

BV.

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

CC(82) 29th
Conclusions

COPY NO 79

CABINET

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

TUESDAY 25 MAY 1982

at 11.00 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 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

SECRET

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General (Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery (Item 1)
Mr P L Gregson (Item 4)
Mr D J S Hancock (Item 2)
Mr R L L Facer (Items 1-3)
Mr W Moyes (Item 4)

C O N T E N T S

Item	Subject	Page
1.	FALKLAND ISLANDS	1
2.	COMMUNITY AFFAIRS	
	Meeting of Foreign Ministers (Brussels) 24-25 May	2
3.	VISIT OF POPE JOHN PAUL II	3
4.	FUTURE ARRANGEMENTS FOR SETTLING THE PAY OF MEMBERS OF PARLIAMENT	5

FALKLAND
ISLANDS

Previous
Reference:
CC(82) 28th
Conclusions,
Minute 1

1. THE SECRETARY OF STATE FOR DEFENCE gave the Cabinet an account of the military situation in the Falkland Islands. The Argentine navy and air force had suffered heavy losses of aircraft in their attacks on the British Task Force following the successful landing on East Falkland. Some further attacks could be expected. The Sea Harrier aircraft and the Rapier surface-to-air missile had proved effective in combat, and the Sea Harrier force had shown a remarkably high rate of operational readiness. Despite the losses of ships, British forces were firmly established ashore, and he was confident that the operation could be brought to a successful conclusion.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the debate in the United Nations Security Council was continuing. So far the only resolution tabled was one by Ireland which was unacceptable; the United Kingdom would if necessary veto it. Other draft resolutions had been circulated; and it would be possible for the United Kingdom to vote in favour of some of these, if suitable amendments could be agreed, without in any way prejudicing the Government's position. He had made it clear publicly that the door was not closed to a diplomatic solution; but that a diplomatic solution would not be possible unless the Argentine government substantially changed their position.

In a brief discussion, the point was made that the successful landing on East Falkland was a remarkable achievement by the Services, operating as they were 8,000 miles from their base. It should be made clear in public that the landing followed very soon after the main amphibious forces arrived in the area. Consideration was being given to arrangements for the restoration of British administration in the Islands.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Meeting of
Foreign Ministers
(Brussels)
24-25 MayPrevious
Reference:
CC(82) 28th
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Community Foreign Ministers had agreed to renew sanctions against Argentina for an indefinite period on the same basis as before, with Italy and Ireland not participating. Denmark was to introduce national measures in parallel with the Community action and this would also be without time limit.

At the beginning of the meeting he had made a statement about the failure of the Community to respect the Luxembourg compromise at the Agriculture Council on 18 May. Later in the meeting, in the context of consideration of the proposals by the Foreign Ministers of the Federal Republic of Germany and Italy for a European Act, there had been a discussion which was revealing about the attitudes of different member states to the Luxembourg compromise. On the basis of that discussion his assessment was that it might well be possible to re-establish the compromise in some form; but it was a strange form of convention in that not all member states subscribed to it: the Benelux countries had never accepted it. Foreign Ministers had agreed to reflect on the matter further and to discuss it again in a month's time.

The negotiation on the solution to the British budget problem in 1982 had been difficult and protracted. The problem was that the 30 May agreement had reduced the United Kingdom's net contribution after refunds in 1980 and 1981 to much lower figures than anyone had expected at the time and other member states believed that the United Kingdom had an obligation to make restitution. The application of the 30 May agreement to the Commission estimate of 1530 million ecus for the British unadjusted net contribution in 1982 would have produced a refund of 1008 million ecus. The United Kingdom had come under great pressure to accept a refund of only 800 million ecus in recognition of the alleged over-payment, but in the end had secured agreement to 850 million ecus.

Agreement was also reached on a risk-sharing formula if the Commission estimate were exceeded. This was not quite as good as the one secured for 1981 but did give a refund of 75 per cent at the top end of the scale and was a great deal better than a number of proposals that were put forward during the course of the negotiations. The other member states committed themselves to complete the negotiations for the solution to the problem in 1983 and later years before the end of November.

This was not an ideal result. But, looked at in the perspective of the three years of the 30 May agreement, it was defensible. The only other option would have been to break off negotiations and, in his judgment and that of his advisers, this might very well have led to an even worse outcome. He could not exclude the possibility of a major Community crisis in the autumn when the solution for 1983 and later was negotiated.

In discussion it was pointed out that the negotiations on the longer term would be closer to the election than the Government would have wished, and the timing might tempt other member states to make a link with fish. The Community had obviously decided to be helpful to the United Kingdom over the Falkland Islands but to make the United Kingdom pay a price. By agreeing only to a one-year solution at the present time, the Foreign and Commonwealth Secretary had ensured that the price affected only 1982 and not the ensuing three or four years. The tough line taken by other member states showed how far they were from acknowledging the true nature of the British budget problem. It was regrettable that the Germans, who resented the size of their budget burden, failed to co-operate with the United Kingdom in securing a better system.

It was proposed that, during the negotiations on the longer term, the United Kingdom should argue that the settlement for 1982 took full account of the unexpectedly favourable outcome in 1980 and 1981; but some of the wording in the latest agreement was not easily reconciled with that position. Agreement could not have been reached without the sentence in question, such was the strength of feeling by other member states about the alleged over-payment. It was agreed that Ministers should take the line that we lived to fight this battle another day.

The Cabinet -

Took note.

VISIT OF
POPE JOHN
PAUL II

3. THE PRIME MINISTER said that, when there had been some fear that Pope John Paul II might be obliged to cancel or postpone his long-arranged visit to the United Kingdom, which was due to start on 28 May, because of the crisis in the South Atlantic, a message had been sent to the Vatican to make it clear that, if it would help to establish that the Pope's visit was pastoral and non-political, the British Government would be prepared to withdraw from official involvement in it. Although no formal reply had been received from the Vatican, it was clear that this offer had played a considerable part in enabling the Roman Catholic hierarchy in the United Kingdom to recommend to the Pope that the visit should go ahead. Accordingly, in a statement to be issued later that day the Cardinal Archbishop of Westminster would say that one of the factors which the hierarchy had taken into account was a suggestion by the Government that in order to avoid political issues as far as possible and to emphasise the pastoral nature of the visit, the British Government had suggested that Ministers should not be officially involved in the visit. The Queen would receive the Pope as a fellow Head of State, and the Prince of Wales would still attend the Ecumenical Service in Canterbury Cathedral. The Foreign and Commonwealth Secretary would not now meet the Pope on his arrival, and neither she

CONFIDENTIAL

nor the Home Secretary would attend the Ecumenical Service in Canterbury Cathedral. This decision did not, however, exclude participation in the events of the visit by Ministers who had good reason to participate in their personal capacities. It was to be hoped that some of those members of the Government who were Roman Catholics would be able to attend the Ecumenical Service in Canterbury Cathedral.

The Cabinet -

Took note.

CONFIDENTIAL

FUTURE
ARRANGEMENTS
FOR SETTLING
THE PAY OF
MEMBERS OF
PARLIAMENT

Previous
Reference:
CC(82) 24th
Conclusions,
Minute 4

4. The Cabinet discussed a memorandum by the Chancellor of the Exchequer and the Lord President of the Council on the future arrangements for settling the pay and allowances of Members of Parliament (MPs), the pay of Ministers and Peers' Expenses Allowances (C(82) 25).

THE LORD PRESIDENT OF THE COUNCIL said that the Select Committee on Members' Salaries had recommended that MPs' pay and allowances should be reviewed by the Top Salaries Review Body (TSRB) during the fourth year of each Parliament, or no less frequently than every four years when shortened Parliaments precluded this timetable; and that at the same time as the House of Commons reached a decision on the TSRB recommendations it should also agree that in the intervening years there should be an annual automatic adjustment of MPs' salaries by reference to the movement of the nearest percentile in the New Earnings Survey (NES). Periodic reviews by the TSRB seemed likely to be the most satisfactory way of settling MPs' pay; and, in his view, reviews towards the end of a Parliament rather than at the beginning of a new one were much preferable, although it might not always be possible to achieve this in the event of shortened Parliaments. He therefore recommended that the Government should accept these proposals and that the TSRB should be asked to report in time for the 1983 increase in MPs' pay. He also recommended that the Government should accept in principle that MPs' pay in the years between TSRB reviews should be determined through some form of link with the pay of other groups. But to do so by reference to movements in the NES would be contrary to the Government's approach to public service pay, with potentially serious repercussions throughout the public services; and might well result in salary increases for MPs well above the level that the Government thought appropriate for other public sector groups. He therefore recommended that the Government should instead propose that the linkage should be with a basket of public service analogues, possibly consisting of the non-industrial Civil Service, the main National Health Service (NHS) groups and school teachers in England and Wales. The Select Committee's proposal for automatic increases in MPs' pay in the years between TSRB reviews was, in his view, unacceptable, since it would leave the Government with too little control in the event of unforeseen circumstances. He therefore recommended that the Government should instead propose that adjustments to MPs' pay in the intervening years should be the subject of a vote in the House of Commons each year on the basis of a Government motion. He had discussed these proposals in general terms with a number of MPs and thought they would be broadly acceptable. It would be necessary to arrange an early debate on this year's increase in MPs' pay. This would provide the most appropriate occasion for the House to debate the Government's proposals on future pay arrangements, which he recommended should

be the subject of a detailed Government motion. Finally, he recommended that the TSRB should be asked to review Ministers' pay, MPs' secretarial allowance and Peers' expenses at the same time as it reviewed MPs' pay; and that in the years between TSRB reviews increases in these payments should be dealt with on an ad hoc basis.

THE CHANCELLOR OF THE EXCHEQUER said that he endorsed the proposal in C(82) 25 for MPs' pay to be reviewed by the TSRB, preferably in the fourth year of a Parliament and (more reluctantly) the proposal for pay in the intervening years to be adjusted through some form of linkage with the pay of other groups and subject to a vote by the House of Commons. The key issue was the form that such a linkage should take. He was strongly opposed to indexation with reference to the NES or to a link with a single public service group. There therefore seemed little alternative to a link with a basket of analogues as proposed in C(82) 25, which he reluctantly endorsed. The proposed composition of the basket of analogues was broadly representative of the public services and included neither the police nor the Armed Forces, both of which had particularly favourable arrangements for determining their pay.

The following were the main points made in discussion:-

a. Although a basket of analogues was to be preferred to the other possible forms of linkage, it might not be easy to defend publicly. A link with an index such as the NES would be thought by many to be the more logical approach, since it covered a much wider spectrum of groups. The NES reflected not only increases in pay but also improvements in productivity and other factors which could not apply to MPs. Moreover a link with the NES would over-emphasise those groups whose pay settlements had been above average. Over the last few years the increases produced by a linkage with the NES would have been much greater than those based on a basket of public service analogues.

b. The proposed composition of the basket of analogues relied too heavily on NHS groups, the work of many of which was in no sense comparable to that of MPs. On the other hand it was important that the analogues should be drawn from the public services, and it would be undesirable to link MPs' pay with that of a single group or of a small number of employees. The groups proposed in C(82) 25 were broadly representative of the public services. Moreover, the periodic reviews by the TSRB would ensure that any anomalies resulting from the choice of analogues would eventually be corrected.

- c. There might be some advantage in delaying the first TSRB review until the next Parliament, but it was unlikely that the House of Commons would be prepared to accept such a proposal.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there should be periodic reviews of MPs' pay and allowances by the TSRB. These periodic reviews should also cover Peers' expenses allowances and Ministers' salaries. The intervals between reviews should be four years or so, with the intention, so far as possible, that reviews should be undertaken in the latter part of a Parliament's life. The first such review should be put in hand in time for recommendations to be made in 1983. So far as interim adjustments between reviews were concerned, the Cabinet did not accept the Select Committee's recommendation that MPs' pay should be increased automatically each year by reference to increases in the Department of Employment's New Earnings Survey. The need for annual adjustments could be accepted, but it should remain the responsibility of the Government to make proposals for increases in MPs' pay, whether in response to TSRB reviews or annually between such reviews, for approval by the House of Commons. Because of Parliamentary pressure over the years for some form of linkage, the Cabinet accepted that there would have to be a formula to guide the Government in proposing annual adjustments in MPs' pay. This formula should not relate to movements in the NES but to movements in pay of a widely based set of groups of employees in the public services. The Chancellor of the Exchequer, in consultation with the Lord President of the Council, should look again at the proposed coverage of groups to be selected, the reasoning behind it, and how such a proposal might best be presented. Any annual interim adjustments to MPs' allowances, Peers' expenses allowances and Ministerial salaries should be dealt with by the Government on an ad hoc basis, although the Government would clearly have in mind the adjustments being made at the time to MPs' pay. The Government's proposals should be set out in a suitable motion for approval by the House of Commons in the course of a debate on MPs' pay to be held as soon as convenient and before 13 June. The Lord President of the Council and the Chief Whip would need to consider further the precise timing of such a debate.

The Cabinet -

1. Agreed that the Top Salaries Review Body should be asked to review MPs' pay and allowances, Peers' expenses allowances and Ministers' salaries at intervals of four years or so, as indicated in the Prime Minister's summing up of the discussion.

CONFIDENTIAL

2. Agreed that the first such review should be put in hand in time for a report next year.
3. Agreed that annual interim adjustments in MPs' pay should, like adjustments arising from the Top Salaries Review Body reviews, be for the Government to propose and for the House of Commons to approve but that the Government should be guided in its proposals for annual interim adjustments by movements in the pay of certain groups of employees in the public services.
4. Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council, to consider further which groups of employees should be selected for the purpose of Conclusion 3 above on the lines indicated in the Prime Minister's summing up.
5. Agreed that annual interim adjustments of MPs' allowances, Peers' expenses allowances and Ministerial salaries should be dealt with on an ad hoc basis by the Government.
6. Agreed that the Government should set out its proposals in a motion for approval by the House of Commons in the course of a debate on MPs' pay to be held as soon as convenient and before 13 June.

Cabinet Office

25 May 1982