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CC(81) 18th  
Conclusions

COPY NO 78

CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 7 MAY 1981  
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

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 John Nott MP  
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

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 Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP  
Secretary of State for Northern Ireland  
(Items 1-4)

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

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

**SECRET**

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong  
Mr M D M Franklin (Items 2-4)  
Mr F Le Cheminant (Items 5 and 6)  
Mr W N Hyde (Item 1)  
Mr D J L Moore (Items 5 and 6)  
Mr W N Werban-Smith (Items 2-4)  
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.

FOREIGN  
AFFAIRS

2. THE LORD PRIVY SEAL said that the Foreign and Commonwealth Secretary had attended the Ministerial meeting of the North Atlantic Council which had taken place in Rome on 4 and 5 May. The United States had agreed to begin discussions with the Soviet Union, before the end of the year, on the limitation of Theatre Nuclear Forces (TNF).

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North Atlantic  
Treaty  
Organisation  
(NATO)

In return, the American Secretary of State, Mr Alexander Haig, had wanted the Council's communique to include strong wording on the need for increased defence expenditure, but had in the end accepted a compromise formula which kept the question open for further discussion by NATO Defence Ministers, who were due to meet in the following week. On strategic grounds alone it was arguably wrong to negotiate on the limitation of TNF in Europe at a time when Soviet SS-20 missiles were already deployed and were steadily increasing in number but before the deployment of United States ground launched cruise missiles (GLCMs); but the European allies needed the assurance that such negotiations would take place, if they were to be able to overcome the political and public resistance to the stationing of United States GLCMs in their countries.

Previous  
reference:  
C(80) 45th  
conclusions,  
minute 2

Namibia

THE LORD PRIVY SEAL said that in the United Nations Security Council on 1 May the United Kingdom, together with the United States and France, had vetoed a series of resolutions calling for sanctions against South Africa. Initial African reactions had been relatively calm. Officials of the five Western countries which had taken the lead in seeking a solution to the Namibian problem would shortly meet in Rome to discuss the possible addition of constitutional arrangements to the proposals which South Africa had hitherto found unacceptable. The South African Foreign Minister, Mr Pik Botha, was due to visit the United States, whose government was best placed to put pressure on the South Africans to commit themselves to reaching agreement.

Previous  
reference:  
C(81) 17th  
conclusions,  
minute 2

Lebanon

THE LORD PRIVY SEAL said that, since the Cabinet's previous discussion of the situation in the Lebanon, the fighting had died down. Negotiations between the Syrians and the Christian forces within the country were proceeding satisfactorily; but the danger of further hostilities between the Israelis and the Syrians remained acute. Both the United States and the Soviet Union were despatching special emissaries to the area.

Previous  
reference:  
C(81) 17th  
conclusions,  
minute 2

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS  
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proposed  
Council on  
employment  
previous  
reference:  
(1) 17th  
conclusions,  
page 3

3. THE SECRETARY OF STATE FOR EMPLOYMENT said that the Dutch Government were now less willing to hold the proposed Joint Council of Finance, Economic and Employment Ministers during their Presidency. He had told the Dutch Minister for Social Affairs that it would be difficult to contemplate holding the meeting in July or October, or indeed at any time during the British Presidency, given the adverse publicity which it would generate at a time of high unemployment figures in the United Kingdom. If an early and low-key meeting could not be held in June, he had proposed to the Dutch that emphasis should be laid on the need for thorough preparation. This was acceptable to the Dutch, who were facing an early election, provided that it was not said publicly that there was no intention of calling the meeting during the British Presidency.

The Cabinet -

Took note.

NORTHERN  
IRELAND  
AFFAIRS  
previous  
reference:  
(1) 17th  
conclusions,  
page 6

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the situation in Northern Ireland remained tense. Following Mr Sands's death early on 5 May there had been considerable disorder in West Belfast. This mainly took the form of hooliganism, in which young people attacked the security forces, rather than of organised inter-community violence. But a police officer had been killed by sniper fire the previous night, and it appeared that a renewal of Provisional Irish Republican Army (IRA) terrorism was to be expected. The police and security forces were doing a magnificent job and were taking pains to prevent an outbreak of violence between the two communities. Later that day the funeral of Mr Sands would take place. A very large procession was expected, numbering between 20,000 and 30,000, and the occasion would certainly be marked by the flaunting of the Irish tricolour, the wearing of military uniforms, and a funeral volley by masked men. All this, and the diversion of the procession from part of its intended route through a Protestant area, would be the focus of international media attention. The Government would be the subject of unfavourable publicity abroad and vigorous criticism at home for its failure to prevent the illegal manifestations of support for the IRA. Within Northern Ireland, however, it was generally accepted that each community should bury its dead in the way it considered fitting.

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There was no doubt that intervention by the security forces would be extremely dangerous unless it were on such a massive scale as to provoke even worse publicity. The security forces were at full strength, and prepared for the trouble which was likely to follow immediately after the burial. With the agreement of the Secretary of State for Defence, the Spearhead battalion had been moved to Northern Ireland the previous night to provide an additional reserve. Looking ahead, it was reasonable to hope that the disorders would die down over the weekend, but they could be given fresh impetus if another hunger striker died. Mr Hughes, although he had begun his fast two weeks later than Mr Sands, might well die in the middle of the following week, unless he were persuaded to give up. This possibility could not be excluded, since there were indications of a division of opinion between those in the Provisional IRA who wished to make the most of the present publicity in their favour and those who wished to increase the pressure on the Government by any means possible. In either case the Government would be subjected to international pressure to show greater flexibility. He himself would continue to take every opportunity to make clear the issue of principle involved, and would be going to Belfast immediately for that purpose.

THE PRIME MINISTER, summing up a short discussion, said that the police and Army were fulfilling their role superbly. The risks of intervening to prevent manifestations of support for the IRA during the funeral of Mr Sands were unacceptable, and the Government would have to put up with the resulting criticism of its inaction. There still appeared to be widespread ignorance, part of it genuine, about the high standards of the Maze Prison and the extent to which the Government had already shown flexibility in matters of prison administration. Those responsible for television reporting within the United Kingdom were aware of the Government's concern not to give the IRA gratuitous publicity. Internationally, a good deal had already been done, but further efforts should be made through overseas posts to deploy the Government's case.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Lord Privy Seal, in consultation with the Secretary of State for Northern Ireland, to arrange for further information to be disseminated overseas in support of the Government's position.

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5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(81) 20) on the guidelines for the conduct of the 1981 Public Expenditure Survey.

THE PRIME MINISTER said that she would arrange for a general discussion of economic policy by the Cabinet in the first half of June.

THE CHANCELLOR OF THE EXCHEQUER said that he was not asking the Cabinet to take decisions on public expenditure now, but was seeking approval for guidelines for the preparation by Departments of the Survey Report which would be the basis of the Cabinet's discussions of public expenditure in the autumn. He recommended that the Report should present costed options showing the implications of reductions of 3 and 5 per cent in 1982-83 and of 5 and  $7\frac{1}{2}$  per cent in 1983-84 and 1984-85, with the percentages applying to the cash figures for each programme; for social security the options should be for reductions of 5 and  $7\frac{1}{2}$  per cent in a full year. Where a Department found it necessary to make a bid for additional expenditure for whatever reason, including any provision required for cost increases over and above the standard figure, it should also make proposals for offsetting reductions. The Cabinet had agreed on 24 February that the discussion of the plans for 1982-83 should be in cash terms. He now recommended that the programmes for 1982-83 should be put on a cash basis by using the provisional working assumption that all costs would rise by 7 per cent between 1981-82 and 1982-83. This procedure would avoid making any specific assumption at this stage about increases in public sector pay; it took account of the Treasury's unpublished forecast that the average increase in the Retail Price Index from 1981-82 to 1982-83 would be around  $7\frac{1}{2}$  per cent. The assumption of 7 per cent would be provisional and open to revision in the autumn, when it would also be necessary, in preparation for determining the 1982-83 cash limits, to make separate specific assumptions for pay and for other costs. The assumption of 7 per cent should be given to local authority expenditure groups and should also be available for discussion with the nationalised industries of their expenditure plans. The programmes for the later years should also be put on a cash basis, using provisional working assumptions of inflation factors of 6 per cent for the change from 1982-83 to 1983-84 and of 5 per cent from 1983-84 to 1984-85, broadly reflecting the Government's strategy and objectives over the period. This procedure avoided the disadvantages of a hybrid set of figures, partly in cash and partly in constant prices, which would result if the alternative of using estimated 1982-83 prices were to be adopted for the two later years. He would wish to avoid putting substantive proposals to Cabinet too early, with the risk that they would have to be reopened later, and this might mean concentrating discussions of specific proposals for programmes in the autumn, but in time for the Rate Support Grant (RSG) negotiations. The Cabinet would, however, probably wish to take stock

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in July, and to consider giving some preliminary advice to the local authorities, beyond that already in the Public Expenditure White Paper, in order to influence their planning for 1982-83, on the understanding that this advice would be subject to later reconsideration.

In discussion the following were the main points made -

a. Although it was right that the Cabinet should consider options for public expenditure cuts, there were considerable disadvantages in calling for costed options for every programme at the levels proposed by the Chancellor of the Exchequer. For some programmes, cuts of this order would be politically indefensible and impracticable. The fact that the Cabinet had asked for such cuts to be costed would, nevertheless, become public knowledge (in some cases it would be necessary to discuss the options with outside bodies, such as the Manpower Services Commission), and this would create needless and damaging uncertainty and misunderstanding. These difficulties might be less if the possibilities for cuts could be examined in bilateral discussions between each Department and the Treasury with a view to establishing what was feasible, rather than calling on officials to prepare a comprehensive report on the basis of the percentage options proposed.

b. On the other hand, there were advantages in calling for a systematic examination of the consequences of applying the percentage cuts proposed by the Chancellor of the Exchequer to each programme. The Cabinet would then have a comprehensive analysis which would enable them to judge what reductions in public expenditure were feasible when, later in the year, they considered the balance to be struck between the Government's objectives for public expenditure and for the burden of taxation and the balance between capital and current expenditure. What were prepared would be options amongst which choices could be made; they would not be proposals or decisions. While each Department should seek to find practicable and desirable savings in their programmes, it was open to Departments to draw attention to the disadvantages of the possibilities which they had identified.

c. In examining the options, Departments should take the opportunity to look again at the possibility for cutting out general functions and for making radical changes. It might turn out that such fundamental changes could not be made without new legislation. Such legislation would cause considerable problems if it had to be accommodated within the 1981-82 legislative programme which already excluded a number of Bills which Ministers judged to be desirable. The need to create more flexibility in the programme could however be discussed in the following week when Cabinet was due to consider the legislative programme as a whole.

d. If capital investment were to be stimulated, and unemployment reduced, it would be essential to avoid repeating the pattern of previous public expenditure exercises in which cuts had tended to fall on investment rather than on consumption and public sector pay. These links between pay, unemployment and investment had been raised by the Secretary of State for the Environment in his letter of 6 May to the Chancellor of the Exchequer, and there would be an opportunity to consider these issues further when the Cabinet discussed economic policy in June. Any increased provision for capital investment within existing public expenditure programmes could, however, be justified only if the offsetting savings on public sector pay represented realistic assumptions rather than unattainable aspirations. Further consideration should be given to encouraging private sector investment in areas, such as the road programme, which had hitherto been a public sector preserve.

e. If firm decisions on expenditure were not taken until the late autumn, this would reduce the chances of influencing the local authorities to make significant cuts in their programmes in 1982-83. Local authority treasurers were influenced not by general statements of intent by the Government in July but by the actual RSG settlements; and on the timetable now proposed these could not be made until January. If the local authorities were to be influenced to make significant cuts, the Government would need to give very clear indications of its intentions in July, and to take firm decisions in September with a view to RSG settlements in November.

f. It was argued that it would be better to use estimated 1982-83 prices for 1983-84 and 1984-85 rather than to attempt to put the programmes for those years on a cash basis. The proposed inflation factors of 6 and 5 per cent would be criticised as misleading, and would have to be revised at a later stage; volume changes in the programmes would be obscured and would not be replaced by cash figures with any firm basis; it was not clear that there was an operational need to make this change now. On the other hand, even though the cash figures would be increasingly provisional in the later years, there were advantages in considering programmes in cash terms throughout the Survey period, and in avoiding a "broken-backed" series between 1982-83 and the later years. Consideration could be given at a later stage to whether the figures for programmes in 1984-85 should be published in the Public Expenditure White Paper, although the period covered by White Papers had already been reduced by one year.



THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the guidelines for the 1981 Public Expenditure Survey should be on the basis proposed by the Chancellor of the Exchequer in C(81) 20. Each Department should aim to identify realistic options for cuts, taking the opportunity to review the possibilities for radical changes and for the cutting out of main functions, and to bring out fully the implications of making the cuts identified. It should be clearly understood that the level of the costed options which were to be identified did not in any way represent a view by the Cabinet of the reductions in public expenditure which it might wish to make. The object of the present exercise was no more than to provide the Cabinet with a comprehensive analysis on which it could draw later in the year when it came to its substantive discussions of the public expenditure programmes. If the local authorities were to be influenced in good time in their decisions on their programmes, it would be desirable to announce the RSG settlements in November; this pointed to substantive decisions on local authority expenditure in September, when three meetings of the Cabinet were provisionally planned. It would be for later decision whether figures for 1984-85 should be published in the Public Expenditure White Paper.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals in paragraph 19 of C(81) 20.

6. The Cabinet considered further a memorandum by the Lord President of the Council and the Chancellor of the Duchy of Lancaster and Paymaster General (C(81) 13) and also a note by the Secretary of the Cabinet (C(81) 21) on the pay of Members of Parliament and Ministers. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

7 May 1981

CABINET

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LIMITED CIRCULATION ANNEX

CC(81) 18th Conclusions, Minute 6

Thursday 7 May 1981 at 10.00 am

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AND  
MINISTERS'

The Cabinet considered a note by the Secretary of the Cabinet (C(81) 21) on the pay of Members of Parliament (MPs), Ministers, and junior Ministers in the House of Lords.

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THE CHANCELLOR OF THE DUCHY OF LANCASTER AND PAYMASTER GENERAL said that at their meeting on 9 April (CC(81) 15th Conclusions, Minute 5) the Cabinet had approved the proposals which he and the Lord President of the Council had made in C(81) 13 for dealing with the remuneration of junior Ministers in the House of Lords and they had narrowed the choice for the pay of MPs and Ministers to Options B and D in that memorandum. Option B was for the figure of £13,150, fixed last year to take effect on 13 June 1981, to stand unchanged; Option D was for the £13,150 to be increased by 6 per cent to £13,950. He and the Lord President of the Council had recommended Option D; following further consultations, he strongly recommended that this Option should now be approved.

THE CHANCELLOR OF THE EXCHEQUER said that, although Option D incorporated an increase of only 6 per cent on top of the increase for 1981 agreed last year, the total increase would be of 18.7 per cent on this year's salary. This would undoubtedly be misrepresented and criticised; he agreed, nevertheless, that in the light of the advice of the Chancellor of the Duchy of Lancaster, Option D should now be approved.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that the pay of MPs should be increased to £13,950 from 13 June 1981 and corresponding changes made to the salaries of Ministers and other office holders on the lines set out in Option D of the Annex to C(81) 13. She would announce this decision together with the Government's decisions on the three Review Body Reports. Together with the Secretary of State for Social Services, she had met the Chairman of the Doctors' and Dentists' Review Body (DDRE) to inform him of the Government's decisions on the pay of doctors and dentists. He had

been generally understanding of the reasons for this decision and, following a meeting of the DDRB on 8 May, he would advise the Secretary of State for Social Services of any recommendations which he might wish to make on its detailed implementation. She would consider further with the Secretary of State for Social Services whether she should meet the General Secretaries of the British Medical Association and the British Dental Association on the morning of her announcement of the Government's decision on the DDRB Report.

The Cabinet -

1. Agreed that the pay of Members of Parliament should be increased to £13,950 from 13 June 1981 and that corresponding adjustments should be made to the pay of Ministers and other office holders on the lines set out in Option D of the Annex to C(81) 13.
2. Took note that the Prime Minister would announce this decision, and the decision they had already taken on the remuneration of junior Ministers in the House of Lords, when she announced their decisions on the three Review Body Reports.

Cabinet Office

8 May 1981