will be saved many times over in reading and in discussion; and it is the duty of Ministers to ensure by personal scrutiny that this is done and that, where necessary, memoranda submitted to them are revised accordingly. The model memorandum explains at the outset what the problem is, indicates briefly the relevant considerations, and concludes with a precise statement of the decisions sought. To facilitate reference in discussion, paragraphs should be numbered. Detailed analysis and argument, together with supplementary detail, should be dealt with, where necessary, in annexes.

#### *Cabinet Conclusions and Cabinet Committee Minutes*

14. The record of Cabinet and Cabinet Committee proceedings is limited to the conclusions reached and such summary of the discussion as is necessary for the guidance of those who have to take action. The Cabinet Office are instructed to avoid, so far as practicable, recording the opinions expressed by particular Ministers. Matters of special secrecy or political sensitivity may be recorded in a Limited Circulation Annex.

15. Any suggestions for amendment of Cabinet Conclusions or Cabinet Committee minutes must reach the Secretary not later than 24 hours after the circulation of the minutes.



16. Ministers are responsible for instructing their Departments to give effect to the conclusions of the Cabinet or of one of its Committees, and for telling subordinate Departments or branches about decisions affecting them. When immediate action is required by a Department not represented at the meeting, the Secretary will ensure that the Department concerned is notified forthwith. Where urgent action has to be taken by a Department, application may be made to the Secretary for an advance copy of the relevant conclusions.

#### *Cabinet documents*

17. Rules governing the layout, reproduction, circulation, handling and disposal of Cabinet and Cabinet Committee documents are set out in a separate memorandum: Handbook for the Cabinet Documents Officer (CSI(81)1).

18. Ministers relinquishing office without a change of Government should hand over to their successors those Cabinet documents required for current administration and should ensure that all others have been destroyed in accordance with the standing arrangements. Former Ministers may at any time have access in the Cabinet Office to copies of Cabinet or Cabinet Committee papers issued to them while in office.

19. On a change of Government, the outgoing Prime Minister issues special instructions about the disposal of the Cabinet papers of the outgoing Administration.

20. Some Ministers have thought it wise to make provision in their Wills against the improper disposal of any official or Government documents which they might have retained in their possession by oversight.

#### *Collective responsibility*

21. Decisions reached by the Cabinet or Cabinet Committees are binding on all members of the Government. They are however normally announced and defended as the decision of the Minister concerned. On occasions it may be desirable to emphasise the importance of a decision by stating specifically that it is the decision of Her Majesty's Government. This, however, is the exception rather than the rule.

22. It is important to avoid giving any indication of the manner in which the Minister's colleagues have been consulted before any decision is announced. The principle of the collective responsibility of Ministers, upon which the Cabinet and Cabinet Committee system depends, requires opportunities for free and frank discussion between Ministers; the method adopted by Ministers for discussing among themselves questions of policy is essentially a domestic matter, and such discussions will be hampered if the processes by which it is carried on are disclosed. The growth of any general practice whereby decisions of the Cabinet or of Cabinet Committees were announced as such would lead to the embarrassing result that some decisions of government would be regarded as less authoritative than others; critics of a decision reached by a particular Committee could press for its review by some other Committee or the Cabinet itself, thus impairing the constitutional right of individual Ministers to speak in the name of the Government as a whole.

#### *Consultation with the Law Officers*

23. The Law Officers must be consulted in good time before the Government is committed to critical decisions involving legal considerations. It will normally be appropriate to consult the Law Officers in cases where:



- (i) The legal consequences of action by the Government might have important repercussions in either the foreign or domestic field.
- (ii) A Departmental Legal Adviser is in doubt concerning:
  - (a) the legality or constitutional propriety of legislation which Government proposes to introduce; or
  - (b) the vires of proposed subordinate legislation; or
  - (c) the legality of proposed administrative action.
- (iii) Ministers, or their officials, wish to have the advice of the Law Officers on questions involving legal considerations, which are likely to come before the Cabinet or Cabinet Committee.
- (iv) There is a particular legal difficulty which may raise political aspects of policy.
- (v) Two or more Departments disagree on legal questions and wish to seek the view of the Law Officers.

By convention, written Opinions of the Law Officers, unlike other Ministerial papers, are generally made available to succeeding Administrations.

24. Ministers occasionally become engaged in legal proceedings primarily in their personal capacities but in circumstances which also involve their official responsibilities. In such cases they should consult the Law Officers before consulting their own solicitors, in order to allow the Law Officers to express a view on the handling of the case so far as the public interest is concerned or, if necessary, to take charge of the proceedings from the outset.

### III. Propriety and Security in the Conduct of Government Business

25. All Ministers should protect both the Government's reputation for integrity and the confidentiality of its proceedings. They should therefore conduct themselves, both in public and in private, in such a way as to avoid circumstances which could either damage the Government's good name or be used against them as a means of pressure by hostile intelligence agents. On first appointment, and in certain cases on appointment to a subsequent Ministerial office, Ministers will be briefed by the Security Service, who will explain both the basic threat to our security and the system of protection against it. They will also be invited to sign a declaration that they have read the relevant provisions of the Official Secrets Acts.

26. Premature or unauthorised disclosure of matters under discussion by the Cabinet or its Committees damages the reputation of the Government and impairs the efficiency of administration. Ministers who share the collective responsibility for the Government's programme must be kept generally aware of the development of important aspects of Government policy. But outside this limited circle, knowledge of these matters should be confined to those, whether Ministers or officials, who are assisting in the formulation or execution of the particular policy concerned or need to know what is afoot because of its effect on other aspects of public business for which they are responsible.

27. Confidential aspects of Government policy should not be discussed with persons outside Government service unless this is necessary for the transaction of public business. Care should be taken that no discussions of confidential Government business are held in places where they may be overheard; and special care should be taken to protect the security of all classified Government papers.



28. Ministers should personally ensure that not only they but also members of their staffs maintain good security and that the appropriate precautions are strictly enforced in their Departments. In particular:—

- (i) The rules governing access to Cabinet and Cabinet Committee documents are set out in the separate memorandum Handbook for the Cabinet Documents Officer (CSI(81) 1). The main features of these are: that the “need to know” principle is paramount; that minutes and memoranda of the Cabinet and of the most sensitive Cabinet Committees must not be shown to anyone within a Department except on the instructions of the Minister to whom the documents were issued; and that, subject to the overriding direction of the Minister or Permanent Secretary, access to Cabinet documents shall be determined on a strict “need to know” basis by the Minister’s Principal Private Secretary.
- (ii) A member of the Cabinet has responsibilities wider than those of his or her own Department and will in that capacity receive some documents which are of no concern to any of his or her subordinates.
- (iii) The handling of documents reflecting the personal views of Ministers require special care. It is contrary to the doctrine of collective responsibility to make known the attitude of individual Ministers on matters of policy.
- (iv) Serious leaks can occur when the media can piece together isolated items of information, each of apparently little importance, gathered from several sources. It is therefore unwise to disclose prematurely even relatively minor or partial aspects of matters. In appropriate cases it may be in the public interest to communicate certain information in confidence to a responsible editor, Lobby correspondent, etc, for purposes of guidance: but this should be done only when it is known that such confidence will be respected.
- (v) The normal telephone system (including FEDERAL) is not secure and a scrambler gives no protection against deliberate interception. If TOP SECRET or SECRET information has to be passed by telephone, the civil Secure Telephone Scheme (STS) or the Defence Secure Speech System (DSSS) should be used for the purpose. If neither STS nor DSSS facilities are available, the following precautions should be taken:
  - (a) Long distance calls. Calls from within a radius of 50 miles of London to places outside that radius and vice versa may go by radio relay and are therefore especially vulnerable to interception. Such interception is facilitated by the comparative ease with which certain calls may be identified, *i.e.* calls over private circuits, calls to identified numbers of intelligence interest and those calls where a scrambler is used. TOP SECRET information should never be conveyed during long distance calls. SECRET and CONFIDENTIAL information should be conveyed only when the urgency outweighs the risk to security.
  - (b) Local calls, which go by land line. Where in cases of extreme urgency TOP SECRET and SECRET information has to be referred to it is essential that a scrambler should be used, and conversation should be in guarded language. There is less



objection to CONFIDENTIAL information being passed on the telephone on a local call; but this should be done in a guarded manner and a scrambler should be used whenever possible.

29. Ministers may occasionally have to take classified documents out of their Departments or to have them sent to them when they are out of London. Rules on this subject are contained in Chapters 6-8 of the Manual "Security in Government Departments"; and these should be strictly observed. Departments should ensure that security containers are provided in the homes of all members of the Cabinet and of other Ministers who find it necessary to take a significant amount of sensitive material out of their Departments; and Ministers should consult their Permanent Secretaries both about the extent of the confidential material which they need to deal with at their homes and the adequacy of the measures for its protection.

30. It is undesirable that Ministers should have direct contact with persons offering their services as intelligence agents. Any Minister approached either direct or through an intermediary should offer no comment but should as soon as possible inform his or her Permanent Secretary of the approach.

31. These rules alone will not ensure that the Government's conduct of public business is not prejudiced by premature disclosure. All Ministers are expected to set an example in exercising discretion and to see that their example is followed.

#### IV. Junior Ministers

32. The Minister in charge of a Department is alone answerable to Parliament for the exercise of the powers on which the administration of that Department depends. The Minister's authority may, however, be delegated either to a junior Minister or to an official; and it is desirable that Ministers should devolve on their junior Ministers responsibility for a defined range of Departmental work, particularly in connection with Parliament. The assignment of duties to a junior Minister will thus be a matter for the Minister to decide and will vary from one Department to another. Where it is proposed to confer on junior Ministers "courtesy titles" descriptive of the duties assigned to them, the Prime Minister's prior approval must be sought, and the Secretary of the Cabinet should also be informed.

33. Although a junior Minister may be authorised to supervise the day-to-day administration of a defined range of subjects, this arrangement cannot relieve the Permanent Secretary of his general responsibilities for the organisation and discipline of the Department or his duty to advise on matters of policy. The junior Minister is not subject to the directions of the Permanent Secretary; but equally, the Permanent Secretary is not subject to the directions of the junior Minister. Any conflict of view between the two can be resolved only by reference to the Minister in charge of the Department or, if the latter is absent and a decision cannot be postponed, by reference to the Prime Minister or to a Minister whom she has nominated for the purpose.

#### *Arrangements during absence from London*

34. When a Minister is to be out of touch for a considerable period because of absence or illness a junior Minister will normally take Ministerial charge of the Department. On some occasions, it may be desirable that arrangements should be made for another member of the Cabinet to be available to give political



guidance to officials of the Department and to represent the Department's interests in discussions in Cabinet or Cabinet Committees. The Prime Minister's prior approval should be sought for the arrangements for superintending the work of a Department when the Minister in charge will be absent.

35. When one member of the Cabinet is acting in this way on behalf of another special care must be taken over the exercise of statutory powers. Powers vested formally in "the Secretary of State", as distinct from a specific Secretary of State, can be exercised by any Secretary of State in the absence of another. Otherwise the statutory powers of one Minister cannot formally be exercised in the Minister's absence by a colleague in charge of another Department, and a Minister who is acting for an absent colleague should be careful to avoid appearing formally to exercise powers which are expressed by statute as exercisable by that colleague. The powers of a Board or Council may, however, be exercisable in the absence of its principal member. There may also be statutory authority for formal documents to be signed on behalf of an absent Minister by Junior Ministers or officials. Ministers will wish to seek legal advice in cases of doubt.

36. There is no similar difficulty about submissions to Her Majesty. Submissions made in the absence of a Minister can however be made only by a junior Minister who is a Privy Councillor or by another member of the Cabinet. Submissions on behalf of an absent Secretary of State must be made by another Secretary of State.

#### V. Parliamentary Private Secretaries

37. Parliamentary Private Secretaries occupy a special position which is not always understood. They are not members of the Government, and should be careful to avoid being spoken of as such. They are Private Members, and should therefore be afforded as great a liberty of action as possible; but their close and confidential association with Ministers necessarily imposes certain obligations on them.

38. Ministers choose and appoint their own Parliamentary Private Secretaries with the approval of the Prime Minister. The Chief Whip should, however, be consulted about the choice of a Parliamentary Private Secretary; and in view of the special position which Parliamentary Private Secretaries occupy in relation to the Government, the Prime Minister's approval must also be sought before any such appointment is offered or announced.

39. Ministers should ensure that their Parliamentary Private Secretaries are aware of certain principles which should govern the behaviour of Parliamentary Private Secretaries in the House of Commons. Like other Private Members, Parliamentary Private Secretaries are expected to support the Government in all important divisions. However their special position in relation to the Government imposes an additional obligation which means that no Parliamentary Private Secretary who votes against the Government may retain his or her position. Parliamentary Private Secretaries should not make statements in the House or put Questions on matters affecting the Department with which they are connected. Parliamentary Private Secretaries are not precluded from serving on Select Committees but they should not do so in the case of inquiries into their own Minister's Departments and they should avoid associating themselves with recommendations critical of or embarrassing to the Government. They should also exercise great discretion in any speeches or broadcasts which they may make



outside the House, taking care not to make statements which appear to be made in an official or semi-official capacity, and bearing in mind at the same time that, however careful they may be to make it clear that they are speaking only as Private Members, they are nevertheless liable to be regarded as speaking with some of the authority which attaches to a member of the Government. Generally they must act with a sense of responsibility and with discretion; and they must not associate themselves with particular groups advocating special policies.

40. Parliamentary Private Secretaries are not members of the Government, and official information given to them should generally be limited to what is strictly necessary for the discharge of their Parliamentary and political duties. This need not preclude them from being brought into Departmental discussions or conferences where appropriate, but they should not have access to secret establishments, or information graded secret or above, except on the personal authority of the Prime Minister.

## VI. Ministers' Visits

### *Ministers' visits overseas*

#### *Planning the visit*

41. Overseas visits (including visits to the Republic of Ireland) should not normally be made while Parliament is in session. Ministers should arrange such visits only in the Recess or, where appropriate, at weekends, except where the visit is in connection with the business of the European Community or there are other compelling reasons of Government business. In particular, overseas visits which are largely of a fact-finding kind should be reserved exclusively for the Parliamentary Recess. Moreover, in planning overseas visits Ministers should take account of paragraph 4 above, *i.e.* that Cabinet meetings take precedence over all other business (other than meetings of the Privy Council). Sufficient Ministers must also be available during recesses to ensure effective conduct of Government business, and it may be necessary for this reason to restrict or reconsider absences abroad.

42. In order to obtain the fullest value from an overseas visit it is essential that the Foreign and Commonwealth Office should be asked by Private Secretary letter (copied to the Department of Trade and Industry where the visit has a trade promotion aim) at the earliest stage possible, to consult the diplomatic post in the country to be visited, so as to ensure that local considerations, complications of timing, clashes with other proposed Ministerial visits etc. are taken into account in setting the dates and drawing up the initial programme. Even in the case of visits to international meetings on a fixed date it is important to inform the Foreign and Commonwealth Office of the visit as it will have a bearing on the timing of other visits. This should be distinct from the subsequent letter seeking the Prime Minister's or the Foreign and Commonwealth Secretary's approval. (See 44(i) and 45.) Ministers Private Secretaries should not themselves approach posts direct nor should they make tentative preparations before telling the Foreign and Commonwealth Office or the post: arrangements for official Ministerial visits should invariably be put in the hands of the diplomatic post.

43. Ministers should pay close attention to the need to be able to justify their overseas visits to Parliament and to public opinion generally. Ministers should make it their personal responsibility to approve the size and composition of any Ministerial delegation for which their Department is responsible. (Where



a delegation includes a Foreign and Commonwealth Office Minister the concurrence of the Foreign and Commonwealth Secretary in the size and composition of the delegation should also be obtained.) Each Minister in charge of a Department should ensure that the department draws up and maintains a comprehensive and central record of travel by Ministers in the Department. This record should contain details of the numbers and costs of all Ministerial delegations whose travel has been at public expense, including visits to EC countries for the purpose of attending regular meetings of EC Councils or Ministerial meetings on Political Co-operation. The record should be maintained in such a way that an up-to-date list of visits and costs of such visits can be made available by Departments at short notice in the event of Departmental Ministers being asked to account for travel undertaken by Ministers in their Departments. Ministers should give a lead in keeping down the size of parties of visitors, by keeping their own parties as small as possible.

*Leave of absence*

44. Any member of the Cabinet who wishes to be absent from the United Kingdom, whether on duty or leave, should—

(i) Seek the Prime Minister's approval. This must be done before any commitment, even of an informal nature, is made. The reasons for the visit and a list of the countries to be visited should be given; in the case of official visits, the number of officials and the reasons for taking them should also be specified. Copies of the letter should be sent to the Foreign and Commonwealth Secretary and to the Chief Whip: their views will be taken into account by the Prime Minister before reaching a decision. A copy should also be sent to the Secretary of the Cabinet.

(ii) After the Prime Minister's approval has been obtained the Minister should, for all the visits abroad other than visits to Brussels or Luxembourg on European Community business, seek the Queen's permission to leave the country. At the same time Her Majesty should be informed of the arrangements made for the administration of the Minister's Department during absence.

45. Other Ministers who propose to leave the United Kingdom whether on duty or on leave need not obtain the Queen's permission to do so. There is also no need for them to seek the Prime Minister's approval for such a visit, provided that approval has been given by the Ministerial head of the department concerned, the Foreign and Commonwealth Secretary and the Chief Whip. These arrangements do not affect the requirement for the Prime Minister's approval to be sought for official visits overseas by Ministers' spouses and by Parliamentary Private Secretaries (paragraphs 54 and 55 below).

*Entertainment overseas*

46. If it is thought that a Minister may need to provide official entertainment while overseas, the advice of the Foreign and Commonwealth Office should be sought both on the desirability and on the form of such entertainment.

*Ministers recalled to vote*

47. If a Minister is abroad on public duty and at public expense and is called home to vote and then returns on public duty, the extra journey back and forth is chargeable to public funds.



*Ministers' visits in the United Kingdom*

48. Ministers who are planning official visits to Scotland, Wales and Northern Ireland should inform the Secretary of State concerned and the Chief Whip. It is also customary to inform the Home Secretary of the prospective visits to the Channel Islands and the Isle of Man.

49. It is the custom for a Minister when preparing to make a visit within the United Kingdom to inform the Members for the constituencies to be included within his itinerary. Special care should be taken not to overlook this courtesy. It is particularly desirable to give as much notice as possible in the case of constituencies represented by Government supporters. Ministers cannot, of course, invite Members to accompany them, but adequate notice will enable Members to ensure that they receive invitations from local organisers to functions of an official nature. It will also enable them to make suggestions to the Minister about the inclusion in the itinerary of places which it would be helpful to visit.

50. When a Minister makes an official public visit to a town in the United Kingdom, the Local Authority should also be informed. If the Minister has time and cares to do so, an offer to call on the Mayor, Provost or Chairman may be made; but this is not necessary unless the visit has some particular local significance. However similar considerations apply as in paragraph 49 where the Local Authority is controlled by Government supporters. It is not necessary to give notice to the Local Authority if the Minister is going in a private capacity or, if in a Ministerial capacity, as the guest of an organisation which is giving a private function.

*Use of official cars and travel by rail and air*

51. Guidance on the use of official cars and on rail and air travel, including the class of air travel available to Ministers, Ministers of State and Parliamentary Secretaries, is issued separately (C(P)(83) 6).

*Expenses on travel and hospitality*

52. When Ministers travel on official business, their travel expenses should normally be borne by the Departmental Vote. An exception may be made where a nationalised industry issues a specific invitation to the responsible Minister to visit its establishments or to inspect its activities in circumstances where it would be natural for the Chairman of the Board concerned to accompany the Minister and to provide reasonable hospitality or travel facilities. Alternatively, there may be rare occasions when a Minister is invited to attend, *e.g.* an industrial conference at a hotel, when it would be discourteous to refuse hospitality. Ministers may accept invitations of this nature, provided that they are not too frequent.

53. In order to avoid the risk of misrepresentation, Ministers should not normally accept offers of free travel from foreign Governments, or other organisations. In any cases of doubt, the Prime Minister should be consulted.

*Travelling expenses of spouses*

54. The expense of a Minister's spouse when accompanying the Minister on the latter's official duties may on special occasions be paid from public funds, provided that it is clearly in the public interest that he or she should accompany the Minister. In the case of official visits overseas, the Prime Minister's prior assent should be obtained on each occasion. For official visits within the United Kingdom, this is at the discretion of the Minister in charge of the Department



concerned who should consult the Permanent Secretary. The Prime Minister's prior approval is however required for any arrangement whereby a Minister's spouse may regularly travel at public expense within the United Kingdom; Ministers should arrange for the Treasury to be consulted about such arrangements before submitting them to the Prime Minister.

#### *Parliamentary Private Secretaries*

55. Parliamentary Private Secretaries making official visits in the United Kingdom may receive the normal Civil Service travelling and subsistence allowances in respect of absences on official (*i.e.* Departmental) business, as would other MPs undertaking work for Government Departments. It is for the Minister concerned to decide whether or not the Parliamentary Private Secretary, when undertaking the same journey, is engaged on Departmental business. It may occasionally be useful for a Parliamentary Private Secretary to accompany the Minister on an official visit abroad but no such arrangements should be made without the prior approval of the Prime Minister. The point in paragraph 40 should be borne in mind when a Parliamentary Private Secretary is accompanying the Minister on a visit.

#### *Special Advisers*

56. When a Special Adviser whose salary is not met from public funds accompanies a Minister on Government business, those funds should meet any additional expenditure to which the Exchequer may be put on this account. The approval of the Prime Minister should be obtained before a Special Adviser accompanies a Minister overseas in these circumstances.

### **VII. Relations with other Governments**

57. Ministers should remember the importance of sending to the Foreign and Commonwealth Secretary a note of the salient points of any discussions which they may have with representatives of foreign or Commonwealth countries. This applies to informal discussions as well as those held in the course of official business.

58. Special care is needed in conversations at social functions at Embassies or at other functions at which foreign diplomatic representatives are present.

#### *Visits by Commonwealth or foreign Ministers*

59. Ministers should inform the Foreign and Commonwealth Secretary before extending invitations to Ministers in other Governments to pay official visits to this country; and in any case of doubt or difficulty, they should consult him. Departments should also inform the Foreign and Commonwealth Office about all visits which become known to them, whether private or official, by Ministers in other Governments or by any other Governments or by any other person of equivalent status potentially at risk, so that the security implications can be considered at the earliest possible stage.

#### *Foreign decorations*

60. It is a well-established convention that Ministers should not, while holding office, accept decorations from foreign countries.



*Offers of hospitality, open letters, etc.*

61. Ministers should not overlook the possible foreign policy implications of such day-to-day matters as offering hospitality to prominent political figures visiting this country, accepting social commitments of a similar kind, giving public support for petitions, open letters, etc. Such actions, which may not necessarily appear to justify prior consultation, may be construed as significant by foreign observers of the United Kingdom. In any case of doubt Ministers should consult with the Foreign and Commonwealth Secretary before making commitments. In addition the Foreign and Commonwealth Secretary should be consulted whenever a Minister intends to make a speech touching on matters affecting foreign and Commonwealth affairs.

### VIII. Acceptance of Gifts and Services

62. It is a well established and recognised rule that no Minister or public servant should accept gifts, hospitality or services from anyone which would, or might appear to, place him or her under an obligation. The same principle applies if gifts etc. are offered to a member of their family.

63. This is primarily a matter which must be left to the good sense of Ministers. But any Minister in doubt or difficulty over this should seek the Prime Minister's guidance.

64. There may be difficulty in refusing a gift from another Government (or Governmental organisation) without the risk of apparent discourtesy. On the other hand the acceptance of a gift or the knowledge that one will be offered may in some countries and in some circumstances entail the offer of a gift in exchange. As a general rule Ministers should not offer gifts or initiate an exchange. In deciding whether to accept gifts from or offer gifts to members of other Governments (or Governmental organisations) Ministers should wherever possible consult their Permanent Secretaries who will be able to advise them of the rules applicable in such circumstances. If a gift is accepted (whether or not a gift is offered in exchange) the following rules apply—

- (a) Its receipt should, in all cases, be reported to the Permanent Secretary.
- (b) Gifts of small value (currently this should be put at up to £75) may be retained by the recipient.
- (c) Gifts of a higher value should be handed over to the Department for disposal, except that
  - (i) The recipient may purchase the gift at its cash value (abated by £75).
  - (ii) If the recipient wishes to reciprocate with, and pay for, a gift of equivalent value the gift received may be retained.
  - (iii) The gift may be displayed or used in the Department where this is appropriate.
  - (iv) If the disposal of the gift would cause offence or if it might be appropriate for the recipient to use or display the gift on some future occasion as a mark of politeness, then the gift should be retained in the Department for this purpose for a period of up to five years.

Any Minister who retains an imported gift under these rules but within two years seeks to dispose of it must first resolve with HM Customs and Excise the possibility of liability to duty and tax.



### IX. Ministers' Private Interests

65. It is a principle of public life that Ministers must so order their affairs that no conflict arises, or appears to arise, between their private interests and their public duties.

66. Such a conflict may arise if a Minister takes an active part in any undertaking which may have contractual or other relations with a Government Department, more particularly with his or her own Department. It may arise, not only if the Minister has a financial interest in such an undertaking, but also through active association with anybody, even of a philanthropic character, which might have negotiations or other dealings with the Government or be involved in disputes with it. Furthermore Ministers should be free to give full attention to their official duties, and they should not engage in other activities which might be thought to distract their attention from those duties.

67. Ministers should normally make their own decisions on the application of these principles. Over much of the field, as is shown below, there are established precedents. Where there is a doubt it will almost always be better to surrender but in such cases the Prime Minister must be the final judge, and Ministers should submit any such case to her for her decision.

68. Where it is proper for a Minister to retain any private interest, it is the rule that he or she should declare that interest to Ministerial colleagues if they have to discuss public business in any way affecting it, and that the Minister should remain entirely detached from the consideration of that business.

#### *Public appointments*

69. Ministers should on assuming office give up any other public appointments they may hold. Where it is proposed that such an appointment should be retained, the Prime Minister must be consulted.

#### *Directorships*

70. Ministers must on assuming office resign any directorships which they may hold, whether in public or in private companies and whether the directorship carries remuneration or is honorary. The only exception to this rule is that directorships in private companies established for the maintenance of private family estates, and only incidentally concerned in trading, may be retained subject to this reservation—that if at any time the Minister feels that conflict is likely to arise between this private interest and public duty, the Minister should even in those cases resign the directorship. Directorships or offices held in connection with philanthropic undertakings should also be resigned if there is any risk of conflict arising between the interests of the undertakings and the Government.

#### *Partnerships*

71. Ministers who are partners in professional firms, as *e.g.* solicitors, accountants etc., should, on assuming office, cease to play any part in the day-to-day management of the firm's affairs. They are not necessarily required, however, to dissolve their partnership or to allow *e.g.* their annual practising certificate to lapse. Beyond this it is not possible to lay down precise rules applicable to every case; and Ministers in doubt about their personal position in this respect should consult the Prime Minister.



*Shareholdings*

72. Ministers cannot be expected, on assuming office, to dispose of all the investments they may hold. But if a Minister holds a controlling interest in any company, considerations arise which are not unlike those governing the holding of directorships; and, if there is any danger of a conflict of interest, the right course is for the Minister to get rid of the controlling interest in the company. There may also be exceptional cases where, even though no controlling interest is involved, the actual holding of particular shares in concerns closely associated with a Minister's own Department may create the danger of a conflict of interest. Where a Minister considers this to be the case, the holding should be given up. There may also be less clear-cut cases where a Minister would feel it appropriate to place the holding in the hands of trustees.

73. Ministers should scrupulously avoid speculative investments in securities about which they have, or may be thought to have, early or confidential information likely to affect the price of those securities.

*Membership of Lloyd's*

74. A Minister holding office as Prime Minister, Chancellor of the Exchequer, or Secretary of State for Trade and Industry, or as a Minister in the Treasury dealing with taxation, or as a Minister in the Department of Trade and Industry dealing with insurance matters, should not be a member of Lloyd's or, if already a member of Lloyd's on appointment, should suspend his underwriting so long as he holds that office.

75. As regards Ministers in other offices who are members of Lloyd's on appointment to office, it is clearly inappropriate that they should take an active part in the management of the affairs of syndicates of which they are members and they should on appointment as Ministers withdraw from such active participation. There may also be cases in which, if a Minister is a member (as a "name" only and not as an active participant in management) of a syndicate which underwrites business in an area in which his Department has responsibility, he may be required to suspend underwriting risks in that area (or, if necessary, in the whole business of the syndicates) so long as he holds that office. Thus the Secretary of State for Social Services would be required, if a member of Lloyd's, to suspend underwriting pensions and life insurance; the Secretary of State for Employment would be required, if a member of Lloyd's, to suspend underwriting employers' liability insurance; the Secretary of State for Transport would be required, if a member of Lloyd's, to suspend underwriting marine, aviation and United Kingdom motor insurance while he held that office; and the Minister of Agriculture, Fisheries and Food would be required, if a member of Lloyd's, to suspend underwriting livestock insurance; so long as they held those offices.

76. Every Minister is required, on appointment to a first or subsequent Ministerial office, to obtain the Prime Minister's permission before continuing a connection with Lloyd's, however nominal. Any Minister wishing to establish any such connection during his term of appointment should likewise obtain the Prime Minister's permission to do so. Before granting permission, the Prime Minister will need to be satisfied that the conditions indicated above will be met.

77. The Secretary of the Cabinet is required to keep a list of Ministers who are members of Lloyd's. He will ask every Minister on appointment to a first or subsequent office whether he is a member of Lloyd's, and if so whether he proposes to continue or suspend underwriting while he holds Ministerial office. [Lloyd's will also supply the Secretary of the Cabinet with a copy of the Annual List of Members.]



*Nominations for International Awards, etc.*

78. From time to time, the personal support of Ministers is requested for nominations being made for international prizes and awards, *e.g.*, the annual Nobel prizes. Ministers should not sponsor individual nominations for any awards, since it would be inevitable that some people would assume that the Government was itself thereby giving its sponsorship.

*Pressure Groups*

79. Ministers are frequently asked to associate themselves with pressure groups, for example by becoming signatories of open letters or appeals or by attending a rally or other function to which publicity is to be given. Such invitations should normally be declined since Ministerial association with pressure groups can give rise to misunderstanding about the Government's position. Any Minister who wishes to accept an invitation from a pressure group should consult the Prime Minister.

*Participation in the Parliamentary Contributory Pension Fund*

80. Under the provisions of the Parliamentary and Other Pensions Acts 1972-1981, Ministers, if paid, will be required to contribute to the Parliamentary Contributory Pension Fund in respect of their Ministerial salary (less, for Members of the House of Commons, the difference between their reduced salary as a Member and a Member's ordinary salary) but they may within 12 months of their appointment elect not to do so. Details of the contributions required, and of the rates of personal and family benefit which accrue from participation in the Fund, can be obtained from the Fees Office.

81. Ministers who have accrued pension rights in another pension scheme may, if they elect to participate in the Fund in respect of their Ministerial salary, and if the rules of the other scheme permit, also elect within twelve months of their appointment to have the value of those accrued rights transferred to the Fund. The Fees Office will advise on the additional benefits which will be secured by such a transfer payment.

*Participation in other pension schemes*

82. Ministers with accrued pension rights in another pension scheme who do not (or cannot) elect for a transfer payment may leave these as "frozen" rights in the other scheme, with no further contributions being payable during their tenure of office. Alternatively, if the rights are secured by an insurance policy (and assuming that the rules of the other scheme so permit) the policy could be transferred to them, either on a paid-up basis or with the right to continue payment of the premiums themselves.

83. Ministers who expect to resume their former employment on ceasing to hold Ministerial office and who elect not to participate in the Parliamentary Fund in respect of their Ministerial salary may remain in active membership (that is, with continued payment of contributions, and with their period of office counting as continued pensionable employment) of any pension scheme relating to that employment provided that this can be done under the rules of the scheme. In these circumstances the continued contributions may be paid by the Ministers alone, or by the former employer alone, or jointly, depending on the rules of the other scheme.

84. It must be emphasised that any arrangements made under paragraph 83 must not go outside the terms of the particular pension scheme. There would be no objection to a general alteration of the rules of a scheme when this is necessary



to permit such arrangements; but approval could not be given for the addition to the scheme of a special provision relating only to the tenure of a Ministerial Office. If Ministers have any doubts about the propriety of any arrangements they intend making, the Prime Minister's Private Secretary may be consulted.

85. Ministers who elect not to participate in the Parliamentary scheme in respect of their Ministerial salary, and who make no arrangements of the kind set out in paragraph 83), may be entitled to claim tax relief on premiums paid under a "retirement annuity contract" to provide additional pension etc. benefits for themselves or provision for their families in the event of death. Such contracts are issued subject to the limitations and conditions laid down in the Tax Acts. Relief is normally limited to 17½ per cent of the Ministerial salary excluding, for a Minister in the Commons, the difference between a Minister's reduced salary as a Member and a Member's pensionable salary. Higher limits apply to those born before 1934.

86. The taxation effects of arrangements such as are mentioned in the paragraphs above may vary according to the Minister's particular circumstances. The Controller, Superannuation Funds Office, Inland Revenue, Lynwood Road, Thames Ditton, Surrey, KT7 0DP, will be willing to explain the effects for tax purposes of any proposed arrangement under paragraph 83; he will also give, on request, further information on the legislation and reliefs available in respect of retirement annuity contracts. Alternatively a Minister may make any inquiry through the Financial Secretary, Treasury.

#### X. Constituency interests

87. It is wrong in principle for Ministers to use for constituency work facilities provided at public expense to enable them to carry out their public duties. This point of principle is reflected in the entitlement of Ministers to a Parliamentary salary in recognition of the time spent in attending to the interests of the constituents, and to the reimbursement of their secretarial expenses and the expenses of living away from home when attending to constituency business, within the limits prescribed by the Resolution of the House of Commons of 5 June, 1981. Ministers should thus have their constituency work done at their own expense, as they would if they were private Members of Parliament.

##### *Parliamentary Commissioner for Administration (PCA) Cases*

88. Ministers in the Commons who are asked by members of the public to submit cases to the PCA should, where possible, act no differently from other MPs. Ministers should accordingly consider requests on their merits in deciding whether to refer complaints to the PCA, to take them up with the Minister of the Department concerned, to refer the case to another MP (where the complaint is not from a constituent of the Minister) or to decline to take action. Any Minister who has in mind the reference of a case to the PCA would naturally wish to inform in advance the Minister of the Department concerned.

89. Where a complaint from a constituent is against the Minister's own Department the Minister will generally wish to investigate it personally unless he or she, or one of the other Ministers in the Department, has already been directly involved in the case. Where a Minister has been so involved, the PCA should be asked to investigate if the case is within his jurisdiction; and there may be other circumstances in which a Minister will prefer to refer a case to the PCA straight away.



*Deputations*

90. Ministers should not take part in any public representations (or in deputations) to other Ministers; but they are free to make their views about constituency matters known to the responsible Minister by correspondence or by personal interview provided that this is not given publicity.

**XI. Appointments by Ministers**

91. The Prime Minister should be consulted in good time about any proposal to set up—

- (i) Royal Commissions: these can only be set up with the sanction of the Cabinet and after The Queen's approval has been sought by the Prime Minister.
- (ii) Independent Committees of inquiry into any aspect of public policy: the Chancellor of the Exchequer should be given an opportunity to comment on these.
- (iii) Committees chaired by a civil servant but appointed by a Minister, which consist partly of civil servants and partly of individuals outside the government.

Submissions proposing any of the above should contain details of the proposed size and structure of the body. This requirement is separate from the provisions concerning appointments set out in paragraph 92 below.

92. The Prime Minister should also be consulted in good time about the appointment or re-appointment of—

- (i) The Chairman and other Members of Royal Commissions.
- (ii) The Chairman of—
  - (a) Nationalised Industry Boards
  - (b) Public Boards including the Chairman of Regional Health Authorities
  - (c) The more important Departmental committees, including those at 91(ii) and (iii)

In all such cases she will need to be informed about the particular requirements of the post in present circumstances, the attributes essential for a candidate and the extent to which proposed candidates meet such requirements. She will also wish to be informed about any intention to advertise any post in these categories.

- (iii) Deputy Chairman where they are being appointed with a view to the succession.
- (iv) Deputy Chairman and Members of Boards, Commissions or Committees of Enquiry in cases where the appointment is likely to have political significance. Ministers should take a wide view of what constitutes political significance. Local or regional appointments may from time to time excite an unusual amount of public interest because of the circumstances surrounding the appointment or the background of the candidate. In all cases involving political considerations submissions to the Prime Minister by an appointing Minister should be copied to the Chief Whip. The Chief Whip should invariably be consulted before a Member of the House of Commons is approached about the appointment to an office which would result in the vacation of a



Parliamentary seat. As in (ii) above, the Prime Minister will wish to be informed about any intention to advertise a post of Deputy Chairman.

Where there is doubt about the need for consultation with the Prime Minister the Management and Personnel Office should be consulted.

93. In all cases falling within paragraphs 91 and 92 on which a submission is to be put to the Prime Minister, Ministers should arrange for their Permanent Secretary to consult the Head of the Home Civil Service beforehand; and the submission to the Prime Minister, which should be copied to the Head of the Home Civil Service should indicate that this has been done. In such cases no commitment should be made to any individual before the Head of the Home Civil Service and the Prime Minister have been consulted. In the case of Royal Commissions, the Private Secretary to the Prime Minister should be consulted before any informal soundings are undertaken. In other cases, any informal soundings should be made in such a way as to preserve freedom of action and avoid any appearance of commitment. And there should be no reference, either directly or indirectly by implication, to the fact that names have to be submitted to the Prime Minister.

94. Subject to the above paragraphs and to the constitution of the body to which the appointment is made, public (non-Civil Service) appointments are the responsibility of the Minister concerned, who is free to appoint the persons he or she considers best qualified after making such enquiries as he or she thinks appropriate. The Minister should keep under review the relevance and appropriateness of the criteria for selecting people, bearing in mind that it may be necessary to defend them in Parliament or the Courts because, for example, of the Sex Discrimination Act.

95. More detailed guidance for Departments is contained in the Guide to Appointments Procedures, produced by the Management and Personnel Office.

#### *Personal Appointments*

96. Ministers who wish to make personal appointments within their own Departments should consult their Permanent Secretary at the outset. Permanent Secretaries will consult the Head of the Home Civil Service who will decide on each occasion whether or not it would be appropriate to consult the Prime Minister.

#### *Special Advisers*

97. The employment of Special Advisers on the one hand adds a political dimension to the advice available to Ministers, and on the other provides Ministers with the direct advice of distinguished experts specialising in a particular field of public administration. Special Advisers are appointed directly by the Ministers they serve. No appointments of this kind should be made until the Prime Minister's approval has been secured in each case, and no commitments to make such appointments should be entered into in the absence of such approval. Guidance on the arrangements for the appointment and employment of Special Advisers is issued separately.

## **XII. Changes in Ministerial Responsibilities**

98. The Prime Minister is responsible for the overall organisation of the Executive and the allocation of functions between Ministers in charge of Departments. Her approval should therefore be sought where changes are



proposed that affect this allocation and responsibilities for the discharge of Ministerial functions. This applies whether the functions in question are derived from statute or from the exercise of the Royal prerogative, or are general administrative responsibilities.

99. The Prime Minister's approval should be sought where it is proposed to transfer functions—

- (a) between Ministers in charge of Departments (unless the changes are de minimis, can be made administratively and do not justify public announcement—but see paragraph 104 below);
- (b) within the field of responsibility of one Minister—*e.g.* by “hiving off” the discharge of some functions to a non-Departmental public body—where the change is likely to be politically sensitive or to raise wider issues of policy or organisation;
- (c) between junior Ministers within a Department when a major reallocation of work or a change in Ministerial titles is involved (see also paragraph 32 above).

100. In addition, her approval should be sought for proposals to allocate *new* functions to a particular Minister where the function does not fall wholly within the field of responsibilities of one Minister, or where there is disagreement about who should be responsible.

101. The Prime Minister will also determine questions where there is disagreement *e.g.* because one Minister has proposed a transfer of functions that is not accepted by the other(s) affected.

102. In giving approval or in determining disputed issues, the Prime Minister may want to take the advice of the Head of the Home Civil Service. The Minister responsible should therefore ensure that he is consulted directly by the Permanent Secretaries of the Departments concerned, or that the officials of the Machinery of Government Division in the Management and Personnel Office are approached so that they can bring the proposals to his attention, before proposals for a transfer or allocation of functions are submitted to the Prime Minister. Where that procedure is not possible for any reason, the submission to the Prime Minister should be copied to the Secretary of the Cabinet and Head of the Home Civil Service.

103. Responsibility for making a submission to the Prime Minister should normally lie with the ceding Minister in the case of transfers of existing functions, and the principal receiving Minister in the case of allocation of new functions.

104. Unresolved disputed issues concerning the allocation of functions should preferably be referred to the Head of the Civil Service before a submission is made to the Prime Minister; and it may be appropriate for him to make the submission on behalf of the Minister concerned. *All* proposals for a transfer of functions, including those not considered to require the Prime Minister's approval, should be notified to the Machinery of Government Division in the Management and Personnel Office before they are implemented.

105. More detailed guidance for Departments is contained in the Heads of Departments Personal Handbook.



### XIII. Parliamentary Statements and Papers and Other Government Announcements

106. Some Government announcements are of a routine character and of minor importance. These generally represent no problem of public presentation. In some cases, however, the timing of an announcement requires careful consideration in order to avoid clashes with other Government publications, statements or announcements. The Leader of the House of Commons and the Chief Press Secretary at No. 10 should be given as long an opportunity as possible, and wherever possible at least two working days, to comment on the content and timing of all important Government announcements, whether in the form of a statement in Parliament, White Paper or Press conference. Whenever possible they should also be shown the draft announcement in advance.

107. When Parliament is in session, important announcements of Government policy should be made, in the first instance, in Parliament. If too many announcements are made at the end of Questions, Parliamentary business is hindered. Nevertheless, careful consideration should be given in the case of important or particularly sensitive issues to the desirability of making an Oral Statement rather than an announcement by Written Answer. Ministers proposing to make a statement after Questions (whether or not it is related to a Question on the Order Paper) or to answer a Question by leave at the end of Questions or to make an important announcement by means of a Written Answer are therefore asked to conform with the following procedure:

(a) As *much* notice as possible of the intention to make an announcement should be given to (i) the Prime Minister's Private Secretary; (ii) the Private Secretary to the Lord Privy Seal and Leader of the House of Commons; (iii) the Private Secretary to the Chief Whip; (iv) the Chief Press Secretary at No. 10. This notice should, in all but exceptional cases, be accompanied by a draft of the proposed statement or answer; and an indication should be given whether the announcement of policy with which it is concerned has been approved by Ministers (together with references to any relevant discussions in Cabinet or Cabinet Committees). The draft statement or answers should have been approved in broad terms, though not necessarily in detail, by the Minister in charge of the Department. Draft statements or answers should be accompanied by background notes which identify the likely points of attack and suggest how these can best be met, with the object of securing positive presentation. Particular attention should be paid to the timing of Written Answers in this context. From Monday to Thursday an Answer to a Written Question may not be released before 3.30 p.m. (12 noon on Fridays) on the day for which the Question stands on the Order Paper for reply. Early release is sometimes advantageous presentationally, and in this event the Question may be tabled one day earlier, the Answer being held back until the following morning. This procedure should be used with discretion and then only with the approval of No. 10, the office of the Leader of the House of Commons and the Chief Whip's office.

(b) Ministers should not give undertakings, either in or outside the House of Commons, that an oral statement will be made to the House on any subject at a specific time or within a particular period until agreement has been given by the Private Secretaries to the Prime Minister and the Leader of the House of Commons to the proposed timing and by the Ministers concerned to the terms of the statement.



- f c 73 1986
- (c) Ministers should, if possible, avoid any announcement of the kind discussed in (a) above on Thursdays, when a considerable amount of Parliamentary time after Questions is already pre-empted by discussion of the following week's business, or, except in special circumstances, on Fridays.
  - (d) Copies of the final version of such announcements should be sent to the Private Secretaries to the Prime Minister, the Leader of the House and the Chief Whip and to the Chief Press Secretary at No. 10 as soon as they are available.
  - (e) A copy of the text of any oral statement to be made at the end of Questions is usually shown to the Opposition Parties shortly before it is made. For this purpose six extra copies of the final text must reach the office of the Chief Whip in the House of Commons as early as possible and in any case not later than 3.00 p.m. (Monday–Thursday) on the day on which the statement is to be made and not later than 10.30 a.m. in the case of statements made on a Friday.
  - (f) A copy of the final text or an oral statement should in all cases be sent in advance to the Speaker.
  - (g) The leader of the House of Lords should be informed of a forthcoming oral statement in the House of Commons and consulted about the desirability of repeating it in the Lords.
  - (h) A copy of any important Ministerial statement as actually delivered should be placed as quickly as possible in the Library of the House. This affords Members an opportunity of studying it in advance of publication in the Official Report.
  - (i) Every effort should be made to avoid leaving significant announcements to the last day before a Recess. This practice does not redound to the credit of the Government and can reduce the positive publicity which decisions might otherwise have attracted.

#### *Press Conferences*

108. In order to explain policies or to announce new policies a Minister may decide to hold a press conference. This will be convened by the Chief Information Officer of the Department. All press conferences are on the record and open to any representative of the home and overseas media. It is often the practice of Ministers to give separate radio and TV interviews afterwards in order to secure the most effective presentation of their views or announcement. From time to time a Minister may find it desirable to give a non-attributable briefing whether to an individual journalist or to an organised group of correspondents—e.g. industrial, defence, education, energy, etc. Again the arrangements are normally made by the Chief Information Officer of the Department. Where a Minister wishes to seek an invitation to address the Lobby the Chief Press Secretary at No. 10 must be consulted both about the desirability of such a briefing and the method of organising it. Ministers should avoid repeating on the record—e.g. on radio and TV—remarks they have made non-attributably earlier in the day. This paragraph applies to the overseas as well as to the home media.

#### *Publication of White and Green Papers*

109. The Secretary of the Cabinet should be given the earliest possible notice of all White Papers and Green Papers which Ministers are planning to publish so that timely arrangements can be made, where appropriate, for their



collective consideration. Departments should note that even when it is agreed that no issue requiring collective consideration is involved, it is customary to circulate all White Papers to the Cabinet before publication.

110. Except where such papers are of a routine character or of minor importance, the timing of their publication is governed by similar considerations to those applying to announcements made in Parliament. Ministers are therefore asked to apply to White Papers the procedure laid down in paragraph 107(a) above. The final clearance for publication will be notified by the Chief Press Secretary at No. 10. From time to time, White Papers are laid before Parliament in the name of the Prime Minister. In all such cases, the lead Department on the policy issues concerned takes responsibility for the processing and distribution of the White Paper. This should be handled in close consultation with the Parliamentary Clerk at 10 Downing Street.

111. Care should be taken to avoid infringing Parliamentary privilege when publicity is being arranged for White Papers and similar documents. The Chief Information Officer in the Department concerned may arrange for confidential final revise proof copies (CFRs) of White Papers to be made available under embargo to the Lobby and Upper Gallery, and with discretion to members of other organised groups of correspondents, up to 24 hours before copies are laid in the Vote Office—*i.e.* up to 24 hours before publication. A shorter period than 24 hours may well be appropriate in some cases; and there may be cases (for instance, where commercially sensitive information is involved) when copies should not be made available to the media until the time of publication. Any proposal to issue CFRs under an embargo of longer than 24 hours must be cleared with the Chief Press Secretary at No. 10. CFRs may be given only to representatives of the media and then only under strict embargo. Any breach of an embargo is a serious matter and must be reported immediately by the Chief Information Officer of the Department to the Minister and the Chief Press Secretary at No. 10 with a recommendation for action.

### *Speeches*

112. Ministers cannot speak publicly for themselves alone. In all cases they speak as Ministers; and the principle of collective responsibility applies. They should keep within the ambit of approved Government policy and should not anticipate decisions not yet made public. Ministers should exercise special care in referring to subjects which are the responsibility of other Ministers. Any Minister who intends to make a speech which deals with, or makes observations which bear upon, matters which fall within another Minister's responsibilities should consult that Minister except where speaking notes giving clear guidance on the points to be covered have been issued through the office of the Leader of the House of Commons.

113. The Prime Minister should always be consulted before any mention is made of matters which either affect the conduct of the Government as a whole or are of a constitutional character. The Foreign and Commonwealth Secretary should always be consulted before any mention is made of matters affecting foreign and Commonwealth affairs, relations with foreign and Commonwealth countries and the political aspects of the affairs of dependent territories. Ministers wishing to refer to economic and defence policy should in all cases first consult the Chancellor of the Exchequer and the Secretary of State for Defence respectively. Ministers wishing to discuss or refer to Northern Ireland should in all cases first consult the Secretary of State for Northern Ireland.



114. Ministers should use official machinery for distributing texts of Ministerial speeches only when such speeches are made on official occasions and deal with Government as distinct from party policy. Speeches made in a Party political context should be distributed through the Party machinery.

#### *Broadcasts*

115. The provisions of paragraphs 112 and 113 apply to Ministerial broadcasts as well.

116. Radio and television broadcasts by Ministers are of four types: Party political; Budget; special broadcasts by Ministers; and interviews with Ministers for news and feature programmes:

- (a) Party political broadcasts on radio and television within the Government's quota are arranged through the Chief Whip acting on behalf of the Prime Minister.
- (b) Budget broadcasts (by the Chancellor of the Exchequer and a member of the Opposition in reply) constitute a special series of Party political broadcasts. These are arranged through the usual channels and agreed by the Chancellor of the Exchequer.
- (c) The broadcasting authorities may provide opportunities within the regular framework of their programmes for Ministers to give factual explanations of legislation or policies approved by Parliament, or to seek the co-operation of the public on matters where there is a general consensus of opinion. The Opposition have no automatic right of reply.

The British Broadcasting Corporation (BBC) may also provide the Prime Minister or a senior Cabinet Minister designated by her with an opportunity to broadcast to the nation to explain events of prime national or international importance or to seek public co-operation over such events. These are traditionally known as "Ministerial" broadcasts. The Opposition have the right to make an equivalent broadcast in reply. In this event the BBC will arrange as soon as possible for a broadcast discussion of the issues involved. A member of the Cabinet, a senior member of the Opposition, and, if they so desire, representatives of third parties with appreciable electoral support would be invited to participate.

The Independent Broadcasting Authority (IBA) is not obliged to relay either type of special broadcast, but if they transmit a "Ministerial" broadcast they must also take any Opposition reply and arrange a third stage, the discussion programme.

Proposals for a special broadcast of either type should be referred as soon as possible to the Chief Press Secretary at No. 10. The Leader of the House of Commons and the Chief Whip should also be consulted. No approach should be made to the BBC or to the IBA for a broadcast of either type without the approval of the Prime Minister.

- (d) When Ministers are invited by the broadcasting authorities to give interviews or otherwise take part in radio and television programmes (whether news bulletins or magazine or feature programmes) they should as a rule respond positively, subject to their being satisfied that they will be given an adequate opportunity to explain Government policy and measures. In the interests of effective co-ordination of the



presentation of Government policies, Ministers should ensure that No. 10 Press Office is informed of their intentions. This will enable them to use broadcasting opportunities to best advantage and to avoid duplication with colleagues. The Chief Press Secretary at No. 10 is available to advise and help Ministers in securing their objective of propounding Government policies.

117. Ministers invited to broadcast on radio and television in a private and not a Ministerial capacity should seek the Prime Minister's approval before accepting. Ministers invited to take part in programmes to be broadcast outside the United Kingdom should consult the Foreign and Commonwealth Secretary and any other Minister who may be concerned with the subject of the broadcast. They should then seek the permission of the Prime Minister. Ministers invited to broadcast while on a visit to another country should seek the advice of Her Majesty's Representative in that country.

118. Ministers should not accept payment for official broadcasts on radio or television, either on their own or on their Department's account or with a view to donating the fee to charity.

#### *Press articles*

119. Ministers are precluded from the practice of journalism including the contribution of regular weekly or fortnightly articles to local newspapers in their constituencies.

120. Ministers may contribute to a book, journal or newspaper (including a local newspaper in their constituency) for the purpose of supplementing other means of informing the public about the work of their Department provided that publication will not be at variance with their obligations to Parliament and their duty to observe the principle of collective Ministerial responsibility. Such contributions should however be made sparingly. In cases of doubt, and in all cases where a Minister is contemplating the contribution of an article going beyond the strict confines of his or her Departmental responsibility, the Prime Minister should be consulted, preferably before work has begun and in any case before any commitment to publish is entered into. In all cases where an article contains material which falls within the Departmental responsibility of another Minister, that Minister must be consulted. Ministers should not accept payment for such writings.

121. It is not in general desirable for Ministers to engage in controversy in the correspondence columns of either the home or the overseas press. Ministers may however see advantage in correcting serious errors or mis-statements of fact which lead to false conclusions. Such letters should be brief and confined to the exposition of facts. The Prime Minister's authority should be obtained beforehand, through the Chief Press Secretary at No. 10.

#### *Complaints*

122. Ministers who wish to make a complaint against a journalist or a particular section of the media either to the Press Council or to the Broadcasting Complaints Commission must have the authority of the Prime Minister. The nature of the complaint and the case for referring it to the appropriate body should be set out in a letter to the Chief Press Secretary at No. 10, copied to the Secretary of the Cabinet.

#### *Books*

123. Ministers may not, while in office, write and publish a book on their Ministerial experience.



*Party publications*

124. The rule in paragraph 119 does not debar Ministers from contributing to the publications of the political organisations with which they are associated. However, in all cases where an article contains material which falls within the Departmental responsibility of another Minister, that Minister must be consulted. Payment should not be accepted for such articles.

*Interviews*

125. In deciding whether to grant an interview to individual journalists, Ministers will bear in mind the need to avoid allegations of favouritism. Their interests will be best protected if they are accompanied by a member of the Information Branch of their Department at such interviews.

126. Ministers are sometimes asked to give interviews to historians or to other persons engaged in academic research or in market opinion surveys, or to fill in questionnaires at the request of such people or organisations. Ministers should bear in mind the possibility that their views may be reported in a manner incompatible with their responsibilities and duties as members of the Government. Careful consideration should therefore be given to such invitations before they are accepted; in cases of doubt, the Prime Minister should be consulted.

*Royal Commissions*

127. The Prime Minister should be consulted if any Minister is invited to address a Royal Commission or Committee of Inquiry.

*Supply of Parliamentary publications*

128. A Minister in charge of an item of business in the House of Commons must ensure that reasonable numbers of copies of any documents published during the last two Sessions which may be needed for the debate are placed in the Vote Office and for supplying the House of Commons Library in advance with a list of all those older papers which the Minister considers relevant to the item. When any document is out of print the Minister should decide whether or not a reprint is required. Where any doubt exists about the need for any document to be available for a debate the Minister's Private Secretary should consult the Chief Whip's Private Secretary.

*Money Resolutions*

129. All Money Resolutions are placed on the Order Paper in the name of the Financial Secretary, Treasury. But he is not responsible for seeing a Resolution through the House of Commons. It has always been the practice (as for Civil Estimates) that, although Resolutions appear in the name of the Financial Secretary, the Minister having Departmental responsibility for the relevant Bill is also responsible for the Money Resolution in the House of Commons.

**XIV. Ministerial Memoirs and Other Writings**

130. The prohibition on the practice of journalism by Ministers does not extend to writings of a literary, artistic, musical, historical, scientific, philosophical or fictional character which do not draw directly on their Ministerial experience.

131. The principle of collective responsibility and the need to safeguard national security and our relations with other countries impose certain obligations



on former Ministers who are contemplating the publication of material based upon their recollection of the conduct of Government business in which they took part. They are required to submit their manuscript to the Secretary of the Cabinet and to conform to the principles set out in the Radcliffe Report of 1976 (Cmnd. 6386).

132. Ministers who wish to keep a diary of their Ministerial experience must first consult the Prime Minister.

**XV. Political Impartiality of Civil Servants**

133. Civil Servants should not be asked to engage in activities likely to call in question their political impartiality, or to give rise to the criticism that people paid from public funds are being used for Party political purposes.

*Civil Servants' attendance at Party Conferences*

134. Ministers should not ask civil servants to attend, still less take part in, Party Conferences. It is an established principle in the public service that civil servants in their official capacity should not accept invitations to conferences convened by, or under the aegis of, Party political organisations. In order to preserve the principle that the Civil Service is politically impartial it is equally important that no civil servant should be in attendance at Party occasions. If a Minister wishes to have a brief to explain Departmental policies or actions, there is no reason why this should not be provided; but neither the author of the brief nor an Information Officer should be present at the conference or meeting. The situation is, of course, different when a Minister requires officials to be in attendance not in order to attend the conference or to take part in its business but to enable the Minister to carry out urgent Departmental business.

**QUESTIONS OF PROCEDURE FOR MINISTERS**

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SECRET



FROM: J O KERR

DATE: 4 July 1983

MR BAILEY

cc PS/Chief Secretary  
Mr Middleton  
Sir T Burns  
Mr Cassell  
Mr Wilding  
Mr Battishill  
Mr Mountfield

PUBLIC EXPENDITURE 1983/84

The Chancellor has suggested a number of changes to the draft .. Cabinet paper which you submitted at lunchtime. I attach a revised version, and would be grateful for your urgent comments.

2. I direct your attention in particular to the new proposed treatment of nationalised industries.

A handwritten signature in cursive script, appearing to read 'J O Kerr'.

J O KERR

SECRET

88/154



FOURTH REDRAFT OF 4 July 1983

## DRAFT CABINET PAPER: PUBLIC EXPENDITURE IN 1983-84

Memorandum by the Chancellor of the Exchequer

Public expenditure this year is running substantially ahead of the figures agreed by Cabinet and published in the February White Paper (Cmnd 8789).

2. The surge in expenditure which began late in 1982-83 has continued unabated. Demand related programmes - particularly agriculture support and social security benefits - are growing very rapidly. Local authority current expenditure and nationalised industry borrowing are also likely to be higher, than envisaged. The EC Budget refund - agreed at Stuttgart was £300 million lower than we expected last winter. In the light of the 1982-83 outturn, we are also expecting much less shortfall about £300 million on defence votes, and the rest spread across the field - on cash limited expenditure than we had assumed in the Budget.

3. The rapid growth in expenditure is reflected in very high rates of public borrowing so far this year. The monthly CGBR figures have caused concern in the markets, and the PSBR figures for the first quarter - published on 21 July - are likely to increase it. The first quarter CGBR figure, due on 11 July, is likely to be some £5,400 million, over £1,000 million higher than envisaged at Budget time. The direct effect of the additional borrowings, if allowed to continue unchecked, coupled with the effect on confidence, would be to push interest rates up, damaging the private sector and the prospects for recovery.

4. We must not allow this to happen. We need to step up the disposals programme, and this is already in hand. But that alone will not be sufficient to solve the problem. We also need to tackle the spending surge at source, and bring this year's expenditure totals closer to the Cmnd 8789 path.

5. I emphasise that I am not asking for cuts in published expenditure totals this year: the aim is simply to get back closer to the White Paper totals. But it makes sense to consider the problem immediately in order to give the maximum amount of time in which to make the necessary adjustments.



The first and most obvious step is to try to curb the increases on non cash limited demand-determined expenditure. I should be grateful if those colleagues concerned would explore all appropriate available options.

7. Realistically, however, we can expect to achieve a great deal by that route. To get back on course we shall have to take action on cash limits.

8. There is in fact room for such action particularly on the non-pay side, because prices this year are in general rising less fast than expected when departments drew up their plans. On the pay side we need to take account of the pressure resulting from our decision earlier in the year, to finance the non-industrial civil service pay increase from the original provision.

9. I therefore propose a reduction of 1% on the 'pay' element and of 2 per cent on the non-pay element of all central government cash limits. The 'pay' element would include general administrative expenditure (gae). I propose excluding Rate Support Grant, because it is very doubtful whether cuts would actually lead Local Authorities to reduce their current expenditure, and Local Authority capital expenditure.

10. If Cabinet agrees, the Treasury will agree with Departments a detailed list of the cash limits affected. The savings would be in the range £650-£700 million gross, or £450-£500 million net of some further reduction in shortfall compared to the allowance (£1,200 million) in Cmnd 8789.

11. It would not be right to exempt the nationalised industry External Financing Limits (EFLs) for nationalised industry borrowing is a substantial component of the current surge. I therefore propose a 2% cut in the provision for total EFLs, to be determined by the Treasury.

12. At the same time, and to discourage a repetition of last year's end-year surge, I also propose to introduce a scheme of end-year flexibility as outlined by the previous Chief Secretary in C(82)29. (This did not apply to local authorities which are being discussed separately). There would be considerable managerial advantages in such a scheme, and spending Departments have been pressing for it. It would mean that spending in this financial year would be reduced - by perhaps a further £100 million.

13. The present problem arises in part because it has proved so difficult to provide reliable forecasts of rates of spending, even very late in the year. This is a problem throughout the year, but it is especially acute towards the year-end, as Departments seek to spend up to



cash limits. There have also been severe problems over forecasting demand - related expenditure. I therefore seek the co-operation of spending Ministers in improving the financial information flows from their departments to the Treasury during and particularly at the end of the financial year. Detailed proposals will be made at official level shortly.

14. To sum up, I propose:-

- a. consideration by the Departments concerned of possible ways of slowing the increase in demand-determined non-cash limited spending;
- b. a reduction of 2 per cent in the non-pay element of central government cash limits and EFLs - to yield some £300-350 million in 1983-84;
- c. a reduction of 1 per cent in the pay (and gae) elements, yielding perhaps £100 million net;
- d. the introduction of a scheme of end-year flexibility on central government capital expenditure at the end of 1983-84 which, together with (a), and (b), should take the saving this year over £500 million;
- e. a re-examination of nationalised industry EFLs to curb expected overshoots, and reduce (by 2%) those not now threatened; and
- f. that all spending Ministers should cooperate in improving information flows to the Treasury about the course of expenditure during the year.



CHART A

United Kingdom average annual growth rates

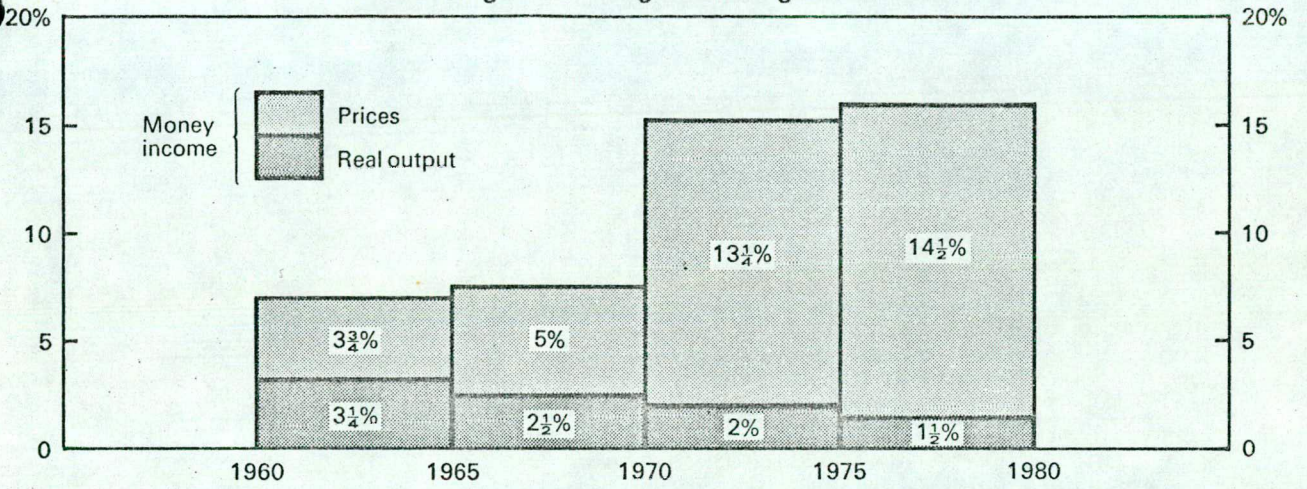


CHART B

Exchange rate, wage costs and competitiveness

1975 = 100

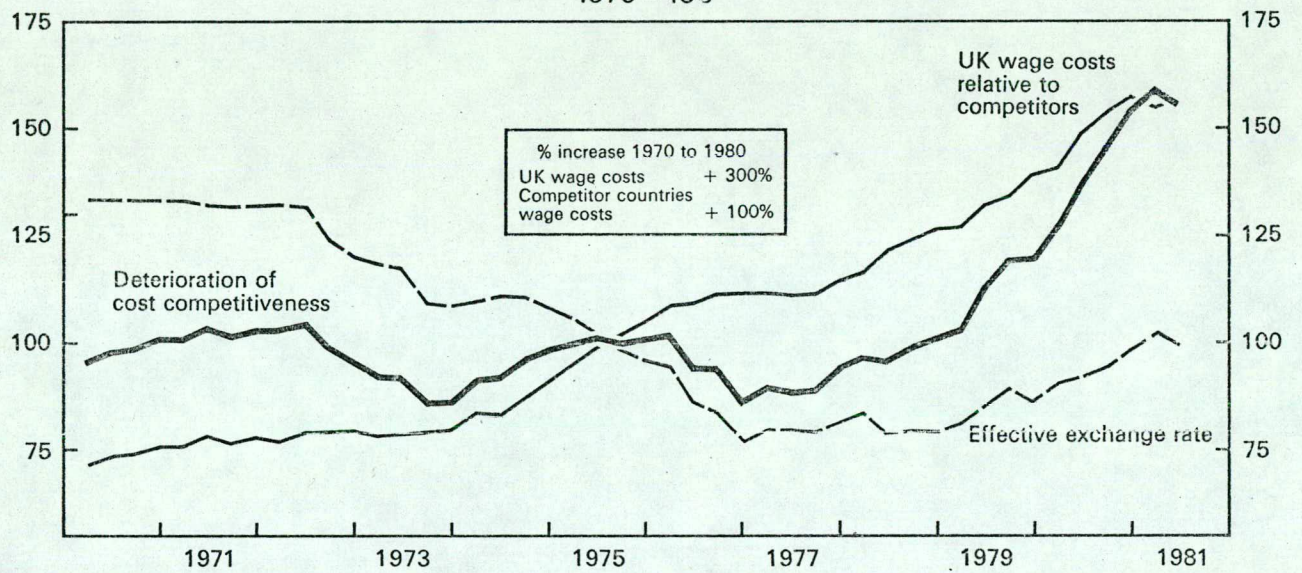
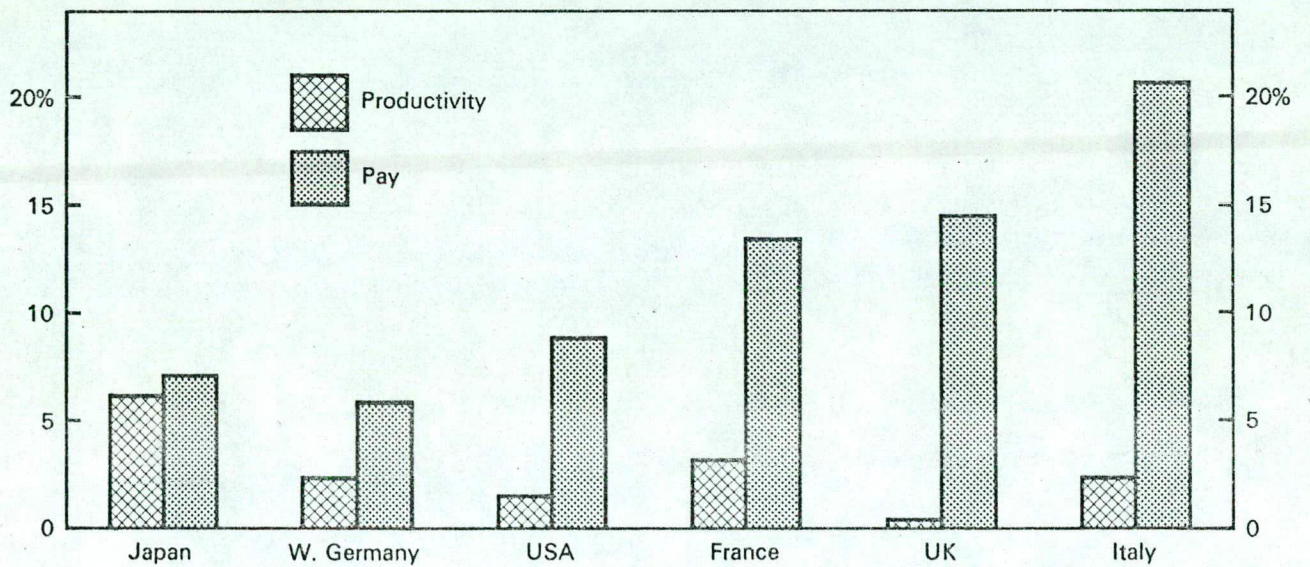


CHART C

Pay and productivity in manufacturing

Average annual rates of growth 1976 QIV — 1980 QIV







FROM: DAVID PERETZ

DATE. 26 June 1984

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Bailey  
Mr Littler  
Mr Anson  
Mr Cassell  
Mr Evans  
Mr Lavelle  
Mr Monger  
Mr Odling-Smee  
Mr Scholar  
Mr Norgrove  
Mr Ridley

MR BATTISHILL

**PUBLIC EXPENDITURE CABINET: ECONOMIC PROSPECTS PAPER**

I attach a copy of the latest draft of the Chancellor's paper. This version will now be shown to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'DLP'.

D L C PERETZ



**CONFIDENTIAL**

Draft

**Economic Prospects****Memorandum by the Chancellor of the Exchequer**

The outlook for United Kingdom growth and inflation over the next two years remains much the same as at the time of the Budget, but the pressures on the world economy from United States policies are a cause for continuing concern. At home, the main danger to an on the whole encouraging prospect lies not in the miners' strike, whose economic consequences have so far been modest, and will in any event be only temporary, but in the relentless pressure for higher public expenditure.

**World economy**

2. Growth in the world economy is proceeding much as expected, with recovery continuing in the major industrial countries. In the year ahead output may rise at a somewhat slower pace, with some slackening in the recent hectic pace of US growth more than offsetting a steady pick-up in Europe and Japan. This reflects the fact that with the exception of the UK which led the way out of recession, the recovery started rather later outside the US. Overall output in industrial countries may grow by around 4½ per cent this year.

3. Inflation among OECD countries now averages about 5 per cent, with particularly low rates - lower than our own - in the United States, Germany and Japan. It may remain at around that level for a while, with some slight rise in the United States offset by lower inflation in Europe.



4. Better growth, with continuing low inflation, is helping world trade. This is now recovering well and is expected to rise by around 6 per cent this year and next, with particularly rapid growth in imports into North America. The recovery will be especially welcome to the non-oil developing countries, whose rising export revenues should to some extent help to ease their debt problems.

5. But the international prospect remains a source of considerable concern. The heart of the problem is the high level of US interest rates - both nominal and real - resulting from the size and persistence of the US deficit. So long as it remains substantially unchecked, there will be a major question mark over the sustainability of the recovery. US interest rates have risen sharply in recent months, greatly exacerbating the international debt problem. This rise has been reflected, though to a much lesser extent, in many other countries, including our own, with some of the strain showing up in a further increase in the value of the dollar on the foreign exchanges.

#### UK economy

6. At home, underlying growth in output continues at around 3 per cent - ahead of most of Europe, and so far not greatly affected by the miners' strike.

7. The present recovery will soon have persisted for longer than any recovery since the war. As it continues, so its pattern changes. Personal spending has been growing strongly for two years, helped by lower savings and most recently by strongly rising personal real incomes. It may now slow somewhat, from 4 per cent last year to perhaps 2½ per cent this year, though consumer borrowing is still growing strongly. Companies are now in a better position than for many years as they benefit from improving productivity and only modest increases in unit costs. The ending of NIS in November will also help. Real rates of return



for non-North Sea companies are back to the levels of 1978-79; company liquidity is also at near-record levels; and, with a substantial recovery in profits, companies are now well placed to invest. After allowing for some effect from the Budget measures, fixed investment by industry may increase by some 10 per cent (at constant prices) this year, with another sizeable rise in 1985. On the other hand companies are likely to continue economising on stock levels, so no major restocking seems imminent.

8. The growth of total domestic demand may slow a little from 4½ per cent last year to 3 per cent this year. But, helped by growth in world trade, exports are now recovering strongly: the prospect is for an increase of 6 per cent this year, as against only 1 per cent last year. Overall, therefore, the prospect remains one of growth in UK total output this year of 3 per cent, the same as in 1983, and perhaps a similar increase in 1985.

9. Inflation remains firmly under control, at a shade over 5 per cent in May. At the Budget the increase in retail price inflation was forecast to edge down to 4½ per cent by the fourth quarter of this year, and that remains our best guess. Outside forecasters have tended to be less sanguine, but latterly most of them have been revising their forecasts downwards.

10. Lower inflation is not yet fully reflected in the level of pay settlements. Earnings growth remains obstinately high, probably reflecting a certain amount of pessimism among wage bargainers over the prospects for inflation, but also continued failure to recognise the vital link between pay and jobs. This is the most important single reason why it is proving more difficult to bring down unemployment despite steady expansion and low inflation. But there are some encouraging signs on the employment front. The total number of people in work has been rising for the past year, and is now some 250,000 higher than in early



1983, though the effect on the unemployment register has been masked because some new jobs have been filled by people who were not on the register and others by new entrants to the labour force. Overtime working remains high. But there is still little sign of the labour market producing either the greater flexibility or the lower labour costs needed to produce a significantly better outlook for jobs. The need for greater realism on pay is a message that must continue to be hammered home.

11. The financial markets are going through a difficult patch. This is chiefly because of understandable concern about the international outlook, but there has also been some nervousness about public sector spending and borrowing at home. At least so far as borrowing is concerned these domestic worries should recede as the year unfolds. Despite the recent rise in UK interest rates our short term rates are now more than two points lower than comparable US rates; and if US rates go higher, as in the short run they may do, we ought to be able to avoid following them upward - at least to the full extent. Domestic monetary conditions are satisfactory and, subject to the usual margins of error, the prospects for public sector borrowing this year and (given a satisfactory public expenditure review) next year remain broadly as forecast at Budget time. This year's borrowing profile is more than usually concentrated in the first six months of the year; but there are clear reasons for this and it is now becoming better understood by the markets.

12. Needless to say, the financial picture can change rapidly as we have seen before. But I see no need this year for corrective action of the kind we were obliged to take in July last year. Nevertheless, the public expenditure prospect for the current year is already looking very tight indeed, and it is essential that we maintain the firmest possible control of spending as the year proceeds.



13. Figures from the most recent Treasury forecast are shown in the attached table.

The prospects

14. It is always hazardous to try to look more than a year or two ahead in any detail, since our own progress can always be affected by developments in the rest of the world. But the prospects are unusually promising, provided we can maintain firm control over public spending. The task before us is clearly set out in the paper circulated by the Chief Secretary.

The immediate task

15. I do not underestimate the difficulties in sticking to our published plans. The pressures for higher public spending are intense, as we always knew they would be. If we concede to these pressures now we shall call into question the credibility of our policies in the eyes of nervous financial markets at home and abroad. Our determination to secure a more enterprising and vigorous economy by lowering the burden of taxation will become suspect. We should also make it more difficult to sustain the higher levels of growth needed to bring about more new jobs and a lasting reduction in unemployment. Reducing the tax burden is crucial to the whole thrust of our economic policies - and it is important that we begin the process early in this Parliament.

16. I urge my colleagues to agree to the Chief Secretary's proposals.



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MAJOR ECONOMIC INDICATORS

|   | UK<br>1981 | 1982 | 1983 | 1984 <sup>(1)</sup> | OECD <sup>(2)</sup><br>1984<br>(major 6,<br>excluding UK) |
|---|------------|------|------|---------------------|---|
| <b>A. <u>Demand and activity</u></b>                  |            |      |      |                     |   |
| (per cent change on previous year)                    |            |      |      |                     |   |
| GDP   | -1½        | 2    | 3    | 3                   | 5   |
| Domestic demand                                       | -1½        | 3    | 4½   | 3                   | 5   |
| of which: consumer spending                           | 0          | 1½   | 4    | 2½                  | 3½  |
| fixed investment                                      | -9         | 6    | 5    | 6                   | 7½  |
| Exports of goods and services                         | -2         | 1    | 1    | 6½                  | 9   |
| Imports of goods and services                         | -3½        | 4    | 5    | 7½                  | 11½   |
| <b>B. <u>Inflation</u></b>                            |            |      |      |                     |   |
| Retail prices, fourth quarter<br>(per cent change)    | 12         | 6    | 5    | 4½                  | 5   |
| Average earnings, fourth quarter<br>(per cent change) | 10½        | 8    | 8    | 7½                  | 6   |
| <b>C. <u>Other indicators</u></b>                     |            |      |      |                     |   |
| (levels)  |            |      |      |                     |   |
| Current balance,<br>(£ billion)                       | 7½         | 6    | 3    | 1½                  | -32   |
| Unemployment level,<br>(per cent narrow definition)   | 10         | 11½  | 12   | 12½                 | 7½  |
| Interest rates<br>(3 month inter-bank per cent)       | 14         | 12½  | 10   | 9½ <sup>(3)</sup>   | 10 <sup>(3)</sup>   |

(1) Figures consistent with CONFIDENTIAL Treasury summer forecast.

(2) US, Japan, Germany, France, Italy and Canada: Treasury forecasts.

(3) Current level.



FROM: A M W BATTISHILL

DATE: 3 July 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Bailey  
 Mr Anson  
 Mr Evans  
 Mr Monger  
 Mr Odling-Smee  
 Mr Scholar  
 Mr Gray  
 Mr Perfect  
 Mr Pratt  
 Mr Ridley

CABINET, 5 JULY: ECONOMIC OUTLOOK AND PUBLIC EXPENDITURE  
 - GENERAL BRIEFING

There are 3 Treasury papers on the agenda for Thursday's Cabinet:

- (a) the Chief Secretary's paper on the 1984 Public Expenditure Survey, C(84)18;
- (b) his paper on Using Private Enterprise in Government, C(84)16; and
- (c) your own background paper on the Economic Prospects, C(84)17.

Briefing

2. The briefing is in 4 parts:

- (a) for C(84)18 a speaking note for the Chief Secretary and general public expenditure briefing - submitted by Mr Gray yesterday, together with notes on departmental programmes (which are being submitted separately);
- (b) on C(84)16, the Chief Secretary's brief on Using Private Enterprise in Government - to be submitted by Mr King;



- ... (c) speaking notes on your Economic Prospects paper,  
C(84)17: Annex 1 below;
- ... (d) a series of general briefs: a list of these is  
at Annex 2.

The Economic Prospects

3. Your own paper is intended mainly as background to the discussion of public expenditure and to point up the importance of lower taxation, and hence of sticking to spending plans, to the whole thrust of the Government's economic strategy. The speaking notes take the form of short factual points that could be made in introducing the paper or in discussion.

4. The general briefs cover the areas most likely to arise in discussion of the 2 main papers. Brief 1 deals with recent developments and Brief 2 covers the summer forecast and comparisons with FSBR. Briefs 3-8 cover inflation, pay, unemployment, money and interest rates, public borrowing and the fiscal adjustment and tax. Brief 9 deals with the cost of unemployment. Brief 10 is on the miners' strike and Brief 11 sets out information on post-war recoveries.

5. Further material will follow tomorrow night from EF and HF giving an up-to-date market report and the "first guess" for the June money figures and from EB on the June unemployment figures, (to be published on Thursday).

*AMB*  
A M W BATTISHILL



Economic Prospects: Speaking note

Cabinet will wish to note economic situation as background to discussion of public spending plans. C(84)17 sets the scene.

Paper gives a fairly full statement of the present position and prospects for coming 12 to 18 months. Reflects latest Treasury forecast. An internal forecast which is not published. Main figures in the Annex.

One important assumption. For forecasting purposes have assumed miners' dispute settled by summer.

As paper says, the broad picture is much as seen at the time of the Budget:

- internationally - continuing international recovery, with perhaps some slowing in the US but faster growth in Europe (4½ per cent growth in industrial output this year in industrial countries);
- continuing low inflation in US, Germany and Japan;
  - world trade rising this year, and next by around 6 per cent;
- at home - growth in output of perhaps 3 per cent both this year and next;
- some slowing in the increase in personal spending, but higher private investment (perhaps 10 per cent this year);



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- improving exports; over 6 per cent growth this year compared to 1 per cent last.
- inflation firmly under control: at 5 per cent, falling to 4½ per cent by Q4 this year.

In short, continued steady growth, with inflation continuing to edge down as expected. Recovery more broadly based. Unemployment still stubbornly -though erratically - rising.

Main threat to world recovery posed mainly by the United States

Budget deficit:

- risk of even higher interest rates, leading to
- worse debtor problems with repercussions on world trade and banking systems; and
- risk of sharper slowdown in US than expected.

At home, main disturbing feature is the way unemployment continues obstinately high, even though total employment is rising quite strongly. Expanding labour force, high overtime and more married women in jobs explain why higher employment and rising unemployment. But underlying causes include:

- companies' caution about future of the recovery;
- still healthy - and welcome - increases in productivity; but also:
- productivity being taken too much in higher real earnings;
- inflexibility in the labour market.

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So vitally important to make labour markets more flexible and continually stress link between pay and jobs.

Something of a contrast between our relatively healthy growth and inflation prospects and nervousness in the markets about potential risks. Partly fears about US; partly nervousness about public spending and borrowing here. Sticking to present policies offers best hope of containing these, though the UK is, as always, very dependent on developments overseas. Cannot insulate completely from effects of US policies. [But UK interest rates lower relative to US rates than for a long time: short-term rates more than 2 per cent lower in the UK.]

Fiscal prospects for this year and next reasonably satisfactory. But this year's public spending looking very tight.

Still vital need to reduce high burden of tax. Reasonable prospect of being able to do so next year and beyond provided we stick to existing public spending plans. Essential to Government's whole economic strategy. Must not throw away opportunity.

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ANNEX 2

ECONOMIC PROSPECTS: GENERAL BRIEFS

| <u>TITLE</u>                               | <u>DIVISION</u> |
|--|-----------------|
| 1 Recent developments                      | EB              |
| 2 Summer Forecast and comparison with FSBR | EA              |
| 3 Inflation                                | EA/MP           |
| 4 Pay                                      | P               |
| 5 Employment and Unemployment              | EA              |
| 6 Money and Interest Rates                 | HF              |
| 7 Public Borrowing and Fiscal Adjustment   | PSF/MP/EA       |
| 8 Tax                                      | FP/DEU/MP       |
| 9 Cost of Unemployment                     | DEU             |
| 10 Miners' strike                          | EB              |
| 11 Post war recoveries                     | EB              |



## RECENT UK ECONOMIC DEVELOPMENTS

### FACTUAL:

#### **Financial Conditions** [see Briefs H and I]

1. Over 1984-85 target period to date (ie mid Feb to mid May), £M3 just above top of (6-10 per cent) target range, with MO at bottom of (4-8 per cent) target range.
2. PSBR estimated at about £2½ billion in April, £1½ billion in May. Almost all borrowing in 1984-85 expected to fall in first half of financial year, in part because of effects of Budget measures - proposed sale of BT shares, change in VAT arrangements on imports will boost receipts in second half year.
3. Since ½ point cut following Budget, most clearing banks' base lending rates risen ¾ percentage points and remain high in real terms. US short term rates have risen 1½ points since March cut in UK base rates.
4. Dollar strong against most currencies, including sterling, in recent weeks. Sterling traded firmly against European currencies - remained fairly steady in effective terms, within band 1 per cent either side of 79½ in last three months.

#### **Inflation and Costs** [see Briefs E and F]

5. Year on year retail price inflation steady at around 5 per cent since last summer. Latest CBI pay data bank figures show average manufacturing settlements running at much same level as last pay round (6 per cent). Unit wage costs running at historically low rates; 2-3 per cent manufacturing, 3-4 per cent whole economy. Producer output price inflation steady; CBI Enquiry results suggest deceleration possible in next few months.

#### **Company Finances**

6. Financial situation of the company sector improved substantially in last two years. Nominal profits of industrial and commercial companies (oil and non-oil) up about a quarter between 1982 and 1983. In 1983 ICC's ran financial surplus of £6½ billion, compared with £3½ billion in 1982; borrowing requirement reduced by around £5 billion between 1982 and 1983. Net real rate of return for non-oil ICC's forecast by CBI at 8½ per cent in 1984, compared with low of 4 percent in 1981.

#### **Demand**

7. All domestic demand components contributing to growth, and growth broadening into investment and exports. Consumers' expenditure up 2 per cent in 1984Q1 on year earlier. Total investment up 10 per cent over same period. Manufacturing investment (inc. leased assets) up 11 per cent in six months to 1984Q1 on previous six months. May DTI Investment Intentions Survey pointed to increase in manufacturing investment of 12 per cent this year, with 8 per cent increase by service industries.



8. Export volumes picked up strongly since last summer. (Manufactured exports up 9 per cent in past year), But import volumes continue to increase (non-oil imports up 13½ per cent in past year) - overseas sector continues to have negative influence on overall GDP growth.

### Gross Domestic Product

9. GDP(A) - best measure for longer term comparisons - running over 2½ per cent above peak in 1979. (NB discrepancy between 3 GDP measures - see below). All measures of GDP in 1984Q1 depressed by effects of lower coal output associated with miners' dispute. (No discernible secondary effects of coal dispute).

| <u>percentage change 1984Q1:</u> | <u>GDP(A)</u> | <u>GDP(E)</u> | <u>GDP(O)</u> | <u>GDP(I)</u> |
|----------------------------------|---------------|---------------|---------------|---------------|
| on 1983Q4                        | 0.9           | 0.3           | 0.2           | 2.0           |
| on 1983Q1                        | 2.7           | 0.9           | 3.1           | 4.0           |
| on 1981Q2 (trough)               | 9.0           | 8.2           | 6.6           | 11.9          |
| on 1979Q2 (peak)                 | 2.2           | 2.4           | -0.7          | 4.9           |

10. Output of the production industries (other than coal and coke industries) in 3 months to April was little different from previous 3 months, about 5 per cent up on year earlier. In latest 3 months manufacturing output up 4 per cent over corresponding 3 months last year. Service sector output - over half whole economy output - over 4 per cent above 1979 average.

### Current Account

11. Current account surplus in 1983 revised up from £2 to about £3 billion, reflecting higher invisibles surplus. Current account estimated to have been in deficit by £½ billion three months to May, compared with £1½ billion surplus in previous three months.

### Labour Market (see Brief G)

12. Latest figures indicate some strengthening of labour demand, but trend in unemployment remains upward. Employed labour force, ie employees in employment, armed forces, plus assumed 25,000 per quarter increase in self employed, estimated to have increased by approaching 200,000 between March and December 1983. Service sector employment estimated to have grown by around 270,000 during 1983. Manufacturing employment fell by an average 7,000 a month in three months to April, much same rate as second half of 1983 and somewhat below 1970's monthly average fall of around 10,000.

13. Notified vacancies risen in each of last three months, after falling back at turn of year; level still below that in 1983Q3. Seasonally adjusted adult unemployment up 18,000 in May and by an average 8,000 a month between February and May. Follows apparent levelling out in second half of 1983.

14. Productivity improved sharply in last two years, but especially in manufacturing with increases in output per head of 5½ and 6½ per cent in 1982 and 1983.



## **Forward Indicators**

15. April CBI Industrial Trends Survey confirmed strength and breadth of recovery in manufacturing, with improvements in orders, investment intentions and business confidence. May and June Enquiries confirmed expectation of further output increases, and suggested some deceleration in rate of increase in manufacturers' selling prices in next few months.
16. Latest provisional movements of CISO's leading indicators consistent with continued recovery into 1985.

### **POSITIVE:**

17. GDP at highest level ever, growing at underlying rate of 3 per cent per annum.
18. Growth broadly based with strong increases in business investment and exports over last year.
19. Inflationary pressures subdued - CBI report fewer firms expecting to increase prices.
20. Employment increasing again; employed labour force up by approaching 200,000 between March, December 1983.

### **DEFENSIVE:**

21. Unemployment still rising? Greater flexibility of labour market, including wage levels, is key to improved job prospects.
22. Coal strike hitting GDP? Effects confined to direct effect of lost coal output; no discernible effect on manufacturing output - up 4 per cent on a year earlier.



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## SUMMER FORECAST AND COMPARISON WITH FSBR: BRIEF BY EA

Factual

- i. Internal Summer Forecast similar to that published in the FSBR.
  - ii. GDP growth forecast to be 3 per cent in 1984. The effect of the miners' strike, which is assumed to end in the summer, is to lower 1984 growth by  $\frac{1}{2}$  per cent but a higher forecast for oil production this year keeps overall growth at the previously published rate.
  - iii. The assumed recovery from the miners' strike adds a little over  $\frac{1}{2}$  per cent to GDP growth in 1985. This takes the forecast up to 3 per cent with  $2\frac{1}{2}$  per cent in the FSBR.
  - iv. The rate of RPI inflation is still expected to fall to  $4\frac{1}{2}$  per cent by the end of this year. [Not for use: It could rise slightly in early 1985 and be above the mid-year FSBR figure of 4 per cent]
  - v. All components of expenditure are expected to rise this year but, with the durables boom easing slightly, consumers' expenditure should rise more slowly ( $2\frac{1}{2}$  per cent). Exports (over 6 per cent) and private investment (about 10 per cent) forecast to rise more rapidly.
  - vi. Import growth ( $7\frac{1}{2}$  per cent) is likely to be slightly higher than export growth this year, partly because of increased energy imports as a result of the miners' strike, but current account should stay in surplus, perhaps of  $\pounds 1\frac{1}{2}$  billion.
- [Not for use:
- vii. PSBR this year could be, if anything, lower than in the FSBR. Increased oil revenue as a result of higher production and a stronger dollar more than offset the effects of the miners' strike and higher spending.]



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viii. Unemployment could rise a little further before levelling off. Forecast is slightly higher than assumptions given to Government Actuary.

ix. Effective exchange rate expected to be lower than in FSBR and interest rates somewhat higher.

x. Growth in the other major six OECD economies now expected to be 5 per cent this year - FSBR said 4 - and 3 per cent in 1985. World trade in manufactures (UK weighted) also slightly up at  $5\frac{1}{2}$  per cent in each year.

**Positive**

i. 3 per cent growth rate forecast to continue. By 1985, recovery set to become the longest since the war.

ii. Recovery becoming broader based with biggest increases in exports and investment.

iii. Inflation likely to decline further.

**Defensive**

i. **Outlook for unemployment bleak?** See brief 5

ii. **Miners' strike threat to recovery?** If the dispute is settled in the near future there will be a limited impact on GDP, the current account and the PSBR this year. Most of the lost output is in the coal industry itself, however, and some of that would be made up, probably next year, as stocks are rebuilt. Output in the rest of the economy continues to grow.



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iii. Exchange rate has fallen and interest rates risen - financial markets are volatile. Uncertainty about prospects in the United States and movements in the dollar and dollar interest rates may not leave the UK untouched. Must hope that further measures will be taken to start to reduce the Federal budget deficit.

iv. Inflation not falling in 1985? Precise path of inflation difficult to project. There may be occasional rises as in the last part of last year but the trend is still downwards.

v. Some easing off in cyclical indicators and CBI survey balances suggest cyclical downturn imminent? Normal indications that cyclical peak is near are not present. Vacancies are low as are reported labour shortages. CBI capacity utilisation has returned to normal levels but still is not high. CBI balances and cyclical indicators still high.



CONFIDENTIALINFLATION: BRIEF BY EA1. Factual

1.1 The latest data on the components of the RPI are the following.

RPI, percentage changes on a year earlier

|                            | <u>(Weight)</u> | <u>1983 Q4</u> | <u>1984<br/>May</u> | <u>1984Q4<br/>FSBR forecast</u> |
|----------------------------|-----------------|----------------|---------------------|---------------------------------|
| Food                       | (20)            | 6.0            | 7.8                 | 3                               |
| Nationalised<br>Industries | (9)             | 1.4            | 2.3                 | 3 <sup>1</sup> / <sub>2</sub>   |
| Housing                    | (15)            | 6.7            | 7.5                 | 7                               |
| Other                      | (50)            | 5.0            | 4.1                 | 4 <sup>1</sup> / <sub>2</sub>   |
| Total                      | (100)           | 5.1            | 5.1                 | 4 <sup>1</sup> / <sub>2</sub>   |

1.2 The inflation assumptions in the MTF5 were:

Percentage increase on a year earlier

|              | <u>1983-84</u>                | <u>1984-85</u>                | <u>1985-86</u>                | <u>1986-87</u> | <u>1987-88</u>                |
|--------------|-------------------------------|-------------------------------|-------------------------------|----------------|-------------------------------|
| GDP deflator | 5 <sup>1</sup> / <sub>2</sub> | 4 <sup>3</sup> / <sub>4</sub> | 4 <sup>1</sup> / <sub>4</sub> | 4              | 3 <sup>1</sup> / <sub>2</sub> |

Information available since the Budget is consistent with these assumptions.



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1.3 Consumer price inflation in the UK (RPI) continues to be slightly above the average of the major 6.

Percentage increase on a year earlier

|              | US<br>(new index) | Japan | W Germany | France | Italy | Canada | Major 6<br>Average | UK  |
|--------------|-------------------|-------|-----------|--------|-------|--------|--------------------|-----|
| January 1983 | 4.7               | 2.0   | 3.9       | 9.6    | 16.4  | 8.3    | 5.5                | 4.9 |
| January 1984 | 4.1               | 1.8   | 2.9       | 9.0    | 12.5  | 5.3    | 4.6                | 5.1 |
| April 1984   | 4.5               | 2.4   | 3.0       | 7.9    | 11.6  | 4.9    | 4.8                | 5.2 |
| May 1984     | 4.2               | N/A   | N/A       | 7.7    | 11.2  | 4.8    | N/A                | 5.1 |

2. Positive

2.1 During the last year inflation has fallen faster than outside forecasters expected.

Forecast of end-1984 RPI inflation made in:

|                 | July 1983                     | November 1983                 | March 1984                    | June 1984                     |
|-----------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| NIESR           | 8.0                           | 6.8                           | 6.8                           | 6.0                           |
| Phillips & Drew | 7.3                           | 5.7                           | 5.1                           | 5.1                           |
| Simon & Coates  | 7.4                           | 6.7                           | 5.6                           | 5.2                           |
| Henley          | 7.0                           | 6.5                           | 5.7                           | 5.1                           |
| <hr/>           |                               |                               |                               |                               |
| Average         | 7.4                           | 6.4                           | 5.8                           | 5.4                           |
| HMT             | 5 <sup>1</sup> / <sub>2</sub> | 4 <sup>1</sup> / <sub>2</sub> | 4 <sup>1</sup> / <sub>2</sub> | 4 <sup>1</sup> / <sub>2</sub> |



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3. Defensive

3.1 Producer output prices increasing 6½ per cent indicate increases in RPI inflation in the pipeline?

Increase partly due to effect of Budget measures on drink and tobacco which have heavy weight in producer price index but less so in RPI.

Percentage increase on a year earlier

|                  | <u>All<br/>manufacturing<br/>industry</u> | <u>Manufacturing<br/>excluding<br/>food, drink &amp;<br/>tobacco</u> | <u>Food, drink<br/>and tobacco<br/>industries</u> |
|------------------|---|--|---|
| to February 1984 | 5.8                                       | 5.7  | 6.2   |
| March            | 6.4                                       | 5.9  | 7.2   |
| April            | 6.6                                       | 5.5  | 8.1   |
| May              | 6.4                                       | 5.6  | 7.3   |

3.2 Projection affected by slide in sterling, by possible future mortgage interest rate rise? Of course these factors may affect inflation in the short term. But if domestic monetary conditions remain sound, price inflation should continue its underlying downward trend.

3.3 Zero inflation? That remains the ultimate objective and the MTF5 path makes substantial progress towards it.

3.4 Why incur costs of reducing inflation further when we can easily live with 5 per cent? Costs depend on how fast the private sector adjusts to Government's policy. Inflation at 5 per cent creates uncertainty and inefficiency and was considered much too high in 1950s and 1960s.



PAY1. Factual

- Pay settlements in trading sector turning out slightly down on last year, at about  $5\frac{1}{4}$  per cent. Too early to assess outcome for public services.
- Earnings increasing at underlying rate of  $7\frac{3}{4}$  per cent a year broadly stable since last spring. ( $9\frac{1}{2}$  per cent in manufacturing where hours have been increasing).
- Unit wage costs in manufacturing (excluding NIS charges) rising at around 3 to 4 per cent and have been edging upwards.
- Average real earnings, post tax, rising at about 3 per cent ( $2\frac{1}{2}$  per cent a year ago).

2. Prospects

- Settlements, earnings in trading sector unlikely to be any lower in 1984-85 pay round than in this. (Price inflation will be lower, but company finances improving). This offers no comfort on employment.
- Outcome of miners' dispute will affect militancy of other unions next year, especially in public trading.

3. Positive

- Disappointing that labour market not responding to high unemployment, low vacancies with greater pay flexibility.
- Further efforts needed this year and next to:
  - (a) drive home pay-jobs link;
  - (b) improve working and competitiveness of labour and product markets;
  - (c) continue to press public corporations to reach low settlements;
  - (d) look for moderate public service settlements.

4. Pay factor - Chancellor has already concluded that 3 per cent pay factor would be right for 1985-86 Estimates; but do not reveal this yet. 7
- If raised, say: don't have firm proposal at present but will come forward with one in autumn. (If pressed) At present preliminary feeling is that we will need pay factor in 1985-86 for Supply Estimates. For presentational and negotiating reasons difficult for factor to be more than 3 per cent used for 84-85.



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## EMPLOYMENT AND UNEMPLOYMENT: BRIEF BY EA

Factual

(i) Adult unemployment (seasonally adjusted) rose on average 15,000 per month during first five months of 1984. [NOTE: June figure available internally on 3 July, published on 5 July]. This follows levelling out of unemployment in second half of 1983, largely due to increased effect of special employment measures (see Table 1).

(ii) Notified vacancies fell back somewhat at turn of year following steady increase through 1983. However further increases recorded in three months to May. [NOTE: June figure available internally on 3 July]. (See Table 1).

(iii) Demand for labour strengthened during 1983 (see Table 1)

- employed labour force (and self employed) up around 200 thousand between March and December 1983; the increase was in part-time jobs done by women while overall male employment continued to fall.

Note trend to part-time employment is long run phenomenon (+ 1 million 1970s).

- service sector employment up 270 thousand during 1983.

- manufacturing employment decline slowed to average 9 thousand per month during 1983 H2 and 1984 Q1, compared with 20 thousand per month in 1983 H1 (and average monthly fall of 10,000 in 1970s).

- average hours in manufacturing levelled out recently following growth last year. Overtime per operative now close to 1979 peak. Short-time working now very low.



(iv) 1983 Labour Force Survey results, now becoming available, help to confirm DE 'supplementary' estimates of growth in employment last year. [Revised series, to be published on July 18, will show slightly stronger growth since March 1983].

(v) Evidence now suggests that continued rises in unemployment, despite rising employment, occurred because new jobs attracted workers (mainly women) who were previously outside labour force or were non claimant unemployed. [Increasing number of claimants may now have given up looking for work].

(vi) Most forecasters expect little change in unemployment through to end 1985.

(vii) Current unemployment assumption, , in PEWP and for use in Public Expenditure Survey, is 2.85 million (GB excluding school leavers) for 1984-85 and after. May 1984 figure was 2.91 million.

#### Positive

(i) Employment rising again - increase of around 200 thousand between March and December 1983. Services employment up 270 thousand last year.

(ii) Vacancies and average hours well up on levels this time last year. Overtime per operative now close to previous peak.

(iii) Productivity rising strongly in manufacturing - up around 6 per cent in both 1982 and 1983.

#### Defensive

(i) Adult unemployment still rising? Recent figures have been disappointing. Effects of SEMS - which contributed to levelling out of unemployed in second half of last year - make it hard to assess underlying trend, but seems to be still upwards. Strong growth in employment not yet sufficient to offset demographic increases in labour force and increased female participation, particularly in part-time jobs. Need



for more flexibility in labour markets. More jobs would be available if wages lower.

(ii) **When will unemployment fall?** Unemployment forecasts are notoriously unreliable. Although most forecasters see little change over next 18 months outcome is crucially dependent on efficiency of the labour market - particularly realistic pay levels. US experience shows that lower real wages can mean more jobs and significant falls in unemployment.

(iii) **Manufacturing employment still falling - productivity growth bad for jobs?** Manufacturing employment has been falling almost continuously since 1966. Recent falls have been at about the average rate recorded during 1970s. Higher productivity boosts profitability - encourages firms to invest, leading to higher output and more jobs in long run.



TABLE 1: LABOUR MARKET INDICATORS

- Average monthly changes (000s) -

All figures seasonally adjusted

|      |       | Adult<br>Unemploy-<br>ment (UK) | Employed<br>Labour<br>Force | Manufac-<br>turing<br>Employment<br>(GB) | CBI<br>Expected<br>Employment<br>Balance | Notified<br>Vacancies <sup>+</sup><br>(000s) | Average<br>Weekly<br>Hours<br>in Manufac-<br>turing <sup>+</sup><br>(1980 = 100) | Hours<br>over-time<br>in Manufac-<br>turing <sup>+</sup><br>(millions) | Short time<br>hours lost<br>Manufac-<br>turing <sup>+</sup><br>(millions) |
|------|-------|---------------------------------|-----------------------------|--|--|--|--|--|---|
| 1982 | Q1    | 20                              | -11                         | -18                                      | -36                                      | 109  | 100.7  | 10.3   | 1.8   |
|      | Q2    | 28                              | -36                         | -31                                      | -39                                      | 109  | 100.6  | 10.2   | 1.8   |
|      | Q3    | 31                              | -47                         | -29                                      | -42                                      | 111  | 100.4  | 9.8  | 1.6   |
|      | Q4    | 27                              | -25                         | -28                                      | -43                                      | 117  | 100.8  | 9.7  | 1.6   |
| 1983 | Q1    | 26 [28]                         | -16                         | -22                                      | -45                                      | 125 [118]                                    | 101.2  | 9.7  | 1.3   |
|      | Q2    | 25* [31]                        | +9                          | -16                                      | -29                                      | 143 [128]                                    | 100.9  | 9.6  | 1.2   |
|      | Q3    | 4* [11]                         | +18                         | -12                                      | -25                                      | 167 [145]                                    | 101.8  | 11.0   | 0.6   |
|      | Q4    | -2 [14]                         | +35                         | -5                                       | -24                                      | 153 [139]                                    | 102.6  | 11.4   | 0.5   |
| 1984 | Q1    | 22 [24]                         | n/a                         | -9                                       | -16                                      | 147 [134]                                    | 102.5  | 11.1   | 0.6   |
|      | Q2    |                                 |                             |  | -12                                      |  |  |  |   |
|      | Jan   | +30 [34]                        |                             | -11                                      |  | 148 [136]                                    | 102.6  | 11.0   | 0.6   |
|      | Feb   | +29 [30]                        |                             | -13                                      |  | 145 [133]                                    | 102.8  | 11.3   | 0.6   |
|      | Mar   | +7 [8]                          |                             | -2                                       |  | 147 [134]                                    | 102.5  | 11.1   | 0.6   |
|      | April | -1 [5]                          |                             | -5                                       |  | 148 [133]                                    | 102.6  | 11.4   | 0.5   |
|      | May   | +18 [18]                        |                             |  |  | 156 [140]                                    |  |  |   |

\* Underlying increases after allowing for Budget measures

<sup>+</sup> End quarter figures

Figures in [ ] are adjusted for estimated effect of SEMs. These figures are FOR INFORMATION ONLY



## MONEY AND INTEREST RATES

Factual

- (a) Monetary growth
- MO within its target range, £M3 just outside
  - Front end loading of PSBR and strong underlying sterling lending putting upwards pressure on £M3.
  - Cross-checks, especially PSL2, growing too rapidly for comfort.
  - [Provisional banking June money figures not yet available but immediate prospects poor.]

|                 | Banking May | (% , seasonally adjusted<br>Annualised rates) |          |           |
|-----------------|-------------|---|----------|-----------|
|                 |             | 3 months<br>(target period<br>to date)        | 6 months | 12 months |
| MO              | +0.5        | 4.2 (Target 4-8)                              | 3.9      | 5.1       |
| £M3             | +0.9        | 10.5 (Target 6-10)                            | 9.2      | 8.6       |
| M2 (unadjusted) | +0.3        | ..  | ..       | 10.2      |
| PSL2            | +1.2        | 17.8  | 15.3     | 12.0      |

- sterling has drifted down in effective terms in past weeks, but fallen more sharply against a strong dollar. Markets have been nervous, but no substantial or persistent selling pressure on sterling.

- (b) Interest rates
- UK/US interest rate differentials continue to widen, especially at short end, but limits to extent to which decoupling is feasible.
  - 3 months sterling interbank at  $9\frac{1}{2}$  per cent now  $2\frac{1}{4}$  per cent below eurodollar rate.
  - US prime rates have risen four times by  $\frac{1}{2}$  per cent (to 13 per cent) since UK Budget. UK base rates have fluctuated, but now stand at  $9\frac{1}{4}$  per cent,  $\frac{1}{2}$  to  $\frac{3}{4}$  up on their level on Budget day.



**Positive**

- (i) Monetary growth; no cause for alarm but immediate worries concerning banking June figures and growth of broadest liquidity measures.
- (ii) Interest rates differentials with US now between  $1\frac{1}{2}$  to 3 per cent across the board in our favour, for first time since Second World War.
- (iii) Base rates still below what they were a year ago, but there are upside risks.

**Defensive**

- (i) Is there scope for additional funding?

Doing all possible to maintain funding in difficult market conditions. Gilt sales may be particularly difficult later this year, because of heavy asset sales. Have achieved a high degree of decoupling from US due to markets' recognition of UK's prudent control of its public borrowing relative to US.

- (ii) But monetary targets are performing well?

So far so good. But may be some problems in coming months. M3 is already just outside its range and heavy PSBR monthly figures suggest it may not re-enter its range for some time yet. Fast growth of broad liquidity measures like PSL2 is a bit worrying. [Banking June money figures likely to be bad.]



## INTEREST RATES AND EXCHANGE RATES: SINCE LAST CUT IN UK BASE RATES IN MARCH 1984

| CLOSING RATES                | Exchange Rates |      |      | Short Term Interest Rates |               |                      |                     |                         | Long Term Interest Rates |                 |
|------------------------------|----------------|------|------|---------------------------|---------------|----------------------|---------------------|-------------------------|--------------------------|-----------------|
|                              | £ effective    | £/\$ | DM/£ | UK Base Rate              | US Prime Rate | 3 month £ inter-bank | 3 month Euro-dollar | Un-covered Differential | UK 10 yr Gilt            | US 10 yr T-Bond |
| 14 March (UK base rate cut)  | 81.1           | 1.47 | 3.76 | 8½-8¼                     | 11            | 8 $\frac{13}{16}$    | 10½                 | -1 $\frac{9}{16}$       | 10.28                    | 12.29           |
| 19 March (US prime rates up) | 80.8           | 1.44 | 3.79 |                           | 11½           | 8 $\frac{13}{16}$    | 10 $\frac{9}{16}$   | -1¼                     | 10.32                    | 12.42           |
| 6 April (US prime rates up)  | 79.8           | 1.43 | 3.74 |                           | 12            | 8½                   | 10 $\frac{15}{16}$  | -2 $\frac{1}{16}$       | 10.43                    | 12.5            |
| 4 May                        | 80.5           | 1.41 | 3.83 |                           | 12            | 9¼                   | 11 $\frac{1}{16}$   | -1 $\frac{13}{16}$      | 10.85                    | 13.02           |
| 8 May (US prime rates up)    | 80.0           | 1.38 | 3.85 |                           | 12½           | 9¼                   | 11½                 | -2½                     | 11.23                    | 13.05           |
| 9 May (UK base rates up)     | 80.0           | 1.38 | 3.84 | 9-9¼                      |               | 9 $\frac{7}{16}$     | 11½                 | -2 $\frac{3}{16}$       | 11.33                    | 13.14           |
| 10 May                       | 80.1           | 1.38 | 3.85 |                           |               | 9 $\frac{9}{16}$     | 11½                 | -2 $\frac{5}{16}$       | 11.33                    | 13.25           |
| 1 June                       | 79.5           | 1.40 | 3.76 |                           |               | 9 $\frac{15}{16}$    | 11 $\frac{11}{16}$  | -1¼                     | 11.94                    | 13.53           |
| Mon 4 June                   | 79.5           | 1.40 | 3.74 |                           |               | 9½                   | 11 $\frac{7}{16}$   | -1 $\frac{13}{16}$      | 11.77                    | 13.27           |
| Mon 11 June                  | 79.6           | 1.40 | 3.76 |                           |               | 9 $\frac{7}{16}$     | 11 $\frac{9}{16}$   | -2½                     | 11.73                    | 13.45           |
| Mon 18 June                  | 79.5           | 1.38 | 3.75 |                           |               | 9¼                   | 11 $\frac{9}{16}$   | -2 $\frac{5}{16}$       | 11.83                    | 13.15           |
| Wed 20 June                  | 79.4           | 1.37 | 3.79 |                           |               | 9 $\frac{5}{16}$     | 11½                 | -2 $\frac{5}{16}$       | 11.84                    | 13.46           |
| Mon 25 June                  | 79.2           | 1.35 | 3.79 | 9-9¼*                     | 13            | 9 $\frac{7}{16}$     | 12 $\frac{3}{16}$   | -2¼                     | 11.93                    | 13.55           |
| Tues 26 June                 | 79.0           | 1.35 | 3.78 | 9¼†                       | 13            | 9½                   | 12 $\frac{1}{16}$   | -2 $\frac{9}{16}$       | 11.98                    | n.a             |

\* Lloyds rise to 9¼

† Nat' West' rise to 9¼



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PUBLIC BORROWING AND  
FISCAL ADJUSTMENTFactual

- (i) FSBR estimate of Public Sector Borrowing Requirement for 1983-84 was £10 billion; latest outturn figure is £10 billion. [Both figures are on the old PSBR definition.]
- (ii) FSBR forecast of PSBR for 1984-85 was £7¼ billion. [Internal Treasury forecast suggests lower figure; but forecasts remain subject to large margins of error.]
- (iii) Estimated outturn of PSBR in first two months of this financial year is £3.6 billion (compared with £2.4 billion in same period last year). Special factors (asset sales, acceleration of VAT on imports) mean even more front-end loading this year than usual.
- (iv) Monthly path of PSBR so far about £0.6 billion above expectations at Budget time, because of higher than expected Supply expenditure, lower tax receipts and higher local authority borrowing.
- (v) The illustrative PSBR path in the MTF5 showed a reduction from 2¼% of GDP in 1984-85 to 1¾% of GDP in 1988-89. On this basis we still expect positive fiscal adjustments (ie tax reductions). But the margins of error around the forecasts for the later years are very large.

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Defensive

Forecast for PSBR this year?

Unhelpful to provide apparently precise figures; always a range of views around, none of them reliable. Uncertainties this year worsened by miners' dispute. Prospects for this year look no worse than at Budget time, despite outturn so far this year and the miners' strike, mainly because of higher expected North Sea revenues.

Effect of the miners' dispute? (See Brief 13)

No significant effect so far. Will not necessarily effect the PSBR as a whole in 1984-85.

PSBR in later years of MTFS period?

Inevitably very uncertain. Still expect (hope) to be able to deliver tax cuts in 1985-86 and later years, in accordance with our stated aims, but this depends crucially on restraint in public expenditure.

PSBR "target" too tight?

Essential to maintain downward underlying path for PSBR as proportion of GDP if we are to keep financial conditions that will permit a continuing reduction in inflation without excessive reliance on interest rates.

MTFS non consistent with any fall in unemployment?

Employment now rising. Speed with which jobs created, and so timing of sustained fall in unemployment, depends crucially on realistic levels of pay.

GDP growth assumed in MTFS too pessimistic: hence room for higher expenditure?

2¼ per cent annual growth assumption in MTFS is at the higher end of the normal



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range of past peace time growth rates ( $1\frac{1}{2}$ - $2\frac{1}{2}$ %). Though the two decades to 1973 were better than this (3%), the subsequent decade was worse (under 1%). Projected start of decline in North Sea production is a further reason for caution: MTFS projection for non North Sea GDP growth is  $2\frac{1}{2}$ %.

Projection of oil revenues too pessimistic: hence room for higher expenditure?

No reason to make significant changes to MTFS projections for later years. Indeed recent developments in spot prices emphasise the downside risk on prices. Anyway not appropriate to devote temporarily higher revenues to an increase in the level of expenditure which would subsequently be very difficult to reverse.

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## TAXATION

Figures in this brief are taken from, or consistent with, the MTFS.

1. Taxation, NICs and LA Rates as a percentage of GDP.

a) Long Term View

| Calendar Year | Taxation etc  | Financial Year | Taxation etc  |
|---------------|---------------|----------------|---------------|
| 1955          | 29.8 per cent | 1978-79        | 34.2 per cent |
| 1960          | 28.5 " "      | 1979-80        | 35.4 " "      |
| 1965          | 30.8 " "      | 1980-81        | 36.8 " "      |
| 1970          | 37.5 " "      | 1981-82        | 39.6 " "      |
| 1975          | 36.9 " "      | 1982-83        | 39.5 " "      |
| 1980          | 37.3 " "      | 1983-84        | 39.2 " "      |
| 1985          | 38.9 " "      | 1984-85        | 38.9 " "      |
|               |               | 1985-86        | 38.4 " "      |
|               |               | 1986-87        | 37.4 " "      |
|               |               | 1987-88        | 36.7 " "      |
|               |               | 1988-89        | 35.7 " "      |

The forecasts for future tax burdens assume that projected fiscal adjustments are devoted to reducing income tax.

The tables show that, on current assumptions about economic growth and control of public expenditure, the target for the tax burden is hardly ambitious in historical terms, and does not even return to the 1978-79 level.

2. Revenue yields: in 1984-85 prices; and as percentage of GDP.

|           | Income Tax | Employees' NICs | Employers' NICs | NIS  | Corporation Tax | North Sea Taxes | LA Rates | Capital Taxes | VAT  | Duties etc |
|-----------|------------|-----------------|-----------------|------|-----------------|-----------------|----------|---------------|------|------------|
| 1978-79   |            |                 |                 |      |                 |                 |          |               |      |            |
| £billion  | 34.1       | 7.2             | 11.0            | 3.7  | 6.5             | 0.9             | 10.3     | 2.5           | 9.7  | 18.4       |
| % GDP     | 11.2%      | 2.4%            | 3.6%            | 1.2% | 2.1%            | 0.3%            | 3.4%     | 0.8%          | 3.2% | 6.0%       |
| 1984-85   |            |                 |                 |      |                 |                 |          |               |      |            |
| £ billion | 33.9       | 11.24           | 11.8            | 0.75 | 6.7             | 9.2             | 13.1     | 2.6           | 17.9 | 20.0       |
| % GDP     | 10.5%      | 3.4%            | 3.6%            | 0.2% | 2.1%            | 2.8%            | 4.0%     | 0.8%          | 5.5% | 6.1%       |

("Capital taxes" comprise CTT, CGT, DLT and Stamp duties. "Duties etc" comprise Customs and miscellaneous duties, VED, Car Tax and Gas Levy).



The table shows the importance of North Sea taxes and VAT in paying for the abolition of NIS and for the reductions in income tax.

### 3. Expected Fiscal Adjustments

| Year      | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|-----------|---------|---------|---------|---------|
| £ billion | 2       | 4½      | 3½      | 3½      |

Fiscal adjustments show the room for tax reductions if the economy grows as expected and if public expenditure is controlled. [Not for use: the summer forecast has revised down the fiscal adjustment to £1bn in 1985-86 and £2½bn in 1986-87]

### 4. Priorities in tax policy

- i. Reduction in taxation as a proportion of GDP must continue.
- ii. Strategy for reforming corporate taxation was set out in Budget.
- iii. Personal taxation - reductions in income tax must continue - raising basic allowances is still the best way.
- iv. There has been progress - in real terms the single allowance is at its highest level since 1973-74, and the married allowance at its highest level since World War Two - in terms of average earnings, both allowances are higher than they were in 1978-79.

#### Main allowances in 1984-85 prices, and as percentages of average earnings

|             | 1962-3 | 1963-4 | 1967-8 | 1972-3 | 1978-9 | 1979-80 | 1980-1 | 1981-2 | 1982-3 | 1983-4 | 1984-5 |
|-------------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|
| Single - £  | 1403   | 1870   | 1603   | 2408   | 1735   | 1772    | 1799   | 1614   | 1717   | 1867   | 2005   |
| % av erngs  | 22.1%  | 29.4%  | 22.9%  | 29.2%  | 20.1%  | 20.2%   | 19.8%  | 17.8%  | 18.8%  | 20.0%  | 21.1%  |
| Married - £ | 2210   | 2882   | 2476   | 3140   | 2706   | 2764    | 2809   | 2519   | 2682   | 2925   | 3155   |
| % av erngs  | 36.0%  | 45.2%  | 35.4%  | 38.0%  | 31.3%  | 31.4%   | 30.9%  | 27.7%  | 29.4%  | 31.4%  | 33.3%  |

- v. In terms of percentages of average earnings, basic allowances are now roughly in line with the average levels of allowances in the 1970s. But there is much to do if the average levels of the 1960s are to be regained, let alone the peak levels.



## Average levels of allowances as percentages of average earnings

|                   | 1961-1971 | 1971-81 | 1984-85 |                                   |
|-------------------|-----------|---------|---------|-----------------------------------|
| Single allowance  | 24.5%     | 22%     | 21%     | to nearest $\frac{1}{2}$ per cent |
| Married allowance | 37.5%     | 32%     | 33.5%   |                                   |

Q&A: Why raise thresholds rather than reduce rates?

Because levels of allowances as percentages of average earnings are historically low, and because many people who pay tax actually receive substantial means-tested benefits.

How much would it cost now to restore allowances to the 1960s levels as percentages of average earnings?

To return to the average 1960s levels, some £2 $\frac{1}{2}$  to 3 billion.

How far would allowances have to be raised to take most recipients of substantial means-tested benefits out of tax?

Depends on definitions - but a long way - for instance the current married allowance would have to be raised about 50 per cent if it was to match the FIS level for a married couple with two children. It is obviously prohibitively expensive.



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Tax Ready Reckoner

This table gives estimated full year direct revenue effects of illustrative tax changes, relative to 1984-85 tax levels. Figures are in 1984-85 prices and are based on estimated 1984-85 levels of prices and incomes.

2. Full year effects must not be confused with first year effects or PSBR effects. The meaning of "full year effects" in this table is defined in note (a) to table 4.2 in the 1984-85 FSBR.

|   | <u>Illustrative Tax Change</u>                                 | £m Revenue |
|---|--|------------|
| <u>Income tax</u>                           | raise single allowance by £100                                 | - 360      |
|   | raise married allowance by £100                                | - 325      |
|   | raise age allowances by £100                                   | - 60       |
|   | raise all allowances by 5 per cent                             | - 975      |
|   | raise all higher thresholds by 5 per cent                      | - 110      |
|   | reduce basic rate by 1p  | - 1025     |
|   | reduce all higher rates by 1p                                  | - 75       |
| <u>VAT</u>                                  | alter rate by 1 per cent                                       | +/- 770    |
| <u>Duties</u><br>(including<br>VAT effects) | 1p a pint on <u>beer</u>                                       | + 90       |
|   | 5p a bottle on <u>wine</u>                                     | + 30       |
|   | 10p a bottle on <u>spirits</u>                                 | + 10       |
|   | 1p a packet (20) on <u>cigarettes</u>                          | + 30       |
|   | 2p a gallon on <u>petrol</u>                                   | + 95       |
|   | 2p a gallon on <u>derv</u>                                     | + 30       |
|   | (illustrative duty increases <u>include</u><br>VAT increases). |            |
| <u>VED</u>                                  | £1 on private cars and light vehicles                          | + 19       |
|   | 1 per cent increases on heavy vehicles                         | + 4        |



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Major Tax Changes since 1978-79

|   | £m                |
|---|-------------------|
| Income Tax: basic rate cut from 33 to 30 per cent                                     | - )               |
| higher rates substantially reduced  | - )               |
| <u>basic</u> allowances up 16 per cent in real terms                                  | - )               |
| investment income surcharge abolished   | - ) - 4200        |
| MIR ceiling raised from £25,000 to £30,000  | - )               |
| reduced rate band abolished   | + )               |
| LAPR withdrawn for new policies   | + )               |
| taxing social security benefits   | + 900             |
| NIC's Employees' contracted-in rate up from 6½ to 9 per cent                          | + 3700            |
| NIS abolished   | - 3000            |
| Stamp Duty: rate halved to 1 per cent   | - )650            |
| housing threshold doubled to £30,000  | - )               |
| VAT: rates increased and unified at 15 per cent                                       | +5000             |
| extended, to certain goods  | + 650 (full year) |
| postponed accounting for imports withdrawn  | +1200 (once off)  |
| Excise duties <u>broadly</u> more than revalorised<br>with inflation                  | +2400             |
| Corporation Tax: abolition of stock relief  | ) broadly         |
| reform and reduction of capital allowances  | ) revenue         |
| main CT rate reduced to 50 per cent   | ) neutral         |
| (to fall to 35 per cent by 1986-87)   | )                 |
| "small profits" rate reduced to 30 per cent,<br>and "small profits" limits increased. |                   |

Caution

The estimated revenue effects of these changes show the difference as a result of the changes from the hypothetical yields had the 1978-79 tax system remained in force. But since they assume that all other things (such as rising real wages and falling inflation) remained equal their value is purely illustrative, rather than analytical.

Again they show that upward pressures on taxation have only been significantly opposed in Income Tax, NIS and Stamp Duty. The overall picture is of a generally higher burden.



COST OF UNEMPLOYMENT

Factual: Average cost per unemployed person in 1984/85 of:

|  |        |
|--|--------|
| Unemployment, supplementary, housing benefit | £1,850 |
| Administration costs                         | £ 100  |
|  | <hr/>  |
|  | £1,950 |

Not sensible to give estimates of tax/NI revenues foregone. Estimates depend on assumed cause of unemployment and what would happen to prices, earnings, tax rates etc if unemployment changed : difficult assumptions give too wide a range to be meaningful. EPR article February 1981 estimated benefits at £1,250 per person, administration costs at £100, and lost tax/NI/NIS revenues at £2,050 at 1980/81 prices : but latter estimates depended on assumptions used, and not updated<sup>7</sup>.

Defensive

(i) There is no costless way to reduce unemployment. For instance, extra borrowing to finance higher public expenditure on infrastructure not only pushes up PSBR but also leads to loss of jobs in private sector as a result of high interest rates and inflation. Can be very costly way to reduce unemployment. Must consider infrastructure investment on its own merits, not regard it as an unemployment reducing measure. Those who advocate government measure to reduce unemployment must consider cost of doing so.

(ii) Government not inactive e.g. Community Programme (with present limit of 130,000 places) is special employment measure specifically to provide temporary employment for long-term unemployed adults. But best solution to problem of unemployment must be in encouraging flexibility in economy, e.g. in pay, and improving overall competitiveness.



(iii) Really very difficult to give overall PSBR cost of unemployment, including tax/NI foregone. For instance, if loss of employment in public sector, fall in wages bill will cut PSBR : if because of higher wage demands, extra tax revenue for higher wages must be counted against any tax losses.



## EFFECTS OF MINERS' DISPUTE

## FACTUAL

[NB. Overtime ban began October 31, 1983; partial strike began March 12)

(i) Production industry output (ie energy and manufacturing output, together accounting for around one-third of whole economy output)

Discernible effects confined to loss of coal output; normally 4% of industrial output:

CSO estimates of effect of lost coal output  
on overall level of index of production  
(percent, rounded)

|      |     |                  |
|------|-----|------------------|
| 1983 | Nov | - $\frac{1}{2}$  |
|      | Dec | - $\frac{1}{2}$  |
| 1984 | Jan | - $\frac{3}{4}$  |
|      | Feb | -1               |
|      | Mar | -2 $\frac{1}{4}$ |
|      | Apr | -2 $\frac{1}{2}$ |

In three months to April, output of production industries other than coal little different from previous 3 months and about 5 per cent above level a year earlier.

(ii) GDP (output measure)

Coal output normally about 1 $\frac{1}{2}$  per cent of GDP(O). Figure of  $\frac{1}{2}$  per cent has been given to press for direct effect of lost coal output on GDP output figure in first quarter.

(iii) GDP (expenditure measure)

Destocking in first quarter by energy industries (£ $\frac{1}{2}$  billion, 1980 prices) related partly to running down of coal stocks.

(iv) GDP (income measure)

Whole economy wage and salary income depressed in first quarter by lower miners earnings. This contributed to fall in RPDI in 1984Q1.

(v) Trade and current account

Of £0.8 billion deterioration in current account in three months to May, about £0.3 billion attributable to miners' dispute (in terms of higher net imports of fuel oil, coal).



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(vi) Public expenditure and PSBR (see also Briefs A and I)

Internal estimates put net public expenditure cost at £20-30 million a week. This mainly comprises costs of additional CEGB oil burn, BSC's loss of sales, policing costs, offset by saving on miners' wages. Loss of tax revenue thought to be about £5 million a week, so PSBR effect perhaps £25-35 million a week (below most outside estimates which omit offsetting factors).

N.B. Net public expenditure costs will be charged to Reserve for 1984-85 - in principle therefore not adding to published expenditure plans and PSBR. (Tax revenues not recouped later in year will, however, affect PSBR.)

LINES TO TAKE

(i) Effect on industrial output and GDP

Direct effect of lost coal output has depressed output in energy sector and so overall index of production industry output. Manufacturing output unaffected. Current underlying rate of growth in GDP put at healthy 3 per cent per annum.

(ii) Future effect on industry and GDP

While strike continues, output in coal industry will be lower, but other industries not much affected. Once strike is over, higher coal production (including some rebuilding of stocks) should mean that overall industrial production and GDP get back to normal quickly.

(iii) Effect on current account

Although current account still in small surplus in year to date, dispute continues to have adverse effect on oil balance.

(iv) Effect on public spending cash plans

Will reflect not only extra costs of policing and so on, but also offsetting savings on NCB pay bill. Net sums involved relatively modest in total public expenditure terms. Any eventual net cost would be met from Reserve - so would not add to cash plans already published.

(v) Effect on PSBR

No significant effect so far. Will not necessarily affect PSBR for 1984-85 as a whole.



**Duration, Strength and Inflation experience of post war recoveries**

(troughs and peaks as defined by CSO cyclical indicator system\*)

|                     | Duration<br>(Quarters)  | GDP (average) growth(%)                    |  | Inflation (RPI, %)                |                                 |  |
|---------------------|---|--|--|-----------------------------------|---------------------------------|--|
|                     |   | From Trough<br>to Peak<br>(CSO definition) | From Trough<br>to Trough<br>plus 11 quarters | Year on year<br>Rate at<br>Trough | Year on year<br>Rate at<br>Peak | Year on year<br>Rate 11 quarters<br>after trough |
| 1958(Q4)-1960(Q2)*  | 6   | 8.1  | 11.5   | 2.0                               | 1.1                             | 4.4  |
| 1963(Q1)-1964(Q4)   | 7   | 10.9                                       | 13.7   | 3.1                               | 4.5                             | 4.5  |
| 1967(Q1)-1969(Q2)   | 9   | 7.2  | 8.2  | 3.6                               | 5.4                             | 5.1  |
| 1972(Q1)-1973(Q2)   | 5   | 9.9  | 7.6  | 8.0                               | 9.4                             | 18.1   |
| 1975(Q3)-1979(Q2)   | 15  | 13.3                                       | 9.9  | 26.6                              | 10.6                            | 7.7  |
| 1981(Q2)-[1984(Q1)] | (Data available<br>for 11 quarters<br>since trough; leading<br>indicators suggest<br>recovery will<br>continue into 1985) | n.a  | 9.0  | 9.4                               | n.a                             | 5.2  |

\* First post-war recovery to be dated using CSO cyclical indicator system.



OR 6/2

FROM: S J PICKFORD  
DATE: 6 FEBRUARY 1987

- 1. MR CULPIN
- 2. CHANCELLOR

Not seen.

- cc Mr Scholar
- Mr J Dixon
- Miss Noble
- Miss Evans
- Mr Gibson
- Mr Towers

OK

**PM'S INTERVIEW WITH "PETERBOROUGH EVENING TELEGRAPH"**

The Prime Minister has agreed to provide written answers for an interview for the Peterborough Evening Telegraph. The attached letter lists the questions.

- 2. No 10 have asked for our help in providing answers to questions 5 and 6. I attach draft answers, no 5 cleared with Mr Scholar and Miss Evans, and no 6 with Mr Dixon and Mr Gibson.
- 3. Are you content for us to send these answers to No 10?

Who he?

*Steven Pickford*

S J PICKFORD



# Evening Telegraph

21 January 1987

Mr. Jim Coe,  
Deputy Press Secretary,  
10 Downing Street,  
London SW1A 2AA.

Dear Mr. Coe,

Thank you for your letter of January 15. I would like to take up your offer and set out below are the questions I would like answered, please.

1. What will be your response if, after the election you win most seats, but not an overall majority. Would you try to do a deal with the Liberal/SDP Alliance?
2. If such a power-sharing arrangement depended on your going as leader, would you be prepared to step down in the interests of the country - as well as the Tory Party?
3. The high levels of unemployment in Britain are of concern to all. What policies do you have to offer the jobless hope for the future? And is it not time for a national policy on leisure which takes account of earlier retirement and the need for fewer jobs as technology advances?
4. At the outset of your time in as Prime Minister you said that the Health Service 'would be safe in your hands'. Local people would take serious issue with that and point to poorer services, longer waiting lists, overcrowded wards and not enough staff. What assurances can you give for the future that your promises will be seen to be kept?
5. You are totally committed to tax cuts. Will the cuts continue and, if so, does it mean more public sector cuts? And if so how can you justify this policy with high unemployment and falling standards in the public sector?
6. Do you favour index-linked pensions?
7. The Tories are strong on the law and order platform. Yet serious crimes continue to climb. Do you have any further policies linked up to try and cope with this. And what will your government do about the problem of overcrowded prisons?



2

8. The people of Peterborough would be the first to agree that our new town is magnificent - thanks to government initiative and the development corporation. But the "we're all right Jack" attitude will not help solve the problem of the north/south divide. How do you intend to put this inequality right?

9. There's grave concern in some quarters about your proposals to spend large sums of money on Trident. Would you explain why Britain must sustain such expenditure on nuclear weapons?

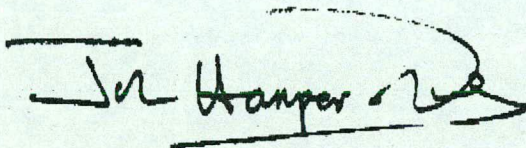
10. Do you see any need for further trade union law, and do you see a need for equally strong measures to control the City's activities?

11. If you lose the election will you remain as leader of the Opposition?

12. When you finally retire, Mrs. Thatcher, what would you like your legacy for Britain to be? What would you like to be remembered for?

Thank you for your help in this matter and I look forward to your reply.

Yours sincerely,



JOHN HARPER-TEE  
Deputy Editor.



Q5. You are totally committed to tax cuts. Will the cuts continue and, if so, does it mean more public sector cuts? And if so how can you justify this policy with high unemployment and falling standards in the public sector?

as fast as we prudently can.

A. ~~Yes,~~ this Government is committed to <sup>justify</sup> reducing the burden of tax on ordinary men and women. And we have an excellent record so far - 1.4 million fewer people paying tax compared with ~~Continuing~~ the regime we inherited; the basic rate of income tax down from 33p to 29p; and the starting point up 22 per cent in real terms.

~~And~~ <sup>V</sup> we will continue on this course. We want to give people more incentive to create wealth, and more freedom to spend or save their own money, ~~instead of having it taken away by the state.~~

But it is completely wrong to suggest that cutting taxes is at the expense of priority public services. To take just two examples. Over the last seven years:

- spending per pupil in schools rose by 17 per cent in real terms;
- capital spending on motorway and trunk roads increased by almost 30 per cent in real terms; and we now get 4 miles of roads for the same price as 3 cost in 1979-80.

The reason we have been able to afford these real improvements in services is because we have seen continuous and steady economic growth - about 3 per cent a year, every year, since 1981. This is the measure of our success.



Q6. Do you favour index-linked pensions?

A. When we came to power in 1979, we inherited the worst inflation record in living memory.

We promised to tackle inflation directly, and we also promised to protect those who suffer most from it and who are least able to cope with it - the pensioners.

We have kept our promises.

Today we enjoy the lowest inflation for nearly 20 years.

And we have more than fulfilled our promise on pensions: we have increased the state pension in real terms during a period in which the number of pensioners has grown by almost a million.

We have also kept our promise to protect public sector pensioners against inflation; and in the private sector most occupational schemes now provide for increases in pensions after retirement.

Good pensions do not come cheaply. But the Government's success in bringing down inflation has protected the value of everyones income and savings in retirement.



UNCLASSIFIED

*RS*



FROM: CATHY RYDING  
DATE: 9 February 1987

MR PICKFORD

cc: Mr Scholar  
Mr Culpin  
Mr J Dixon  
Miss Noble  
Miss Evans  
Mr Gibson  
Mr Towers

**PM's INTERVIEW WITH "PETERBOROUGH EVENING TELEGRAPH"**

The Chancellor has seen your minute of 6 February and is content for you to send the answers to No.10.

*CR*

CATHY RYDING





*psp*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

9 February 1987

David Norgrove Esq  
10 Downing Street  
LONDON  
SW1

*Dear David,*

**INDUSTRIES MIRACLE REVIVAL - SUNDAY TIMES 8 FEBRUARY**

You might be interested to see the attached article from this Sunday's edition of the Sunday Times. Christopher Smallwood, as you may know, is an Economic Adviser to the SDP.

I am copying this letter to Andrew Lansley.

*Yours,*

*Cathy*

CATHY RYDING  
Assistant Private Secretary



# Industry's miracle revival

John Lawson

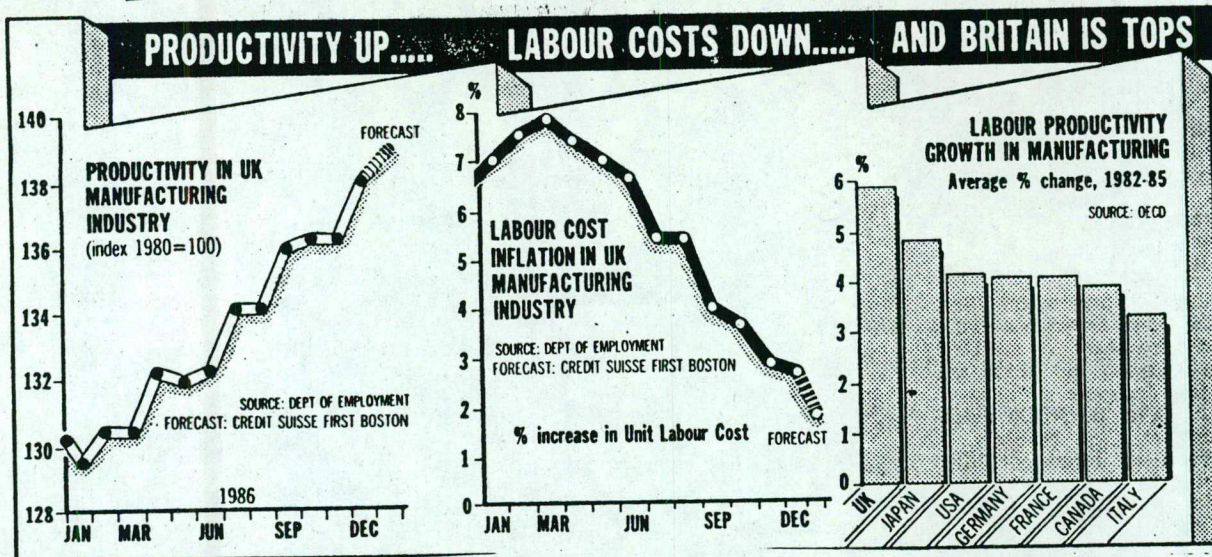
● Britain's industry is being transformed by a new surge in productivity — and more is on the way, says **CHRISTOPHER SMALLWOOD**, Economics Editor

THE unmistakable message from a wealth of economic data is that the performance of British manufacturing industry has been transformed over the last five years.

It is now placed to take maximum advantage of the huge boost to competitiveness provided by the depreciation of the pound in recent months. It is poised to expand its share of world markets and to beat back the tide of imports that has been flooding in since the consumer boom began.

Industry has been spectacularly successful at putting its house in order, yet this success has gone largely unrecognised. Productivity rose by as much in the last five years as it did over the previous 15. Still more striking, since output began to recover after the recession of 1980-1, productivity has grown more rapidly in Britain than in any other major industrial country. As the table above shows, Britain tops the league by a substantial margin — but then it had further to go than its more efficient competitors.

Since 1981, productivity has advanced at 6% a year. Such a sustained improvement can only be explained in terms of changed attitudes towards innovation, improved industrial relations (as evidenced by a dramatic fall in the number of stoppages), and better-directed investment — in short, a whole series of changes add-



ing up to a revolution in Britain's industrial performance.

Productivity should rise by a further 6% this year, building on last year's spectacular advance, illustrated in the chart. But it may do better still. Manufacturing productivity is now over 7% higher than a year ago, and manufacturing industry has unparalleled opportunities to expand output rapidly so that productivity could grow even faster than it has been.

Britain's competitive position in international markets has been given a tremendous boost by the recent sharp depreciation of the pound, particularly against the European currencies. Sterling has

fallen by almost 25% against the D-mark over the last year, boosting British exports to the wealthy German market, and by slightly less against other EEC countries. This has provided a crucial competitive advantage since over 60% of our trade with developed countries is with the EEC.

The National Economic Development Council reported in December: "British unit labour costs in manufacturing, the best indicator of competitiveness, are now lower in relation to Germany's than they have been in all but six of the last 20 years." In sharp contrast to the position following all previous devaluations since the war, the competitive advantage industry now enjoys is unlikely to be eroded by inflation.

The conventional wisdom is that a lower exchange rate raises import prices, sparking

off higher wage claims and generating an upward spiral of costs and prices. This has been the consistent experience with devaluations over the last 40 years. But the depreciation of 1986 took place in uniquely favourably circumstances. There are important reasons for supposing that this time the competitive advantage it has conferred on industry will stick.

First, the impact of the fall in sterling on inflation was mostly wiped out by last year's collapse in oil prices. In addition, although the value of the pound has dropped dramatically against European currencies, it has risen modestly against the dollar. Since many of Britain's raw material imports are priced in dollars, this also helps to keep inflation down. So there is no reason this time why devaluation should kick off an inflationary spiral.

Second, as the chart illustrates, labour-cost inflation in manufacturing was subsiding rapidly through most of last year. Growth in unit labour costs reached a peak of 8% year on year, in March 1986. Since then, it has fallen steeply, and is currently estimated by Credit Suisse First Boston at 1.8%. While earnings in manufacturing have continued to grow quickly, productivity has grown even quicker so that unit labour costs have fallen back.

Unit labour costs should continue to grow at the current modest rate, or even less. The latest indications from the CBI pay databank are that some reduction in the level of settlements in manufacturing industry may be achieved this year (settlements fell from 5.6% to 4.6% between the third and fourth quarters of last year), and this combined with an excep-

tional productivity performance means that industry should at least preserve its competitive advantage.

In fact, it should do better than this because labour costs overseas are likely to rise more rapidly than in Britain. Industrial growth in Germany and Japan, in terms both of output and of productivity, is likely to fall well short of British industry's performance as the effects of the revaluations of the D-mark and the yen are increasingly felt — these currencies have doubled in value against the dollar over the last two years.

This means that although British industry is now 25% more competitive against Germany than it was a year ago, the gap, far from diminishing, will probably widen.

According to the NEDC, manufacturing industry has a margin of spare capacity of at least 10%, which will be augmented as the benefits of the high rates of investment in recent years come through. So there is every reason to expect a major step forward by British industry in world markets — and in the home market too.

There is one blackspot. The boost in productivity from the existing labour force reduces the need to take on extra workers, so do not expect a rapid decline in unemployment from this British mini-economic miracle. Long dole queues will be with us for sometime.

Take comfort, however, from the fact that, in the longer run, those countries with the highest productivity also have the lowest unemployment.



*purp*

FROM: JILL RUTTER  
DATE: 10 February 1987

MR CULPIN

cc:  
Principal Private Secretary  
PS/Sir Peter Middleton  
Mr Romanski

**CONTACTS WITH THE PRESS**

This is to inform you that the Chief Secretary spoke yesterday to the Eastern Daily Press and spoke on Radio Norfolk about the Government's proposals for reform of the planning regime announced by the Secretary of State for the Environment yesterday in the ALURE context. The Chief Secretary thinks he may get other local press interest in which case he would propose to respond positively to those requests, but these would be solely focussed on ALURE questions.

A handwritten signature in cursive script, appearing to read "Jill Rutter".

JILL RUTTER  
Private Secretary





FROM: MRS D C LESTER

DATE: 11 February 1987

*Mr Hudson*

MR CULPIN

✓

*Do you think you can leave  
pin go? I'm snowed under.*

*Re 11/2*

THE INSTITUTE OF ECONOMIC AFFAIRS

The Chancellor declined an invitation to attend the Institute of Economic Affairs' Anniversary dinner on 7 April as he will be in Washington. He has now received the attached letter inviting him to send a message of greetings to be printed in the programme.

2. He would be grateful if you would draft this please.

*Debbie Lester*

MRS D C LESTER

*2/20/87*



*AMP*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

12 February 1987

N Wick Esq  
10 Downing Street  
LONDON SW1

*Dear Nigel,*

Your letter of 9 February asked for a rolling diary every week, covering the following two weeks of all politically sensitive Treasury matters.

We have for the last two weeks been sending such a commentary to Bernard Ingham, which I understand followed a remit from an earlier meeting of the Prime Minister's Strategy Group. I enclose a copy of this week's edition.

I should be grateful if you could let me know whether in future you want us to send this weekly commentary to you, or whether you are content for it to go through the Press Office route - or indeed whether you had something different in mind.

*Yours  
Alec*

A C S ALLAN  
Principal Private Secretary





## H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000

Direct Dialling 01-270....5252

Bernard Ingham Esq  
10 Downing Street  
LONDON SW1A 2AA

12 February 1987

*Dear Bernard*

### PRESENTATIONAL OPPORTUNITIES AND PROBLEMS

Over the coming two weeks there are some items of Treasury interest which you may find it useful to have details of.

Next week sees publication of three major statistics:

- the PSBR (Tuesday 17th) will be the last published indication before the Budget of the path of Government borrowing
- preliminary 4th quarter figures for GDP (Wednesday 18th) will give the first estimated outturn for 1986 as a whole
- the provisional money supply figures (Thursday 19th) will also be keenly scrutinised for any clues they may contain to the contents of the next MTFS.

The Spring Supplementary Estimates (published on Tuesday 17th) contain no major news, and are entirely consistent with the revised spending plans for 1986-87 given in the Autumn Statement and the Public Expenditure White Paper.

The White Paper debate (likely, but not definitely fixed, for Wednesday 18th) will present Ministers with another opportunity to repeat the message of the Autumn Statement, and to attack Labour's spending plans.

In the following week, as of now there are no major Treasury events scheduled, apart from First Order Questions on Thursday 26th - the last before the Budget.

*Yours*

*Stephen Pickford*  
S J PICKFORD



DRAFT LETTER TO:

N Wicks

10 Downing Street

Your letter of 9 February asked for a rolling diary every week, covering the following two weeks, of all politically sensitive Treasury matters.

We have for the last two weeks been sending such a commentary to Bernard Ingham, ~~following a remit from the 'A-team'~~. I enclose a copy of this week's edition.

I <sup>sh</sup>would be grateful if you could let me know whether in future you ~~wish me~~ <sup>want us</sup> to send this weekly commentary to you, or whether you are content for it to go through the Press Office route. — or indeed ~~whether~~ you had something different in mind.

*Following a*  
which I understood ~~followed~~ a remit from ~~the~~ an earlier meeting of the Prime Minister's Strategy Group.



*A P Hudson*



FROM: A P HUDSON  
DATE: 13 February 1987

MR CULPIN

✓

cc Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

**INSTITUTE OF ECONOMIC AFFAIRS**

As you know, Lord Harris has invited the Chancellor to send a message of greetings to the Institute of Economic Affairs, which they would print in the programme for their 30th Anniversary dinner.

2. I suggest something along these lines:

"There has been no keener proponent of the values of freedom and choice than the IEA, its tireless advocacy reinforced by highly respected research. It has made a distinctive contribution to the transformation of the climate of ideas in our country."

3. I discussed this briefly with Mr Cropper, and he and others may have further ideas.

*Can you work in this thought? -*

*APH*

A P HUDSON

*30 years ago voice in wilderness (something as stark)  
Now the new international consensus  
Tide still flowing...*

*Re 16/2 40/2*



Media

From : M.LAWSON  
Date : 23 February 1987

MR KEMP

c.c. PS/Chancellor  
PS/CST  
Sir P.Middleton  
Mr F.E.R.Butler  
Mr Anson  
Mr Gilmore  
Miss Peirson  
Mr Gilhooly  
Mr A.White  
Mr Enderby  
Mr P.Russell  
Mr Sharratt  
Mr S.Willis

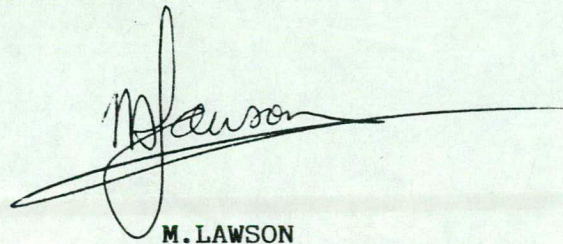
TSRB : HARDSHIP ALLOWANCE FOR NORTHERN IRELAND JUDGES

Mr Halligan thought you might like a sight of the press cutting below in connection with the recent papers on the hardship allowances.

"Times" Saturday 21 February 1987

An RUC officer was injured last night when grenades were fired during an attack on the north Belfast home of a Roman Catholic judge, currently hearing a terrorist trial.

The officer was hit in the arms and legs when a permanent security hut in the grounds of Mr Justice Ian Higgins's home was attacked. His condition was described as "not serious".



M.LAWSON



WITH COMPLIMENTS

*Lord Hanson*

✓





1 Pennington Street, London E1 9XN Telephone: 01-481 4100

## LETTERS TO THE EDITOR

### Control of mergers

*From the Chairman of Hanson Industries*

Sir, I was struck by the observation in Mr Michael Grylls's letter (January 22) that "leaving the majority of large-scale mergers to the market is a luxury no successful industrialized country has ever afforded".

As a businessman active in the United States for the past dozen years, it set me thinking whether he was right as regards the United States. It seems to me that, apart from competition issues, the US does afford itself the luxury, if that be the word, of leaving large-scale mergers to the market.

The reservation, "apart from competition issues" is, of course, very important. The Americans have long recognized that the crux of the matter is the preservation of competition. Government here has very wide powers to prevent anti-competitive transactions and the present Administration is firmly committed to using these powers in the context of mergers as changing circumstances require.

However, as a representative of the Department of Justice explained to a sub-committee of the House of Representatives in March last year, this is done in the wide recognition "that mergers can and often do perform beneficial functions in the economy". He went on to say:

In enforcing the merger laws, the Government does not and cannot second-guess business decisions unless there is a demonstrable harm to competition. Thus [the Department of Justice] challenges only those acquisitions that are likely to have an adverse effect on competition.

It might be argued that the courts in the United States in practice exercise a closer supervision over mergers than do the courts in the United Kingdom. Indeed, in some recent takeovers, they have gone beyond interpretation of existing law into the area of making new law for particular instances, in a way which might seem to amount to regulation. But again, the courts have consistently favoured competition and the market.

When Parliament comes to deliberate on what Mr Grylls very

rightly described as the vital subject of competition policy, it would be good if it would ensure that such policy addressed itself purely to competition and did not attempt to strike a balance between competition and some wider and undefinable "public interest".

The example which he cites in his letter about research and development expenditure illustrates the difficulties we shall otherwise run into. We ask too much of public servants or ministers if we expect them to decide whether this or that research programme will in the event ensure long-term profitability.

We can all recall some pretty disastrous research and development decisions made by different governments in the past. I have sufficient confidence in the market to believe that this kind of decision is best left to the risk-taking entrepreneur.

Yours faithfully,  
GORDON WHITE, Chairman,  
Hanson Industries,  
410 Park Avenue,  
New York, NY 10022.

MONDAY FEBRUARY 16 1987



## More power to the batteries

I read with great interest Katharine Whitehorn's column (25 January) headed 'Making Money not Wealth.'

I must take serious exception to the very clear inference that Hanson Trust took over Ever Ready and then produced increased profit by the simple expedient of closing down its research and development centre.

The reality is that Ever Ready, since joining Hanson Trust, has moved its research and development activities away from a central ivory tower and back to the production units and the real world where it can be assured that research and development

is devoted to the successful and profitable development of the company's products.

The success of this policy can be demonstrated by the launching of two totally new battery ranges by Ever Ready since the takeover—Gold Seal and Silver Seal and by material improvements in the range as a whole. This, coupled with massive increases in marketing support has led to the acknowledged success that Ever Ready has achieved in restoring the name and fortune of the business.

This is not 'creative accountancy,' this is sheer hard work by management and the employees of a very successful British-based manufacturing company.

A. G. L. Alexander,  
Director, Hanson Trust PLC.



3217/17

*[Handwritten mark]*

MR CULPIN

FROM: P J CROPPER  
DATE: 16 FEBRUARY 1987

*cc* → cc Mr Hudson ✓  
Mr Tyrie ←  
Mr Ross Goobey

INSTITUTE OF ECONOMIC AFFAIRS

An alternative formula for the IEA dinner:

"Through the dark days of Britain's flirtation with Socialism, the IEA kept the flag of economic freedom flying. It has earned its reward. Today there is no more highly respected research organisation (in the western world) than the IEA. Its tireless advocacy of free markets and the rigour of its arguments have given it a position of unparalleled influence in our public affairs."

63

*[Signature]*  
P J CROPPER

*San 3 things I may be, ~~but she told~~  
but I don't think we can go this far!*

*Andrew.*





FROM: A P HUDSON

DATE: 16 February 1987

MR CULPIN

cc Mr Cropper  
Mr Tyrie  
Mr Ross Goobey**INSTITUTE OF ECONOMIC AFFAIRS**

Thank you for your suggestion of contrasting the "voice in the wilderness" with the "new international consensus". How about this?

"30 years ago, the IEA was almost alone in proclaiming the values of freedom and choice. Today, these values are at the heart of a new international consensus. Through its tireless advocacy and rigorous argument, the IEA has had an enormous influence in the turning of the tide, [a tide which is still flowing in the direction of freedom]."

2. This is a similar theme to the one in Mr Cropper's 16 February minute. I see no reason not to give the Chancellor both versions.
3. I should have mentioned that we are asked for 30-40 words, and the versions so far have been on the long side.

A handwritten signature in black ink, appearing to be "A P HUDSON".

A P HUDSON



CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 13 March 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 Mr Phillips  
 Mr Culpin  
 Mr Savage  
 Mr Macpherson  
 Mrs Chaplin  
 Mr Tyrie  
 Mr Call

*Can I see  
 pp 3 pl  
 M*

Mr Isaac - IR  
 Mr Corlett - IR  
 Mr Bush - IR  
 Mr Kuczys - IR  
 Mr Walker - IR

## TAX RELIEF FOR PRIVATE MEDICAL INSURANCE

The Chancellor has seen Mr Walker's note of 10 March.

2. The Chancellor has noted Mr Kuczys' manuscript comment that there might be a criticism that excluding such benefits will increase premiums. He has commented that what keeps premiums low is the point noted in Mr Walker's paragraph 2, ie that in many of these contracts private medical treatment will be paid for by the insurer only if free NHS treatment is not available within, say, six weeks; and he has no objection to that. What we are talking about is the cash paid when the individual is cared for by the NHS - and here the higher the amount of cash the higher the premium, surely. In this context a de minimis figure of £5 a night seems a sensible limit. He realises there may be some pensioners who, even if free NHS treatment is not available within six weeks would opt to wait longer (rather than go private) and pocket the £25 a week. But there cannot be very many of these, and in any event to encourage this via tax relief would be wholly inconsistent with Government policy.

A handwritten signature in dark ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR



SPARE

1420hrs  
October 12 1989

Rt Hon Nigel Lawson MP

204/89

CHECK AGAINST DELIVERY

Extract from speech by Rt Hon Nigel Lawson MP (Blaby), Chancellor of the Exchequer made at the 106th Conservative Party Conference at the Winter Gardens, Blackpool on Thursday, October 12 1989.

I warmly welcome this motion, with its emphasis on the paramount need to fight inflation.

Indeed, that is why I raised interest rates to 15 per cent last week.

It was not a decision I took lightly.

But it had to be done.

Of course, I knew it wouldn't be popular.



But anyone who becomes Chancellor in order to be popular has chosen the wrong job.

I have only one ambition in politics.

That is the long-term well-being of the British people.

There is no greater threat to that well-being than inflation.

Inevitably people ask whether there is an alternative to high interest rates at the present time.

And whether they can be sure that the policy will work.

Bluntly, the answer is that there is no alternative and the policy will work.

I realise the problems high interest rates cause to homeowners particularly with large mortgages, and to many small businesses.

But the damage caused by high inflation would be far, far worse.



As the old saying has it, inflation is caused by too much money chasing too few goods.

It's the job of business and industry to supply the goods.

The Government's job is to see that there isn't too much money.

That's what we were elected to do, and you can be quite sure we'll see the job through.

Let me be plain about it.

In a modern economy, that means you have to curb borrowing.

And the only effective way to do so is to make it more expensive.

So that's what I have done - and I have done it for exactly the same reasons as have my opposite numbers in Germany, France, Holland, Belgium and Switzerland, to name but a few.

Let me be plain about this too.



No less than 85 per cent - 85 per cent - of household borrowing is on mortgages.

So there is no way to curb borrowing without higher mortgage rates.

I don't like it, but that's the truth.

Labour claim that you can do it by direct credit controls.

That is nothing but a cruel deception.

What would they do?

Tell ordinary people they simply can't have a mortgage at any price?

And controls on other forms of consumer credit would be nothing more than a vain attempt to get the tail to wag the dog.

And they would be child's play to get around.

No, credit controls simply wouldn't work.



Nor is there any salvation in the rake's progress of perpetual devaluation.

We know that's Labour's way.

It always has been.

And it's been tried and it has failed.

All it does is to raise the price of things we buy from abroad.

And that means more inflation.

In the world in which we live there are bound to be periods of turbulence on the foreign exchange markets from time to time.

We've been through them before.

But the Conservative Party never has been, and never will be, the party of devaluation.



The plain truth is that there are no easy answers.

But I give you this pledge.

I will continue to take whatever action is needed, however unpopular it may be, to keep our economy sound and strong.

Of course, that's not all.

High interest rates don't just curb borrowing.

They reward saving too.

Perhaps the worst cruelty of the seventies was that high inflation and low interest rates robbed pensioners of their lifetime savings.

In the eighties, they've been getting a decent return.

And quite right too.



And now, with the abolition of the pensioners' earnings rule this month, which I announced in my Budget in March, they won't be penalised for working, either.

The greatest disincentive to saving is faced by married women.

The taxman still counts all their savings as if they belonged to their husbands.

That's gone on for two centuries.

I'm ending it next year.

And about time too.

That means that, from next April, married women will be free at last to keep their own savings, entirely separate from their husbands.

And if they have modest savings, and no other income, they need pay no tax at all.



But it's interest rates that, in a free society, remain the key.

And they are working.

When we met at last year's Conference I said this:

"In a sophisticated economy like ours, economic measures inevitably take time to have their effect.

But have their effect they will, and during the course of next year we shall see inflation turn down again."

And this indeed has happened, with inflation peaking in may.

A peak, I may add, at a lower underlying rate than Labour ever achieved, even in their very best month.

What would have been unimagined success for Labour is not good enough for us.

But I have to admit that, though things are moving in the right direction, it's proving a slow process.



The reason for that is clear.

We under-estimated the enormous vigour and strength of people's desire to get moving again once we had set Britain free from the burdens and shackles of the Labour years.

Privatisation, trade union reform, deregulation and tax reform have produced a dynamism that has surprised the world - yes and ourselves, too.

There is no precedent in living memory for the eight years of sustained growth and surging prosperity that Britain has enjoyed with this Conservative Government.

We don't need statistics to prove it.

We see it all around us every day.

New buildings everywhere - new factories, new offices, new supermarkets.

New companies starting up - more than a thousand every week.



New jobs - with more people in work than ever before in our history and unemployment well below the European average.

It has been a rebirth - and all the more vigorous for being so long overdue.

And that vigour has been reinforced by something else.

Something really new: confidence.

A belief in Britain's future.

A belief that it is worth planning and investing not just for the next year but for the next decade and the next century.

As a share of our national income, business investment is now higher than at any time since records began, with manufacturing investment growing particularly fast.

And this, of course, is what will provide us with the exports of the future.



And let us not forget that no less than three-quarters of the imports of manufactured goods into this country are for production and investment, rather than consumption.

Nor is this upsurge in investment a flash in the pan.

Over the eighties as a whole, investment in Britain has grown about twice as fast as consumption, and faster than in any other major European country.

A far cry from the sixties and seventies.

Indeed, the vigour of the new Britain presents us with a short-term problem which the last Labour Government would have given their eye teeth to have.

Of course, it is true that much of British business and industry needs to make itself still more efficient and still more competitive.

But that is no reason whatever to belittle the transformation that has already occurred.



Compared with the debilitated Britain of ten years ago, on the threshold of the 1980's, the Britain of today is incomparably better placed to face the challenges and grasp the opportunities of the 1990's.

Nor has this strength been achieved by the artificial boost of Government borrowing.

(You remember how they used to tell us that was the only way?)

On the contrary; we have turned a budget deficit into a budget surplus, and for the first time in living memory we are year in, year out, repaying the National Debt.

No, the underlying strength of the British economy today is real and lasting, and the foundation for our confidence in the future.

This hasn't come about by accident.

It's come about because we have the right policies, and the courage to see them through - and British business and industry has risen to the challenge.



Our most pressing task now is to see to it that inflation is brought down still further.

To achieve this, there will need to be a period during which growth slows down, and with it the growth of imports.

But there is no need whatever for this to mean recession, providing business and industry keep a firm control of their costs, including wage costs in particular.

So when will interest rates start to come down again?

Just as soon as it is safe for them to do so but not before.

We will take no risks with inflation.

So obviously I cannot give you a date.

There are too many forces we do not control - nor indeed seek to control.

A free country in a free world is always at risk from high winds and rough seas.



Calm waters belong only to stagnant pools, and there is nothing stagnant about the new Conservative Britain.

But it is clear that the economy is already responding to the measures we have taken, and I have no doubt that it will come right in good time.

It's not as if this is the first problem we've faced, by any means.

Remember 1981 when 364 economists told us the recession would never end if we continued with our policies.

They were wrong.

We did stick with the policies and the economy has forged ahead ever since.

Or remember 1985.

It was highly unpopular then to raise interest rates to 14 per cent, but we faced up to that unpopularity and inflation duly came down.

Year in, year out, we have had problems to contend with.



And we have surmounted them all.

In the year since we last met we have seen the most momentous and indeed historic development.

The emerging collapse of socialism in its very heartland - in Eastern Europe.

No one can fail to be impressed, moved and yes, excited by recent events in the other half of our continent.

The emergence of a non-communist led Government in Poland.

The move towards democracy in Hungary.

The migration of tens of thousands of East Germans to the West in eager search of freedom and the growing protests of those who have remained there.

At long last even the rulers of Eastern Europe have been forced to recognise the failure of their system.



That socialism is economic poison and the more you have of it the worse it is.

So we in the Conservative Party wish the people of Eastern Europe well as they take their first faltering steps out of the long dark night of socialism towards the bright light and fresh air of a free world.

It will not be easy.

We will do all that we can to help them.

Socialism is like a drug.

It weakens the body, it creates dependency, and the hardest time to kick it is at the beginning of the cure.

But once you're off it, you realise that you've woken up from a nightmare.

What will sustain the reformers of Eastern Europe is that great yearning for freedom that has started them off.



And it is significant that for many of them, the beacon light is Britain - yes, Margaret Thatcher's Britain.

We showed that at least the British version of socialism could be reversed and that a nation could win back its prosperity and its pride.

Our task now is to carry that success through into the 1990's and beyond.

I'd like to tell you that the war is won, but it is not.

The last ragged army of old fashioned socialism is still there on the Labour front bench hoping that their day will come.

It is up to us to fight with all our strength to make sure that day never dawns.

Our country demands no less.

ENDS.





Chancellor.

For information. In  
has want to check  
with Michael Newton on  
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were advised to reply.



## Conservative Research Department Brief

'COSMOPOLITAN' MAGAZINE QUESTIONNAIRE

Prepared For:

INFORMATION FOR MEMBERS OF PARLIAMENT

Contents

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## 'COSMOPOLITAN' MAGAZINE QUESTIONNAIRE

This note has been prepared by the Research Department for the assistance of Members of Parliament and Prospective Parliamentary Candidates who will have received a letter sent of behalf of Miss Emma Nicholson covering a questionnaire from Cosmopolitan Magazine.

1. 'The view of women as dependent on their husbands should be eliminated and the individual should be the unit of taxation'.

### Government Action.

In the forward to the Green Paper 'The Reform of Personal Taxation' published 18 March 1986 Mr Nigel Lawson, the Chancellor of the Exchequer stated:

'The present system denies them (married women) independence and privacy in tax matters. It can create a tax penalty on marriage, and the structure is hardest on married couples at just that time when, for example, they have the responsibility of a young family ... and the wife is least able to take paid work.

The Green Paper aims to produce a system which would:

- treat married women as responsible adults in their own right;
- recognise the financial position of married couples with only one earner;
- remove the incentives to stay unmarried.

Mr John MacGregor, Chief Secretary to the Treasury, has described the Green Paper as producing:

'a system which recognises the institution of marriage, and the dependency that can entail 'while still offering' a way forward out of the present pre-Victorian absurdities' (HM Treasury Press Release, 11th September 1986).

The consultation period has now ended and the Government is considering its response.

2. 'Allocation of sufficient money for an efficient national programme of screening for cervical and breast cancer'.

### Government Action.

Cervical Cancer. The Government attaches the highest priority to adequate screening against cervical cancer as an important preventive health measure. The Government's primary aim is to have a screening service which is both efficient and effective. Advice issued in 1984 and again in 1985 stressed that health authorities are to give a high priority to improving their cervical screening programme and to report urgently on its implementation. In particular health



authorities have been asked to install computerised call, as well as recall, systems where they have not done so, to improve the effectiveness of the laboratories for processing smears; to explore ways of ensuring that there is an effective follow-up of abnormal results and to develop more ways of offering tests to older women.

Mr Norman Fowler, Secretary of State for Social Services, speaking at the 1986 Party Conference, stressed the importance the Government places on an adequate screening programme when he said:

'I am conscious of the particular and justified concern that millions of women have about cancer ... within 2 years there must be call and recall systems in every health district. And equally I intend that we should end delays - frequently too long - in processing the results of a smear'.

Breast Cancer. The Government is anxious to promote a reliable and accurate method of screening for breast cancer. To see how this can best be achieved, a Government working party was established in 1985 to make urgent policy recommendations. The preliminary view of the group was that screening for the over 50s should be introduced. The final report was drawn up at the end of 1986 and the Government's response is expected shortly.

These positive measures in these 2 important areas reflect the Government's continuing commitment to the Health Service. Expenditure on the Health Service has grown from £7,750 million in 1978-9 to £18,900 million in 1986-7. This is an increase of 26 per cent in real terms. As Mr Fowler has said:

'The fact is that more resources are being devoted to health than at any stage in the history of the Health Service' (Bournemouth, 8th October 1986).

3. 'Commitment to a national provision of better services for those least able to look after themselves - disabled, mentally ill, those recently discharged from hospital, psycho-geriatric patients and the elderly, so that women are not compelled to assume care for dependents'.

#### Government Action.

The 1983 Conservative Manifesto stated:

'Most people who are ill or frail would prefer to stay in or near their own homes rather than live in a hospital institution. Helping people to stay in familiar surroundings is the aim of our policy 'Care in the Community'. The Government has given extra powers and extra cash to help authorities to enable them to finance such community care for individual patients on a long-term basis'.



Of course, no one pretends that services cannot be further improved: but there have been significant improvements in community services aimed at helping those discharged from hospitals. For example:

- the number of elderly cases treated by District Nurses has risen by 28 per cent since 1978;
- attendance at geriatric day hospitals has risen by almost 20 per cent since 1978;
- expenditure on community health services for mentally ill and mentally handicapped people has risen by 10 per cent in real terms since 1979;
- personal social services expenditure on residential and day care services for mentally ill and mentally handicapped people has increased by some 40 per cent in real terms since 1979.

Mr John Major, Minister of State for Social Security and the Disabled, has stressed the Government's commitment to the support of disabled people:

'This Government has no doubt that disabled people have the same right to fulfil their potential in society as anyone else and we accept the obligation to help them do so' (Bournemouth, October 1986).

In keeping with this commitment expenditure on benefits for disabled people now amount to some £6 billion. This represents a 75 per cent increase in real terms since 1978-9.

- Mobility allowance was made tax free in 1982.
- Severe disablement allowance was introduced in 1984. This replaced the non-contributory invalidity pension and housewives' non-contributory invalidity pension and abolished the greatly resented household duties test.
- The invalidity trap which denied the long-term rate of supplementary benefit to 55,000 sick and disabled people was abolished in 1983.
- Eligibility for invalid care allowance has twice been extended - in 1981 to non-relatives and most recently to 70,000 married women with payment backdated to December 1984.





FROM: A C S ALLAN  
DATE: 3 MAY 1989

PS/ECONOMIC SECRETARY

cc Mr Gieve

*Can't see pps  
in*

**GAVYN DAVIES ON SUPPLY SIDE REVOLUTION**

The Chancellor has seen Mr Barrie's note of 28 April commenting on Gavyn Davies' evidence to the TCSC. He would be grateful for any ideas on how this material might best be used.

A handwritten signature in black ink, appearing to read 'A C S Allan', with a long horizontal stroke underneath.

A C S ALLAN