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CC(81) 1st
Conclusions

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CABINET

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

THURSDAY 8 JANUARY 1981

at 10.30 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 Industry

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster and
Paymaster General

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

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 Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon John Biffen MP
Secretary of State for Trade

~~The Rt Hon David Howell MP~~
~~Secretary of State for Energy~~ *J.H.*

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

The Rt Hon Norman Fowler MP
Secretary of State for Transport

Mr Leon Brittan QC MP
Chief Secretary, Treasury

SECRET

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Hon Douglas Hurd MP
Minister of State, Foreign and
Commonwealth Office (Items 1 - 3)

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant (Item 5)
Mr R L Wade-Gery (Items 2, 3 and 5)
Mr D M Elliott (Items 2 and 3)
Mr W N Hyde (Items 1 and 4)
Mr D J L Moore (Item 5)
Mr L J Harris (Item 1)
Mr J W M Rogers (Item 4)

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PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed that the two Motions on Scottish matters tabled for Monday 12 January would not now be moved. With this exception, business in the House of Commons in the following week remained as previously announced.

FOREIGN
AFFAIRS

Poland

Previous
Reference:
CC(80) 45th
Conclusions,
Minute 2

2. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (Mr. Hurd) said that the internal situation in Poland was once again very tense. The current subject of strenuous argument between the Government and the Solidarity movement was the demand for a five-day week, which Solidarity had now reinforced by instructing its members not to work on Saturdays. Other difficult issues were likely to be raised and, if the Government continued to give way on each issue which arose, its position would grow progressively weaker. For the moment, however, there were no signs of intensification of Soviet military preparations. Within the North Atlantic Treaty Organisation there was now agreement on a list of possible counter-measures if the Soviet Union moved against Poland, although no decisions had been taken on which of these measures would in practice be adopted.

Middle East

Previous
Reference:
CC(80) 44th
Conclusions,
Minute 2

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the visit to Algiers by the United States Secretary of State's deputy, Mr Christopher, resulted from new signs that the Iranian authorities might now be willing to conclude a realistic deal over the American hostages. It remained, in his view, unlikely that such a deal could in fact be reached before the outgoing United States Administration left office on 20 January, and it was not clear what the incoming Administration's attitude would be. The early release of three of the four British subjects imprisoned in Iran continued to be forecast by the main Iranian contact of the Archbishop of Canterbury's recent emissary. Meanwhile the war between Iran and Iraq was continuing, although at reduced level. Despite the Iranians' claims, which were designed to strengthen the position of President Bani-Sadr, their current counter-offensive seemed unlikely to produce dramatic results. The number of serviceable Iranian aircraft was now lower than ever. As a result either of air action or of sabotage, the Iraqis had now again had to stop exporting oil via their pipeline through Turkey. This would particularly exacerbate Turkey's existing difficulties over oil supply. No other Iraqi oil was being exported and very little Iranian. The attitude of the Rulers of the lesser Gulf States was therefore of special importance. He himself had just returned from a visit to that area undertaken at the Prime Minister's request. His main purpose had been to reinforce British Aerospace's efforts to secure an order for Hawk aircraft from the United Arab Emirates; he had

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found the ruling families there divided over their requirements and subject to tempting rival offers from the French, but he had been able to bring home to them that, if they were not prepared to maintain substantial defence procurement from Britain, they could hardly expect to count on the continuance of Britain's special attitude of support. More generally, the Gulf Rulers seemed to be understandably apprehensive and in need of constant political reassurance. Visits by other British Ministers would have an important part to play in meeting that need.

THE PRIME MINISTER, summing up a brief discussion, said that members of the Government would wish to bear in mind the importance of Ministerial visits to the Gulf in present circumstances, if British interests were not to suffer; to consider whether other travel plans could be adapted to include such visits; and to be ready to respond sympathetically to suggestions which Foreign and Commonwealth Office Ministers might make in this context.

The Cabinet -

Took note.

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COMMUNITY
AFFAIRS

Commissioner
Portfolios

Previous
Reference:
CC(80) 37th
Conclusions,
Minute 3

3. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (Mr. Hurd) said that after a long meeting on 7 January the new Commission had settled the distribution of Commissioner portfolios in a way that was reasonably satisfactory to the United Kingdom. The need to create a portfolio for the new Greek Commissioner, combined with the pressure from several existing Commissioners to retain or enlarge their present portfolios, had led to an attempt to deprive Mr Tugendhat of the restructuring aspects of the Budget portfolio in favour of Mr O'Kennedy, the Irish Commissioner, who was to have been given special responsibility for the Budget restructuring mandate under the general oversight of the President of the Commission. After the Prime Minister had intervened with Mr Thorn on Mr Tugendhat's behalf, a new formula had been agreed which left Mr Tugendhat's responsibilities intact and gave an indeterminate co-ordinating role to Mr O'Kennedy under the President. Mr Richard, the second British Commissioner, had been successful in gaining the Social Affairs portfolio, less vocational training. Mr Kontogeorgis, the Greek Commissioner, appeared to have done better than expected in getting both Transport and Fisheries.

In a brief discussion it was observed that, had the move to take away a critically important aspect of Mr Tugendhat's Budget responsibilities succeeded, it could only have been regarded as a calculated insult both to him as our senior Commissioner and to the United Kingdom as a member state with a major interest in the restructuring negotiations. At the same time there was some evidence that the negotiations had not been well handled in their early stages by Mr Tugendhat himself. It would be necessary to see the small print of the final agreement, when available, to establish the precise balance of portfolios within the new Commission.

1980
Supplementary
Budget and
1981 Budget

Previous
Reference:
CC(80) 42nd
Conclusions,
Minute 3

THE CHANCELLOR OF THE EXCHEQUER said that the current dispute over the legality of the Community Budget arose from the failure of the December Budget Council to agree on the European Parliament's amendments to the 1980 Supplementary Budget and the 1981 Budget. The United Kingdom, Italy and Ireland had been willing to accept the proposed increases, but Belgium, Denmark, Germany and France had described them as illegal. In the event the Council did not vote on the Parliament's amendments, so that no qualified majority emerged to modify them, and the amended Budget was subsequently adopted by Madame Veil on behalf of the Parliament. Although France, Germany and Belgium had limited their January contributions in respect of the Supplementary 1980 Budget to the amount originally accepted by the Council, the Commission were treating the adoption of both Budgets as lawful and were intending to implement them on this basis. The United Kingdom had already received £97.6 million on 31 December as advances from the 1980 Budget under the supplementary measures arrangements, and the Commission's stance should ensure that we would receive the amount due to us under the Financial Mechanism in the next few weeks. There was thus no cause for action by the United Kingdom at this stage.

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In discussion, it was noted that the line taken by the French on the Budget dispute formed one of a series of recent moves that suggested a general hardening of their attitude towards current Community issues. Apart from the Budget question, they had blocked agreement on a revised Common Fisheries Policy at the December Fisheries Council, despite encouraging bilateral exchanges beforehand, and the Foreign Minister had shewn no sign of greater flexibility in his subsequent talks with the Foreign and Commonwealth Secretary; they had announced massive and arguably illegal new aids to French farmers, which could only add to the milk surplus and thus increase the cost of the Common Agricultural Policy; and they had made clear that they would press for substantial increases in common support prices in the 1981 price fixing negotiations. Although the French were at one with the British Government in standing firm on the maintenance of the 1 per cent VAT ceiling, there was a risk that, given the domestic requirements of President Giscard's electoral campaign, their position on other issues would lead to a growing divergence of views between the United Kingdom and France in the months ahead. It might be necessary to consider the implications of any emerging confrontation in more detail in the appropriate Cabinet Committee.

The Cabinet -

Took note.

FUTURE OF THE
INNER LONDON
EDUCATION
AUTHORITY

4. The Cabinet considered a note by the Secretary of the Cabinet (C(81) 1), to which were attached minutes of 21 November 1980 and 18 December 1980 from the Home Secretary to the Prime Minister and a minute of 31 December 1980 from the Minister of State, Department of Education and Science, to the Prime Minister on the future of the Inner London Education Authority (ILEA).

THE SECRETARY OF STATE FOR THE HOME DEPARTMENT said that the present local government arrangements for education in Inner London were less than satisfactory. ILEA was constituted by a complex and little-understood mixture of election and nomination. It spent and precepted without regard to the claims of other services on the available resources. Its performance was patchy and by no means commensurate with its expenditure. But there were strong arguments against breaking it up. A single authority was needed for higher, further and special education and the careers service. Some of the individual boroughs would be too small, especially at a time of falling school rolls, to provide adequate schooling. There would be difficult problems of financing a service provided by the boroughs. Home and Social Affairs Committee (H) had therefore concluded, by a majority, that it would be necessary to retain a single education authority. The Leader of the Greater London Council (GLC) was also of this view. H Committee had seen

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considerable objection to the suggestions, including differential precepting, that had been made with the aim of improving financial control. They were also dubious about the balance of advantage of the changes they had considered in the way in which ILEA was constituted. A majority of the Committee had therefore considered it preferable to maintain the existing arrangements despite their admitted shortcomings.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that on any comparison ILEA was very expensive. It was subject to little democratic or financial control. He agreed, however, that it should not be broken up. Since 1870 education in Inner London had never been a borough responsibility and school catchment areas did not coincide with borough boundaries. Nearly half the cost of ILEA fell on the Cities of London and Westminster, though their areas accounted for less than one-tenth of ILEA expenditure, and if their contribution did not continue the additional burden would fall on other ratepayers or on the taxpayer. The variant of the proposal originally put forward by Lord Marshall for members of ILEA to be nominated by the boroughs might offer some improvement in financial and democratic accountability but would be likely to worsen the position of the minority party and was unlikely to be welcomed by Government supporters. Direct elections would improve democratic accountability but would be likely to lead to even greater financial irresponsibility by the authority. H Committee and the Ministerial Committee on the Future of the Inner London Education Authority (IL) had resisted this proposal, the political consequences of which were unpredictable. There might be a proliferation of candidates representing particular educational lobbies and pressure groups. If ILEA were funded directly by central government, educational performance might well improve, but the Secretary of State of the day would be placed in a very difficult position. Since H Committee had considered the matter the Labour majority group on ILEA had made proposals for further increases in expenditure in 1981-82. Expenditure might be some £100 million above the grant-related expenditure assumed for block grant purposes, involving an increase of almost 50 per cent in the relevant precept; if so, the authority would receive little or no government grant and the threat of loss of grant would not be available as a deterrent to even higher expenditure. The Government needed to make its position known well in advance of the GLC elections. If the Cabinet decided that a single authority should be retained, it would be possible to issue a Green Paper canvassing a number of options for change in the constitution of that authority. The alternative would be a White Paper setting out firm conclusions on the issues considered by H Committee and summarised in the note by the Secretary of the Cabinet.

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In discussion there was general agreement on the need for improvement in the standard and quality of education in Inner London. The wish of the dominant opinion within the Labour Party in London to destroy church schools as well as grammar schools and to eliminate streaming would further lower standards. The immediate problem was to find ways of controlling excess expenditure. High rates bore particularly heavily on the Cities of London and Westminster and on non-domestic ratepayers. Overspending by ILEA was, however, only one example, if an extreme one, of the lack of control over those authorities in various parts of Great Britain who were prepared to forfeit block grant and impose ever higher rates, in the belief that it would not be themselves but central government which would be held responsible by the electors. The lack of adequate control over such authorities pointed to the need for a fundamental re-examination of the rating system and of methods of control over local authority expenditure. Against that background it was essential to examine again as a matter of urgency the whole range of political and financial sanctions that might be introduced for ILEA. It was important that the Government should be seen to be taking action but also that they should not embark on changes which would not yield clear improvements. Consideration would need to be given to the implications of any changes for the Metropolitan Police.

In further discussion of the possibility of a directly elected authority it was suggested that parental concern for educational standards might lead voters to reject the present policies of ILEA. On the other hand, it might lead them to vote for increased expenditure on education. The Boundary Commission did not have the capacity, at present, to prepare constituencies for a directly elected Authority.

THE PRIME MINISTER, summing up the discussion, said that information now available about the likely increase in ILEA expenditure for 1981-82 gave fresh importance and urgency to the matters considered by H Committee. There was a clear need to improve ILEA's performance as an education authority, and to improve the financial controls to which it was subject. These matters would need to be considered in the context of the control of local authority expenditure generally and of the possible weaknesses being revealed in the block grant system. While the Cabinet were inclined at this stage to favour the retention of a single authority they were not able to rule out any possibility at this stage, including the reintroduction of excepted districts responsible for their own education services, the grouping of boroughs to provide a viable education service and the possible right of individual boroughs to secede from ILEA. The Secretary of State for Education and Science, in consultation with the Home Secretary, the Chancellor of the Exchequer and the Secretary of State for the Environment, should therefore re-examine the issues as a matter of urgency, with particular reference to the sanctions that might be imposed on a single authority. He would

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need to discuss these matters with the Minister of State, Department of Industry (Mr Baker), in view of the latter's close personal interest in the subject, and it would also be desirable to consult the Leader of the GLC. The Secretary of State for Education and Science should bring the matter before the Cabinet again in two weeks' time, and should then suggest the matters that might be covered in any Green Paper, which would have to be issued well before the GLC elections. This work should proceed in parallel with, and take account of, the consideration being given by the Secretary of State for the Environment and other Ministers to the general problems of the control of local authority expenditure that had been identified in the discussion.

The Cabinet -

Invited the Secretary of State for Education and Science, in consultation with the Home Secretary, the Chancellor of the Exchequer and the Secretary of State for the Environment, to give urgent consideration to ways in which controls on ILEA might be strengthened and to other changes which might be made in the structure and financing of the education service in London, taking account of the points made in discussion, and to report the outcome to the Cabinet for further consideration at their meeting on 22 January.

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PAY
NEGOTIATIONS
IN THE WATER
INDUSTRY

5. THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had explained to the National Water Council (NWC), who negotiated on behalf of the water authorities, the importance of securing a pay settlement for the water manual workers which did not put at risk the success of local authority employers in persuading the unions representing the local authority manual workers to recommend their members to accept a settlement of $7\frac{1}{2}$ per cent. It was unhelpful that the NWC had made an opening offer of 9.9 per cent on basic rates, which was equivalent to 7.9 per cent on earnings. At a meeting with union representatives on 6 January the NWC had, however, refused to improve their offer which the unions had rejected. The unions were now consulting their membership - though not by ballot - and advising industrial action in furtherance of their claim. They would complete these consultations by 3 February. The outcome would depend critically on whether the local authority manual workers accepted the offer of 7.5 per cent by 27 January and on the outcome of the negotiations on the pay of the gas manual workers. In the meantime the NWC would continue to try to impress on the water workers that the offer was fair and in line with that recommended for the local authority manual workers. They would prefer Ministers to keep a low profile during this period and he recommended the Cabinet to accept this advice.

THE HOME SECRETARY said that, in the event of strike action, the attitude of the supervisors would be crucial. If strike action were limited, and if the supervisors were willing to co-operate, it should be possible to maintain restricted services for some weeks. If there were general strike action, and the supervisors were unwilling to help, conditions could become intolerable almost at once. If, however, the supervisors were willing to co-operate in advising the Armed Forces the situation might be held for about six weeks. The problems of using the Armed Forces would be eased if the current dispute over the pay of prison officers could be resolved, and his aim was to achieve this by the end of the following week. It might be necessary to declare a state of emergency to protect the water authorities from charges that they were in breach of their statutory duty to supply.

THE PRIME MINISTER, summing up a short discussion, said that public opinion would be strongly against any industrial action by the water workers, and the Cabinet agreed that the Government should stand firm against any pressure to endorse an increased pay offer. For the time being, however, Ministers should not comment publicly on the negotiations and on the NWC's ongoing discussions with the unions.

The Cabinet -

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

Cabinet Office

8 January 1981

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