

PREM 19/1107

Office, CSD and No 10 briefing prepared for Mrs Thatcher on her assumption of office.

PRIME MINISTER

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.5.79.							
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cc Mr Flecker.

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

I attach a note on the Prime Minister's office which I have prepared against the contingency of the arrival of a new Prime Minister. If you have any comments on it, I should be grateful if you could let me know by close of play on Wednesday 8 June.

E. E. R. BUTLER

6 June 1983

Ref. A083/1612

MR BUTLER

Thank you for your minute of 6 June, and for the attached note on the Prime Minister's office.

2. The note itself seems admirable, and I have no comments on it.
3. I think something has gone wrong with the organisation chart at Annex C. It suggests that the Prime Minister's political and constituency office and her policy advisers (as well as you and Mr Ingham) report through me. I suggest that the lines from the political and constituency office to the policy advisers ought to go direct to the Prime Minister; and that there should be only a dotted line between you and Mr Ingham on the one hand and me on the other, and between me and the Prime Minister. If the Prime Minister then needs a further explanation of the relationship between the Prime Minister, the Secretary of the Cabinet and the Head of the Civil Service, and the Principal Private Secretary, we can supply it.

RA

ROBERT ARMSTRONG

8 June 1983

PM May 79
Briefing on assumption of office

Ref.A083/1508

MR BUTLERPost-Election Briefing

Your minute of 17 May asked about the briefing which would be submitted either to Mrs Thatcher if she is returned or to an incoming Prime Minister after the General Election.

Procedural Matters

2. There are a number of matters which do not fall strictly under the heading of briefs but which will need to be dealt with urgently, particularly if there is a change of Government. These are listed at Annex A.

3. If Mrs Thatcher is returned we shall not need to reauthenticate the seal of the Minister for the Civil Service or to draw her attention to the security aspects of Ministerial appointments, although I will provide you with an up-to-date nominal roll after the Election. Equally, the submissions to Mrs Thatcher on Official Residences, Travel by Ministers and Questions of Procedure may well be very short. There would be no need for a wholesale reorganisation of the Cabinet Committee structure in the event of a Conservative victory, but a complete set of newly reconstituted Committees would need to be set up, and the choice of a new Cabinet would provide a natural opportunity to review the present structure and composition of Committees. I may wish to suggest a number of changes particularly on the economic side, on lines which we briefly discussed with the Prime Minister some time back.

4. The briefs on the Ministerial framework and transfer of functions are of course relevant to the formation of any Government, but I doubt whether it will be necessary to show the Prime Minister, whoever it may be, more than the summary of the Ministerial framework paper. I shall let you have up-to-date versions of both shortly, to have to hand and for your own use in advising the Prime Minister.

Subject Briefs

5. Annex B lists the briefs that would be submitted to an incoming Prime Minister (indicating which briefs would be provided for a Labour and for an Alliance Government). Annex C lists those few briefs that I would expect to submit to Mrs Thatcher if she were



returned; otherwise I would expect issues to be addressed in the normal course of business.

6. Although I expect the list at Annex B to cover all the areas on which briefing would be submitted to an incoming Prime Minister, it is possible that the titles of individual briefs will vary slightly or that one or two subjects may be combined.

7. We are undertaking a considerable amount of contingency work on possible machinery of Government changes but I would expect to submit briefs to an incoming Prime Minister immediately on only those machinery of Government changes to which his Government was specifically pledged in their Manifesto. Again, if Mrs Thatcher is returned, I may wish to suggest one or two minor machinery of Government changes.

Re

Approved by
ROBERT ARMSTRONG
and signed in his absence.

25 May 1983

Procedural Matters

1. Security Aspects of Appointment of Ministers and Parliamentary Private Secretaries
2. Appointment of a Queen's Speech Committee ✓
3. Questions of Procedure for Ministers ✓
4. Travel by Ministers ✓
5. Allocation of Official Residences ✓
6. Cabinet Precedence and Seating Plan
7. Cabinet Committee Structure
8. Authentication of the Seal of the Minister for the Civil Service
9. The Ministerial Framework ✓
10. The Transfer of Ministerial Functions ✓

NOTES

1. The submission on the Queen's Speech Committee will include a first draft of the Speech.
2. The submission on Questions of Procedure will, in the case of a new Government, cover specifically the role of Special Advisers.

Briefs for an Incoming Prime Minister

	<u>Labour</u>	<u>Alliance</u>
1. Summary and Timetable of Urgent Economic Issues	✓	✓
2. Budget	✓	✓
3. Public Sector Pay	✓	✓
4. National Economic Assessment	✓	✓
5. Incomes Policy	X	✓
6. Co-ordination of European Community Policy	✓	✓
7. Withdrawal from the European Community	✓	X
8. Main European Community Issues	✓	✓
9. European Community Budget	✓	✓
10. East-West Relations	✓	✓
11. Cruise Missiles/Arms Control Negotiations	✓	✓
* 12. Nuclear Release Procedures (including UK/US Understandings)	✓	✓
13. Future of the Nuclear Deterrent	✓	✓
* 14. Intelligence	✓	✓
* 15. Subversion	✓	✓
16. Northern Ireland	✓	✓
17. House of Commons Procedure	✓	✓
18. Open Government/Official Secrets Act	✓	✓
19. Personnel and Physical Security	✓	✓
20. Senior Appointments Selection Committee	✓	✓
21. Public Appointments	✓	✓
22. Honours	✓	✓
23. Advisory Committee on Business Appointments	✓	✓
24. House of Lords Reform	✓	X
25. Proportional Representation	X	✓
26. Devolution	✓	✓
27. Individual Machinery of Government Changes	✓	✓
28. CPRS	✓	✓

Notes

1. Separate Labour and Alliance briefs are being prepared where there are clear policy differences; "factual" briefs will be the same.
2. Briefs marked * will be Top Secret.

ANNEX C

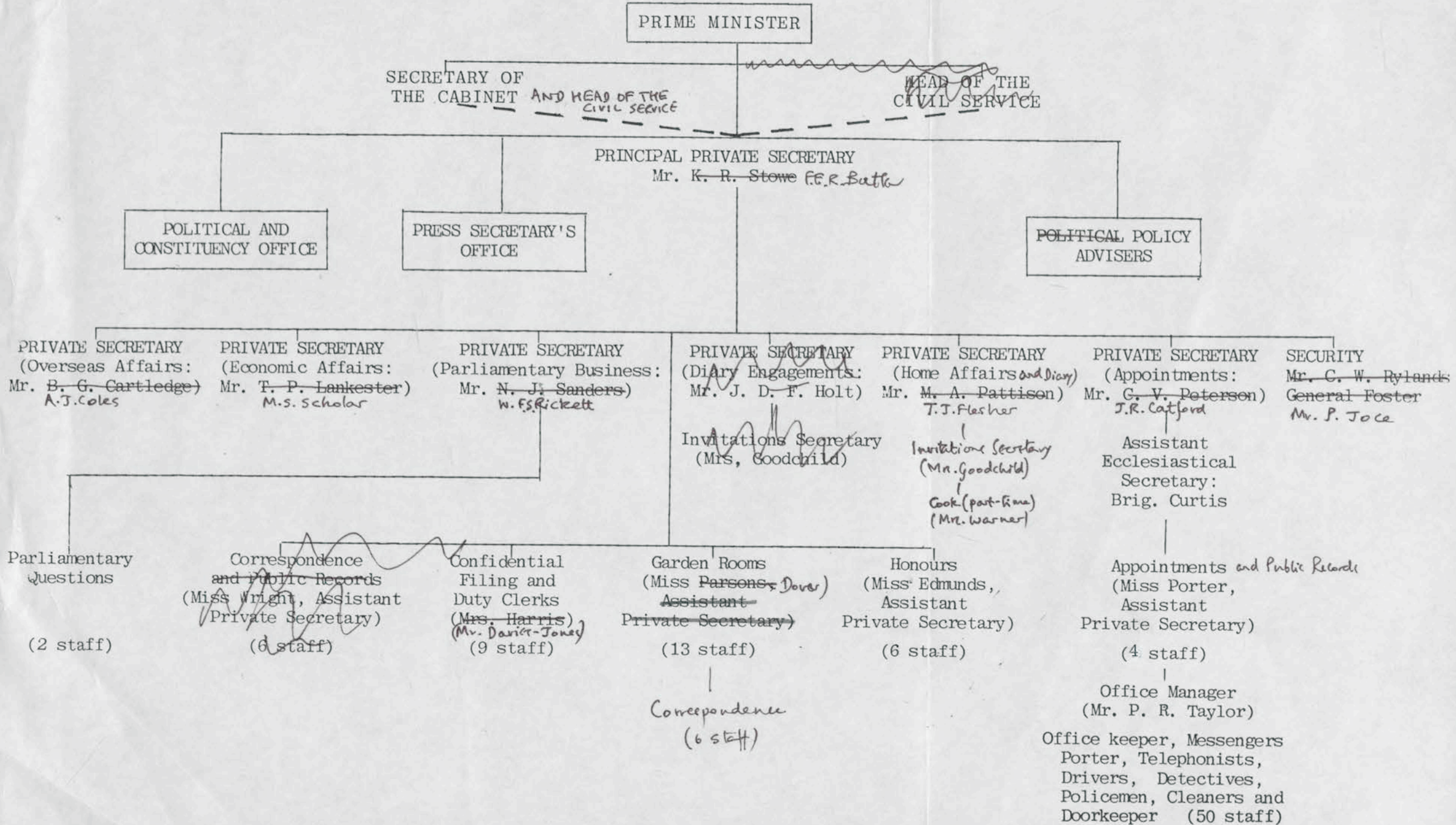
Briefs for A Returned Conservative Government

1. Summary of Urgent Economic Business *kt Hong*
2. Summary of Urgent OD Business
3. Machinery of Government Matters *lst King*

Note

1. Urgent European Community issues will be covered as part of the briefing for the European Council on 17-19 June.

PRIME MINISTER'S PRIVATE OFFICE



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J. C. AA

*PM
May 79.*

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Could you please let me know in due course what subjects you expect to be covering in briefs for either Mrs Thatcher or an incoming Prime Minister after the General Election.

F.R.B.

17 May 1983

AA

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Prime Minister,



10 DOWNING STREET

From the Principal Private Secretary

SIR JOHN HUNT

Briefing for the Prime Minister

The Prime Minister has now read through all of the briefing on policy issues which you submitted to her. She said to me last night that she had found all of this of enormous value and was very grateful indeed to you and all of those who had put so much work into it. She particularly asked me to say how impressed she was by the summary brief which was at the beginning of your material: she thought it was a masterly analysis and intends to use it this afternoon in talking to her Cabinet colleagues.

K. R. STOWE

8 May 1979

MC

2
PRIME MINISTER

I attach copies of the initial briefing and submissions from Sir John Hunt and Sir Ian Bancroft.

I have divided this material into three groups:

- (i) In the maroon folder you will find briefs from Sir John Hunt on a variety of urgent policy matters, including economic, home and foreign issues.
- (ii) In the manilla folders are separate submissions from Sir John Hunt and Sir Ian Bancroft on a number of matters on which early decisions are desirable, so that action can be set quickly in hand.
- (iii) I shall be submitting to you separately some highly classified material on certain other matters.

M. J. SANDERS

4 May 1979

~~MR STOWE~~*All of these have been submitted separately.**PA*

SUBMISSIONS FOR THE PRIME MINISTER

MS 4/5

I am all too conscious of the need to avoid burdening the Prime Minister with yet further submissions at this stage. I am not therefore sending you for the moment any briefing on the Prime Minister's general responsibilities for the Civil Service Department, as Minister for the Civil Service. I will be happy to do so later, as required. But I fear that on a number of issues related to the work of this department the Prime Minister will need to take early decisions, on some important, mainly "domestic and housekeeping", matters.

... I therefore attach submissions on the following subjects:

- a. Special Advisers
- b. the rules for travel by Ministers
- c. the allocation of official residences
- d. honours
- e. public appointments
- f. senior appointments in the Home Civil Service.

I am afraid that to enable the necessary guidance to be issued as soon as possible, I need to know urgently the Prime Minister's views on a. b. and c. It would also be most helpful to have as soon as possible the Prime Minister's decision on the handling of this year's birthday honours list. In slower time I would be grateful to know if the Prime Minister is content with the arrangements described in e.

If it would be helpful, I would be happy to wait on the Prime Minister to discuss any of these matters.

IB

IAN BANCROFT

4 May 1979

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MR STOWE

SUBMISSIONS FOR THE PRIME MINISTER

I am all too conscious of the need to avoid troubling the Prime Minister with still more submissions at this time. But I fear that there are some issues on which it would be most helpful to have an early decision.

... I therefore attach submissions on the following:

- a. Special Advisers
- b. the rules for travel by Ministers
- c. the allocation of official residences

I would be glad to know the Prime Ministers's views on the points covered in a. b. and c. as soon as possible.

I would also be glad to know very urgently how he would wish to handle the Birthday Honours, in relation to the points made in my minute of 12 April.

I have also set out for consideration in slower time, some points ... on public appointments in the short brief attached.

If it would be helpful, I would of course be pleased to wait on the Prime Minister to discuss any of these points.

IB

IAN BANCROFT
4 May 1979

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MR STOWE

SPECIAL ADVISERS

The employment of Special Advisers is a matter on which the Prime Minister's personal views are essential. Experience has shown that early supervision from No 10 reduces the issues which need to be referred to the Prime Minister for resolution later. With this in mind I submit under this minute a paper on the issues involved. I should like to draw the Prime Minister's attention to the conclusions reached.

2. First, the Prime Minister will wish to decide what arrangements should be made about the pay of Special Advisers. Previous arrangements have not been entirely satisfactory and I should like to suggest the alternative scheme which is described in the paper. This incorporates a wide range of starting pay, a measure of incremental progression and annual increases where appropriate.

3. Secondly the Prime Minister will wish to decide whether to authorise the issue of the revised Memorandum of Arrangements attached to the paper. This codifies earlier practice and on this basis promulgates the rules which Ministers should follow when they appoint Special Advisers. In the absence of the Memorandum, of a decision on the pay regime, and of letters of appointment drafted in accordance with it, early appointments might be concluded in a way which could create difficulties in future.

4. I would be grateful for an early indication of the Prime Minister's wishes.

IAN BANCROFT

4 May 1979

SPECIAL ADVISERS

Introduction

This paper concerns the employment of Special Advisers to Ministers, seeks the Prime Minister's consent to the issue of a revised Memorandum on the subject to Ministers, and proposes some modifications in the pay regime to which Special Advisers are subject.

Background

2. Special Advisers are directly appointed by Ministers, are members of the Home Civil Service, and are paid from public funds. Their benefits of service take account of those of other members of the Home Civil Service. Special Advisers are entitled to the same allowances as other civil servants; they are covered by Civil Service superannuation arrangements; some of them are paid ad hominem rates and some are paid as if they were members of broadly equivalent Civil Service grades. But where it is desirable, a measure of latitude has been provided to enable them to fulfil the full range of their duties. Thus they have had rather more freedom to participate in political activities than have other members of the Home Civil Service in similar positions of proximity to Ministers.

The Memorandum to Ministers

3. The arrangements governing the employment of Special Advisers have been subject to some change and development since they were last promulgated in full in December 1974. A revised Memorandum

of arrangements which consolidates past practice and brings it up to date is attached. The main changes concern Special Advisers' tenure of their appointments, the procedure for their appointment, the rules governing conduct and the terms on which severance pay is payable.

Tenure

4. Special Advisers are one of a small number of groups of civil servants who are directly appointed by Ministers and whose appointments fall outside the responsibility of the Civil Service Commissioners as it is legally defined in the Civil Service Order in Council 1978. This ensured that there would be no question of Special Advisers' appointments being terminated solely on the grounds of their having served for five years.

5. The 1974 Memorandum of arrangements did not clearly specify the occasions on which a Special Adviser's appointment is automatically terminated. The attached draft Memorandum makes it explicit that these are:

- (i) with the end of the Administration under which they were appointed, that is, when the Prime Minister resigns; or
- (ii) when there is a General Election, on the day after Polling Day; or
- (iii) when the appointing Minister leaves his appointment;

whichever of these eventualities occurs first.

6. It has been felt desirable that the Prime Minister should have the opportunity to review all Special Adviser appointments

in the circumstances described in (i) and (ii) above, even when the same Ministers may be continuing in office, in order to retain maximum flexibility in making appointments. The provision at (iii) above reflects the point that a Special Adviser is the personal appointee of one Minister and may or may not be able appropriately to serve another.

Appointment Procedure

7. The draft Memorandum includes provisions for ensuring that the Civil Service Department is consulted before any commitment is given to an appointee as to pay, and for improving the information about appointments which is available to CSD for the purpose of answering Parliamentary Questions and other queries.

Conduct

8. Special Advisers who are civil servants are generally subject to the same rules of conduct as other Home Civil Servants; the attached draft Memorandum states the exceptions, notably those relaxing certain aspects of the rules governing political activities, which have not hitherto been formally promulgated. The Report of the Armitage Committee on the political activities of civil servants (Cmnd 7057) has suggested rules for Special Advisers separate and distinct from those applicable to career civil servants, but it is recommended that consideration of this proposal await the outcome of discussions with the Staff Side on the Report's main recommendations. Guidance also included in the draft Memorandum is intended to clarify the principle that official resources must not be used for solely Party' purposes.

Severance Pay

9. The draft Memorandum makes it clear that special severance payments are payable when termination of an appointment is brought about automatically by any of the circumstances described at paragraph 5 above; also when a Special Adviser resigns to take part in an election campaign or resigns, as he must do under the terms of the Servants of the Crown (Parliamentary Candidature) Order 1960, on becoming a parliamentary candidate or prospective candidate. The severance payment is calculated on a scale according to age and length of service. Those aged under 34 receive a payment equal to three months' pay; those aged 35 or over receive three month's pay with an extra month's pay for each completed year of service after the first, subject to a maximum of six months' pay; those aged 34-35 receive payment half-way between these two rates.

Pay

10. The pay of Special Advisers, like that of other civil servants, is subject to the control of the Minister for the Civil Service, namely the Prime Minister, for whom pay rates are administered by the CSD. The appointing Minister may wish to discuss pay with a prospective Adviser, but his departmental officials put any proposals to CSD for consideration; and the Head of the Home Civil Service seeks the agreement of the Prime Minister for changes in existing rates of pay of Special Advisers.

11. Over the past five years there have been two methods of initially fixing and subsequently reviewing the pay of Special Advisers:

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- (a) the most senior, few in number, have been firmly linked for pay purposes to the Civil Service Deputy Secretary and Under Secretary grades and share their adjustments and review dates. The current Inner London rates are:

1 April 1979

Deputy Secretary	£17,814
Under Secretary	£15,238

- (b) other Advisers have had individual salaries fixed initially so as to reflect their outside "market value" in terms of pre-appointment earnings so far as these could be objectively determined. In most cases the rates fixed for these Advisers have been in a range encompassed by the Civil Service grades of Principal and Assistant Secretary - currently £7926 to £13,902 in Inner London but under review. The pay of each of these Advisers has been reviewed annually.

12. During the past few years the arrangements described in paragraph 11(b) above have presented a number of problems:

- (a) the criteria for fixing starting pay are not clear enough and this has led to inconsistencies, some of which were corrected as "anomalies" in 1978;
- (b) the system of individually-fixed rates does not provide scope for incremental progression; this has been a particular cause of concern to the younger Advisers;
- (c) a disparity arises from the fact that the pay of the most senior Advisers is linked to Civil Service grades while that of the others is not;

- (d) difficulties have arisen over the determination of the basis of the annual reviews.

13. Both the present and former Prime Minister have felt concern about the Special Advisers' pay arrangements and have expressed a desire for the introduction of a more rational and orderly system, but successive phases of incomes policy have prevented it. Proposals for an improved system are attached as an Annex to this paper. This system provides for each new Adviser to be placed on appointment on whichever one of 31 salary points, currently covering the range between £3969 and £17,814 per year, approximates most closely to the salary he could command in the open market. Each of these points corresponds to a specific scale point in the Administration Group, and automatically attracts any annual salary increases which may become payable at equivalent levels in the Home Civil Service. Provision is also made for some incremental progression during the early years of service when the Adviser is learning and developing his job. The Prime Minister will wish to indicate whether he is content for these arrangements to apply to new appointments.

Conclusion

14. The Prime Minister is invited to give his decision as to whether:

- (a) the attached draft Memorandum of arrangements should be issued to Ministers;
- (b) the attached proposals for improving the pay arrangements under which Special Advisers are employed, should now be adopted.

PROPOSALS FOR A REVISED PAY SYSTEM FOR SPECIAL ADVISERS

Introduction

Experience gained over the last few years has allowed the essential features of stable pay arrangements for Special Advisers to be clearly identified. This is an area where formal regimes of the kind which govern the career Civil Service may appear unduly constrictive; but it is also the case that an unregulated approach - individual rates, adjustable not at all or only in response to personal or ad hoc pressures - would equally be unsatisfactory, to Ministers, to the taxpayer and to the Advisers themselves. It is desirable that starting pay should be fixed from the outset at a competitive and generally acceptable rate. Second, this rate should thereafter be automatically adjusted to take account of the movement of comparable rates elsewhere in the Civil Service, and to reflect to an appropriate degree the growth of an Adviser's expertise in his job. The operation of these procedures should continue to be subject to the Minister for the Civil Service, namely the Prime Minister, and administered on a day-to-day basis by the Civil Service Department.

The pay range

The proposed scheme provides for each Special Adviser to be placed on appointment on one of 31 salary points. These points currently take account of Inner London Weighting and cover a range between £3969 pa and £17,814 pa and each point equates to a point on a recognised and well used scale elsewhere in the Civil Service. The progression of points is more or less regular except for two discontinuities which divide the whole range into three unequal sections (see Table attached).

It is envisaged that the central section, consisting of 15 pay points, will accommodate nearly all Special Advisers; the two extremes will provide freedom to deal appropriately with exceptional circumstances. Thus, the top section consisting of the two top points will take the most senior Advisers. This is, those Advisers

who are agreed, because of their acknowledged eminence or status and consequent high market value, to merit remuneration above that of the majority of their colleagues. On the other hand, the bottom section of the range consisting of 14 points serves to accommodate Special Advisers who are under 26 years old when appointed, but who perform what are generally accepted as being the full duties of a Special Adviser. It is envisaged that should their 26th birthday occur during their appointment then they should move automatically on to the lowest point of the middle section. In addition, the bottom section of the range is appropriate for those, of whatever age, who are recruited to perform, within the foreseeable future, something less than the full duties of a Special Adviser.

Starting pay

The most senior Advisers will be appointed to one of the two highest salary points, equivalent to the rates for Deputy Secretaries and Under Secretaries in the Home Civil Service. For the other Advisers, starting pay will be individually calculated by the Civil Service Department in consultation with the employing department by reference to whichever is the lower of:

- (a) his estimated value to the employing Minister; and
- (b) a negotiated figure of not more than 105% of his market value objectively ascertained, chiefly by reference to his existing or previous outside remuneration. Liability for continuing outside pension scheme payments may be taken into account, but fringe benefits and fee earnings from writing and lecturing and so on will normally be set aside, since they are irregular and not reliably quantifiable. The actual salary to be offered will be the specific scale point which is most appropriate in the light of this "market value", and the proximity of the commencement date to 1 April, when the equivalent Civil Service rates are normally reviewed.

Salary progression

There are two kinds of salary progression only. All salaries are reviewed on the same date - 1 April - and will be adjusted to keep

pace precisely with their respective Civil Service analogues. In addition to this annual pay review, some incremental progression is considered to be appropriate for Advisers (other than the most senior) during their early years, as follows:

- (a) those on the bottom section of the range will receive one scale increment on each of his or her first three anniversaries of appointment, provided the top of that section is not thereby exceeded;
- (b) Advisers who enter at or below the 6th point of the middle section will receive two annual increments;
- (c) Advisers who enter at or above the 7th point of the middle section will receive one increment.

Salaries will not be increased for any other reason, for example, because "deserving of promotion", "up-grading", "graduation to more responsible duties", or because a Special Adviser stays with a Minister who moves to a more responsible post.

Procedure

It is proposed that the practice governing the initial determination and subsequent adjustment of Special Advisers' pay should be as follows:

- A. When a departmental Minister is considering making a new appointment, he should:
 - (i) not enter into any commitment whatever regarding the salary which may be payable to a particular candidate with whom he may be in communication;
 - (ii) when putting forward a name for the Prime Minister's approval, specify how he would like to see his nominee paid, whether from the middle section of the range (the normal case), or exceptionally from the top or bottom sections, and should give reasons if the preference is for either of the last two.

MANAGEMENT IN CONFIDENCE

- B. After the Prime Minister has authorised a new appointment the letter from No 10 saying so should specify the section from which pay is approved, and also include a reminder that the amount of salary payable must be agreed between the employing department and the CSD (Pay 5 Division) before an appointment is formally offered.
- C. Once a new Special Adviser's salary has been agreed with CSD, and he has taken up appointment, the employing department's Personnel Division may authorise whatever annual pay increases (from 1 April) and annual increments (from the anniversary of appointment) are allowable under these guidelines in each individual case, but should keep CSD (Pay 5 Division) informed of all adjustments made.

Table: Salary Points for Special Advisers (£ per annum; Inner London)

<u>From 1 April 1979</u>		<u>From 1 April 1980</u>
17,814*		20,000*
15,238*		16,524*

	<u>From 1 August 1979</u>	<u>From 1 January 1980</u>
13,902	14,515) Not yet fixed
13,559	14,157	
12,843	13,408	
12,127	12,659	
11,471	11,973	
10,993	11,474	
10,396	10,849	
10,039	10,475	12,274
9,680	10,100	11,774
9,352	9,757	11,274
9,053	9,445	10,874
8,756	9,133	10,474
8,457	8,821	10,074
8,189	8,540	9,724
7,926	8,266	9,374

6,757	7,043	7,774
6,541	6,817	7,374
6,350	6,617	7,099
6,159	6,418	6,874
5,969	6,218	6,674
5,803	6,044	6,474
5,567	5,796	6,224
5,254	5,469	5,849
5,044	5,207	5,574
4,785	4,978	5,274
4,565	4,747) 5,024
4,345	4,518	
4,158	4,322) 4,724
3,969	4,125	

*Subject to review

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DRAFT MEMORANDUM OF ARRANGEMENTS FOR THE APPOINTMENT OF SPECIAL ADVISERS TO MINISTERS

INTRODUCTION

Only Cabinet Ministers in charge of Departments should appoint Special Advisers and each such appointment should be made by the Minister himself following consultation with his Permanent Secretary and after the Prime Minister's approval has been secured.

2. Each Cabinet Minister may appoint no more than two Special Advisers, except that, where there is more than one Cabinet Minister with departmental duties in a department, the Cabinet Minister in charge of the department may appoint more than two Advisers with the approval of the Prime Minister. The limit of two Advisers will not apply to Advisers who are recognised as distinguished experts in a particular field (though such appointments will still require the approval of the Prime Minister).

3. Special Advisers will have direct access to their Minister, and will normally be outside the departmental hierarchy; that is, they should not work directly under a permanent civil servant, nor, apart from the usual secretarial assistance, should permanent civil servants work directly for them. The Minister should lay down the duties of each Special Adviser he appoints.

APPOINTMENT PROCEDURE

4. The Minister must seek the Prime Minister's approval of a proposed appointment. No commitment as to salary should be given until the CSD has been consulted. The Permanent Secretary must ensure that CSD approval of the salary to be paid is obtained (see paragraph 9 below) and that details of the appointment are subsequently provided to CSD (PM5 Division) for central records.

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DURATION OF APPOINTMENT

5. Special Advisers' appointments automatically cease either:

- i. with the end of the Administration under which they were appointed, ie when the Prime Minister resigns;
or
- ii. when there is a General Election, on the day after Polling Day; or
- iii. when the appointing Minister leaves his present appointment.

6. -If termination of appointment is brought about by any of these circumstances but there is not a change of Government, there will be an opportunity to review Special Advisers' appointments and, if it is wished, to make re-appointments, subject to the Prime Minister's approval. Fresh letters of appointment should be issued in all such cases. The date on which re-appointment takes effect will be the date on which it is made by the Minister concerned save that, where a Special Adviser has not resigned (eg to take part in an Election campaign) and is re-appointed to serve either in the department in which he was previously serving or under the Minister whom he was previously serving, the date of re-appointment may be such that there is no break in service.

7. Special Advisers are members of the Home Civil Service, are paid from public funds, have the same conditions of service and are subject to the same rules of conduct as other civil servants, with the exception of the rules governing the acceptance of outside business appointments after resignation or retirement (see para 11 below) and certain aspects of the rules on political activities

(see para 14 below). All other provisions of the Civil Service Pay and Conditions of Service Code therefore apply to Special Advisers, who should be given access to a copy of the Code on appointment or to departmental staff regulations if these stand in place of the Code. Details of the application of some particular rules are given in paragraphs 12-18 below; these details, and the particular location of the Code and/or staff regulations should be brought to the specific attention of Special Advisers on appointment.

8. As with other civil servants, the Permanent Secretary of the department will be responsible for bringing the rules to the notice of Special Advisers, and ensuring that they are observed.

PAY AND CONDITIONS OF SERVICE

9. The rate of pay is subject to CSD approval. Regard will be had to the nature of the post to be filled and the age and relevant background of the person concerned. Public funds may meet the employer's contribution where the Adviser is a member of FSSU.

10. The terms and conditions of service may vary slightly according to the circumstances but in general should follow the model draft letter of appointment of which a copy is attached at Appendix 1.

OUTSIDE OCCUPATIONS ON LEAVING THE SERVICE

11. The rules about business appointments following resignation or retirement (Code para 9961) will not apply to Special Advisers. But, as a corollary, they should neither have access to the kind of information (eg about individual companies) nor be involved in the kind of business (eg contracts) which underlies the need for the rules applicable to career civil servants.

POLITICAL ACTIVITIES

12. In general the role of Special Adviser is to add a political dimension to the advice available to Ministers; this necessarily involves them to some extent in maintaining contact with Party opinion in a way which would not be open to other civil servants in the "politically restricted" category. Nevertheless, subject to certain specific exceptions (see para 14), the Civil Service rules on political activities should be adhered to as closely as possible by all Special Advisers. For the purposes of the rules, which are set out in Code paras 9923-9950, Special Advisers will be members of the "politically restricted" group.

13. In particular:

- a. an Adviser publicly identified as a Parliamentary candidate or prospective candidate by adoption by a political party must thereupon resign his appointment (see Code paras 9923a, 9948);
- b. an Adviser who wishes to take part in a general or by-election campaign, or to help in a Party headquarters or research unit during such a campaign, must first resign his Civil Service appointment (Code paras 9923a-e);
- c. it is essential that public funds (including departmental resources) should not be used in any way for party political purposes.

14. There are, however, two areas of political activity where Special Advisers may be allowed more freedom than other civil servants in the "politically restricted" group. With the approval of their Minister, Special Advisers may:

- a. attend Party functions (although they may attend the Party conference only as observers) and maintain contact with Party members;
- b. take part in policy reviews organised by the Party, or officially in conjunction with it, for the purpose of ensuring that those undertaking the review are fully aware of the Government's view and their Minister's thinking and policy; it would not be open to Special Advisers to advocate policies going beyond or departing from those of the Government as a whole.

In maintaining these political connections, Special Advisers must at all times observe discretion and aim at avoiding public controversy. They must not identify themselves with criticism of the Government or its policies.

15. Subject to the approval of the Minister concerned, Special Advisers will be permitted to undertake or to continue to undertake, all forms of local political activity (see Code para 9924). This does not include local activities in support of national politics as defined in Code paragraph 9923. The decision should be taken in each case by the Minister concerned and he is responsible for ensuring that no questions of conflict arise either with the policies for which he is responsible or those of his colleagues (Code para 9927).

16. A Special Adviser who is allowed to take part in local political activities must observe the code of discretion set out in Code para 9929. In particular, if he serves on a local authority he should bear in mind the following points, which should be brought to his attention by the Permanent Head of his Department:

- a. he should not speak publicly or in the Council or vote on matters for which his own Minister has responsibility;
- b. he should not serve on any committee considering such matters;
- c. he should not take part in deputations or other representations to the Minister;
- d. he should declare an interest in relation to any case or application which comes before the Council and in which his department is involved;
- e. he should observe great discretion in relation to policies for which other Ministers are responsible, in order to avoid causing them embarrassment;
- f. he should not prematurely disclose to the Council information which he obtained in the course of his duties.

OUTSIDE ACTIVITIES

17. An Adviser who wishes to take part in any outside activity where information or experience gained in the course of his work as an Adviser is likely to be relevant must first seek permission from the Permanent Head of his Department (Code para 9910).

18. Observance of the general principles of conduct required of all civil servants (Code para 9870) will also have a bearing on the activities engaged in by Special Advisers whether as part of their official duties or in a private capacity. Their position as Advisers to Ministers in no way frees them from the need to avoid public or political controversy (Code para 9870e) and they should at all times act with moderation and discretion on the matters referred to in Code paragraph 9929.

ACCESS TO PAPERS

19. All Special Advisers should be positively vetted. Subject to the exceptions discussed in paragraphs 11 and 20, Special Advisers may have access, at the Minister's discretion, to all papers actually submitted to the Minister. In order to facilitate their work they should be encouraged to join in departmental deliberations on matters which are in course of preparation for submission to the Minister.

20. Special Advisers should not have access to sensitive, security or intelligence reports, or to papers relating to civil servants personally, eg on appointments, reports on efficiency, etc.

The rules applying to Ministers as regards papers of a previous Administration apply to Special Advisers also.

DRAFT LETTER OF APPOINTMENT

I am writing to offer you an appointment in the
as with effect from

- 2. Your appointment terminates:
 - i. at the end of the present Administration; or
 - ii. when the Minister who appointed you leaves the Government or moves to another appointment; or
 - iii. in the event of a General Election, on the day after polling day;

whichever is the earliest. You may be re-appointed if any of these circumstances leads to termination of your appointment but is not accompanied by a change of Government.

3. Your duties will be those laid down by the Minister.

4. Your salary will be at the rate of £.... a year, including London Weighting and will be subject to review in the light of, and simultaneously with, changes in Civil Service pay at this level of remuneration.

Existing Arrangements

OR

4. Your salary will be at the inclusive rate of £ a year and will be subject to review annually on the anniversary of the date of your taking up post.

OR

New Arrangements

4. Your salary will be at the rate of £ a year and it will be adjusted automatically to follow changes in Civil Service Open Structure/Administration Group pay at the level of remuneration equivalent to yours. On the 1st and 2nd and 3rd anniversary of your taking up post you will receive an increment rates to be specified in each case On your 26th birthday you will move to a rate of pay equivalent to the minimum of the Civil Service Principal grade scale.

5. Your appointment will be subject to the appropriate terms and conditions of service in force in the Civil Service from time to time. You will normally work a day week of hours,

including meal breaks. You will have annual leave allowance of working days as well as the 10½ public and privilege holidays. Sick leave may be allowed on full pay, less any National Insurance benefit received, for up to 6 months in any period of 12 months and thereafter on reduced pay, subject to an overriding limit of 12 months' sick leave in any period of 4 years or less. Those who work regularly not less than 18 hours a week, spread over a full working week or an equivalent basis, and who undertake to continue to give this attendance may be allowed sick leave on the same terms as full time advisers. Where, by agreement with the Department, attendance is not required on each day of the working week, sick leave allowance will be calculated pro-rata with fractions of days rounded up. Sick pay will be based on the normal rate of pay, either for the hours agreed for the part-time appointment or, where the hours are irregular (but not less than 18 hours in any week) on the average weekly hours over the immediately preceding quarter (13 weeks). National Insurance benefit will be deducted from this sick pay unless another employer pays the employer's contribution and the adviser produces a certificate that the amount of benefit is being deducted by him, or that no sick pay is in issue from that employer.7

6. Although as an employee of the Crown you hold your appointment at the pleasure of the Crown, you can expect that, unless any of the circumstances in paragraph 2 above apply, or you are required to leave on disciplinary grounds, your appointment will not be terminated unless you have been given not less than 3 months' notice in writing. You may yourself terminate your appointment by giving not less than 5 weeks' notice in writing. Where the termination of your appointment results from any of the circumstances in paragraph 2 above, or where you resign in order to comply with the Servants of the Crown (Parliamentary Candidature) Order 1960, or to take part in an election campaign (as defined at paragraph 11 below), severance payment will be made, subject to your agreement that should you be re-appointed you will receive only the proportion of pay which corresponds

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to the length of the gap between the two periods of employment.

7. The severance payment will be calculated as follows. Those aged under 34 will receive a severance payment equal to three months pay. Those aged 35 or over will receive three months' pay if termination occurs at any time during the first year of service, and thereafter an extra one month's pay for each completed year of service after the first, subject to a maximum of six months' pay. Those aged 34-35 will receive a severance payment at a rate half-way between three months' pay and the appropriate over 35 rate. The practical effect of this is set out in Annex 1 to this letter.

8. Your appointment will, from the outset, come within the provisions of the Principal Civil Service Pension Scheme, details of which are set out in Annex 2 to this letter.

OR

8. You will not be brought into the Principal Civil Service Pension Scheme but instead the will contribute the employer's share of FSSU premiums.

OR

8. You will not be brought within the Principal Civil Service Pension Scheme but instead the will make arrangements related to your existing superannuation position on lines to be set out.

9. You will be subject to the provisions of the Official Secrets Acts; and you will be required to conform with the security procedures in force in the

10. In common with all other civil servants you will be expected to abide by the provisions of the Civil Service Pay and Conditions of Service Code, with the exception of the rules relating to the acceptance of outside business appointments after resignation or retirement (Code para 9961) and certain aspects of the rules on political activities (see para 11 below). A copy of the Code

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will be made available to you on acceptance of your appointment. I should particularly draw your attention to the rules governing participation in outside activities involving the use of official information or experience (Code paras 9910-9911) and the general principles of conduct to which all civil servants are expected to adhere at all times (Code para 9870). All queries arising from the rules of conduct in the Code should be addressed to the Permanent Head of your Department.

11. The rules on the political activities of civil servants are set out in Code paras 9923-9950. As a Special Adviser you will be subject generally to those provisions set out in these paragraphs which are applicable to civil servants in the "politically restricted" group. In particular:

a. an Adviser publicly identified as a Parliamentary candidate or prospective candidate either by adoption by a political party or in any other way must thereupon resign his appointment (see Code paragraph 9923a, 9948);

b. an Adviser who wishes to take part in a general or by-election campaign, or to help in a Party headquarters or research unit during such a campaign, must first resign his Civil Service appointment (Code paras 9923c to e);

c. it is essential that public funds should not be used in any way for party political purposes, eg by the use of departmental resources for party political business.

12. However, subject to the approval of your Minister, you may be permitted:

a. to attend Party functions (although you may attend the Party conference only as an observer) and to maintain contact with Party members;

b. to take part in policy reviews organised by the Party, or officially in conjunction with it, for the purpose of ensuring that those undertaking the review are fully aware of the Government's view and your Minister's thinking and

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policy; it will not be open to you to advocate policies going beyond or departing from those of the Government as a whole.

In maintaining these political connections, you must at all times observe discretion and aim at avoiding public controversy. You must not identify yourself with criticism of the Government or of its policies. Should you wish to take part in political activities at a local level (Code para 9924) or to continue to do so if you are already involved, you should first obtain the approval of your Minister.

13. I am also required to bring to your notice the Government's decision that no-one may be employed in the Civil Service in connection with work vital to the security of the State if he is believed to be a member of the Communist Party or a Fascist organisation or associated with such a party or organisation in a way that raises legitimate doubts about his reliability.

14. I should be grateful if you would confirm that you are willing to accept, on these terms, the appointment that I have offered.

Scale of severance payments

Years of service	Number of months pay in lieu of notice for those aged:		
	under 34	34 but less than 35	35 and above
Less than 1	3	3	3
1 but less than 2	3	3	3
2 but less than 3	3	3½	4
3 but less than 4	3	4	5
4 or over	3	4½	6

SUPERANNUATION BENEFITS

The following paragraphs give general guidance on the superannuation benefits provided under the Principal Civil Service Pension Scheme which (apart from widows' benefits) is non-contributory. For those who retire having reached the retiring age for pension purposes (usually 60) an annual pension is paid of one-eightieth of pensionable pay for each year of reckonable service; together with a once-for-all lump sum of three times the amount of the annual pension. (Pensionable pay is the pay earned in the best of the last 3 years of service.) The maximum pension which can be earned by the retiring age is one-half of pensionable pay, and the maximum lump sum is three times this amount; but further pension and lump sum can be earned by service after the retiring age. The Scheme is contracted-out under the Social Security Pensions Act 1975. A small deduction is made from the pension as from the State retirement age (which is 65 for men and 60 for women) which takes some account of the National Insurance flat-rate or basic pension.

For those leaving before the retiring age with 5 or more years' service, the pension and lump sum earned by service are preserved, and brought into payment at the retiring age of the Scheme. For those leaving after at least 2 but less than 5 years' service, there is a short service payment of three-eightieths of pensionable pay for each year of service, which is payable at the time of leaving. This short service payment must be refunded where there is further employment as a civil servant, and the break between employments does not exceed 6 months. Section 10 of the Scheme, which relates to benefits on premature retirement, does not apply to you; the severance payments shown in Annex 1 will apply instead.

Male civil servants are required to contribute 1½% of salary towards widow's pension, such contributions qualifying for income tax relief. If the civil servant is unmarried at the time his

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service ends, in certain circumstances a refund of contributions in whole or in part may be possible. In return for the contributions paid the widow of a civil servant who dies after retirement is paid a pension at half the rate of his pension. If he dies in service, the widow's pension is one-half of what would have been the civil servant's pension if he had retired on ill health. A children's pension may be paid in addition if the civil servant had dependent children at the time of his death.

For all members of the Scheme who die in service, a lump sum death benefit of at least one year's pensionable pay is payable.

The Scheme includes arrangements for accepting the transfer of pension rights from another scheme, and can also transfer pension rights to another scheme if a member of the Scheme leaves before the retiring age.

MR K R STOWE

MINISTERIAL TRAVEL

As you will recall, it is customary for a Prime Minister forming a new Administration to issue rules governing travel by Ministers. The rules cover the use of official cars, rail travel and air travel. The last such guidance was included in C(PR)(76)2 on 23 April 1976. In relation to the use of official cars, the rules were subsequently amended in correspondence in April 1977, substituting the concept of "first call" cars for that of personally allocated cars. This was made desirable by the terms of the Finance Act 1976.

It is not normally necessary to alter the rules substantially but on this occasion there are certain changes I should like to propose for the Prime Minister's consideration.

The Use of Official Cars

The previous rules allowed Ministers to use official cars for journeys from London to a house in the country if they had been seriously delayed by their official duties and other means of transport were not conveniently available. Such journeys were not to exceed 50 miles in either direction. In the case of Scottish Office Ministers this has been interpreted as allowing them also to use cars from the Edinburgh pool for journeys in comparable circumstances to their home in Scotland.

It recently came to light that the letter of the rules was being breached by a number of Cabinet Ministers whose homes were more than 50 miles from London and who were using cars from pools outside London in order to travel to their homes from airports and railway stations. The Ministers concerned were not ones for whom special arrangements on security grounds apply, and it emerged that a larger number of more Junior Ministers were making similar use of pools in comparable circumstances.

Although this use of the car pool was not covered by the rules, it does not seem to be an unreasonable extension of the criteria in the case of Cabinet Ministers, and I suggest that the Prime Minister may wish to consider regularising the position by making specific provision for the use (at weekends only and by Cabinet Ministers only) of

official cars for journeys of up to 50 miles between home and an airport or railway station conveniently placed in relation to a Government car pool.

The Prime Minister may wish to consider also whether the generous interpretation of the previous rules which allowed all Scottish Office Ministers with homes in Scotland to use the Edinburgh pool in this way should continue and indeed be extended to Ministers in the Welsh Office and Northern Ireland Office who have homes in Wales and Northern Ireland respectively. The reason for allowing this concession to Junior Ministers in those Departments (and continuing it in the case of the Scottish Office) would be the extra wear and tear involved in being a Minister with responsibilities (and an office) so far from Whitehall, but having at the same time to be in London frequently for parliamentary as well as departmental business. If the Prime Minister is minded to confirm the previous concession and extend it to the Welsh and Northern Ireland Offices I think this might be best spelt out in correspondence rather than in the rules themselves especially if the Prime Minister takes the view that Junior Ministers in other Departments must be invited to discontinue the arrangements which have been applied outside the rules.

I ought perhaps to say that what has taken place is not so much a flagrant breach of the rules as an erosion over a long period of time as the result of junior staff in the car pool centres trying to respond helpfully to requests for transport from anxious Private Secretaries.

... The attached draft paper provides for the more generous arrangement for Cabinet Ministers which I have proposed. It could, however, be readily altered if the Prime Minister prefers not to make the change and instead to make clear to Cabinet colleagues that the weekend arrangements must apply to travel from the London car pool only.

If the Prime Minister accepts the draft rules a separate submission will be made on the list of Ministers who should have first call on cars in the Government car service pool.

Rail Travel

The passage on rail travel in the attached draft is short and straightforward and I do not think it calls for any comment.

Air Travel

The draft rules on air travel reflect the fact that where non-commercial flights are used, the need has to be met by the Ministry of Defence's 32 Squadron RAF. (The Civil Aviation Flying Unit maintained by the Civil Aviation Authority no longer provides services for Ministers). For much of the time, the demands on the Ministry of Defence are heavy and officials have been considering the best way of meeting them. They have concluded that they are not yet such as to justify the expense of adding to the existing MOD flight. They have as an alternative considered the case for limiting the demands on it by increasing the charges made to a point at which they became roughly comparable with commercial rates. On the other hand, much of the Ministerial use of MOD aircraft is at present determined by security requirements rather than by convenience and in these circumstances the Ministry of Defence are for the present at least content to continue to try to meet such need as arises. It would be helpful, however, if departmental Ministers could be warned that the resources of No 32 Squadron are strictly limited and that the Ministry of Defence will always have to give priority to Ministers whose needs arise from security considerations, and to flights for which there is no satisfactory alternative either in the form of land travel or of commercial flights. (This means that aircraft will not normally be available for flights to destinations to which there are regular and frequent civil flights, for instance Brussels). The Prime Minister may also wish to remind colleagues that air travel is expensive, whether undertaken on commercial flights (where the cost is obvious) or in MOD aircraft financed within the Defence Budget.

If in spite of these warnings, which are included in the attached draft memorandum, demand reaches a point at which the Ministry of Defence can no longer cope, I think officials should be invited to reconsider the problem in the light of the circumstances then prevailing. They may in any case wish to make recommendations, at a later stage, on the charging arrangements if this appears to be desirable to ensure consistency with normal interdepartmental charging procedures.

In the meantime I commend the attached draft, which also covers a number of other, practical matters, for the Prime Minister's approval.

IPB
I P BANCROFT
4 May 1979

THIS DOCUMENT IS THE PROPERTY
OF HER BRITANNIC MAJESTY'S GOVERNMENT

DRAFT

C(PR)(79)
May 1979

COPY NO:

CABINET: PROCEDURE

RULES GOVERNING TRAVEL BY MINISTERS

Note by the Prime Minister

1. I have approved the attached rules governing the use of official cars, rail and air travel by Ministers.
2. I have no doubt that my colleagues will at all times exercise good sense and judgement in the use of Government transport, with proper regard to the cost and the need to avoid unnecessary expenditure.

10 Downing Street
May 1979

RULES GOVERNING TRAVEL BY MINISTERSI. The Use of Official Cars

1. Cabinet Ministers, Ministers in charge of major Departments and such other Ministers as the Prime Minister may indicate will have first call on cars in the Government Car Service pool. When the Minister concerned does not require the car it will be available for other use (see Paragraph 7). Paragraphs 2-7 below set out the rules which these Ministers should observe.

2. On Mondays to Fridays Ministers may use a car in London (the Metropolitan Police District) for any purpose (other than Party business, see Paragraph 5) which will secure a saving of their time. They may also use it for the purpose of attending an official engagement outside the Metropolitan Police District if the journey cannot conveniently be done by rail.

3. Ministers are permitted to use an official/^{car}for home to office journeys on the understanding that they would normally be carrying classified papers on which they would be working or to which they might need to refer. Ministers may use official cars for journeys from London to a house in the country only if they have been seriously delayed by their official duties and other means of transport are not conveniently available. Such journeys should not exceed 50 miles in either direction.

4. It is desirable, as far as possible, to keep the hours of duty of drivers within reasonable limits. Ministers must therefore be prepared to use any car at weekends (see also Paragraph 7). At these times cars may normally be used only for official purposes or for social occasions of an official character in London. Cabinet Ministers and any other Ministers specified by the Prime Minister may, however, use a car from a pool outside London at weekends for journeys of up to 50 miles between home and an airport or railway station conveniently placed in relation to a Government car pool.

5. Except for Ministers covered by the special arrangements in Paragraph 6, official cars should not be used for journeys on Party business, such as constituency visits or attendance at Party meetings.

There is, however, no objection to using an official car if the meeting involving Party business takes place immediately between two officials engagements in the course of the working week.

6. The Prime Minister, the Secretary of State for Defence, the Foreign and Commonwealth Secretary, the Home Secretary, the Secretary of State for Northern Ireland, and any other Minister for whom the security authorities exceptionally consider it essential may use their official cars for all journeys by road, including those for private or Party purposes. A charge will be made for the use of the official car on journeys for private or Party purposes which are outside the provisions of Paragraph 2-5. The charges will be on the basis of the Civil Service Motor Mileage Allowance.

7. Car drivers will be required to keep records in the form of log sheets. Journeys between points within five miles of Whitehall will not be recorded individually, but all other journeys outside this area will be detailed in full. Ministers will be responsible for ensuring that cars are used only for authorised journeys, and for identifying which journeys require repayments under these arrangements. Log sheets will be sent weekly to Ministers' Private Secretaries for authorisation. Private Secretaries will be responsible for ensuring:

- a. the release of drivers and cars whenever possible to return to the Government Car Service pool and help out on other work.
- b. that first call cars are not used at weekends if other pool cars are available.
- c. that spot checks are made on log sheets to check the time when the driver is dismissed.

8. Other Ministers without first call on a car may use the cars in the Government Car Service pool for official purposes and to and from work when pressed for time. For short official journeys in Central London they should so far as possible use taxis and claim repayment.

9. When travelling on official business, a Minister may use a private car instead of an official car, and claim a mileage allowance in the same circumstances and on the same terms as civil servants.

10. Subject to the general rules set out above, a Minister's spouse may accompany the Minister concerned in an official car. The spouse may also travel in an official car either to join the Minister at an official engagement or a social engagement of an official nature to which the Minister has been invited in that capacity, or to represent the Minister in the Minister's absence at such engagements, or where the spouse is carrying out a representational function stemming directly from the Minister's position. Official cars may not in any circumstances be used by the spouses of Ministers in connection with private or political functions or engagements.

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II. Rail Travel

11. When travelling by rail in this country, members of the Cabinet and Ministers in charge of Departments, including the Law Officers, may reserve entire first-class compartments when they consider it really necessary (e.g. when the Minister needs to hold discussions with officials during the course of the journey or has work to do at a time of particular pressure). Ministers not in charge of Departments may reserve entire first-class compartments only when accompanied by two or more people with whom they intend to discuss official business during the journey; the approval of the Minister in charge of the Department should first be obtained. Before compartments are reserved in this way account should be taken of the expense.

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III Air Travel

GENERAL DIRECTIONS

Scheduled passenger services

12. All Ministers and Parliamentary Secretaries on official visits have discretion to use civil scheduled flights in this country and abroad if they consider that this will save time. Wherever possible British airlines, either public corporations or independent companies, should be used, but if a Minister's routing or the time of the journey makes this impossible, subject to any security restraints which may apply, a scheduled flight on a foreign airline may be taken, preference to be given, for security reasons, to well established international airlines of Commonwealth or NATO countries.

Non-Scheduled special flights

13. These are flights for official purposes, in this country and abroad, using aircraft belonging to the Ministry of Defence or commercial operators. They are necessarily much more expensive than scheduled passenger services and may only be authorised in the manner and circumstances described in paragraph 14 and 15 below. They must not be used or diverted for journeys to or from Party business, such as constituency visits or attendance at Party meetings. When the time factor is critical, diversions from direct routes may, however, be authorised to collect or deliver a Minister to an airfield near his or her home provided that the only extra costs result from the extra flying time needed to carry out the additional landing and take-off.

14. Members of the Cabinet only have discretion to authorise these special flights either for themselves or for other Ministers within their Departments. (For this purpose "other Ministers" means Ministers not in the Cabinet and as defined in Parts II and III of Schedule I of the Ministerial and Other Salaries Act 1975). Cabinet Ministers may authorise special flights when a scheduled service is not available, or when it is essential to travel by air, but the requirements of official or Parliamentary business or security considerations preclude the journey being made by a scheduled service. Special flights may also be authorised by members of the Cabinet if they or other Ministers

are required to travel urgently on unforeseen official business. Use of special flights by Parliamentary Secretaries (as defined in Part IV of Schedule I of the Ministerial and Other Salaries Act 1975) will only be approved in exceptional circumstances: permission must be obtained from the Prime Minister, normally by the Cabinet Minister concerned. The relevant extract from the Act is attached.

15. Ministers not covered by the arrangements in paragraph 14 who wish to use special flights must obtain the Prime Minister's permission in advance.

16. The costs are borne on the Departmental Votes of the Minister arranging the flight who should ensure that the interests of his Accounting Officer are fully safeguarded.

17. The only exceptions to the general rule that members of the Cabinet only may authorise special flights are, first, that all Defence Ministers travelling on Defence business and other Ministers engaged on business of the Defence Department or visiting a Service or Defence Establishment may use Ministry of Defence aircraft in accordance with rules and procedures approved by the Secretary of State for Defence; second, that those Ministers who are individually authorised to do so may use aircraft of The Queen's Flight.

18. There are separate arrangements for flights by the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs and the Ministers of the Northern Ireland Office. The following arrangements apply to special flights in all other cases.

19. Where special flights have been decided to be necessary they may be provided by the Ministry of Defence, using aircraft of The Queen's Flight or other RAF aircraft; or by private charter firms. Charges for Ministry of Defence aircraft are currently related only to the operating costs of the flight and are lower than charges for commercial charter flights in similar aircraft. The real resource cost is not necessarily lower, however, and since the number of aircraft available to the Ministry of Defence for these purposes is limited, they will always feel bound to give preference to Ministers whose needs relate to security, and to journeys for which reasonable alternative means

of travel are not available. On occasions when the destination airfield is unsuitable for the types of aircraft used by Ministry of Defence or when there are problems in using Ministry of Defence aircraft to certain destinations abroad, private charter aircraft will have to be used. An estimate of the cost of a special flight should always be obtained for the information of the Minister concerned before final arrangements for it are confirmed.

PRACTICAL ARRANGEMENTS

20. A Private Secretary in a Department headed by a Cabinet Minister should normally obtain authority through that Minister's Private Secretary. Private Secretaries in other Departments should seek the Prime Minister's authority through the Private Secretary at No 10, giving details of the proposed journey and the reasons why a special flight is considered to be appropriate. These authorities are not required when a Minister who is personally authorised to do so wishes to use an aircraft of The Queen's Flight, or when a Minister travelling on Ministry of Defence business or visiting a Service or Defence Establishment wishes to use a Ministry of Defence aircraft. However, all flights in Ministry of Defence aircraft, including those of The Queen's Flight, require the authority of the Under Secretary of State (RAF).

21. Detailed procedures for arranging special flights are as follows:

A Flights in Ministry of Defence aircraft

- (i) Private Offices should apply to the Personal Air Secretary to the Parliamentary Under-Secretary of State for Defence for the Royal Air Force (PAS/US of S(RAF)) (telephone numbers 01-218 6065 or Federal 1867) and give details of the journey, names of passengers and likely duration. Confirmation in writing should always be given on RAF Form 1815, supplies of which may be obtained from the Office of the PAS/US of S(RAF). As much advance notice as possible should be given especially for flights

abroad as special diplomatic clearance is required in most countries for the use of military aircraft and this can in some cases take some time to obtain. It is not open to Private Offices to specify a preference between aircraft of The Queen's Flight or other RAF aircraft except where a Minister's request is based on his or her personal authorisation to use The Queen's Flight.

- (ii) In those cases where a flight in a Ministry of Defence aircraft is requested, the Personal Air Secretary will try to give the speediest possible reply. The considerations will include:
- (a) availability of aircraft;
 - (b) length of notice;
 - (c) ability to secure diplomatic clearance, when necessary, within the timescale.

B Flights by private charter

- (i) Private charter flights should be arranged by the most economical means.
- (ii) Private Offices should contact an agent who will obtain quotations. Private Offices should select the quotation to be accepted (normally the lowest) and the agent will then make all necessary arrangements. It is suggested that the following agents might be used:
- (a) Hogg Robinson (Travel) Ltd
Craven House
119-123 Kingsway, London WC2 6PT
Tel: 01-242 1091
 - (b) Lep Chartering Ltd
Sunlight Wharf
Upper Thames Street, London EC4P 4AD
Tel: 01-236 5050

- (c) Pickfords International
International House
Great South West Road
Hatton Cross
Feltham, Middlesex
Tel: 01-751 0901
- (d) London Air Taxi Centre
18 Eldon Street, London EC2M 7LA
Tel: 01-588 3578

Departments are, of course, free to use other agents if they wish. Departments who have tested the charter market through agents in the previous 12 months and who have received satisfactory and economical service from a charter company as a result may continue to make use of that company's services.

EFFECT OF TRAVEL BY NON-COMMERCIAL AIR FLIGHTS
ON PERSONAL INSURANCE POLICIES

22. Ministers who have occasion to travel by non-commercial air flights are advised to check whether their personal insurance policies are likely to be prejudiced thereby. Normally, life assurance contracts are "unconditional", that is to say there are no restrictive clauses in the contract and the sum assured is payable on death irrespective of the cause. The position in relation to other types of policy is more complex and Ministers should seek the advice of their insurers if they are in any doubt about the effect of travel by non-commercial flights.

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MINISTERS' OFFICIAL RESIDENCES:

1. The official residences for Ministers in London are:

- a. No 10 Downing Street, normally occupied by the Prime Minister as First Lord of the Treasury.
- b. No 11 Downing Street, occupied by the Chancellor of the Exchequer.
- c. No 1 Carlton Gardens, traditionally occupied by the Secretary of State for Foreign and Commonwealth Affairs, but not at present used by him.
- d. Lord Chancellor's Flat in the Palace of Westminster, occupied by the Lord Chancellor in his official capacity as Speaker of the House of Lords.
- e. Admiralty House. Two flats and a pied-a'-terre. These are allocated at the discretion of the Prime Minister.
 - i. Flat on the first floor (2 reception rooms, a study and one bedroom, all on a large scale) together with part of the third floor (one reception room, and one bedroom), traditionally occupied by the Secretary of State for Defence.
 - ii. Flat on the second floor (3 reception rooms and 3 bedrooms, on a more domestic scale than the first flat), recently occupied by the Secretary of State for Northern Ireland.
 - iii. Pied-a'-terre on the third floor (2 rooms, self-contained with bathroom and kitchen) recently occupied by the Home Secretary.

2. Outside London there are:

- a. Chequers. Country residence for the Prime Minister.
- b. Dorneywood. The Prime Minister nominates the official resident. Usually this is the Foreign Secretary but since 1977 it has been the Home Secretary, nominated on the understanding that the Foreign Secretary could use the house for official entertainment, or for a private stay at a time when the Home Secretary was not proposing to use it himself.
- c. Bute House, Edinburgh (6 Charlotte Square). The official residence of the Secretary of State for Scotland.
- d. Stormont House, Belfast. Residence and office accommodation available for use by the Secretary of State for Northern Ireland and other Northern Ireland Office Ministers and Officials.

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3. The Property Services Agency advise that all these residences are available for continued occupation; no structural or decorative work is scheduled to be done on any of them.

PUBLIC APPOINTMENTS MADE BY MINISTERS

Two outstanding items of business remain to be completed. The Civil Service Department is ready to announce the scheme to make it easier for members of the public to register their interest in appointments: a submission will go to CSD Ministers shortly. Secondly CSD and Departmental Officials have prepared a paper in response to representations by the Nationalised Industries Chairmen's Group about appointments and security of tenure: this is now ready for circulation to the appropriate Ministerial group.

The Prime Minister will wish to consider in due course what action to take in regard to the undertaking in the Manifesto to examine the procedures by which appointments to governmental and quasi governmental bodies and to the boards of public enterprises are made.

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PRIME MINISTER

Meeting with Chancellor Schmidt

When I saw you at the start of the Election campaign you agreed that the provisional arrangements for Chancellor Schmidt's visit on 10th-11th May should stand provided you were able to fly to Scotland during the afternoon of 11th May.

2. The visit begins with a restricted discussion and dinner on the evening of 10th May: continuing with a plenary session, Press conference and lunch on 11th May. You would then fly to Scotland while Chancellor Schmidt would go to Oxford for the Honorary Degree ceremony.

3. No. 10 will be consulting you about the administrative and hospitality arrangements: and the briefs for the meeting are ready for you to read as soon as you have time. This submission raises a different point on which an early decision would be helpful.

4. There is now a well-established pattern whereby the Federal German Chancellor makes a working visit to this country each year and the Prime Minister pays a return visit. Similarly there is an annual bilateral with President Giscard. Apart from the valuable personal contacts which these visits provide, they also have a wider significance. Under the Franco-German Treaty, signed by Chancellor Adenauer and President de Gaulle, there is a large and formal Franco-German meeting every six months when the Head of Government is accompanied by a large number of his Ministers and senior officials. These meetings, apart from their symbolism, have had practical advantages. Because other Ministers and officials have been there to hear the results of discussions between the two leaders (and vice versa) the meetings have led to effective follow-up of decisions reached: and the personal contacts made have led to much closer direct dealing (e. g. over the telephone) between the two Administrations. We do not need anything as elaborate as this. But our bilaterals with France and Germany are important in maintaining relations between the three countries on a triangular basis. This is why the pattern has been developed of the Head of Government being accompanied by a small team of Ministers and senior officials.

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Thus while you have your tete-a-tete with Chancellor Schmidt the other Ministers have bilaterals and then all concerned join in a plenary. As host it is for you to decide which of your colleagues you wish to include. Depending on the appointments you make I suggest that you might want to be accompanied by the Foreign Secretary, the Chancellor of the Exchequer and the Secretary of State for Defence. The Foreign Secretary and the Chancellor are obvious choices, but at the present time there are a number of important issues in the defence field (e.g. SALT and grey areas) where a discussion between Defence Ministers would be particularly valuable. It will be important for us to let the Germans know your wishes very quickly so that they can make matching dispositions.

5. Finally I should perhaps mention one other point. In the case of major Heads of Government visits (inward or outward) I would normally talk to Sir Michael Palliser and the other Permanent Secretaries concerned a few weeks in advance and then submit to you "objectives" on the scope and purpose of the visit. This enables you to express your wishes at a sufficiently early stage for account to be taken of them in the briefing process and other arrangements. On this occasion we have, of course, had to anticipate your wishes on the assumption that the main purpose of the visit will be to establish a rapport with Chancellor Schmidt rather than to conduct substantive negotiations.

(John Hunt)

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PRIME MINISTER

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East-West Relations

Both the North Atlantic Alliance and the Warsaw Pact are committed to the pursuit of detente. But detente means different things to different people. This brief takes it to mean the evolution of East-West relations away from confrontation and towards a sober modus vivendi based on a common interest in the avoidance of a nuclear war and leading to a measure of co-operation both between the two super-powers and between their respective allies, but without the security of either side being weakened.

2. The Soviet Union sees detente both as meeting its own security interests and as facilitating the pursuit of its long-term objective of the triumph of the Soviet brand of communism. The Russians seek to avoid a renewed spiral in the arms race, to institutionalise strategic parity with the United States, to secure access to Western technology and credits, to retain freedom to conduct "the political and ideological struggle", to expand their influence in the Third World, to isolate China and to preserve and if possible extend their authority on the European continent (which includes the containment of Germany). The United States seeks to manage the emergence of the Soviet Union as a super-power by involving it in a range of arms control negotiations, where possible in a degree of international crisis management, and in a network of bilateral links designed to create a vested interest in co-operation. The Eastern European States seek access to Western markets and technology and opportunities for some assertion of their national personalities. The Western European countries in general share American objectives but tend to attach somewhat greater importance to East-West trade. The Federal Republic of Germany has special concerns arising from the division of Germany, from its geographical location and from the large number of ethnic Germans seeking to emigrate from the Soviet Union and Eastern Europe. France has long sought to maintain something of a special relationship with the Soviet Union as an aspect of her independent role in international affairs. The United Kingdom has been particularly conscious of

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the paradox that, as detente progresses, public recognition of its limitations as an instrument for change in Soviet policies has increased; but we have stressed within the Alliance the need to pursue detente in the absence of an acceptable alternative and to formulate a co-ordinated Western policy.

3. For the two super-powers, SALT is very important in the detente context and a SALT II agreement has now almost been reached (I have submitted a separate brief on SALT). A further major element in the development of detente is the negotiation of a Comprehensive Test Ban Treaty which is now going on between the United States, Soviet Union and the Kingdom Kingdom. (see also separate brief). Another important negotiation between East and West is the talks on Mutual and Balanced Force Reductions (MBFR) in Central Europe (I have not prepared a separate brief on this subject at this stage). These negotiations, which involve several members of NATO, including the United Kingdom, and of the Warsaw Pact, have been going on for over five years. The West are seeking reductions in the forces of both sides to a common level and are arguing that because of existing disparities the Warsaw Pact should reduce by more than NATO. The Soviet Union and its allies accept the goal of approximate parity at a lower level of forces but claim that assymetrical reductions are not needed because the forces on both sides are roughly in balance now. The prospects of an early agreement are not good. A further aspect of the East-West relationship is the Conference on Security and Co-operation in Europe (CSCE). Both East and West attach importance, though in different ways, to the implementation of the provisions of the CSCE's Final Act. Preparations are now beginning in the Nine and in NATO for the next follow-up meeting in Madrid in 1980.

4. The credibility of detente has been damaged in recent years by Soviet readiness to exploit instability in the Third World, in some cases with the active support of Cuban military intervention. But while exploiting opportunities offered by existing tensions, the Russians have not been able to create new opportunities or to capitalise on all the existing ones, and in some countries they have lost ground. Their wish to avoid a major confrontation with the United States acts as a constraint. Their dismal aid performance and their irrelevance to the North-South economic dialogue are liabilities in the more stable areas. The

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Soviet threat in the Third World therefore needs to be seen in perspective. Nonetheless, it remains a serious challenge to which the West must constantly seek an adequate response. The most effective response in many cases will be found in a concerted and enlightened Western approach to the needs and aspirations of Third World countries.

5. The Russians have an atavistic fear of China and regard its burgeoning relations with the West with great suspicion. China poses no military threat to the Soviet Union at present but the Russians fear that with Western arms and technology it could come to do so, thus contributing to the "encirclement" of the USSR.

6. Soviet foreign policy seems unlikely to change greatly when Brezhnev goes. As for other countries, there are a number of basic constants. The Soviet Union will remain fundamentally antagonistic to the West and China and expansionist in the Third World, but its aims will continue to be pursued pragmatically and with a healthy awareness of the Soviet Union's own needs, problems and uncertainties. These include China, currently the most important; potential instability in Eastern Europe; economic problems at home; and fissiparous tendencies in the world communist movement.

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(John Hunt) *4/5*

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(+ PM's comments)

Rhodesia Situation May 79
~~British for incoming PM.~~
PM, May 79.

PRIME MINISTER

Rhodesia

The Rhodesian elections which ended on 21st April pose the urgent question of how we should react to them and to the new Rhodesian Government which will be formed at the end of May under Bishop Muzorewa. Indeed much international attention will focus on the first indication which the new British Government gives of its intentions and this will need to be carefully considered. You will of course wish to obtain the early advice of the Foreign and Commonwealth Secretary and to discuss the matter with him and other senior colleagues: but here are my preliminary views.

2. There is now a new situation in Rhodesia. The main question is how best to take advantage of it in order to bring Rhodesia as rapidly as possible to independence without leaving behind a situation which would only be exploited by anti-Western elements.

3. The elections. You will wish to consider reports from Lord Boyd and from other non-official observers. Most comment so far indicates that the elections were well conducted. A number of criticisms have been made (under pressure to vote, plural voting, under-age voting, under-estimates of the total number of voters and so on). But the fact remains that a very large number of Africans did turn out happily to vote and the Patriotic Front, despite their previous threats, were unable to stop them doing so.

4. The problem, however, is that the election, and the establishment of a black government, are not of themselves going to bring the war to an end, nor to bring international recognition of the new government. On the contrary, the initial reaction of the African governments most immediately concerned is violently negative and the rest of Africa and the Third World are likely to follow this lead. Whatever we may say, our own friends and allies will not be easily persuaded to take a strong line against this tide. And of course the Security Council resolution of 30th April (on which we, the Americans and French abstained but did not veto) condemned the elections as null and void and called for continued non-recognition and sanctions.

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5. A lot of this reaction is of course emotional and the result of fixed attitudes, but it will not go quickly away and we cannot afford to disregard it without having regard to our other interests. There is moreover some substance in the contention that the election was held under conditions of martial law and with ZANU and ZAPU banned. It is also fair comment that the constitution, which was approved by a referendum of Whites only, contains a number of clauses which leave room for serious doubt as to whether real power will be exercised by representatives of the black majority.

6. I think you will need therefore to handle the matter in a way which will be acceptable to those parts of the Conservative Party who would like to see early recognition and a lifting of sanctions, but which will at the same time avoid:-

- (i) very severe reactions in Black Africa (where we have increasingly large economic interests) - and from other Commonwealth governments; condemnation at the United Nations and a call for mandatory sanctions;
- (ii) the blame being laid at our door for disruption of plans for The Queen's State Visit to Lusaka and for the Commonwealth Heads of Government Meeting immediately thereafter (1st-8th August);
- (iii) danger of increased Soviet exploitation of black African nationalist frustration and of Zambia's acceptance of Cuban and Soviet aid and influence (despite Kaunda's reluctance and Zambia's recent heavy dependence on the southern route through Rhodesia and South Africa for its copper exports);
- (iv) the end of hopes for a negotiated independence for Namibia on the lines supported by the Five Powers (United States, United Kingdom, Germany, France and Canada) and by the United Nations (because SWAPO and the Front Line States would not co-operate and South Africa might feel free to proceed with an alternative internal settlement).

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Precipitate action could risk all these without achieving the main objective. But that is an argument for playing the hand carefully rather than inaction.

7. A further important point is the close involvement of the Americans in a joint United Kingdom-United States Rhodesian policy hitherto. Once a new Rhodesian government is installed President Carter is required by the 'Case/Javits' amendment to decide whether it was chosen by free elections. The United States Administration will be anxious for early consultations on the line the British Government intends to pursue. Present indications are that they will acknowledge the progress made and the possibility of building on it but will not at this stage wish to recognise the new government. They will, however, face strong Congressional pressures to lift sanctions.

8. My own view is that we should seek to build on the undoubted advance which the Rhodesian elections represent. But the line between missing this opportunity on the one hand and causing great damage to our wider interests on the other (without necessarily gaining our aim of a stable democratic future for Rhodesia) is very narrow. It will need great care to find and tread it successfully. The first steps, after you have discussed the matter with the Foreign and Commonwealth Secretary and other senior colleagues, may be to make early contact with the new Rhodesian Government (and with the South Africans): to consult with the Americans and other allies: and to consider how best to play the cards we have in order to achieve adequate international support for the new regime and real progress towards ending the war. At home this would mean a cautious welcome to recent developments and impression of being willing to seize the opportunity now present: but an avoidance of commitments until these consultations (particularly with the Americans) have taken place.

JOHN HUNT

John Hunt

4th May 1979

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PRIME MINISTER

Strategic Arms Limitation Talks

It is probable that the SALT II Agreement will be signed shortly at a Summit meeting between President Carter and President Brezhnev. This will be followed by a lengthy and controversial ratification debate in the United States Congress. The Government will need to take up a public position, both nationally and through the Alliance, soon after signature of the agreement. Separate advice will be submitted on the line we should take. Meanwhile I attach a background note which has been prepared by a small group of officials under Cabinet Office chairmanship on the content of the SALT II Agreement, and on the main issues which have arisen during the negotiations and are likely to affect our interests in SALT III.

2. Copies of this note are being given to the incoming Foreign and Commonwealth Secretary and the Secretary of State for Defence.

(John Hunt)

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STRATEGIC ARMS LIMITATION TALKS

The SALT II Agreement is virtually complete and is likely to be signed soon at a summit between Presidents Carter and Brezhnev, although no date has yet been fixed. Thereafter there will be pressure for early governmental reactions. European statements on SALT II will be scrutinised very closely in the United States and will have an important bearing on relations with the Carter Administration and on the ratification process. Advice will be submitted separately about the line which might be taken publicly by Her Majesty's Government.

Content of the Agreement

2. The main provisions of SALT II are summarised at Annex. SALT II is an advance on the 1972 Interim Agreement in several important ways. It covers all types of strategic nuclear delivery systems. It imposes equal ceilings within each category. It limits certain new systems both in number and in kind. It also makes more detailed provision for verification.

General Criteria

3. For the Alliance as a whole SALT II is likely to be assessed under four general criteria.

i. The East/West balance SALT II codifies the "essential equivalence" in strategic arms between the super powers. It does not assume exact equivalence: the Soviet Union will retain its advantages in heavy missiles, throw-weight and "deliverable megatonnage", while the United States will still have more warheads (except possibly for a short time in the middle of the treaty period), greater accuracy and a more balanced spread between land, sea and air systems. The agreement provides a framework of limitations within which each side can develop its own strategic posture and which does not in itself confer an overall strategic advantage on either side.

ii. NATO strategy The Alliance's deterrence strategy places four main requirements on SALT II: that strategic sufficiency should be maintained; that the Alliance's ability to maintain an adequate theatre nuclear capability should not be impaired; that there should

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continue to be credible linkage between strategic and theatre nuclear systems; and the continued effectiveness of the strategic and theatre nuclear elements of the deterrent triad, where survivability is one of the major considerations. In our judgement, these requirements are satisfied by the provisions of SALT II. But the United States Administration accept that they will need to improve their forces during the life of the treaty (see iii. below), and there are some special British and European interests which we shall wish to keep under review (see paragraph 4 below).

iii. Future options The United States Administration consider that American strategic needs can be met fully within the SALT II framework. The agreement would allow the United States to develop and (after the Protocol expires at the end of 1981) to deploy a mobile ICBM to offset the problem of the vulnerability of its existing land-based missiles. It also permits the deployment of cruise missiles on aircraft with the proviso that those with a range greater than 600 km should be carried only on designated heavy bombers and should count against the agreed ceilings. The deployment, but not the testing and development, of ground and sea-launched cruise missiles with a range greater than 600 km is prohibited for the duration of the Protocol (this is especially relevant to the European Allies - see paragraph 4 below).

iv. Arms control The SALT II cuts are modest: about 250 Soviet systems in all. But, in addition to tighter verification provisions, SALT II also bans certain new systems, limits the total number of MIRVs and restricts each side to one new ICBM. All of these constraints mean that the Soviet Union is able to undertake fewer strategic military programmes than would probably be the case in the absence of an agreement.

Special British and European interests

4. In addition to these general criteria (which are of overriding importance to the United States as well as Europe) there are three issues of special concern to the Europeans. These have dominated our consultations with the United States on SALT II.

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i. Transfers of systems and technology SALT II does not forbid the transfer to a third party of equipment or technology. But each side undertakes "not to circumvent the provisions of this agreement through any other State or States or any other manner". The United States will set out their interpretation of this clause in a unilateral statement after signature. This will state that the non-circumvention provision simply makes explicit the inherent obligation any State assumes when party to an international agreement and that it will not in practice interfere with continued United States nuclear co-operation with the Allies. In this connection we have sought and obtained confidential bilateral assurances from the Americans. In July 1977, they assured us that SALT II would not prevent the United States from meeting its obligations under the 1958 Defence Agreement and the 1963 Polaris Agreement; and that, under SALT II, new forms of United States assistance could be agreed in the future. In December 1978, the Americans clarified that the transfer of long range air-launched cruise missiles to the United Kingdom was not precluded in principle under SALT II. They have, understandably, emphasised throughout that any United Kingdom request for transfers would have to be dealt with in the light of circumstances at the time. These private assurances, although in theory not completely watertight, are substantial and should ensure that in practice the United States will be able to transfer systems and technology to meet our foreseeable needs. They have been reflected in a number of official public statements made in the United States (including one by President Carter on 20th February) that the agreement will permit the United States and the Allies to pursue all the defence programmes that may eventually be needed, including cruise missiles. There is one outstanding point on the proposed United States' public statement which has caused us difficulty and which we were trying to resolve in discussion with the Americans. A separate submission will be made on this.

ii. The Protocol Concern has been expressed that the United States will come under pressure to extend the Protocol limits on ground and sea-launched missiles and mobile ICBMs after 1981. The United States have, however, frequently assured us that the restrictions contained in the Protocol would lapse on its expiry.

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Furthermore all the indications are that the United States takes seriously the freedom of choice which it will regain when the Protocol expires. It is spending over \$200 million on ground and sea-launched cruise missiles this year and has budgeted \$670 million for the development of a mobile ICBM next year. According to the State Department, any future limitation on these systems would require United States agreement and Congressional approval. Moreover, Alliance policy on long range theatre systems is being made (under active United States leadership) on the assumption that all types of cruise missile will be deployable from 1982 onwards.

iii. "Grey area" The Soviet Union has a growing advantage in the grey area between strategic systems covered by SALT II and battlefield nuclear systems. It is a source of concern for Western Europe, particularly the Federal Republic of Germany, that SALT II puts no limits on Soviet long range theatre systems, notably the SS20 missile and Backfire, which are targetted on Europe and are therefore strategic in European terms. They were excluded partly because they do not have a genuinely inter-continental range, but, more importantly, as a consequence of United States insistence which, with the support of the Alliance, has been maintained since SALT I, on excluding American theatre nuclear systems from the negotiations. It is expected that the Russians will press for such systems, together with British and French nuclear forces, to be included in SALT III. The Americans intend to state publicly that any future limitations on United States systems principally designed for theatre missions should be accompanied by appropriate limitations on Soviet theatre systems. Meanwhile a NATO Group of senior officials is studying what improvements are needed in NATO's long range theatre nuclear forces (TNF). The indications are that in its final report to Ministers in the autumn, the Group will recommend a mixture of cruise missiles (probably ground-launched) and a longer range

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version of the Pershing ballistic missile launcher. In parallel with this a Special Group is considering possible arms control options for limiting Soviet long range theatre systems. This Group will also report in the autumn. It is hoped that Ministers will thus have a wide framework within which to take timely decisions about TNF modernisation.

5. Although we judge that British and European concerns have so far been adequately safeguarded in the SALT process, our interests will increasingly be at issue as future negotiations focus on deeper cuts and possibly on grey area systems. There will be a need for close consultation in the Alliance and for a clearer view of where our interests lie. We hope that the two NATO Groups referred to above will provide the basis for a stronger and more coherent European input.

The United States Ratification Debate

6. It is at present far from certain that President Carter will secure the two-thirds Senate majority needed to ratify SALT II. The position of the United States Administration would become even more difficult if, as seems increasingly likely, the issue becomes entangled with the 1980 Presidential elections. Much of the debate addresses technical questions such as verifiability, ICBM silo vulnerability and whether the United States can afford to allow the Soviet Union to retain the advantages that it has (eg in heavy missiles, throw weight and deliverable megatonnage). But it also coincides with a painful realisation that the United States has lost strategic superiority and must work hard to maintain parity with the Soviet Union during the 1980s. As a result, SALT II is being blamed for problems which have other causes and the issue is broadening into a critique of United States defence policy and of detente in general. But the signs are that the ratification debate, far from inducing complacency, is serving to alert the United States to the need for fresh efforts to preserve strategic stability.

Assessment

7. SALT II is a compromise which covers only a facet, albeit an important one, of East-West competition. It is ideal for neither side. For the West, its main limitations are that, while confirming a rough

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equivalence in strategic systems, it will not change the existing and growing imbalance in long range theatre nuclear systems; that it sets a precedent for restraining one of the West's most promising answers to this problem - the cruise missile; and that it has only limited effect on the advances which the Soviet Union has made since SALT I in strategic programmes.

8. These problems would however not disappear if SALT II was rejected; some could be made worse. Rejection would, moreover, set back the process of arms control and would undermine the possibility of restraining Soviet theatre nuclear forces in the foreseeable future. It would rupture the consensus on strategic matters which has served the United States and the Alliance well over the last three decades, and would damage the credibility of United States' leadership. Moreover it would adversely affect the whole conduct of relations between the United States and the Soviet Union. It will therefore be very important that the Alliance is seen to give solid support to the Americans over SALT II. In any case there are positive advantages for the West in the new agreement. It will be seen to be compatible with Alliance strategy. It will largely preserve our own and the Alliance's nuclear options. It will help to reduce the vulnerability of United States ICBM silos. It should provide a useful, if by no means infallible, constraint on Soviet behaviour, especially in the post-Brezhnev era. Finally, it will avoid an all-out competition between the super powers in strategic systems.

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SALT II: THE BROAD OUTLINES

The Shape of the Agreement

1. The SALT II Agreement consists of three parts:
 - (a) A Treaty lasting until 31 December 1985.
 - (b) A Protocol expiring on 31 December 1981, which will cover a number of issues not included in the Treaty.
 - (c) A Joint Statement of Principles on subsequent SAL negotiations.

2. There are also a number of associated documents or statements including:
 - (a) An agreed exchange of statements on the Backfire bomber.
 - (b) A unilateral American interpretative statement on non-circumvention.
 - (c) A unilateral American statement on Theatre systems.

The Treaty

3. The SALT II Treaty is based on the 1974 Vladivostock Accord. The central feature is the ceiling agreed for the total number of strategic nuclear delivery systems both sides may possess, and sub-ceilings for different elements within that aggregate, as follows:

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MIRVed ICBM launchers	820
MIRVed ICBM launchers <u>plus</u> SLBM launchers	1,200
MIRVed ICBM and SLBM launchers <u>plus</u> aircraft carrying long- range cruise missiles	1,320
All strategic systems	2,250

4. The Treaty contains a large number of detailed provisions associated with these ceilings. In particular:

(a) an agreed timetable of reductions to reach the overall aggregate by 31 December 1981.

About 250 Soviet systems will be dismantled.

The Americans are already below the ceilings.

(b) provisions limiting fractionation

(ie the number of separate Re-entry Vehicles (RVs) which may be fitted to any one missile). The maximum number of RVs on existing missiles is frozen at existing levels. For new ICBMs, up to 10 RVs are permitted. For new SLBMs the figure is 14.

(c) provisions permitting the testing and deployment of ALCMs capable of ranges in excess of 600 km only on aircraft counted under the sub-ceiling for MIRVed systems. This restraint applies both to conventional and nuclear-armed ALCMs.

(d) provisions to aid verification, which, as with SALT I, will be carried out by "national technical means". These include exchange of data, advance notification of missile tests, and the prohibition of the encoding of radio signals transmitted from missiles under test ("telemetry encryption"). This scope of this prohibition remains one of the important unresolved issues.

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5. The Treaty also prohibits the flight testing and deployment of new types of ICBMs, with the exception of one light ICBM for each side (MIRVed or non-MIRVed). There are no limitations on new types of SLBMs.
6. There are restrictions on the modification of existing types of ICBM and SLBM although the details remain a key unresolved issue.
7. The Treaty also prohibits additional fixed launchers of heavy ICBMs as well as the development, testing and deployment of mobile launchers of heavy ICBMs, of heavy SLBMs and their launchers, and of heavy ASBMs.
8. The non-circumvention provision states:-
"In order to ensure the viability and effectiveness of this Agreement each party undertakes not to circumvent the provisions of this Agreement through any other State or States or in any other manner."
There is also a requirement not to assume international obligations in conflict with the Treaty.

The Protocol

9. The central feature is the limitation on Ground and Sea launched Cruise Missiles and mobile ICBMs.
 - (a) The deployment of conventional and nuclear-armed Cruise Missiles with a range over 600 km on sea-based (SLCMs) or land-based (GLCMs) launchers is prohibited. Testing and development are permitted.
 - (b) Testing and deployment of light ICBMs from mobile launchers banned. The testing of mobile light ICBM launchers themselves is permitted.

The Joint Statement of Principles

10. This statement contains four agreed principles governing the approach to be adopted towards future negotiations.

(a) a commitment to continue to negotiate to limit strategic arms further in number and in kind.

(b) a reference to the need to strengthen verification and the Standing Consultative Commission in the interests of strengthening compliance with the Treaty.

(c) three specific objectives for future negotiations:

(i) substantial reductions in the number of strategic arms;

(ii) qualitative limitations on strategic arms, including restrictions on the development, testing and deployment of new types of strategic arms, as well as the modernisation of existing strategic arms;

(iii) the resolution of issues included in the protocol.

(d) agreement to consider further measures to enhance strategic stability, including a provision that "each party will be free to raise any issue relative to the further limitation of strategic arms".

/Exchange of Statements on Backfire

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Exchange of Statements on Backfire

11. The Americans have accepted that the Soviet Backfire bomber will not count in the overall limitations on strategic systems but they are looking for assurances on this aircraft outside the formal Treaty. The Russians have indicated that they will provide a unilateral statement giving assurances that they would freeze their current Backfire production rate at "approximately 30" per year and not upgrade the aircraft so as to give it a capability against the United States. The Americans want the production rate to be stipulated precisely at 30 per year and assurances that there will be no significant upgrading of the aircraft's capability.

Unilateral American Interpretative Statement on Non-Circumvention

12. The Americans intend to issue an interpretative statement on non-circumvention for the North Atlantic Council and for Congress. We are still discussing the US draft bilaterally. No draft has yet been considered by the Alliance.

Unilateral American Statement on Theatre Systems

13. The American unilateral statement is designed to reinforce their position on future negotiations. It states that:-

"Any future limitations on US systems principally designed for theatre missions should be accompanied by appropriate limitations on Soviet theatre systems."

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PRIME MINISTER

Comprehensive Test Ban

You will of course know that since July 1977 the United Kingdom has participated in negotiations with the United States and the Soviet Union for a multilateral comprehensive test ban treaty. Much of the treaty has already been agreed tripartitely, but there are a few outstanding and important issues still to be settled, including especially problems relating to verification.

2. I attach a note describing the current state of play in the negotiations and indicating the problems which remain to be resolved. It has been prepared by a small group of officials under Cabinet Office chairmanship and is for information only. Further submissions will be made as and when decisions are required by Ministers.

3. It is convenient to mention one related point at this stage. Difficult scientific and technical questions arise over e.g. stockpile reliability and safety in the absence of testing (see paragraph 7 of the attached note): and we have felt the need for some independent source of advice in addition to that provided by the experts in the Ministry of Defence. Accordingly a small panel of eminent outside scientists was established a few months ago under the chairmanship of Lord Penney to advise on such nuclear weapons matters as might be referred to it:

4. Copies of the attached note are being given to the incoming Foreign and Commonwealth Secretary and the Secretary of State for Defence: but it will not have any wider circulation until you decide whether you wish sensitive matters of this kind to be handled in the Defence Committee or in a smaller group. I will let you have a separate submission on this when your main appointments have been made.

JOHN HUNT

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COMPREHENSIVE TEST BAN NEGOTIATIONS

The United States, the Soviet Union and the United Kingdom have been engaged since July 1977 in negotiations in Geneva on a multilateral Comprehensive Test Ban (CTB) Treaty, to be supplemented by a Separate Verification Agreement (SVA) between the three of them. The greater part of the multilateral treaty has been agreed, but much of the SVA has still to be negotiated.

United Kingdom Objectives

2. Since the Partial Test Ban Treaty was concluded in 1963, the United Kingdom has supported the aim of making the ban comprehensive, by extending it to cover underground tests. This objective is widely shared in the international community. The non-nuclear powers see a CTB as a necessary demonstration of the nuclear weapon states' commitment to nuclear arms control, as a counterpart to their own renunciation of nuclear weapons.

3. The United Kingdom's main objectives in seeking a CTB, which are shared by the United States Administration, are to curb the qualitative development of nuclear weapons without adversely affecting Western security; and to help prevent their proliferation to more countries. The first of these objectives should be met, provided the CTB is properly verified and provided no safety or reliability problems arise in the existing weapons stockpile which are beyond our capability to solve without nuclear testing. The second objective requires the kind of treaty which will attract the adherence of key non-nuclear weapon states, such as India and Pakistan, that have kept open the nuclear weapons option by not adhering to the Non-Proliferation Treaty. This is an aspect to which we have attached special importance since there is disquieting intelligence about the extent to which Pakistan in particular is pressing ahead with a nuclear weapons programme.

Soviet Motives

4. The Russians have long claimed to want a CTB. When President Carter proposed negotiations on assuming office they readily agreed. They share our interest in non-proliferation, and they probably see a CTB as contributing to the process of detente. We have to recognise that no CTB is totally verifiable and we must therefore seek to reduce to a minimum the possibility for the Russians to gain military advantages by cheating (see paragraphs 9-11 below).

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The Scope of the Treaty

5. It has been agreed in the negotiations that the multilateral treaty should ban all nuclear tests in all environments. A protocol, which would form an integral part of the treaty, is to provide for the cessation of peaceful nuclear explosions (PNE). The Russians earlier in the negotiations wanted to exempt PNE, which they argued were necessary in the development of the Soviet economy. But the United States and United Kingdom insisted that PNE should cease, since in their development the same basic technology as nuclear warheads is used and they would inevitably confer military benefits.

6. The Americans intend during a CTB to continue very small nuclear experiments (of yields below 100 lb in TNT equivalent) in order to maintain their technical capability. Such experiments are not nuclear tests in the accepted sense of the term and therefore in our view would not detract from the comprehensiveness of the treaty. The United Kingdom will have similar requirements but no decisions have been taken on any British programme of experiments. Experiments of these very small yields cannot be used to test weapons in the stockpile or to develop new weapons. The Americans will probably want the Russians to accept some understanding that such experiments will not fall within the treaty prohibitions. But the Russians are likely to resist because they can conduct them without detection and see no need for any understanding. This difficult point has yet to be settled.

The Duration of the Treaty

7. The United States and United Kingdom originally proposed unlimited duration. This position was changed in order to take account of possible problems in maintaining the safety and reliability of their stockpiles of nuclear weapons indefinitely without testing. On United States initiative all parties are now negotiating on the basis that the treaty will have an initial duration of three years as advocated by the Russians from the start. But the United Kingdom has made clear that it would have preferred an initial duration of five years, as a greater inducement to non-nuclear weapon states.

8. It is envisaged that during the final year there will be a review conference of the parties to the treaty to consider what should happen on expiry of the initial period. The Americans want the conference to be able to consider all options, including not only the lapsing or extension of the

Treaty, but also its modification, eg by the introduction of a threshold of, say, 3 kt below which testing could be resumed. The Russians insist that the conference should consider only the question of extending the treaty and that this should depend on whether non-parties - ie France and especially China, neither of whom can be expected to adhere to a CTB for the foreseeable future - are conducting tests. The United Kingdom has supported the United States position which would enable us to decide in the light of all the relevant considerations (including the state of our nuclear stockpiles) what should happen after the initial period. In particular we attach importance to keeping the possibility of extension open, so as not to prejudice the chances of adherence to the treaty by key non-nuclear weapon states. This has so far proved an intractable issue.

Verification

9. The multilateral treaty will provide for parties to use their national technical means for verifying the compliance of others with the Treaty; and for an international exchange of data from seismic monitoring stations in many countries. It will also give each party the right to request an on-site inspection of another party's territory, if it has reason to suspect that a violation of the treaty may have occurred. The United States and United Kingdom at the start of the negotiations were still insisting that such inspection should be mandatory. But other means of verification, notably satellite monitoring, have been developed, so that inspection, while still important as a means of checking suspect events, is not as central to verification as in the past. We have accordingly accepted that inspection will be subject to the agreement of the inspected state.

10. In the case of the three negotiating states, these multilateral measures of verification will be supplemented by additional ones in the tripartite Separate Verification Agreement (SVA). This will make clear that refusal of a properly substantiated request for inspection under the SVA would be a serious political matter. It will also spell out the detailed arrangements for inspections between the three parties. We have proposed that the United Kingdom should have a special status in this connection: rather than exercising an independent inspection capability, we should be free to participate in United States inspections in the Soviet Union.

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11. The most important provision of the SVA will be for high quality seismic monitoring installations, known as National Seismic Stations (NSS), to be located on Soviet, United States and British territory. The United States, with British support, is seeking 10 NSS in the Soviet Union, to be installed during the first two years of the treaty. These tamper-proof stations will augment the existing means of detecting, identifying and locating seismic events in the Soviet Union. It is estimated that United States national technical means of verification supplemented by 10 NSS in the Soviet Union would reliably detect seismic events (whether earthquakes or nuclear explosions) in the Soviet Union down to a yield between about 300 tons and about 3 kilotons (TNT equivalent) depending upon whether the event occurred in hard or soft rock. The network would positively identify a seismic event as an explosion (and not an earthquake) at yields three times those levels. This United States verification capability would deter attempts at evasion and have a high chance of detecting Soviet testing at large enough yields to advance nuclear warhead technology. The Russians might hope to get away with very small clandestine tests to check the safety and reliability of warheads in their stockpiles. But under a three year treaty this would be unlikely to bring them militarily significant advantages over the Americans.

12. The Russians have agreed to accept 10 NSS on condition that the United States and United Kingdom each does likewise. They have proposed that 9 of the United Kingdom stations should be in British dependent territories. They have refused to discuss the technical characteristics of NSS (which will govern their performance) and the timetable for installation until agreement is reached on numbers. The United States has accepted 10 NSS. The United Kingdom has agreed to one NSS in the United Kingdom itself (at Eskdalemuir in Scotland) but has maintained that there is no technical justification for NSS in United Kingdom dependent territories. We have argued that NSS are relevant only for monitoring large land masses and would add nothing to the capability of Soviet national technical means, such as satellite observation, to monitor our dependent territories. Moreover they would represent an addition to public expenditure and there may be difficulties over finding enough suitable sites in dependent territories. The Russians have countered that there is no technical case for NSS anywhere under a three year treaty; that they only accepted 10 NSS because they considered that this was a political requirement of the United States Administration (to make the CTB acceptable to Congress); and that it is

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a Soviet political requirement that the United States and United Kingdom should accept "equal obligations". The Americans, at official level, have suggested to us that the present United Kingdom position could endanger the chances of securing the important breakthrough of 10 NSS in the Soviet Union and that we shall have to change it when the negotiations resume (scheduled for 21 May) if progress is to be made. This is another very difficult issue, which will be the subject of a separate submission.

Negotiating Timetable

13. The timetable for completion of the tripartite negotiations is likely to be determined largely by the time it takes to negotiate the details of NSS. That might involve several months of intensive discussion. Meanwhile the Russians recognise that, because arms control proposals are controversial in the United States, the Administration will not wish to reduce the chances of SALT II ratification by submitting a CTB treaty to the Senate before the latter has voted on SALT II.

14. There is no agreement yet on how the treaty should be handled once tripartite agreement has been reached. The Russians favour immediate signature by themselves, the Americans and ourselves. The United States and United Kingdom consider that there will be more chance of persuading key non-nuclear powers to adhere if they are given some part in the preparation of the treaty. We therefore envisage that the tripartite negotiations might be followed by a series of consultations about the resulting treaty with key non-nuclear powers. In the light of these, we would decide whether to sign the treaty or first to submit it for discussion - but not substantive amendment - to the 40-nation Committee on Disarmament in Geneva.

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Northern Ireland

Northern Ireland is likely to become a more urgent political problem following the Election than it has been for many months past. Though the previous Administration tried to make progress with the Northern Ireland Parties with its so-called "framework" proposals, in practice everybody was marking time in the months before the Election. Both the Unionists and the SDLP believed that they stood to gain more after the Election than before, and so neither was prepared to move off its entrenched positions. The Unionists want to return to full devolved government of the pre-1972 Stormont kind. They are firmly opposed to any kind of power-sharing in government with the minority. The SDLP seek to participate in the government of Northern Ireland and they will resist any moves which, in their view, will make it more difficult for them to achieve their long-term aim of a united Ireland. The impression has built up in Northern Ireland that the period of political inactivity before the Election was a prelude to some new initiative by an incoming Government with the authority of a fresh mandate.

2. Expectations are also high in Dublin and the United States. The Irish Republic Government have in general been reasonably helpful to us over Northern Ireland in the recent past, but they are under constant pressure to take a tougher, more nationalist line. One source of that pressure is from the Irish lobby in the United States. The United States Government come under similar pressure from the same direction. The approach of election year in the United States will add to this pressure; recent speeches by Speaker O'Neill and Governor Carey are a foretaste. So far they too have been helpful in their approach to Northern Ireland. But if we are not seen to be taking some early and positive steps to bring about some progress, it will be increasingly difficult for both the Irish and American Governments not to become more critical in private and in public. This would encourage the SDLP to make more extreme demands; and the Unionists would take fright and in turn become even less disposed to compromise.

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3. There is therefore a clear need for the Government to move into a higher gear. But however high the expectations of a new approach by the Government may be, the reality is that the room for manoeuvre is very tightly constrained. The Northern Ireland Office do not have a new blueprint ready to put to the Parties which is likely to solve everything. They have a number of ideas. Some of these are similar to initiatives that have been tried before and failed: others are more imaginative but more risky, and we may well have to consider these. In this situation the role of the person you choose as Secretary of State for Northern Ireland will be crucial. There will be a short period after he takes office when he will have a stock of political credit. If we are to make any progress, he must use this to the best advantage before the sheer pressure of events compromises him in the eyes of one side or the other.

4. I think this means that the Secretary of State should make rapid contact with the Parties and with the Irish Government. He will need to be firm on law and order but to gain the confidence of both communities: this means that he must be seen to be open-minded and without bias in one direction or the other, while at the same time capable of having ideas of his own. He will need to be highly active in private but ready, at least initially, to take a restrained line in public. If he succeeds in getting things off the ground, he will have to handle complex and possibly protracted negotiations.

5. When he has completed his initial round of contacts with the parties, the Secretary of State will need to seek your approval for the way he proposes to try to make progress since it will be essential for him to have a clear objective and to be seen to have the full backing of the Cabinet. Because of the nature of the problem he will necessarily have to operate rather more on his own than most Ministers do; and experience shows that Secretaries of State for Northern Ireland can easily get out of touch with their colleagues.

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Home Affairs, Devolution

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PRIME MINISTER

Devolution

Although no immediate action or decisions are required on devolution, this note is submitted because:-

- (a) Responsibility for devolution at official level has been located in the Cabinet Office itself with a small Constitution Unit working directly to the Lord President of the Council on this issue since 1974.
- (b) You may want to consider whether Ministerial responsibility might now revert to the Secretary of State for Scotland on a view of the kind of changes in the government of Scotland which remain to be considered; devolution to Wales is clearly no longer a distinct policy issue.

2. The draft Orders in Council for the repeal of the Scotland and Wales Acts were laid on 22nd March and survive for consideration in the new Parliament. They require approval by a Resolution of each House. Before the draft Orders are debated, however, you might first want to have reviewed what the Government might propose about possible changes for the government of Scotland and Wales.

3. For Wales, there is a Manifesto commitment to propose a Select Committee for Welsh Affairs. This proposal can be put to the House together with the recommendations of the Select Committee on Procedure for which you have undertaken to provide an early opportunity for the House to come to decisions. There is also a commitment to propose a reformed Welsh Council consisting of representatives of all the county and district councils. No doubt you will look to the Secretary of State for Wales to undertake the necessary consultations with the interests concerned.

4. For Scotland, your Scottish Manifesto also proposed the early establishment of a Select Committee for Scottish Affairs. This too could be pursued in the context of the Select Committee on Procedure's recommendations, without prejudice to whatever might be the outcome of the discussions with other Parties on the future government of Scotland to which you are committed.

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5. As for a possible forum for these discussions, you might want to proceed relatively slowly. Informal soundings of the views of other Parties on what arrangements might attract the widest support would seem necessary. The possibilities could include an all-Party conference of Ministers and Party Leaders, a Joint Select Committee and a Commons Select Committee. But the choice of a forum might in the main depend on what options for change the Government themselves might want to put forward.

6. The outcome of the referendum can be accounted a rejection of an elected Assembly with legislative and executive powers for Scotland alone and it has not so far been possible to conceive alternative proposals for such an Assembly which would be likely to prove more acceptable or provide for greater constitutional stability, particularly in respect of the role of Scottish Members of Parliament. Although a federal system for the United Kingdom as a whole, with a parity of relationships for each of its parts, could accommodate a Scottish legislative Assembly, there is clearly little interest in and less demand for so fundamental a change in the country as a whole.

7. Although it might not be possible to avoid discussion of these options given the policies of other Parties, and both were included in the draft of a submission for an all-Party conference published by the Conservative Party last December, the remaining options proposed for discussion in the draft were:-

- (a) Further changes to House of Commons procedures for Scotland, including a greater role for the Scottish Grand Committee which might meet when practicable in Scotland.
- (b) An inquisitorial Assembly constituted from representatives of local government or other interests, although this could result in a conflict of role with a Scottish Select Committee and might not be welcomed by Scottish Members. If elected, an Assembly of this kind would more acutely provide for uncertainties about representation and could foster political instability.

8. You will want a considered political judgment on this issue in the light of the experience of the election campaign in Scotland but, on a preliminary view, the course of action might be:-

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- (a) Repeal of the Scotland and Wales Acts.
 - (b) As a first step, propose a Select Committee for Scottish Affairs and that all-Party consideration might be given (for example, by the Select Committee on Procedure and the Scottish Grand Committee) to other possible changes in House of Commons procedures for Scotland.
 - (c) Consider in the longer term whether some different all-Party forum should be constituted to consider other possible changes for the government of Scotland on a view of what the Government itself might wish to propose.
9. You might want to invite the Secretary of State for Scotland to take the lead in developing proposals.

(John Hunt)

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PRIME MINISTER

House of Commons Procedure: Open Government:
Official Secrets

The Government are likely to be asked early in the new Parliament whether they support the immediate reorganisation of the Select Committees to monitor the work of Departments, as proposed in the Report of the Procedure Committee. Or alternatively whether, at least for the time being, they favour the appointment of select committees on the existing basis.

2. In the Manifesto you undertook to give the House the early chance of coming to a decision on the Report. You may like to seek the Lord President's advice on the handling of its various recommendations and on the extent to which the Government should commend them to the House. The Cabinet Office are preparing a fuller note for him.

3. The Procedure Committee's proposals have some links with Open Government and Official Secrets; in particular there is the recommendation that select committees should have wider powers to order the attendance of Ministers and the production of papers and records. The Government will wish to consider this carefully. With its reference to the release of documents, it ties in with Open Government and raises some of the questions discussed in the previous Administration's Green Paper. The counterpart of open government are official secrets and the acknowledged need to amend Section 2 of the Official Secrets Act. The two subjects were, of course, taken together in Mr. Freud's Freedom of Information Bill.

4. You may think that it would be worth having the three issues examined together by a group of Ministers under the chairmanship of the Lord President: if so, I could let you have advice on composition. Alternatively, you could invite the Lord President to advise urgently on the

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Procedure of the House, the Lord Privy Seal to work up proposals on open government and the Home Secretary to bring forward a Bill to amend the Official Secrets Act.

5. Assuming that there will in due course be much more systematic openness in Government, there is a case for correspondingly tighter control over the unauthorised disclosure of material which continues to be restricted. The last Government had an increasingly bad record for leaks, and you may want to set a different tone from the outset.

John Hunt

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Euro P.D.

Future Policy towards
EEC

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PRIME MINISTER

European Issues

The new Government faces both a challenge and an opportunity in Europe - a challenge because it has a number of difficult negotiating objectives (not all that dissimilar from those of its predecessors) in respect of our contribution to the EEC Budget, a freeze on farm prices, etc.: and an opportunity because a greater commitment to Europe expressed publicly and in direct contact with our partners will ensure a more sympathetic hearing.

2. The attached paper sets out the main issues which will need early discussion and on which fuller Departmental briefing is of course being submitted. On agricultural prices for 1979-80 there will be meetings of the Agriculture Council probably coming to a crunch at the end of June; and "Convergence", which from our point of view means our net contribution to the Community Budget, will be a key subject for the European Council on 21st-22nd June. The Government will therefore need to take an early decision on how it is going to play its hand.

3. Tactics will be very important. There are a number of areas where we could show a more forthcoming attitude without any detriment to our substantive negotiating objectives. For example -

(a) EMS: even if the new Government does not want to take an early decision on joining the exchange rate mechanism, we can deposit 20 per cent of our reserves against the issue of ECUs. This would cost nothing in practical terms but would be an important gesture of support for the EMS and would be confirmation of an open-minded approach to the concept of a zone of monetary stability in Europe consistent with the mainstream of Community development.

(b) There are a number of issues which are not intrinsically of great importance but where the United Kingdom is blocking otherwise unanimous Community decisions simply because they imply an extension of the Community's role. These include a number of maritime and environment matters, such as signature by the Community of Protocols to the Bonn and Barcelona Conventions.

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- (c) We are in dispute within the Community on certain state aid questions which the new Government's attitude to subsidies would make it easier to resolve.
- (d) Energy in particular is an area where our favourable situation leaves room for us to play a more co-operative role within the Community without any sacrifice of our vital interests in relation to North Sea oil.
4. The fact that, in the last two or three years, the mood of the Community has changed and there is less emphasis on supranationalism, and a greater readiness to accommodate different national requirements, makes it easier for us to move on all these fronts.
5. But it would be wrong to do so without regard to the value of such moves in relation to our major objectives on the CAP and the Budget. The last thing we should do is to give the impression that the United Kingdom is now a soft touch, or to arouse exaggerated expectations. On the fisheries issue, for example, we have important interests to defend, although there are strong arguments for seeking an early settlement to safeguard fish stocks and before Spanish entry to the Community. The timing of moves on those matters where we could be forthcoming will need very careful consideration in relation to the sort of response we are getting from other member Governments on issues of crucial importance to us.
6. Ministers may feel however that there is a strong case for an early statement in Parliament and possibly in the Council, which would set a new tone from the outset and establish a momentum towards solving problems rather than digging into opposing trenches. This could be based on Chapter 6 of the Manifesto showing a genuine wish to co-operate with our partners combined with firmness on matters which are of real importance to us.
7. Copies of the attached paper, but not of this covering minute, are being given to the Foreign Secretary and other Ministers concerned with European questions.

(John Hunt)

EEC : SURVEY OF MAIN CURRENT COMMUNITY ISSUES : MAY TO JULY

INTRODUCTION

1. This paper sets out the major issues which will be discussed in the Community during the summer and on which Ministers will need to take positions. The issues will be dealt with in more detail in departmental papers. Ministers may however find a tour d'horizon useful since effective negotiation in the Community requires a coherent policy across the whole range of Community questions. The policy priorities need to be set clearly and pursued consistently; and negotiating capital saved for issues which are of real importance to British interests.

2. Our main concerns are the related problems of the UK contribution to the Community Budget and the excessive cost of the Common Agricultural Policy. Both will be live issues in the next two months. The Commission have proposed a price freeze for 1979/80 as the beginning of an attempt to eliminate agricultural surpluses and this awaits decision in the Agricultural Council (paragraphs 12 to 15 below). The European Council on 21/22 June will as usual be a focal point for discussion of the main Community and world issues. There will be continued discussion of the impact of the Community Budget on the economic performance of individual Member States (paragraphs 6 and 7 below). As this will be the first European Council after the general elections in the UK and Italy and probably with a new Government in Belgium as well, it could be an important opportunity for a new look at this problem, though a single meeting is unlikely to prove a decisive turning point.

3. The EMS (paragraphs 9 to 11 below) and the Common Fisheries Policy (paragraphs 16 to 18) will also require decisions in the period. In other areas of less importance (eg certain environmental and maritime proposals - see paragraph 22 below) there are outstanding UK reservations which are preventing agreement.

4. The Community as a whole has other preoccupations: the general economic situation (likely to be discussed at the European Council in the context of preparations for the Tokyo Summit on 28/29 June), enlargement (paragraphs 26-30)

below), and the Direct Elections to the European Assembly on 7-10 June: the Community will be running a short campaign to give these elections publicity and other Member States will watch with close interest the line taken by the Government and its supporters in the campaign.

5. Against this background, and the forthcoming programme of Community meetings requiring Ministerial attendance (at Annex), the paragraphs which follow outline the state of play on the main problems.

THE COMMUNITY BUDGET AND CONVERGENCE

6. The latest Commission figures show that, on the interpretation of the figures which we favour, our net contribution in 1978 was £747 million - the largest net contribution to the Budget. (The figures depend on the treatment of monetary compensatory amounts (MCAs) on which there is an unresolved dispute; but even on the basis of the least favourable interpretation the UK emerges as the second largest net contributor. The problem can only get worse as long as 75 per cent of the Budget goes on the CAP. In our view the less prosperous Members of the Community should not be significant net contributors to the Budget. The immediate UK interest is to secure acceptance of the principle that net resource transfers resulting from Community policies, taken as a whole, should contribute to convergence by being properly related to the relative economic strengths of Member States. Once this principle is secured, and its application to the UK is accepted, there are a variety of ways in which the alleviation of the UK budgetary burden can be sought.

7. Though some progress has been made in getting the rest of the Community to accept that a problem exists, there is still great resistance to doing anything about it from all except the Italians, who have been useful allies. The task for the UK at the June European Council will be to get agreement that a problem exists, that a specific solution is required in terms as close as possible to those in paragraph 6 above and that a mandate be given to the Commission to make proposals for remedial action in time for decisions at the December European Council. Before then, meetings of the Finance and Foreign Affairs Councils will provide opportunities for discussion of this question and for a statement of UK policy.

EUROPEAN MONETARY SYSTEM

8. This is a major issue in its own right which Ministers will wish to consider carefully. The EMS started on 13 March 1979. The UK does not participate in the exchange rate and intervention mechanism but does participate in other aspects, notably the introduction and development of the ECU (the European Currency Unit, a basket unit comprising weighted proportions of all Community currencies), the expansion of the Community's medium term credit facility and the long term goal (scheduled for two years after the start of the system) of the creation of a European Monetary Fund.
9. An early question the UK faces is whether to deposit 20 per cent of our gold and dollar reserves with the European Monetary Co-operation Fund in return for which we shall receive ECUs. We can do this at any time, but if an affirmative decision is taken there would be political advantage in making these deposits at the earliest moment since this action would help to confirm that the UK does have a commitment to the EMS even though we are not participating in the exchange rate mechanism.
10. The EMS will be discussed at the Finance Councils on 14 May, 18 June and 16 July. In September 1979 there will be a review of the functioning of the divergence indicator, an aspect of the EMS which has been considered to be of particular importance to the UK in that it is a way of putting pressure on strong currencies corresponding to the pressure weaker currencies experience in using reserves to maintain their levels within the margins. The review provides a natural occasion for re-examination of the question of UK participation in all aspects of the EMS.

COMMON AGRICULTURAL POLICY (CAP)

11. The immediate issue for Ministers will be the Government's attitude towards the Commission's proposal for a price freeze for 1979/80. Negotiations have been suspended during the United Kingdom Election. In the meantime various changes have been made in "green currency" rates, including a 5 per cent devaluation of the Green Pound.

12. Currency fluctuations and the measures taken to operate the CAP in spite of them - green rates and monetary compensatory amounts - mean that prices in national currencies have diverged markedly from the agreed 'common' price. German prices, the highest, are now some 30 per cent higher than UK prices, the lowest. High common prices, exacerbated by even higher German prices, inevitably produce surpluses and increase the United Kingdom contribution to the budget and the resource costs of importing food. The United Kingdom's interest, as far as the CAP itself is concerned, is to reduce the cost of the CAP and to eliminate structural surpluses.

13. The United Kingdom can secure a price freeze if the Commission stands firm on its proposals and the United Kingdom refuses to accept any increase, since the Council may change the Commission's proposals only by unanimity. If the Commission were to yield to pressure from other member states for price increases, and change its proposals, the Council may then accept them by a qualified majority and the United Kingdom might have to invoke the Luxembourg Compromise to assert a right of veto in order to enforce a freeze. The freeze is not generally popular. Italy still supports it in a rather half hearted manner but may well allow itself to be bought off. The countries with positive MCAs, Benelux and Germany, are determined not to agree to a fall in their agricultural prices in their own currencies. They therefore insist that only a price increase will enable them to begin to dismantle their MCAs. Denmark and Ireland who effectively have no MCA might accept a freeze on products in surplus (milk and sugar - perhaps cereals). France is anxious for some price increase, not least as a method of securing some reduction in positive MCAs.

14. The next Agriculture Council is scheduled for 8 May (but not to deal with prices). There is to be an informal Council meeting from 14-15 May at Perpignan, and the next Council is fixed for 18 June. It is possible that additional Council meetings will be added in order to speed up the price fixing. Meanwhile, prices remain fixed at last year's level.

COMMON FISHERIES POLICY (CFP)

15. The immediate problem is on conservation measures. HMG must decide whether to implement certain conservation measures which have already been announced in Parliament as coming into effect on 1 June but which may well

be challenged in the Community. Conservation is also likely to be a prominent aspect of the next Fisheries Council which will probably be during June. Three UK national conservation measures taken in 1978 were challenged by the Commission and are now before the European Court and generally the UK's freedom of manoeuvre on conservation is narrowing.

16. On the general internal regime for a modified Common Fisheries Policy there have been long and inconclusive discussions. The UK's principal requirements in the areas in dispute have been: virtually exclusive access for UK fishermen within 12 miles of the entire UK coastline; preferential access for UK fishermen in wide areas beyond 12 miles; an adequate conservation regime including the residual right to take national measures; a greater percentage allocation of catch quotas than is envisaged under the present Commission proposal; and a preferential share of any growth in fish stocks. The question of preferential access is the most difficult. The Eight and the Commission argue that the UK demands, particularly beyond 12 miles, are in conflict with the principle of equal access accepted by the UK (with temporary derogations) in the Treaty of Accession. The Community has been waiting for a general election in the UK and may now hope for a new approach from HMG.

17. The Community's external fisheries regime is unlikely to present critical problems in the period. Annual arrangements on reciprocal fishing access have been concluded for 1979 with the other countries concerned, notably the Faroes, Norway, Sweden and Spain. However, the UK has withheld its agreement to the signature of longer term framework agreements with third countries pending progress on the internal regime. The Government will need to decide whether to maintain these reserves and more generally the extent to which parts of the CFP package should be linked.

INDUSTRIAL, REGIONAL AND INTERNAL MARKET QUESTIONS

18. Attempts to set up a general Community industrial policy have been unsuccessful but the similarity of problems throughout the Community has led in particular sectors to a readiness to find some common policies. On steel, there is in operation a regime for trade between the Community and third countries. A draft Decision determining the conditions under which aids to the steel industry may be granted is opposed only by the UK and

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Italy and there will be pressure to agree to a steel aids decision before the summer . The Commission are pressing for the adoption of guidelines for a Community policy on textiles. For shipbuilding the Fourth Directive agreed in 1978 sets out the conditions under which aids can be granted . The Commission has raised difficulties over certain proposed aids to British Shipbuilders and Harland and Wolff , and has not approved a renewal of the Intervention Fund. It is also still considering whether the last Government's proposal for an Employment Development Aid is compatible with competition policy .

19 . The Community's funds for non-agricultural purposes are still small but there is an awareness of the imbalance in the pattern of Community spending. The Regional Development Fund has recently been increased to approximately £600 million for 1979 and may be further expanded in the context of enlargement. The Social Fund, which aims to alleviate unemployment by supporting training schemes, will dispose of some £500 million in 1979. On both these Funds, we receive a higher share (27 per cent of the Regional Fund and 20-35 per cent of the Social Fund) than our share of contributions. Proposals for concerted action to combat unemployment (such as an agreement on shorter working hours) have been discussed but there is little sign of early Community agreement. Other schemes are under discussion including a fund for industrial restructuring, a fund for transport infrastructure and a subsidised loan scheme for projects of Community interest. If these or other schemes are pursued we need to ensure that the criteria will benefit the United Kingdom eg by focussing on the United Kingdom's regional problems and the economic disadvantages of our peripheral location, ageing infrastructure and high concentration of declining industries .

20. Progress towards the completion of the common market through the elimination of non-tariff barriers has been slow but could be accelerated if there were a common political will to achieve results . The United Kingdom has stimulated proposals for progress towards a genuine common market in fields where United Kingdom industry is likely to prove competitive eg insurance and motor vehicle components; but has in general shown an aversion to "harmonisation" proposals (under Article 100 of the EEC Treaty) which have not always been justified in terms of their beneficial trade effects.

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21. There are a number of proposals in the environmental and maritime fields on which the United Kingdom has reserves, because of their possible implications for the "competence" of the Community although they do not raise matters of significant practical importance for the United Kingdom. These include proposals on aircraft noise control, ship inspection, and Community Accession to the Bonn and Barcelona Marine Pollution Conventions.

EURATOM

22. A discrepancy exists between the extensive powers accorded to the Commission in certain areas of the Euratom Treaty and the limited role it actually plays in nuclear trade. European Court judgements have confirmed that the provisions of Chapter VI of the Treaty remain in force even though unused. The United Kingdom has argued that Chapter VI of the Treaty should be amended as provided for in the Treaty itself. We have also argued that responsibility for non-proliferation controls and conditions applied to nuclear trade within or outside the Community should remain in the hands of Member States. French views on these points are similar and they have been taking the lead. Opposition can be expected, particularly from some of the smaller Members. Discussions on non-proliferation is expected to begin in political co-operation in May. Commission proposals relating to Chapter VI of the Treaty itself are also expected soon. Discussion will also continue of a mandate for the Commission to negotiate a safeguards agreement which will enable deliveries of Australian uranium to be made to the Community; our own bilateral agreement with the Australians will also need to be authorised by the Commission.

ENERGY

23. The Community has had great difficulty in moving towards its consistently stated objective of a common energy policy despite the pressures of a turbulent world energy situation. The significantly different energy endowments and different economic strengths and weaknesses have made agreement very difficult. Our relatively strong energy situation gives us something potentially to contribute; others would welcome a lead, but up to now we have shown greater concern to avoid encroachments on our national competence. At the last meeting of the Council of Ministers (Energy) on 27 March, the main emphasis was put on the national energy programmes of Member States. The Community's role was seen as agreeing common objectives, for example on reduced dependence on imported oil; comparing national energy programmes and their adequacy to meet these objectives; and considering whether there are any gaps

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which might usefully be filled by Community action . In line with this approach the Council commissioned a study of national policies; work on a long term outlook for world oil supply; and work on the development of Community coal policy (which could benefit the United Kingdom provided the terms are right). There is likely to be a short meeting of Energy Ministers on 17 May to consider the difficult oil supply situation resulting from the Iranian crisis, but the Council will return to the main questions of Community energy policy on 25 June and Ministers will wish to reassess the United Kingdom line .

24. An issue on which an early decision is likely to be required by Ministers is the handling of our Interest Relief Grant (IRG) Scheme for offshore supplies . We know that the Commission have already approved in principle a Decision requiring us to abolish the scheme although they have not yet formally communicated this to us (because of the General Election). If we do not comply with the Decision we would risk being taken to the European Court (where we would be likely to lose). The Commission have also queried other important aspects of our North Sea policies - the requirement under which all North Sea oil must be landed in the United Kingdom unless a specific exemption is granted, the policy of ensuring that British industry has "full and fair opportunity" to compete for North Sea business; and the requirement for United Kingdom Continental Shelf licences to have their central management and control in the United Kingdom. A further approach can be expected from the Commission after the Election.

ENLARGEMENT OF THE EUROPEAN COMMUNITY

25. Although there are still some questions to be resolved which are sensitive for the United Kingdom, the negotiations for the enlargement of the Community are generally proceeding satisfactorily.

26. The Greek negotiations have been virtually completed and signature of the accession Treaty is due to take place in Athens on 28 May. The Prime Minister and the Foreign and Commonwealth Secretary have been invited to attend). Greece is likely to enter the Community on 1 January 1981. There will be a transitional period of five years (seven in certain sectors, eg the free movement of labour).

27 . Negotiations with Portugal began formally in October 1978, but the main substance will not be tackled before the summer break and is unlikely to be settled before the end of 1980. This suggests signature of a Treaty in 1981 with accession perhaps on 1 January 1983. Since the Portuguese economy is weak a transitional period of ten years in some sectors may be necessary.

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28 . Spain with a population of 36 million presents larger problems than Greece (population 9.1 million) and Portugal (9.7 million). The Spanish market has so far been relatively protected from EEC industrial exports which can therefore expect to benefit from Spain's accession. On the other hand there will be problems for Community producers of Mediterranean agricultural products , and on textiles and fisheries . The negotiations with Spain opened formally in February with the substantive phase due to start after the summer break . Spain might enter the Community together with Portugal in 1983 with a transitional period of perhaps eight years.

29. Fears have been expressed on the effect which enlargement will have on the workings of the Community's Institutions. It will be more difficult to reach a consensus on certain matters with 12 members than ine; and the Community will have three new official languages . The risk of stratification of the Community into more and less prosperous members may be increased. The Committee of three Wise Men, including Mr Edmund Dell, is looking into some of these problems and is due to report in the Autumn.

EXTERNAL RELATIONS

30. The Community's external relations cover a wide field of economic activity , but give rise to few major immediate problems for the United Kingdom. Now that the GATT Multilateral Trade Negotiations (MTNs) have been initialled by the main participants (though not yet by the development countries), the main item on the Community's external agenda in the coming months concern the re-negotiation of the Lome Convention and the Community's policy at the May meeting of UNCTAD V. Also under active discussion are the Community's relations with Japan, Yugoslavia, Turkey, CMEA and China. Later in the year decisions will be needed on the post 1980 Generalised Scheme of Preferences (GSP), and on the lending commitments of the European Investment Bank (EIB) after 1981.

31. Under the present Lome Convention 57 African, Caribbean and Pacific ACP) states (which include 27 Commonwealth countries) enjoy an advantageous aid and trade relationship with the Community. This expires in March 1980 and a successor agreement is currently under negotiation. The final Ministerial conference to settle its terms is due to be held in Brussels on 24/25 May. The

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last Foreign Affairs Council at which the Community's position can be discussed is that of 8 May, though it is possible that a further special Council will be needed for this purpose, perhaps just before the 24/25 May meeting. One important decision required will be the amount of EEC aid to be offered under the new Convention.

32. UNCTAD V opens at Manila on 5 May. The co-operation of Community positions was discussed at the March and April Foreign Affairs Councils and the 8 May Council is likely to approve detailed positions now under intensive discussion in Brussels.

33. Trade relations between the EEC and Japan are under some strain. Negotiations are in progress for a new preferential trade agreement with Yugoslavia. Turkey presents important and urgent economic problems for the Community. Negotiations with the Soviet-dominated CMEA to which the Eastern Europeans and the Soviet Union belong have arisen because the CMEA has insisted that there should be an EEC/CMEA trade agreement before CMEA members would be entitled to negotiate bilaterally with the Community. The Community agreement with China was signed in 1978 and has given rise to practical problems, including access for Chinese textile exports. There are also unresolved problems with Malta, Cyprus and Turkey over access for textiles.

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FORTHCOMING COMMUNITY MEETINGS REQUIRING THE ATTENDANCE OF MINISTERS
(To be revised)

May

8	Foreign Affairs Council (Brussels)
8	Agriculture Council (Brussels)
12-13	Foreign Ministers' informal meeting (Cahos)
14-15	Agricultural Ministers' informal meeting in Perpignan
14	Finance Ministers (Brussels)
15	Social Affairs Council (Brussels)
15 or 22 (subject to cancellation)	Research Council (Brussels)
17	Energy Council (Brussels)
22	Standing Committee on Employment (Brussels)
24-25	ACP/EEC Ministerial Negotiating Conference
28	Possible signature of Greek Accession Treaty in Athens
29 (provisional)	Foreign Affairs Council (Brussels)

June

12	Foreign Affairs Council (Luxembourg)
11-12	Agriculture Council (Luxembourg)
13	Transport Council (Luxembourg)
18	Agriculture Council (Luxembourg)
18	Finance Ministers (Luxembourg)
18	POCO Ministerial (Paris)
19	Environment Council (Luxembourg)
21-22	European Council (Strasbourg)
25	Energy Council (Luxembourg)

July

16	Finance Ministers (Brussels)
16-17 or 23-24	Agriculture Council (Brussels)
23-24	Foreign Affairs Council (Brussels)

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PRIME MINISTER

Energy Issues

The free world uses about 7,000 million tonnes of coal equivalent of energy a year. About 50 per cent of this is oil, about 20 per cent coal, about 20 per cent natural gas, about 7 per cent hydroelectric power and about 3 per cent nuclear. Most of the non-oil energy is consumed near the point of production. Oil is the balancing fuel. About 45 per cent of the free world's oil is produced in the Middle East and 90 per cent of this enters international trade.

2. With the exception of the United Kingdom, Norway and Canada, the industrialised Western countries are all heavily dependent on imported oil to maintain their economies. The USA imports 40 per cent of its supplies and takes nearly 20 per cent of the oil moving in international trade - mostly from the Middle East. The EEC countries import something over half of their combined energy requirements, again mostly oil and mostly from the Middle East. Japan imports 90 per cent of her energy - once again mostly as oil and mostly from the Middle East.

3. The United Kingdom has an especially favoured position among Western nations in terms of energy supply. By next year we should be producing as much energy as we consume - though because our oil is mostly valuable high-quality crude, and two-thirds of our requirements can be met adequately by cheaper low-quality crude, we will remain substantial international traders in energy.

4. The heavy dependence of the Western industrialised countries on Middle East has become a point of danger. The price-fixing activities of the OPEC cartel have imposed very heavy burdens on the Western economies and have threatened the stability of the world financial system. The vulnerability of the West to interruptions in oil supply has been underlined by recent events in Iran. But Iran provided only about 10 per cent of the world's oil consumption. Saudi Arabia produces nearly twice as much.

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5. Against this background energy issues loom large on any Government's agenda. Internationally we are joined, through our membership of the International Energy Agency, in a joint effort with the industrialised West to cut oil consumption. Nationally we are seeking to save energy and need to devote a substantial effort to the production of our own energy supplies.

6. As three (coal, gas and electricity) of our energy industries are in national ownership and the fourth (oil) has a considerable public stake (BNOG plus the Government's share in BP and the necessary Government involvement in the regulation, licensing, taxation and control of the North Sea) a good many energy issues inevitably come to the Government for decision. The Department of Energy is of course in the lead in these matters but other Departments, notably, but not exclusively, the Treasury, the Foreign and Commonwealth Office and the Scottish Office have a locus, and a high proportion of the necessary decisions require to be taken by Ministers collectively. The following paragraphs describe briefly the main issues which you and your colleagues may face on energy matters over the coming months.

Issues

7. Oil consumption: In order to achieve the target 5 per cent reduction in oil consumption to which we have committed ourselves in the IEA and to accommodate to a rather similar EEC decision, we have now embarked upon the policy of increasing the burning of coal in power stations through the summer months. But our ability to continue the effort next winter is in doubt, partly because the hard winter has run down our coal stocks and partly because of uncertainties about coal production - and transport capacity - next winter. You will want to satisfy yourself that continued increased coal burn can be accommodated at a reasonable cost and without reducing coal stocks to a dangerous level (and thus affecting the Government's bargaining position with the miners). Among other matters this raises the difficult question of coal imports. An early situation report is needed from the Department of Energy.

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8. Coal: Linked with this is the dreadful financial position of the National Coal Board (NCB), with a prospective loss of around £300 million in 1979-80. To keep within the cash limits will probably require either cutting back heavily on investment or closing uneconomic pits, together with a substantial further increase in coal prices in the autumn (perhaps to levels which affect the NCB's ability to keep its market share). In simple economic terms the choice is clear, but pit closures will not be easy. Imported coal is substantially cheaper than that of our marginal pits and you will wish to consider what place imports should have in our economy. A particularly important case is fuel for the steel industry as further imports of coking coal have recently been the subject of licensing controls. These fundamental questions will arise naturally over the next few months when the Government come to consider the long-term coal policy review on which officials are now working.

9. Nuclear energy: We are at present committed to building two new advanced gas-cooled reactors (AGRs) and to proceeding with design and development work on a pressurised water reactor (PWR). The organisation of the nuclear construction industry is in disarray. There is a general wish to change the structure of the National Nuclear Corporation, ownership of which is currently vested partly in the public and partly in the private sectors and in which GEC have the management contract. GEC were strong protagonists for the PWR and since the decision was taken to go ahead with additional AGRs, they have indicated their wish to pull out of the business. The uncertain future of the industry has led to the loss of key staff and continuing low morale. You will need therefore to consider quite quickly what needs to be done to prevent the industry drifting further and to remove uncertainties about its future. Decisions are also needed fairly soon on our policy towards Fast Breeder Reactors (FBRs). In particular a decision is needed on whether we should go ahead with a first commercial FBR and, if so, whether it should be built on the basis of international collaboration. This is likely to be a difficult decision not least because of the great

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uncertainties of what will necessarily be a very expensive project. There are those who would advocate not proceeding with an FBR at all, relying on thermal reactors (AGRs or PWRs) until such time in the 21st century when fusion may provide virtually unlimited low-cost energy. But either route involves a highly risky gamble. Department of Energy are in the lead and you will want early proposals from them over the whole nuclear field.

10. Interest relief grants: Interest relief grants under the Industry Act have been used for some years as a means of stimulating the United Kingdom offshore supplies industry. They are currently under attack from the EEC as a distortion of competition and there are growing doubts in Whitehall whether they still represent value for money. There is a strong possibility that the EEC Commission will initiate legal proceedings against us over these grants and a very early review of their effectiveness will be needed.

11. Taxation of North Sea Oil: Your Party is now committed to making the changes in Petroleum Revenue tax proposed by the previous Government. As world oil prices rise the possibility of extracting yet further Government revenue from the North Sea will present itself. This is a matter for the Chancellor of the Exchequer in the first instance, but you will want to keep the possibility in the back of your mind.

12. British Gas Corporation profits: The British Gas Corporation is highly profitable, partly because it enjoys some very favourable supply contracts from the earlier North Sea fields and partly because its prices to the industrial consumer are related to the price of oil and rise with it. As a result the Corporation is actively and massively repaying its debts to the Government. You will want to consider whether there is a case for clawing back some of this profit in a more direct way. This, too, is primarily a matter for the Chancellor but again you will want to bear the possibility in mind.

13. North Sea Oil and Gas Depletion policy: So far the exploitation of oil and gas from the North Sea has been on the basis of maximum exploitation for maximum short-term benefit to the economy. The time may however be approaching when we need to assess anew the balance between short-term gains and the possible longer-term advantages of spinning out our reserves. No

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immediate decisions are needed because the sixth licensing round has just been completed and there is a legacy of past promises to those holding earlier licences. Nevertheless future decisions on licensing and to an extent production from existing finds require to be based on a view of the most nationally advantageous profile of future production. The Department of Energy keep these matters under regular review and you might care to ask for a paper to come forward later in the year.

14. Electricity: Decisions in the nergy sector are characterised by long lead times, none more so in electricity generation where power stations have to be ordered 7-10 years ahead of forecast need. Past decisions mean that we have a good deal of apparently spare capacity in hand or on order. Current demand on the power plant industry is therefore low and it is desperately short of work. It is difficult to believe that the two turbine manufacturers - GEC and NEI(Parsons) - can both stay in the business and early rationalisation may be inevitable. There are substantial regional employment implications and you may wish to commission an early review from the Departments of Industry and Energy as a basis for later decisions.

15. The Role of the BNOC: BNOC is at present a producer and trader in oil, adviser to the Government on oil matters and an important instrument in carrying out the previous Government's participation policies. You will want an early review here so that the future course of the BNOC can be charted in ways acceptable to you. Linked with this is the future of the existing "participation" agreements with the private oil companies. Views about their real importance vary and there is some doubt about their legal validity. The Department of Energy should be asked for advice.

16. BP: The Government is the major shareholder in BP and its relations with that company are of prime importance. You will want to consider whether the Government prefers to reduce its shareholding (remembering that 17 per cent of the Company's shares are held by the Bank of England as a result of the Burmah rescue operation and their ownership is currently a matter of legal dispute).

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17. Disposal of North Sea Oil: The previous Government erected three non-statutory guidelines for the disposal of oil from the North Sea. These guidelines covered the proportion of North Sea oil which it was felt desirable to refine in the United Kingdom; the maximum length of contracts for the sale of North Sea oil; and the restriction of North Sea oil imports to member countries of the EEC and the IEA. The issues are complex and link with foreign policy, not only through the IEA and the EEC but also through the recurring questions of the possible supply of oil to Israel and South Africa. You will want an opportunity to confirm, alter or abandon the guidelines.

18. Energy Conservation: The Iranian situation showed clearly how vulnerable was the world in general and the West in particular to even a marginal and temporary interruption in oil supplies and it jolted the IEA countries to make further immediate efforts towards energy savings. By international standards our present policies are reasonably good, but there is no doubt that more can be done. A number of proposals are in preparation by officials. As some involve extra Government spending you will want to take decisions in time for them to be reflected in the public expenditure review.

19. Energy Prices: Soundly-based energy prices are the key to energy conservation, to the financial health of the energy industries and to the Government's tax take or expenditures on energy supply. Oil prices are set externally by the world market and you presumably would not wish to seek to hold down our domestic oil prices artificially. The price of coal and natural gas follow oil prices (not always very closely) and there is no national economic advantage to be gained by seeking to interfere in this process. Electricity prices follow from the costs of the primary fuels used and the very heavy capital costs incurred in providing new generating capacity. Given the strength of the OPEC cartel it is likely that energy prices will in any case tend to rise in the long run faster than prices in general. More immediately a substantial increase in coal prices seems inevitable in the autumn which will have a consequential effect on electricity prices. In the normal course of business both of these decisions would come to Ministers for endorsement.

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There are however two underlying energy price issues which you may also care to have examined. The first relates to gas prices where those for domestic supplies, unlike industrial sales, are currently below the oil-related price. Should they be increased in the interests of conservation? Both the coal and electricity industries will argue that they currently suffer unfair competition in their domestic sales from gas. The other issue relates to current cost accounting. The BGC's accounting practices already come close to full CCA depreciation. But the depreciation practices of both the NCB and the Electricity Supply authorities fall well short of this. The effects of full CCA depreciation could be particularly dramatic for electricity. You may think that Ministers should be presented with the arithmetic so that they can take a conscious decision on the issue.

Conclusions

20. The energy sector will present your Administration with a series of challenging and complex problems of great national significance. It would be well worth while asking the new Secretary of State for Energy, in consultation with interested colleagues, to let you have quickly a full list of the main issues that need to be tackled together with a considered timetable for bringing them forward for collective consideration.

John Hunt

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PRIME MINISTER

PAY AND CASH LIMITS

This note seeks briefly to summarise the main features of the pay scene and prospects at the outset of your Administration. In the light of your Manifesto it is largely concerned with pay in the public sector.

Pay determination machinery

2. You have inherited five formal pieces of pay determination machinery.

They are:-

- (a) The Civil Service Pay Research Unit and Pay Research Board.
- (b) The new Standing Commission on Pay Comparability.
- (c) The Armed Forces Review Body.
- (d) The Doctors and Dentists Review Body.
- (e) The Top Salaries Review Body.

3. The first three of these base their recommendations on "comparability" (i. e. the systematic assessment of the going 'rate for the job'). The last two are influenced by comparability but their recommendations, e. g. on doctors or Members of Parliament, also have a judgmental content. The PRU and the three Review Bodies have a long history and well-established procedures and techniques. The Standing Commission is new and reflected a decision by the previous Government to allow a substantial extension of the comparability principle into pay determination in the public service in its widest sense, i. e. in all of the public sector excluding only trading bodies like the nationalised industries. Although new, the Standing Commission already has a number of remits to fulfil extending from local authority manual workers to nurses. You will wish to consider at an early stage whether to accept the continuation of these various pieces of machinery and in particular whether to seek to cut back on the Standing Commission or to continue to leave it available to any public service group in the non-trading public sector where both sides agree to call on its services.

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4. The previous Government had already begun the process of seeking to establish an annual economic assessment with the TUC and the CBI to inform future wage bargaining. You are committed to a rather similar idea in your Manifesto. If progress is to be made an early start is needed. The idea has long been advocated by the CBI and you should find a ready acceptance by them. The TUC, on the other hand, may seek to claim that the understandings they had reached with the previous Government were specific to that Government and that all bets are off. Such an attitude is however more likely in relation to their commitment to achieve a reduction in the rate of inflation to below 5 per cent by 1981 (where the TUC would in practice have found it very difficult to agree on the specific implications of honouring that commitment) than to taking part in a joint assessment of the economic outlook. The trouble of course is that no economic assessment can be divorced from policy on taxation and public expenditure, where views are influenced more by political judgment than by cold analysis, so that a tripartite agreed analysis is probably not attainable. Nevertheless the process of education is valuable in itself as is the impact of discussion on expectations. German experience is particularly relevant here. You will need to arrange for early thought to be given on the best way of proceeding.

Early public sector cases which will require Government decision

5. Large parts of the public services and the nationalised industries have already concluded their pay negotiations for this year but there are a number of outstanding issues and negotiations still to be settled. The most important of these are likely to be:-

- (a) Armed Forces. You are committed to increase the pay of the Armed Forces. The Review Body's recent report giving their recommended full rates of pay for 1st April 1979 is available and its implementation need cause no difficulty in itself. There would however be some problems of overlap given that the pay of senior serving officers is handled by the TSRB rather than the AFRB. Without special action for them inverse pay differentials would result from the full and immediate implementation of AFRB report, e.g. Brigadiers would be paid more than Major Generals.

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- (b) Doctors and Dentists. Like the Armed Forces the Doctors and Dentists Review Body (DDRB) produced a report last year which showed that very substantial pay increases were needed to bring the Doctors' and Dentists' pay up to date following the period of pay restraint. The then Government agreed that these increases should be paid in stages - 10 per cent last year, half the balance on 1st April this year and the remainder on 1st April next year - with both this year's and next year's stages being updated to current levels. The DDRB report on what those current levels should be on 1st April 1979 is now to hand. The presentation is complicated because the report also deals with the new contract for senior medical staff. Early decisions will also be needed on:-
- (i) Whether this year's updating is acceptable to the Government.
 - (ii) Whether the cost of introducing the new contracts is acceptable to the Government.
 - (iii) Whether, like the Armed Forces, the outstanding payment due next year should be brought forward to this so that the acknowledged anomaly is fully corrected at the outset of this Parliament. So far as I am aware, the doctors have not yet argued for this but it would be surprising if they did not press for parity of treatment.
- (c) The "top salaries" groups. The Top Salaries Review Body covers a wide range of senior public appointments ranging from Members of Parliament and Ministers to senior civil servants, senior officers in the Armed Forces, judges and the Chairmen and Board members of nationalised industries. These groups, too (with the exception of MPs and Ministers), had a report last year recommending substantial increases in pay as a catching up operation. The then Government accepted the proposals in principle subject to staging over this year and next but with an important difference as compared with doctors and soldiers. This was that the Government expressly deferred a decision on whether the recommended

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pay rates should be updated in 1979 and 1980 to take account of developments since the main report was produced in early 1978. The TSRB has however now reported on what it believes the updating should be for 1979. The Government therefore needs to decide whether it will accept the proposals for updating included in the latest TSRB report. You may also care to note that, as with the Armed Forces, there can be problems in Civil Service pay structures arising from the fact that grades up to Assistant Secretary are handled through PRU and more senior officials through the TSRB. The particular problem here is that the TSRB's latest report recommends salaries for Under Secretaries below those which PRU evidence suggests for Assistant Secretaries. This has happened before and has been met by cutting back on Assistant Secretaries' pay. But a conscious decision will be needed.

- (d) Members of Parliament and Ministers. The TSRB report on the pay of MPs and Ministers is in a different category because it is the first report on their pay for many years. The Government will therefore need to decide ab initio:-
- (i) Whether it accepts the recommendations of the report.
 - (ii) Whether it is prepared to implement them at once or to provide some form of staging for implementation over a future period.

In handling all of these cases, other than the Armed Forces, you and your colleagues will need to balance the case for getting rid of old anomalies quickly (including the political case that any increase for the higher paid arouses opposition and that staging therefore prolongs the presentational agony) against the immediate cost of full implementation and the repercussions on other groups, e.g. the police, the nurses, the non-industrial Civil Service, who have accepted varying degrees of staging for their outstanding claims.

- (e) Local Authority non-manual employees. The local authorities' white-collar (APTCS) grades, largely represented by NALGO, are due for a pay settlement on 1st July. Although they have traditionally sought to strike their own bargains without reference to "comparability" (and may have done rather better from this than they would on a strict "fair

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comparisons" basis) they may well this time press for "comparability" and a reference to the Standing Commission. The problem with local authority pay settlements is of course that they involve an underlying battle between Government and local authorities about who should pay the cost. On recent form the local authorities will only make an offer when they have a Government assurance that Rate Support Grant will be forthcoming because otherwise the cost of any settlement above what is already allowed in RSG falls on the rates. This question is part of the wider issue of the control of public expenditure by local authorities and the drain on central Government resources represented by the RSG to which your Government may want to give a good deal of attention in the public expenditure review.

- (f) Teachers. Negotiations on teachers' pay continued up to a late stage in the election campaign and were then deferred at the Government's request until the election was out of the way. The basic issue dividing the two sides was that of the terms of reference for any comparability study. The teachers saw the purpose of a new study as up-dating the Houghton report (which was particularly generous to teachers) and wanted terms of reference framed accordingly. The management side (including the Government) wanted an honest comparability study done with full weight given to the non-pay terms and conditions of teachers' service. If the negotiations do not lead to agreement the teachers enjoy a statutory fall-back right to arbitration which they have so far been reluctant to exercise. Negotiations will have to be resumed very quickly now that the election is over.
- (g) Post Office. At a very late stage in the election campaign Post Office employees rejected by ballot the terms of a pay offer made to them in negotiation. The negotiations must therefore be resumed at an early date. The Government will need to decide what guidance if any should be given to the Post Office.

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Cash limits

6. Cash limits are central to your approach to the control of public expenditure, and indirectly of pay levels in the public sector. There are however two points to be made:-

- (a) The degree of control exerciseable through cash limits varies depending on the particular part of the public sector in question. The key distinction is whether the Government itself is the sole paymaster or one among several. In central Government and the NHS the Government is the sole source of finance. If you set cash limits here, and stick to them, excessive pay increases (over and above those for which you have allowed in setting the cash limits in the first place) will inevitably and necessarily result in a reduction in the number of staff employed or the volume of goods and services bought. In the case of the local authorities, 61 per cent of expenditure in England and Wales is met by the RSG and 68½ per cent in Scotland. A decision to set a cash limit on the amount of RSG provided, therefore, puts the burden of adjustment, whether through rates, charges, alterations in balances or the volume and quality of service provided, on the local authority concerned. In the case of the nationalised industries, the proportion of Government finance provided to them varies from industry to industry. The balancing factors are prices, employment, investment and the quality of service. Moreover, with the nationalised industries, the nature of the "cash limit" varies. In some it will be a limit on their borrowing from the National Loan Fund. (Though the British Gas Corporation, for example, is a net repayer of Government borrowing.) In others it will relate to specific subsidies (e.g. those to British Rail and some of the payments to the National Coal Board). In yet others it will relate to deficit financing, whether described as borrowing or not (e.g. British Steel). This does not mean to say that the concept of cash limits is inappropriate to these industries. But it does mean that the financial arrangements with each will need to be tailored to its particular circumstances.

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(b) Cash limits are not a painless instrument of financial control. In central Government, for example, the application of a cash limit to a Department can have three quite separate and distinct effects:-

- (i) It intensifies the search to cut out waste in administration. And it must be true that in any organisation as large as the Civil Service there will be waste in some areas. The real problem is to carry through the detailed and searching enquiries needed to bring waste to light. There is of course already a substantial apparatus of staff inspectors etc. who carry out detailed surveys but the real problem is to motivate the line managers. Many are cost-conscious and do their not inconsiderable best to economise. But top management is generally too involved with policy and the needs of Ministers to get deeply involved and it is, unfortunately, very rare indeed to find a Minister who takes a personal interest or is willing to devote time to the detailed, and in personal political terms unrewarding, work required. You have I know your own ideas about how the 'war on waste' should be conducted.
- (ii) It intensifies the search to find ways in which the objectives of policy could be achieved by less expensive means (the Treasury have expenditure on housing in their sights as an example here). Success here depends on a lively and imaginative input by Ministers (the Programmes, Analysis and Review arrangements - PAR - have tended to wither precisely because Ministers react against the disturbance and interference with their own parishes which can result). The possibilities are nonetheless worth systematic identification.
- (iii) Finally, it causes Departmental Ministers to rethink their priorities so as to identify the functions they are prepared to drop in the interests of economy. Politically this is the hardest of all. (Every expenditure and every policy has its own lobby.) And of course it is here that Departmental Ministers most hesitate

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to act because they are at the receiving end of the pressure groups' attentions. But no serious programme of cuts in public expenditure and no serious intent to hold to cash limits can succeed without a realistic assessment of priorities. Again you will need to decide whether some external 'input' would help Departmental Ministers.

7. Of course central Government expenditure is most subject to your control. But many substantial sums of public money are spent through the local authorities and the NHS in both of which, by common consent, there is a good deal of 'waste'. Local authority expenditure is particularly difficult to control - and attempts to do so will lead into very difficult areas of relationships with independent-minded and elected authorities. The prize however could be substantial. The NHS is in an intermediate position. It is wholly funded by Government but enjoys a good deal of autonomy and is riddled with difficult characters (especially the professionals) besides being a political minefield. You will want the responsible Ministers to turn in quick and thoughtful reports on the possibilities.

Looking ahead

8. Given your Manifesto commitments, your administration will escape the treadmill of private sector cases which took up so much of the time of your predecessors. You will however still have an inescapable responsibility for pay in the public services. The main issues to which you may wish to direct attention are:-

- (a) Do you confirm that 'comparability' (properly carried out) is the key to establishing public service pay?
- (b) If so can improvements be made in the machinery and techniques for carrying it out? In particular do you want to work towards the merging of the present five Boards, Commissions, etc? And what can be done to improve the methods used to determine true comparisons? This is an area in which you might like to commission an early report by officials to serve as the basis for Ministerial discussions.

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Conclusion

9. There are a number of specific decisions which you will have to take quickly, mainly relating to specific pay cases; you will need to launch quickly a national debate on the economic outlook and this involves deciding how, where and with whom the debate is to be conducted; you will need to begin the process of settling cash limits for 1980-81 and to settle the level of RSG, before the summer Recess; and you will need to begin quickly a searching examination of public expenditure, including in that examination a search for areas where, and the techniques whereby, waste can be eliminated, new and cheaper ways found of achieving agreed objectives, and priorities established so that functions can be jettisoned to lighten the ship. In all of this you will inevitably get drawn into questions of pricing, investment and employment policies for the nationalised industries, the whole difficult area of local authority expenditure, efficiency and finance, and the question of charges for services at present free or higher charges for services at present provided too cheaply. At the same time you will be concerned with redressing the balance in pay bargaining by the various means outlined in your Manifesto and you may find that you have to go on to consider more fundamental questions like the structure and organisation of the British trade union movement. And you will want to think through the machinery for public service pay determination.

10. The handling of these issues within Government will depend partly on the decisions you have yet to take about the Committee structure and possibly wider machinery of Government issues. Nevertheless it is clear that at an early stage you will want to give a series of remits to Ministers or Ministerial Committees to produce papers and proposals on the sorts of issues touched on in this note. You may also want to precede the issuing of specific remits by a general discussion in Cabinet. If you wish we could readily produce an annotated agenda for you to circulate to your colleagues.

(John Hunt)

SECRET

PRIME MINISTER

The Budget

The 3rd April Budget was of course a holding operation. A new Budget needs to be introduced as soon as possible. The longer it is delayed, the greater the revenue loss in the current year from any increases in indirect taxes. (Cuts in direct taxes can of course be backdated to the beginning of the financial year). Delay would leave little time for completion of the Finance Bill without cutting into the Summer Recess. The Treasury think 12th June is the earliest feasible date.

2. The Chancellor will no doubt let you have an early appreciation of short-term prospects. This will inevitably be based on a "neutral" forecast (i. e. reflecting continuation of existing policies) and will thus only provide a starting point for the new Government: a full and more detailed forecast will be ready in about 2-3 weeks after the election. The main features of the present forecast are:

- (i) Earnings and Prices: the outturn in the present round is likely to be about 13-14 per cent, in both public and private sectors. Prices will be rising by around 11-12 per cent during 1979. In 1980, without changes in policy, both pay and prices would be increasing at about the same level.
- (ii) Growth. About 1½ per cent in 1979 and 1980, involving some rise in unemployment, but the current account remaining in balance in 1979 and moving into deficit in 1980.
- (iii) PSBR. Rising from about £8½ billion in 1978-79 to about £10 billion or a little more in 1979-80, and a further increase the following year. Company profits remaining low, but no widespread liquidity problem because of low stock building and downturn in investment.
- (iv) Domestic and External Monetary Policy. Assuming that the 8-12 per cent monetary target range continues - see below - some increase in interest rates would be needed. The present upward movement in the exchange rate will probably be reversed later in the year.

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3. Thus the overall picture in the short term on present policies is a rising rate of inflation and slow growth, leading to continued uncertainty and instability.

4. The main problems to be faced in framing the Budget are:

- (a) The overall stance - demand management. With the economy still depressed, the conventional response in past years would have involved a mild budgetary stimulus. This year, until recently, the confidence factor seemed to rule this out. But sterling continues strong. In addition a Conservative Government with clear long-term policies on public expenditure can probably rely on confidence remaining high even if it decides to go for gentle expansion. So one of the first decisions the Chancellor will want to discuss with you is whether to aim at some stimulus to demand, or whether to offset the cuts in direct taxation completely with reductions on public expenditure and increases in indirect tax. Obviously you will not want to allow very much net stimulus until there have been real improvements on the 'supply' side of the economy; otherwise increased demand merely fuels inflation and sucks in additional imports. On the other hand you are relying on the direct tax cuts to produce the necessary dynamic improvements. So there is a chicken-and-egg problem here.
- (b) Money supply. Your policy - especially for pay and inflation in the private sector - depends on keeping tight control over the growth of money supply. You will want to balance this against the need for expansion. The previous Government was committed to keeping control over money supply (expressed as a 12-month target growth range of £M3, rolled forward every six months). The present published target runs to October 1979. The City expects the Chancellor to announce in the Budget a new target up to April 1980. In setting a new target the main elements are the PSBR, external policy (including intervention on the exchanges), interest rates and direct controls on the banking system. Here too a Conservative Government may have the advantage of greater market confidence: because it will be able to sell more gilts as a result,

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it will probably be able to afford a slightly higher PSBR at least in the short term, for any given rate of money supply expansion. This may help a bit in finding room for net cuts in taxation.

- (c) On the latest information, allowing for the Rooker-Wise indexation and published public expenditure plans, PSBR is likely in the current year to be around £10-£10.5 billion ($5\frac{1}{2}$ per cent of GDP). Its composition will be as important in many respects as its size, both for its direct monetary effects and its effect on market confidence. Despite the favourable factors mentioned in (b) above some reduction will be necessary to keep the money supply within the existing 8-12 per cent target range during 1979-80. You will need to judge what reduction is feasible in the current year, given the late date of the Budget, and how to balance tax changes and public expenditure to achieve this.
- (d) Direct taxation. Once the central budget judgment on the permissible size of the PSBR has been made, and a view taken on growth in the coming year, the problem is to balance cuts in personal taxation (beyond the Rooker-Wise indexation in the recent Finance Act, which is allowed for in the forecast) with increases in indirect taxes and cuts in public expenditure. The more you aim for cuts in personal tax the more of offsetting action you will need on indirect taxes and expenditure. Illustrative figures on possible cuts in direct tax are: reducing the top rate to 75 per cent, and revalorising the bands to April 1973 levels, would cost about £800 million in a full year, and £450 million in the current year; each penny off the basic rate of income tax has a revenue effect of about $\frac{1}{2}$ billion; and to increase the main single and married personal allowances by, say, £50 and £100 respectively, on top of revalorisation, could cost about £600 million in a full year.
- (e) Indirect taxation.
- (i) VAT is the prime runner for raising new revenue. The options include harmonisation of the two rates at 10 per cent or $12\frac{1}{2}$ per cent; or moving both rates up. Harmonisation at 10 per cent would bring in about £900 million in a full year and

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£400 million in the current year and add 0.9 per cent to the RPI. Harmonisation at $12\frac{1}{2}$ per cent would bring in about £2250 million in a full year (£1200 million in the current year) and add 2.1 per cent to the RPI.

- (ii) Specific duties. The options here are to increase (revalorise) the rates of the specific excise duties (alcohol, tobacco, petrol). Straight revalorisation to last year's level would yield about £400 million, and add 0.5 to the RPI. To return to 1977 levels would roughly double these figures. There is a good case on energy conservation grounds for increasing petrol tax anyway, particularly if you maintain the previous Government's decision to phase out VED in the next few years. There are good health arguments for putting more on alcohol and tobacco.
- (iii) National Insurance surcharge. Sir Geoffrey Howe virtually ruled this one out in the Budget debate. The earliest date a change announced in a June Budget could take effect is the beginning of October.
- (iv) Nationalised Industry prices. These have much the same effect as indirect taxes. Some increases will be needed anyway to achieve even the published targets for nationalised industry borrowing. (See below under 'public expenditure'). If you want to go further, the main candidates are probably gas prices (dealt with in the separate brief on energy) and postal/telecommunications charges.
- (f) Public Expenditure. There are two main problems: some inevitable (mainly statutory) increases in expenditure on social security side (allowed for in the forecast) and the long-term search for structural changes leading to real reductions. Notes on each one:-
 - (i) The normal uprating of social security benefits next November had been built into the forecast, and administrative action is already in hand. To delay it would have made it impossible to pay out on time. The previous Government were also committed to a

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50p increase in child benefit in November which would cost about £100 million this year and £300 million in a full year. It is not allowed for in the forecast. There is no immediate pressure for any other changes, though there may be small concessions (e.g. the pre-1945 widows) which you will want to make. There is no statutory obligation to increase child benefit, but the uprating of the main national insurance benefits is required annually under existing legislation.

(ii) On the generality of public expenditure, you are committed to large and early cuts. The Treasury will be suggesting a possible 1979-80 package to the Chancellor, and he will probably want to put it to Cabinet very soon. It is likely to involve a mixture of policy changes, sales of assets, and trimming of the Contingency Reserve for the rest of the year. You will obviously need an early Cabinet discussion on this. The immediate question is how much saving you can secure in time for the Budget.

(g) Cash limits for the rest of the year. You have made it clear that cash limits will be one of the main weapons used by the Government to control expenditure, and by implication to maintain restraint in the public sector. Since their introduction cash limits have worked well as a control: but those for this year have already been increased, and corresponding RSG support promised, to allow for those public sector settlements which had been reached for various local authorities groups during February and March. Otherwise, the cash limits have been maintained at the level assumed in January. They will therefore come under increasing pressure during the year both from pay and price increases over and above the assumed levels. In the Health Service and in central Government, to maintain the level of cash limits in the face of approved pay increases implies a volume squeeze on expenditure. You are committed to implementing in full the recommendations of the Armed Forces Pay Review Body, and this will impose a similar squeeze on MOD

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expenditure unless you are prepared to increase their cash limits. There is a similar problem in the nationalised industries, where the PSBR forecast assumes that their borrowing is held constant, and that the extra cost of recent pay settlements, over and above the original forecast assumptions will be met by increased prices or reduced investment. You will need an early paper from the Treasury on all this so that the Ministers concerned (most of the Cabinet) can agree together on the line to be taken.

5. To sum up, you will need:

- (i) An early discussion with the Chancellor about the main shape of the Budget.
- (ii) Probably - though this is for you to decide - a general discussion in a Ministerial Economic Strategy Committee and/or Cabinet on the same theme.
- (iii) At least a first round of specific decisions by Cabinet about public expenditure cuts (though a fully worked out strategy for public expenditure in the longer term is unlikely to be feasible before 12th June).
- (iv) Specific decisions by Cabinet about nationalised industry borrowing (and thus prices and investment) for the remainder of the year.

(John Hunt)

SECRET

PRIME MINISTER

Summary and Timetable of Urgent Economic Issues

This brief summarises the most urgent economic issues which the Government will need to tackle in the next few months. They are:-

- (a) The Budget. The last week of May and the first week of June are not available because of the Bank Holiday and the recess for the European elections. Present Treasury thinking is that the best date is 12th June. A Budget before the European elections would be too soon for the new Chancellor to prepare and for colleagues to take any related decisions. But to leave matters much after 12th June would leave too little time for the passage of the Finance Bill. I am giving you a separate brief on the broad issues which will arise on the Budget.
- (b) The CAP Price-Fixing. Negotiations will reopen in May. The outcome is important, among many other reasons because it affects the net payments we will make to the Community Budget over the next 12 months.
- (c) The Public Expenditure Review. Decisions on the current year will presumably be taken in the Budget context. You have more time in which to re-examine the inherited expenditure plans for later years. The annual PESC review of expenditure from 1980-81 onwards has already begun at official level. But this is a policy-neutral exercise, confined to three questions: what can be afforded within the already published totals: what adjustments are inevitable for demographic reasons; and what options are available for increases or reductions. You will clearly want to set new guidelines for this operation, and I know that Treasury officials will have draft proposals ready for the Chancellor to put to Cabinet very quickly.

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If the spending agencies are to adjust their policies in good time for 1980-81, you will need final Cabinet decisions in the autumn - and perhaps before then. The PESC exercise is carried out in 'constant price' terms and there will be a separate and difficult job of setting cash limits for 1980-81. This will be particularly important in the local authority field - see below.

- (d) Rate Support Grant. The annual fixing of Rate Support Grant for local authorities takes place in the autumn. The grant (over £9 billion in 1978-79 always has to be based on assumptions about local authority pay and has important implications for both central and local authority expenditure. Because you will be relying on cash limits as an important element in controlling public sector pay, you may want to give an earlier indication than usual this year of the sort of pay increases to be announced. This points to a decision on the level of RSG for 1980-81 before the summer recess.
- (e) Pay. The "current pay round" ends on 31st July. The original White Paper governing the round ("Winning the Battle against Inflation" Cmnd 7293) is presumably no longer operative but 31st July nevertheless represents a watershed. A number of key problems will arise before that date. In particular:-
- (i) you will want to consider how the Manifesto idea of "more open and informed discussion of the Government's economic objectives" is to be pursued. The previous Government had made a start on similar lines through bilateral talks with the TUC and CBI but had not got very far when the Election intervened. If any new exercise is to have an influence on pay bargaining after 1st August a very early start will be necessary;
 - (ii) your Manifesto had a clear line on pay bargaining in the public corporations but still leaves detailed application to be worked out, e. g. some public corporations, such as British Gas, are highly profitable and can "afford" substantial pay increases and

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- others, e.g. British Rail, are permanent public pensioners and cannot, in a strict sense, "afford" to pay wages at all. Moreover pay settlements in some nationalised industries inevitably read across to others, e.g. for manual workers in the gas, electricity and water industries where there are close historical links stemming from their common 'municipal' past. Luckily most of the public corporations' pay bargaining this year has been completed. (The main outstanding case is the Post Office where the offer made has just been rejected by a ballot of the employees.) The reflection of these issues in the Government's financial arrangements with the nationalised industries will require quick examination if a coherent and disciplined framework is to be embodied in the Government's public expenditure plans;
- (iii) Similarly your own approach to pay bargaining in the public services will have to be worked out in detail before cash limits for next year are set.

A fuller brief on public sector pay and cash limits is being submitted separately.

- (f) Immediate public service pay issues. You will be faced almost immediately with the need for decisions on five public sector pay issues: the pay of MPs and Ministers (on which the Boyle Report should be available very shortly); the pay of doctors and dentists (where the Report of their Review Body is to hand); the pay of other "top salary groups" (covering e.g. judges, nationalised industry chairmen, generals and senior Civil Servants) where the TSRB Report is just available; teachers, where negotiations were postponed because of the intervention of the Election (and where the Government has a direct interest through RSG); and the broad mass of local authority white-collar employees whose settlement date is 1st July.

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- (g) Energy. I have sent you a separate brief covering the energy sector where a number of difficult issues are outstanding. Among the most urgent of these are:-
- (i) Measures to cut oil consumption next winter in order to meet our IEA and EEC obligations. Decisions are needed before the summer recess.
 - (ii) Linked with this is the question of coal. The NCB is heading for a major loss this year and carries a fringe of heavy loss-making pits in politically sensitive areas like Wales and Scotland. Early decisions on these could help reduce losses next year if not this. You will also need to consider how far you are prepared to pay for extra British coal next winter to replace oil or whether we should import more coal.
 - (iii) The reorganisation of the nuclear supply industry. By common consent the present system will no longer serve and reorganisation is long overdue. Delay will mean setting back completion of the next batch of stations.
- (h) Industrial Issues. There are a number of difficult industrial issues which are bound to come up in the next few weeks. You may care to note the following check-list of the more sensitive of them:-
- (i) The future of the shipbuilding industry (badly hit by the world shipbuilding slump and very expensive to maintain).
 - (ii) The equally expensive problem of the steel industry.
 - (iii) The almost certain early financial collapse of the Port of London Authority.
 - (iv) Possibly the financial problems of Dunlop.
 - (v) Constraints on industrial development caused by planning procedures (the CPRS are conducting a study) - with Moss Morran as the current leading case.

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- (vi) Regional development with heavy expenditure, doubts about the cost effectiveness of some of the techniques, but continuing pressure for more money. This links with the future of Government support for industry in general and in particular the operation of the Industry Act 1972.
- (i) The European Council. The next regular meeting of the EEC Heads of State and Government is at Strasbourg on 21st-22nd June. The quality of these meetings and the importance of the decisions to be taken varies. But this will be your first appearance and the proceedings are likely significantly to influence at least the atmosphere, and possibly the direction, of EEC policy over the years ahead. We are now the Community's largest paymaster but its third poorest member. There is a lot to play for in terms of redressing this imbalance. I am sending you a separate brief about European matters.
- (j) The Economic Summit. This is scheduled to take place in Tokyo on 28th-29th June. The attenders will be President Carter, President Giscard, Chancellor Schmidt, the Prime Ministers of Japan Italy and Canada, Mr. Jenkins as President of the EEC and yourself. The Summit will be particularly important this year because the international financial situation is still shaky (and has not been helped by the larger than expected rise in oil prices). The Summit provides a good opportunity to urge our partners to react in a sensible manner.
- (k) UNCTAD V. This triennial meeting starts in Manila on 7th May and may go on until early June. With the MTNs more or less under control and the framework of the Common Fund already agreed, UNCTAD V could create less of a trauma for North/South relations than did UNCTAD IV in Nairobi in 1976. But representation in the final stages is normally at Ministerial level and there will be a good deal of interest in the attitude of the United Kingdom Administration to North/South issues in general and to aid in particular.

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CONCLUSION

2. There is a great deal to be done in a short time on these issues (and inevitably others will arise in the normal course of business). The most immediately pressing is the shape of the Budget and associated matters like the money supply target. On these you will no doubt wish to await the Chancellor's specific proposals. But close behind in terms of time, and ahead in terms both of intrinsic importance and inherent difficulty, is the development over the months ahead of a strategy for public expenditure. And such a strategy will take you and your colleagues deep into a complex of related issues such as relations with the nationalized industries, the finance of local government and the difficult realities which lie behind the adoption of cash limits for central Government. One essential concern of the Cabinet Office is of course to ensure that the work which clearly needs to be done, and which Ministers wish to be done, is tackled in an orderly fashion and in good time so that the Ministers have a sound basis for decision-taking. This in turn relates to the structure of Ministerial Committees on which I will let you have recommendations when you have made your main Ministerial appointments.

John Hunt

CONFIDENTIAL



CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.
Head of the Home Civil Service*

N Sanders Esq
No 10 Downing Street
LONDON SW1

3 May 1979

Dear Dick M/ PA

POST-ELECTION SUBMISSION TO THE PRIME MINISTER

I attach red and blue sets of submissions from Sir Ian Bancroft to the Prime Minister on the lines we agreed.

The only omission is the Blue submission on Honours, on which Sir Ian Bancroft is working, to take account of Mr Stowe's comments. We will send this over as soon as possible.

I am copying this, without the attachments but with Sir Ian Bancroft's covering minutes, to Martin Vile.

*Yours sincerely,
David*

DAVID LAUGHRIN
Private Secretary

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MR. STOWE

You wanted to know what briefs we are preparing for immediate submission to Mrs. Thatcher if she is the new Prime Minister.

2. Perhaps I should first mention three urgent submissions which do not strictly fall under the heading of briefs. We would let you have:-

(i) the formal reminder to a new Prime Minister (required under the Security Commission's report of July 1973) about security aspects of Ministerial appointments;

* (ii) a submission recommending the establishment of The Queen's Speech Committee and attaching a draft Queen's Speech - it will be essential to clear this as quickly as possible;

* (iii) a draft of "Questions of Procedure for Ministers".

3. Briefs will be submitted on:-

- B/K
B/K
B/K
- no
copies
- K ✓ 1. Summary and timetable of urgent economic issues.
 - K ✓ 2. The Budget.
 - K ✓ 3. Public sector pay and cash limits.
 - K ✓ 4. Energy.
 - K ✓ 5. Chancellor Schmidt's visit on 10th-11th May.
 - K ✓ 6. European issues (including the EEC Budget and CAP).
 - K ✓ 7. House of Commons Procedure: Open Government: Official Secrets.
 - K ✓ * 8. Devolution.
 - K ✓ * 9. Northern Ireland.
 - ✓ 10. Comprehensive Test Ban negotiations.
 - ✓ 11. SALT.
 - ✓ 12. Subversion.
 - ✓ ** 13. Intelligence.
 - ✓ ** 14. Nuclear release procedures (covering also reconfirmation of certain understandings with the United States President and Federal German Chancellor).
 - * ** 15. Future of the Nuclear Deterrent.
 - * 16. Rhodesia
 - * 17. E-W relations

Notes

- (a) Briefs marked * include points which could have a bearing on Ministerial appointments.
 - (b) Briefs marked ** will be classified Top Secret.
 - (c) Brief No. 5 deals with a point on which an urgent decision is needed.
You will separately be getting the normal briefs for Chancellor Schmidt's visit.
4. Recommendations about the composition of the main Ministerial Committees will follow when Ministers have been appointed.

John Hunt
(John Hunt)

1st May, 1979

LIST OF BRIEFS AND SUBMISSIONS FROM
SIR IAN BANCROFT FOR MRS. THATCHER

If Mrs. Thatcher becomes Prime Minister, Sir Ian Bancroft will submit to her immediately:

Submissions on -

- (1) Special Advisers
- (2) Rules for travel for Ministers
- (3) Allocation of official residences
- (4) Honours

Briefs on -

- (1) Public appointments
- (2) Senior appointments in the Home Civil Service

N. J. SANDERS

1 May 1979

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10 DOWNING STREET

From the Private Secretary

MR. VILE
CABINET OFFICE

Briefs for Mrs. Thatcher

As I told you earlier this evening, we should be grateful if in addition to the briefs listed in Sir John Hunt's minute to Mr. Stowe (AO4392) of 1 May, you could let us have briefs on:

- (i) Rhodesia and Southern Africa
- (ii) East/West relations

The purpose of the second of these would be to act as an introduction to briefs 10, 11 and 15 in the list which was sent to us.

N. J. SANDERS

1 May 1979

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~~MR K R STOWE~~

PA
MS



... With this minute, I am sending to you papers about the machinery of government which have been prepared here on a contingency basis against the possibility of a Conservative Administration taking office following the Election on 3 May. Naturally, they are coming to you on a purely personal basis as you may welcome the opportunity to have a chance to study them in advance of the time when they may be needed.

2. There are two papers:

- i) a paper on the possibility of rolling up ODM again with the FCO;
- ii) a paper discussing a possible merger between DPCP and the Department of Trade (apart from some functions which would return to MAFF).

3. Both papers have been cleared with Sir Henry Rowe, but none of the Departments concerned have been consulted in their preparation or are at present aware of their existence.

4. If Mrs Thatcher becomes Prime Minister following the Election, I will send you separately an "open" minute to cover these two papers which I want to offer to her on taking office. If she wants papers on other MG topics, I have a number ready.

5. When you have had a chance to look through the papers, you may wish to have a word with me about them.

IB

IAN BANCROFT
1 May 1979

PA

NOTES FOR A NEW PRIME MINISTER

1. Matters requiring the Prime Minister's early attention (not in order of importance but of practicability) are set out below.
2. Domestic arrangements - the Prime Minister will, it is assumed, wish to live in the flat in No. 10, and instruct Mr. Peter Taylor, the Office Manager, (who is resident in the House) accordingly. Temporary arrangements could, if desired, be made in No. 10 for the Prime Minister's meals on the first day.
3. Personal and political staff - there are rooms available (a) next to the Cabinet Room (one room); (b) off the corridor adjacent to the Private Office (two rooms); and (c) on the second floor overlooking Downing Street (four rooms). These need to be allocated quickly so that the Prime Minister and Private Office know where to find people.
4. The Press Secretary - (who works from his room in the Press Office overlooking Downing Street, ground floor) will need to be appointed to arrange for any Prime Ministerial broadcast or interviews, to announce Cabinet and other Ministerial appointments; and to brief the Press as required on the setting up of the new Government.
5. Prime Ministerial broadcast - not obligatory, and the Prime Minister may have said all that is desired on the doorstep at No. 10 on arrival from the Palace. If a broadcast is desired, the Press Secretary will need to inform the broadcasting authorities, and drafting will need to be put in hand, if not already done.
6. Cabinet and other Ministerial appointments
 - (1) A note setting out the statutory limits on Ministerial salaries and offices and related matters is attached at Annex A.
 - (2) All Ministerial appointments require the approval of The Queen before announcement: in practice,

*Passage deleted and closed, 40 years,
under FOI Exemption.
Wayland
29 May 2013*

(3) The order of precedence of the Cabinet will need to be settled before the Cabinet membership is announced.

(4) Announcement of the first Ministerial appointments is made from No. 10 via the Parliamentary Lobby. On some previous occasions the Prime Minister has taken this first Lobby personally, to meet them and to tell them of the Ministerial appointments.

(5) The Secretary of State for Northern Ireland, when appointed, will require security protection: the Principal Private Secretary will have advice on the immediate action.

(6) It is neither desirable nor practicable to complete the whole Administration in one operation: in some major Departments (e.g. Defence, Environment) the number and grading of posts below the Secretary of State need revision, and the views of the Cabinet Minister concerned ought to be sought after he or she has been able to discuss Ministerial responsibilities with the Permanent Under-Secretary of State, see Annex A.

(7) Appointment of the Cabinet may well entail appointments to the Privy Council (and, perhaps, the conferment of Life Peerages). All members of the Cabinet are made Privy Counsellors. The Law Officers in England (unless already knighted) are conventionally given knighthoods, but the last two appointed declined them. It would be prudent to seek the Law Officers' view, on appointment, on whether a knighthood is acceptable.

(8) It is conventional for the Prime Minister to attend the first meeting of the Privy Council at which senior Ministers are sworn in.

8. Arrangements for Cabinet business

(1) The Prime Minister may wish to convene an initial meeting of the Cabinet at an early date, but in any event the first meeting will be necessary on Thursday 10 May. It is not likely that sufficient

Preparations by Ministers will have been completed to warrant a substantive discussion before then.

(2) The dates for the Meeting of the new Parliament (Wednesday 9 May) and the State Opening (Tuesday 15 May) were determined by the Order-in-Council dissolving the last Parliament. The Opening on 15 May is timed to avoid disrupting The Queen's State Visit to Denmark which begins on 16 May. Immediate business is therefore the preparation of The Queen's Speech which must be ready for consideration by Cabinet on Thursday 10 May. A Ministerial Committee will need to be appointed under the Leader of the House to prepare the legislative programme and draft a Queen's Speech based on it.

(3) The Secretary of the Cabinet will have ready for the Prime Minister on arrival a note setting out other immediate business requiring Cabinet consideration and seeking directions on arrangements for the main Ministerial Committees which the Prime Minister may wish to establish.

9. Briefing by the Secretary of the Cabinet: Sir John Hunt will have prepared briefing covering all major policy areas, including defence and security matters, as well as arrangements for Cabinet consideration thereof. Briefing on certain other matters will have been prepared by the Head of the Civil Service, and from the CPRS.

10. Other appointments: the Prime Minister may wish to have a certain number of advisers appointed as temporary civil servants, not only in the Prime Minister's Office as personal staff (over and above Parliamentary Private Secretary, personal secretary and constituency secretary), but also in the Cabinet Office, and in Departments. In the case of the last category, directions to Ministers will be necessary. Sir Ian Bancroft will have advice available on e.g. numbers and salaries.

11. The Prime Minister's engagements (up to and including Sunday 13 May)

(1) The only fixed points in the week ahead are the first regular Audience of The Queen on Wednesday 8 May; Cabinet on Thursday 10 May; Chancellor Schmidt's visit on Thursday/Friday 10/11 May; and the Scottish Conservative Conference on Friday/Saturday 11/12 May.

(2) The Prime Minister

2) The Prime Minister will no doubt wish to arrange for meetings with each key Minister either separately or together (or both) and in particular may want to arrange to see the Chancellor of the Exchequer to consider the Budget date (if not already decided) and give directions on the preparation of the Budget, consultation with the Prime Minister etc.

(3) The Prime Minister may wish to call in e.g. the Governor of the Bank of England, the United States Ambassador and, perhaps, certain other Ambassadors, e.g. France, Germany, for private talks.

(4) The existing Prime Ministerial appointments in the year ahead are set out in the note at Annex B. There will soon be an avalanche of bids from all quarters for Prime Ministerial time. An important early task is to establish the Prime Minister's priorities on future engagements, e.g. contacts with backbenchers; visits to all parts of the United Kingdom; visits overseas; regular meetings with individual Ministers.

K.R.S.

K. R. STOWE

10 Downing Street,
London S.W.1.

1 May 1979

1. The attached set of tables has been prepared by First Parliamentary Counsel (Sir Henry Rowe) as an aide memoire and guide for Ministerial appointments. They are, necessarily, based on the Ministerial structure on 3 May 1979. Notes on possible changes to this structure are at paragraph 4. below.
2. The Prime Minister's powers to appoint Ministers are governed by statute in the sense that certain offices are created by statute and the salaries payable in respect of any offices are governed by statute. There is a small and marginal flexibility in that a Prime Minister may appoint persons to Ministerial office, including Cabinet office, outside the statutory provision if the appointment carries no salary with it. They still, however, come within the limit of 95 Ministers in the Commons (see 3.(b) below).
3. The procedure by which a Prime Minister appoints Ministers will begin, of course, with political considerations and consultation. Once these have been taken account of, certain practical measures have to be taken:
 - a. It is desirable for a check to be made (via the Principal Private Secretary) with the Secretary of the Cabinet on any security aspect arising from a proposed Ministerial appointment. This is likely to be more relevant, naturally, in the case of junior appointments than in the case of appointments to Cabinet etc.
 - b. A running tally needs to be kept of appointments offered to members of the House of Commons since these must not exceed 95 in number.
 - c. Over and above the House of Commons limit there are limits on the number of salaries payable in each of the six tiers of Government:

Cabinet (21 plus the Lord Chancellor)

Ministers of State, including the Chief Whip (29 plus any number by which the Cabinet, excluding the Lord Chancellor, falls short of 21)

Parliamentary Secretaries (33 plus any number by which Cabinet and Ministers of State together fall short of 50)

Government Whips (15)

Law Officers (4)

Ministers in the Lords (8 including the Lord Chancellor, who is in the Cabinet)

d. The salary of a Minister of State can be at two levels (£8,250 or £10,450) and it is essential to establish who, if any, is to get the senior level, on appointment. (These levels are £8,822 to £10,678 for Lords' Ministers of State.)

4. Among existing Departments and their Ministers there are a number whose Ministerial structure - leaving aside major issues of machinery of Government - is questionable. These comprise:

i. Ministry of Overseas Development (ODM) - currently the only Department headed in practice by a Minister not in the Cabinet. The nominal responsibility as Minister of Overseas Development is already vested in the Secretary of State for Foreign and Commonwealth Affairs so that no action is required to end the separate Ministerial responsibility except to avoid designating any Minister of State in the Foreign and Commonwealth Office as Minister for Overseas Development, and leave the Foreign and Commonwealth Secretary nominally responsible. A Transfer of Functions Order could follow.

ii. Department of Prices and Consumer Protection (DPCP) - which is a miniscule Department belonging to the Trade and Industry group and formerly within the DTI complex. If merged with Department of Trade, the senior Permanent Secretary (Sir Kenneth Clucas) would advise the incoming Secretary of State.

iii. The Department of Trade requires a Minister of State to support the Secretary of State, especially in relation to overseas trade matters. If the DPCP is merged with it,

/the appropriate

the appropriate structure would be Secretary of State for Trade (Prices and Consumer Protection), 1 (or 2) Ministers of State, 3 (or 2) Parliamentary Secretaries - total 5 as compared with current 6.

iv. Ministry of Defence (MOD) - whose Ministerial structure (1 Junior Minister for each of the 3 Services) does not reflect the integration of defence policy; a better structure would be 2 Ministers of State (in place of the present 1) dealing with operations and with personnel/procurement respectively, each supported by a Parliamentary Secretary (no change in total numbers).

v. Department of the Environment (DOE) - where there are too many Ministers for too little work. The present structure, Secretary of State, 2 Ministers of State, 4 Parliamentary Secretaries (7), could be reduced in the Permanent Secretary's view to Secretary of State, Minister of State and 2 Parliamentary Secretaries (4).

vi. Department of Energy (D/En.) - again too many Ministers and the present 4 (Secretary of State, Minister of State, 2 Parliamentary Secretaries) could be reduced by one Parliamentary Secretary.

vii. Department of Health and Social Security (DHSS) - only 1 Cabinet post is necessary, as against the present 2.

viii. If it is desired to add a second Cabinet Minister in any Department (e.g., in the FCO), this is most simply done by using one of the non-departmental offices like Lord Privy Seal or Chancellor of the Duchy of Lancaster or the Paymaster General.



10 DOWNING STREET

 ENGAGEMENTS
 YEAR BEGINNING MONDAY 14 MAY
Tuesday 15 May

1130 State Opening of Parliament
 Evening Royal Academy Banquet (speech)

Tuesday 22 May

1830 Audience

Buckingham Palace

Monday 24 May

2100-2330 Reception at Tate Gallery by Trustees and
 Directors to celebrate opening by
 HM The Queen of the completed Tate Gallery
 building

Wednesday 30 May

1830 Audience

Buckingham Palace

Tuesday 5 June

1800 Audience

Buckingham Palace

Thursday 7 June

European Parliament Election Day

Tuesday 12 June- Thursday 14 June

President of Kenya's State Visit

Wednesday 13 June

1830 Audience

Buckingham Palace

Thursday 14 June

1630 Mr. C.C. Garvin (Chairman of Exxon)

No.10

Saturday 16 June

1100 Trooping the Colour Ceremony (followed
 by party for Commonwealth High
 Commissioners in the garden of No.10)

Horseguards

Thursday 21 June and Friday 22 June

European Council in Strasbourg

Wednesday 27 June

Travel to Tokyo

Thursday 28 June and Friday 29 June

Economic Summit Meeting in Tokyo

Monday 2 July - Wednesday 4 July

President of Colombia's official visit to London

Tuesday 10 July

1830 Audience

Buckingham Palace

Tuesday 17 July
1830 Audience

Buckingham Palace

Wednesday 1 August - Wednesday 8 August
Commonwealth Heads of Government Meeting in Lusaka

Tuesday 9 October - Friday 12 October
Conservative Party Conference in Blackpool

Monday 3 December and Tuesday 4 December
European Council in Dublin



10 DOWNING STREET

From the Principal Private Secretary

6 April 1979

Dear Mrs. Thatcher

When Sir Ian Bancroft saw you earlier this week he said that I would be letting you have a brief note about the Prime Minister's Office at 10 Downing Street. I now enclose a copy for your personal information.

The note, which both Sir Ian Bancroft and Sir John Hunt have agreed, sets out the position now. The construction and working of the office has, of course, evolved over many years under successive Prime Ministers. But I do wish to emphasise that its sole purpose is to meet the Prime Minister's requirements and it can be, and will be, adapted in any way as the Prime Minister of the day wishes.

I should, of course, be very willing to talk to you about No. 10 in all its aspects if this would be helpful to you.

*Your sincerely
Kenneth Lowe.*

The Right Honourable Margaret Thatcher, M.P.

The Prime Minister's Office

1. The Prime Minister's Office at No. 10 Downing Street secures for the Prime Minister information, advice and action on all matters of government policy. It is essentially a two-way link between the Prime Minister and the machinery of government in the widest sense.

2. The sources of advice available to the Prime Minister on any matter include all or any of: Ministers in the administration; ~~the Cabinet Office via the Secretary of the Cabinet~~ ^{who is also Permanent} ~~the CSD via~~ ^{Secretary of the MPO and Head of the Civil Service} ~~the Head of the Civil Service~~; the CPRS; the political policy advisers and the Press Secretary in No. 10; and Government back-benchers via the Parliamentary Private Secretary. It is the responsibility of the Private Office to ensure (1) that these sources are tapped as the Prime Minister wishes, and the resultant advice is co-ordinated and presented in good time, and (2) that action as directed by the Prime Minister is taken and, if need be, monitored and followed up in the Departments concerned.

3. For this purpose each Private Secretary is made responsible for dealing with certain fields of policy, under the direction of the Principal Private Secretary, as follows:

Overseas Affairs Private Secretary (dealing with overseas, defence and Northern Ireland matters)

Economic Affairs Private Secretary (economic, financial and industrial policy)

Parliamentary Affairs Private Secretary (briefing for the Prime Minister's Parliamentary Questions; letters to Members of Parliament; the preparation of the Prime Minister's statements; and assistance with speeches in the House of Commons)

^{and Engagements}
Home Affairs/Private Secretary (dealing with non-economic home matters ^{and the})

~~Engagements Private Secretary~~ (Prime Minister's engagements, including travel arrangements; entertainment; correspondence about engagements)

4. The Principal Private Secretary, apart from overseeing all the work of the Private Office, deals personally with all matters of overriding importance, constitutional matters, relations with the Palace, and Honours, and works in close consultation with the Secretary of the Cabinet ~~and Head of the Civil Service~~.

5. Although each Private Secretary specialises in certain fields, the office functions as one team and business is, if necessary, dealt with by any of the Private Secretaries. Each Private Secretary in turn is designated as the duty Private Secretary for each day; he then becomes responsible for dealing with all business arising out of office hours ~~and accompanies the Prime Minister on internal United Kingdom journeys~~. A similar arrangement applies at weekends. The Duty Private Secretary is on call at home when on duty but will, as necessary, come to 10 Downing Street, to Chequers (or elsewhere) to deal with Prime Minister's business.

6. The Private Secretary (Appointments) - advises the Prime Minister on various public and ecclesiastical appointments. He is also responsible for the administration of Civil List pensions, for general personnel management matters within the office, and for matters relating to the fabric and services at 10 Downing Street and Chequers. He is also the Lord Chancellor's Ecclesiastical Secretary, and advises the Lord Chancellor on appointments to those Livings of which he is the patron. In this work he is assisted by the Assistant Secretary for Ecclesiastical Patronage, who is a member of the Lord Chancellor's staff.

7. The Press Secretary - the No. 10 Press Office is headed by a Press Secretary, appointed personally by and responsible directly to the Prime Minister. He is responsible for the management of the Prime Minister's relations with the Press and the broadcasting organisations, for the Prime Minister's public relations more generally, and the presentation of the Government's policies as a whole - for this purpose the Press Secretary co-ordinates the work of Departmental Press Officers. The Press Secretary at 10 Downing Street deals directly with the Parliamentary Lobby Correspondents and also has oversight on the Prime Minister's behalf of Departmental press and public relations.

8. The Prime Minister's office is manned 24-hours a day, 365 days a year by (1) a Duty Clerk[†] in the Private Office; (2) two Secretaries (Garden Room Girls)[†] and (3) two telephone switchboard operators - and a Private Secretary and Press Officer will be on duty, out of office hours, at home.

Functioning of the Office

9. The forward planning of business is done on a weekly cycle as follows:

i. ~~On Thursday of~~ Each week the Cabinet Office talk both to the Private Secretary in charge of the Prime Minister's diary and to Departments with business for collective discussion with a view to drawing up provisional proposals for Cabinet and Cabinet Committee business for the ensuing three weeks.

ii. ~~On Friday morning~~ ^{Thursday evening} The Principal Private Secretary attends an internal Cabinet Office meeting chaired by Sir ~~John Hunt~~ ^{Robert Armstrong} at which the draft programme is considered. The purpose of this is to reconcile competing bids on the Prime Minister's time; to ensure that matters do not unnecessarily come to Cabinet or Cabinet Committees; and that essential and urgent business is given priority.

iii. ~~On Friday evening~~ ^{Thursday} ~~Sir John Hunt~~ ^{Sir Robert Armstrong} minutes the Principal Private Secretary with proposals for meetings of the Cabinet and of any Cabinet Committees chaired by the Prime Minister for the following three weeks. ~~These are related in No. 10 to other Prime Ministerial engagements so that a co-ordinated programme can be submitted to the Prime Minister.~~ The proposals for Cabinet/Cabinet Committee business are for specific meetings, at stated times, and cover suggested agenda items with a brief explanation of these. ~~These proposals are put into effect, if the Prime Minister agrees, on the following Monday.~~

Sir Robert Armstrong normally has a meeting with the Prime Minister on Friday mornings to discuss the arrangements. They

[†]See Annex A

/iv. The fixed

- iv. The fixed points in the following week then become Cabinet (on Thursday and possibly Tuesday), any Cabinet Committees chaired by the Prime Minister, Prime Minister's Questions in the House on Tuesday and Thursday (for which preliminary briefing meetings may be needed) and the existing Prime Ministerial engagements in the diary, which normally include Audience of The Queen on Tuesday at 1830.
- v. A diary is prepared, on Friday evening, taking account of provisional Cabinet etc. business for the ensuing week and the ensuing year.
- vi. A daily diary is prepared afresh, for each day, at close of business on the preceding evening, for the Prime Minister and the Private Office and distributed to other principal advisers. The weekly diary is revised as events dictate and engagements are added or subtracted.

10. Briefing for Cabinet, for Cabinet Committee meetings chaired by the Prime Minister, for other Ministerial meetings, and for other engagements, is commissioned by the appropriate Private Secretary from the Cabinet Office, from Ministers in the Departments concerned, and from political advisers so as to be available for the Prime Minister's consideration in good time before the appropriate meeting. In general this briefing material arrives in No. 10 and is assembled with relevant papers for each item of business on the evening (or two evenings) before the meeting takes place. The Private Office similarly commissions and assembles briefing for the Prime Minister on other matters of business - e.g. for meetings with overseas and other visitors, or to deal with important letters.

11. The occasions in the Prime Minister's diary calling for speeches are similarly identified well in advance, briefing commissioned and assembled, and a draft prepared either by the Private Office or the Political Staff or jointly, as the Prime Minister directs.

12. The Press Secretary, after consultation with the Prime Minister, traditionally meets the Lobby correspondents at 1100 and 1600 hours each day.

13. The end product of the day's input into No. 10 - submissions from Ministers; from the Secretary of the Cabinet; from ~~the Head of the Civil Service~~ or the head of the CPRS; briefs from the Cabinet Office; Ministerial advice on issues either raised by the Prime Minister or referred to him; draft replies to correspondence; draft speech material; papers put forward by Ministers, the Cabinet Office, or Private Office for the Prime Minister's information - is assembled in three folders (Action, Information, Signature) and put in the Prime Minister's box to be worked on at the Prime Minister's convenience. It is the Private Office's responsibility to ensure that the Prime Minister's political advisers are aware of, and able to advise on, all papers of this kind, as the Prime Minister may direct.

14. Special procedures apply for highly classified and intelligence material.

15. Separate notes are attached on:

- i. Supporting staff - Annex A; and
- ii. Inward and Outward Overseas Visits - Annex B.

An organisation chart for the office as a whole is at Annex C.

10 Downing Street,
London S.W.1.

6 April 1979

/ANNEX A

SUPPORTING STAFF

The Private Secretaries and the Duty Clerk (see (1) below) work together in two rooms next to the Cabinet Room. Other staff of all kinds, official and political, are dispersed around the (cramped) complex of rooms in No. 10.

The supporting sections of the office are as follows:

(1) Confidential Filing

The Confidential Filing Section, headed by an Assistant Private Secretary, is responsible for:

- a. providing Duty Clerks who man the Private Office on a 24-hour basis; and
- b. the current official files of the Prime Minister's Office (except for the specialised files held elsewhere in the office).

There are six Duty Clerks, who are Executive Officers. They are the first point of contact for official business during non-office hours, and service the Private Office during the working day.

Outside normal working hours, the Duty Clerk:

- i. is available personally for the Prime Minister if necessary, and at all times available on the telephone;
- ii. deals with enquiries, supplies the Prime Minister with urgent messages or papers, and carries out the Prime Minister's instructions, where necessary in consultation with the duty Private Secretary;
- iii. ascertains the Prime Minister's movements, makes the necessary arrangements, and informs all those who need to know;

~~/iv. puts together~~

- iv. supervises (and assembles as necessary) the Prime Minister's box (see paragraph 13 above) for the day and arranges for it to be delivered to him.

(2) Parliamentary Questions Section

This small section (a Higher Executive Officer and a Personal Secretary) maintains a filing system of all the Prime Minister's Questions, statements and Parliamentary speeches with supporting briefing, and assists the Private Secretary for Parliamentary Affairs in his activities.

(3) Garden Rooms

The "Garden Rooms", headed by an Assistant Private Secretary, is the collective name given to the team of Senior Personal Secretaries and Personal Secretaries who provide shorthand typing and secretarial services for the Prime Minister and also the Private Secretaries. A member of the Garden Rooms is in all circumstances available to the Prime Minister to provide secretarial services and one will accompany the Prime Minister on all travels, including visits to Chequers, for this purpose. They also open and distribute incoming mail for the Prime Minister. Members of the Garden Rooms take it in turns to be on night and weekend duty, to accompany the Prime Minister when he is away from London and to ^{staff} ~~man~~ the office at Chequers whenever the Prime Minister is in residence there.

(4) Honours Section

The Prime Minister is advised on the selection of candidates for recommendation to The Queen for honours by a system of committees under the direction of the Head of the Home Civil Service. The Honours Section at No. 10 Downing Street, headed by an Assistant Private Secretary reporting to the Principal Private Secretary, maintains an index of those suggested for honours, handles correspondence between 10 Downing Street and Government Departments and outside organisations and individuals about possible candidates, prepares submissions to The Queen on honours and gallantry awards for the Prime Minister's signature, and despatches formal letters to recipients of honours. The Honours Section prepares and arranges

the printing of honours lists. The Honours Section also assists the Principal Private Secretary in the processing of Ministerial appointments.

(5) Correspondence Section

The Correspondence Section is headed by an Assistant Private Secretary. It is responsible for dealing with letters to the Prime Minister (other than constituency or Party correspondence) from members of the general public, which fluctuate widely but has averaged something like ^{over 2000} ~~2000~~ per week. All of these letters are acknowledged by No. 10; the majority are sent to other Government Departments for answer.

(6) Records Section

This Section, ~~headed by the same Assistant Private Secretary as the Correspondence Section,~~ is responsible for the custody and preliminary sifting of the official papers of past Prime Ministers and, when these are 25 years old, the final selection of those papers worthy of permanent preservation in the Public Record Office.

(7) Office Manager

The Office Manager is responsible for supplies and services of all kinds in 10 Downing Street and for supervision of the messengerial and cleaning staff. He reports to the Secretary for Appointments and through him to the Principal Private Secretary.

(8) The Secretary (Invitations)

The Secretary (Invitations) is responsible to the Diary Private Secretary for the detailed organisation of the Prime Minister's official entertainment. This involves preparing guest lists for the Prime Minister's approval, and sending out invitations and receiving replies, and preparing menus and table lists for the Prime Minister's approval.

(a) Cook (Part-time)

A part-time cook provides working lunches on ~~Tuesdays and~~ ^(if he remembers it) ~~Thursdays~~ ^{for the Prime Minister, Private the PPS, Private Parliamentary} ~~and~~ ^{the PPS Secretary} ~~on~~ ^{Senior policy advisers} ~~on~~ ^{on} ~~Tuesdays and~~ ^{Thursdays} ~~and~~ ^{when the House is sitting and the is sitting.} ~~on~~ ^{A charge is} ~~made for~~ ^{the food} ~~materials~~

OUTWARD AND INWARD OVERSEAS VISITS

(1) Outward and inward visits involving the Prime Minister and foreign Heads of Government fall into two categories:

- i. multilateral or bilateral meetings which have become a regular part of the calendar (e.g. meetings of the European Council, Economic Summit Meetings, Commonwealth Heads of Government Meetings, Anglo-German and Anglo-French Summits); and
- ii. bilateral meetings arranged on the initiative of the United Kingdom Government or at the invitation of another Government.

(2) The recurrent multilateral meetings are usually arranged by the Heads of Governments concerned at the end of the preceding meeting in the series. Proposals for either inward or outward visits involving the Prime Minister are usually put forward on the advice of the Foreign and Commonwealth Secretary. The first step in arranging such a visit is to reach agreement on the dates. This is usually negotiated, under the Prime Minister's direction, by the Overseas Private Secretary at No. 10 direct with the Private Office of the other Head of Government concerned, or with the relevant Embassy or High Commission in London. Once the dates have been agreed, the Prime Minister will give an indication of his or her wishes concerning the programme, and these will be conveyed to the host Government through the Foreign and Commonwealth Office.

(3) Consideration of the substance of an inward or outward visit begins with the submission by the Cabinet Office, on the advice of the Foreign and Commonwealth Office and other interested Departments, of recommendations on the objectives which the United Kingdom should pursue in the discussions and on the likely objectives of the other side.

/(4). Recommendations

(4) Recommendations concerning the agenda for the Prime Minister's discussions with a visiting or host Head of Government are made by the Foreign and Commonwealth Secretary and, if - as is usually the case - they concern a number of Whitehall Departments, will be co-ordinated by the Cabinet Office. An outline agenda and, flowing from this, a suggested list of briefs, are submitted to the Prime Minister about two weeks before the visit takes place. When the Prime Minister has approved these, briefs are commissioned by the Cabinet Office or (for straightforward bilateral visits) by the Foreign and Commonwealth Office: the aim is normally to have the briefs ready for the Prime Minister to read over the weekend preceding the visit.

(5) It has proved useful in the past for the Prime Minister to hold a briefing meeting, in the Cabinet Room at No. 10, a day or two before an inward or outward visit begins. This meeting is attended by Ministers and senior officials from all the Departments concerned with the visit, and its purpose is to determine the priority objectives for the visit, and the tactics which the Prime Minister should adopt in the various discussions with the host or visiting Head of Government. The meeting also provides the Prime Minister with an opportunity to ask for further information on any points which may not be adequately covered in the briefs.

(6) The normal pattern for the Prime Minister's involvement in an inward visit by a Head of Government is a tete-a-tete discussion (accompanied only by notetakers), a plenary session of talks for the host and visiting delegations in the Cabinet Room at No. 10, a lunch or dinner at No. 10, and participation in whatever return hospitality is offered by the visitor.

The following visits currently figure in the Prime Minister's diary for the remainder of 1979:

17/19 June
~~10/12 May~~

European Council, Stuttgart
Chancellor Schmidt to visit the United Kingdom for six-monthly Anglo-German consultations (with an addition to the programme on this occasion of the award to Chancellor Schmidt of an Honorary Degree by Oxford University).

/12/14 June

12/14 June State Visit by the President of Kenya
22/23 June European Council in Strasbourg
27/29 June Economic Summit in Tokyo (already announced)
1/8 August Commonwealth Heads of Government Meeting in
Lusaka (already announced as to The Queen's
participation by the Palace)
3/4 December European Council in Dublin

24 June Visit by Vice-President Buch
Houphouët Boigny
26-29 July Visit by President of the Ivory Coast
25-28 October State visit by President Jayewardene of Sri Lanka
23-30 November Commonwealth Heads of Government meeting
5-6 November European Council in Athens

