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CC(79) 4th
Conclusions

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CABINET

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

THURSDAY 31 MAY 1979

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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

The Rt Hon Lord Hailsham
Lord Chancellor

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

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

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

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

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

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

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

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

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

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

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

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
 Attorney General (Items 7 and 8)

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 1 and 2)
Mr M D M Franklin	(Items 1 and 2)
Mr P Le Cheminant	(Items 3 - 6)
Mr P J Harrop	(Items 7 and 8)
Mr P Mountfield	(Items 5 and 6)
Mr C H Wilson	(Items 3 and 4)
Mr R M Orton	(Items 7 and 8)

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1. THE LORD PRIVY SEAL said that Bishop Muzorewa had now completed the formation of his government. The fact that Mr David Smith had agreed to stay on as Minister of Finance was a good sign, as was the inclusion of Chief Ndinweni in the Cabinet. Lord Harlech's appointment as emissary had been generally well received in Africa. But there was trouble with the Nigerians over what they chose to interpret as positive moves towards recognition of the new Rhodesian government. So far this had taken the form of an embargo on tenders from British firms for some Nigerian Government contracts.

The Cabinet -

Took note.

2. THE LORD PRIVY SEAL reported that the Ministerial Conference on 24-26 May between the Community and the African, Caribbean and Pacific (ACP) countries to negotiate a new Lome Convention had ended without agreement but there had been little acrimony. The main reason for failure had been that the ACP countries regarded the Community's aid offer as inadequate. It was hoped that discussions might be resumed at the end of June.

The Cabinet -

Took note.

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

CONFIDENTIALITY

4. THE PRIME MINISTER referred to newspaper reports that day alleging that the Government were considering extending the number of "waiting days" before sickness and unemployment benefits could be paid. Leaks of this kind were extremely damaging. It was the personal responsibility of Ministers in charge of Departments to see that their departmental arrangements for maintaining security were effective. It was particularly important to ensure the confidentiality of documents relating to public expenditure and finance. They should receive appropriate high classification and the related handling procedures should always be strictly observed.

The Cabinet -

Took note.

5. The Cabinet had before it a memorandum by the Chief Secretary, Treasury (C(79) 13) setting out the results of his discussions with departmental Ministers about cuts in expenditure in the current financial year.

THE CHIEF SECRETARY, TREASURY, said that, as agreed at Cabinet on 17 May, he had proposed to his colleagues reductions in expenditure totalling £1,365 million in the published expenditure plans for 1979-80, with a further £1,200 million to come from disposal of public sector assets. Bilateral discussions with his colleagues had secured agreement on almost all of the proposed reductions. He and the Chancellor of the Exchequer had decided not to propose increases in prescription and dental charges, or further increases in school meal charges in the current year. There was an unresolved issue over the aid programme. There was a potential charge to the Contingency Reserve in respect of the Northern Ireland meat industry employment scheme. Otherwise, he commended the proposed reductions to the Cabinet.

In discussion, there was general support for most of the reductions proposed by the Chief Secretary, Treasury. It was however argued that the savings on energy programmes came largely from additional price increases. While a second electricity price increase in the year was inevitable to meet increased costs, there was no justification for increasing gas prices to the domestic customer a second time, thus adding to the inevitable pressure on the Retail Price Index which would follow from the Chancellor's Budget measures. Alternative savings should be found within the energy programme, perhaps by postponing capital investment in the electricity industry. It was also suggested that, while an additional £22 million savings would be required on the education budget to make good the decision not to increase school meal charges further, this should, if possible, be done by seeking reductions in expenditure rather than by raising fees to students. An appropriate proportion of the cuts should fall on the arts budget, which had increased steeply in recent years. Even at this late stage in the academic year, it should be possible to find further savings in expenditure on universities, polytechnics and colleges of further education. The savings in the programmes of the Foreign and Commonwealth Office should be increased from £40 million to £50 million notwithstanding the political difficulty of reducing the aid programme further just before the Commonwealth Conference. Additional expenditure of £100 million of the Defence budget was welcome and in line with the Cabinet's priorities, but it was not sufficient to meet the full commitments inherited from the previous Government, and significant economies in the Defence programme would still be needed to keep within the increased Defence budget.

In further discussion, it was suggested that great care was needed in proceeding with the disposal of public sector assets in the way proposed. The immediate need was for large sales, whose proceeds could be taken into account in 1979-80, thus helping with the immediate budgetary problem. The Chancellor of the Exchequer

would need to take credit for the figures in his Budget Statement. But he should do so in a way which would not reveal the Government's asking price or prejudice the prospects of sales. The object was to mop up surplus purchasing power at home, and for this reason the assets should be sold to domestic buyers wherever possible. They should also be disposed of in a way which would secure the widest possible spread of ownership, and pave the way to successful disposal of an equity interest in some of the nationalised industries in due course. All these issues need very careful Ministerial handling, and it would be desirable to establish a special Ministerial group for the purpose.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet broadly endorsed the proposals put forward by the Chief Secretary, Treasury. The Secretary of State for Foreign and Commonwealth Affairs should find an additional £10 million savings in his programmes. The Secretary of State for Education and Science, together with the Chancellor of the Duchy of Lancaster, should find savings of £22 million in the education, arts and science budget, to make good the loss of revenue from increased school meal charges, and should agree the savings urgently with the Chief Secretary, Treasury. As agreed under item 3, the Secretary of State for Social Services should seek alternative savings of £40 million in case it were decided not to increase 'waiting days'. Domestic gas prices should not be increased a second time in 1979-80, and the Secretary of State for Energy should find alternative savings of £12 million to make good this loss of revenue. The Cabinet confirmed the allocation of an additional £100 million to the Defence budget in 1979-80. They noted that the Secretary of State for Northern Ireland might wish to make a claim on the Contingency Reserve in respect of the meat industry employment scheme, depending on circumstances later in the year. She would herself arrange for the establishment of a sub-committee of the Ministerial Committee on Economic Strategy, under the Chairmanship of the Chancellor of the Exchequer, to consider the whole question of disposal of public sector assets and to keep the operation under regular review.

The Cabinet -

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

FURTHER ACTION
TO REDUCE THE
SIZE OF THE
CIVIL SERVICE

previous
reference:
C(79) 2nd
conclusions,
Minute 6

6. The Cabinet considered a memorandum by the Lord President of the Council (C(79) 12) about proposals to reduce the size of the Civil Service in the longer term.

THE LORD PRESIDENT OF THE COUNCIL said that his paper was designed to secure a wide range of options for later consideration and decision. The identification of these long term options would require the wholehearted co-operation of all Departmental Ministers. Meanwhile, in the short term, it was important to keep to a minimum the exemptions to the temporary ban on recruitment agreed by Cabinet on 10 May (CC(79) 1st Conclusions, Minute 1); otherwise there would be no chance of securing the 3 per cent reduction in manpower-related expenditure which the Cabinet had then agreed.

In discussion, there was general agreement that the Cabinet needed a very wide range of options from which to choose. Ministers should take a close personal interest in the search for economies and should not allow Departments to rule out too readily on grounds of apparent impracticability any changes which would involve significant reductions in staff. Consultation with the Civil Service Trade Unions would clearly be needed. The Lord President of the Council would be opening discussions with senior union representatives next week in order to set the stage for the operation as a whole. Departments should not involve their own staff sides in discussions until this had been done. When they did meet their unions Ministers should make it clear that the exercise was to be taken seriously and that they would not be deflected from their objectives by union opposition. At the same time, the unions should be given a real chance to co-operate, and could be assured that final decisions would not be taken without full consultation. To avoid over-reaction by the unions it should be made clear that at this stage the Cabinet was only identifying options, many of which would be rejected. While it was important to secure as many savings as possible by 1982, longer-term reductions need not be ruled out. Changes in the present policy on dispersal of the Civil Service would help win the co-operation of the unions: but this should be considered as a separate matter, and a paper should be brought to the appropriate Ministerial Committee as soon as possible. It should be possible to secure big savings in the staff of the Property Services Agency, and the Secretary of State for the Environment would shortly be seeking the co-operation of his Ministerial customers for this purpose.

THE PRIME MINISTER summing up the discussion said that the Cabinet approved the proposals put forward by the Lord President of the Council. The target date for the completion of the staff reductions should be 1 April 1982. Departmental Ministers should submit statements on the lines set out in paragraph 3 of C(79) 12, to the Lord President of the Council by the end of July. The Lord President of the Council should have early informal discussions with the National Staff Side to explain the Government's intentions and so far as possible to secure their co-operation. Departmental Ministers should then arrange for any necessary consultation with their own Departmental Staff Sides in order to explore options in more detail. But it should be made clear at this stage that no final decisions would be taken by the Cabinet until later in the year. Options presenting serious policy problems should be considered by the appropriate Cabinet Committees as necessary. The Lord President of the Council should then submit firm proposals covering the whole of the Civil Service and related bodies to the Cabinet for decision in September. On the question of short term reductions, Ministers should report to the Lord President of the Council by 5 June on any exemptions they had authorised to the temporary ban on recruitment, but it was important that these should be kept to an absolute minimum.

The Cabinet -

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

7. The Cabinet considered a memorandum by the Home Secretary (C(79) 15) on Refugees from Vietnam.

THE HOME SECRETARY said that his paper had been written before the decision to admit the 900 refugees aboard the MV Sibonga. Since 1975 the United Kingdom had accepted over 1,900 Indo-Chinese people for resettlement. The previous Administration had agreed in January to admit a further 1,500 Vietnamese refugees, of whom 250 had come from each of Malaysia and Thailand and 400 from Hong Kong, out of an agreed quota of 1,000. There was careful selection of those to be admitted, taking account of genuine desire to live in the United Kingdom, knowledge of English and the possession of skills. Many of the refugees, however, did not want to come to Britain. The exercise was proceeding sensibly and could be viewed separately from the problem of the boat people. As regards the MV Sibonga refugees, arrangements were now being made by the voluntary organisations to receive those who wished to come. There would be some cost

REFUGEES FROM
VIETNAM

previous
reference:
C(79) 3rd
conclusions,
note 2

to the Exchequer, which would be a claim on the Contingency Reserve. If it were necessary to go beyond MV Sibonga and MV Roach Bank, now off Taiwan, it would be necessary to take over army camps and to incur very considerable expenditure.

THE ATTORNEY GENERAL said that under the 1910 Brussels Convention on Assistance and Salvage at Sea, implemented in United Kingdom law by the Maritime Conventions Act 1911, Masters of ships were obliged to rescue people in peril at sea. The draftsmen of this and subsequent Conventions did not have the situation of refugees principally in mind. It was customary international law that rescued people should be put ashore at the next scheduled port, or the nearest convenient port; and the country concerned was required to admit them. The next scheduled port for the MV Sibonga had been Hong Kong. In the case of the MV Roach Bank it was a port in Taiwan; Hong Kong was the next subsequent port. If Taiwan refused to take the refugees Hong Kong would have no legal obligation to accept them.

In discussion it was stressed that we should use every means to persuade Taiwan to honour its obligations to the 290 refugees aboard the MV Roach Bank, 80 per cent of whom were said to be children. Failing this, a quick decision would be needed on whether to admit them to the United Kingdom, taking account of public feelings on the matter. Any decision not to accept refugees rescued by United Kingdom ships, who were not resettled elsewhere, would affect British shipping interests in Far Eastern waters. The shipping industry itself seemed however to be reaching the conclusion that British ships should keep clear of Vietnamese waters as far as possible. Certainly we could not take more than a strictly limited number of Vietnamese refugees given the number of immigrants already here and the density of our population. As regards financial arrangements, it would be appropriate to use the Contingency Reserve to meet additional costs arising from the reception of the refugees from the Sibonga and, if necessary, the Roach Bank, but there must be no open-ended commitment. In view of the potential size of the exodus from Vietnam, urgent consideration by the United Nations of the refugee problem was vital.

THE PRIME MINISTER, summing up the discussion, said that the quota of 1,500 Vietnamese refugees agreed by the previous Administration should stand; some of the refugees from the MV Sibonga and, if necessary, MV Roach Bank should be subsumed within that total so far as practicable. There could be no automatic acceptance in this country of refugees landed in Hong Kong by United Kingdom registered vessels; nor should any general undertaking be given to accept refugees rescued by United Kingdom ships who were not resettled elsewhere. Cases should be looked at on their merits where that was necessary.

No announcement of policy on these points need be made; if questioned, it should be made clear that the United Kingdom would abide by international law. She would send a telegram to the United Nations Secretary-General, urging him in the strongest terms to convene an early conference of Member States to consider the problem of Vietnamese refugees. The greatest possible pressure should be maintained on the Taiwan Government to persuade them to accept the refugees from the MV Roach Bank. If this proved unsuccessful the Cabinet had authorised her to decide, in consultation with the Home Secretary and the Foreign and Commonwealth Secretary, whether these refugees should be accepted in the United Kingdom. Any extra cost falling on Government Departments as a result of dealing with the additional numbers of refugees immediately in prospect should be met out of the Contingency Reserve.

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.

SUPPLIES

8. THE SECRETARY OF STATE FOR ENERGY said that the oil supply position remained tight, and would be likely to deteriorate further following the decision of the United States Government the previous day to subsidise oil imports. It seemed unlikely however that any drastic action to reduce consumption would be necessary during the course of the summer. His Department were working closely with the oil companies. The aim would be to ensure that adequate stocks were built up for next winter.

The Cabinet -

Took note.

Cabinet Office

31 May 1979

CABINET

LIMITED CIRCULATION ANNEX

CC(79) 4th Conclusions, Minute 3

Thursday 31 May 1979 at 10.30 am

The Cabinet considered a memorandum by the Secretary of State for Social Services (C(79) 14) about the treatment of the shortfall in the rates of short term social security benefits which had occurred in the November 1978 uprating and the prospects for shortening the time between announcing changes in benefits and their implementation.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that on 24 May Cabinet had agreed (CC(79) 3rd Conclusions, Minute 4) that the shortfall in the rates for long term benefits paid from November 1978, which had underestimated the rise in earnings in the preceding 12 months by 1.9 per cent, should be made good when this year's upratings were made. But they had asked him to consider further his proposal that the shortfall in short term benefits - sickness and unemployment benefits - should be treated in the same way. If this shortfall were not made up the savings would be about £10 million in 1979-80 and about £30 million in 1980-81. Against this gain had to be set the risk of charges of bad faith arising from the commitments which had been made during the election campaign. These undertakings had related only to pensioners but the significance of this distinction might not have sunk in. Likely reaction had to be considered also in the context of the unpopularity of his other proposal to extend from three to six the number of 'waiting days' before people could claim sickness or unemployment benefits. This change could save about £40 million in 1979-80. To go also for the smaller saving by not making up the shortfall to short term beneficiaries would exacerbate the hardship which extending the waiting days would cause, especially for the unemployed with large families. He recommended that long and short term beneficiaries should be treated alike by making up the shortfall in both cases. As regards the prospects for shortening the time between announcing improvements in benefits and their implementation the possibility of bringing forward implementation could in his view be ruled out as impracticable and too costly. The other option would be to defer announcement beyond the Budget. But given the late start this year any further delay would jeopardise the timely payment of the new rates. Even on the present timetable there was

a risk that some recipients would not receive the improved rates of benefits until after the due date. In his view the new rates should be announced at the time of the Budget. Work was in hand to speed up implementation in the longer term but significant progress could not be expected in less than two years.

In discussion it was argued that the Government were not committed to making up the shortfall on short term benefits. Not to do so would be a positive contribution to widening the financial gap between those in work and those out of work and discouraging the "why work" syndrome. A reduction in public expenditure of £10 million in 1979-80 and £30 million in 1980-81 was worthwhile. Saving in this area would be less unpopular than the proposal to increase the number of waiting days for sickness and unemployment benefits. Such a proposal might well be defeated in Parliament as similar proposals had been in the past. Its implications required wider consideration than had so far been possible between the Ministers most closely concerned before Cabinet could reach a decision.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet's provisional judgment was that the shortfall in short term payments should not be made good and that the number of waiting days before sickness and unemployment benefits could be claimed should not be increased. Equivalent savings would however have to be found in the Social Services budget. The Secretary of State for Social Services should discuss these matters further with the Secretary of State for Employment and the Chief Secretary, Treasury. If possible they should agree on a package which met the Cabinet's wishes. Any difficulties should be reported to the Ministerial Committee on Economic Strategy (E) at their meeting on 1 June. As to the possibility of reducing the period between announcements of changes in social security rates and their implementation the Cabinet accepted that nothing could be done this year. But they attached importance to achieving such a reduction in the future and invited the Secretary of State for Social Services to consider further and report on how improvements to that end could be accelerated.

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

31 May 1979