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CC(84) 28th Conclusions

COPY NO 74

CABINET

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

THURSDAY 26 JULY 1984

at 10.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Lord Hailsham
Lord Chancellor

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 James Prior MP
Secretary of State for Northern Ireland

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 Lord Cockfield
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King
Secretary of State for Employment

The Rt Hon Michael Jopling MP
Minister of 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

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

The Rt Hon Baroness Young
Minister of State, Foreign and Commonwealth Office (Items 1-3)

The Rt Hon Earl of Gowrie
Minister of State, Privy Council Office (Item 5)

Mr John Gummer MP
Minister of State, Department of Employment

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Items 4 and 5)
Mr D F Williamson (Items 2 and 3)
Mr B G Cartledge (Items 2 and 3)
Mr M S Buckley (Items 4 and 5)
Mr C J S Brearley (Item 1)
Mr S B Hickson (Item 1)

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PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the week beginning 21 October following the Summer Adjournment.

Civil Aviation Authority Report on Airline Competition Policy

Previous Reference: CC(84) 27th Conclusions, Minute 1

THE SECRETARY OF STATE FOR TRANSPORT said that, in accordance with the Cabinet's conclusions the previous week the Chancellor of the Exchequer and he had explored with the Chairman of British Airways (BA), Lord King, the possibility of a compromise transfer of routes between BA and British Caledonian (B Cal). They had concluded that no compromise transfer could be agreed. He had also had a letter from the Chairman of B Cal, Sir Adam Thomson, about their position. The debate in the House of Commons the previous day had not been very satisfactory, but the Parliamentary Under Secretary of State, Department of Transport, had been able to avoid entering into any commitments, and had canvassed the possibility of a statement during the Parliamentary Recess.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet needed to reach considered conclusions and would seek to do so at a meeting the following week. The Secretary of State for Transport should prepare and circulate as soon as possible, and not later than 30 July, a memorandum setting out fully the issues for decision and the relevant considerations, including the position of B Cal. It would not now be possible to make a statement to Parliament before the Summer Adjournment but, if necessary, decisions could be announced while Parliament was adjourned.

The Cabinet -

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

2. Agreed to resume the discussion at their next meeting on 2 August.

FOREIGN AFFAIRS

Hong Kong

Previous Reference: CC(84) 19th Conclusions, Minute 2

2. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (BARONESS YOUNG), said that the Foreign and Commonwealth Secretary, who was at present in Hong Kong, would be visiting Peking on 27 July and returning to Hong Kong for a second short visit on 31 July. In Peking, his objective would be to give new impetus to the negotiations on the future of Hong Kong which would enable progress to be made on the draft Agreement and its detailed Annexes. In Hong Kong, he would be concerned to reassure public opinion about the state of the negotiations and he would consult the Unofficial Members of the Hong Kong Executive Council on the future course of the talks; he also

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expected to be able to make a further public statement, explaining the British Government's approach to the negotiations and the outcome which it was hoped to secure.

Composition of the French Government

Previous Reference: CC(84) 27th Conclusions, Minute 2

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, reported on the composition of the new French Council of Ministers, following the appointment of Monsieur Laurent Fabius as Prime Minister. The new Government contained no Communist Ministers, but all shades of Socialist opinion were represented, including the Left Wing and Left Radical Parties. The French President, Monsieur Mitterrand, had evidently decided that the time was ripe for a change, particularly in the light of the recent elections to the European Parliament in which the Socialist Party had fared poorly. He may have been obliged to make changes in the Government earlier than he had intended as a result of the resignation of Monsieur Alain Savary, the former Minister of Education, whose controversial Bill to reform private education had been withdrawn from Parliament on the President's instructions, apparently without prior consultation with the Minister. Little change in French domestic or foreign policy was expected as a result of the formation of the new Government.

Luxembourg

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that there was also a new Government in Luxembourg, following the national elections in June, consisting of a coalition between the Christian Socialist Party and the Socialists. No policy changes were expected.

Israeli Elections

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that, in the general election in Israel on 23 July, both the Likud and the Labour Parties had suffered from a large number of desertions to the smaller parties. The results of the election confirmed the tendency towards polarisation in Israeli politics and a worrying drift towards extremes. Although Mr Yitzhak Shamir, the leader of the Likud Party, could derive some comfort from the results, neither of the major parties was in a good position to form a coalition, and negotiations to create one were likely to be prolonged. Whatever their outcome, the prospects for the peace process in the Middle East had not been improved. Irrespective of the composition of the eventual coalition, it was certain to be weak.

In a brief discussion, it was pointed out that although the outcome of the Israeli elections graphically demonstrated the dangers of proportional representation, there was no apparent inclination in Israel to change its electoral system. The Likud Party had achieved a better result than might have been expected at a time when inflation had reached a level of 400 per cent.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Community Budget and United Kingdom Refunds

Previous Reference: CC(84) 27th Conclusions, Minute 3

3. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (BARONESS YOUNG), reported that, following the disagreement in the Council of Ministers (Budget) on 19-20 July, there had been further discussion at the Council of Ministers (General Affairs) on 23-24 July of the Commission's proposals for a supplementary Community budget for 1984 and for the preliminary draft Community budget for 1985. The Foreign and Commonwealth Secretary had made clear that there should be savings and deferrals of expenditure in 1984; that the United Kingdom would then be ready to find a solution for the 1984 budget overrun in a way which respected the Community's own resources system; and that, as the savings and deferrals would put pressure on the 1985 budget, the United Kingdom would be prepared to see the revised decision on the Community's own resources come into force during 1985. The other nine member states were pressing the United Kingdom strongly for supplementary financing in 1984. Only Germany was firmly opposed to the introduction of new own resources during 1985.

In discussion it was said that it was regrettable that other member states in the Community attached so little weight to budget discipline and that they were so ready to try to exploit a nine to one situation against the United Kingdom. There would probably now be difficulties in the European Parliament, which was debating the results of the European Council at Fontainebleau. It remained to be seen whether the President of the European Parliament would sign the letter authorising the transfer from the reserve chapter of the budget of the funds necessary for the United Kingdom's 1983 refund.

Presidency of the European Parliament

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, reported that the European Parliament had elected Monsieur Pflimlin, a Christian Democrat and former Prime Minister of France, as its President. The European Democratic Group had supported Monsieur Pflimlin when their candidate, Baroness Elles, had withdrawn after the first ballot. Over a period of time this might facilitate a closer relationship in the European Parliament between the European Democratic Group and other political groups of similar views.

In discussion it was noted that Frenchmen would now hold the major international posts in the European Parliament, the Commission, the International Monetary Fund and the Organisation for Economic Co-operation and Development. This demonstrated the persistence with which the French pursued their national interest and how the long running, although necessary, dispute within the Community about the budget had set the United Kingdom apart from the main stream.

The Cabinet -

1. Took note.

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Agriculture

Previous Reference: CC(84) 27th Conclusions, Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that he was being kept informed of the development of milk production in the Community following the introduction of the super-levy/quota scheme and that he had received an assurance that the Commission would present a full report to the Council of Ministers (Agriculture) in September about the application of the scheme in all member states. It was probable that, because of the fall in United Kingdom milk output, there would be no super-levy to be paid from the United Kingdom when it became due at the end of September. It would not therefore be in the United Kingdom's interest to argue for any deferment of the payment of the super-levy.

In discussion it was said that there were reports that adequate action was not being taken in France and, in particular, that new direct sales off farms were being encouraged. This would not, however, exempt the milk from super-levy, and it was important that the monitoring should be effective.

The Cabinet –

2. Invited the Minister of Agriculture, Fisheries and Food to inform the Ministers principally concerned about the trend of milk production and the application of the milk super-levy/quota scheme in other member states, as soon as this information was received from the Commission before the Council of Ministers (Agriculture) in September.

INDUSTRIAL AFFAIRS

Coal Industry Dispute

Previous Reference: CC(84) 27th Conclusions, Minute 4

4. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

International Computers Limited

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that Standard Telephones and Cables plc (STC) had that morning announced that it was making a bid for the whole of the share capital of International Computers Limited (ICL). STC was now no longer a subsidiary of the United States company International Telephone and Telegraph. There was a Government guarantee outstanding to ICL on a temporary and diminishing basis. The proposed merger would fall to be considered

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by the Director General of Fair Trading in the normal way. If the merger eventually went ahead, it was possible that an opportunity might arise to terminate the guarantee; the merger would in any case make it less likely that the guarantee would be called.

The Cabinet -

Took note.

PERFORMANCE-RELATED PAY

5. The Cabinet considered a memorandum by the Minister of State, Privy Council Office (C(84) 20) on performance-related pay in the non-industrial Civil Service. The Cabinet's discussion is recorded separately.

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26 July 1984

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Sir Robert Armstrong (Bound Volume)

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 28th Conclusions, Minute 4

Thursday 26 July 1984 at 10.00 am

INDUSTRIAL AFFAIRS

Coal Industry Dispute

Previous Reference: CC(84) 27th Conclusions, Minute 4

THE SECRETARY OF STATE FOR ENERGY said that pits fully working numbered 26 with a further 20 on holiday. There were also seven pits with some production with a further two on holiday; and pits with some workers in attendance numbered one with a further two on holiday. One pit in Lancashire was not producing coal for the first time. Over the previous few days there had been considerable activity by moderate miners to organise a return to work; it was difficult to judge how successful this would be. The figures for the numbers of miners at work were complicated by the incidence of holidays, but the best estimate of the National Coal Board (NCB) was that over the previous three and a half weeks attendance had improved by some 500. Coal movements during the previous week had been the highest since the strike began; the rundown of power station coal stocks had been only 750,000 tonnes. As he had made clear on television, power station endurance would last well into 1985, and plans to ensure that were well in hand. The priority over the next few weeks would be to maintain and improve the volume of coal being produced and moved. It was particularly important that there should be high attendances by the Nottinghamshire miners when they returned from their holidays on Monday 6 August. The Department of Energy would shortly be launching an Energy Efficiency Campaign, which had the full support of the Confederation of British Industry and would be reinforced by extensive press advertising. It was not related to the miners' strike but to encouraging savings in energy costs. If successful, the Campaign might yield a reduction in energy consumption of 5-10 per cent; and this would further assist endurance. Any action which Ministers were able to take in their Departments to further the Campaign would be welcome.

THE SECRETARY OF STATE FOR SCOTLAND said that there had been heavy picketing at the Bilston Glen pit which had resumed working after the holidays, and there had been attacks at night on the homes of working miners. The number of miners at work was however no less than before the holiday. The police had stepped up their efforts to deal with both violent picketing and intimidation, and 38 arrests had been made. The local NCB management hoped that the numbers of miners at work would increase in the following week. It was noticeable that the pickets had been drawn from North-East England, presumably because Scottish miners were unwilling to take part.

THE HOME SECRETARY said that there had been a marked increase in the number of arrests and charges for intimidation and violence, in some cases for serious offences such as grievous bodily harm. All but a small percentage of those arrested and charged had been miners. Few cases had yet been dealt with in the courts and, where they had been, sentences had been light. He continued to be in close touch with the Lord Chancellor and the Attorney General about reducing delays in the courts. Stipendiary magistrates would shortly be sitting at Chesterfield and Rotherham and a further application for a stipendiary magistrate was expected shortly.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that there were no current problems at the British Steel Corporation (BSC), where several major plants were on holiday. There was however a potential source of friction at Immingham over the loading on to lorries of iron ore, the issue which had been the occasion for the recent dock strike. BSC was at present training dock workers to work the loading equipment and were aware that the situation required careful handling. There were still no problems for coal burning industry generally but it seemed likely that some companies would run short of coal for space heating in late September or early October.

The following were the main points made in discussion -

a. Although open-cast coal production had continued, it was not possible to move the coal from sites where those responsible for handling were striking members of the National Union of Mineworkers (NUM). On at least one site the movement of open-cast coal stocks by lorry was inhibited by planning restrictions; the Department of Energy would be consulting the Department of the Environment on how these obstacles might be dealt with.

b. There had been reports that a few coal faces were being closed for geological reasons as a result of the strike. More faces were likely to be lost as time went on, and this could help to encourage the return to work.

c. There was evidence that some NUM areas, notably Yorkshire and South Wales, were running short of funds because of large sums spent on allowances for pickets.

d. The NCB remained of the view that it would not be helpful for them to pursue civil remedies in the courts against the NUM. A case had however been brought by haulage firms in South Wales; the use of civil remedies could be reviewed in the light of the outcome of that.

THE PRIME MINISTER, summing up the discussion, said that, at a time when there was extensive activity by moderates trying to encourage a return to work, it would be appropriate for Ministers to adopt a somewhat lower profile in the media than during the previous weekend. It would also be important to keep in mind over the next few weeks the return to work of the Nottinghamshire miners after their holidays, and the build up

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to the Annual Conference of the Trades Unions Congress in September. The Government should however remain forthright in condemning violence and intimidation. It should be made clear that the NCB would not go beyond the offer made in the talks on 18 July which had been a very reasonable one. The message should be repeated that the miners were relatively well paid, had the benefit of massive investment funded by the taxpayer, and had been offered exceptionally generous terms for voluntary redundancy and that no national ballot had been held to authorise the strike. The Secretary of State for Energy would ensure that regular and frequent briefing was provided by his Department both to Ministers and to selected backbench Members of Parliament during the Summer Recess.

The Cabinet -

Took note.

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27 July 1984

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 28th Conclusions, Minute 5

Thursday 26 July 1984 at 10.00 am

PERFORMANCE-RELATED PAY

The Cabinet considered a memorandum by the Minister of State, Privy Council Office (C(84) 20) on performance-related pay in the non-industrial Civil Service.

THE MINISTER OF STATE, PRIVY COUNCIL OFFICE said that the Government had accepted in principle the desirability of introducing some form of performance-related pay in the Civil Service. The Megaw Inquiry into Civil Service Pay had made recommendations on the subject. The Government was engaged upon a profound change in the style and professionalism of management in the Civil Service. This should be supported by encouraging good performance and improving motivation. There was a presumption that there was a link between motivation and financial reward. The time had come to test whether that presumption was valid in the public service by trying out a system of performance-related pay. This should be done on a basis which would enable Ministers to discontinue the system if experiments suggested that, after all, it had no place in public service pay, at least at levels which the taxpayer could afford. The case for testing such a system was strengthened by the sharp diminution of promotion opportunities because of reductions in the size of the Civil Service. It would also improve management by obliging managers consciously to assess the performance of those for whom they were responsible.

He had discussed the matter with the Chancellor of the Exchequer. They were agreed that it would be wrong to seek to move in one step to a fully-fledged merit or performance pay system. Instead, there should be a programme of relatively small-scale experiments, starting on 1 April 1985, which would enable Ministers to test systems and come to a view on effectiveness. There should be an explicit time limit of, say, three years after which the position should be reviewed. Ministers could then decide whether to press ahead with more permanent arrangements or to abandon the idea. The initial experiments should be confined to systems of annual (or bi-annual) bonuses; the award of bonuses to individuals should be confidential. A credible bonus system could not be achieved by spending less than 1 per cent of the pay bill of those

to whom the bonuses were available. The experiments ought to embrace the total population of Civil Service grades from Principal (and equivalents) to Grade 3 (Under Secretary). The task would then be more manageable and the results more readily assessed; the grades concerned were those on whom Ministers relied to carry through plans for modernising and improving the performance of the Civil Service; and it was necessary to demonstrate to the public that the incentives and disciplines of performance-related pay applied at senior levels. The Chancellor of the Exchequer had agreed that a gross amount of £4 million a year might be expended on an agreed programme of merit bonuses. It would be important to avoid the impression that the Government was prepared to give more money to the better paid, but not to contemplate performance-related pay arrangements for the lower paid; or that the introduction of performance-related bonuses for some staff would be financed at the expense of their colleagues. The Chancellor of the Exchequer had therefore agreed, first, that when the scheme was announced it should be made clear that the Government was willing to discuss with the Civil Service trade unions the possibility of conducting further merit bonus experiments at more junior levels; the discussion would be without commitment as to method, timing or finance, but on the understanding that any schemes that were identified and approved would be introduced as early as practicable. Secondly, the experimental schemes proposed in C(84) 20 should not be required to be, nor be described as being, financed within existing overall provisions for Civil Service pay. Officials of the Cabinet Office (Management and Personnel Office) and the Treasury, in consultation with Departments, should prepare detailed proposals for consideration and approval by the Ministers concerned. The Head of the Home Civil Service should be instructed to arrange for the effectiveness of the schemes to be audited so that the Cabinet could, in due course, consider whether to introduce definitive schemes of performance-related, or merit, pay and, if so, what form these schemes should take. There should be no announcement of the Government's proposals, or discussion of them with the Civil Service trade unions, until the current negotiations on the 1984 pay settlement for the non-industrial Civil Service had been concluded.

In discussion, the following main points were made -

a. Although there was general agreement that it would be desirable to proceed with experiments with performance-related pay systems, some members of the Cabinet questioned whether the particular proposals in C(84) 20 were satisfactory. Most staff in grades between Principal and Under Secretary were already highly motivated. It was open to doubt whether payment of bonuses would improve either their motiviation or their performance. Moreover, it was envisaged that the average bonus would be only 4 per cent of salary. Experience in the private sector suggested that this would be quite inadequate, and that bonuses of the order of at least 10 per cent were needed if they were to be effective. There was a stronger case for introducing bonus schemes of the type discussed in C(84) 20 for more junior grades. Indeed, the Megaw Report had recommended that approach.

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For grades between Principal and Under Secretary it had recommended performance-related pay ranges. Even as experiments, the proposed schemes might be inadequate: it was all too likely that they would be ineffective and fail to produce any useful evidence. They might also be difficult to withdraw if they were unsuccessful.

b. On the other hand, there were serious difficulties about introducing experimental schemes for more junior grades. They would be much more costly in terms of their effect on the pay bill and much more difficult to administer and assess. The Civil Service trade unions, who were likely in any event to be opposed to the introduction of performance-related pay arrangements, would be particularly active among staff at more junior levels and would try to insist on a degree of rigidity and uniformity which was inappropriate to such arrangements. It might be true that civil servants in the grades covered by the proposals in C(84) 20 were in general highly motivated; but it was right, both in itself and in order to influence the attitude of others, to make it plain that hard work and good performance would be rewarded.

c. There were signs that the pay of able civil servants in middle and senior management was falling markedly behind that of people in similar positions in outside industry. The Civil Service could not afford to lose such staff. The introduction of a scheme on the lines suggested in C(84) 20 might help to avoid this. On the other hand, it was argued that performance-related pay schemes were not intended to and would not correct inadequate general levels of pay; and that the bonuses that would be paid under the proposals in C(84) 20 would be too small to affect the choice of anyone deciding whether to stay in the Civil Service or to take employment elsewhere.

d. There was a danger that the proposals in C(84) 20 would stir up resentment among the grades not covered by them. There would also be serious problems in allocating bonuses between capable staff in small units.

e. It was always possible to criticise any particular form of performance-related pay arrangements. There was a risk that such criticism would be allowed to prevent all progress or experiment. The Government favoured performance-related pay arrangements in principle; it should adopt the experimental approach recommended in C(84) 20 as the best available practical option.

THE PRIME MINISTER, summing up the discussion, said that, although some Ministers had misgivings about the proposals in C(84) 20, on balance the Cabinet favoured proceeding with them. It would be essential to avoid any announcement of the Government's decisions, or discussion of them with the Civil Service trade unions, until after negotiations on the 1984 non-industrial Civil Service pay settlement had concluded.

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The Minister of State, Privy Council Office should keep in close touch with the Chancellor of the Exchequer regarding the timing of discussions with the trade unions and public announcements.

The Cabinet -

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

2. Subject to the points regarding timing made in the Prime Minister's summing up, approved the proposals in C(84) 20.

Cabinet Office

27 July 1984

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