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CC(82) 13th
Conclusions

COPY NO 79

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 1 APRIL 1982
at 9.30 am

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 Lord Hailsham
Lord Chancellor

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

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

The Rt Hon Francis Pym MP
Lord President of the Council

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 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 Humphrey Atkins MP
Lord Privy Seal

The Rt Hon John Biffen MP
Secretary of State for Trade

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
Chancellor of the Duchy of Lancaster

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
Paymaster General

SECRET

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Item 5)
Mr D M Elliott (Items 2 and 3)
Mr D J L Moore (Item 5)
Mr R L L Facer (Items 2-4)
Mr D H J Hilary (Item 1)
Mr L J Harris (Item 1)
Mr D H Colvin (Item 4)

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

THE CHANCELLOR OF THE EXCHEQUER said that Mr Joel Barnett and Mr Edward du Cann had with the support of other members of the Public Accounts Committee tabled an amendment to the Local Government Finance (No 2) Bill which would require the Audit Commission to undertake studies of the impact on local authority administration of statutory provisions and of guidance and instructions issued to them by Ministers, would give the Comptroller and Auditor General (C and AG) access to all documents and records held by the Commission relating to any such studies, and would require him to report the results of his examination of them to Parliament. This was an indirect way of pursuing the Public Accounts Committee's recommendations for extending the role of the C and AG. If the amendment were accepted, it would lead to further pressure for giving the C and AG access to the records of nationalised industries. The principle of strengthening the powers of Parliament to investigate public sector administration generally would command widespread support in Parliament, and it could be difficult to defeat the amendment. On the other hand, the local authority associations and their Parliamentary supporters could be expected to have strong reservations about giving the C and AG power to duplicate part of the work of the Audit Commission and access to documents of individual local authorities; this would run counter to the case which had been made throughout the discussions on the Local Government Finance (No 2) Bill and its predecessor against excessive central Government interference in local administration. The amendment as it stood was imprecise and unacceptable, and should be resisted. If a compromise proved to be necessary to avoid defeat, the Government might have to consider accepting the principle of the amendment on condition that the C and AG would not have access to papers of or relating to individual local authorities held by the Audit Commission. This would make it easier to hold the line subsequently on access to the records of nationalised industries.

THE PRIME MINISTER, summing up a short discussion, said that the amendment would result in wholly unnecessary bureaucratic activity, which would duplicate the work of the Audit Commission. The Secretary of State for the Environment should in the course of that afternoon seek to establish from the sponsors of the amendment precisely how they expected it to work in practice, and how far they might be prepared to modify it to meet the points made in discussion. In the light of these consultations, she would consider further with the Ministers directly concerned how the amendment should be handled.

The Cabinet -

Invited the Secretary of State for the Environment to discuss the proposed amendment to the Local Government Finance (No 2) Bill with Mr Joel Barnett and Mr Edward Du Cann, as indicated in the Prime Minister's summing up of their discussion, and to report the outcome to the Prime Minister.

2. THE LORD PRIVY SEAL said that in the recent elections in El Salvador the Christian Democratic Party led by President Duarte had secured only some 40 per cent of the votes. If the various right wing parties were able to combine, the Christian Democrats would be kept out of the Government, but the situation was still confused. The British observers would return to the United Kingdom on the following day, and their report was likely to be published by the end of the month, although a shortened version might be available sooner.

THE LORD PRIVY SEAL said that 12 Argentinians were still ashore at Port Leith on the island of South Georgia, and there had been reports that more had recently arrived. Diplomatic efforts were continuing to persuade the Argentine Government to secure their departure. It was not clear whether the landing on South Georgia on 19 March had been contrived by the Argentine Government, but it should remain the British aim to reach a solution by diplomatic means rather than by action which might provoke a military response by Argentina. The Argentine press had reacted sharply to British press reports about naval movements. The United States Government had agreed to a request to intervene with the Argentine Government. The British Ambassador in Buenos Aires had also made representations on the previous day and would do so again today. It had been reported that Argentine naval forces had been deployed to the area of the Falkland Islands. Certain precautionary measures had been taken, but it would not be an easy task to defend a colony which was 8,000 miles distant from the United Kingdom and 3,500 miles from the nearest airfield of the use of which the British Government could be assured.

THE PRIME MINISTER, summing up a brief discussion, said that the intentions of the Argentine Government were not known, but as a precaution HMS Endurance had been instructed to sail from South Georgia to Port Stanley. The best hope of avoiding a serious confrontation with Argentina lay in the influence which the United States could

FOREIGN
AFFAIRS

El Salvador

Previous
Reference:
CC(82) 7th
Conclusions,
Minute 2

Falkland
Islands

Previous
Reference:
CC(82) 12th
Conclusions,
Minute 2

bring to bear on the Argentine Government. In readily agreeing to intervene on our behalf, the United States Administration had recognised the support which the United Kingdom Government had given them in other areas.

THE SECRETARY OF STATE FOR DEFENCE said that the meeting of the North Atlantic Treaty Organisation Nuclear Planning Group which he had attended in the United States the previous week had unanimously agreed a communique which supported the British decision to maintain an effective strategic nuclear deterrent. Even those members of the Alliance who were particularly nervous about current nuclear weapons issues had agreed to a reference in the communique that strategic nuclear forces were the ultimate guarantee of the security of the Alliance.

THE PRIME MINISTER said that further efforts were needed to convince public opinion that the Government's decision on Trident was right. The decision had been a factor in the recent Hillhead by-election, but President Reagan's recent statement of his determination to engage the Soviet Union in disarmament talks, which would lead to a substantial reduction in strategic nuclear weapons, would be helpful.

The Cabinet -

Took note.

3. THE PRIME MINISTER said that discussion of the economic and social situation at the European Council on 29/30 March had been more realistic than on previous occasions, though the Danish, French and Irish representatives had found themselves out of step with the rest because of the damaging effects their domestic economic policies were having on their public sector deficits, their interest rates and their exchange rates. The European Council had also taken note of a statement by Mr Papandreou, the Greek Prime Minister, seeking more Community aid for Greece. As to the 30 May 1980 Mandate, it had been intended that only a short discussion should take place, leading to an instruction to Foreign Ministers to proceed with the negotiations at their meeting on 3 April on the basis of the proposed budget solution, put forward by the Presidents of the Council and the Commission at the last Council of Ministers (Foreign Affairs) on 23 March. In the event, after she had confirmed the United Kingdom's willingness to go ahead on this footing whilst making clear that the proposal would have to be amended to meet our needs, President Mitterrand had stated that France could not accept the Thorn/Tindemans proposals as a basis for

Nuclear
Weapons

Previous
reference:
C(82) 10th
conclusions,
Minute 1

COMMUNITY
AFFAIRS

29/30 March
European
Council

Previous
reference:
C(81) 39th
conclusions,
Minute 3

negotiation. This statement had come as a bolt from the blue, and had resulted - to the evident embarrassment of the French Foreign Minister - in the isolation of France as the one member state that was apparently not prepared to carry the negotiations forward. President Mitterrand's motives for putting France into this position were not clear. Nor was it clear how progress would now be made. The French Government might be preparing a counter-proposal, which might embody their desire to avoid a long-term solution and introduce an element of degressivity into the refunds to be paid to the United Kingdom. However that might be, it was now most unlikely that the 3 April Foreign Ministers meeting could make much headway on the budget. Given the need for parallel progress on all three chapters of the Mandate, which had been agreed by the London meeting of the European Council in November 1981, this in turn meant that the Common Agricultural Policy (CAP) price-fixing negotiations currently taking place in the Council of Ministers (Agriculture) would also be stalled. This link was valid not only in terms of the decisions taken earlier but also because of the direct and adverse effect that an increase in common agricultural prices would have on the United Kingdom's net contribution to the Community budget. It was vital for the United Kingdom to get a settlement on the budget that involved our making no more than a modest net contribution and would be acceptable to public opinion in this country. On fish, she had taken the opportunity, in the margins of the meeting, to impress on Commissioner Contogeorgis the need for an early settlement on a revised Common Fisheries Policy, or failing that an arrangement under which the access derogations enjoyed by the United Kingdom, under our accession Treaty, were extended beyond their expiry date at the end of 1982.

In discussion it was suggested that the French attitude on the Mandate might derive in part from a realisation that their capacity to fund a solution to the United Kingdom's budget problem was diminishing. In their efforts to save the franc, the French Government were now having to consider how to make public expenditure savings. At the same time, they might have to find the money to finance national aids to French farmers if the CAP price-fixing were long delayed, although if the French franc continued to fall they would be able to give extra benefits to their farmers by devaluing their Green Currency rate.

The Cabinet -

Took note.

NORTHERN
IRELAND -
CONSTITUTIONAL
DEVELOPMENT

Previous
Reference:
CC(82) 10th
Conclusions,
Minute 3

4. The Cabinet considered a memorandum by the Secretary of State for Northern Ireland (C(82) 6) on constitutional development in Northern Ireland, to which was attached a draft White Paper entitled "Northern Ireland: A Framework for Devolution".

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that his proposals for political development in Northern Ireland resulted from his conviction that the indefinite continuation of direct rule could not solve the Province's present problems. Although the scope for political movement was limited, he judged that there was now an opportunity for breaking the political deadlock which had existed for the past eight years. The continuation of that deadlock could put at risk the improved co-operation on security that had been achieved in recent months, and would make it even more difficult than it already was to prevent a further deterioration of the economic situation and prospect of the Province. His aim was to set in motion a political process which would provide a framework for growing co-operation between the parties, and would provide opportunities for Northern Ireland politicians to seek and be granted executive powers, if the necessary degree of co-operation and willingness to share responsibility could be developed. The essential element was a new Northern Ireland Assembly, with deliberative and scrutinising functions on a number of subjects, working through a system of departmental committees. The Assembly would have the right to propose to the Secretary of State for Northern Ireland the transfer of executive powers either when 70 per cent of its membership supported proposals as to what should be devolved or if the proposals commanded a majority of less than 70 per cent but could be clearly seen to have a sufficient degree of cross-community support. The Secretary of State for Northern Ireland would lay such proposals before Parliament. Powers need not be transferred all at once. The process could roll forward or roll back. Thus it was designed to defeat the weapon of boycott or disruption which one or other community so often employed in Northern Ireland. The reactions of the political parties had been as he had expected. None had said that they would not participate in the elections. The Social Democratic and Labour Party (SDLP) posed the greatest problem, possibly influenced by the new Taoiseach who wanted an all-Ireland parliamentary body: that was totally unacceptable. The Official Unionist Party and the Democratic Unionist Party would oppose the 70 per cent and cross-community criteria in favour of a straight majority. He had considered alternative proposals such as integration, but he could see no other workable arrangements which would command a sufficient degree of cross-community acceptance. To do nothing was no longer a policy which could be sustained. Although he rated the chance of success for his proposals at no more than 50/50, they represented the best opportunity for some years of making progress. In considering the way forward he had been aware that the proposals might be regarded as setting a precedent for other parts of the United Kingdom, particularly Scotland.

But Northern Ireland was, and was recognised in Scotland as being, unique. The "West Lothian" question might arise if devolved government returned to Northern Ireland, but that was a long way off; it would be best considered if and when that was likely to happen. He had amended the draft White Paper to take account of discussion in the Defence and Overseas Policy Committee. It was essential to include suitable references to relations between the United Kingdom and the Republic of Ireland if the willingness of the SDLP to contest elections to the Assembly was not to be put at risk.

In discussion the following points were made -

- a. Unless and until executive powers could be devolved to a government in Northern Ireland, the proposed Assembly would function largely as a forum for criticism of the Government. Direct rule was seen by every party as the second best option, and the proposed legislation could expose political differences in Northern Ireland among the Government's supporters at Westminster. It might be better to adopt a policy of "constructive delay" this side of the next General Election in the United Kingdom.
- b. The Conservative Party's 1979 Election Manifesto had envisaged increasing the powers of Northern Ireland local authorities. Some Ministers thought that further consideration should be given to this possibility. It was pointed out, however, that that would not be acceptable to the SDLP. Regional government would present no fewer problems than the restoration of devolved government for the Province as a whole.
- c. Further changes were suggested to Part 3 of the White Paper, with a view to allaying Unionist fears of the "Irish dimension".
- d. As regards the effect on Scotland and Wales, pressures for devolution there were at present dormant but could revive. While there was no reason why parallels should be drawn with the treatment of Northern Ireland, care should be taken not to create problems which would make it harder for the Government to contain such pressures.

In further discussion a number of Ministers said that the Secretary of State for Northern Ireland faced a unique and difficult responsibility for the Province. His colleagues were in no position to "second-guess" his assessment of the political situation and needs of the Province; if his considered judgment was that his proposals met a political need and had a chance of success, they should be supported, even if their success was by no means certain. The continuation of direct rule and political

deadlock would weaken rather than strengthen the union: indeed, proposals which envisaged the eventual return of devolved government to the Province within the United Kingdom could well help to bind Northern Ireland more closely to the rest of the United Kingdom; that was one reason why Mr Haughey disliked them. Unless some political initiative was taken, the more moderate parties in Northern Ireland would lose support to the extremists. The novel feature of the present proposals was that they did not stand or fall on the ability of the two communities to agree on a system of devolved government: they did not impose a solution, but they offered the politicians of Northern Ireland an opportunity to make progress if they were able and willing to do so. Prospects of a permanent political solution of the Northern Ireland problem were remote, but failure to make any progress would have an adverse effect on the security and economic situation of the Province. There was widespread public expectation of a new initiative. To do nothing was not a credible option. In framing the proposals and the White Paper, it was necessary to remember that a degree of support from the Catholic community was essential and that effective security on the Border required co-operation with the authorities in the Republic. The provision for payment of the Chairmen and Deputy Chairmen of the Committees of the Assembly would help to attract new people into Northern Irish politics.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet supported the proposals for political development in Northern Ireland set out in C(82) 6, while recognising that their success could by no means be guaranteed. The legislation that would be required would be controversial, and the Secretary of State for Northern Ireland should have the Government's full support in a difficult situation. If possible, it should be read for the first time on the day the White Paper was published. It would be appropriate to publish the White Paper and make a statement to Parliament on 5 April.

The Cabinet -

1. Approved the proposals for political development in Northern Ireland set out in C(82) 6.
2. Invited the Secretary of State for Northern Ireland to publish a White Paper setting out the proposals, taking account of points made in discussion, and to introduce a Bill during the current Session of Parliament.

1982 PUBLIC
EXPENDITURE
SURVEY

Previous
reference:
C(81) 38th
conclusions,
Minute 5

5. The Cabinet discussed a minute of 26 March from the Chief Secretary, Treasury, to the Prime Minister covering proposals for the conduct of the 1982 Public Expenditure Survey. They also had before them a minute by the Secretary of State for Education and Science dated 30 March, a minute by the Minister of Agriculture, Fisheries and Food dated 30 March, a minute by the Secretary of State for the Environment dated 30 March, a minute by the Foreign and Commonwealth Secretary dated 30 March, and a letter from the Secretary of State for Social Services dated 31 March, commenting on various aspects of the Chief Secretary, Treasury's minute.

THE CHIEF SECRETARY, TREASURY, said that his proposals concerned the timetable and the procedure for the conduct of the Survey. Decisions on the total of public expenditure, and its distribution between programmes, would not be called for until the Cabinet's substantive discussions of the Survey beginning in July and extending into the autumn. Some Ministers had raised points in correspondence on his proposals. He had recommended that the Survey report by officials should show any additional bids for expenditure above the baseline and that Departments should set out offsetting savings to cover such bids and, in addition, fully costed options for reductions, amounting to at least 2 per cent of the baseline in 1983-84 (starting from the November uprating dates for social security benefits) and 4 per cent in 1985-86, with appropriate specified consequences for 1984-85. It had been suggested that the identification of options at this stage was unnecessary because of the rigorous analysis which had taken place in the 1981 Survey and unwise because it would be politically damaging to the Government if options identified were to become publicly known and misinterpreted. He remained firmly of the view that the identification of options was essential in providing a tool for decisions later in the year when the Cabinet considered programmes and additional bids. Any risk of public disclosure would be reduced by his proposal that in the first instance Departments should set out the options for the use of the Treasury and not for general circulation. Although public disclosure could lead to criticism, experience showed that this would probably be short-lived: serious public concern was directed to actual decisions, and it was now widely understood that the identification of options, without commitment by Departments, was a standard feature of Public Expenditure Surveys under successive Governments. The Secretary of State for Social Services had proposed, in a letter to him of 31 March, that estimating increases on demand-determined social security expenditure should not count as an additional bid requiring the identification of offsetting savings. He fully appreciated the problem raised by the Secretary of State for Social Services, and it would have to be taken into account when decisions came to be taken later in the year; but, in order to ensure that those decisions were taken in an orderly way, he would not wish to exempt social security programmes from the proposed procedures. He accepted the Secretary of State for the Environment's

proposal that the Departments concerned should consider the identification of options applying to local authority services but should not consult representatives of the local authorities through the machinery of the Consultative Council on Local Government Finance. He had agreed with the Ministers directly concerned some changes in the procedures for handling local authority current expenditure in the Survey, and he hoped that these would lead to decisions being taken somewhat earlier than in 1981 and would enable Ministers to consider local authority expenditure, in tandem with other public expenditure, in an orderly way in the autumn. He could not, however, agree that transfers of provision from local authority current expenditure, which could not be tightly controlled by Ministers, might be made to other public expenditure programmes. He could assure the Ministers responsible for territorial programmes that he was not proposing at this stage any change in the operation of the "comparability formula" for the purpose of establishing the Survey baseline. The introduction in April 1983 of repayment by Departments for expenditure by the Property Services Agency on Government civil accommodation would require certain transfers of provision in establishing the 1982 baseline; details of these transfers were still being discussed by officials and could be settled in the course of the Survey exercise. Subject to the points he had made, he invited the Cabinet to approve the proposals for the conduct of the 1982 Public Expenditure Survey as set out in his minute of 26 March to the Prime Minister.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that it was essential that he should be able to construct a defensible education programme within the total cash available to him, and that he should not, as in 1981, have to take separate decisions on the local authority and vote financed components of his education programme, without an opportunity to strike an acceptable balance between the two.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the Chief Secretary, Treasury's proposals for the conduct of the 1982 Public Expenditure Survey, subject to the assurances which he had given in his statement and to costed options for local authorities being identified by Departments and not by the local authorities themselves. It was essential that Departments should co-operate fully with the Treasury in identifying costed options, since decisions on public expenditure totals would inevitably have implications for decisions on taxation. It was unsatisfactory that, despite apparently tough decisions in 1981 on the Rate Support Grant and on External Financing Limits, the local authorities and some of the nationalised industries were currently contemplating relatively high pay settlements in 1982. The Chief Secretary, Treasury, should consider further with the Secretary of State for Education and Science the points raised on the education programmes, but there could be no question of taking credit for offsetting savings, of which the Government could not ensure delivery, from local authority education services.

The Cabinet -

Approved the proposals for the guidelines for the 1982 Public Expenditure Survey in the Chief Secretary, Treasury's minute of 26 March to the Prime Minister, subject to the Departments concerned identifying costed options relevant to local authority expenditure without consulting representatives of the local authorities.

Cabinet Office

2 April 1982