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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 4 OCTOBER 1979 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP Prime Minister

Hon William Whitelaw MP Secretary of State for the Home Department

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

Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer

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

Hon Francis Pym MP Secretary of State for Defence

The Rt Hon Lord Soames Lord President of the Council

Hon Sir Ian Gilmour MP Privy Seal

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

Hon George Younger MP Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP Secretary of State for Wales

Hon Humphrey Atkins MP Secretary of State for Northern Ireland

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

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

The Rt Hon John Nott MP Secretary of State for Trade

Hon David Howell MP Secretary of State for Energy

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

Hon John Biffen MP Secretary, Treasury

The Rt Hon Angus Maude MP Paymaster General

THE FOLLOWING WERE ALSO PRESENT

Rt Hon Norman Fowler MP
 Minister of Transport

The Rt Hon Michael Jopling MP
 Parliamentary Secretary, Treasury

Earl of Gowrie
 Minister of State, Department of
 Employment (Items 3 - 5)

Mr C S Ponting
 Ministry of Defence
 (Item 5)

Mr R Warner
 Minister of Health and Social Security
 (Item 5)

Sir Derek Rayner
 Cabinet Office
 (Item 5)

SECRETARIAT

Sir John Hunt
 Mr M D M Franklin (Items 1 and 2)
 Mr P Le Cheminant (Items 3 - 5)
 Mr P Mountfield (Items 4 and 5)
 Mr R M Hastie-Smith (Items 1 and 2)
 Dr R H Aram (Item 3)

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1. THE FOREIGN AND COMMONWEALTH SECRETARY said the Rhodesia Conference was now considering our full constitutional proposals. He had asked for a response by 8 October but it was possible that Bishop Muzorewa would seek to obtain a political advantage by announcing his acceptance earlier than this. Mr Ian Smith was returning to Salisbury this week where he might create some difficulties. The Patriotic Front leaders would probably try to avoid reaching a decision on the constitutional arrangements by raising the problem of transitional arrangements: this would be resisted. It seemed likely that internationally our constitutional proposals would be generally regarded as reasonable even by the Presidents of the Front Line States. The problem of transitional arrangements was much more difficult. Mr Nkomo appeared to want to reach a settlement but Mr Mugabe's position was more doubtful.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had paid a useful visit to the United Nations General Assembly in New York in the previous week. He had had a difficult discussion with the Soviet Minister for Foreign Affairs, Mr Gromyko, who had not been well briefed and had attacked the United Kingdom's proposed constitutional proposals for Rhodesia apparently under the impression that the Rhodesia Conference had broken down. He had also reacted strongly to the Foreign and Commonwealth Secretary's own speech about the growth in Soviet military capability. In New York he had also had discussions with the Spanish Foreign Minister, Senor Oreja Aguirre, on the future of Gibraltar and with the Argentine Foreign Minister, Brigadier Pastor, on the Falkland Islands. In both cases he had emphasised our wish to make progress provided the wishes of the local inhabitants were respected. Some useful progress had been made.

THE FOREIGN AND COMMONWEALTH SECRETARY said that on both political and humanitarian grounds there were strong reasons for us to make some contribution to the relief of the appalling famine which was developing in Cambodia. Vietnam insisted on recognition of their puppet regime in Cambodia before allowing relief agencies to bring aid into the country but the Red Cross and United Nations relief agencies had found a way of meeting this requirement and preventing the aid getting into the hands of Vietnamese and Cambodian troops. There was no money left in this year's aid programme but he was proposing, in agreement with the Chancellor of the Exchequer, to make £2.5 million available for relief from the Contingency Reserve for next year's aid programme. There was also a strong case for making some aid available to Dominica.

In a brief discussion it was suggested that we should gain credit if we put forward a proposal to our European Community partners to make some aid available.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the tour in this country by the South African rugby team had got off to a quiet start in Exeter. The next match at Camborne also seemed likely not to give rise to trouble but difficulties might arise later in the tour.

The Cabinet -

Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that so far the timetable laid down by the Strasbourg European Council for consideration of our budgetary problem was being maintained. The Council of Ministers (Finance) had met on 17 September and would be considering the matter again on 15 October. It would also be the principal topic for the Prime Minister's visit later that day to Rome for talks with the Italian Prime Minister. The recent realignment of currencies within the European Monetary System had been achieved without too great difficulty. We had not been invited to the discussions about the latter but this was now recognised to have been a mistake and was unlikely to happen again.

THE SECRETARY OF STATE FOR ENERGY said that the Council of Ministers (Energy) had been able to agree upon national oil import targets for 1985 within the previously agreed global figure for the Community. This had been welcomed by the Americans at the subsequent meeting of Tokyo Summit Energy Ministers but they were now becoming increasingly concerned about securing Congressional agreement to import quotas for the USA and would be pressing Community countries, especially the Germans and the Italians, to restrict oil imports in the intervening years up to 1985. It was pointed out that the Italians had made their position clear to the Americans at the Tokyo Summit. We should not ourselves intervene on behalf of the Americans.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said the European Court had recently condemned the national measures taken by France to restrict imports of sheepmeat. However even before the judgment French Ministers had virtually said that they would not comply and attempts by British exporters to send lamb to France had been frustrated because French importers had been warned by the French Government not to ask for import licences. We had respected the findings of the Court on our regime for importing potatoes and in other cases: it would be unprecedented for a member State to persist in defying the European Court. We were also in dispute with the French over fishing off the south-west coast. The French Government were encouraging French boats to fish illegally in our waters and were apparently prepared to pay any fines. Two trawlers had already been arrested and there would probably be more now that the French fishermen's co-operative had agreed to pay compensation for loss of earnings to arrested boats. Although the French Government undoubtedly had internal political difficulties it looked as though they were building up a case against us on both sheepmeat and fisheries with a view to raising these issues at the forthcoming European Council in Dublin.

The Cabinet -

Took note.

3. The Cabinet considered a memorandum by the Minister of Agriculture, Fisheries and Food on liquid milk prices (C(79) 41).

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that there were long-standing pricing arrangements for liquid milk which involved setting maximum wholesale and retail prices in April and October each year for succeeding six-monthly periods. The proposed $1\frac{1}{2}$ p increase in the maximum retail price would allow the maximum wholesale price to be increased to maintain the real value of last year's producers net margin. The present target rate of profit for distributors would remain unchanged while the formula used to calculate distributors margins was being examined by a firm of accountants. If there was no increase in the retail price at this time dairy farmers' margins would be only £81 per cow, substantially less than last year and the lowest for five years. The National Farmers' Union, the Milk Marketing Board (MMB) and the Dairy Federation knew the basis of the figures and would see the reduction in their margins as a fundamental change in policy. This would have severe repercussions. The Manifesto had criticised the previous Government for seriously undermining the profitability of agriculture.

In discussion it was noted that in Scotland delay in previous retail price increases meant distributors' costs had not been made good and in consequence the proposed increase in the retail price needed to be made earlier, with the possibility of a further temporary increase in February or March. In Wales there was less room for switching to other forms of agricultural output if dairy farming became less profitable. In Northern Ireland other forms of aid should be considered as farmers benefit only slightly from an increase in retail prices because little of their milk is sold in liquid form.

In further discussion it was questioned whether the interests of the milk producers and the dairy industry should override other policy considerations such as consumer interests. Milk prices had doubled in 4 years and the $1\frac{1}{2}$ p increase now proposed, despite assurances to the contrary in May, would represent a 22 per cent increase in the retail price in less than 6 months. This would add to inflation and have serious repercussions on the wage round besides opening the Government to political attack. Against this it was argued that there would be substantial pressure from farming interests for a price increase. Profits from the various sectors of agriculture varied considerably but many farmers were dependent on their receipts from milk sales, especially in the more remote areas, and they would regard a failure to increase the price as contrary to the Government's policy for agriculture. Their protest would be strengthened because they were well aware of the calculations on which the proposed price increase was based.

A departure from the traditional methods of calculation would be seen by them as a deliberate reversal of policy.

In continuing discussion it was suggested that a further increase in the retail price of milk would reduce sales and increase the quantity of milk going to manufacture. There was of course already a substantial butter surplus in the Community and the United Kingdom would be adding to it. This would not fit well with the attitude we were adopting to the Common Agricultural Policy (CAP). Moreover higher milk prices in the United Kingdom would be attractive to foreign milk producers and would increase pressure on us to relax restrictions and allow imports of liquid milk to the further detriment of our dairy industry. At the same time it was noted that other member countries of the European Economic Community (EEC) were substantially increasing their subsidies to agriculture. If we cut back on our support we would worsen our relative position and the burden of the CAP.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet, by a substantial majority, agreed that there should be no increase in the retail price of milk at present. The question of milk prices needed to be looked at in the broader context of support for agriculture generally and against the background of the CAP and the subsidies which other members of the EEC gave to their agricultural industries. It would also be necessary to consider further the question of distributors' margins in the light of the report on these being prepared for the Minister of Agriculture, Fisheries and Food. The necessary review should involve all of the main economic Departments and the Secretary of the Cabinet should arrange for it to be carried out. The Cabinet noted that the Minister of Agriculture, Fisheries and Food had it in mind to bring a general paper on agricultural policy to an early meeting of the Cabinet.

The Cabinet -

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

4. The Cabinet considered a memorandum by the Lord President of the Council (C(79) 40) setting out two possible ways of implementing the Cabinet's earlier decision to disperse a substantial number of Civil Service posts to Bootle.

THE LORD PRESIDENT OF THE COUNCIL said that there had been no volunteers among Government Departments to go to Bootle. There were only two real options available. The first would be to move 1,200 staff of the Health and Safety Executive (HSE) from London to Bootle, leaving less than 300 staff in London. To these could be added a further 100 staff from the Property Services Agency (PSA) and 300 from the Home Office Computer Staff. This would provide some 1,600 jobs for Bootle, which could be regarded as discharging the Government's commitments to move staff there. The alternative would be to build up to approximately the same total from small numbers drawn from several different Departments, including the Ministry of Agriculture and the Foreign and Commonwealth Office.

THE MINISTER OF STATE, DEPARTMENT OF EMPLOYMENT (Lord Gowrie) said that his Secretary of State had grave reservations about the proposal to move so large a number of HSE staff to Bootle. The HSE was a policy-making Department which needed to have extensive contacts both in London and with Brussels. It was responsible to an independent Commission, drawn from the Trade Union Congress and the Confederation of British Industries, both of whom would see objection to the move. There was already a suspicion that the Executive had too much autonomy, and this tendency would be increased if it were moved away from London.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet recognised the difficulties which the Minister of State had outlined. Nevertheless they were strongly of the view that the first of the two options described by the Lord President of the Council was to be preferred. Accordingly, some 1,200 staff of the HSE should be moved to Bootle, together with 100 staff from the PSA and 300 from the Home Office. The HSE Laboratory should stay in London as previously planned, together with a small number of Headquarters staff.

The Cabinet -

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

5. The Cabinet considered a minute from Sir Derek Rayner to the Prime Minister, circulated under cover of a note by the Secretary of the Cabinet (C(79) 39). This minute suggested ways in which Ministers might strengthen their control over the management of their Departments, in the search for greater efficiency and the elimination of waste.

THE PRIME MINISTER said that, as she had told the Cabinet earlier in the year, Sir Derek Rayner had been asked to undertake a number of studies in Departments of ways in which waste could be eliminated. He had reported to her on these studies, and made various recommendations for a more permanent system of scrutinies. She had been very impressed with the initial results of some of the studies already carried out, and had thought the Cabinet would be interested to hear at first hand from those who had undertaken them.

SIR DEREK RAYNER said that the administration of Central Government cost about £6 billion a year, or more than the total yield of value added tax. Large savings in these administrative costs could only be secured by good management. In his view it was the responsibility of every Minister to scrutinise the cost of his Department regularly. Senior Ministers could not abdicate their personal responsibility for such costs. They needed to reassure themselves regularly that all the activities undertaken in their name were justified and were being carried out effectively. This had to be done within the Department. Outside critics did not know the right questions to ask and might meet resistance. The work needed the full support of Ministers, and this had been freely given in the initial work which he had carried out.

MR C S PONTING, Ministry of Defence, and Mr. N R WARNER, Department of Health and Social Security, then gave brief accounts of the preliminary results of their studies, of methods of food procurement for the armed services and of means of paying social security benefits.

In discussion, considerable enthusiasm was expressed for these initial findings. There was general agreement that similar studies should be continued on a regular basis within each Department, and that the Minister concerned should take personal responsibility for the work and for the subsequent implementation of recommendations. It was argued that the earlier Programme Analysis and Review system, introduced by the previous Conservative Government in 1970, had lent itself to over-bureaucratisation. By contrast, the new system of Departmental 'scrutinies' proposed by Sir Derek Rayner made minimum demands on staff time. It was however essential that those carrying out the studies should have the full

co-operation, not only of top management in the Department, but of the staff concerned with the functions under examination. Experience had already shown that staff at the 'sharp end' of the execution of policy were willing and able to help and that many fruitful ideas came from this source. The attitude of some Staff Sides on the other hand had been unhelpful, and ways should be sought of seeking their co-operation. For this purpose, the 'scrutiny' operation should be distinguished as clearly as possible from any major manpower cuts which the Cabinet might subsequently decide. The emphasis should be on the cost-effectiveness of continued operations. The Central Departments (Treasury, Civil Service Department and Central Policy Review Staff) had some role to play, in co-ordinating the programme of scrutinies, in suggesting additional topics for study, and in seeing that lessons learnt in one Department were made more generally available. But the real work must be done within Departments by management working through departmental officials specially selected for the purpose.

THE PRIME MINISTER, summing up the discussion, said the Cabinet congratulated Sir Derek Rayner and his team on the results obtained so far. They agreed that the system of 'scrutinies' proposed in his minute to her, circulated as C(79) 39, should continue. They invited all Ministers in charge of Departments to send her, by 23 November, details of the studies which they proposed to undertake in the next year. She would arrange for the complete programme of studies to be collated and to be circulated to Cabinet in due course.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion, and agreed to proceed accordingly.

Cabinet Office

4 October 1979