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Conclusions

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CABINET

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

THURSDAY 24 SEPTEMBER 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 Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon James F rior MP
Secretary of State for Northern Ireland

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Humphrey Atkins MP
Lord Privy Seal

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Francis Pym MP
Lord President of the Council

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 Patrick Jenkin MP
Secretary of State for Industry

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

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Cecil Parkinson MP
Paymaster General

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 1-3)
Mr R L Wade-Gery (Items 1-3)
Mr P L Gregson (Item 4)
Mr D J L Moore (Item 4)
Mr D H J Hilary (Item 5)
Mr L J Harris (Item 5)

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WEDDING
PRESENT
THE
PRINCE AND
PRINCESS
WALES

1. THE PRIME MINISTER said that she had received a letter (which she read to the Cabinet) from the Prince of Wales, expressing his and the Princess's warm gratitude to the Cabinet for their wedding present.

FOREIGN
AFFAIRS

East-West
relations
previous
reference:
(81) 27th
conclusions,
page 2

2. THE LORD PRIVY SEAL said that the Foreign and Commonwealth Secretary was in New York for the United Nations General Assembly. His many contacts there had included a meeting with the Soviet Foreign Minister, Mr Gromyko, which had been held in a satisfactory atmosphere. The Foreign and Commonwealth Secretary had made clear that the principal obstacle to improved Anglo-Soviet relations was the present Soviet military occupation of Afghanistan. Mr Gromyko's main concern at the time had been the prospect of his first meeting with the United States Secretary of State, Mr Haig. Uncertainty about how this would go had characteristically led the Russians to adopt a tough stance on East-West issues. In the event the meeting between Mr Gromyko and Mr Haig appeared to have been reasonably successful, thanks partly to the skilfully conciliatory message which President Reagan had just sent President Brezhnev. The two Foreign Ministers had discussed arms control in the context of long-range theatre nuclear forces and were due to meet again on 28 September.

land
previous
reference:
(81) 31st
conclusions,
page 1

THE LORD PRIVY SEAL said that the situation in Poland remained tense. The letter earlier in the month to the Polish Government and Politburo from the Central Committee of the Soviet Communist Party had been very toughly worded, and the Soviet Union might well seek to apply strong pressure on Poland by economic means. But there appeared to be no signs of Soviet military preparations. Within Poland, moderate counsels had gained some ground within the Solidarity trades union movement, particularly in relation to the issue of the workers' control of management.

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THE LORD PRIVY SEAL said that after several years of negotiations, in which the Prime Minister had been involved among many others, the British-led consortium under Davy McKee Ltd had won a £1 billion contract for the construction of a major steel plant in India. Over half the value of the contract was likely to accrue to the United Kingdom.

CONFIDENTIAL

THE LORD PRIVY SEAL said that the independence of Belize had been successfully achieved on 21 September. Guatemala had made threatening noises, as expected, but had taken no action.

THE PRIME MINISTER said that the Cabinet would wish to extend their warm congratulations to the Financial Secretary, Treasury, for the skill and patience with which as Minister of State in the Foreign and Commonwealth Office he had conducted the negotiations leading up to Belizean independence.

The Cabinet -

Took note.

3. THE LORD PRIVY SEAL said that the Federal German Government had recently endorsed the proposals of the Foreign Minister, Herr Genscher, for the further development of European political union, but were now thinking of a declaration rather than a formal Treaty.

THE CHIEF SECRETARY, TREASURY, said that the Economic and Finance Ministers Council chaired by the Chancellor of the Exchequer on 17 September had been able to resolve outstanding issues on the Community's new financial instrument (the so-called Ortolli facility). The proposal would now be referred to the European Parliament. The Italian Government had sought authorisation for a six-month extension of their import deposit scheme but agreement had been reached to phase it out over five months and to exclude certain products from its scope.

The Cabinet -

Took note.

4. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(81) 48) on local authority current expenditure in 1982-83.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, to conform with present public expenditure plans, the English local authorities would have to cut their current expenditure in 1982-83 by at least 7 per cent from the likely outturn for 1981-82: 3½ per cent to eliminate likely volume overspend in 1981-82; 3 per cent because their pay and price increases in 1981-82 were higher than the cash limit factors for that year; and ½ per cent to achieve further reductions assumed in the 1981 Public Expenditure White Paper. There was general

agreement that it would be unrealistic to expect reductions of 7 per cent. The maximum year-on-year reductions ever achieved by English local authorities overall was 3 per cent; 7 per cent was an average figure, and some local authorities would have to save substantially more; 70 per cent of local authority current costs were for manpower, and a 7 per cent cut would imply a manpower reduction of about 150,000 in a year compared with the present annual rate of reduction of 40,000. Before reaching a final decision on this, however, he wished to continue his discussions with the local authority leaders about the prospects for further reductions in current expenditure in 1982-83. He would do so on the basis of the present target of 7 per cent but, by suggesting that there might be some scope for adjusting this target to a more realistic level, he would seek to secure their collective endorsement of an alternative aggregate figure. He hoped that under this procedure the more moderate councils, which were in the majority, would bring pressure to bear on the minority of high spenders to agree to new targets for reductions. In the meantime, and for internal purposes, the further work in preparation for the 1982-83 Rate Support Grant (RSG) settlement should be based on three alternative assumptions of reductions of 7, 4 and 3 per cent. Officials should be instructed to advise urgently on how any increase in the cash provision for 1982-83 should be apportioned between programmes. Decisions on this apportionment should be taken by mid-October to enable the RSG settlement to be made before Christmas.

THE CHIEF SECRETARY, TREASURY, said that he supported the Secretary of State for the Environment's proposals on the grounds that they recognised the reality of the situation. It would, however, be important to establish, in presenting the outcome of the Secretary of State's discussions, that an increase in the present cash provision for the local authorities would not represent a substantive decision to increase public expenditure, and it would not provide any grounds for increases in other programmes. The final decision on the increases could be taken in the light of the further discussions with the local authorities, and as part of the Cabinet's decisions on the 1981 Public Expenditure Survey as a whole; the aim should be to decide on the total in time for the RSG settlement to be made before Christmas and with the implications for other programmes in mind.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed with the Secretary of State for the Environment's proposals for the next steps in dealing with local authority current expenditure in 1982-83. A final decision on the total additional cash provision would be taken when they considered the 1981 Public Expenditure Survey. In the meantime, separate consideration should be given to the methods of making similar adjustments for the Scottish and Welsh local authorities and to the Northern Ireland programme. It was essential that, when the decisions on local authority current expenditure were announced in due course,

they should be explained in terms of a general additional cash provision with no reference to "validation" of excessive pay increases in 1981-82; otherwise future pay negotiations would be prejudiced, particularly those of the National Health Service groups who had accepted lower settlements this year than had local authority workers. The increased provision should also be presented in the context of the legislation which the Government was introducing to deter high spending local authorities from imposing high rate increases. It was important that further work on local authority expenditure, and decisions on it, should be completed in time for an RSG settlement before Christmas; the settlement would be the basis for the thresholds to be set under the new legislative measures on the rates which would at that stage still be passing through Parliament.

The Cabinet -

1. Approved the recommendations in paragraph 22 of the Secretary of State for the Environment's memorandum C(81) 48.
2. Invited the Chief Secretary, Treasury:
 - i. To arrange for officials of the Departments concerned to examine how any increase in cash provision for local authority current expenditure might be apportioned between programmes.
 - ii. To agree with the Secretaries of State for Scotland, for Wales and for Northern Ireland how similar adjustments should be calculated for the programmes for which they were responsible.

5. The Cabinet considered a memorandum by the Secretary of State for the Home Department (C(81) 47), to which were attached drafts of The Queen's Speeches on the prorogation of the 1980-81 Session of Parliament and the opening of the 1981-82 Session.

THE HOME SECRETARY said that the draft Speeches attached to C(81) 47 had been prepared by The Queen's Speeches and Future Legislation Committee (QL) on the basis of suggestions made by Departments. The draft Opening Speech reflected the legislative programme for the 1981-82 Session approved by the Cabinet in July, but took no account of any adjustments to the programme which might have to be made in the light of the decision to accelerate the passage of the Local Government Finance Bill. Prorogation Speeches generally attracted

THE QUEEN'S
SPEECHES
ON THE
PROROGATION
AND OPENING
OF PARLIAMENT

Previous
reference:
C(81) 30th
conclusions,
minute 5

little Parliamentary or public attention, and the draft which he had circulated had been shortened by more than a third compared with the previous Session's Speech. The reference in the draft Opening Speech to the close relationship with the Republic of Ireland had been suggested by the Foreign and Commonwealth Office to meet QL's concern about the reference in earlier drafts to a "unique" relationship. The new text might be helpful in the context of the Anglo-Irish Summit due to be held on 6 November, but there was a danger that once the reference had been included it would be difficult to omit it from future Speeches. The reference to unemployment in the economic affairs section of the Speech had been added by the Treasury at QL's request. The revised passage on Northern Ireland provided by the Secretary of State for Northern Ireland included a reference to the proposed Advisory Council; this might be better omitted because of the unenthusiastic response which the proposals had received. Subject to these points, and to any further changes which might be needed in the light of later developments or of alterations to the legislative programme, he invited the Cabinet to approve the two draft Speeches attached to C(81) 47.

In discussion of the draft Opening Speech, the following main points were made -

- a. The reference to the close relationship with the Republic of Ireland was intended to reflect an important change in policy towards the Republic. It would, however, be found provocative by certain sectors of political opinion, including some of the Government's own supporters, and it would be safer to omit it.
- b. The specific reference to the proposed representative Northern Ireland Advisory Council should be deleted. The corresponding sentence in the draft Prorogation Speech (the last sentence of the paragraph on Northern Ireland) should also be deleted. The word "humanitarian" in relation to the solution being sought to the prisons protests should be omitted.
- c. The reference to the White Paper on Efficiency in the Civil Service should be deleted.
- d. In the economic affairs section of the draft Opening Speech, it would be preferable to replace the reference to the adaptability of the economy by a reference to its efficiency, and to add a reference to the need to strengthen industry.
- e. A specific reference to legislation to patriate the Canadian Constitution might need to be added at a later stage if a formal request was received from Canada before the Speech was delivered.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that the reference to the proposed Northern Ireland Advisory Council in both draft Speeches, and to relations with the Republic of Ireland and efficiency in the Civil Service in the draft Opening Speech should be deleted as proposed in discussion. They accepted the further amendments which had been suggested on Northern Ireland and economic affairs, and noted the possible need for the addition of a reference to the Canadian Constitution at a later stage. The text of any further drafting changes which Ministers wished to propose should be sent to the Home Secretary immediately.

legislative
programme
1981-82

previous
reference:
C(81) 30th
conclusions,
minute 5

THE HOME SECRETARY said that, since QL had prepared the draft Speeches attached to C(81) 47, the Ministerial Committee on Economic Strategy had agreed that the proposed legislation to make local authorities more accountable for the level of their rates should be given priority over the rest of the legislative programme for the 1981-82 Session, with the aim of securing Royal Assent by February or early March 1982. He had discussed the implications of this decision for the legislative programme with the business managers and First Parliamentary Counsel. He reminded the Cabinet that a reference to a specific measure in The Queen's Speech virtually committed the Government to introducing that measure; the omission of such a reference did not preclude the introduction of the measure, if time permitted, but avoided a commitment. It would be very unwise in the new situation to enter into a firm commitment to carry the whole of the legislative programme approved by Cabinet. He had already agreed that there should be no reference to possible legislation on public order in the draft Opening Speech, and he now recommended that references to at least two other main programme Bills should be omitted, on the understanding that this would not necessarily prevent the relevant legislation being brought forward later if the Parliamentary situation next Session proved less difficult than was at present feared. The main candidates for deletion appeared to be the Social Security Bill, the Housing and Building Control Bill, and the proposed legislation on the retailing of gas appliances by the British Gas Corporation (BGC). It was also possible that there would be some delay in introducing the Mental Health Act (Amendment) Bill, but this was unlikely to be sufficiently serious to prejudice the Bill's chances of securing Royal Assent next Session. There were clear political and economic objections to dropping any of next Session's Bills, but this now appeared to be inevitable if the remainder of the programme were to be carried in an orderly fashion.

THE LORD PRESIDENT OF THE COUNCIL said that he had always considered that the proposed legislative programme was too heavy and too controversial and would put the Government and its own supporters

in both Houses of Parliament under unacceptable strain throughout the Session. Since it had been drawn up, it had been suggested that a further Bill on banking mergers should be added. Time would almost certainly have to be found for legislation on the Canadian Constitution, and the addition of rating proposals to the Local Government (Scotland) Bill would probably mean that Second Reading would have to be taken on the Floor of the House rather than in Scottish Grand Committee. The Opposition were in any case likely to adopt disruptive tactics next Session in protest against the continuing rise in unemployment, and the attempt to force through highly controversial legislation on rates to a very tight timetable would encourage them to withdraw the co-operation which they were normally prepared to give to enable the Government to secure their business. It would be disastrous in the present political climate if the Government were to be seen to be unable to carry the legislative programme announced in The Queen's Speech. It would be prudent to delete the references to three of the existing main programme Bills from the draft Speech. Even if the pressures on the programme were to be eased in this way, he could not guarantee that the Bills which had been identified as requiring early Royal Assent could be delivered on time.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that in the absence of any guillotine procedure in the House of Lords the rapid passage of Government legislation could be secured only through negotiation with the Opposition. The Lords would need at least as much time as the Commons to deal with the Local Government Finance Bill, and would need to have Second Reading before the Christmas Recess in order for there to be any chance of the Bill being passed by February 1982. The Lords had already sat for five weeks in the current Session when the Commons had not, and the two-and-a-half-week Christmas Recess now proposed would be one of the shortest ever. Some acknowledgment of the pressures on the Upper House seemed essential, and she hoped to be able to give some indication that the Government would use their best endeavours to avoid an extended spillover period in the autumn of 1982. Although it was unlikely that the Lords would vote against the principle of the rating legislation at Second Reading, many Peers had strong constitutional objections, which in the past had seemed to be supported by the Government, against the use of referenda, and the possibility of Government defeats on this aspect of the proposals could not be ruled out. She agreed that The Queen's Speech should leave the Government free to drop two or more of the main programme Bills to which the existing draft referred.

The following points were made in discussion -

1. Agreement had now been reached between the Departments concerned on the unified housing benefit (UHB) provisions to be included in the Housing and Building Control Bill. The

Confederation of British Industry had accepted the Government's latest proposals for legislation in the Social Security Bill on the introduction of an employers' statutory sick pay (ESSP) scheme, and it now seemed that this proposal was likely to be much less controversial, at least among the Government's own supporters, than originally feared. These two provisions taken together would enable the Department of Health and Social Security to save some 7,500 staff. A further 1,350 staff in the Department of Employment group would be saved by the voluntary registration proposals in the Social Security Bill. If these proposals were not proceeded with, there would be no prospect of the Government being able to honour its commitment to reduce the size of the Civil Service to 630,000 by 1984. One possibility would be to combine the UHB, ESSP and voluntary registration proposals in a single Bill; to drop the remaining provisions which had been put forward for inclusion in the Housing and Building Control Bill; and to review the other provisions which had been proposed for the Social Security Bill with a view to omitting them. This would mean postponing the politically desirable proposals for extending the right to buy to the 70,000 people occupying leasehold council houses, for the introduction of shared ownership and equity mortgage schemes designed to benefit people on low incomes who wished to own their own homes, and for the development of a more coherent system of building control.

b. The Government was publicly committed to legislating next Session on the disposal of the gas appliance retailing interests of the BGC. The BGC and the trades unions concerned had mounted a massive campaign against these proposals, and failure to proceed with the legislation would be widely seen as a humiliating defeat for the Government, and one which could fundamentally affect their future relations with the nationalised industries. On the other hand there were signs that a number of Government supporters were beginning to have misgivings about the proposals for disposal of the gas appliance retailing interests of the BGC, and their Parliamentary handling could well prove to be more difficult than had earlier been expected. A possible solution would be to introduce legislation enabling the Government to direct the BGC to dispose of particular interests, and to break its monopsony in the purchase of North Sea gas. This Bill would be of great political importance. Such legislation would enable the Government to compel the BGC to sell its oil interests, and would in principle give the Government adequate powers to direct the BGC to dispose of its gas appliance retailing interests, though the exercise of this power for that purpose would have to be deferred until time could be taken for passing further legislation on improved safety requirements. It might be

possible to amalgamate these provisions with those in the Petroleum and Continental Shelf Bill postponed from the current Session, though the drafting of the new provisions might delay the introduction of a combined Bill.

c. The proposed legislation on the "privatisation" of part of the assets of British Shipbuilders might be postponed (at the expense of possible criticism by some of the Government's own supporters), though a short and uncontroversial Bill to increase the borrowing limits of British Shipbuilders would still be required.

d. It might be possible to amalgamate the two Transport Bills at present included in the programme.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the aim should be for the Local Government Finance Bill to receive Royal Assent by about the end of February 1982, though they noted that in the light of the latest advice from the Law Officers and the Lord Chancellor some extension of this timetable would be acceptable. The Secretary of State for the Environment should discuss the timetable further with the Lord President of the Council and the Chancellor of the Duchy of Lancaster. The Cabinet accepted that the legislative programme agreed in July could not be carried in its original form. The proposed UHB, ESSP, and voluntary registration provisions should now be combined in a single Bill. No reference would be made in The Queen's Speech to the remaining provisions put forward for inclusion in the Housing and Building Control Bills, though this would not necessarily prevent at least some of them being introduced in a separate measure later if the Parliamentary timetable permitted. Shipbuilding legislation would be confined to a short Bill to increase the borrowing limits of British Shipbuilders. The reference to the retailing of gas appliances would be deleted from The Queen's Speech, but legislation would be brought forward to break the monopsony powers of the BGC, and to enable the Government to direct the Corporation to make disposals of assets. Consideration should be given to combining these provisions with the Petroleum and Continental Shelf Bill. Consideration should also be given to the possibility of combining the two Transport Bills. The Home Secretary should arrange for the draft Opening Speech to be revised as necessary in the light of these decisions, and she would then submit it to The Queen for approval.

The Cabinet -

1. Invited the Secretary of State for the Environment, in consultation with the Lord President of the Council and the Chancellor of the Duchy of Lancaster, to consider further the timing of the Local Government Finance Bill.
2. Agreed that the proposed Social Security and Housing and Building Control Bills should be replaced by a single Bill dealing with unified housing benefit, the employers' statutory sick pay scheme, and voluntary registration of the unemployed, and invited the Secretary of State for Social Services, in consultation with the Secretaries of State for the Environment and for Employment, to arrange the drafting of the necessary legislation accordingly.
3. Agreed that powers should be taken to direct the British Gas Corporation to dispose of specified interests and to abolish the Corporation's gas purchase monopsony, and invited the Secretary of State for Energy, in consultation with the Lord President of the Council, to consider whether the relevant legislation could be added to the Petroleum and Continental Shelf Bill.
4. Agreed that the proposed shipbuilding legislation should be limited to a Bill to raise the borrowing limit of British Shipbuilders.
5. Invited the Secretary of State for Transport, in consultation with the Lord President of the Council, to consider whether the two proposed Transport Bills should be amalgamated.
6. Invited the Ministers concerned to send to the Home Secretary immediately any proposed drafting amendments to the draft Queen's Speeches on the Prorogation and Opening of Parliament.
7. Invited the Home Secretary to revise the draft Queen's Speeches in the light of their discussion, and of any further amendments he received.
8. Subject to 7, and to any subsequent essential amendments, approved the draft Speeches attached to C(81) 47, and took note that the Prime Minister would submit the revised texts to The Queen for approval.