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CC(81) 3rd
Conclusions

COPY NO 78

# CABINET

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

THURSDAY 22 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 Lord Hailsham
Lord Chancellor

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

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

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

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

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

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 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 Norman Fowler MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Baroness Young
Minister of State, Department of Education and Science (Item 5)

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 2 and 3)
Mr P Le Cheminant (Item 4)
Mr R L Wade-Gery (Items 2 and 3)
Mr W N Hyde (Item 5)
Mr D J L Moore (Item 4)
Mr L J Harris (Item 1)
Mr J W M Rogers (Item 5)
Mr R M Whalley (Item 1)

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PARLIAMENTARY AFFAIRS

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

Legislative Programme 1980/81

Previous Reference: CC(80) 37th Conclusions, Minute 4

THE HOME SECRETARY said that at a meeting earlier that week The Queen's Speeches and Future Legislation Committee had endorsed the view of the Chancellor of the Duchy of Lancaster and Paymaster General and the other business managers that there were likely to be serious difficulties about fitting the legislative programme for 1980/81 into the available Parliamentary time, particularly if a major spillover of the kind experienced at the end of the last Session were to be avoided in the autumn of 1981. The Committee had been grateful to the Secretary of State for Health and Social Services for agreeing to drop the Health and Social Services Bill, and had left the Chancellor of the Duchy of Lancaster to discuss with the Ministers concerned the possibility of shortening the Companies Bill so as to concentrate on those parts of it which offered significant staff savings. The majority of the Committee also supported the Chancellor of the Duchy of Lancaster's proposal to drop the Petroleum and Continental Shelf Bill from the current programme. For mainly political reasons, the Secretary of State for Energy had been unable to accept this conclusion. The Cabinet were now faced with a choice between abandoning the Bill for the present Session, and accepting that this would lead to some criticism from its own supporters as well as giving the Opposition a chance to make political capital, or running the risk of another long spillover, which would also be a source of political difficulty.

THE SECRETARY OF STATE FOR ENERGY said that policy decisions on the Petroleum and Continental Shelf Bill had been delayed from June to September 1980 because of the need to take account of strong representations from its own supporters about the proposed sale of shares in the equity of the British National Oil Corporation (BNOC). Thereafter, the preparation of the Bill had proceeded to the expected timetable. The Bill had been announced in the Queen's Speeches on the opening of both the 1979/1980 and the 1980/1981 Sessions of Parliament, and both he and the Prime Minister were publicly committed to the introduction of the Bill this Session. If there were any further delay in passing the legislation, an opportunity to offer shares in BNOC in favourable market conditions might not occur in the lifetime of the present Parliament. The introduction of private capital into BNOC was a central part of the Government's economic and industrial strategy, and any loss of momentum would be taken by at least some of the Government's own supporters as a failure of political will. Although the Bill would undoubtedly be controversial, there was a strong argument in Parliamentary terms for early introduction while the Opposition were still in a state of some disarray.

THE CHANCELLOR OF THE DUCHY OF LANCASTER AND PAYMASTER GENERAL said that after discussion with the responsible Ministers, he had come to the conclusion that shortening the Companies Bill on the lines suggested by The Queen's Speeches and Future Legislation Committee would not lead to significant savings of time on the floor of the House of Commons, and that it would be best to proceed with the Bill as at present envisaged. Despite the agreement to drop the Health and Social Services Bill, the legislative programme was still far too congested, with many major Bills being brought forward much later than originally expected. It was already clear that a substantial spillover in the autumn would be necessary, and the main objective of the business managers now was to ensure that this did not become so extended that the 1981/82 Session had to start as late as the present one. Any attempt to push through the present excessive weight of legislation would inevitably lead to confusion and obstruction, and would expose the Government to severe political criticism from all sides. He was not clear that introducing the Petroleum and Continental Shelf Bill as a matter of priority at the beginning of the next Session would in practice materially delay the offer of shares in BNOC. He understood the political objections to postponing the Bill; but against those the Cabinet had to set the broader political interests of good Parliamentary management, and he remained convinced that the orderly conduct of Parliamentary business demanded that the Bill should be dropped from the programme for the present Session.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet reluctantly accepted the view of the business managers that the pressures on the legislative programme meant that it would probably be undesirable to seek to enact the Petroleum and Continental Shelf Bill during the present Session, and that there were political and Parliamentary objections to introducing the Bill with the intention of taking it only as far as Second Reading. It would, however, be difficult to explain to the Government's supporters why time could not be found for a Bill which had twice been mentioned in The Queen's Speeches, and which formed the subject of a firm public commitment. In order to allay any fears that the Government might be weakening in its resolve to introduce private capital into BNOC, the Cabinet considered that the Bill should be published and introduced as soon as possible. At the same time, it should be made clear to the Government's supporters that if for reasons of business management it did not prove possible to proceed further with the Bill this Session, it would be introduced as a matter of priority at the beginning of the 1981-82 Session. This would leave open the possibility of enacting the Bill in the current Session if Parliamentary time unexpectedly became available. The Chancellor of the Duchy of Lancaster and Paymaster General should discuss with the Secretary of State for Energy the most appropriate way of making this decision known.

The Cabinet -

1. Agreed that, subject to the approval of Legislation Committee, the Petroleum and Continental Shelf Bill should be published and introduced into the House of Commons as soon as possible, with the intention of making further progress in the current Session only if sufficient Parliamentary time could be made available.

2. Invited the Chancellor of the Duchy of Lancaster and Paymaster General, in consultation with the Secretary of State for Energy, to consider the most appropriate way of making this decision known, as indicated in the Prime Minister's summing up.

Select Committee on Social Services

THE PRIME MINISTER said that the Cabinet noted with concern that, because of the absence of the Conservative Members of the Select Committee on Social Services at the relevant time, the report of the Select Committee which was due to be published shortly had been drafted by Opposition members, and consequently amounted to an unqualified attack on the underlying principles of the forthcoming Social Security Bill. The Chief Whip should urgently consider with the Chairman of the 1922 Committee the best way of ensuring that in future there was no unnecessary loss of the Government's majority on departmental or other Select Committees.

The Cabinet -

3. Invited the Chief Whip to discuss with the Chairman of the 1922 Committee the need to maintain an effective Government majority on Select Committees, as indicated in the Prime Minister's summing up.

FOREIGN AFFAIRS

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Iran

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

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that, now that the United States hostages in Iran had been released, he was seeking to take advantage of those in Iran who might now be in a more conciliatory frame of mind to press for the freeing of the four British subjects who were still detained there without trial and whose plight had been highlighted by the hostages' release. The Minister of State, Foreign and Commonwealth Office (Mr Hurd) had spoken to the Iranian Charge d'Affaires on 21 January; the Swedish Ambassador in Tehran, who was in charge of British interests there, was in touch with the Iranian authorities; assistance was being sought from the Algerian Government, in view of their constructive role in the agreement on the United States hostages; the Archbishop of Canterbury's special emissary would probably be returning to Tehran; and at their Brussels meeting on 20 January the Foreign Ministers of the European Community had supported Britain's call for the release of the detainees. These efforts would be less likely to succeed if the Americans were now to go back on the terms of the agreement over the hostages and he would arrange for this danger, as well as the danger of the United States appearing not merely to condone but actually to perpetrate breaches of international agreements, to be brought to the United States Government's attention. British sanctions against Iran were now being lifted, since their imposition had been specifically linked to the detention of the United States hostages. The Attorney General's view on the exact legal basis for that linkage was being sought. Sanctions had in any case proved ineffective; British trade with Iran had actually increased in 1980. But the revocation of the sanctions Orders would leave the Government free, if they wished, to continue to withhold export licences for arms supplies to Iran. In his view public opinion would expect that to be done while British subjects remained unjustifiably imprisoned, but he was aware that not all his colleagues shared this view, and he would therefore be putting forward a paper on the subject for discussion in the Defence and Oversea Policy Committee. Non-committal answers would meanwhile continue to be given to public questions on the subject.

Libya/Chad

Previous Reference: CC(81) 2nd Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that Libya's intervention in Chad had provoked a serious crisis. The reaction of neighbouring countries had been hostile and apprehensive. The Nigerians had taken the lead in securing condemnation of Libya at a meeting of the Organisation of African Unity. President Sadat of Egypt had told him, at their recent meeting, that Egypt would not tolerate the Libyans' action, by which their leader, Colonel Qadhafi, had in effect signed his own death warrant. The French Government had also issued a strong statement. But it was not clear what actual countermeasures would actually be taken.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Previous Reference: CC(80) 2nd Conclusions, Minute 3

3. THE FOREIGN AND COMMONWEALTH SECRETARY reported that, at its meeting on 21 January, the Commission had decided that Mr Dalsager, the new Danish Commissioner, should be given the Agriculture portfolio. This appointment had the support of Her Majesty's Government.

The Cabinet -

Took note.

1981-82 CASH LIMITS AND VOTES

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Pay and Prices Factors

Previous Reference: CC(81) 2nd Conclusions, Minute 4

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(81) 7) on pay and price factors in the 1981-82 cash limits. The Cabinet's discussion is recorded separately.

The Cabinet -

1. Agreed that the Estimates and cash limits for 1981-82 should incorporate a pay factor of 6 per cent and a price factor of 11 per cent.

2. Invited the Secretary of State for Social Services to discuss with the Chancellor of the Exchequer and the Lord President of the Council the advice to be given to management sides for the handling of pay negotiations in the National Health Service.

3. Took note that, if pay claims in the National Health Service and the Civil Service could not be settled within the framework of the cash limits, after allowing for flexibility as between pay and non-pay elements of expenditure and for the possibilities of reducing numbers, the Ministers concerned should report back to the Cabinet with a view to further consideration of the course to be adopted.

4. Agreed that the Chancellor of the Exchequer need not formally announce the pay and price factors now approved, but should give instructions for Estimates to be prepared on the basis of those factors.

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5. The Cabinet considered a memorandum by the Secretary of State for Education and Science (C(81) 6) on the future of the Inner London Education Authority.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he had been invited by the Cabinet on 8 January to give urgent consideration with the Home Secretary, the Chancellor of the Exchequer and the Secretary of State for the Environment to ways in which controls on the Inner London Education Authority (ILEA) might be strengthened and to other changes which might be made in the structure and financing of the education service in London. The Ministers concerned had met twice under the chairmanship of the Chancellor of the Exchequer; the Minister of State, Department of Industry (Mr Baker) had also been present. He had also seen the Leader of the Greater London Council (GLC) and Professor David Smith, the Leader of the Conservative group on ILEA. They had reviewed the options put forward to deal with ILEA's shortcomings. None of those concerned favoured the proposal originally put forward by Lord Marshall or its later variant for members of ILEA to be nominated by the boroughs, which was likely to worsen the position of the minority party and would not be welcomed by the Government's supporters on ILEA. Professor Smith now favoured a directly elected authority. The turn-out at elections for such an authority could not be predicted and pressure groups, including those seeking increases in expenditure, might well be able to exercise excessive influence on the outcome. A directly elected single service authority would in any event have little or no incentive to economy. Neither he nor his colleagues would favour a directly elected authority. To grant individual boroughs the right to secede from ILEA was not compatible with maintaining a unitary authority; it was simply one way of achieving break-up. If Westminster and the City of London seceded and the loss of income to the rest of ILEA had, under block grant, to be made up by the rest of the country, the result would more than counterbalance the shift of grant away from London to the shire counties in the last Rate Support Grant settlement. The alternative, which the Minister of State, Department of Industry (Mr Baker) accepted, would be to make fundamental changes in the London rate equalisation arrangements so that Westminster and the City, though seceding from ILEA, would continue to contribute to the cost of education in other inner London boroughs. Their ratepayers would not then benefit financially from secession, though they would be able to provide and control their own schools and further education. There were strong educational arguments against break-up, because of the small school population in some of the boroughs and the need for some services to continue to be provided for inner London as a whole. There were also strong political arguments. Break-up would not be welcomed by many of the Government's supporters in inner London, particularly those representing inner London constituencies. Public opinion appeared at present overwhelmingly against it, and for the Government to appear to be supporting it would have a damaging effect on the outcome of the GLC elections. In his view, and that of most of the colleagues whom he had consulted, there was no alternative to a unitary authority. While there was widespread concern about the reports of ILEA's provisional spending plans for 1981-82, a substantial part of the proposed 40 per cent increase in the precept was attributable to the effects of the Rate Support Grant settlement and the high level of past expenditure. It would not be possible to legislate in time to improve financial controls for 1981-82. Looking ahead, it was clear that the only way in which absolute control could be achieved would be by means of a direct limit on expenditure or rate income. This would be a major change in the constitutional relationship between central and local government. Such powers could not be taken "in terrorem", but would probably have to be exercised; this might well lead to confrontation of the Clay Cross kind. It was, however, possible that indirect means such as a differential precept more closely related to population would significantly improve financial control. The Secretary of State for the Environment would be circulating shortly a paper on the measures that might be taken in respect of authorities, including ILEA, if they continued to overspend from 1982-83 onwards. It would, however, be desirable for the Government to announce its conclusions on the review of ILEA as soon as possible. Having discussed the matter with the Leader of the GLC, he was now inclined to favour publication of a Green or White Paper which would discuss the various options, making it clear that the Government shared the views of those who favoured retention of a unitary authority but leaving scope for further consultation. It would be desirable for this paper to be published before 10 February, when ILEA was due to approve its budget and its precept for next year, and for the Government to make clear that it was considering possible ways of controlling overspending.

In discussion, there was general agreement that ILEA's record as an education authority was poor. Her Majesty's Inspectorate's report made it clear that there was continuing cause for concern, particularly about secondary education. Here the publication of information about individual schools might be of assistance, and there were powerful arguments against the general educational policies of ILEA which the Government might be able to deploy: nevertheless the risk was that the Government would be criticised both for the poor results that ILEA had achieved and for their financial irresponsibility. The Rate Support Grant settlement had taken account of the high level of past expenditure by ILEA, and it was unrealistic to think that dramatic reductions could be made in a single year. ILEA, however, were now proposing to increase their expenditure. Against that background there were good arguments on democratic grounds for allowing individual boroughs to secede and thus to control their own schools even if their ratepayers still had to contribute to the cost of education elsewhere in Inner London through a modified London rate equalisation scheme. The present arrangements for the transfer of housing functions to the boroughs provided a model under which changes could be made subject to Ministerial and Parliamentary approval and a rate equalisation scheme could be devised which placed a limit on the contribution of any one borough. On the other hand, the possibility of secession would lead to a prolonged period of uncertainty. Public opinion was at present opposed to change, and the Government's supporters in Inner London now favoured retention of a unitary authority. It would be politically damaging if changes were represented as a threat to educational standards.

In further discussion, the following points were made:-

a. If there was to be no change in the structure of ILEA, it was the more important to improve its financial discipline.

b. Ministers would need to give further consideration to the control of expenditure by certain profligate local authorities if block grant failed to have the desired effect. Such authorities placed excessive burdens on industry and small businesses, and any proposals for differential precepting might make such burdens even heavier.

c. The existence of the Government's review was known, and there was Parliamentary pressure for an early announcement. The leader of the GLC favoured this.

d. It would be difficult to draft a satisfactory Green or White Paper, with extended discussion of the options that had been considered and rejected, until the Government could announce proposals about the control of local authority expenditure and the future of the rating system. It might therefore be preferable for the Secretary of State for Education and Science to make an oral statement in the House of Commons.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that ILEA's performance as an education authority gave continuing cause for concern, but accepted that all the options for changes in its constitution gave rise to considerable difficulties and would involve difficult and controversial legislation. On balance they accepted that a single authority would have to be retained, at least until there were substantial changes in methods of financial control on profligate local authorities and in the rating system. The Secretary of State for the Environment should bring forward proposals on these matters for collective consideration as soon as practicable. The Cabinet agreed that there was nothing to be gained at this stage from the issue of either a Green or a White Paper, and the

Secretary of State for Education and Science should therefore make an oral statement in the House of Commons as soon as possible. The statement might be to the general effect that for the time being the Government accepted the case for continuing with a unitary education authority for Inner London, but was looking at the methods and arrangements for financial control of the authority. She would wish to give further consideration to the form of that statement and would consult the Leader of the GLC on the handling and timing of the announcement. She would then arrange for the outcome to be reported to the Cabinet.

The Cabinet -

1. Invited the Secretary of State for Education and Science, in consultation with the Chancellor of the Exchequer and the Secretary of State for the Environment, to prepare the draft of an oral statement announcing the outcome of the Government's review of ILEA on the lines indicated in the Prime Minister's summing up of their discussion.

2. Noted that the Prime Minister would then consider the draft statement with the Ministers concerned and would consult the Leader of the GLC about the handling and timing of the statement.

3. Noted that the Prime Minister would arrange for the outcome of the process of consultation to be reported to the Cabinet.

Cabinet Office

22 January 1981

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CABINET

LIMITED CIRCULATION ANNEX

CC(81) 3rd Conclusions, Minute 4

Thursday 22 January 1981 at 10.30 am

1981-82 CASH LIMITS AND VOTES

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Pay and Price Factors

Previous Reference: CC(81) 2nd Conclusions, Minute 4

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(81) 7) on the timing of the announcement of pay and price factors in the 1981-82 cash limits.

THE CHANCELLOR OF THE EXCHEQUER said that, at their meeting on 15 January, the Cabinet had asked him to discuss with those Ministers concerned with current public sector pay negotiations the timing of the announcement of their decision that the pay and price factors should be 7 and 10 per cent respectively for the 1981-82 cash limits yet to be announced, (rather than 6 and 11 per cent as in the Rate Support Grant cash limit already promulgated). The discussion of this question showed that there was a difference of opinion on the role of cash limits in relation to pay, which could be resolved only by further discussion in the Cabinet. The Lord President of the Council, supported by the Secretary of State for Employment, wished not to announce a new pay factor for the present, so that he could open negotiations on Civil Service pay with an offer of 6 per cent, and in due course to set the cash limit to accommodate a pay settlement at a higher figure than 6 per cent if necessary. On this approach the cash limit would not be announced until February, after negotiations on Civil Service pay and after the special conferences of Civil Service unions planned for 28 and 29 January. In the view of the Chancellor of the Exchequer there were strong arguments against this course. To set cash limits in response to the outcome of negotiations, rather than to use them to determine expenditure, would no doubt give greater freedom of manoeuvre to those who had to negotiate pay settlements, but it would be a radical departure from existing policy and would destroy the credibility of the cash limit system. To amend the cash limits at a later stage would be construed as weakness in response to union pressure and would necessitate the presentation of Supplementary Estimates to Parliament. It would be strongly criticised by private sector and local authority employers. He recommended, therefore, that he should announce on Monday 26 January that the pay and price factors for the cash limits yet to be promulgated would be 7 per cent and 10 per cent respectively. These cash limits could be presented as providing for the settlement of pay in the Civil Service and the National Health Service within broadly the same financial disciplines as the 6 and 11 per cent factors implied for local government. This would enable preparation of the Estimates to go ahead without risk of leaks, and the Secretary of State for Social Services could authorise the management side of the National Health Service (NHS), who would be meeting on 28 January, to negotiate on this basis.

THE SECRETARY OF STATE FOR SOCIAL SERVICES supported the Chancellor of the Exchequer's proposal. He said that, if the management side of the NHS were authorised to negotiate on the basis of pay and price factors of 7 and 10 per cent, there was a reasonable chance that they could secure a pay settlement not exceeding 7½ per cent. If, however, they were forced to open negotiations on the basis of a pay factor of 6 per cent, the union representatives were likely to walk out of the negotiations. Industrial action would probably follow and the result could well be settlements of higher than 7½ per cent.

THE LORD PRESIDENT OF THE COUNCIL said that there would be tactical advantage in opening the negotiations with the Civil Service unions at 6 per cent and then being able to move, if necessary, to 7 or 7½ per cent. The union leaders could then say that they had been able to negotiate on the offer, and the risk of industrial action in the Civil Service would be reduced. On this approach the factors for the Civil Service could be announced by mid-February.

In discussion the following points were made:

a. To announce pay and price factors of 7 and 10 per cent on 26 January could upset other public sector pay negotiations. If the Government were to appear to be relaxing its approach to pay in the NHS and the Civil Service, there was a risk that, contrary to present expectations, the local authority manuals might not endorse on 27 January the 7½ per cent offer made to them. The water workers would be encouraged to push for more concessions. The chances of getting the local authorities to assume 6 per cent rather than 7 per cent in making their rating decisions would be reduced. This pointed to deferring the announcement of the factors for the NHS and for the Civil Service for as long as possible.

b. Given the need to avoid prejudicing these other negotiations, there was a case for reverting to the previous assumptions of 6 and 11 per cent for the pay and price factors. These were the factors which the public were expecting to be set and there would be no need to make any further announcement for the time being. There was a chance that settlements could be negotiated within cash limits set on this basis, since (quite apart from the scope there might be for compensating for higher pay increases by reducing numbers) 11 per cent for prices was now judged to give some headroom. The apparent illogicality of reducing the price factor to 10 per cent, on account of a more optimistic view of inflation, but increasing the provision for pay to 7 per cent would be avoided. The disadvantage was that it could prove impossible to negotiate settlements within these factors either for the NHS or the Civil Service, and the cash limits would then have to be re-opened and Supplementary Estimates presented. Although an 11 per cent price factor would give some headroom, it would not be sufficient for the NHS where 70 per cent of the costs were on pay.

c. The cash limit system was always intended to be a strict discipline but it should not be allowed to become an absolute straitjacket. It was not intended that a cash limit should be absolutely invariable in all circumstances; the possibility of revision must be kept open, but the system should and did ensure that cash limits once set could not be revised save in exceptional circumstances and for compelling reasons.

THE PRIME MINISTER, summing up the discussion, said that in view of the disadvantages, brought out in their further discussion, of going ahead with an announcement of pay and price factors of 7 and 10 per cent the Cabinet agreed on balance that the factors for the cash limits and Estimates for 1981-82 should be 6 per cent for pay and 11 per cent for prices. On this basis there was no need for an announcement at this stage. If it proved impossible to negotiate the settlements for the NHS or for the Civil Service within cash limits incorporating these factors, the Secretary of State for Social Services and the Lord President of the Council would have to put further proposals to Cabinet. In the meantime the Secretary of State for Social Services should consider with the Chancellor of the Exchequer and the Lord President of the Council what advice he should give to the management side of the NHS before their meeting on 28 January.

The Cabinet -

1. Agreed that the Estimates and cash limits for 1981-82 should incorporate a pay factor of 6 per cent and a price factor of 11 per cent.

2. Invited the Secretary of State for Social Services to discuss with the Chancellor of the Exchequer and the Lord President of the Council the advice to be given to management side for the handling of pay negotiations in the National Health Service.

3. Took note that, if pay claims in the National Health Service and the Civil Service could not be settled within the framework of the cash limits, after allowing for flexibility as between pay and non-pay elements of expenditure and for the possibilities of reducing numbers, the Ministers concerned should report back to the Cabinet with a view to further consideration of the course to be adopted.

4. Agreed that the Chancellor of the Exchequer need not formally announce the pay and price factors now approved, but should give instructions for Estimates to be prepared on the basis of those factors.

Cabinet Office

23 January 1981