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E(81) 20th Meeting

COPY NO 58

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 17 JUNE 1981 at 4.00 pm

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 Sir Keith Joseph MP  
Secretary of State for Industry

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 Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food

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

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of  
Lancaster and Paymaster General  
(Item 1)

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
(Item 2)

The Rt Hon Patrick Jenkin MP  
Secretary of State for  
Social Services  
(Item 1)

The Rt Hon Norman Fowler MP  
Secretary of State for Transport

The Rt Hon Lord Mackay of Clashfern QC  
Lord Advocate  
(Item 1)

Mr J R Ibbs  
Central Policy Review Staff

## SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr W Moyes

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## 1. NON-INDUSTRIAL CIVIL SERVICE PAY

The Committee considered a Memorandum by the Lord President of the Council (E(S1) 67) on the next steps in the Civil Service Pay dispute. Their discussion and conclusions reached are recorded separately.

THE SECRETARY OF STATE FOR TRANSPORT said that since the Committee's previous discussion BR's trading position had deteriorated and if nothing was done there was a danger of their external finance limit (EFL) would be breached by 1980. In view of the earlier news in hand, however, the expected savings would probably be of the order of £50 million. The industry had made good progress during the 1970s in reducing manpower and improving productivity, but manpower had been static and productivity had declined. The policies adopted by the Government since taking office had not started to bear fruit. A substantial number of significant measures had already been announced, and more were planned. The proposals put forward by the CSEI included further major changes. Trade union opposition to the changes already planned was increasing, and they would rigorously oppose the further measures proposed by the CSEI. It was therefore important for the Government to have some sense of whether the proposed reductions and productivity improvements necessary to meet BR's need to be placed on a firm financial footing for the future, were achievable. This could be best approached through the practical approval of electrification proposals. There would be no doubt of the strength of the case for electrification. Even on the very pessimistic assumptions used by the CSEI, electrification had shown a positive return. The main issue for decision was, therefore, how best to win the approval of electrification as being about the change necessary to BR's operations. An objective of the proposals put forward by the CSEI, that BR should be invited to prepare a long-term programme of electrification but that the Government should approve proposals only on a route-by-route basis. This was, in his view, the best approach to ensuring that

2. BRITISH RAIL: <sup>e)</sup> COMMERCIAL BUSINESSES AND ELECTRIFICATION PROPOSALS  
(Previous Reference: E(81) 15th Meeting)

The Committee considered a Note by the Secretaries (E(81) 63) covering a report by the Central Policy Review Staff (CPRS) on their review of British Rail's (BR) commercial businesses and electrification proposals; a Memorandum by the Secretary of State for Transport (E(81) 64) attached to which was the draft of a possible statement announcing the Government's decision on further railway electrification; and a copy of a minute dated 17 June from the Chancellor of the Exchequer to the Prime Minister.

THE SECRETARY OF STATE FOR TRANSPORT said that since the Committee's previous discussion BR's trading position had deteriorated and if nothing was done there was a danger of their external finance limit (EFL) would be breached by £80-100 million; in the light of the action now in hand, however, the eventual excess would probably be of the order of £40 million. The industry had made good progress during the 1960s in reducing manpower and improving productivity, but more recently manpower had been static and productivity had declined. The policies adopted by the Government since taking office had now started to take effect. A substantial number of significant measures had already been introduced, and more were planned. The proposals put forward by the CPRS included further major changes. Trade union opposition to the changes already planned was hardening, and they would vigorously oppose the further measures proposed by the CPRS. It was therefore important for the Government to have some means of ensuring that the manpower reductions and productivity improvements necessary, if BR were to be placed on a firm financial footing for the future, were achieved. This could be best approached through the piecemeal approval of electrification proposals. There could be no doubt of the strength of the case for electrification. Even on the very pessimistic assumptions used by the CPRS, electrification had shown a positive return. The main issue for decision was, therefore, how best to use the approval of electrification to bring about the changes necessary in BR's operations. He endorsed the proposals put forward by the CPRS, that BR should be invited to prepare a ten-year programme of electrification but that the Government should approve proposals only on a route-by-route basis. This was, in his view, the best approach to ensuring that

improvements in productivity and manpower reductions continued to be achieved. Pressure was growing for a Government decision on electrification, and he therefore sought the approval of the Committee to his making a statement as soon as possible along the lines of the draft attached to E(81) 64.

MR IBBS said that the CPRS had examined only the commercial sectors of BR, namely freight and Inter-City services. They had not examined the non-commercial sectors. It was clear that Inter-City would be unlikely to meet its financial targets in the foreseeable future, and that the freight business would continue to make losses for many years, even on BR's own forecasts, which assumed that the necessary productivity improvements would be achieved; the outcome could, therefore, be even worse. Major policy changes were clearly required. The CPRS recommended that immediate reductions should be made to the frequency of Inter-City services; that in the medium term the Inter-City network should be re-defined and a commercially viable core identified, with the remaining services operated to lower standards than at present; and that freight should be reduced primarily to train load traffic, concentrating on bulk commodities. The review had also examined the case for a programme of main-line electrification set out in the report of the joint Department of Transport/BR review. Its conclusions were that a case could be made for selective electrification, but that the benefits were too uncertain for the Government to agree immediately, to the electrification of an extensive network. The test of which routes should be chosen for electrification ought to be that of profitability.

THE CHANCELLOR OF THE EXCHEQUER said that he was concerned that the draft statement attached to E(81) 64 would not put sufficient pressure on BR and the trade unions to bring about the changes which were clearly necessary. It was important that the Government should secure a commitment from BR and the unions to do this before work began on the electrification of particular routes. He hoped that the draft statement circulated by the Secretary of State for Transport could be revised in that sense.

In discussion the following were the main points made -

- a. the 1980 railways pay settlement had included provisions for changes in working practices leading to a manpower reduction of 10,000 by 1985, but no progress had been made so far in negotiation with the trade unions. In the light of this experience it was doubtful whether BR would be able to

reach agreement with the trade unions on the still further changes necessary to achieve substantial improvements in productivity. The Government should make clear in any statement that firm and binding agreement should be reached between BR and the trade unions on the necessary changes in working practices before approval would be granted for the electrification of particular routes. The savings achieved by electrification arose largely out of increased productivity. If these could not be achieved, the public expenditure involved in electrification would be better spent on improving the road network.

- a. Although BR had acquiesced in the Government's policy on disposals, it was doubtful whether they were pressing ahead as vigorously as they might. The Government should therefore, require BR to finance at least part of the cost of electrification from the proceeds of disposals.
- b. Electrification would not lead to any increase in public expenditure, at least initially, since the cost could be accommodated within BRs EFL.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the proposals put forward by the CPRS in the summary of their review attached to E(81) 65 and agreed that the Secretary of State for Transport should invite the British Railways Board to submit electrification proposals for approval on a route-by-route basis, covering the next ten years. The approval of a particular electrification project should be conditional on the profitability of the investment in question and on the achievement of the necessary improvements in productivity. For the first projects BR should be required to finance at least part of the cost from further disposals. The Committee agreed that the Secretary of State for Transport should announce the Government's decision as soon as possible, but the draft announcement attached to E(81) 64 should be revised to make clear that the Government was not prepared to give a blanket commitment to the electrification of an extensive network, and that progress on electrification would depend on the achievement of the changes necessary to secure manpower reductions and improvements in productivity. The Secretary of State for Transport should clear the terms of a revised draft announcement with her and with the Chancellor of the Exchequer.

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The Committee -

1. Endorsed the proposals contained in the summary of the review by the Central Policy Review Staff attached to E(81) 63.
2. Agreed that the Secretary of State for Transport should invite the British Railways Board to submit proposals for electrification, on a route-by-route basis, covering the next ten years, for approval subject to the conditions indicated in the Prime Minister's summing up.
3. Invited the Secretary of State for Transport to agree the terms of an announcement of the Government's decision with the Prime Minister and the Chancellor of the Exchequer.

Cabinet Office

19 June 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(81) 20th Meeting Minutes, Item 1  
WEDNESDAY 17 JUNE 1981 at 4.00 pm

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NON-INDUSTRIAL CIVIL SERVICE PAY

The Committee considered a Memorandum by the Lord President of the Council (E(81) 67) on the next steps in the Civil Service pay dispute.

The Committee -

1. Endorsed the proposals set out in paragraph 14 of E(81) 67.
2. Invited the Minister of Agriculture to consider with the Chancellor of the Exchequer whether further measures might be possible to alleviate the impact of the Civil Service dispute on small businesses in the agricultural sector.

Cabinet Office

18 June 1981

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- 1. ~~Mr Hodgkins~~
- 2. Mr Verbeke ✓

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

- 3. cf. → (to return to the Cabinet office)

To see

Ref. A05112

19 June 1981

DJW  
19m

Dear Clive,

Civil Service Pay: Economic Strategy Committee, 17 June

I enclose a copy of the Most Confidential Record of the Economic Strategy Committee's discussions on Civil Service pay on 17 June. The existence of this Record was not mentioned in the Limited Circulation Annex issued after Wednesday's meeting and it should not, therefore, be referred to or quoted.

I am sending copies to John Wiggins (Treasury), Jim Buckley (CSD) and Richard Dykes (Employment). I should be grateful if they too would ensure that the Record is not referred to and that it is only seen by officials with a real need to know its contents.

In due course, I should be grateful if copies could be returned to me in the Cabinet Office.

Yours ever,

David

(D J Wright)  
Private Secretary

C A Whitmore Esq

Copy No2

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MOST CONFIDENTIAL RECORD

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

RECORD OF THE DISCUSSION AT E(81)20TH MEETING, ITEM 1

NON-INDUSTRIAL CIVIL SERVICE PAY

(Previous Reference E(81)19th Meeting)

THE COMMITTEE considered a Memorandum by the Lord President of the Council (E(81)67) and a minute of 12 June 1981 from Mr Hoskyns to the Prime Minister on the next steps in the Civil Service pay dispute.

THE LORD PRESIDENT OF THE COUNCIL said that the Council of Civil Service Unions would be meeting on the following day to decide on the next steps to take. There were only three options open to them: to call an all-out strike; to continue with their present campaign of selective industrial action; or to settle. The unions were running short of strike funds, and support for continued industrial action seemed to be dwindling; so a continuation of the present campaign of selective disruption seemed the most probably outcome. The best tactic for the Government would be to defer operational decisions until it was clear how the next stage of industrial action was likely to develop. There would however be advantage in announcing in the following week the setting up of an independent inquiry into Civil Service pay, together with the name of the Chairman and the terms of reference; and in doing so, and if it seemed appropriate at the time, to hint at the possibility that the operative date for the pay settlement of 1 April could not be held indefinitely in the face of continued industrial action. If these proposals were accepted, no decision need be taken yet on whether to implement the scheme outlined in E(81)67 or the proposals advocated by the Policy Unit. There should be no question of imposing a 7 per cent settlement at this stage.

MR HOSKYNs said that the threat not to back-date an eventual settlement to 1 April was a powerful negotiating lever for the Government, and it was important that it should be used to the maximum to persuade moderate civil servants to put pressure on their more militant colleagues to bring the industrial action to an end. He

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therefore advocated a statement by the Government that the operative date for the settlement might not be 1 April, if industrial action were to continue. The imposition of a 7 per cent settlement might be appropriate in the last stages of a strike, but to do so now might well not end the present industrial action. The Government would then have foregone a potentially useful option, and allowed civil servants who were engaged in industrial action to gain financially.

In discussion the following were the main points made:-

(i) If the Government were to organise a ballot of the Civil Service, there was no guarantee that the outcome would be a vote to accept the terms currently on offer.

(ii) Great care was needed over the timing of any decisions to escalate the dispute. A precipitate move could be counter-productive and store up trouble for the future. Any reference to moving the settlement date from 1 April made next week should therefore be in the most guarded terms, possibly in reply to a supplementary question rather than in the context of a statement announcing the setting up of an inquiry.

(iii) There might be advantage in asking the proposed committee of inquiry to produce an interim report in time for the 1982 pay settlement. The prospect of such an interim report could have a beneficial effect, particularly on the attitudes of middle and senior management levels in the service.

(iv) Further consideration should be given to possible measures to alleviate the impact of the Civil Service dispute on small businesses. Although a number of steps had already been taken, small businesses in the agricultural sector, in particular, were still experiencing difficult cash-flow problems.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed paragraph 14 of E(81)67. The Minister of Agriculture, Fisheries and Food should consider separately with the Chancellor of the Exchequer whether further measures might be possible on top of those already taken to alleviate the impact of the Civil Service dispute on small businesses in the agricultural sector.

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THE COMMITTEE -

1. Endorsed the proposals set out in paragraph 14 of E(81)67.
2. Invited the Minister of Agriculture to consider with the Chancellor of the Exchequer whether further measures might be possible to alleviate the impact of the Civil Service dispute on small businesses in the agricultural sector.

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