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CC(81) 2nd
Conclusions

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CABINET

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

THURSDAY 15 JANUARY 1981

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 Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

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

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

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

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Norman Fowler MP
Secretary of State for Transport

The Rt Hon Lord Hailsham
Lord Chancellor

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

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Nott MP
Secretary of State for Defence

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

The Rt Hon George Younger MP
Secretary of State for Scotland

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

The Rt Hon John Biffen MP
Secretary of State for Trade

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

The Rt Hon Leon Brittan MP
Chief Secretary, Treasury

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ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 2 and 3)
Mr P Le Cheminant (Items 4-6)
Mr R L Wade-Gery (Items 2 and 3)
Mr W N Hyde (Items 1 and 7)
Mr D J L Moore (Items 4-6)
Mr L J Harris (Items 1 and 7)

CONTENTS

ARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. An announcement would be made that afternoon that the Chancellor of the Exchequer would open his Budget on Tuesday 10 March.

The Cabinet -

Took note.

OREIGN AFFAIRS

Poland

Previous Reference: CC(81) 1st Conclusions, Minute 2

2. THE LORD PRIVY SEAL said that more strikes had taken place in Poland and the political situation remained very tense. The two main issues currently in dispute were Solidarity's demand for a five-day week and the proposal for an independent farmers' union. The tone of Soviet comment had sharpened again. The current visit of the Soviet Commander-in-Chief of the Warsaw Pact forces, Marshal Kulikov, might also be designed as a reminder of the possibility of Soviet intervention.

Namibia

Previous Reference: CC(80) 42nd Conclusions, Minute 2

THE LORD PRIVY SEAL said that the failure of the United Nations conference on Namibia at Geneva was regrettable, although it had so far produced less recrimination than might have been expected. Responsibility lay with the South Africans, who had told the Parliamentary Under Secretary of State, Foreign and Commonwealth Office (Mr Luce), at Geneva that they did not want to see agreement reached. This might be because of internal South African factors or because they now believed that the South West African People's Organisation would dominate any free elections in Namibia; but the most likely reason was their hope that their Namibian policies would be viewed more sympathetically by the incoming United States Government than by President Carter's Administration. Discussion of Namibia in the United Nations General Assembly might now resume in the near future. But a crisis point, in terms of a move in the Security Council for sanctions against South Africa, was unlikely to be reached until the attitude of the new United States Government was clearer. Meanwhile the interests of Britain and the West would be best served by playing the whole matter down as far as possible.

Libya/Chad

THE LORD PRIVY SEAL said that Colonel Qadhafi's Government in Libya had followed up the success of its military intervention in Chad by securing agreement on a merger between the two countries. Libyan intervention had been deplored in a public statement by the Foreign and Commonwealth Secretary during his current visit to Egypt. France had also condemned Libya, but had at the same time concluded a Franco-Libyan oil agreement. Most African Governments had unfortunately been slow in realising the dangers inherent in Libya's expansionist policies, but President Sadat of Egypt had been aware of the threat for some time, and the Nigerians had now been alerted by Libyan involvement in the recent riots in Kano.

Spain

Previous Reference: CC(80) 22nd Conclusions, Minute 2

THE LORD PRIVY SEAL said that he had recently visited Madrid primarily to discuss Spain's accession to the European Communities. There had however been considerable talk about Gibraltar. The Spanish Government had asked for undertakings about the future status of Spanish citizens in Gibraltar which Her Majesty's Government could not give, but it had been agreed that contacts at official level should continue. The Spanish Government were hopeful that during the forthcoming British Presidency it would be possible to give further political impetus to the negotiations for Spanish entry into the European Communities. He had made clear that this would be easier if in the meantime Spain had made improvements on the trade front and had also implemented the Lisbon agreement on Gibraltar. He had also taken the opportunity to urge the Spanish Government to buy Rapier missiles.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Previous Reference: CC(81) 1st Conclusions, Minute 3

3. THE LORD PRIVY SEAL said that, following the sudden death of Commissioner Gundelach, the Danish Government had nominated their Minister for Agriculture and Fisheries, Mr Dalsager, as a member of the Commission, with the hope that he would be given the Agriculture portfolio. Responsibility for Fisheries would now pass immediately to the Greek Commissioner, Mr Kontogeorgis, who, while not familiar with the subject, had proved to be an able negotiator during Greek accession to the Communities.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that Mr Dalsager had strong claims to take over the Agriculture portfolio, given both his European and agricultural experience. While he had personal limitations, he was well disposed to this country and it would be a mistake to alienate him by attempting to oppose his appointment as

Agriculture Commissioner. The French might support the appointment of Mr O'Kennedy, but it would not be in British interests to have an Irish Commissioner responsible for Agriculture. Other possibilities included the Dutch Commissioner, Mr Andriessen. Discussions he had had the previous day with the French Minister of Agriculture confirmed that there would be major difficulties over the forthcoming agricultural price negotiations, since the French were pressing for large price increases, a revaluation of the Green Pound and changes in co-responsibility levies which the British Government would have to oppose. He also reported that difficulties had arisen over the receipt of refunds on whisky exports which it had been agreed during last year's price fixing should be paid to the United Kingdom. These payments had been delayed because of the refusal of the European Parliament to give an opinion. He was considering urgently with the Foreign and Commonwealth Office what action we could take.

The Cabinet -

Took note.

81-82 CASH IMITS AND OTES

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

FLATION-PROOFED PENSIONS

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer and the Lord President of the Council (C(81) 3) to which was attached a copy of the Report of the Committee of Inquiry, under the chairmanship of Sir Bernard Scott, into the value of pensions.

THE CHANCELLOR OF THE EXCHEQUER said that the Report had been commissioned in response to the widespread public criticism of the privileged position of public sector employees in the enjoyment of inflation-proofed pensions. In setting up the Inquiry, the Cabinet had recognised that there would be severe difficulties in abolishing inflation-proofing of public sector pensions, and had considered that the best way to reduce disparities would be by increasing public sector pension contributions. The Report recognised the disparity in pensions treatment between public and private sector schemes, but did not condemn the inflation-proofing of public sector pensions. It made no firm recommendations, but a number of suggestions for further action or study, including the introduction of Government-issued index-linked bonds. As a first step he, and the Lord President of the Council, recommended that the Report should be printed as a Command paper and presented to Parliament around the end of January. The Government should welcome the Report, and offer a number of initial comments on the lines indicated in paragraph 15 of C(81) 3, but without any commitment on particular points. The proposals and ideas in the Report should then be the subject of further study within Government.

THE LORD PRESIDENT OF THE COUNCIL said that the Report was helpful in refuting a number of misconceptions. It offered the Government a good basis for proposing increases in the contributions - either direct or through abatement of pay - of public sector employees to their pensions. There would, however, be difficulties in bringing all contributions up to the levels of those made, by salary abatement, by civil servants; and there were obvious objections to increasing contributions to a level which implied that the Government was endorsing pessimistic assumptions about prospective real rates of return on investment.

In discussion the following points were made -

a. The private sector would be highly critical of the Report. Many private sector companies were currently facing severe difficulties in maintaining the terms of their present pension schemes. They would not welcome the proposal in the Report that the disparity could be reduced by strengthening of private sector occupational pension schemes. The Report would also be criticised for failing to comment on the value of job security in the public sector; and for not putting forward firm recommendations for the introduction of a cut-off point to limit the extent of inflation protection.

b. Although the Government might wish to make changes in the present arrangements, it should, in fairness to its employees, acknowledge that the Report had identified a number of misconceptions about public sector schemes.

c. The recommendations in the Report, and the issues raised, were highly complex and difficult. It would therefore be better for the Government to publish the Report without any comment on it, and then to consider its response in the light of public reaction. The Treasury and Civil Service Committee might well take the initiative, without any prompting from the Government, in examining the Report's findings.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Report should be published by the end of January. The Government should offer no comments on it at the time of publication, but before then the Chancellor of the Exchequer and the Lord President of the Council should prepare a guidance note on what Ministers might say in response to questions. Officials of the Departments concerned, under the chairmanship of the Treasury, should examine the issues raised by the Report, and should report to the Chancellor of the Exchequer and the Lord President of the Council, who would then make proposals to Ministers.

The Cabinet -

1. Invited the Chancellor of the Exchequer and the Lord President of the Council:

a. To arrange for the Report of the Scott Inquiry into the value of pensions to be printed as a Command paper with the aim of presentation to Parliament around the end of January.

b. To circulate to the Cabinet a note of guidance on the line which Ministers should take in response to questions on the Report.

2. Instructed the Secretary of the Cabinet to arrange for an interdepartmental group of officials, under Treasury chairmanship, to examine the findings of the Inquiry, and to report further in due course to the Chancellor of the Exchequer and the Lord President of the Council.

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ERFORMANCE

6. The Cabinet considered a memorandum by the Lord President of the Council (C(81) 2) on the introduction of performance-related pay for civil servants.

THE LORD PRESIDENT OF THE COUNCIL said that, following discussion in the Ministerial Committee on Economic Strategy, he had circulated proposals for the introduction of a performance-related pay scheme for the Under Secretary grade from 1 April 1981. A majority of Ministers had considered that, rather than deal with that grade alone, it would be better to consider launching a wider scheme at lower levels. He accordingly invited the Cabinet to agree that he should now arrange for further interdepartmental work on proposals, for implementation from April 1982, covering the grades of Principal, Senior Principal and Assistant Secretary and the equivalent specialist grades.

In discussion it was generally agreed that, while it was desirable to reward merit in the Civil Service, the proposed performance-related pay scheme should not be pursued. To run such a scheme, and to assure the civil servants concerned that it was being operated fairly, would mean the setting up of elaborate new bureaucratic machinery. This would be likely to add to staff numbers and would be wasteful of the time of senior managers. A much better approach would be to reward outstanding merit by accelerated promotion and to facilitate the early departure from the Civil Service of those who were not pulling their weight. It was recognised that pension and gratuity arrangements could be an impediment to such early retirement, but the possibilities should be examined further.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the possibility of introducing a performance-related pay scheme, on the lines set out in the Lord President of the Council's memorandum (C(81) 2), should not be pursued further. Instead the Lord President of the Council should consider the proposal that measures should be introduced to provide for rewarding merit by accelerated promotion and, at the same time, for better arrangements for the early retirement of officials who were no longer fully effective.

The Cabinet -

1. Agreed that the proposals in C(81) 2 for introducing a pay and performance scheme for Civil Service grades should not be pursued further.

2. Invited the Lord President of the Council to arrange for examination of the possibilities of rewarding merit by accelerated promotion and, at the same time, of providing for early retirement of officials who were no longer fully effective, and to report.

EMUNERATION F JUNIOR INISTERS IN HE HOUSE F LORDS

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7. The Cabinet considered a memorandum by the Lord President of the Council (C(81) 4) about the remuneration of junior Ministers in the House of Lords.

THE LORD PRESIDENT OF THE COUNCIL said that at their earlier discussion the Cabinet had agreed that the remuneration of junior Ministers in the House of Lords should be increased, had concluded that any such increase should be paid by means of a tax-free allowance, and had invited him to consider the best way of introducing such an allowance. The table attached to C(81) 4 showed that, because of the Parliamentary salary and allowances available to Commons Ministers, junior Ministers in the Lords were subject to a very considerable disadvantage. A Minister of State in the House of Commons could receive up to £37,592 a year, while his counterpart in the Lords received a maximum of £18,284. This disparity could not be justified entirely in terms of the Parliamentary responsibilities, burdens and expenses of Commons Ministers, and it created real financial hardship for many junior Lords Ministers. He considered that it would be reasonable to increase the remuneration of junior Lords Ministers, including Lords Whips, and other office holders, including the Leader of the Opposition and the Opposition Chief Whip in the House of Lords, by £3,500 a year. This would be about half the amount of the Parliamentary salary payable to Commons Ministers. It would, however, be difficult to pay this as an allowance. It was not possible to identify specific expenses incurred by junior Lords Ministers which should be reimbursed and would therefore justify the payment of a tax-free allowance on the scale envisaged; and the payment of a responsibility allowance would raise questions about the special responsibilities and burdens to be rewarded. He had come to the conclusion that the most straightforward way to improve the position of junior Lords Ministers would be to give them a different and higher rate of pay from junior Ministers in the Commons; the pay of Lords and Commons Cabinet Ministers should remain the same. He believed that the proposed increases could be readily defended by reference to the disproportionate size of the present differential between the remuneration of junior Ministers in the Commons and the Lords, and the difficulty of recruitment and retention of Peers of adequate calibre to serve as junior Ministers. In presenting the proposals to Parliament, the Government could indicate that the cost of any additional remuneration given to junior Lords Ministers would be contained within the overall increase in Ministerial salaries for the current year. Legislation would be required to implement these proposals. He recommended that the appropriate powers should be taken in the same Bill as that already planned on Parliamentary pensions. If that were agreed, he proposed that the Bill should also remedy the existing lack of power to pay Ministerial salary increases retrospectively. He invited the Cabinet to approve the proposals set out in C(81) 4.

In discussion it was reaffirmed that there was a strong case for an increase of the order proposed in the remuneration of junior Lords Ministers. It was, however, argued that it would be politically and presentationally unacceptable to provide for an increase of some 25 per cent in the salaries of Government Ministers at a time when efforts were being made to hold public sector pay settlements down to about 6 per cent and when the Government still faced a debate in the House of Commons arising from their refusal to implement in full the recommendation by the Top Salaries Review Body for increases in the pay and pensions of Members of Parliament. Adding the proposals to the forthcoming Bill on Parliamentary pensions would turn what should otherwise be a non-controversial Bill into a contentious one, would throw the increases into sharper relief, and might be used by the Opposition as part of their attack on the continued existence of the House of Lords. The inclusion of powers to pay the increases retrospectively would be particularly contentious and would set an unfortunate precedent for future pay and pension negotiations.

In further discussion it was argued that Ministers should receive the same Ministerial salaries to whichever House they belonged. The additional allowances received by Ministers in the Commons related to their membership of that House, and what was needed was a fresh examination of the allowances that might be appropriate for a Minister who was a member of the House of Lords. At one time Ministers in the Lords had been entitled to draw part of the attendance allowance payable to other members of the House of Lords, but they had lost this entitlement when they had been given the non-taxable secretarial allowance. If they were able to draw the attendance allowance in full, perhaps combined with the introduction of a subsistence allowance and of travel allowances for their spouses, such as were already available to Ministers in the House of Commons, there would be a substantial improvement in their total remuneration. The tax implications of paying such allowances to Ministers in the House of Lords would, however, need further study. It was particularly important that it should not lead to the whole system of allowances in the House of Lords being made subject to tax. The particular circumstances in which junior Ministers in the House of Lords had to work seemed to justify special tax arrangements to take account of their need to retain a second home if they did not live in London when appointed. These might, if necessary, be introduced either by means of an administrative concession by the Inland Revenue, or by means of legislation in the next Finance Bill.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet reaffirmed the need to improve the remuneration of junior Ministers in the House of Lords, but remained of the opinion that it would be unacceptable in present economic circumstances to pay increases of the order proposed to junior Ministers and other office holders in the

House of Lords by way of an increase in salary. They also accepted the arguments put forward in discussion against including any provisions on the remuneration of junior Lords Ministers in the forthcoming Bill on Parliamentary pensions. They agreed, however, that it would be reasonable and defensible for junior Lords Ministers to be eligible for the attendance allowances available to other members of the House of Lords, and that consideration should be given to the possibility of permitting them to claim subsistence allowances and the travelling allowance for spouses already available to Ministers in the House of Commons. It would be preferable that the attendance allowance should be non-taxable to Ministers in the House of Lords as well as to other Peers; it might be possible to achieve this by means of an Inland Revenue concession or by legislation in the Finance Bill. If that was not feasible, the allowance could be paid as taxable provided that that could be done without calling in question the tax immunity of allowances for other Peers. Consideration should also be given to the question whether the payment of attendance and other allowances to junior Ministers and office holders in the House of Lords could be effected by Resolution of both Houses of Parliament or would require legislation. The Lord President of the Council should now examine the implications of this approach, in consultation with the Chancellor of the Exchequer, and should make a further report to the Cabinet setting out the increased remuneration which would become available, the tax position, and the method of implementation. In the light of this further report, the Cabinet would decide on what action needed to be taken, including, if necessary, the inclusion of any necessary legislation in the 1980 Finance Bill.

The Cabinet -

Invited the Lord President of the Council, in consultation with the Chancellor of the Exchequer, to consider what further allowances might be made available to junior Ministers and other office holders in the House of Lords, and to report further to the Cabinet as indicated in the Prime Minister's summing up.

Cabinet Office

16 January 1981

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CABINET

LIMITED CIRCULATION ANNEX

CC(81) 2nd Conclusions, Minute 4

Thursday 15 January 1981 at 10.30 am

1981-82 CASH LIMITS AND VOTES

Price Factors

Previous Reference: CC(80) 39th Conclusions, Minute 3

THE CHANCELLOR OF THE EXCHEQUER said that the Ministerial Committee on Economic Strategy had decided on 14 January that the pay factor in the 1981-82 cash limits for the National Health Service (NHS) and the Civil Service should be 7 per cent rather than 6 per cent as in the cash limits for the Rate Support Grant. He now recommended that the price factor in the NHS and Civil Service cash limits should be 10 per cent rather than the 11 per cent which he had announced as applying generally following the Cabinet's decision on 6 November. He did not however propose that the price factor should be amended for cash limits, such as the Rate Support Grant, which had already been promulgated. A reduction to 10 per cent in the price factor for the other cash limits was justified by developments since November which had led the Treasury, and independent forecasters, to take a more optimistic view of inflation. The last published figures for the Retail Price Index (RPI) showed increases at an annual rate of 8½ per cent over the last six months, and slightly below that over the last three months. He did not expect the figure to be as good as that between the average of 1980-81 and the average of 1981-82, but on present prospects he judged that the forecasts which he would publish at the time of the Budget were likely to show an increase of 1 per cent less than he had assumed in November. The use of a 7 per cent pay factor in 1981-82 would cost some £120 million for the Civil Service and the NHS together, and the savings from reducing the price factor by 1 per cent would partly offset this. If both the cash limit factors were changed in this way, the Government could still point out to the local authorities and others that central government and the NHS were subject to broadly the same financial disciplines as those applying to the local authorities.

In discussion the following points were made:-

a. The price factor of 11 per cent had already been announced. To reduce it now, on the basis of uncertain forecasts, would be contrary to the principle that once a cash limit was set it should not be amended, either up or down, to take account of changing circumstances, and would damage the integrity of the cash limits system.

b. It was highly unlikely that the pay settlements for the NHS groups would be less than $7\frac{1}{2}$ per cent, and it would therefore be necessary to find savings to accommodate the costs within the pay provision for 7 per cent. These savings would be on top of the £25 million which it had been agreed should be found in 1981-82 from improved efficiency in the NHS. A reduction in the price factor by 1 per cent would add further to the pressure on the NHS cash limit and lead to more volume cuts on hospital services, which could only fall upon the non-pay elements in NHS expenditure. These would be contrary to the Government's undertaking to maintain these services, and would moreover be damaging to private industry which would lose, for example, maintenance contracts and equipment orders.

c. If in the event a price factor of 10 per cent turned out to be optimistic, this would cause serious difficulties for those cash limits where non-pay items were significant - for example, the prison service and the cash limits on departmental administration costs which were already vulnerable to relatively high increases in postal, telephone and travel charges.

d. Although 11 per cent had already been announced as the price factor for inclusion in all cash limits, it would be wrong to persist with it for those limits yet to be set when the up to date forecasts justified a more optimistic view of the prospects for inflation. The Government would be criticised for unnecessarily relaxing its control of public sector expenditure. Failure to control the Public Sector Borrowing Requirement would be highly damaging to private sector industry who were looking for lower interest rates and for Government help in reducing the cost burdens on them.

e. The Government were committed to uprating pensions in November 1981 by one percentage point less than the assumed rate of inflation. If the assessment at the time of the Budget was for a 10 per cent rate of inflation the uprating factor for pensions would be 9 per cent. In these circumstances it would be very difficult to hold at the same time to the proposition that the prices factor for inflation in public expenditure should be held at 11 per cent.

THE PRIME MINISTER, summing up the discussion, said that on balance the Cabinet agreed that the price factor should be 10 per cent for those cash limits yet to be promulgated. The factor of 11 per cent would stand for the cash limits which had already been announced or on which commitments had already been based. If, contrary to his expectations, the Chancellor of the Exchequer later took a more pessimistic view of the path of inflation the Cabinet would consider the implications of this further. If possible neither the 7 per cent pay factor nor the 10 per cent price factor should be announced before the end of January, although the Cabinet noted that there was a risk that the figures would leak in the course of preparation of the Estimates for publication with the Budget. The Chancellor of the Exchequer should consider this problem, and the timing of the announcement, further with those Ministers concerned with current pay negotiations in the public sector.

The Cabinet -

1. Agreed that the price factor in the 1981-82 cash limits yet to be announced should be 10 per cent.

2. Invited the Chancellor of the Exchequer, in consultation with the Chancellor of the Duchy of Lancaster and Paymaster General, the Lord President of the Council and the Secretaries of State for Employment, Environment, Social Services and Education and Science, to consider further the timing of the public announcement of the 7 per cent pay factor and the 10 per cent price factor for certain of the 1981-82 cash limits.

Cabinet Office

16th January 1981