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CABINET

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

THURSDAY 1 MAY 1980

at 9.30 am

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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 James Prior MP  
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

The Rt Hon Peter Walker MP  
Secretary of State for 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-Stevs 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  
Secretary, Treasury

The Rt Hon Angus Maude MP  
Paymaster General

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP  
Minister of Transport

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

Paul Channon MP  
Minister of State, Civil Service Department  
(4)

Earl Ferrers  
Minister of State, Ministry of  
Agriculture, Fisheries and Food

Sir Derek Rayner  
Cabinet Office (Item 4)

SECRETARIAT

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

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CONFIDENTIAL

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

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that during the Committee stage of the Social Security Bill in the House of Lords there had been considerable support for an amendment to enable elderly people, who mortgaged their houses in order to purchase an annuity, to obtain through the option mortgage scheme the equivalent of tax relief on their mortgage payments, even though their incomes were too small to make them liable to income tax. While the amendment was totally irrelevant to the main purpose of the Bill, a similar amendment might be passed at Report stage.

THE PRIME MINISTER, summing up a brief discussion, said that there should be urgent consideration by the Ministers concerned of the merits of the proposal and of the line that the Government spokesman should take during the Report stage of the Bill and, if necessary, during the Commons' consideration of Lords' amendments.

The Cabinet -

1. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for the Environment and the Secretary of State for Social Services, to consider the attitude the Government should take to the proposal that option mortgages should be available to elderly people wishing to mortgage their existing houses in order to purchase an annuity.

THE SECRETARY OF STATE FOR THE HOME DEPARTMENT informed the Cabinet of the latest position at the Iranian Embassy in Princes Gate, about which he would be making a statement to the House of Commons that afternoon. Three gunmen had seized the Embassy the previous afternoon, taking about twenty people hostage, including one Metropolitan Police Officer and two British Broadcasting Corporation staff who were in the Embassy applying for visas at the time. The gunmen were threatening to blow up the Embassy and the Iranian hostages at noon unless their demands for the release of prisoners held in Iran were met. The Metropolitan Police were in contact with the gunmen by land-line, and were dealing with the situation by the means found successful in previous sieges. Their task had been made more difficult by the failure overnight to cut off all normal telephone communication to and from the Embassy, but this had now been done.

The Cabinet -

2. Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the resignation of the United States Secretary of State, Mr Vance, was a matter for regret. His successor, Senator Muskie, was not well known outside the United States, but he seemed more likely than some of the alternative candidates (such as Mr Christopher, who lacked standing, or Mr Brzezinski) to exercise the moderating influence on United States foreign policy which had been characteristic of Mr Vance.

THE FOREIGN AND COMMONWEALTH SECRETARY said that following the failure of the United States rescue attempt there was no evidence of xenophobic backlash among the Iranian people. While the staff of the British Embassy in Tehran had been reduced, the Ambassador himself had returned there on 24 April. The European Council at Luxembourg on 27-28 April had confirmed the intention to proceed with sanctions against Iran, although discussions were continuing about their scope, particularly in relation to current contracts. The Government remained firmly committed to passing by 17 May enabling legislation under which sanctions could be imposed. As a minimum such legislation would need to have passed the House of Commons by that date.

In the course of a brief discussion it was noted that the Government's supporters in the House of Commons disliked sanctions but were also aware of the overriding need for Alliance solidarity. Support could be expected from all but a handful of them, provided that the issue of compensation could be avoided by exempting current contracts. The Leader of the Opposition remained willing to support sanctions for the sake of maintaining the solidarity of the Alliance, but the attitude of many of his supporters was hardening against them, not least on grounds of general anti-Americanism. Opposition support for the Sanctions Bill could not therefore be counted upon. The position in the House of Lords might also prove difficult. Meanwhile opinion in international banking circles increasingly underlined the damage which would be done to the world monetary system and the position of London as a financial

centre if any attempt were made to sequester Iranian assets here. This was an area where Britain had much more at stake than her partners. As regards commercial contracts, however, the French, Germans and Italians all stood to lose more than the British.

The Cabinet -

Took note.

3. THE PRIME MINISTER said that a sequence of events had led to the issue of the United Kingdom net contribution to the Community Budget not being discussed until the second day of the European Council in Luxembourg on 27-28 April. During the preceding Friday she had had a visit from Signor Cossiga, the President of the Italian Council of Ministers, who had previously seen President Giscard d'Estaing of France. President Giscard had put forward some promising new proposals which would have set an absolute ceiling on the size of our net contribution for a period of years irrespective of the growth in the overall Community Budget and subject to review at the end of the period. From a subsequent telephone conversation with President Giscard it was clear that, whereas we were unwilling to make any movement on agricultural prices and sheepmeat in advance of a Budget settlement, the French wanted decisions on Common Agricultural Policy (CAP) prices, sheepmeat and fisheries before settling on the Budget. As a result, it had been agreed that parallel meetings should be held over the weekend of the Council of Ministers (Agriculture) and a group of officials to deal with the budgetary question. In the event, the French representative did not join the group of officials until Sunday morning and then had no authority to put forward any French ideas. As a result, the European Council at its first session on 27 April had discussed other matters. It was only after dinner, during which foreign affairs were discussed, that she was able to obtain agreement that the official group should resume effective discussion that evening. When presented, the ideas put forward by the French representative were considerably less attractive than those originally suggested by President Giscard. In the meantime, the Council of Ministers (Agriculture) had reached agreement among the other eight Member States on proposals to increase agricultural prices by an average of 5 per cent, with increases of 4 per cent on milk and sugar. These proposals and related measures would increase agricultural expenditure by 1,000 million units of account (mua) and would thus raise still further the proportion of the Community Budget devoted to agriculture. The other Member States were also ready to agree on a common organisation of the

market for sheepmeat which involved intervention, the use of export rebates (which would have disrupted New Zealand markets), and differential prices in favour of French producers. It was against this background that there had been a protracted negotiation on our Budget contribution. We had eventually been offered a limitation of our net contribution to about £325 million but only for the year 1980. In a subsequent proposal, our net contribution in 1981 would have been limited to about £550 million. She had felt this latter figure was too high, and that it was not possible to settle for an arrangement which covered only one year. The unwillingness of France and Germany to agree to precise figures beyond two years arose from their preoccupation with the increasing burden, specially on the Federal Republic, compared with other Member States for whom it represented only a reduction in their net benefit. An alternative proposal which would have given us a refund of 1,000 m.u.a. for the first three years and 800 m.u.a. for the following two years was not acceptable because it did not give us adequate relief.

When deadlock had been reached on the Budget question, the European Council had gone on to discuss agricultural prices, sheepmeat, fisheries and energy on each of which we had been isolated. France and Germany had wanted us to agree to increase North Sea oil production in times of crisis. But the biggest dispute had arisen over fisheries on which we were being asked to reaffirm the principle of free access in terms which would be unacceptable to the fishing industry. In the absence of any agreement on these issues, the European Council had not reverted to the Budget question and had ended with no agreed communique on any of these points.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the European Council had been a missed opportunity. Had it been possible to make more rapid progress earlier in the meeting, and to organise the negotiations in such a way as to allow for proper consultation and reflection, a settlement might have been possible. It would now be difficult to persuade the others to maintain the offers they had made. Chancellor Schmidt had told him that in proposing a reduction of our net contribution to £325 million he had offered double the authority he had had from his Cabinet and that, if it had been accepted by us, he might have been faced with the resignation of his Finance Minister. Others were feeling sour and upset. He did not therefore think that the prospects of resuming negotiations on the same basis were very bright. He would however be putting suggestions to the Prime Minister as to how we should proceed in the immediate future.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Council of Ministers (Agriculture) would be meeting on 5-6 May. There would be considerable pressure to adopt the proposed price increases by majority voting, thus setting aside the Luxembourg compromise which had no legal force. It appeared that the Commission had now decided to maintain its support for the 5 per cent price increase in spite of its earlier proposals for lower price increases and the reservation which had been expressed that it was doing so only in the context of an overall political settlement. It was unreasonable for the Commission, who were in favour of reform of the CAP, to give way to pressure from others in advance of a solution to the Budget issue. We should warn our partners that any attempt to call into question the Luxembourg compromise would create a very serious situation. Alternatively, the Commission might be asked to agree that the new prices should be implemented nationally with the Community recouping the financial consequences once the Budget question had been settled. This would put us in the intolerable position of financing other countries' surpluses on a basis to which we had not agreed. Our refusal to accept the agricultural price settlement was the strongest card we had to secure a satisfactory Budget settlement.

In a discussion on CAP prices, it was suggested that the position of the Commission was not yet clear. During the discussions at the European Council, Mr Roy Jenkins had made it plain that the Commission would never have tabled the revised price proposals had it not been for the need to settle the Budget issue at the same time. The Commission did not appear to have addressed itself to what its position would be if there was any question of voting in the Council. If it seemed likely that efforts were being made to settle the Budget issue during the next few weeks, the possibility of voting on agricultural prices might not arise until nearer the end of May, at which time the new agriculture prices would have to come into effect or the existing Regulations be prolonged. The French and the Italians both wished to secure devaluations of their Green currencies. If these were agreed to at the forthcoming Agriculture Council, they would enable those Governments to give some immediate increase to their farmers and thus reduce the pressure for early implementation of the higher common prices. The Luxembourg compromise had formed the essential political element at the time of this country's decision to join the European Community and if it were called into question now, the political consequences would be very serious. We should consider urgently what needed to be done through diplomatic channels during the next few days.

On the other issues, the following points were made -

- a. Budget. The period covered by any Budget agreement, including the arrangements for its review, was vital. If it was not possible to get agreement on figures beyond two years, we should seek agreement on a mechanism designed to create an acceptable outcome for the third year.
- b. Fisheries. There would be serious political consequences if we accepted unsatisfactory provisions on access and quotas. The Commission had not yet produced proposals on quotas which would be acceptable to us and no meeting of the Council of Ministers (Fisheries) had been fixed. The arrangements for access and the treatment of third countries would need to be very seriously considered in order to safeguard the interests of the fishing industry, which was already in serious economic difficulties, especially the deep water section of the fleet.
- c. Sheepmeat. The arrangements agreed would be a touchstone as to whether or not there was any real desire within the Community to reform the CAP.

THE PRIME MINISTER, summing up the discussion, said the Cabinet endorsed the position which she and the Foreign and Commonwealth Secretary had taken at the European Council. What had been on offer in Luxembourg had not been acceptable. Urgent consideration would now be given to the next steps. We should not despair of a satisfactory outcome before or at the next European Council in Venice on 12-13 June.

The Cabinet -

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

SERVICE  
POWER  
COSTS

4. The Cabinet considered a memorandum by the Minister of State, Civil Service Department (C(80) 24) about Civil Service numbers and costs, and a note by the Secretary of the Cabinet (C(80) 25) to which was attached a minute by Sir Derek Rayner to the Prime Minister on the efficiency of central Government.

The Cabinet's discussion and conclusions are separately recorded.

Cabinet Office

1 May 1980

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LIMITED CIRCULATION ANNEX

CC(80) 18th Conclusions, Minute 4

Thursday 1 May 1980 at 9.30 am

SERVICE  
POWER  
COSTS

The Cabinet considered a memorandum by the Minister of State, Civil Service Department (C(80) 24) about Civil Service numbers and costs, and a note by the Secretary of the Cabinet (C(80) 25) to which was attached a minute by Sir Derek Rayner to the Prime Minister on the Efficiency of Central Government.

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THE PRIME MINISTER said that, despite the successive savings in manpower already agreed and the continuing and strenuous efforts of Ministers to promote efficiency in their Departments, Civil Service numbers were still higher than at any time in the life of the previous Conservative Government. If the Government was to fulfil its Manifesto commitment and satisfy the expectations of its supporters, it would need to bring numbers down to the level of twenty years ago, by a combination of reducing functions and improving efficiency. The papers now before the Cabinet made proposals for a comprehensive programme to this end.

SIR DEREK RAYNER said that there was impressive evidence from the reviews so far undertaken by Departments that the work of central Government could be done more effectively and with less staff and less cost. It was also clear that there was a strong will in the Civil Service to promote reform, and a good deal of enthusiasm and talent, particularly in middle management and in the lower ranks, which had a contribution to make if it could be engaged effectively in the work. But if progress in lasting reforms were to be made, Ministers themselves would have to be actively involved in the process. Clearly they had far wider responsibilities pressing upon their time and attention; but unless they were ready to show an active desire for and interest in improved efficiency, no lasting reform would be achieved. To be able to do this, each Minister must know the costs of the activities of his Department, and could not abdicate responsibility for what was done in his name. He must also attend,

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and be known to attend, actively to the welfare of his staff. In this connection it had to be said that, though conditions varied greatly, there were too many large concentrations of excessive staff where inadequacy of the office aids available and unsatisfactory working conditions were leading to very high rates of staff turnover.

THE MINISTER OF STATE, CIVIL SERVICE DEPARTMENT, said that the decisions which the Government had taken so far had led to reductions in Civil Service numbers from 732,000 in 1979 to 705,000 now, with the prospect of reaching a total not much over 670,000 by the end of this Parliament. This was not sufficient. Sir Derek Rayner's findings, and the work already completed by Departments, illustrated the scope for further substantial savings. He recommended, therefore, that the Government should announce now that their aim was to reduce the Civil Service to no larger than 630,000 by the end of this Parliament. If achieved, this would be below the previous lowest post-war figure of 640,000 in 1961. To allow for some increase in staff in particular areas where it might prove unavoidable, the target should include a small contingency margin of about 10,000 which the Civil Service Department would administer. To meet the net target of 630,000 each Department should aim to save  $2\frac{1}{2}$  per cent of staff numbers in each of the years 1981-82, 1982-83 and 1983-84 in addition to the savings that had already been agreed. Within these targets an effort should be made to reduce numbers in senior grades, on which progress had been poor so far; and each Department should reduce its posts at Under Secretary and above by 10 per cent between April 1979 and April 1982. He was convinced that the target of 630,000 was feasible. Nearly 250,000 staff were likely to leave the Civil Service anyway over the next three years. There would be relatively little need for compulsory redundancy. The target would give Departments an opportunity to plan and to phase reductions over a three-year period. But it was essential to announce the targets now, both to give an impetus to making further savings and to remove uncertainty in the minds of staff.

In discussion the following main points were made -

- a. While Ministers had to be closely and actively concerned in savings and improving efficiency, it was important that this should not be allowed to detract from the responsibility which fell upon their Permanent Secretaries. Otherwise there was a danger of failing to achieve lasting benefits. The Prime Minister's intention to discuss the Government's objectives for Civil Service manpower savings with Permanent Secretaries collectively would be very helpful in this respect.

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b. If Ministers and Permanent Secretaries were to be able to be as effective in management as they would wish to be, it was necessary for them to have greater freedom from central control. They needed to be free to move staff, to give incentives to individuals, and to make early retirements, without the constraints of regulations and controls imposed by the Civil Service Department. Similarly it was important to change the present relationship between Departments and the Property Services Agency. As it was, Departments were neither knowledgeable about their own accommodation and related costs, nor in a position to make improvements they considered necessary or savings they considered feasible. The present system of rigid annual financial allocations also inhibited useful change, and a measure of flexibility could lead to significant savings in the longer term.

c. Individual Departments had identified important savings and developed new techniques of management: the experience of the Department of the Environment, as described to the Cabinet by the Secretary of State, was particularly interesting and valuable. It would be helpful if these, together with Sir Derek Rayner's ideas, could be drawn together centrally and then made generally available. In this way good practice could be spread and Departments could learn from the experiences of each other.

d. While there was general agreement that the Government should set itself the aim of reducing Civil Service numbers to 630,000 by the end of this Parliament, and that no levels or grades in the Service should be excluded from the programme of reductions, it was not clear that a series of annual departmental targets was in present circumstances the best way to achieve this aim. Targets of that kind were valuable as spurs to action and yardsticks of progress, but they severely limited the scope for flexibility in achieving the aim, both as to timing over the period between now and the end of the Parliament and as to distribution between Departments. Moreover, experience suggested that staff were more responsive to cuts if they felt that proposals had first been worked out with care and in depth. There was a danger that, faced with imposed, and apparently arbitrary, targets, they would regard the new proposals as simply the next instalment in a series of ad hoc decisions by the Government. In this event their co-operation might be lost and savings made harder to achieve. All Departments would need to make equal effort to improve efficiency and reduce functions, and all would have to contribute to the savings required; but some would inevitably need to be

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able to contribute less than others: it was unrealistic to expect that identical percentage cuts could be applied across the board without regard to the functions of individual Departments.

e. It was suggested that the announcement of a decision to reduce Civil Service manpower further by a definite amount might have a damaging effect on Civil Service morale. On the other hand it was argued that, if the Cabinet took such a decision, it was likely to become known even if it was not formally announced. There was a strong case for removing uncertainty among staff about the Government's objectives and a firmly stated target for the life of a Parliament would achieve this, besides being popular in the country. There was considerable slack in the system and progress in reducing this had so far been disappointing. A target announced now would be both a stimulus and a yardstick against which to measure further progress.

f. It was likely that the constraint of cash limits could itself lead to further squeezes on manpower numbers in later years. Reductions for this reason should not be regarded as additions to but as a contribution towards the proposed overall target. The precise interrelationship would need to be considered further. Further thought should also be given to whether the proposed contingency margin was adequate to deal with significant changes in circumstances, such as rising unemployment. A larger contingency allowance would provide greater flexibility in achieving the overall aim.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there was scope for further reductions in Civil Service numbers, and that the objective should be a Civil Service of no more than 630,000 by the end of this Parliament. She would consider further with the Minister of State, Civil Service Department, the terms and timing of an announcement of this decision bearing in mind the desirability of making the announcement before the opening of the Annual Conferences of the main Civil Service unions. This pointed to a statement in the following week. The Cabinet was not minded to adopt annual targets for each Department as a means of achieving this aim: it was recognised that some Departments would be able to make proportionately greater savings than others though each should contribute. The savings should be achieved both by cutting out and simplifying functions and by further improvements in efficiency. Each Minister should now review the functions and efficiency of his Department, and then send to the Minister of State, Civil Service Department his plans for reductions in the staff

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employed by his Department over the period to 1983-84. The Minister of State, Civil Service Department, should then co-ordinate the detailed plans with a view to ensuring that they provided a basis for reaching the overall target. Each Minister should also send to the Minister of State, Civil Service Department a description of the management practices and techniques used in his Department to control staff numbers. The Minister of State, Civil Service Department should then summarise these in a paper which would be made generally available to Departments in order that experience could be shared. The Cabinet would consider at a later stage further proposals, and progress reports, from the Minister of State, Civil Service Department and Sir Derek Rayner.

The Cabinet -

1. Agreed that -

- a. the Government should aim at reducing the level of Civil Service manpower to 630,000 by the end of the present Parliament (in effect, by 1 April 1984);
- b. provision should be made within this aim for a contingency margin, which might need to be greater than the 10,000 proposed by the Minister of State, Civil Service Department, to allow for increases of staff made unavoidable by external factors (such as rising unemployment);
- c. the consequent reduction would need to be achieved flexibly, both as to timing and as to distribution among Departments, rather than by a system of annual departmental targets;
- d. savings in manpower should be sought both by cutting out and simplifying functions and by further improvements in efficiency.

2. Invited each Minister in charge of a Department to put in hand, in consultation with the Minister of State, Civil Service Department, and Sir Derek Rayner as appropriate, a detailed review of the functions and activities of his Department and the preparation of a plan for cutting out and simplifying functions and improving efficiency, and to report progress regularly to the Minister of State, Civil Service Department.

3. Invited the Minister of State, Civil Service Department, to provide advice and assistance as required for the proposed departmental reviews and plans, and to co-ordinate and monitor progress reports from Departments, with a view to maintaining the necessary momentum in reducing functions and improving efficiency and to reporting to Cabinet from time to time on progress towards the agreed objective.

4. Invited the Minister of State, Civil Service Department -

a. to arrange for the programme of work summarised in Annex D to C(80) 24 to be implemented, and for the Civil Service Department to discuss with each Department ways of simplifying its manpower intensive activities;

b. to report to Cabinet in due course on the use of the grading structure (Annex E to C(80) 24));

c. to report to Cabinet by the end of July 1980 on pay, promotion and retirement policies in the Civil Service;

d. to ensure that management experience and the best management practices in individual Departments, and experience resulting from Sir Derek Rayner's work, were effectively disseminated, and to report progress to Cabinet in due course.

5. Took note with approval that the Prime Minister had commissioned a programme of work by the Chancellor of the Exchequer, the Minister of State, Civil Service Department, and Sir Derek Rayner on the recommendations in Sir Derek Rayner's minute attached to C(80) 25.

6. Took note with approval that the Prime Minister would give Permanent Secretaries an account of the Government's proposals and enlist their support for the programme of improving management and efficiency and reviewing departmental functions.

7. Took note that the Prime Minister would announce the Government's aims and proposals in a statement in the House of Commons the following week.

8. Invited the Minister of State, Civil Service Department, to inform the Civil Service Trades Unions Staff Side of the Government's proposals shortly before the Prime Minister made her statement, with the assurance that it was the intention to keep compulsory redundancy to a minimum.

Cabinet Office

2 May 1980