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(85) 16th
nclusions

COPY NO 74

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 9 MAY 1985
at 9.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

e Rt Hon Viscount Whitelaw
rd President of the Council

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

e Rt Hon Sir Geoffrey Howe QC MP
cretary of State for Foreign and
mmonwealth Affairs

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

e Rt Hon Nigel Lawson MP
ancellor of the Exchequer

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

e Rt Hon Peter Walker MP
cretary of State for Energy

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

e Rt Hon Patrick Jenkin MP
cretary of State for the Environment

The Rt Hon John Biffen MP
Lord Privy Seal

e Rt Hon Norman Fowler MP
cretary of State for Social Services

The Rt Hon Tom King MP
Secretary of State for Employment

e Rt Hon Michael Jopling MP
nister of Agriculture, Fisheries and Food

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

e Rt Hon Nicholas Ridley MP
cretary of State for Transport

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

e Rt Hon Earl of Gowrie
ancellor of the Duchy of Lancaster

The Rt Hon Lord Young of Graffham
Minister without Portfolio

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169

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THE FOLLOWING WERE ALSO PRESENT

e Rt Hon John Wakeham MP
rliamentary Secretary, Treasury

Mr Antony Newton MP
Minister of State, Department of Health and Social Security (Item 4)

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Item 4)
Mr D F Williamson (Items 2 and 3)
Mr C L G Mallaby (Items 2 and 3)
Mr C J S Brearley (Items 1 and 4)
Mr R Watson (Item 1)

C O N T E N T S

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PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week and that the House would rise for the Spring Adjournment on Friday 24 May until Monday 3 June.

House of Lords

Previous Reference: CC(85) 15th Conclusions, Minute 1

THE LORD PRESIDENT OF THE COUNCIL said that the Committee Stage of the Local Government Bill was now not going well. The Government had lost two divisions and were likely to lose more, because a significant majority of crossbench peers were not persuaded of the merits of the Government's proposals. Although it would probably be possible to win some crucial votes by marshalling all the Government's supporters, this could not be done often. It might well be necessary to reverse a considerable number of amendments in the House of Commons.

The Cabinet -

Took note.

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FOREIGN AFFAIRS

Lebanon

Previous Reference: CC(85) 15th Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Lebanon remained very bad and there was no prospect of early improvement. The decline in the Lebanese Government's authority and the trend towards fragmentation in the country continued. There had, however, been a lull in incidents between Israeli forces and Lebanese and Palestinian armed groups in the south.

Ethiopia

Previous Reference: CC(84) 40th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that 58,000 famine victims had been forcibly evicted from the Ibnat relief camp at the end of April. Some deaths had resulted. Reports that shelters and medical facilities had been burned had, however, been denied by the United Nations Co-ordinator for Famine Relief in Ethiopia, Mr Kurt Jansson. The Ethiopian authorities had agreed to allow some 12,000 of those evicted to return to the relief camp. The United Kingdom had supported representations by Mr Jannson to the Chairman of the Provisional Administrative Council, Colonel Mengistu, expressing concern at the evictions. Colonel Mengistu had disowned the action taken and said that it would not happen again. This unusual admission appeared to reflect the impression made by the strong international reaction.

CONFIDENTIAL

171

CONFIDENTIAL

40th Anniversary of Victory in Europe: Celebrations in Moscow

Previous Reference: CC(85) 4th Conclusions, Minute 7

THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Denis Healey, who was representing the Labour Party at the celebrations in Moscow to mark the 40th anniversary of the end of the war in Europe, had said that the United Kingdom Government should have been represented at a higher level than had been the case and that a member of the Royal Family should have participated. This view was not justified. It was true that Admiral of the Fleet Earl Mountbatten had attended the 30th Anniversary celebrations in Moscow in 1975, but since then the Soviet Union had invaded Afghanistan. Because of this, senior British representatives since 1980 had not attended the annual military parades in Moscow. The general view among our European partners and our allies about the present events had been that attendance by Ambassadors at a wreath laying, at the military parade and at a reception would be appropriate. The Ambassadors of the United States and the Federal Republic of Germany would not attend the parade, since there were special reasons in their cases.

The Cabinet -

Took note.

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COMMUNITY AFFAIRS

Finance

Previous Reference: CC(85) 15th Conclusions, Minute 3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that it was probable that the European Parliament, which was discussing the Community's draft budget for 1985, would propose to transfer the United Kingdom's 1,000 million ecu (about £580 million) abatement for 1984 from the revenue to the expenditure side. If so, the Council would restore the correct method and the European Parliament was likely to give way on a later reading of the budget. The timing of the presentation to the United Kingdom Parliament of the revised Own Resources Decision and of the intergovernmental agreement on finance for 1985 was under discussion with colleagues.

Agriculture

Previous Reference: CC(85) 15th Conclusions, Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY reported that he had held a meeting on the agricultural price fixing with the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and other colleagues. They had congratulated the Minister of Agriculture, Fisheries and Food on his tenacity and skill in the difficult negotiations so far. These negotiations would be resumed in the Council of Ministers (Agriculture) on 13 May with a view to a conclusion. They had agreed that the United Kingdom's approach should be -

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a. In general, the United Kingdom should continue to support the Commission which had been holding to a firm line. The United Kingdom's tactics had been successful so far in strengthening the Commission's resolve. There would now be some small changes in the Commission's proposals in order to make a settlement possible.

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b. On cereal prices, if the Commission continued to propose some reduction and the Federal Republic of Germany opposed this, the preferred option would be to get a price reduction by voting the Germans down. If a vote were resisted, the Government would wish to leave no doubt that the Germans had invoked the Luxembourg compromise, as this action could be helpful to the United Kingdom in discussions on the future of the Community.

c. On the beef variable premium the Minister of Agriculture, Fisheries and Food had now succeeded in including in the Presidency's document the continuation of the scheme for a further year.

d. On milk the United Kingdom opposed the suggested small increase in the quota for the Republic of Ireland. If this could not be stopped, the Minister of Agriculture, Fisheries and Food might wish to register his opposition by a vote, provided that this did not imperil other British objectives, including the continuation of the beef variable premium.

e. On budgetary cost, if the proposed settlement were to involve an increase in the ceiling set in the intergovernmental agreement for 1985, then a joint Council with Finance Ministers would be required. In relation to 1986 the present estimates of the budgetary consequences did not make it necessary to invoke a joint Council. Clearly, if the financial guideline were likely to be breached, the United Kingdom would want to demand such a joint Council. If there were some further increase in estimated cost in 1986 above the level now foreseen but the figure was still within the guideline, there would continue to be close contact between the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and himself.

In discussion it was pointed out that there were also some problems of importance to the United Kingdom on sheepmeat which needed to be resolved.

The Cabinet -

Took note.

CONFIDENTIAL

CONFIDENTIAL

173

SOCIAL SECURITY REVIEW

Previous Reference: CC(85) 15th Conclusions, Minute 7

4. The Cabinet resumed their consideration of a memorandum by the Secretary of State for Social Services (C(85) 9) on the Review of Social Security. They also considered a memorandum by the Secretary of State for Social Services (C(85) 12) on pensions. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

9 May 1985

Sir Robert Armstrong (Bound Vol)

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CABINET

LIMITED CIRCULATION ANNEX

CC(85) 16th Conclusions, Minute 4

Thursday 9 May 1985 at 9.00 am

SOCIAL SECURITY REVIEW

Previous Reference: CC(85) 15th Conclusions, Minute 7

The Cabinet resumed their consideration of a memorandum by the Secretary of State for Social Services (C(85) 9) on the review of social security. They also considered a memorandum by the Secretary of State for Social Services (C(84) 12) on pensions.

Housing Benefit

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the review of housing benefit, unlike other parts of the social security review, had been carried out by an independent inquiry under Mr Jeremy Rowe. He proposed that many, although not all, of the inquiry's recommendations should be accepted. The present scheme had been criticised on several grounds: that those in work were treated less favourably than those out of work; that help with rates went further up the income scale than help with rents; that the scheme was difficult to understand and to administer; and that expenditure had risen sharply from £1.2 billion in 1979-80 to £4.2 billion in the current year, so that one-third of all households now received benefit. He proposed that in future entitlement would be based on the same income test as the income support scheme so that those in and out of work would be treated consistently. Above the income support level benefit would be reduced, as income rose, by a simple straightforward formula instead of, as at present, by separate tapers for rents and rates and for different types of claimant. The same rules for capital disregard would apply as for the income support scheme. Powers would be taken to fix percentages of reimbursement for both rates and rents, with the maximum level of assistance for rents being set at 100 per cent, but that for rates at only 80 per cent. This was to establish the important principle that no household should be completely insulated from the effect of rate increases, and would thus improve the accountability of local government, in line with the approach being adopted in the review of local government finance. A reserve power would also be taken to impose a cap on rents eligible for housing benefit on any individual local authority in whose area rents were being raised unreasonably because the bill was being met by housing benefit. The direct subsidy to local authorities by specific grant would be limited to 80 per cent of benefit cost so as to give local authorities a greater incentive to control costs. These changes would yield savings of £560 million in the first year, by far the largest single contribution to the short-term savings arising from the social security review. The number of recipients of housing benefit would be reduced by some 1.8 million, about a quarter of the present total. Most recipients would lose because of the move to less than 100 per cent reimbursement of rates but the average loss from that change would be about 85 pence per week. 800,000 recipients would gain but some 1.9 million would lose more than £2 per week.

In discussion the following main points were made -

a. Limiting the reimbursement of rates to 80 per cent would be unpopular and the Government would be more likely to take the blame for rate increases. The sums which households would be required to pay would however be so small that there would be little significant effect on the accountability of local government. An alternative approach would be to require a standard minimum contribution, fixed in absolute lump sum terms, towards the cost of local services. The inital impact of such a proposal would, however, be severe because of the wide variation in rate levels and in the scale and nature of local services in different areas. A minimum percentage contribution seemed therefore to provide the most workable approach. Although a 20 per cent contribution was small and might not do much immediately to improve accountability, it would be valuable to have established the principle. The application of the principle to any new form of local revenue to replace or supplement rates would need to be considered in due course.

b. Although expenditure on housing benefit had increased rapidly, this was the result partly of a move to more realistic council house rents which the Government had encouraged and partly of high levels of unemployment. There would be concern about the effect of the housing benefit changes on the poorer members of the community and the pressure this might create for assistance under the new cash limited social aid scheme. Transitional cash protection of the kind which had been agreed in respect of the supplementary benefit changes would however be expensive if extended to the changes in housing benefit, and ought not to be conceded, at least at the Green Paper stage. Moreover, many of the poorer members of the community would benefit from other changes in the overall package of social security reforms. The changes in housing benefit, which at present went too far up the income scale, were a major element in redirecting assistance to those most in need. Cash losses were in general unlikely to arise if the structural changes coincided with a benefit uprating. This aspect of the proposals would require particularly careful presentation.

SECRET

c. The proposals would not be welcome to local authorities. They would be faced with the administrative burden of collecting small amounts of rates from households at present fully rebated. In certain areas a rates strike with the connivance of local authorities could not be ruled out, although the existing disciplines on local authority finance and on the conduct of individual councillors ought to prevent that. Local authorities would also be concerned about the effect on the rate support grant arrangement of the proposal for limiting specific grant to 80 per cent of housing benefit costs. It would be necessary to insert a passage in the Green Paper promising consultation with local authority associations on these matters.

d. It would be important to ensure that the housing benefit proposals were not inconsistent either in principle or in detail with the proposals recently approved for deregulating lettings in the private rented sector. Consideration had been given to applying limits for rent reimbursement to avoid exploitation by landlords, but the wide variation rents throughout the country made this impracticable. It would be sufficient to rely on reserve powers to limit rent reimbursement in particular areas.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet approved the proposals made by the Secretary of State for Social Services on housing benefit summarised in C(85) 9. In particular, the income test should be aligned with that under the new income support scheme and the same rules of capital disregard should apply; there should be a single taper, applying to both rent and rates, for withdrawing benefit as net income rose; maximum help should be 100 per cent for rents but only 80 per cent for rates, with a power to fix lower percentages; a reserve power should be taken to impose rent cap if necessary in individual local authority areas; and the direct subsidy to local authorities by specific grant should be limited to 80 per cent of the benefit cost. Great care would be needed in presenting the proposals both to avoid the charge that every household now receiving benefit would, however poor, be obliged to meet extra costs and to avoid unnecessary conflict with local authorities over the working of the new system.

The Cabinet -

1. Approved the proposals on housing benefit in C(85) 9, subject to the points made in the Prime Minister's summing up of their discussion.

Pensions

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that change was essential in the arrangements for pension provision: the number of pensioners was likely to rise from 10.1 million in 2005 to 12.5 million in 2035; over the same period the ratio of contributors to pensioners would fall from 2.2:1 to 1.8:1; and the cost of state pensions would

SECRET

rise from £15½ billion in the current year to £45 billion (if basic pensions were uprated by prices) or £66 billion (if uprated on earnings) in 2033-34. These costs would be a great burden and decisions were needed now if they were to be avoided. In addition there was a strong case for reducing State involvement and giving all those in work the right to an occupational or personal pension. There were, however, problems in making the transition from pay-as-you-go to funded arrangements and as regards the expectations of those nearing retirement. Following discussions in the Ministerial Group on Social Security further consideration had been given to the issues by a smaller group of Ministers under the Prime Minister's chairmanship. His proposals were set out in C(85) 12. They were to make no change in the basic state pension but to phase out the State Earnings Related Pension Scheme (SERPS) for men aged under 50 and women aged under 45 between 1987-88 and 1989-90 and to replace it with compulsory private provision through occupational, industry or personal schemes with a minimum contribution of 2 per cent each by employers and employees by the end of the transitional period. All rights earned under SERPS would be preserved, and for men aged 50 or over and women aged 45 or over SERPS would continue until their retirement. These proposals would undoubtedly be extremely controversial, but they would be more soundly based than present arrangements and offer the individual much greater involvement and much greater choice in his pension arrangements.

In discussion the following main points were made -

a. Whether or not the burden of SERPS would be supportable in the next century depended crucially on the country's economic performance in the meantime. It would be unwise to say that the necessary growth would not happen. The case for change was very strong but rested rather on the imprudence of assuming that the growth would happen and the other benefits of the change to private provision.

b. The proposals for dealing with the short-term transitional problems and with the position of those nearing retirement would go a long way to meet major criticisms. It would, however, be important to ensure that the new arrangements would be able to meet the needs of people such as those who moved jobs frequently for whom occupational schemes would not be satisfactory or were unlikely to be available. The proposals for early leavers in the present Session's Social Security Bill, and for personal pensions should meet these needs.

c. Broadly those who did not contribute to SERPS would not be covered by the new compulsory requirement. In particular the position of the self-employed would be unchanged. The low paid and unemployed would not contribute.

d. There would necessarily be a very great increase in the funds of the pension industry and it would be important to ensure that fully adequate arrangements for investor protection were in place.

SECRET

178

SECRET

It was also necessary that occupational schemes established by companies should be on a fully-funded basis to protect contributors against such eventualities as company insolvency.

e. Very careful attention would need to be paid to effective presentation of the case for the proposals. The danger was that the long-term advantages would be overshadowed by immediate disadvantages. Contributions would rise for those at present contracted-out of SERPS and the changes would be blamed even though this would have happened anyway. Combined National Insurance and private contributions for those at present in SERPS would also rise for lower benefits. Employers would be faced with more complex arrangements. Furthermore the Opposition were very likely to threaten repeal which would be likely to create great uncertainty initially.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet approved the proposals made by the Secretary of State for Social Services on pensions set out in C(85) 12. In particular, for men aged 50 or over and women aged 45 or over, SERPS should continue until their retirement, while for all other employees SERPS should be replaced over the three years 1987-88 to 1989-90 by a minimum private pension requirement. This would involve preservation of all SERPS rights earned up to 1987; reduced rates of accrual of additional SERPS rights in 1987-88 and 1988-89 and no new SERPS rights thereafter; and a minimum private pension contribution by employers and employees of 1 per cent each in 1987-88, of 1½ per cent in 1988-89, and of 2 per cent each thereafter. National Insurance contribution rates would be changed to match. In presenting the proposals it would be important to emphasise the imprudence of continuing with SERPS and the advantages of private provision.

The Cabinet -

2. Approved the proposals on pensions in C(85) 12.

Death Grant

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the death grant had remained at the same cash level - £30 - for many years. This was now derisory when compared with the cost of a reasonable funeral, and the administration cost was fast approaching the cost of the benefit. He proposed therefore that the grant should be abolished. Those in need would be provided with help through the social aid scheme.

The Cabinet -

3. Agreed that the death grant should be abolished.

SECRET

SECRET

179

Maternity Grant and Maternity Allowance

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the maternity grant had also remained at the same cash level - £25 - for many years. He proposed to replace this universal grant with a grant of £75 to mothers of low-income families, ie. those on supplementary benefit or in receipt of family credit. He also proposed to make the qualification period for maternity allowance more relevant to working women and the period of payment more flexible.

The Cabinet -

4. Agreed the proposals of the Secretary of State for Social Services on maternity grant and maternity allowance.

Widows' Benefit

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he proposed to replace the short-term widows' allowance (currently paid for six months) by a lump sum grant of £750. Thereafter, continuing benefits would be concentrated more on widows aged 45 or over and those with children.

In discussion it was noted that a lump sum grant of £1,000 would be more nearly equivalent to the short-term allowance that was being replaced. It would be better to set the grant at this level from the beginning rather than to have to concede it later in response to pressure. It was also noted that, as with the present arrangements, the new proposals would not extend to widowers. There might be some risk of challenge in the European Court, but the needs of widowers were not the same as those of widows and the cost of extending arrangements to them could not be justified.

The Cabinet -

5. Agreed the proposals of the Secretary of State for Social Services on widows' benefit, and that the amount of the lump sum grant should be set at £1,000.

Students

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that in line with the Government's general stance that young people should not depend on social security benefits, he proposed to announce in his Green Paper an intention in principle to exclude students from supplementary and housing benefits. This would be carried forward in the light of the Secretary of State for Education and Science's review of student grants. He and the Secretary of State for Education and Science had also agreed certain short-term measures affecting students' entitlement to benefits which would need to be announced the following week in order to allow adequate time for consultation with those concerned before implementation from the beginning of the next academic year in September.

THE PRIME MINISTER, summing up a brief discussion of these proposals, said that the Cabinet agreed with the way in which the Secretary of State for Social Services proposed to deal with student support in his Green Paper. They considered, however, that the short-term proposals should not be announced in advance of the Green Paper. They accepted that this might mean that the measures could not be implemented from the beginning of the next academic year. The Secretary of State for Social Services should discuss the implications of this decision with the Chancellor of the Exchequer and the Secretary of State for Education and Science.

The Cabinet -

6. Took note, with approval, of the Prime Minister's summing up of this part of the discussion and invited the Secretary of State for Social Services, the Secretary of State for Education and Science and the Chancellor of the Exchequer to be guided accordingly.

Unemployment Benefit

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that in C(85) 9 he had proposed to increase the rate of unemployment benefit and reduce its duration from 12 to 6 months. The effect would have been to reduce the overlap between unemployment and supplementary benefit thereby making the arrangements in this area easier to understand and simpler to administer. There would, however, be a consequential increase of 210,000 in the numbers receiving supplementary benefit after six months unemployment while 85,000 people would no longer receive any benefit at the end of this period. On reflection, he did not think that the benefits of these changes would be worthwhile and he therefore now proposed to make no change in the arrangements for unemployment benefit.

The Cabinet -

7. Agreed that there should be no change in the arrangements for unemployment benefit.

Announcement

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Green Paper would now need to be finalised in the light of the decisions the Cabinet had taken. There was a good deal of work to be done and he therefore proposed that the Green Paper should be published and a statement made to Parliament in the first week after the Spring Adjournment.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet complimented the Secretary of State for Social Services and all those concerned on the work that had gone into the review. The conclusions were far-reaching and would need careful and effective presentation. Even if it had been possible to publish the Green Paper earlier, it would not be desirable to do so just before the Adjournment and Cabinet agreed that publication should be in the week commencing 3 June.

The Cabinet -

8. Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Social Services to be guided accordingly.

Cabinet Office

10 May 1985

182