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CABINET

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

THURSDAY 17 MAY 1979

at 10.00 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 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
(Items 4-9)

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
(Items 4-9)

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 (Items 4-9)

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle 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 4-9)
Mr P J Harrop (Item 1)
Mr P Mountfield (Items 4-6)
Mr D E R Faulkner (Item 1)
Mr C H Wilson (Items 7-9)

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LIAMMENTARY
FAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week, and that it would be proposed that the House should adjourn for the Spring Bank Holiday from Friday, 25 May until Monday 11 June.

islative
programme

THE HOME SECRETARY said that The Queen's Speeches and Future Legislation Committee (QL) had approved a number of Bills for early introduction in the new session. These were the Bills on Kiribati, Education, European Assembly (Salaries and Pensions), the Price Commission, Off-Shore Installations and Criminal Justice (Amendment) (Scotland), for introduction in the House of Commons; and Bills on Companies, Limitation, Charging Orders and Law Reform (Miscellaneous Provisions) (Scotland) for introduction in the House of Lords. These Bills, together with the remainder of the Debate on the Address and the Budget and the Finance Bill, should provide reasonable business for both Houses for the next few weeks. QL would now consider proposals for the full legislative programme, on which he hoped to be able to make a preliminary report to the Cabinet in two weeks' time.

The Cabinet -

Took note.

REIGN
FAIRS

2. THE LORD PRIVY SEAL said that the Americans had urged the Alliance to issue a welcoming statement on the completion of the SALT II negotiations. So far as we were concerned, this would depend on the extent to which the United States Secretary of State, Mr Vance, was able to resolve our doubts.

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lks (SALT)

THE LORD PRIVY SEAL said that the Prime Minister's remarks in the House of Commons on Rhodesia on 15 May had been well received. Lord Boyd had reported that the elections had been fairly conducted and had been as free as possible in the circumstances and that the outcome represented the wishes of the majority of the people. This would be helpful in dealing with criticism in other African countries. Sir Antony Duff was in Salisbury where he was discussing with Bishop Muzorewa, among other things, the question of establishing a British representative in Salisbury. The United States Senate had passed by large majorities three resolutions on Rhodesia which would cause problems for the Administration. The most important required

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President Carter to make a judgment that the Case-Javits amendment had been substantially complied with, and thus the conditions for recognition fulfilled, within fourteen days of the installation of the new Rhodesian government. This could mean that President Carter would have to make a decision by mid-June.

THE PRIME MINISTER said that, while the timing of the Cabinet's decision on recognition needed careful consideration, we should bear in mind the undesirability of seeming to drag our feet on recognition or merely following behind the United States Administration. Lord Boyd's report was very good and should be published. Mr. Drinkwater, a member of Lord Boyd's team who was also a member of the Boundary Commission and therefore regarded himself as acting in a semi-judicial capacity, had put in a separate report, but although this raised certain problems it did not differ in substance from the conclusions reached by Lord Boyd.

COMMUNITY
FAIRS

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3. THE PRIME MINISTER said that while the talks with Chancellor Schmidt and his Ministerial colleagues had generally gone well the Germans had not yet accepted our case on the Community Budget. They disputed our figures and this would have to be remedied. We should be careful not to appear to be re-negotiating the terms of entry but it was clear that we needed an effective safeguard mechanism which the previous Administration had failed to get. She intended to visit Paris for a meeting with President Giscard d'Estaing of France on 5 June.

THE CHANCELLOR OF THE EXCHEQUER said the budget problem had been the main item for discussion at the Council of Ministers (Finance) earlier in the week. While stressing the Government's commitment to the Community he had sought to impress on his colleagues that this Government took at least as serious a view as its predecessor about the disproportionate budget burden on the United Kingdom. Although the arithmetic was beginning to penetrate, other member states did not want to address themselves to the need for changes and took refuge in arguments eg about other advantages which could not be measured. Some countries like the Irish Republic were fearful that our attack on the budget arrangements would undermine the benefits they secured under the Common Agricultural Policy. We should enlist more support if we showed that our attack was on the budget mechanism itself. We were in for a long tough haul and a solution would only come at the highest political level. He had asked that it should be on the agenda of the European Council in Strasbourg and we should need to develop our case firmly before then.

In a brief discussion it was noted that there was still an unresolved dispute over how monetary compensatory amounts (MCAs) should be treated for the purpose of budget transfers. But even on the least favourable treatment from our point of view, the United Kingdom was still the second largest net contributor. It was important to get the facts established and the Defence and Overseas Policy Committee, Sub-Committee on European Questions would be considering papers shortly. It was also important that we should convince our Community partners in bilateral discussions before the matter was discussed in the Council, and the Foreign and Commonwealth Secretary would be proposing to his colleagues a series of intensive bilateral contacts.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that following his informal meeting with other Community Agriculture Ministers it was clear that the negotiations over agricultural prices for 1979-80 would be extremely tough. A long meeting of the Agriculture Council was scheduled for June but it was doubtful whether a settlement would be possible. For internal political reasons, the French Government were pressing very hard for increased prices and they had the support of the Irish and new Belgian Minister of Agriculture. The Italians were our allies and there was some shift of opinion in Germany. He intended to have bilateral talks with his Dutch and Danish opposite numbers.

In a brief discussion the political importance for the Government of sticking firmly to its position on a price freeze was stressed. If any concessions were made in the final stages this could only be on products which were not in surplus. It was important that the Commission should continue to support our stand on a price freeze for surplus commodities.

The Cabinet -

Took note.

4. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(79) 4) on the scope for cuts in public expenditure in 1979-80.

THE PRIME MINISTER said that the latest forecasts for the public sector borrowing requirement made it absolutely essential that cuts larger than those proposed in the Chief Secretary's paper should be agreed urgently in order to leave room for immediate reductions in direct taxation consistent with realistic monetary targets and a fall in interest rates. The aim should be to find extra savings of some £500 million to £600 million in 1979-80. It was crucial to the Government's whole economic strategy that substantial and early reductions should be made in public expenditure.

THE CHIEF SECRETARY, TREASURY, said that the proposals in his paper, which were based on work done by the Conservative Party in opposition and on proposals from the Treasury, would yield savings of £750-£850 million in 1979-80. In addition, he proposed a reduction in the Rate Support Grant of £200 million. Disposal of public sector assets might yield as much as a further £1,000 million. Substantial further savings should be possible. He proposed to discuss individual programmes bilaterally with the Ministers concerned after which he would report back to Cabinet with his recommendations.

In discussion of the proposed cuts in Departmental programmes, there was general agreement that bigger cuts than those proposed in the Chief Secretary's paper would be needed. It was however argued that blanket percentage reductions would be inappropriate. The need was to ensure that every Minister made the maximum savings possible within his own programme, taking full account of its circumstances. The Government was prepared to give high priority to the defence and law and order programmes, but this did not exempt the Departments concerned from the need to eliminate waste. It would be helpful if individual Departmental Ministers were given targets for the reduction they might make, rather than asked to make specific changes. They were better placed than Treasury Ministers to know the best ways of securing economies of the desired size. Departmental Ministers would also need discretion in some cases to consult fringe bodies such as the Manpower Services Commission. Switches in expenditure from one programme to another need not be ruled out. For example, support of overseas students might be made a charge against the aid programme, and fitted in to whatever total was available for aid, instead of being framed as part of the education budget.

On the question of the Rate Support Grant, it was argued that the proposed reduction of £200 million was too small. The aim should be a cut of at least £300 million, and it should be possible to find this without difficulty out of a total grant of more than £7,000 million. Most local authorities had substantial balances available, which they would be able to run down. While there was a danger of excessively large rate increases in the following financial year as a result, the intention was to put pressure on local authorities to reduce their expenditure during the year so as to make this unnecessary. Early discussions had already been arranged with the local authority associations in England and in Scotland. The Government's general line was clear, but any specific proposals to be put to the associations should be cleared in advance with Treasury Ministers.

In discussion of sales of assets, it was pointed out that these were not a substitute for cuts in real expenditure. The two must go together. The capacity of the markets to absorb these assets might set an upper limit to the amount which could be raised in the first year. But much would depend on the choice both of the assets to be sold, and of the mode of disposal. So far as possible, sales should be made by placement with British institutions rather than by open offers of sale which would bring in foreign buyers. It would therefore be better to aim at a long list of possible assets, from which a tactical choice could be made during the year. If legislation was needed to facilitate some of these sales, an omnibus Bill might be brought in at an early stage. As a separate exercise, the Chief Secretary, Treasury, had already set in hand a review of means of disposing of public sector land. This would include the question of "Crichel Down rules" which at present inhibited quick sales. Similarly, it was important that the sale of council houses should be facilitated by making available from City sources funds to tenants who wished to purchase their own houses. This would require co-operation between the Treasury, the Bank of England and City institutions.

In further discussion of the Contingency Reserve, it was pointed out that the size of the Reserve could not be finally determined until decisions had been taken on improvements in social security benefits during the rest of the year. The Ministers concerned were already engaged in discussions on these points.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed on the urgent need for immediate reductions in public expenditure in 1979-80 which would give the Chancellor of the Exchequer the maximum room for manoeuvre in formulating his Budget. The aim should be to seek savings in 1979-80 some £500 million or £600 million greater than those set out in the Annex to C(79) 4. To this end, the Chief Secretary, Treasury, should

formulate targets for reductions in expenditure for each Departmental programme, and should discuss these bilaterally with the Ministers concerned. He should report the results of his discussions to the Cabinet for approval at the meeting on 31 May. The Secretary of State for the Environment, in consultation with the Secretary of State for Scotland and the Secretary of State for Wales, and the Chief Secretary, Treasury, should aim at a reduction of at least £300 million in the Rate Support Grant for 1979-80 before allowing for any offset to the teachers' pay settlement to be discussed later in the meeting. The Chief Secretary, Treasury, should set in hand a review of the scope for selling assets with the aim of realising at least £1,000 million in 1979-80. In consultation with the other Ministers concerned and with the Chancellor of the Duchy of Lancaster, he should consider whether legislation might be needed in order to remove obstacles to the sale of some of the assets concerned. The Chief Secretary, Treasury, should make definite proposals for the size of the Contingency Reserve for the remainder of 1979-80 in the light of the decisions shortly to be taken about social security uprating. The Cabinet agreed that the Reserve thus established should be firmly maintained for the rest of the year. It followed that if the Chief Secretary, Treasury, was unable to accept any claim on the Reserve in bilateral discussions or at meetings of Cabinet Committees, he should arrange for the issues to be brought to the Cabinet for decision.

The Cabinet -

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

5. The Cabinet had before them a memorandum (C(79) 5) by the Chief Secretary, Treasury, about cash limits for 1979-80.

THE CHIEF SECRETARY, TREASURY, said that it was essential to maintain the credibility of the cash limits system as an important part of the Government's overall economic strategy. The measures he proposed were therefore tough but realistic. The cash limits set by the previous Government had allowed for price increases, on the goods and services purchased by Government, of approximately $8\frac{1}{2}$ per cent: the outturn was likely to prove higher than this, but he proposed that Departments should absorb the additional cost without any increase in cash limits. The cash limits for pay items, however, had allowed only for approximately 5 per cent increases during the year, and this was now quite unrealistic. He therefore

proposed to adapt cash limits to accommodate the likely outturn, abated by an amount, between 3 and 5 per cent, which was the subject of a separate paper from the Lord President of the Council (C(79) 7). The combined effect of these two measures would be a notional saving of about £1,000 million, which would impose a considerable discipline upon Departmental spending.

In discussion, it was suggested that while Ministers would do everything they could to live within the limits suggested by the Chief Secretary, Treasury, there were a number of particular problem areas. The previous Government had set cash figures for the defence budget which under-provided for the programmes to which they related. An extra £100 million would be needed to remedy this. But the defence budget had been given specially generous treatment to accommodate the cost of the increase in armed forces pay to which the Government was committed. In return, as many economies as possible should be found. There was a good deal of waste within the defence budget, particularly in the procurement area. Sir Derek Rayner had already been appointed to advise the Government on waste and the Ministry of Defence would be one of his target areas. However the savings available in the first year might not be sufficient to offset the additional costs of meeting existing commitments. Ministers might have to consider the case for special treatment, but this should take the form of an increase in the allocation for the defence budget, and not of exemption from the discipline of cash limits.

In further discussion, it was pointed out that the reductions proposed for the National Health Service would imply a cut in volume terms of 1 per cent, compared with cash increases of 13 or 14 per cent. While this was acceptable to the Ministers concerned, this reduction would be contrasted with the promises made by the Government when in opposition. It was also suggested that the treatment of research councils needed further consideration: it might be better to treat them in the same way as universities, rather than as fringe bodies. It was also argued that big price increases for the nationalised industries would be needed in order to maintain existing cash limits. Proposals for price increases in gas, electricity and coal were already under consideration. The problem in the coal industry was particularly acute, because it was clear that, without further measures, it would exceed its present cash limits by at least £250 million in the current year. The right course might be to seek very large price increases immediately, and attribute this to the inefficiency of the industry. But the previous Government's policy of refusing permission for pit closures, and encouraging extra coal burn in power stations to save oil, had also contributed to the problem. Early Ministerial discussion of the problems of the coal industry was necessary.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed on the need to maintain the integrity of the cash limits system. No increases in cash limits would be made in order to accommodate increases in the prices of goods and services purchased by Government. If additional resources were needed for the defence or for the law and order programmes, each should be separately considered by the appropriate committees as increases in the public expenditure allocation for the year, and not as exceptions to the cash limits policy. Cash limits on the Rate Support Grant for 1979-80 should be adjusted in the light of discussion of the previous item and of the decisions the Cabinet would take later in the meeting on teachers' pay. Cash limits for universities and the National Health Service should be dealt with on the basis decided by the previous Government. The cash limits for fringe bodies should follow the treatment to be agreed under the next item of the agenda for the Civil Service. The Ministers concerned should tell the nationalised industries that they were expected to observe the published cash limits on external financing requirements, and should make the necessary adjustments to their prices as well as other offsetting action. The Secretary of State for Energy should circulate an early paper to the Ministerial Committee on Economic Strategy about the particular problem of the coal industry.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Ministers concerned to proceed accordingly.

CIVIL SERVICE
STAFF COSTS

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

WAY
WARD
PAY

7. The Cabinet had before them a memorandum by the Secretary of State for Employment (C(79) 6) setting out a number of proposals aimed at creating a climate for responsible collective bargaining.

THE PRIME MINISTER said that the memorandum by the Secretary of State for Employment raised a number of important issues about pay matters and the Government's approach to them. It was desirable, however, that before considering these they should also have before them a memorandum by the Chancellor of the Exchequer, as the Minister with the central responsibilities in these matters. In view of this and the other items on the agenda which it was essential to discuss that morning, discussion on the Secretary of State for Employment's memorandum should be deferred for later consideration in the Ministerial Committee on Economic Strategy.

The Cabinet -

Took note.

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MISSION
PAY
MPARABILITY

8. The Cabinet considered a joint memorandum by the Chancellor of the Exchequer and the Secretary of State for Employment (C(79) 3) about the work of the Standing Commission on Pay Comparability.

THE CHANCELLOR OF THE EXCHEQUER said that the Government needed quickly to determine their attitude towards the Standing Commission on Pay Comparability both as regards its continued existence and the work with which it was charged by the previous Administration. There seemed little choice but to accept the existence of the Commission for the purpose of dealing with those cases which had already been referred to it. But he recommended that the Government should reserve judgment on the long-term future of the Commission until they could review the results of its immediate work. They should allow the Commission to complete this work on the basis of the terms of reference established for the individual cases. The Government should submit as soon as possible general evidence to the Commission on the way they thought it should conduct its work. A draft for this purpose, prepared by officials, was annexed to his note. He would wish to see it strengthened in some respects and would be glad to receive comments from colleagues. He recommended that the evidence should be published at the same time as it went to the Commission. He invited the Cabinet also to agree that two outstanding cases - local authority craftsmen and British Waterways Board (BWB) staff - where terms of reference had already been agreed between the parties should be referred to the Commission, without prejudice to the Government's view on its longer-term role. He invited Cabinet also to consider whether the existing membership of the Commission should be strengthened.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet were agreed that the Standing Commission on Pay Comparability should be allowed to complete the work with which it had already been charged on the basis agreed by the previous Administration. They also agreed that the two groups for whom references had already been agreed between the parties - local authority craftsmen and BWB staff - could go ahead, subject only to the reservation that the Secretary of State for the Environment should clear the respective terms of reference with the Chief Secretary, Treasury, and the Secretary of State for Employment before referring them to the Commission. The Cabinet had noted that the BWB was, in some respects, a trading organisation. The Standing Commission was not intended to deal with pay in trading organisations and reference in this case was not to be regarded as a precedent on which other trading organisations could base claims for similar treatment. The Cabinet had allowed this reference simply because of the stage reached in negotiation. They agreed that whilst the membership of the Commission was not entirely satisfactory it would be undesirable to add new members at this stage as to do so could be seen as implying Government support for an ongoing role for the Commission. On this question the Cabinet wished to reserve their judgment until the results of the immediate work before the Commission was completed - at which stage it would be possible again to consider the question of additional membership. The Cabinet agreed that it was desirable to submit as soon as possible the Government's general evidence to the Commission. They would wish to see the draft annexed to C(79) 3 strengthened in some respects, for example in the passages dealing with manning and productivity. Colleagues should submit comments to the Chancellor of the Exchequer by Monday 21 May. The Chancellor of the Exchequer should then circulate a revised version for clearance in correspondence before submission to the Commission and publication.

The Cabinet -

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

TEACHERS'
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9. The Cabinet considered a memorandum by the Secretary of State for Education and Science (C(79) 8) about the handling of negotiations on teachers' pay.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that, at the meeting of the Ministerial Committee on Economic Strategy on 14 May, it had been agreed that reference of teachers' pay to the Standing Commission on Pay Comparability was a preferable alternative to arbitration, provided the terms of reference could be strengthened on

lines agreed in discussion. He had been asked to sound out the leaders of the Management and Teachers' Panels of the Burnham Committee on the acceptability of these changes and the prospects of getting agreement to a reference to the Commission. The outcome and prospects were described in his memorandum C(79) 8. The Management Panel were content with the amendments proposed to the terms of reference and still agreed that a reference to the Commission would be the best outcome. The leader of the Teachers' Panel had emphasised the difficulty he saw in persuading his Panel to take the same view but had not ruled out the possibility. He recommended accordingly that reference to the Commission should remain the Government's objective and that their spokesman on Burnham should put the revised terms of reference to the Chairman of the Burnham Committee in the negotiations on the following day. His memorandum recommended in paragraph 3 a minor technical amendment which needed to be made to the terms of reference to avoid unnecessary complications. The teachers were bound to regard the amendments to the terms of reference agreed earlier as a loss to them which should be compensated by some further concessions elsewhere in the Management Panel's offer. His paper set out in paragraph 4 the minimum elements which in his judgment a revised offer would need to contain if there was to be any prospect of the teachers agreeing to a comparability study. The increase on rates to 9.3 per cent overall was only a minor concession which would enable desirable structural changes to be achieved; the payment on account was no more than had been offered to other public service groups and should in any case involve no net cost because of the "claw-back" condition. The improvement proposed on the staging still left the teachers with less attractive arrangements than other public sector groups had already achieved. The proposal to give an undertaking of Rate Support Grant (RSG) for expenditure arising in 1979-80 from the settlement was the key point without which the Management Panel, in his view, would feel unable to move. The Cabinet's decision earlier in the meeting on cash limits and public expenditure (C(79) 5 and 4) had been that the Government should treat all local authority settlements alike for the purposes of RSG but should seek to make economies to offset the cost to central Government of higher settlements through an appropriate reduction in the size of the Increase Order to be fixed later that year. In the light of that decision he sought authority to tell the Management Panel that they could have an assurance of RSG support for the improved offer. It was necessary also to consider the alternative of arbitration should it prove impossible to reach agreement on a reference to the Commission. The local authority leaders were strongly of the view that they needed to make a substantive response to the full claim from the teachers before the matter could be referred to arbitration in order to have a credible posture at arbitration. Such a response would most probably have to include 9.3 per cent from 1 April 1979 and payment on account, coupled with staging on the same lines as he had proposed in relation to a comparability study. There was also general agreement within the Management Panel that a total offer over all stages might have to add up to about 25 per cent though

views varied on the size of the first payment from 1 April 1979. He sought the advice of colleagues on the level of offer which the Government spokesman might be authorised to allow in order to enable the Management Panel to make a substantive response to the teachers' claims.

THE SECRETARY OF STATE FOR SCOTLAND said that the Chairman of the Management Panel in Scotland considered the revised terms of reference were acceptable and there was a fair prospect of getting agreement to a reference to the Standing Commission if an offer of 9.3 per cent plus a payment on account could be made. The Management Panel in Scotland seemed to attach less importance to guarantees on RSG.

In discussion there was general agreement that a reference to the Standing Commission was preferable to arbitration provided the teachers accepted the revised terms of reference, as further amended in the memorandum by the Secretary of State for Education and Science. A decisive factor favouring a reference to the Commission was that this was the only way of securing that teachers' conditions of service were properly taken into account in settling remuneration. Because of this and other special circumstances of the teachers' case a reference to the Commission should not be regarded as a precedent for other groups. It was agreed that, in order to secure a reference to the Commission, some improvement in the Management Panel's offer could be accepted. These could include bringing the 9 per cent increase on rates up to 9.3 per cent overall; some payment on account, on the strict understanding that it would be clawed back regardless of whether the Standing Commission recommended any further increase; and improved staging to January 1980 and January 1981; or if necessary, advancing the latter stage to September 1980. But an improved offer on this basis should only be agreed on a "without prejudice" basis so that it could be withdrawn if a reference to the Commission were not made. It was noted that, in the event of the Commission undertaking a comparability study, its recommendations would, by law, have to be considered by the Burnham Committee as they had to make the final settlement. This opened up the possibility that the Commission's recommendations might simply be used as a basis for further negotiations. It was argued that, to avoid this, both parties should undertake in advance to accept the recommendations of the Commission so that subsequent negotiations in Burnham would be simply a formality. On the other hand it was argued that the parties might be unwilling to make this commitment and that it was perhaps unnecessary for the Government to press the point now. The Government had a veto in Burnham negotiations over the quantum of any offer and they would be able to exercise it should the teachers seek to exploit the Standing Commission findings in this way.

In further discussion it was argued that, in the event of a reference to the Commission not being agreed, it should not be necessary for the Management Panel to increase their offer of 9 per cent before the Chairman of Burnham could decide that negotiations had broken down and that he should refer the matter to arbitration. It would be quite wrong to agree to a Management Panel offer which might add up in total to a figure as high as 25 per cent as this could fatally prejudice the Management Panel's case at arbitration. It was also argued that, if no agreement could be reached on a reference to the Commission, the Government should be willing to see some improvement in the Management Panel's present offer in a final bid to get a negotiated settlement. But such an offer should not involve any staging and should be limited to a maximum of 12 per cent payable from 1 April 1979. Any such offer should be on a without prejudice basis and withdrawn if a negotiated settlement was not achieved.

In discussion on RSG it was strongly argued that the Government could not give the Management Panel an assurance on the line recommended by the Secretary of State for Education and Science. The teachers' claim had massive financial implications costing, if met in full, over £900 million. The Government could not meet their normal 61 per cent share of a teachers' settlement on anything approaching that scale. The Cabinet had decided in their earlier discussion on public expenditure and cash limits that there would have to be a substantial offset in the size of the Increase Order later this year for local government expenditure generally. The size of this offset would have to take appropriate account of the cost of the settlement reached for teachers. The £300 million offset agreed in their earlier discussion related to local authority settlements already reached and a further reduction would be necessary to take account of the teachers' settlement. It would be disingenuous and misleading, given the Government's intention to secure substantial economies in the Increase Order, to lead the Management Panel to think that they would get full RSG cover for the teachers' settlement. Nevertheless it would be important in explaining the Government's position to the Management Panel to avoid the impression that the teachers were being singled out or that the Government wished in any way to interfere with the freedom of local authorities to decide where economies should be made, either within the education services or elsewhere. The local authorities should understand that the offset to be made from the total extra support through the Increase Order represented the carrying through in local government of the Government's stated intentions of making substantial economies in public expenditure generally.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the preferable course was for teachers' pay to be referred to the Standing Commission, provided that this was on the basis of the revised terms of reference proposed by the Secretary of State for

Education and Science. A reference was justified as the only way of securing that teachers' conditions of service were taken into account in settling their remuneration. It was accordingly not a precedent on which other groups should be able to justify claims to go to the Commission. In order to improve the prospects of getting agreement to refer teachers to the Commission, the Cabinet were willing to see improvements made in the Management Panel's offer. These could cover structural changes which would bring the increase on pay rates up to 9.3 per cent; a payment on account for those earning up to £5,000 a year on the basis that, whatever the outcome of the comparability study, the full amount paid on account would be clawed back; and with the balance, if any, of the settlement paid either in January 1980 and January 1981 or, if necessary, in January and September 1980. But the Government spokesman on the Management Panel should make it clear that these improvements were to be offered on a "without prejudice" basis and should be withdrawn if agreement on a reference to the Commission could not be reached. In that event the Cabinet accepted that, on balance, it would be acceptable, in order to try to reach a negotiated settlement, for the Government spokesman to agree to the Management Panel increasing their offer from 9 per cent up to a ceiling of 12 per cent, again clearly on a "without prejudice" basis so that the offer was not left on the table if negotiations were to break down and the teachers' claim went to arbitration. The Cabinet were agreed that there could be no question of giving the Management Panel an unconditional assurance that the cost of the teachers' settlement in 1979-80 would be fully reflected in the RSG Increase Order later that year; and it should be made clear to the Panel that the Government would take the same position if agreement was not reached on a comparability study and the claim went to arbitration; Cabinet had already decided on the earlier items on cash limits (C(79) 5) and public expenditure (C(79) 4) that the approach on RSG for 1979-80 in respect of local authority pay settlements should be that the cash limit for the Increase Order later this year should be some £300 million less than if the cost of pay settlements had been taken fully into account. This offset was to cover settlements already made. A further offset would be needed following the teachers' settlement; the amount could not be determined at this stage, but depending on the level of the settlement, it might have to be substantial. It would be for individual local authorities to decide where economies should be made within their services as a whole. The Government's broad approach on RSG and pay settlements should be made known to the local authorities before the Burnham Committee meeting on the following day. The Secretary of State for Education and Science should agree a form of words for that purpose with the Chancellor of the Exchequer and the Secretaries of State for the Environment and for Scotland, taking account of the Cabinet's conclusions. Finally Cabinet agreed, on balance, that it should not be a condition for the referral of the teachers' case to the

Standing Commission that both parties would have to agree in advance to accept the findings of the Commission. This decision took account of the technical rights of the Burnham Committee. If in the event the teachers tried to negotiate higher levels of pay in Burnham than the Commission recommended the Government should use their veto on the quantum of the settlement to prevent this happening.

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

17 May 1979

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CABINET

LIMITED CIRCULATION ANNEX

CC(79) 2nd Conclusions, Minute 6

Thursday 17 May 1979 at 10.00 am

The Cabinet considered a memorandum by the Lord President of the Council (C(79) 7) about the adjustment of cash limits for 1979-80 to take account of recent Civil Service pay settlements.

THE LORD PRESIDENT OF THE COUNCIL said that the Government's policy was to seek significant reductions in Civil Service manpower. The immediate issue was how far to go in the current financial year as a contribution to the Chancellor of the Exchequer's Budget. Large-scale redundancies or premature retirement would be self-defeating in this context, because they would cost more in the first year than they would save on the current wage bill. A short-term ban on recruitment was the only way of making immediate economies. For the year as a whole the practical range of choice lay between reductions of 3 and 5 per cent in the wage bill. This should be seen against the strategic background of a search for much bigger economies. He intended to circulate, by early June, a paper suggesting how cuts of 10, 15 or 20 per cent might be found in the Civil Service as a whole. Although some of this reduction would flow from the elimination of waste, such large cuts would also require the abolition of particular functions. Meanwhile, the ban on recruitment was a blunt instrument, and it would be necessary to allow for some minor exceptions to secure the continued recruitment of people with scarce skills or in areas of acute staff shortage. It was also necessary to bear in mind the reactions of the unions and to proceed where possible by agreement.

In discussion it was argued that it was essential to make an early start on the search for long-term economies in Civil Service manpower. The ban on recruitment approved at the Cabinet's meeting on 10 May was the best short-term measure available. It was unfortunate that, despite the Cabinet decision, advertisements for staff continued to appear in the Press, and steps should be taken to end this immediately. The ban should continue until it was clear what other measures would be needed to secure a reduction in staff costs of at least 3 per cent. Some offset

was necessary, to cover the cost of pay increases ranging up to 25 per cent, and averaging about 16 per cent in the current year. This was the best possible climate in which to seek immediate reductions.

Against this, it was argued that the Government should proceed very carefully in the search for necessary economies. The industrial relations climate was very different from that of the early 1970s. The Civil Service unions were now much stronger. The moderates had succeeded in regaining control of some of the unions, and it would be important to avoid a return to militancy. Premature action in the first year would forfeit the co-operation of the unions in the much bigger changes which the Government intended. Ministers should therefore allow time for the fullest possible consultation consistent with the achievement of their objectives. Until incoming Ministers had time to examine the policies of their Departments, and consider their authorised establishments against this background, it would be premature to become committed to a precise target for manpower reductions in the short term. There were some areas, particularly in the Ministry of Defence, where large reductions had already been made, and in the prison service, where smaller reductions might be justified. The overall objective was to reduce the cost of bureaucracy. But over-rigid manpower targets were sometimes self-defeating. Economies in some areas, for example in the administration of social security benefits, might actually prevent the realisation of much bigger savings eg through the prevention of fraud. Departmental Ministers needed a measure of discretion in operating the agreed temporary ban on recruitment.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had decided that the ban on Civil Service recruitment agreed at their meeting on 10 May should be maintained for at least three months from now and should be reviewed at the end of that period. It would be open to Departmental Ministers to make exceptions to this ban on a case-by-case basis, on their own personal authority, where this was essential in the interests of efficiency. The Lord President of the Council should report progress on the implementation of the ban during its currency. The temporary ban on recruitment would be the first step towards securing economies of at least 3 per cent in Government expenditure on wage-related items. If any Minister found it impossible to achieve this it was open to him to suggest to the Chief Secretary, Treasury, alternative ways of securing equivalent savings, but these would have to be in addition to any savings he was required to make as part of the general review of public expenditure discussed under Item 4. The Lord President of the Council should inform the Civil Service unions of the Government's decision in general terms. He could tell them that the Government would be seeking similar economies in the local authorities and from the administrative tail of the National Health Service. While he could report back their reaction, there was no question of the Cabinet reopening the decision it had just

taken in the light of these consultations. The Secretary of State for the Environment, in consultation with the Secretary of State for Scotland, should make it clear to the local authority associations that they would be expected to follow similar policies and that their performance would be taken into account in the next Rate Support Grant negotiations.

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

17 May 1979