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(79) 3rd
conclusions

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CABINET

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

THURSDAY 24 MAY 1979

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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

The Rt Hon Lord Hailsham
Lord Chancellor

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

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

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

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

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

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

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt	
Sir Clive Rose	(Items 2 and 3)
Mr M D M Franklin	(Items 2 and 3)
Mr P Le Cheminant	(Items 4 and 5)
Mr P Mountfield	(Item 5)
Mr C H Wilson	(Item 4)

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LIAMMENTARY 1. The Cabinet were informed of the business to be taken in the
FAIRS House of Commons during the period 11-18 June.

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mittees

THE PRIME MINISTER said that she had a Question that afternoon asking whether she would now answer Questions on the membership and terms of reference of Cabinet Committees. Excessive secrecy had attached to such matters in the past. She intended to reply that she had established four Standing Committees of the Cabinet - the Defence and Oversea Policy Committee, the Economic Strategy Committee, the Home and Social Affairs Committee and the Legislation Committee - and to give the names of their Chairmen. She would say that attendance at these Committees would vary according to the subject under discussion; and that, where appropriate, Sub-Committees of the Standing Committees would be established. She would make it clear, however, that membership and terms of reference of the Standing Committees and their Sub-Committees would remain confidential.

The Cabinet ..

Took note.

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Strategic Arms
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2. THE FOREIGN AND COMMONWEALTH SECRETARY said that he had had valuable talks with the United States Secretary of State, Mr Vance, who had personally given him a positive assurance about the effect of the non-circumvention provision in the Strategic Arms Limitation Talks (SALT) II Agreement on any requirements we might have for maintaining the effectiveness of the British deterrent. This assurance was confidential at this stage but if asked about this point in the House, the Prime Minister might safely say that we were confident that our interests would be safeguarded.

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THE FOREIGN AND COMMONWEALTH SECRETARY said that President Carter of the United States would shortly have to make a determination about whether the Muzorewa Government complied with the conditions of the Case-Javits Amendment. It was likely that he would say that it did not, but that he would keep the position under review. It was however doubtful whether this would satisfy the Senate. We were about to embark on a round of consultations in Southern Africa. The immediate problem was to take steps to

avoid mandatory sanctions in relation to Namibia and the Parliamentary Under-Secretary of State, Mr Luce, would shortly be going out to the area where he would visit Windhoek and also make contact with the South West African People's Organisation. A senior Foreign and Commonwealth Office official would go to Salisbury in order to maintain close contacts with the Muzorewa Government, but this would not involve recognition or full diplomatic representation. He also intended that a political emissary should leave shortly for wider consultations with African Governments on the question of our policy towards the Muzorewa Government. He expected to be able to announce the name of this emissary next week.

The Cabinet -

1. Took note.

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ugees

THE HOME SECRETARY drew attention to the problem presented by refugees from Vietnam. There were already some 32,000 in camps in Hong Kong, many of whom we might be obliged to accept in the United Kingdom. We were committed by a decision of the previous Government to accept in the United Kingdom any refugees rescued at sea by British ships. There were already 1,800 refugees in this country and they involved a heavy pressure on our resources. Although the voluntary bodies were said to be optimistic about their ability to handle the problem it was likely to represent an increasing burden on local authorities, who would have to provide facilities for English teaching and other amenities. He would prepare a paper on the problem for consideration by his colleagues at an early meeting.

THE PRIME MINISTER, summing up a short discussion, said that the immediate issue was what should be done about the 900 refugees on a British ship which was at present stationed off Hong Kong. The solution would probably be to take them into Hong Kong. It was however essential that the general question should be raised urgently in the appropriate international forum as a matter on which action should be taken by the international community as a whole. While we should not discourage British ships from rescuing Vietnamese refugees in trouble in the sea, we could not accept that this involved us automatically in a commitment to take those rescued for settlement in the United Kingdom. In answer to questions we should take the line that while we were ready to fulfil our obligations, we regarded the matter as essentially one for the international community as a whole and were taking steps to raise it internationally. The Foreign and Commonwealth Secretary should pursue this. The Home Secretary should circulate a paper, as suggested, for consideration by the Cabinet.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Home Secretary and Foreign and Commonwealth Secretary to take action accordingly.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said he would be representing the Government on Monday, 28 May, for the signature in Athens of the Treaty for the accession of Greece to the European Communities. The Sub-Committee on European Questions of the Defence and Oversea Policy Committee had met the previous day and would be suggesting how Ministers could put over the problem of our budget contribution in any contacts with other member States.

THE PRIME MINISTER said that during her recent meeting with Mr Roy Jenkins, the President of the Commission, she had stressed the importance of the budget problem. Mr Jenkins had agreed that the Commission would help with the presentation of an agreed statement of the facts and, if asked by the European Council, would accept a remit to come up with possible solutions.

In a brief discussion the tactical advantage in having recommendations for remedial action coming from the Commission was stressed. There was evidence that for the first time the Germans were now ready to acknowledge that we had a real problem. The French were still being difficult even about the presentation of the issue to the forthcoming European Council meeting in Strasbourg and this would need to be pursued at the forthcoming meeting between the Prime Minister and President Giscard.

The Cabinet -

Took note.

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

5. The Cabinet considered two memoranda by the Chief Secretary, Treasury (C(79) 10 and 11) about the reductions which would be needed in the expenditure plans inherited from the previous Government for the years up to 1983-84.

THE CHIEF SECRETARY, TREASURY, said that the Government's objective was to reduce expenditure, by the end of the present Parliament, to the level reached in 1977-78. This required very substantial cuts in the plans established by the previous Administration. The Cabinet would require a wide range of options within which to exercise its political choice. The paper was designed to secure a report from officials, which Cabinet could consider later in the summer, setting out options which would allow the target to be reached.

There was wide agreement with this general approach although a number of reservations were expressed about particular programmes. For example, a wider range of expenditures in Northern Ireland, than in Great Britain, had a law and order content. The Social Security programme was largely demand-determined. In the agriculture programme, there were a number of items which were either defence-related or financed by the European Community budget. There might also be particular difficulty about making cuts in the educational programme on the scale suggested, notwithstanding the reduction in the school population. Equally however there were elements within the law and order programme, eg the fire service, where cuts could and would be sought. In each case, however, it was essential that Ministers should be presented with a wide range of political choices when they came to take final decisions in the summer.

In further discussion, it was suggested that the cuts considered by the Party when in Opposition (C(79) 10) had not always been worked out in sufficient detail for lack of information. While taking them into account therefore Ministers should work within the framework set by the Chief Secretary's paper (C(79) 11). The initial process of identifying potential cuts would inevitably involve looking at some options that would turn out to be unreal and which it would be unwise to deploy in consultation with local authority associations and others outside central Government. Ministers faced with the need for such consultations should first seek to identify such unreal options and to agree with the Treasury, and other colleagues where necessary, that they should not be put forward in the consultative process. Similar considerations might apply to the nationalised industries.

SOCIAL
SECURITY
OPERATIONS

REVIEW OF
PUBLIC
EXPENDITURE
PROGRAMMES

previous
reference:
C(79) 2nd
conclusions,
Minute 4

In continued discussion, it was suggested that when Ministers came to consider the complete report in the summer, they would need to look at both the gross and net expenditure effects of reductions in public sector spending. The presentation of public expenditure statistics, and the monitoring information available to Ministers, also needed further attention.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that a wide range of options should be deployed when Ministers took final decisions on long term public expenditure plans later in the summer. Meanwhile, no further long term commitments should be entered into. Departmental Ministers should arrange for their officials to identify options on the scale proposed in the Chief Secretary's paper C(79) 11. The reductions did not apply to the Defence or law and order programmes, for which some increases might be necessary: nevertheless, every effort should be made to reduce waste in these services. The approach to savings in the National Health Service would be governed by the commitments made during the election campaign. The full range of identified options should be reported to the Treasury and brought together for consideration by the Cabinet at the end of June. Ministers concerned with local authorities and other non-central Government bodies should first consider the options internally and in consultation as necessary with the Treasury and other colleagues, with a view to eliminating unreal options before entering into wider consultations: the results of their consultations would nevertheless also need to be available by the end of June. The Chief Secretary, Treasury, should arrange for a report to be made on the same time-scale about the potential for reducing borrowing by the nationalised industries. After the Budget, the Chancellor of the Exchequer and the Chief Secretary, Treasury, should consider urgently the scope for improved presentation of public expenditure statistics, both at the time of Ministerial decisions and for internal control purposes during the course of the financial year.

The Cabinet -

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

Cabinet Office

24 May 1979

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CABINET

LIMITED CIRCULATION ANNEX

CC(79) 3rd Conclusions, Minute 4

Thursday 24 May 1979 at 10.30 am

SOCIAL
SECURITY
UPRATINGS

The Cabinet considered a memorandum by the Secretary of State for Social Services (C(79) 9) seeking decisions on the policy for determining social security upratings due to take place in November 1979.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that existing legislation required the Government to increase pensions and other long term benefits in line with the increase in earnings or prices, whichever was the greater. He now proposed that this statutory commitment should be limited, like other benefits, to uprating in line with prices. The Government's objective should be for pensioners to share in rising standards of living but the present statutory obligation was simply not sustainable on a year by year basis. Firm forecasts for the November uprating in the current year would not be available until Budget time. It was possible that the price forecast increase might be higher than earnings. His preference nevertheless was to legislate in the current session to break the earnings link. A decision was also needed on the shortfall between the forecast used for the last uprating and the actual movement in earnings and prices. The previous Administration had announced that they would take account of this at the next uprating. The Government had said that it would honour that commitment. It was, however, necessary to decide whether the increases due this year should be added to the existing level of benefits and the shortfall then added to that sum or whether, as he preferred because it seemed the most straightforward procedure, to add the shortfall to the existing rates before this year's uprating was made. The latter course would cost about £10 million more. He proposed that Child Benefit should be left at £4 per week; the premium paid to one parent families should be increased from £2 to £2.50; and Mobility Allowance be increased from £10 to £12. The Government were committed by their Manifesto to continue the Christmas bonus and he proposed that they should announce, as part of the uprating statement, that a £10 bonus should be paid to the same categories as last year. Given the commitment to continue the bonus he proposed legislation to provide for this and for changes in the sum to be paid to be made by Order.

The overall package he proposed was extremely modest in public expenditure terms, but his proposals on breaking the links with earnings for long term benefits and for no increase to Child Benefit would be controversial and bitterly opposed.

In discussion there was general agreement that there should be early legislation to end the link between the uprating of long term benefits and earnings. On the question of making up the shortfall in last year's uprating it was argued that the Government's commitment related only to pensions and that it was not necessary to treat short term benefits in the same way. A saving of about £10 million could be made if making up the shortfall were restricted to long term benefits; this would help to meet the costs of the other improvements proposed. Against this it was argued that a discriminatory approach would be very controversial and would reduce the real standard of living of those on short term benefits.

In further discussion there was a general welcome for the proposals on Child Benefit, on the premium payable to one-parent families, and on the Mobility Allowance. Although the previous Administration had not paid the Christmas bonus every year it was argued strongly that the Government's Manifesto commitment to continue the bonus meant putting it on a permanent basis and legislating to that end. Attention was also drawn to the desirability, if it proved practicable and the cost was acceptable, of reducing the time-lag between announcing changes in benefits and their implementation. The inadequacies of the Retail Price Index (RPI) as a measure of price changes were also noted, particularly its failure to reflect changes in direct taxation. It would be desirable for the legislation on uprating benefits to define price increases in such a way as to cover alternatives to the RPI, currently under consideration by officials.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that there should be early legislation to limit the statutory commitment to uprating long term benefits in line with prices. This decision should be announced at the time of the Budget. It was absolutely essential that it did not become known before then and every care should be taken to keep knowledge of the decision to the smallest possible circle. Great care was also necessary to avoid premature disclosure of likely price movements; or subsequently praying these in aid in defence of the scheme in a way which would encourage inflationary wage demands. The Cabinet also agreed that long term benefits should be increased by the established shortfall in the forecasts used for last year's upratings. This shortfall should be added to existing levels of benefit before the current year's increase was applied to them. The Cabinet saw merit in not increasing short term benefits by the shortfall; the Secretary of State for Social Services should prepare a memorandum on this point for early consideration by colleagues. He should report also on the prospects for shortening the time between announcement of changes in benefits and their implementation. In preparing legislation on uprating the Secretary of State for

Social Services should take account of the need to accommodate possible future changes in the indices used for the purpose. The Cabinet also agreed that Child Benefit generally should be held at £4; that the premium for one-parent families should be increased to £2.50; and that the Mobility Allowance should be increased to £12. In addition they agreed that their commitment to continue the Christmas bonus should be interpreted as meaning that it would be paid on a continuing basis and not simply this year. The Secretary of State for Social Services should prepare legislation accordingly which would provide for the amount of the bonus, but not the range of beneficiaries, to be determined by Order. Any further questions on policy relating to the bonus should be considered by the Ministerial Committee on Home and Social Affairs. The total additional costs of the decisions on upratings should be met in 1979-80 from the Contingency Reserve. The Secretary of State for Social Services should consult further with the Chancellor of the Exchequer about the possibility of the bonus being met in future years out of the National Insurance Fund.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Social Services to be guided accordingly.

Cabinet Office

24 May 1979