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CC(85) 15th Conclusions

COPY NO 74

CABINET

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

THURSDAY 2 MAY 1985

at 9.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Department

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

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 Patrick Jenkin MP
Secretary of State for the Environment

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Michael Jopling MP
Minister for Agriculture, Fisheries and Food

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

The Rt Hon Earl of Gowrie
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Young of Graffham
Minister without Portfolio

SECRET

The Rt Hon Sir Michael Havers QC MP
Attorney General (Items 5 and 6)

Mr John Gummer MP
Paymaster General

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Mr Antony Newton MP
Minister of State, Department of Health and Social Security (Item 7)

SECRETARIAT

Sir Robert Armstrong	
Mr P L Gregson	(Items 4, 5 and 7)
Mr D F Williamson	(Items 2 and 3)
Mr C L G Mallaby	(Items 2 and 3)
Mr C J S Brearley	(Items 1, 6 and 7)
Mr A J Wiggins	(Items 4 and 5)
Mr R Watson	(Items 1 and 6)

C O N T E N T S

PARLIAMENTARY AFFAIRS

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

House of Lords

Previous Reference: CC(85) 13th Conclusions, Minute 1

THE PRIME MINISTER said that Cabinet would wish to congratulate the Lord President of the Council on the successful conclusion of the first two days of the Committee Stage of the Local Government Bill in the House of Lords. The defeat of the new clauses which would have replaced the Greater London Council and the Metropolitan County Councils with other elected bodies was a significant victory for the Government.

THE LORD PRESIDENT OF THE COUNCIL said that much had depended on good speeches by the Chancellor of the Duchy of Lancaster and the Minister of State, Department of the Environment, and on the great efforts made by the Whips.

The Cabinet -

Took note.

FOREIGN AFFAIRS

Lebanon

Previous Reference: CC(85) 14th Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Lebanon had become even more confused. Confidence in the central Government was declining further. It had no authority over the warring factions. The Lebanese armed forces had not intervened to stop the fighting. Christian refugees were reported to have fled from the villages around Sidon, many of them south to the border area still held by Israel. The situation in Lebanon was thus very unsatisfactory, and it was unlikely to improve soon.

Anglo-Soviet Relations

Previous Reference: CC(85) 14th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Soviet authorities had not expelled any more members of the British Embassy in Moscow, other than the three already expelled. It was too soon to conclude that they would not do so. But, as time passed, this seemed increasingly likely. The Soviet Union had cancelled or postponed one or two Anglo-Soviet contacts; in particular they had postponed a visit, which had been due to take place from 26 April to 3 May, by the Soviet Minister of the Chemical Industry, Mr Vladimir Listov. It was to be hoped that this would be reinstated. The Foreign and Commonwealth Secretary said that he would be seeing the Soviet Foreign Minister, Mr Andrei Gromyko, in Vienna on 15 May; this might help to bring Anglo-Soviet relations back towards normality.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Finance

Previous Reference: CC(85) 14th Conclusions, Minute 3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that during the Council of Ministers (Foreign Affairs) on 29 April the European Parliament had been consulted on the revised Own Resources Decision. The Chairman of the Council had maintained on all essential points the existing satisfactory text. The representatives of the European Parliament had not contested strongly the inclusion of the United Kingdom's 1984 1,000 million ecu (about £580 million) abatement on the revenue side. A minor amendment of the text on a separate point was agreed, subject to a German reserve. It was expected that this reserve would be withdrawn shortly. The Community's draft 1985 budget would be before the European Parliament the following week. It was possible that the European Parliament might switch the 1,000 million ecu abatement to the expenditure side of the budget. He doubted, however, whether they would be able to sustain this in the next round of discussions.

Agriculture

Previous Reference: CC(85) 14th Conclusions, Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Council of Ministers (Agriculture) would be meeting again that day in order to make a further attempt to agree on the 1985-86 agricultural support prices. The Federal Republic of Germany had not changed its opposition to any reduction in cereal support prices. The Commission, however, appeared to be holding more firmly to their own proposals. Although no other member state supported the United Kingdom in arguing for a cut in cereal prices greater than that proposed by the Commission, it was possible that eight other member states, but not the Federal Republic of Germany, could agree on a cut of about 2 per cent. There might, therefore, be another deadlock. In discussion it was argued that, as the President of the Commission, Monsieur Delors, was himself taking a strong line on prices and guarantee thresholds, there was a good chance of isolating the Germans. If the Germans were to use the language of the Luxembourg compromise in resisting a vote on cereal prices, this also would be to the United Kingdom's advantage. It was also noted, in relation to budgetary discipline, that a revised package might be estimated to cost considerably more than the Commission's present proposals but not to breach the guideline. It had already been agreed that, if this situation were to arise, there would need to be consultation between the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food.

The Cabinet -

Took note.

ECONOMIC AFFAIRS

Previous Reference: CC(85) 8th Conclusions, Minute 5

4. THE SECRETARY OF STATE FOR EMPLOYMENT said that the April unemployment figures showed an increase of 5,000 in the headline total and of 29,000 in the seasonally adjusted figure. This latter figure was disappointing and puzzling. The increase in seasonally adjusted unemployment over the three months February to April averaged 18,000 per month compared with 10,000 per month over the previous three months. Over the six months to April the increase of 14,000 per month was at the same rate as over the previous six months to October 1984. In commenting on the figures he would say that, against the background of the encouraging increase in new jobs and the report that week by the Confederation of British Industry about the improvement in prospects for employment particularly in manufacturing industry, the April rise in unemployment appeared to be erratic and should not be seen as a change in the underlying trend. He would also point out that the figures did not reflect the measures announced in the Budget.

The Cabinet -

Took note.

GAS PRIVATISATION

5. The Cabinet considered a memorandum by the Secretary of State for Energy on privatisation of the gas industry (C(85) 10).

THE SECRETARY OF STATE FOR ENERGY said that his Department had undertaken intensive work on the possibility of privatising the British Gas Corporation (BGC), including a full review of the Corporation's activities and assets, and a thorough study of regulatory arrangements for the supply of gas elsewhere in the world. He had concluded that it would be impossible to go ahead with so major a privatisation while the coal strike continued to preoccupy his Department, but there was now an opportunity, if action were taken very quickly, to complete the privatisation of BGC before the next General Election. Such a move would represent a significant contraction in the size of the public sector, would provide a substantial new opportunity for wider share ownership, and would for the first time give BGC's employees a real opportunity to participate in the success of their business. It would not be feasible to introduce competition into the supply of gas to domestic and industrial consumers, and the privatised company would be required to comply with existing obligations to supply customers even where the costs of doing so were particularly high. The accounting arrangements required for the operation of the necessary price regulation would preclude concealed cross-subsidisation of the sale and servicing of appliances, where there was already increasing private sector competition with BGC. Moreover, the disciplines of the financial markets would give the new company a strong inducement to make better use of the assets represented by its high street sites. He had reviewed the possibility of privatising BGC as a series of regional utilities rather than as a single company, but this would have meant several years delay while the necessary regional organisations were built up, as well as increases in prices in regions where gas distribution costs were relatively higher. In order to meet the proposed privatisation timetable, the necessary legislation would need to receive its Royal Assent before the Summer Recess the following year; two experienced teams in his Department were ready to begin detailed work as soon as policy approval was given, and financial advisers would need to be recruited as soon as possible to help with the preparatory work. His Department would seek to draw to the maximum extent on the experience of the Department of Trade and Industry in the privatisation of British Telecom. He would be putting detailed proposals on specific aspects of the privatisation to the Ministerial Sub-Committee on Economic Affairs (E(A)) as soon as possible; meanwhile he sought the Cabinet's endorsement for his general approach, and for the enactment of the necessary legislation during the next Parliamentary Session.

In discussion the following main points were made -

a. The timetable was extremely tight, and left no margin for overcoming unexpected difficulties. Moreover, the climate in the financial markets as the next General Election approached could not be predicted with certainty, and it might not in the event be possible to go ahead with the flotation in the autumn of 1986 as envisaged by the Secretary of State for Energy. On the other hand, the fact that the process of privatisation had begun, even if some of the payments for the shares had not yet fallen due, could be helpful to the Government in the course of the next General Election campaign.

b. The financial markets should have no difficulty in absorbing the privatisation of BGC, with the payments staged over a period of several months. The Government had considerable flexibility about the timing of the payments for this and other privatisations, and demands on the gilt-edged market would be correspondingly less. Moreover there were signs that financial institutions were investing less of their funds abroad, and were keeping substantial liquid assets against the probability of new privatisation issues.

c. Although there could not be competition in the supply of gas to the generality of domestic and industrial consumers, the Government should encourage other centres of initiative in the production and marketing of gas. The treatment of imports and exports of gas would be particularly important in this context, if a situation was to be avoided in which either the new company or the suppliers of gas from the United Kingdom Contintental Shelf enjoyed an undesirable degree of market power.

d. Particular attention would need to be given to ensuring public confidence in future regulatory arrangements covering safety and gas prices. Much of BGC's present responsibility for safety would be transferred to the Health and Safety Executive. No commitments should be made about the form of price regulation, or the identity of the regulator, until these arrangements had been worked out in detail.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the objective of privatising the gas industry within the timescale proposed by the Secretary of State for Energy. They recognised that other substantial Bills would need to be dropped from the legislative programme for the next Parliamentary Session, in order to make way for the very substantial gas industry Bill which would be required, and would turn their attention to this problem as the next item on their agenda. The Secretary of State for Energy should make a preliminary announcement of the Government's intentions in the course of the following week, and should thereafter bring detailed proposals on the major aspects of gas industry privatisation, including the form of regulation, the continuing obligations and responsibility of the privatised gas industry and the treatment of gas imports and exports, before E(A) before the Whitsun Recess.

The Cabinet -

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

2. Invited the Secretary of State for Energy to make a preliminary statement of the Government's intentions

during the following week, in consultation with the Chancellor of the Exchequer, the Lord Privy Seal and the Secretary of State for Trade and Industry.

3. Invited the Secretary of State for Energy to submit a further paper to the Ministerial Sub-Committee on Economic Affairs before the Whitsun Recess on the major aspects of gas industry privatisation, including the form of regulation, the continuing obligations and responsibilities of the privatised gas industry and the treatment of gas imports and exports.

LEGISLATIVE PROGRAMME 1985-86

Previous Reference: CC(85) 7th Conclusions, Minute 5

6. The Cabinet considered a memorandum by the Lord President of the Council (C(85) 11) about the consequences for the legislative programme 1985-86 of the inclusion of a Bill to privatise the gas industry.

THE LORD PRESIDENT OF THE COUNCIL said that it was most undesirable that changes should be made to the agreed programme at such a late stage. To do so imposed great strains on Departments and Parliamentary Counsel. Nonetheless, the Queen's Speeches and Future Legislation Committee (QL) had considered the implications for the legislative programme of the Cabinet's deciding to include a gas Bill in the 1985-86 legislative programme. In view of the size and complexity of a gas Bill, they had agreed that they must recommend to Cabinet the deletion of two medium-sized Bills from the programme to make way for it. This was made necessary by the size and difficulty of the existing programme and the timetable requirements of the gas Bill itself. The fact that Royal Assent was required for the gas Bill before the Summer Adjournment of 1986, coupled with increasing pressure for the Summer Adjournment to begin earlier, would make the handling of the programme with the inclusion of the gas Bill particularly difficult. The decision of the Sub-Committee on Nationalised Industries that the Nationalised Industries Bill need not be proceeded with the following Session had provided the first candidate. QL had, however, found it very difficult to identify a second candidate. The omission of some short Bills would make no practical difference. Most other Bills had a very strong claim on grounds of preparedness or political significance. They were left with a very few candidates which in their view it might be possible to postpone into the 1986-87 Session. They had concluded, with great regret, that the Northern Ireland (Emergency Provisions) Bill was the one that would have to give way. He should also remind Cabinet that there were three other Bills - on Housing, Dockyards and Deregulation of Businesses - on which final decisions had yet to be taken about their inclusion in the programme for 1985-86. QL were agreed that if any of these Bills were to be included there would have to be equivalent deletions and they would report further to Cabinet with proposals in a few weeks' time.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he was most disappointed about QL's recommendation; the reopening of the agreed programme was most unsatisfactory. The Northern Ireland (Emergency Provisions) Bill would implement most of the recommendations of the Report by Sir George Baker on the operation of the Northern Ireland (Emergency Provisions) Act 1978. Many of the recommendations would improve the civil rights of Northern Irish citizens and would complement the recommendations of the Jellicoe Report which had already been enacted. Legislation on the Baker Report was widely expected in Northern Ireland although no firm commitments had been made on timing. The 1978 Act had to be renewed every six months and further delay in implementing the Baker recommendations would therefore give at least two more occasions for the Opposition to criticise the Government's handling of the Baker Report. This would be significant because of the impact such criticisms would have in Northern Ireland, in the Republic of Ireland and in the United States of America. He therefore hoped that Cabinet would be able to find an alternative Bill for deletion from the programme.

THE PRIME MINISTER, summing up a brief discussion, said that there were great difficulties in finding any suitable candidates for deletion from the following Session's programme at that stage. There seemed to be no alternative to the Northern Ireland (Emergency Provisions) Bill and Cabinet was extremely grateful to the Secretary of State for Northern Ireland for agreeing to its deletion in these circumstances. They also agreed to the deletion fo the Nationalised Industries Bill from the programme. If, however, for any reason, another Bill was delayed and could not realistically go forward into the following Session's programme, the Northern Ireland (Emergency Provisions) Bill should be restored. It should in any case be given a firm place in the 1986-87 programme and the Secretary of State for Northern Ireland could indicate that legislation would be brought forward in this Parliament. QL should look further at the implications of restructuring the programme to include Bills on Housing, Dockyards and Deregulation and report back to Cabinet by the end of May.

The Cabinet -

1. Agreed that a Bill, to enable the privatisation of the gas industry and for consequential purposes, should be added to the legislative programme for 1985-86 and that the Nationalised Industries and Northern Ireland (Emergency Provisions) Bills should be deleted from the programme.

2. Agreed that the Northern Ireland (Emergency Provisions) Bill should have a firm place in the 1986-87 legislative programme.

3. Took note that the Queen's Speeches and Future Legislation Committee would consider the possibility of further changes in the programme and would report back to Cabinet before the end of May.

SOCIAL SECURITY REVIEW

7. The Cabinet considered a memorandum by the Secretary of State for Social Services (C(85) 9) on the Review of Social Security. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

2 May 1985

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CABINET

LIMITED CIRCULATION ANNEX

CC(85) 15th Conclusions, Minute 7

Thursday 2 May 1985 at 9.15 am

SOCIAL SECURITY REVIEW

The Cabinet considered a memorandum by the Secretary of State for Social Services (C(85) 9) about the review of social security.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the reviews of provision for retirement, supplementary benefit, housing benefit and children and young people initiated in November 1983 and the first half of 1984 had been completed. Some 20 public hearings had been held, over 70 organisations had given oral evidence and 4,500 pieces of written evidence had been received. The reviews had constituted the most comprehensive examination of social security since the Beveridge Report over 40 years before. The case for reform of the social security system was overwhelming; in particular present arrangements were excessively complicated, failed to make the best use of resources, and did not strike the right balance between the responsibilities of the State and the individual. He was therefore proposing a comprehensive reform of social security based on the "twin pillars" of the State providing a basic level of support with individuals supplementing that level through working, saving and occupation arrangements. Other key objectives were helping those most in need, helping people to help themselves, and simplification. His most important proposals were in the field of family support, supplementary benefit, housing benefit and pensions but there were also proposals on many other aspects of social security provision. He suggested that the Cabinet should consider his main proposals in turn.

Family Support

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that while the position of the elderly had improved considerably over the previous 20 years there had been no comparable improvement in the position of low-income families with children. Those out of work would be dealt with by his proposals for supplementary benefit. For low income families in work the existing Family Income Supplement (FIS) scheme was not satisfactory. It did not provide adequate help for large families; it was not seen as part of working income because it was not paid alongside wages; it had been open to manipulation by those claiming it; and it contributed significantly to the unemployment and poverty traps. He therefore proposed to abolish FIS and to replace it with a new system of Family Credit for low-income working families. This would be the counterpart of income support for those out of work and would be structured on a similar basis. Most importantly it would be paid by employers through the wage packet with the effect that working families receiving the credit would be able to keep more of their own money and have higher take home pay. It would substantially alleviate the poverty and unemployment traps and tighter qualification rules would reduce the scope for abuse. He also proposed to replace welfare foods (except for formula milk for children up to two years old) and free school meals with additional cash payments to recipients of Family Credit. The universal Child Benefit was extremely popular and must, in his view, continue. However, the existence of an effective family support scheme would reduce the need for regular uprating. The additional cost of Family Credit (likely to be £70-100 million per annum) could be found by limiting the next uprating of Child Benefit to £7.00 per child per week.

In discussion the following main points were made -

a. The proposal for Family Credit was far-sighted and ingenious in dealing with the needs of low income families in work. There must be a possibility that rates of take-up and, consequently, the cost of the scheme would be greater than anticipated. There might also be great political difficulty in resisting pressure to uprate Child Benefit regularly thus jeopardising the source of offsetting savings. On the other hand, the additional costs of Family Credit would not be large in relation to total spending on Child Benefit, and the concept of redistributing the sum available for family support to give more help to the low-paid would be widely understood.

b. Payment of Family Credit through the wage packet would be a significant advance. The scheme would also improve incentives to work by reducing, though not eliminating, the poverty and unemployment traps for low income families. Complete elimination of the traps would be very expensive.

c. About 250,000 families would gain an average of £4.40 a week from the establishment of Family Credit, and some 110,000 families lose an average of £4.70 a week largely because the new scheme would not be skewed towards small families as was the case with FIS. There would, however, be transitional protection to ensure that no beneficiaries under the existing scheme suffered a cash loss.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed the proposals for Family Credit, including the discontinuance of free school meals and welfare foods for its recipients, as set out in C(85) 9. They were particularly attracted by the proposal for payment through the wage packet, and the effect of the proposals on work incentives. They also agreed that universal Child Benefit should be retained and that the additional cost of the Family Credit scheme should be met by limiting future Child Benefit upratings.

The Cabinet -

1. Agreed the proposals on family support in C(85) 9.

Supplementary Benefit

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the present system of supplementary benefit was too complex for claimants to understand and for staff to administer. Even if he had wished to do so, it would be impossible to leave the system unchanged. He therefore proposed a radical restructuring with the following main features. There would be a basic income support scheme under which the level of benefit would depend only on marital status and age with additional provision for families, pensioners and the disabled. There would no longer be extra payments, for example, for heating related to detailed assessment of individual circumstances and assistance would not be available with mortgage interest payments during the first six months on benefit. There would however be a discretionary fall back scheme of social aid for emergencies and special needs operated within cash limits, with no legal entitlement or detailed rules. The levels of disregard for both capital and earnings would be increased to encourage the incentive for self help. There would be significant numbers of both gainers and losers. As with Family Credit, transitional provision would be made to ensure that no-one suffered a cash loss as a result of the changes.

In discussion the following main points were made -

a. The proposal for income support was a radical simplification which was greatly to be welcomed. There was certain to be much controversy over the abolition of heating allowances. Even though what was spent on them would be consolidated into the basic rates, those in particularly cold areas or with particularly high fuel costs would suffer as a consequence. There would also be greater difficulties for the power supply industries in dealing with unpaid bills. On the other hand the heating allowance was a relatively recent innovation, the rules for calculating payments could not easily be defended, their removal would be a great simplification, and those still in real need would have access to social aid.

b. The concept of a cash limited back up social aid scheme with no legal entitlement was a good one. In fact, however, it seemed inevitable that guidance and case law would develop rapidly, and refusal of aid might become difficult even in the absence of legal entitlement. There would also be criticism if the cash-limit was implemented in such a way that claimants were having to be refused aid in one area while funds were still available in another. The relevant section of the Green Paper would need to meet such criticisms in advance.

c. The proposal not to help with mortgage interest payments during the first six months on benefit would be criticised as a disincentive to home ownership, and by the building societies on whom the burden would fall. However, building society policy was generally to be as helpful as possible to the home-owner in these circumstances, those in long-term difficulty would receive assistance, and increasingly insurance could be taken out against the risk in question.

d. There must be doubts about the overall effect on public expenditure when so many aspects of supplementary benefit were being changed at the same time. It was also uncomfortable that the proposed transitional protection for loses would depend on continuing inflation for its success. Given the uncertainties it might be better to be less generous in some respects, for example the capital and earnings disregards. In fact, however, the uncertainties were not as great as had been suggested and the introduction of the capital disregard, which would apply to housing benefit as well as supplementary benefit, would actually save money overall. In addition, many payments under the social aid scheme would be recoverable.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed the proposals for reform of the supplementary benefit scheme set out in C(85) 9 including the proposal to discontinue extra payments and additions, such as those for heating.

The Cabinet -

2. Agreed the proposals on supplementary benefit in C(85) 9.

3. Agreed to resume their discussion of the social security review at their next meeting.

Cabinet Office

3 May 1985