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CC(82) 21st
Conclusions

COPY NO 79

CABINET

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

THURSDAY 29 APRIL 1982

at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department
(In the Chair for Item 3)

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Foreign and Commonwealth Affairs

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 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 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 Industry

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon David Howell MP
Secretary of State for Transport

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

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster and Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery (Item 2)
Mr P L Gregson (Item 3)
Mr R L L Facer (Item 2)
Mr D H J Hilary (Item 1)
Mr M S Buckley (Item 3)
Mr L J Harris (Item 1)

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PARLIAMENTARY AFFAIRS

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

FALKLAND ISLANDS

Previous Reference: CC(82) 20th Conclusions, Minute 1

2. The Cabinet had before them a note by the Secretary of the Cabinet (C(82) 17) covering proposals for an Anglo-Argentine agreement communicated by the United States Government to the Argentine Government on 27 April.

The Cabinet's discussion and conclusions reached are recorded separately.

PUBLIC SERVICES PAY

3. The Cabinet had before them a note by the Secretary of the Cabinet (C(82) 16) describing certain awards and recommendations for pay in the public services on which decisions were required, and a minute of 28 April from the Chancellor of the Exchequer to the Prime Minister on the same subject.

The Cabinet's discussion and conclusions reached are recorded separately.

Cabinet Office

29 April 1982

Sir R. Armstrong (B/V)

SECRET

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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 21st Conclusions, Minute 2

Thursday 29 April 1982 at 10.00 am

FALKLAND ISLANDS

Previous Reference: CC(82) 20th Conclusions, Minute 1

The Cabinet had before them a note by the Secretary of the Cabinet (C(82) 17) covering proposals for an Anglo-Argentine agreement prepared by the United States Secretary of State, Mr Haig.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the proposals made by the United States Government to the Argentine Government on 27 April, which the United States had communicated to the British Government, had been intended to be final proposals, not subject to proposals for textual amendment by the Argentines, but representing the United States Secretary of State's view of what would be a fair, just and reasonable compromise. They nonetheless contained a number of unsatisfactory elements, including some which had been added to the draft agreement since his discussions the previous week with Mr Haig in Washington. It was particularly unsatisfactory that the draft covered South Georgia as well as the Falkland Islands, and contained a proposal to appoint Argentine representatives to the executive and legislative councils; the provisions for a Special Interim Authority were also unattractive. But the principal difficulty was that the proposals excluded the possibility that the eventual settlement of the dispute might be on the basis of the status quo ante the Argentine invasion of the Falkland Islands. The main advantage of the proposals was that they provided for the withdrawal of Argentine military forces from the Islands. The Americans had received no reaction from the Argentine Government, although the deadline had expired the previous day. Despite Mr Haig's declared intention that the Argentine Government would not be allowed to propose amendments, it now appeared that Mr Haig had informed the Argentine Foreign Minister, Mr Costa Mendez, that he would be willing to transmit minor Argentine amendments to London. He was concerned about the extent to which Mr Haig would maintain his stated intention to support the United Kingdom if Argentina rejected the proposals. Retaining United States support remained a major British objective, and it could not be assumed that this would be attainable in all circumstances. If

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Mr Haig's initiative failed, it would be necessary to consider whether the United Kingdom should make a diplomatic move of its own. Public opinion regarded the obvious forum for any diplomatic initiative as the United Nations; but that was unlikely to advance British interests. Action of the kind taken by the Secretary General during the Cuban missile crisis in 1962, which had been carefully prepared by the United States and the Soviet Union in agreement, would not be practicable in present circumstances. Mr Haig was unlikely to respond favourably to fresh proposals, nor was any other mediator likely to have a greater chance of success. But it would clearly be necessary to reaffirm British objectives and indicate the areas in which the United Kingdom would be prepared to negotiate, while maintaining military pressure on the Argentine Government.

THE ATTORNEY GENERAL said that paragraph 7 of the United States draft proposals providing for the removal of the Islands from the list of non-self-governing territories ruled out the possibility of the present political status of the Falkland Islands continuing. Condominium would scarcely be feasible. So the alternatives were limited to a merger with either the United Kingdom or Argentina, independence, or associated statehood, though some form of lease-back arrangement might be possible. The provision about having due regard for the rights of the inhabitants might be of no more than limited value, since it could be taken to refer only to their basic human rights and not to the right of self-determination.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had fundamental reservations about the American proposals, at all the points where Mr Haig would know from his conversations with Ministers that there were likely to be difficulties from the British point of view. This should be made clear when the Americans made them public, as Mr Haig intended to do if the Argentine Government rejected them. But the British attitude should not be publicly stated until it became evident that Argentina had either rejected them or could be held, by reason of a failure to meet the deadline for a response, not to have accepted them; it was important not to give the Argentines or the Americans an excuse for blaming Britain for the failure of the negotiations. On the other hand, it was important not to allow the impression to be given that, by failing to comment on the proposals, the Government were implying that they could be accepted. The Foreign and Commonwealth Secretary should send an immediate message to Mr Haig that the Cabinet regarded the failure of the Argentine Government to respond in accordance with the terms of his request to them as a rejection of the proposals, hoped that the United States Government would in consequence honour Mr Haig's promise that they would come down firmly on the United Kingdom's side, and saw fundamental difficulties in the proposals. She would send a similar message to President Reagan.

The Cabinet -

Agreed that the Prime Minister and the Foreign and Commonwealth Secretary should send messages to the United States President and Secretary of State on the lines indicated by the Prime Minister in her summing up.

Cabinet Office

30 April 1982

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LIMITED CIRCULATION ANNEX

CC(82) 21st Conclusions, Minute 3

Thursday 29 April 1982 at 10.00 am

PUBLIC SERVICES PAY

The Cabinet had before them a note by the Secretary of the Cabinet (C(82) 16) describing certain awards and recommendations for pay in the public services on which decisions were required, and a minute of 28 April from the Chancellor of the Exchequer to the Prime Minister on the same subject.

THE CHANCELLOR OF THE EXCHEQUER said that it was necessary to consider what action should be taken in relation to the following awards and recommendations for pay in the public services:

i. The Civil Service Arbitration Tribunal (CSAT) award for the non-industrial Civil Service involving an average increase of 5.9 per cent.

ii. The Armed Forces Pay Review Body (AFPRB) report recommending an average increase of 6.1 per cent for the Armed Forces up to the rank of Brigadier and equivalent.

iii. The Doctors' and Dentists' Review Body (DDRB) report recommending an average increase of 6 per cent over the rates recommended for 1981, making 9 per cent if the 3 per cent that the Government deducted from the 1981 recommendations was restored, as also recommended by the DDRB.

iv. The Top Salaries Review Body (TSRB) report recommending average increases of 19.4 per cent for the higher Civil Service (Under Secretary and above) and for senior Service officers (Major Generals and equivalents, and above) and 24.3 per cent for the judiciary.

In 1980 the Government had abated the TSRB recommendations for these groups by about $12\frac{1}{2}$ per cent, and the resulting salary rates were increased by 7 per cent in 1981.

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A Group of Ministers under the chairmanship of the Prime Minister had met on 27 April to consider these matters and had concluded that the Government should accept the award of the CSAT and the recommendations of the AFPRB. The recommendations of the DDRB and TSRB raised greater difficulties. On the one hand, there would be advantages in accepting the recommendations as they stood. This would bring the pay of the groups concerned up to date and so avoid laying up problems for future pay rounds. On the other hand, acceptance would involve large pay increases. These would have damaging effects on negotiations elsewhere in the public services, particularly in the National Health Service (NHS). Nurses and closely related NHS groups had been offered pay increases averaging 6.4 per cent; most other NHS workers had been offered increases of 4 per cent. Larger increases would certainly have to be conceded if doctors and dentists received increases of 9 per cent. Each additional 1 per cent increase in NHS pay would cost some £80 million a year. A further consideration was that large pay increases for highly-paid public service groups would cut across one of the Government's main economic themes, the need for pay restraint, at a time when it seemed to be gaining greater public acceptance. He accordingly considered that the DDRB recommendations should be reduced to 6 per cent. It would be hard to defend this unless a reduction were also made in the TSRB recommendations. In his view, the choice lay between a reduction in the increase of five percentage points (corresponding to the cumulative shortfall compared with the TSRB's 1980 recommendations) and a reduction of one-third: he favoured the former. If such reductions were made, the question would arise whether the Government should undertake to restore them in 1983.

It was desirable to make early announcements of the Government's decisions on the CSAT award and the AFPRB recommendations; it would also be advantageous to make an early announcement of decisions on the DDRB recommendations in order to influence other NHS pay negotiations. There was, however, a case for deferring an announcement of decisions on the TSRB recommendations: one possibility would be to couple it with an announcement on the pay of Members of Parliament (MPs), which he envisaged would be increased by no more than 4 per cent. Such a combined announcement would do something to reduce the effect on public opinion of large pay increases for the TSRB groups; but it would increase the likely difficulty of persuading the House of Commons to approve relatively low pay increases for MPs.

The cost of the CSAT award should be dealt with as follows. Of the total 5.9 per cent, not less than 5 per cent should be found within existing Departmental cash limits adjusted for the reduction in the National Insurance Surcharge proposed in the Budget; this was subject to further discussion of special problems affecting the Ministry of Defence, and the Home Office in respect of the prison service. Ministers should also make every effort to contain the remaining

cost within those cash limits; but Treasury Ministers would give sympathetic consideration in the coming autumn to bids on the Contingency Reserve for any exceptionally hard cases up to a maximum of 1 per cent.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Government's decision on the DDRB recommendations would be crucial to the success of other NHS pay negotiations. It was essential to reduce the recommendations to 6 per cent if the Government's present policy was to have any prospect of success. It would not be possible to defend this unless a corresponding reduction were also made in the TSRB recommendations. He was willing to accept a reduction of 5 per cent if his colleagues favoured this, though he would himself prefer a larger reduction. He favoured an early announcement of the Government's decisions regarding the DDRB recommendations, though it would be necessary to allow adequate time for him to consult the Chairman of the DDRB and the leaders of the medical and dental professions before an announcement was made.

In discussion there was general agreement that the award of the CSAT and the recommendations of the AFPRB should be accepted. It was also agreed that early announcements regarding these matters and the Government's decisions on the DDRB recommendations were desirable. On the remaining questions, the following were the main points made:

a. The groups covered by the recommendations of the TSRB were the only groups in the public services whose pay was still below the levels recommended as appropriate for April 1980. This was having perceptible effects on recruitment and retention: it had, for example, proved necessary to pay persons appointed from outside the Civil Service to senior posts considerably more than career staff of equivalent or senior rank. There were also serious problems in recruitment to the judiciary. It was not in accordance with the Government's economic or political philosophy arbitrarily to depress the salaries of people in senior and responsible positions, particularly when doing so ran contrary to market evidence. Its effects were cumulative and in the long run would be far-reaching.

b. On the other hand, the repercussions on current pay bargaining, both in the public services and elsewhere, of unqualified acceptance of the TSRB recommendations would be very serious. The presentational aspects could not be ignored. Many people in the private sector had experienced great economic difficulty in recent years and would strongly criticise pay increases of the order of 20 per cent or more for public service groups. Nor should individual cases of difficulty in recruitment be taken as conclusive evidence that pay was in general

inadequate. These factors argued strongly for a reduction in the increases recommended by the TSRB of one-third, rather than five percentage points. In most cases, the financial effects on individuals of the more stringent formulation would be relatively small; but public opinion would be more deeply impressed by it.

c. There were arguments for treating the judiciary differently from the other groups covered by the TSRB. They were regarded in a different light by the public; and in their case the arguments based on recruitment were more immediate and more easily demonstrable. A barrister appointed to a High Court judgeship typically faced a reduction in earnings of some £30,000 a year.

d. Whatever might be decided regarding the TSRB groups, there would be serious problems over the pay of nationalised industry board members.

e. If it were decided to reduce the TSRB recommendations, it would be important for Ministers to make it clear that they valued the tradition of public service in this country. Some of the recruitment and other difficulties which had been mentioned in discussion were due at least as much to current denigration of the public services as to any deficiencies in pay.

f. There was little attraction in a pledge to restore in 1983 any reductions made in the DDRB or TSRB recommendations. The effect of such staging of pay increases was usually to aggravate later problems.

g. There might be advantage in a single early announcement of decisions on all the matters under consideration; on balance however the arguments in favour of deferring an announcement of the Government's decisions on the TSRB's recommendations seemed more compelling.

THE HOME SECRETARY, summing up the discussion in the Prime Minister's absence, said that the Cabinet agreed that the award of the CSAT and the recommendations of the AFPRB should be accepted; and that the remuneration of NHS doctors and dentists should be increased by on average 6 per cent, rather than the 9 per cent recommended by the DDRB. They agreed that the cost of the CSAT award should be dealt with as proposed by the Chancellor of the Exchequer. An announcement of the Government's decisions on these matters should be made the following week; the Chancellor of the Exchequer would co-ordinate its preparation. Concerning the recommendations of the TSRB, the Cabinet agreed that they should be accepted subject to a reduction in the

range of five percentage points to one-third of the proposed increase. The precise figures to be chosen for the various TSRB groups and for the grades within each group would need to be settled later, in the light of illustrations of the effects of the two variants and detailed proposals by the Chancellor of the Exchequer. The suggestion that the Government might give an undertaking to restore the reductions in the DDRB's and TSRB's recommendations automatically in 1983 was not accepted. The timing of an announcement of the Government's decisions on the TSRB's recommendations would need further consideration.

The Cabinet -

1. Agreed that the award of the Civil Service Arbitration Tribunal and the recommendations of the Armed Forces Pay Review Body should be accepted.

2. Agreed that the remuneration of National Health Service doctors and dentists should be increased by an average of 6 per cent from 1 April 1982.

3. Agreed, subject to further discussion of special problems affecting the Ministry of Defence and affecting the Home Office in respect of the prison service, that not less than 5 per cent of the 5.9 per cent cost of the Civil Service Arbitration Tribunal award should be found within existing Departmental cash limits adjusted for the reduction in the National Insurance Surcharge announced in the Budget; and that Ministers should make every effort to contain the remaining cost within those cash limits.

4. Noted that the Chancellor of the Exchequer and the Chief Secretary, Treasury, undertook to give sympathetic consideration in the autumn to bids on the Contingency Reserve for any exceptionally hard cases of costs resulting from the Civil Service Arbitration Tribunal award, up to a maximum of 1 per cent.

5. Agreed that an announcement of the Government's decisions on the foregoing matters should be made the following week.

6. Invited the Chancellor of the Exchequer, in consultation with the Lord Chancellor, the Secretary of State for Defence, the Secretary of State for Social Services and the Lord Privy Seal, to arrange for the preparation of such an announcement.

7. Agreed that the recommendations of the Top Salaries Review Body should be accepted, subject to a reduction on the lines indicated in the Home Secretary's summing up of the discussion.

8. Invited the Chancellor of the Exchequer, in consultation with the Lord Chancellor, the Secretary of State for Defence and the Lord Privy Seal, to circulate to the Cabinet detailed proposals for reductions in the Top Salaries Review Body's recommendations, on the lines indicated in the Home Secretary's summing up.

9. Agreed to consider again in due course the timing of an announcement of the Government's decisions on the Top Salaries Review Body's recommendations.

Cabinet Office

30 April 1982