CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 14 October, 1970, at 10 a.m.

Present:
The Right Hon. EDWARD HEATH, M.P., Prime Minister
The Right Hon. REGINALD MAUDLING, M.P., Secretary of State for the Home Department
The Right Hon. LORD HAILSHAM OF ST. MARYLEBONE, Lord Chancellor
The Right Hon. WILLIAM WHITELAW, M.P., Lord President of the Council
The Right Hon. SIR KEITH JOSEPH, M.P., Secretary of State for Social Services
The Right Hon. MARGARET THATCHER, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL JELLICCE, Lord Privy Seal
The Right Hon. PETER THOMAS, QC, M.P., Secretary of State for Wales
The Right Hon. MICHAEL NOBLE, M.P., President of the Board of Trade

The Right Hon. SIR ALEC DOUGLAS-HOME, M.P., Secretary of State for Foreign and Commonwealth Affairs
The Right Hon. ANTHONY BARBER, M.P., Chancellor of the Exchequer
The Right Hon. LORD CARRINGTON, Secretary of State for Defence
The Right Hon. ROBERT CARR, M.P., Secretary of State for Employment and Productivity
The Right Hon. GORDON CAMPBELL, M.P., Secretary of State for Scotland
The Right Hon. PETER WALKER, M.P., Minister of Housing and Local Government
The Right Hon. JAMES PRIOR, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. JOHN DAVIES, M.P., Minister of Technology

The following were also present:
The Right Hon. JULIAN AMERY, M.P., Minister of Public Building and Works (Items 2 and 3)
The Right Hon. JOHN PEYTON, M.P., Minister of Transport (Item 3)
The Right Hon. THE VISCOUNT ECCLES, Paymaster General (Item 3)
Mr. MAURICE MACMILLAN, M.P., Chief Secretary, Treasury (Items 2-4)
The Right Hon. FRANCIS PYM, M.P., Parliamentary Secretary, Treasury
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The Home Secretary said that, together with the Minister of Housing and Local Government, he had met representatives of the local authority employers on the previous day and had given them an assurance that, provided that the local authorities did everything in their power to mitigate any damage resulting from the strike of their manual workers in some areas, the Government would protect their ratepayers against the financial consequences of any litigation brought as a result of the interruption of essential services caused by their standing firm in the dispute. If the local authorities, after making every effort, could not maintain services essential to public health, including the water supply, and if the trade unions refused to co-operate in this task, the Government were ready to provide assistance.

They had later met representatives of the manual workers’ trade unions and had given them the same information. Both groups had received it equably.

The Minister of Housing and Local Government said that the employers’ representatives had said that they had it in mind to propose an independent inquiry into the long-term pay structure of the manual workers and, perhaps, some improvement of their current pay offer. Together with the Home Secretary, he had tried to discourage them on both counts. From Press reports, however, it appeared that they had decided in the event to publish the 14\(\frac{\%}{2}\) per cent offer, already informally suggested to the trade unions before the strike began, and to put this to the unions formally on 16 October. It was unfortunate that the support for the manual workers’ case in that day’s Daily Mirror, together with a general impression that the resistance of the local authorities was weakening, would probably encourage the unions to reject the new offer.

In preparation for a continuation of the strike, he was making plans for the possible use of Servicemen at a number of places where there would be the greatest risk to water supply if sewage effluent was unsatisfactory. It would be difficult, however, to maintain the standard of services by using Servicemen at sewage works unless the supervisory staff continued to co-operate. The possibility of arranging special training for Servicemen, in order to enable them to carry out a wider range of functions at sewage works, was therefore being studied. A reassessment of the numbers of men and skills which might be required from the Armed Forces was being made; but it was not expected to show the need for greater numbers than had already been given to the Ministry of Defence.
The Prime Minister, summing up a short discussion, said that
the Cabinet agreed that the local authority employers should
continue to be urged to avoid increasing their current pay offer. An
appropriate occasion should be taken before 16 October for a
further declaration by a senior Government Minister that
unreasonable pay awards, such as that claimed by the local authority
manual workers, could inflict serious damage on the national
economy and must be strongly resisted. Officials should carry out a
study of all possible means of ensuring that public sector bodies
which conceded an unreasonable pay increase should not be able to
pass on any part of the excess costs to the Exchequer, as local
authorities were in practice now able to do under the rate support
grant arrangements.

The Cabinet—

(1) Took note, with approval, of the summing up of their
discussion by the Prime Minister.

(2) Invited the Chancellor of the Exchequer, in consultation
with the other Ministers concerned, to arrange for
officials to examine possible means of ensuring that
public sector bodies themselves bore the excess costs of
any unjustifiable pay increase which they granted; and
to make recommendations.

(3) Invited the Lord President of the Council to consider how
a further public declaration could best be arranged
before 16 October of the Government's attitude on
unreasonable pay claims, such as those of the local
authority manual workers.

2. The Cabinet considered memoranda by the Minister of
Housing and Local Government on housing finance (CP (70) 64) and
on rent allowances for private tenants (CP (70) 75).

The Minister of Housing and Local Government said that some
system of financial help for poorer private tenants was an essential
part of the strategy which had been outlined in his memorandum
CP (70) 64 and was designed to achieve a saving in
public expenditure of over £200 million in 1975–76. Unless
financial help were given to such tenants, it would be necessary to
phase the progression to fair rents over a period of several years;
and this would remove most of the incentives which his proposals
were meant to offer to landlords to repair and improve older houses
and so to conserve the housing stock. His proposals for moving
towards a fair rent basis were more far-reaching than any put
forward by previous Conservative Governments and were bound to
be unpopular with certain sections of the community. The provision of help for poorer private tenants, however, would make them more defensible because they would then be seen to be socially just. Moreover, the Conservative Party were pledged to ensure that tenants, whether of private property or of council houses, received fair treatment. The cost of establishing a system of rent rebates for private tenants had already been allowed for in calculating the savings to be expected from his new housing policy; and no further expenditure was therefore involved. Indeed, the figure of £25 million in paragraph 19 of CP (70) 75 assumed a take-up of 80 per cent, which was higher than was likely to be realised. The rebate scheme would best be administered by local authorities, who would apply the same tests as they applied to tenants of their council houses and would meet a significant part of the cost. On this basis the administrative cost of the scheme should not be great.

In discussion it was suggested that to introduce rent rebates for private tenants would be to introduce a new form of subsidy which might delay the establishment of a free market in housing. But the general view was that such rebates were an essential element in the new scheme of housing finance and were also not inconsistent with the Government’s political principles. Moreover, they would make it possible to move faster on to a basis of fair rents, so helping to preserve older houses as well as preventing hardship. In the conurbations complete decontrol of rents would be out of the question for many years to come; but where there was no scarcity of accommodation fair rents should be equivalent to market rents. Moreover, unless help were provided for poorer private tenants, the increase in rents would bring the Government under heavy pressure to build more council houses to accommodate those who could not afford fair rents. Conversely, the introduction of rebates might make it unnecessary to build as many council houses as had been allowed for in the estimates of future expenditure; and the saving on this account might be even larger than had so far been predicted.

In Scotland privately-owned rented houses were few in number and dated mainly from the period 1880 to 1910. It would be difficult to establish a system of fair rents for council houses on so narrow a base; and at present it seemed that the best way of introducing a change of policy in parallel with that proposed for England and Wales might be to base rents on true historic costs. But the matter was being further considered by the Departments concerned.

Entrusting the administration of the scheme to local authorities had the practical advantage that the arrangements could then be operated through the same machinery as was used for giving rebates
to council tenants; and the experience of Birmingham suggested that on this basis the additional administrative cost should be comparatively small. Local authorities would have a sufficient financial stake in the success of the scheme to ensure responsible administration; and there would be safeguards against abuse by tenants living in expensive accommodation.

In further discussion the Cabinet considered whether an announcement of the Government's intentions should be made before the publication of the forthcoming White Paper on Public Expenditure. This would have the advantage of providing a background to the reduction in expenditure on housing which the White Paper would disclose. But legislation would not be practicable before the following Session; and it must be expected that in the meantime opposition to the scheme would become increasingly vocal. The balance of advantage therefore required further consideration. But it was clear that it would be unwise to make any statement before the scheme had been worked out in detail and on a defensible basis; and the Housing Ministers should therefore bring their proposals before the appropriate Cabinet Committee as soon as possible.

The Prime Minister, summing up the discussion, said that the Cabinet approved the proposals in CP (70) 75. Both the timing and the form of the announcement of the Government's intentions, however, required further consideration; the Government were taking a major initiative and it must be presented accordingly. A statement of general principles alone would be a mistake; any statement must be comprehensive and the Government must be in a position to deal with any criticisms which might be expressed. The Housing Ministers should therefore bring their proposals before the Home Affairs Committee as soon as possible.

The Cabinet—

(1) Approved in principle the proposal in CP (70) 75.

(2) Invited the Minister of Housing and Local Government, in consultation with the Secretaries of State for Scotland and Wales, to bring detailed proposals before the Home Affairs Committee as rapidly as possible.

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*3. The Cabinet had before them a note by the Chancellor of the Exchequer (CP (70) 81) covering two tables summarising the results of the review of public expenditure.

The Chief Secretary, Treasury, said that the tables showed the outcome of the public expenditure review in the form in which they

* Previously recorded in a Confidential Annex.
would be published. The basis from which they started allowed for a number of policy decisions taken by the previous Government and for the re-costing of existing programmes since the publication of Cmnd. 4234. This enabled reductions to be shown in respect of the decisions not to provide further funds for the IRC, not to nationalise the Ports and to reduce defence expenditure below the long-term costings. Allowance was also made for certain decisions taken in July, for instance on pensions for the very old and widows. In view of the uncertainties about the precise savings likely to be obtained and the need for consultations with other countries on agricultural levies and with the local authorities on housing, these two programmes had been grouped in an unallocated block with the existing contingency reserve. While the total savings for 1971–72 was still small, that for 1974–75 was more satisfactory. Overall, the average rate of growth of public expenditure would be reduced from about 3.7 per cent per annum to 1.8 per cent if investment grants were included in the totals for the period before abolition, and 2.7 per cent if they were excluded. The balance of the package as shown in column (c) of table 2 was also satisfactory; but it should be appreciated that the substantial reduction in the level of the upratings of social security benefits in 1971 and 1973 was taken into account in the unallocated reserve and was not shown as a cut in social services.

The Chancellor of the Exchequer said that, following the discussion in Cabinet on 6 October, his proposals in respect of investment incentives had been considered by a small group of the Ministers most closely concerned. While certain details remained to be fully worked out, agreement had been reached on a scheme which would meet the Government's commitments and would involve a net saving to the Exchequer in 1972–73, 1973–74 and 1974–75 of some £100 million a year.

In discussion the following points were made:

(a) The figure of £360 million savings in 1974–75 in respect of housing, agriculture and adjustments to the contingency reserve, including the reduced level of the 1973 uprating, seemed low.

(b) Since cuts had not in fact been made in expenditure on environmental services, it would be helpful if the name of that programme group were changed. On the other hand, it would be difficult to change the established title of one group alone; and it might be preferable to make clear in the White Paper the nature of the reductions involved.
The net reductions in 1971-72 amounted to well under £300 million; but they appeared larger because of the substantial adjustment of £73 million. This, however, had been calculated on the established basis.

It would be appropriate to consider at a later stage whether a full public expenditure White Paper in the established form should be published early in the New Year.

The Cabinet—

(1) Took note of the statements by the Chief Secretary, Treasury, and the Chancellor of the Exchequer.

(2) Invited the Chief Secretary, Treasury, to give further consideration to the estimate of an unallocated reduction of expenditure of £360 million in 1974-75, including the savings on housing, agriculture, and the uprating of social security benefits.

The Lord President said that he had been giving consideration to the legislative implications of the public expenditure review as a whole. It would not be possible to pass through all their stages by Christmas certain Bills which he had been informed would be needed by then if the full savings estimated for 1971-72 were to be obtained. The Ministers concerned should therefore consider whether these savings could still be obtained if the Bills were not passed until rather later or whether the estimated savings for 1971-72 should be reduced.

The Cabinet—

(3) Took note of the statement by the Lord President.

The Cabinet considered a memorandum by the Minister of Technology and the Chief Secretary, Treasury (CP (70) 73) covering a report by officials on reductions in the investment programmes of the nationalised industries for which the Minister of Technology was responsible.

The Minister of Technology said that, following the Cabinet discussion on 28 September, he had arranged, together with the Chief Secretary, Treasury, for officials to make recommendations for a reduction of £50 million in 1974-75 in the investment programmes of the nationalised industries for which he was responsible. Agreement had been reached on reductions in investment by the gas and electricity industries rising to £50 million in 1974-75. These assumed, however, that the winter plant margin of the electricity industry could be reduced to 17 per cent. The implications of this were being considered in fuller detail; and he must reserve the right to reopen the question, if necessary, at a later date. The agreed
programmes for the industries make no provision for an increase beyond £185 million a year in investment by the British Steel Corporation. He might later need to bring forward proposals for increased investment in steel plant for consideration by the Cabinet in relation to other claims on the contingency reserve.

The Cabinet—

(4) Took note of the statement by the Minister of Technology.

(5) Endorsed the proposals for reductions in investment in the gas and electricity industries set out in CP (70) 73.

The Cabinet considered a memorandum by the Chief Secretary, Treasury (CP (70) 76), summarising the impact of the public expenditure measures on families, together with a memorandum by the Home Secretary (CP (70) 78) about the timing of measures to help the poorer families.

*The Chief Secretary, Treasury,* said that the poorest families would remain exempt from the increased social service charges or entitled to have them refunded and would continue to enjoy welfare milk. Many of these families would also be better off when the Family Income Supplement (FIS) was introduced in the summer of 1971; none of them would be worse off in the interval. Around the £20–£24 a week wage level (according to the size of family) there was a narrow band of families who, under the existing arrangements, would neither be exempt from the new charges nor pay a large amount of tax and so gain from any tax reductions. To them the additional cost, which might on average amount to some 12s.–13s. a week, might represent a real additional burden; but specific mitigation measures had been directed to this category of families and the raising of the present remission limits would mean that many would on balance be better off than at present. Above this group the increased cost would represent a progressively smaller percentage of incomes; and those concerned would benefit from any reductions in direct taxation. The changes in the method of agricultural support when they came into effect at earliest in the autumn of 1971, might increase the cost of living by about 0.4 per cent. By then, however, FIS should be in force; and it was proposed that its scope and scale should be enlarged to counter the impact of the increase in food prices. The increases in costs due to the change in housing policy would not start until 1972–73; and by then householders should have the benefit of tax reductions and rising real incomes. Moreover, any real hardship should be met by the proposed rebate scheme. The higher fares for London area rail
Steel Prices
(Previous Reference: CM (70) 10th Conclusions, Minute 7)

The Secretary of State for Social Services said that officials had given further consideration to the timing of the increase in charges in the social services in relation to the introduction of the FIS. Under the existing remission arrangements families at present exempt from paying charges would be unaffected by the proposed increases (always provided that they took up their existing entitlements); and these exemptions already covered family incomes well in excess of the maximum admissible for families of comparable size under the FIS scheme. In the circumstances, he would not wish to propose that the implementation of the charges increases should be delayed until the FIS came into effect in August 1971, especially since a postponement would reduce the savings from the changes by at least £25.6 million. He was, however, proposing a campaign to publicise the extent of the available exemptions and remissions in the hope of increasing the proportion of those eligible who took advantage of them.

The Cabinet—

(6) Took note, with approval, of the statements by the Chief Secretary, Treasury, and the Secretary of State for Social Services.

(7) Agreed that the increases in charges for social services should not be delayed until the Family Income Supplement scheme came into effect.

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4. The Cabinet considered a memorandum by the Minister of Technology (CP (70) 79), to which was annexed a draft statement on steel prices.

The Minister of Technology said that the Iron and Steel Consumers Council (ISCC) had reported in mid-September on the proposal of the British Steel Corporation (BSC) to increase steel prices by 5 per cent on average and had recommended that the application should be rejected. Since that time, however, the BSC's forecast outturn for the current financial year had deteriorated by a further £22 million. The Ministerial Committee on Economic Policy (EPC) had agreed in these circumstances that there was no alternative to acceptance of the Corporation's proposal for a 5 per cent increase. He was obliged by Statute to make a statement to Parliament of the reasons why he was rejecting the advice of ISCC;
and he therefore proposed to issue forthwith an announcement in the terms of the draft annexed to CP (70) 79.

The further deterioration in the BSC’s finances since mid-September, coming on top of an £85 million deterioration in the earlier months of this year, provided grounds for serious concern. Some four-fifths of this deterioration could be attributed to the late introduction and poor performance of new plant and the consequent need for the Corporation to continue running old and costlier plant. Responsibility lay mainly with the Corporation, but partly with the plant manufacturers. His statement accepting the need for the price increase, which would still leave domestic steel prices somewhat below those of other countries, would therefore make clear the Government’s dissatisfaction with the industry’s current financial performance and their determination to introduce a more rigorous financial discipline for the future. In accordance with the decisions of EPC, officials were now undertaking an urgent examination of the financial requirements and conditions to be imposed on the Corporation for the future.

The Prime Minister, summing up a brief discussion, said that the Cabinet agreed that an immediate 5 per cent increase in steel prices was inescapable. The Minister of Technology should, however, urgently re-examine both the finances and financial management of the BSC and should agree with the Chancellor of the Exchequer, the financial requirements and conditions to be imposed on the Corporation in order to enforce a more rigorous discipline for the future. Since there had already been Press reports to the effect that the Government were to authorise the proposed price increase, it would be preferable to announce the decision without waiting until the new financial requirements could be specified in the statement. But the draft annexed to CP (70) 79 should be considerably firmer in tone. In particular, it should emphasise that the BSC had applied for the increase in August because of the deterioration in their financial position during the earlier months of the year and that the ISCC’s subsequent report, recommending the rejection of the application, had been out-dated by the further deterioration in the Corporation’s finances which had occurred since the Council had examined the case for the increase. The revised statement should leave no doubt that the major responsibility for the deterioration in the BSC’s finances, which had necessitated the price increase, rested with the Corporation; and it should also bring out more sharply the Government’s determination to impose more rigorous financial disciplines on the BSC for the future.
The Cabinet—

(1) Agreed that steel prices should be increased by an average of 5 per cent.

(2) Invited the Minister of Technology, in consultation with the Lord President and the Chief Secretary, Treasury, to redraft the statement annexed to CP (70) 79 on the lines indicated by the Prime Minister in his summing up of their discussion.

(3) Invited the Minister of Technology, in consultation with the Chancellor of the Exchequer, to consider urgently the most effective means of imposing a stricter financial discipline on the British Steel Corporation for the future.

5. The Prime Minister informed the Cabinet that he had authorised the circulation, for their information, of a proof copy of a White Paper on the Reorganisation of Central Government, which would be published on the following day. This White Paper would describe the results of a major review of the functions and organisation of central Government which had been carried out during the last 4 months in order to improve the quality of policy formulation and decision, to match the responsibility of Government Departments to coherent fields of policy and administration and to ensure that the Government machine would adapt itself responsively to new policies and programmes as they emerged.

The main features of the reorganisation were as follows:

(a) The responsibility for general industrial policy and administration, which was at present divided between the Board of Trade and the Ministry of Technology, would be unified within a new Department of Trade and Industry, which would absorb the functions of both the existing Departments (other than responsibility for aero-space research, development and procurement), together with responsibility for monopolies and mergers, which would be transferred to it from the Department of Employment and Productivity.

(b) The future allocation of the existing responsibility of the Ministry of Technology for aero-space research, development and procurement could not be decided except in the context of a more comprehensive review and rationalisation of the whole function of defence procurement. This review would be put in hand forthwith, on the basis of a timetable designed to enable new arrangements to be implemented by 1st April, 1972. In the interim the Aviation
Group of the Ministry of Technology would become a separate Ministry of Aviation Supply, which would assume, for the time being all the aero-space functions of the Ministry of Technology, both civil and military.

(c) The implementation of the Government's policies for the physical environment required a new form of organisation at the centre. The Ministries of Housing and Local Government, of Public Building and Works and of Transport would be unified in a single Department of the Environment under a Secretary of State. The responsibilities of this Department would comprise the planning of land, the construction industries (including the housing programme), the transport industries, the preservation of amenity and the control of pollution. The Department would also have the leading responsibility for regional policy and for the structure and functioning of local government.

(d) In order to unify Ministerial responsibility for overseas policy overseas aid would become the ultimate responsibility of the Foreign and Commonwealth Secretary, although the Minister of Overseas Development would enjoy, by delegation from the Secretary of State, full charge of his functional wing of the Foreign and Commonwealth Office.

(e) The integration of the personal social services which was being effected at local authority level, in England and Wales, on 1st January, 1971, must be matched by unification of Ministerial responsibility at the centre. The child care responsibilities of the Home Secretary in England would therefore be transferred to the Secretary of State for Social Services on that date; and the Secretary of State for Wales would assume similar responsibilities in the Principality. The Home Secretary would, however, retain for both England and Wales his existing responsibilities in relation to the juvenile courts and the problems of juvenile delinquency, since these were integral to his overriding responsibility for protecting the public and ensuring the rights and liberties of the individual.

(f) The Government also intended to improve the methods by which collective policy decisions were taken. For this purpose a small central policy review staff would be established in the Cabinet Office which would assist Ministers collectively to work out the implications of their basic strategy in terms of policies in specific areas, to establish the relative priorities to be given to different programmes and to identify the areas of policy in which new choices could be exercised. In addition, the Public Expenditure Survey system would be reinforced by new arrangements for associated reviews of Departmental programmes at regular intervals.
(g) The full range of functions and activities at present being discharged by Departments was being reviewed, in order that it might be decided whether they were necessary functions of central Government and whether, if so, they were rightly articulated in the organisational framework of Departments. Every activity of Government should be subjected to the rigorous test of the questions—was it relevant, and did it have to be done by central Government. The reorganisation of Departmental responsibilities also provided an opportunity to review the location of Government Departments and the possibilities of dispersing them from London. Arrangements had therefore been made to commission a study to determine precisely which blocks of work needed to remain in London and which might most sensibly be relocated outside.

These measures represented a major and significant reorganisation of the whole structure of central Government. If it was to succeed, it was clear that within the new Departments there must be considerable devolution to junior Ministers, who should be entrusted with clearly defined areas of responsibility, which might be envisaged as potential units of separate accountability and should be administered in that spirit. In addition a considerable effort of adjustment would be required while the reorganisation was taking effect; and it was important that in each of the Departments concerned a senior official should be appointed to supervise the changes in organisation and to ensure that they were to be put into effect with the minimum of delay and dislocation.

*Cabinet Office, S.W.1,
15th October, 1970.*