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COPY NO 81

CABINET

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

THURSDAY 25 OCTOBER 1979

at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

t Hon William Whitelaw MP
tary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

t Hon Lord Carrington
tary of State for Foreign and
nonwealth Affairs (Items 1 - 4)

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

t Hon Sir Keith Joseph MP
tary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

t Hon Lord Soames
President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

t Hon Sir Ian Gilmour MP
Privy Seal (Items 1 - 4)

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

t Hon Michael Heseltine MP
tary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

t Hon Nicholas Edwards MP
tary of State for Wales

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

t Hon Patrick Jenkin MP
tary of State for Social Services

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

t Hon John Nott MP
tary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

t Hon Mark Carlisle QC MP
tary 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

Norman Fowler MP
of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Rt Hon Tom King MP
Minister of State, Department of the Environment
(Item 6)

SECRETARIAT

Sir John Hunt
Sir Robert Armstrong
Mr M D M Franklin (Items 2 and 3)
Mr P Le Cheminant (Items 4-10)
Mr P J Harrop (Item 1)
Mr R L Wade-Gery (Items 2 and 3)
Mr P Mountfield (Items 4, 5 and 7-10)
Mr D E R Faulkner (Item 1)
Mr G D Miles (Item 6)

CONTENTS

MENTARY ... Paraffin (Maximum Retail Prices) (Revocation) Order 1979

1. THE PRIME MINISTER said that a prayer to annul the Paraffin (Maximum Retail Prices) (Revocation) Order 1979 had been successful in the House of Commons the previous evening because no objection had been raised to it. This oversight gave an impression of incompetence which could lead to public criticism and undermine the confidence of the Government's supporters in the House. The immediate consequences for the price of paraffin were at this stage still uncertain but it was essential that the situation should immediately be restored. A new Order should be laid that day; it would have to differ from the original Order in detail but it must be technically sound, and there should be no repetition of the oversight which had allowed the prayer to succeed.

The Cabinet -

1. Took note.

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

... Paper on the ...ation Rules

THE HOME SECRETARY said that the draft White Paper on the Immigration Rules had received policy clearance from the Ministerial Committee on Home and Social Affairs on 26 September. After making a number of detailed changes to meet points suggested in correspondence he had circulated the draft to the Cabinet with his memorandum C(79) 45. The most difficult problem related to husbands and fiances from the Indian sub-continent, where the operation of the marriage market had led to widespread exploitation and abuse. Husbands and fiances were now virtually the only source of male primary immigration. In the year before the Labour Government's concession in 1974 the number of husbands accepted for settlement from all countries had been about 3,000; after the concession it had increased to about 7,000; and by 1978 it had grown to about 9,500. About half of this number came from the New Commonwealth and Pakistan. The figures for fiances in the same year was 2,200, most of them from the same countries. The case for tighter control was overwhelming; the problem was how it should be achieved. To revoke the Labour Government's concession would not be sufficient. The Rules previously in force contained a safeguard for hardship cases, allowing a husband or fiance to settle in the United Kingdom, if otherwise the woman would face difficulties caused by difference in race, language, customs or religion in her husband's country. The better course was to exclude the husbands or fiances of marriages whose main purpose appeared to be to achieve settlement; other marriages or engagements might enable the man to qualify for entry provided that the woman was a citizen of the United Kingdom and Colonies and born in this country. This approach would protect the position of women who wanted to marry United States citizens or citizens of the Old Commonwealth, for whom there was strong public sympathy. It might be argued that this solution would prove ineffective in the long term as more Asian women born in this country reached marriageable age; but Asian girls born here could increasingly be expected to look for marriage partners in the United Kingdom rather than from the Indian sub-continent. He acknowledged that his proposals would be criticised on the grounds that they discriminated between the sexes. It had been suggested that similar restrictions should be applied to wives and fiancees coming from abroad; but to do so would require major legislation, would breach the statutory undertakings given in the previous Conservative Government's Immigration Act of 1971, and would provoke enormous hostility. If the argument about sex discrimination were pressed, the Government would have to explain frankly that the alternatives were to allow the existing abuse to continue, with the consequent abandonment of commitments in the Manifesto, or to depart from the long-established tradition that wives of United Kingdom citizens had a right to settle in this country.

In discussion, it was argued that the strength of feeling on the issue of sex discrimination should not be underestimated, and might result in a loss of support among women voters. There was also a risk of an adverse judgment in the European Court. The effect of the proposed rules on the position of women born abroad while their parents had been employed in the service of the Crown was a matter of particular concern. It could also be argued that, at least in relation to fiances, the new Rules should apply equally to members of both sexes. On the other hand, the position of women born abroad could be protected by the exercise of administrative discretion. It was impossible, however, to distinguish between husbands and fiances without providing scope for evasion which would bring the system into disrepute.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the White Paper on the Immigration Rules attached to C(79) 45 should be published as soon as possible; the Home Secretary should discuss the timing and handling of a Parliamentary debate with the Chancellor of the Duchy of Lancaster and the Chief Whip in due course.

The Cabinet -

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

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THE PRIME MINISTER said that there were strong feelings about the lack of facilities at Westminster for United Kingdom Members of the European Parliament. The Chancellor of the Duchy of Lancaster should raise the matter in the Services Committee without delay; if the Opposition pressed their objection to the automatic provision of passes, the issue would have to be resolved by a vote.

The Cabinet -

3. Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the British proposals for the transitional period had been tabled at the Lancaster House Conference on 22 October. Under these the members of Bishop Muzorewa's Government would retain their ministerial titles but not exercise their functions; and the police and armed forces would be responsible to the British Governor. The police commissioner and General Walls had accepted this, and he hoped that Bishop Muzorewa would also do so. The Patriotic Front would object to the shortness of the transition and to the arrangements for the security forces; but they might in the end prove flexible. Meanwhile the Parliamentary Under Secretary of State, Foreign and Commonwealth Office, Mr Luce, had paid useful visits to the Front Line Presidents, but it was not clear how far they would be willing to put pressure on the Patriotic Front. A message of support had been received from the United States Secretary of State, Mr Vance, and support had also been shown at the informal meeting of European Economic Community Foreign Ministers at Ashford Castle on 20-21 October. Not all sanctions would lapse automatically if Section 2 of the Southern Rhodesia Act 1965 was not renewed in mid-November. We might if necessary retain the balance for a limited period until we could reasonably argue in the Security Council that legality had been restored. The minimum basis for that would be Bishop Muzorewa's acceptance of our transitional plans and the installation of the Governor following dissolution of the Rhodesian Parliament. Legislation would be needed so that we could implement the transition and the new constitution; and contingent provision for that had been made in the Government's parliamentary timetable.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that our policy on Rhodesia had received reasonable support from the other Foreign Ministers of the European Economic Communities (EEC) at their informal meeting during the previous weekend. Our need for a decision on the United Kingdom's budgetary problem at the Dublin European Council had been generally recognised but there was no acceptance of the magnitude of the solution we were seeking.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the French Government had now written to him, and the other EEC Ministers of Agriculture and the Commission, announcing the lifting of their ban on imports of sheepmeat from the United Kingdom. However they appeared to be insisting that the quantity of imports should reflect previous patterns of trade and that imports would be bought up and stored by the national French intervention agency. He was seeking early clarification from the French that our lamb could now be freely marketed and would not be subject to import levies. He had recommended Commissioner Gundelach, who had rushed to welcome the French measure and sought to turn the pressure on to us, that he ought to make similar enquiries.

The Cabinet -

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4. The Cabinet resumed its discussion of the last three years of the Public Expenditure Survey period. It had before it a memorandum by the Chief Secretary, Treasury (C(79) 42), summarising his proposals, together with a letter dated 15 October from the Secretary of State for Education and Science to the Chief Secretary, Treasury, and his reply dated 16 October. It also considered a further memorandum by the Chief Secretary, Treasury, (C(79) 49), illustrating changes in levels of public expenditure over the previous six years.

THE PRIME MINISTER said that she had asked for the additional information in C(79) 49 to be circulated to the Cabinet, in order to emphasise that the reductions already agreed for 1980-81 merely stabilised the level of public expenditure as compared with 1978-79 and 1979-80. The tables also demonstrated that the previous Government had themselves been forced to reduce public expenditure sharply - by 2.5 per cent in 1976-77 and by 6 per cent in 1977-78. Moreover the cost of servicing the national debt had risen considerably throughout the period of the previous Administration. Unless the proposals put forward by the Chief Secretary could be broadly accepted, it would be very difficult to make any further reductions in taxation during the life of the Government.

The Cabinet then considered the remaining programmes.

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The Chief Secretary, Treasury's, proposals, set out in Annex G to his paper, were designed to allow the maintenance of educational standards in line with the Manifesto commitment. They would have held unit costs at the level of 1978-79, with the addition of an allowance, already agreed for 1980-81, of about £130 million a year for the extra costs associated with falling school rolls. Rolls would fall by about 13 per cent over the period, and the number of teachers by only 10 per cent. There was a tendency for unit costs to rise at times when rolls were increasing, but not to reduce again as rolls fell. The changes proposed were unlikely to lead to any additional closures of small village schools. The Cabinet had already taken the most politically-sensitive decision on education, when it agreed to tackle school meal charges and transport; there was less reason to object to the proposals now under consideration. Against this it was argued that the Secretary of State for Education and Science had already offered savings of £145 million in 1981-82, leading to cuts of 6 or 7 per cent on the education programme at the end of the period. The £130 million adjustment proposed by the Chief Secretary, Treasury was insufficient to deal with the diseconomies of reduced numbers and continuing overheads. The effect would be more mixed ability teaching, mixed age teaching, and a narrower range of options in sixth forms. While total school rolls were falling, numbers at the upper end of the age-group, where costs were highest, were still rising.

The Chief Secretary, Treasury's, proposals for non-advanced further education required a reduction to the 1977-78 level of provision in real terms by 1982-83. This involved a reduction of 3 per cent on the current year in the number of places or in unit costs. Numbers in the relevant 16-18 age group seeking full-time courses were falling and there was scope to accommodate them within existing schools. Many unnecessary courses were being provided in further education. The numbers of overseas students in this sector should be examined further.

Against this it was argued that 65 per cent of the training in these institutions was vocational, and a high proportion of those places went to technicians in training, frequently on day release. It was not possible to undertake this kind of education in schools; nor was it possible to transfer pupils back to schools in areas which had changed to a tertiary or sixth form college system. The cuts proposed would reverse the modest improvement in this sector agreed for 1980-81. Whatever sum was eventually agreed should be allocated in ways which would favour technical and vocational training.

The Chief Secretary, Treasury's, proposals required reductions of £20 million, £50 million and £45 million in the three years at a time when numbers were rising, despite static or falling participation rates. The problem of overseas students in this sector had already been tackled, although some small adjustments might be needed to allow for a small number of post-graduate overseas students. The university and polytechnic sector deserved a lower priority than non-advanced further education in the technical field.

It was pointed out that the proposal (in Annex H of the Chief Secretary, Treasury's, paper) to drop the earnings-related supplement (ERS) was highly controversial. It would involve dropping, for the first time, a whole class of social security benefits. It would require highly contentious primary legislation. Because contributions were also earnings-related, it would involve breaking a contractual arrangement. Relationships with the trade unions would be severely damaged. The absence of ERS would make it even harder to agree satisfactory terms in the case of large-scale redundancies.

Against this it was argued that the social security programmes were the one area of inexorable growth within overall public expenditure. The abolition of ERS was the only major change which would make any difference to this total. The present system tended to narrow the gap in income between those at work and those out of work, and this must have some effect on incentives. This was particularly true if ERS were considered together with the present very generous redundancy terms on offer in many recent plant closures. One possibility would be to tax all such benefits; this was already under study. But the potential tax yield was not enough to compensate for the cost of continuing with ERS. Taxation of benefits would also require additional staff, although this problem should not be exaggerated. It might also be possible to increase the rate of earnings-related contributions, which were merely a form of insurance premium against unemployment and should be adjusted as the costs rose.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet noted that a continuing provision of about £130 million per annum had been made in the programme to offset the diseconomies of reducing school rolls. On this basis and subject to any necessary adjustment between it and the non-advanced further education programme, the Cabinet were disposed to accept the provision for school education proposed by the Chief Secretary, Treasury. The Chief Secretary, Treasury and the Secretary of State for Education and Science should discuss these matters further, including particularly the provision to be made for non-advanced further education and for higher education, and seek to reach an agreement on revised figures to be reported to the Cabinet at its next meeting. In doing so, they should reflect the Cabinet's preference for technical non-advanced further education. The Cabinet agreed that the option of dropping the earnings-related supplement should not be pursued at this stage, and should not be reflected in the second Public Expenditure White Paper (covering the years 1981-82 to 1983-84). The Chancellor of the Exchequer should however arrange for a complete and confidential review by officials of the whole complex of redundancy payments, earnings-related, sickness and unemployment benefits, and taxation of benefits, and of their effect on incentives. He should report back to the appropriate Cabinet Committee in due course. The Cabinet would resume its discussion of the remaining outstanding issues raised in C(79) 42 at its next meeting.

The Cabinet -

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

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5. The Cabinet considered a memorandum by the Chief Secretary, Treasury, (C(79) 46) covering a draft of a White Paper on the Government's expenditure plans in 1980-81.

THE CHIEF SECRETARY, TREASURY, said that the draft White Paper embodied the decisions which the Cabinet had taken during the summer about expenditure in 1980-81. The draft would be extended to include the two tables circulated with C(79) 49 and discussed under the previous item of the Agenda. He proposed to publish the White Paper on 31 October without any oral statement. But if the Cabinet judged that its importance required an oral statement, 1 November would be a better date.

In discussion of the arrangements for publication, it was argued that the Opposition would probably wish to press for an oral statement. It would be best to concede this demand if it were made, although this was not necessarily the best way of presenting the Government's case. There would almost certainly be an early debate about the White Paper in any case. Arrangements had already been made to co-ordinate publicity at the time of publication, although individual Ministers would wish to make their own arrangements for explaining the figures for their own programmes. In doing so, all Ministers should take the opportunity to stress that these were volume figures, and that the more that was spent on pay the less, inevitably, would be available for the other elements in the programme.

In discussion of the draft, it was first suggested that the unemployment assumption stated in paragraph 39 should be removed. It would be necessary in due course to make this figure public, but this should not be done any earlier than was strictly necessary. It was noted that a change to paragraph 16, on the Defence programme, had been agreed between officials. The reference to housing subsidies might need amendment, to avoid over-precision about the level of rent increases to be expected as a result of the Government's decisions. A reference might be needed to the overall effect of the changes in public expenditure upon the construction industry.

In further discussion it was noted that, following discussion in the Ministerial Committee on Economic Strategy, it had been provisionally agreed that further increases of 5 per cent in electricity prices and 10 per cent in gas prices should be introduced in October 1980 following increases in line with the retail price index in April 1980. The figures in the White Paper would be adjusted to allow for this.

THE PRIME MINISTER, summing up the discussion, said that the Chief Secretary, Treasury, should arrange for the White Paper to be published on 1 November. The Opposition should be told that it was not the Government's intention to make an oral statement; but if the Opposition pressed for one, the Government should be prepared to concede it. Individual Ministers were free to explain their own programmes, but their lines should be consistent with those taken by Treasury Ministers in presenting the Government's decisions and should be co-ordinated in advance in the usual way. The reference to the unemployment assumption in paragraph 39 should be deleted. The Secretary of State for the Environment should agree with the Chief Secretary, Treasury, on the wording of references to housing subsidies and to the construction industry, and should refer to her in the event of further disagreement. The Cabinet confirmed the agreement reached on gas and electricity prices.

The Cabinet -

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

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

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7. THE PRIME MINISTER said that there would not be time for the Cabinet to discuss the paper (C(79) 48) by the Chancellor of the Exchequer. It would do so at its next meeting. Meanwhile, a cash limit for the National Coal Board had to be agreed urgently, before the pay negotiations with the National Union of Mineworkers were resumed on 30 October. The Secretary of State for Energy should agree this cash limit with the Chief Secretary, Treasury, and inform her of the result.

The Cabinet -

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8. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he would be making a statement in the House of Commons that afternoon about political developments in Northern Ireland. This followed discussions in the Defence and Oversea Policy Committee. In his statement, he would say that the Government intended to convene a conference of all parties in Northern Ireland about future constitutional arrangements. The Government would issue a consultative document in advance. It would set out a number of ways in which progress might be made towards resolving the present difficulties. He hoped that the conference would meet by the end of November. It was important to persuade all the main parties to attend the conference if possible, though there were fears that at least one might not do so. It was therefore essential that all Ministers, in speeches both in Northern Ireland and in the rest of the country, should take every opportunity to stress the importance of the conference and to emphasise the need for participation by all the main parties.

The Cabinet -

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9. The Cabinet took note that the Chancellor of the Exchequer had made a statement in the House of Commons on 23 October announcing the abolition of all remaining exchange controls save those affecting Rhodesia (which would need to be retained so long as sanctions continued). This was one of those decisions on which, because of their acute commercial sensitivity, it was necessary to ensure strict security, and it was therefore possible for the Chancellor to consult only a very few colleagues in advance; he had, however, arranged for the text of his statement to be circulated to all his Cabinet colleagues immediately before it was made.

THE PRIME MINISTER, summing up a brief discussion, said that, although she recognised that some other members of the Cabinet might have liked to have an opportunity of expressing their views before a decision was taken, it was the general view of the Cabinet that it was right to continue to observe the well-established and inevitable practice that advance knowledge of certain decisions, notably in the defence and financial fields, had for overriding reasons of security to be confined to as few people, including Ministers, as possible.

The Cabinet -

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10. THE PRIME MINISTER said that this was the last meeting of the Cabinet which Sir John Hunt would be attending. She wished formally to place on record her own gratitude, and that of the Cabinet, for the notable services which he had rendered not only to successive Cabinets but also to the country as a whole. He had held office for over six years, and the service which he had given went well beyond the ordinary business of the Cabinet. She wished to put on record in particular his invaluable work in support of Economic Summits. He had been a wise and skilful adviser and counsellor, and indeed friend, to members of successive Cabinets. The Cabinet would wish to extend to him their best wishes for the future.

In token of the Cabinet's gratitude and good wishes, the Prime Minister, on the Cabinet's behalf, made a presentation to Sir John Hunt, who expressed his gratitude both for what the Prime Minister had said and for the gifts presented to him.

The Cabinet -

Took note, with approval, of all that the Prime Minister had said, and asked that it should be recorded in the Cabinet Minutes.

Cabinet Office

25 October 1979

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LIMITED CIRCULATION ANNEX

CC(79) 18th Conclusions, Minute 6

Thursday 25 October 1979 at 9.30 am

[...]UPPORT [...]EMENT

The Cabinet had before them a memorandum by the Secretary of State for the Home Department (C(79) 47) discussing proposals for the Rate Support Grant (RSG) settlement for 1980-81 and various related matters.

THE HOME SECRETARY said that the issues involved had been discussed in a Ministerial Group (MISC 21) under his chairmanship. They had aimed so far as possible to reach agreed recommendations to Cabinet colleagues and those listed in paragraphs 14 (i), (ii) and (v) of his paper were so agreed. The main issues on which they had not been able to reach a common view were the size of the overall grant percentage, and the pay and price assumptions that should be employed in turning the already agreed volume figures for 1980-81 into the cash limit for that year. The grant percentage was bound up with the problem of distribution where the Government's declared aim was to halt, and if possible reverse, the drift of grant away from the Shire counties. Since the Group had decided that it was impracticable to alter the distribution formula this year, this aim pointed to an RSG percentage towards the top end of the range of options under discussion. The assumptions to be used to arrive at the cash limits for 1980-81 presented considerable problems because there was an inevitable area of uncertainty. In particular they involved judgments about levels of wage settlements up to the end of the financial year 1980-81, and so incorporated elements from both the current and the next wage rounds. The Group had considered advice from the Chief Secretary, Treasury, that the best estimate of the likely rise in local authority costs - including both pay and prices but excluding the tail end of outstanding comparability awards - was 14.6 per cent. The Chief Secretary, Treasury, had then argued that this inflation assumption should be shaded down, to encourage economy by the local authorities. The Chief Secretary, Treasury's final recommendation therefore was that the Government should use an overall figure of 13 per cent increase in costs in arriving at the 1980-81 cash limit. The Secretary of State for the Environment, on the other hand, had argued that a figure of 13 per cent would be unrealistically low. In his view local authorities' pay settlements were likely to be influenced by the current rate of price inflation of over 17 per cent and there was a danger that, if local authorities thought the Government was under-providing for inflation, they would further increase the level of rates. The Secretary of State for the Environment had therefore proposed the adoption of an uplift figure, after a degree of shading to induce efficiency, of 16.5 per cent. The Cabinet would have to strike a balance between these views.

In discussion of the grant percentage, it was suggested that the overall rise in local authority costs next year might well turn out to be near 20 per cent. If the grant percentage remained at 61 per cent the burden of this cost increase would fall more on the taxpayer than the ratepayer. A reduction in grant to 59 per cent would shift the burden to the ratepayer and induce economy in local authority expenditure. Against this it was argued that the Government had long held the view that the rating system was unfair and that the burden of rates should be reduced as far as possible. Moreover it was important that the Government should not give local authorities an alibi for large rate increases. The volume of local authority expenditure had been discussed at length with the local authorities during the course of the summer, and it was presentationally desirable that the Government should now offer to finance its share of that expenditure. Otherwise it would be accused of imposing a further volume cut by the back door. The effect of the grant percentage on the distribution of RSG, and its consequences for the Shire counties, would also be of great importance to the Government's supporters. The only means, other than setting a suitable RSG percentage, of shifting more grant towards the Shire counties would lie in taking more away from London, where the rate burdens were already much higher than elsewhere in real terms. If that were not acceptable, the only grant percentage that would show any improvement for the Shires, was 61 per cent.

In discussion of the inflation assumptions, it was noted that the Treasury estimate of 14.6 per cent had been calculated using the best available estimates of the future movements of wages and prices to the end of 1980-81. It was an average and was not inconsistent with a declining rate of inflation throughout the period. Some of the current climate of expectation for higher levels of inflation arose from the assumed linkage between wage levels and the annual rate of increase in the retail price index (RPI), which at present included the exceptional factor of the Budget VAT increases. The Government must not give credibility to such a link, and it had to be borne in mind that the inflation assumption used in the RSG settlement would eventually become public knowledge. It was also important to bear in mind the links between local authority pay and the National Health Service where there was no alternative to a volume squeeze if insufficient allowance were made for pay in the cash limits. But, in the last resort a decision on the inflation figure to set for so long a period ahead was a matter of judgment. In making that judgment it was important not to endorse a level which would feed through into expectations throughout the whole economy or relax the pressure for savings on the local authorities. On the other hand it was argued strongly that too low an assumption might, in the end, lead to higher wage settlements than might have been achieved if a more accurate estimate had been available.

THE PRIME MINISTER, summing up the discussion, said that the grant percentage and the assumed inflation rate had to be seen as a single package. The Cabinet were agreed that, for a wide variety of reasons, including the implications for the Shire counties, the grant percentage should be set at 61 per cent. Although this was higher than the Chancellor of the Exchequer had proposed, he had indicated that he would accept such a decision provided that the related cash limit was set on his preferred assumption of a 13 per cent increase in costs. Given that the inflation assumption was a matter very much within the Chancellor's own responsibility, the Cabinet must support his judgment on it. They were thus agreed that the RSG percentage for 1980-81 should be set at 61 per cent and the cost increase, leading to the cash limit, at 13 per cent. They also approved the other detailed proposals in the Home Secretary's paper. For the time being the strictest secrecy should be preserved over the Cabinet's decision.

The Cabinet -

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

Cabinet Office

26 October 1979