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CC(81) 36th  
Conclusions

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CABINET

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

THURSDAY 12 NOVEMBER 1981

at 10.00 am

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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 Lord Carrington  
Secretary of State for Foreign and  
Commonwealth Affairs

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

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

The Rt Hon Francis Pym MP  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Northern Ireland

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon 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  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Transport

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

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster

**SECRET**

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy

The Rt Hon Norman Tebbit MP  
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP  
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

The Rt Hon Tom King MP  
Minister of State, Department of the  
Environment (Item 5)

SECRETARIAT

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

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LIAMENTARY  
AIRS

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

THE CHIEF WHIP said that, although the Secretary of State for the Environment had earlier in the week explained the Government's position on the Local Government Finance Bill in great detail to meetings of Conservative Members of Parliament, a considerable number of the Government's supporters remained firmly opposed, in particular to the referendum proposals in the Bill. The latest available information was that 38 Government backbenchers intended to vote against the Bill on Second Reading, and 16 to abstain, with a further 34 expressing serious reservations about the proposals. It would thus be impossible to secure a majority for the Bill at Second Reading. There would be a debate in the House of Commons that afternoon on an Opposition motion on encroachments on local government autonomy. The Whips had pointed out that the motion in effect opposed any attempt to control overspending by local authorities, but it was still possible that up to 19 Government supporters would abstain from voting against it. There was, however, complete support on the Government side for the Government amendment calling for the continuation of efforts to restrain the activities of overspending authorities and to protect ratepayers. The erosion of the Government's majority would be considerably diminished if it were announced at the beginning of the debate that the Bill would be withdrawn for further consideration, and as a matter of Parliamentary tactics that was the course he would recommend to the Cabinet.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that opposition to the Bill among Government supporters centred on the referendum proposal, which was seen as a dangerous precedent which could be abused by future Administrations. Although the referendum procedure had never been his own preferred option, there was at present no clearly worked out alternative. To withdraw either the referendum proposal or the whole Bill at this stage would leave a vacuum, which would cast doubt on the Government's determination to control overspending, and would be seen as a surrender to Opposition pressure. He therefore recommended that he should in the course of that afternoon's debate attempt to keep the position as open as possible. He recognised, and was prepared to acknowledge, that it would not be possible to proceed with the referendum proposals if the House of Commons was not prepared to accept them; but he would not wish to preclude the possibility that at least some opponents of the referendum procedure might be brought to accept it, once they had appreciated the full implications of other methods of achieving the Government's objectives. He would make it clear that the Government were prepared to engage in further wide consultations on the possible alternatives with a view to amending the Bill during its passage if a more generally acceptable solution could be found.



**CONFIDENTIAL**

In discussion some Ministers said that the Government should acknowledge straightaway that there was no possibility of passing the Bill in its existing form, should announce that afternoon that they intended to withdraw the Bill, without waiting to be forced to do so by an alliance between the Opposition and a large number of their own supporters, and should indicate that they would bring forward a revised Bill after further consultation.

Other Ministers argued that withdrawal of the Bill that day would be widely seen as a humiliating defeat for the Government. The present level of rates imposed an intolerable burden on industry in certain areas, and those concerned would not readily forgive the Government if they gave in to pressure from the local authority interests. A campaign by the Confederation of British Industry and other employers' organisations could usefully be exploited to strengthen support for the Bill on the Government side, but it would be unfortunate if this were to be stimulated by the withdrawal of the present proposals. Abandoning the referendum proposal without bringing forward anything to put in its place would create doubt and confusion, and encourage resistance to the Bill as a whole to build up. The Government amendment to the Opposition motion demanded further action to curb the activities of overspending authorities, and did not leave open the option of doing nothing. If the referendum proposal were not pursued, it was important that a defensible substitute should be brought forward as quickly as possible.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Government should not withdraw the Local Government Finance Bill that afternoon, nor give any firm commitment to withdraw the referendum provisions, unless it proved to be necessary to do so in order to avoid a defeat on the Opposition motion. The Secretary of State for the Environment should, however, give an undertaking that the Government would not proceed with the Bill until further consultations had been carried out on possible alternative methods of controlling local authority expenditure, and should make it clear that the Government would not attempt to force through the referendum proposals against the will of the House. He should consult the Chief Whip on the text of his speech, and the Chief Whip should do everything practicable to ensure that the Government opponents of the Bill voted against the Opposition motion in return for an assurance that the Government would adopt a flexible attitude towards the issues in dispute. The situation might develop during the day, and she would keep in touch with the Secretary of State for the Environment and the Chief Whip on any last-minute change of tactics which might be necessary. In the meantime, the Cabinet noted that the Secretary of State for the Environment would bring proposals on the control of overspending by Order as an alternative to the referendum procedure before the Ministerial Committee on Economic Strategy the following week.



The Cabinet -

1. Agreed that the debate on the Opposition motion on encroachments on local government autonomy should be handled in the way indicated in the Prime Minister's summing up of their discussion.

Abolition  
of the  
Civil Service  
Department

THE PRIME MINISTER said that she would make a statement in the House of Commons that afternoon announcing the abolition of the Civil Service Department, with the transfer of its manpower and resource control and its pay functions to the Treasury, and its other responsibilities to a Management and Personnel Office working alongside the Cabinet Office. This change would facilitate an integrated approach to public expenditure and manpower planning, and would enable the promotion of efficiency in central Government to be linked more closely with the policy making process. The present Permanent Secretary and Second Permanent Secretary at the Civil Service Department would retire that week, and the Secretary of the Cabinet and the Permanent Secretary of the Treasury would become Joint Heads of the Home Civil Service. The Secretary of the Cabinet would be the Secretary of the new Management and Personnel Office, which would be responsible to her as Minister for the Civil Service and under the day-to-day charge of the Chancellor of the Duchy of Lancaster. The Minister of State, Civil Service Department, would become a Minister of State, Treasury, and would assume responsibility for manpower and pay questions within the Treasury, reporting to the Chief Secretary, Treasury, on manpower and to the Chancellor of the Exchequer on pay. The efficiency unit would be in the new office, but its head would continue to have the right of direct access to her. To obtain maximum benefits from the change it would be necessary to locate the staff concerned as near as possible to the staff with whom they would be working closely; this could involve moves affecting other Departments, and she hoped that the Ministers concerned would be willing to accept the need for such moves. She had told the Chairman of the Select Committee on the Treasury and the Civil Service in confidence of the proposed changes the previous evening, and had made it clear that the Government looked forward to the expected report by the Treasury and Civil Service Committee on efficiency and effectiveness in central Government. The Chancellor of the Duchy of Lancaster was making arrangements to explain the reasons for the change to the staff of the Civil Service Department, and she would herself be ready to see the ~~N~~ational Staff Side. Members of the existing staff of the Civil Service Department would have a year in which to express preferences as between transfer to the Treasury or to the Cabinet Office. She had been concerned by the reports which she had received of a growing disillusionment among many civil servants, and she hoped that all Ministers would take an active part in seeking to strengthen morale in their own Departments in the light of the changes which she had announced.



The Cabinet -

2. Took note.

TANKER  
DRIVERS  
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contingency  
measures

2. THE SECRETARY OF STATE FOR ENERGY said that developments which had taken place since the circulation of his paper C(81) 56 now meant that, though there might be some sporadic and unofficial strike action as early as 16 November, there would no longer be an immediate need for the declaration of a State of Emergency or the implementation of the military contingency plan. In the light of the confusion surrounding the outcome of the first ballot by drivers employed by British Petroleum (BP) and the inept tactics adopted by the acting General Secretary of the Transport and General Workers Union, Mr Kitson, shop stewards representing Shell's drivers had decided under strong pressure from their rank and file that time would be needed to organise a proper vote on the companies' 8.1 per cent pay offer. The results of this would not be known until 18 November. Even if the vote rejected the offer, as the union was recommending, the shop stewards' next move would be to resume negotiations with the management, and perhaps also to approach the Advisory, Conciliation and Arbitration Service, before any strike was called. Esso shop stewards were expected to take a similar decision later that day. The result of the second BP ballot would be known on 14 November and was not expected to favour strike action although the possibility could not be excluded. In these circumstances the Home Secretary and he had decided, in consultation with the Parliamentary Under Secretary of State for the Armed Forces, that Service instructors involved in the military contingency plan need not, as intended, begin their training that day. The position would be reviewed by officials of the Civil Contingencies Unit the following day.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS  
---  
Arab/Israel  
previous  
reference:  
C(81) 35th  
conclusions,  
page 2

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that during his recent visit to Saudi Arabia the Saudi Government had for the first time made clear in public that they contemplated a negotiated solution to the Arab/Israel conflict. This lead had since been followed by other Governments in the Gulf. The Saudis had also made publicly clear for the first time that Israel was included in the seventh of the eight principles they had put forward as the basis for a settlement, which referred to the right of the states in the area to live in peace. These signs of movement among the moderate Arabs were encouraging. It was difficult to understand suggestions that the United States Government had



not welcomed the positive attitude he had taken towards the Saudis' eight principles, given that President Reagan had taken a similar attitude himself. But the Americans were no doubt very conscious of the sense of insecurity currently being felt in Israel, following the death of President Sadat of Egypt, the sale of United States early warning aircraft to Saudi Arabia and American support for the eight principles. Meanwhile it seemed likely that a reasonable basis could be found for settling the difficulties which had arisen over establishing a multinational force for Sinai, with the participation of four members of the European Community including Britain; but working out an agreed statement on the subject among all ten members of the Community was inevitably a time-consuming process.

In the course of a brief discussion it was noted that during a recent visit to Egypt the Secretary of State for Trade had found President Mubarak unworried about the arrangements for the proposed Sinai force and ready to contemplate a rapprochement with other Arab Governments once the Israelis' withdrawal from Sinai was complete. Such a rapprochement would encourage Arab investment in Egypt and thereby economic development. But the prospect no doubt also contributed to Israel's present apprehensiveness.

THE FOREIGN AND COMMONWEALTH SECRETARY said that Libya was now withdrawing her forces from Chad. This was welcome but would leave a dangerous vacuum and the threat of renewed civil war. The Organisation of African Unity were preparing a peace-keeping force but were not showing great speed or efficiency. The Nigerians had tentatively inquired earlier in the year whether Britain could provide some logistic support for such a force and had been told that any request would be sympathetically considered. It now seemed likely that Britain, along with other European states, would need to make a small contribution in this way. If so, he would discuss the financial and practical implications with the Chancellor of the Exchequer and the Secretary of State for Defence.

THE SECRETARY OF STATE FOR DEFENCE said that later that day, under arrangements made some time ago, a British nuclear test would be carried out in Nevada.



Ireland  
previous  
reference:  
C(81) 34th  
conclusions,  
minute 2

THE PRIME MINISTER said that members of the Cabinet would be aware of the communique issued after her meeting on 6 November with the Prime Minister of the Republic of Ireland, Dr Garret FitzGerald, and of her statement in Parliament on 10 November. Although Dr FitzGerald would no doubt have preferred her to have been somewhat more forthcoming, she and the Secretary of State for Northern Ireland had not considered that justifiable. Some criticism in Northern Ireland had been inevitable, but it was an important interest of the United Kingdom that close co-operation with the Republic should continue, and it had been made quite clear that the meeting had in no way weakened the British guarantee of Northern Ireland's constitutional position, which remained enshrined in law. No special stir had been caused by the publication on 12 November of the Anglo-Irish joint studies which she and Dr FitzGerald's predecessor had commissioned at their meeting in December 1980.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that risks had inevitably been involved in the Prime Minister's meeting with Dr FitzGerald, but they had clearly been justified by the outcome. The effect on opinion in Northern Ireland had been salutary. The prospects for keeping the Catholic minority in play had been enhanced. Moderate elements among the Protestant majority had been encouraged to recognise that the intransigence of the past was no longer a possible basis for policy. It was probable that more extreme Protestant leaders, such as Dr Paisley, regarded violence as preferable to compromise, but there was at present no sign of widespread support for this view among the Protestant working class.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

4. THE PRIME MINISTER said that discussions on the Mandate for restructuring the Community budget were proceeding extremely slowly. Progress had to be made at the same time on reforming the Common Agricultural Policy (CAP), developing other Community policies and finding a way to deal with the budgetary problem. In spite of British efforts in the Presidency, other member states were reluctant to make any move. The German Government complained about its own budgetary position, but seemed reluctant to join with the British Government in putting forward possible solutions. The lack of progress would not make the handling and presentation of the forthcoming meeting of the European Council in London on 26-27 November easy.



In a brief discussion it was suggested that holding the Presidency was a considerable handicap in defending British interests. It was important to continue to press upon Community partners the need for a good result at the European Council. It had to be accepted, however, that the French Government might well not make any move until they were further convinced that the United Kingdom and the Federal Republic of Germany were unwilling to continue as the sole net contributors to the Community budget or until they felt that the British Government might once again block agreement on agricultural prices until a budgetary solution had been found. There were signs that the French and Germans were in collusion with the Commission over way of modifying the CAP. The terms of the settlement reached on 30 May 1980 were such that the net British contribution to the Community budget for 1981 would not be £400 million as had been expected but only about £55 million. This unexpected outcome was not helpful to the British negotiating position. Given the current need for restraint in public expenditure, it would be necessary to maintain a firm position in negotiating a satisfactory level of contribution to the Community budget.

The Cabinet -

Took note.

STATE  
SUPPORT  
GRANT  
SETTLEMENT  
1982-83

5. The Cabinet considered a memorandum by the Home Secretary (C(81) 54) on the Rate Support Grant (RSG) settlement for 1982-83 and a note by the Secretary of State for the Environment (C(81) 55) covering tables illustrating the possible effects on individual local authorities of different assumptions on public expenditure and RSG percentages.

Previous  
reference:  
C(81) 32nd  
conclusions,  
minute 4

THE HOME SECRETARY said that to enable his Ministerial Group (MISC 21) to make firm recommendations on the RSG settlement for 1982-83 he had to ask the Cabinet to give guidance on three main questions: the total of local authority current expenditure in 1982-83; current and capital housing expenditure (including a figure for local authority rent increases); and the RSG percentage.

On 24 September the Cabinet had accepted that realism pointed to a volume reduction in local authority current expenditure from 1981-82 to 1982-83 of 3 rather than 7 per cent, as had been previously assumed. No firm decision was taken on this, but the Chief Secretary, Treasury, in his memorandum on public expenditure (C(81) 51), had assumed that the cash total for local authority current expenditure in England would be increased to £17,800 million, in line with a 3 per cent volume cut; in addition he had allowed for the possibility of a further overspend of £500 million for Great Britain as a whole though not with the intention of revealing this figure to the local authorities. In the light of further



evidence on the outturn of local authority expenditure, and of an assessment of the authorities' reaction to the cash limit practice proposed by the Government, the Secretary of State for the Environment had now advised that £17,800 million would prove inadequate; he recommended that £350 million should be switched from the reserve to give an English total of £18,150 million. The Secretary of State for the Environment judged that such a total would enable him to set tough but realistic targets for individual authorities, backed by severe penalties, in terms of holdback of grant, for overspending. The Chief Secretary, Treasury, feared that in practice this transfer would lead to a net increase in public expenditure because the pressure on the local authorities to control their budgets would have been relaxed. Essentially the question for Cabinet was which was the more realistic approach and the more likely to deter local authorities from overspending and rating high.

The second question on which MISC 21 sought guidance was on the total provision for housing expenditure and on the assumptions within that total for increases in council house rents and for housing capital and maintenance. The last Public Expenditure White Paper provided for total housing expenditure in 1982-83 of £3,869 million; no distribution of this total between subsidies and capital investment had been published or agreed. If this total were to stand, and if the 1981-82 volume of housing capital and maintenance expenditure were to be maintained, council house rents would have to go up by about £4 a week on top of the present average council house rent in England of about £11.50. The Chief Secretary, Treasury, had proposed savings of £93 million on this total, and had suggested that these might be achieved by a combination of rent increases of £4.30 a week and a 2 per cent reduction in capital expenditure. The Secretary of State for the Environment wished the total to be increased by £442 million in order to maintain the volume of capital expenditure at the 1981-82 level, to hold rent increases down to about £1.50 and to allow for additional provision of £67 million for management and maintenance. There was, therefore, a gap between these two proposals of £535 million. Unless public expenditure in total were to be increased, the Cabinet had to choose between current and capital expenditure: for every 10p that rents were held down below £4, capital expenditure would need to be cut by £15 million.

Thirdly, MISC 21 sought guidance on what should be the RSG percentage. This decision required a judgment on the likely effects on spending and on rating. The Secretary of State for the Environment had circulated estimates of the effects of 56, 54 and 50 per cent grants applied to the two main expenditure assumptions under discussion. While these exemplifications were helpful it should be understood that they represented, at best, informed guesses as to how local authorities might behave.



In the light of the Cabinet's guidance on these three questions MISC 21 could sort out the remaining details of the RSG settlement and the implications for Scotland and for Wales. It was essential to reach decisions on the settlement quickly if it were to be announced before Christmas and in order to take account of the outcome in the debates on the Local Government Finance Bill and in the Cabinet's decisions on the 1981 Public Expenditure Survey.

In discussion the following main points were made -

- a. Central Government could seek to influence the total of local authority current expenditure but could not control it. The further information which had emerged since Cabinet's discussion on 24 September pointed to some increase in the announced provision if the local authorities were to regard the targets set them as realistic. The Secretary of State for Education and Science had agreed, since MISC 21's discussions, to forgo £100 million of the education services' share of the proposed increase; some Ministers doubted whether the local education authorities would take notice of this in their budgeting. This reduced the proposed total to be switched from the reserve to £250 million and it was agreed that this might be reduced by a further £50 million shared among the services other than education. Corresponding increases would be made in the Scottish and Welsh programmes.
- b. If council house rents were to be increased by as much as £4, that would add 1 per cent to the Retail Price Index, would be highly unpopular among council house tenants, and could have an adverse effect on wage settlements in 1982. In some authorities the increases would be much higher than average; the Government would be criticised for those increases, and given no credit for those below average. Many tenants would be eligible for rent rebates but some people, particularly pensioners, would resent being pushed into a position of having to claim rebate. On the other hand housing costs, as a proportion of earnings, for people buying their houses were higher than those for local authority tenants, even allowing for a £4 a week increase. The average rent in 1981-82 had increased by £3.29 a week. On balance, the arguments pointed to an increase in 1982-83 of under £3.
- c. Even increases of £1.50 in council rents would lead to surpluses on the housing revenue accounts of many authorities, and there was already strong criticism of this possibility which, under present arrangements, appeared to lead to a situation in which council house tenants subsidised ratepayers in the provision of local services. The Secretary of State for the



Environment and the Chief Secretary, Treasury, were in correspondence on how this problem might be solved at least cost to public expenditure. It was important that this should be settled quickly.

d. Since the present provision for expenditure on housing combined, in a single line, subsidies and capital expenditure, it followed that to the extent that council rents were held down, and subsidies were increased, capital expenditure had to be cut unless total public expenditure were to be increased. The difficulty of this course was that the Government had already substantially reduced housing capital investment since 1979-80 and further cuts would be at the expense of employment by private sector construction firms. Decisions on the total provision for housing capital, though linked with those on council house rents, ought to be taken in the context of decisions on public expenditure programmes generally.

e. It was suggested that the Department of the Environment's estimates, attached to C(81) 55, of possible rate increases in 1982-83 were too high. Some of the assumptions allowed for very wide margins for overspending; insufficient account was taken of the effect on expenditure of lowering the grant percentage, of the possible effects of grant penalties, and of the deterrent of the provision for referenda under the Local Government Finance Bill. The rate increases quoted were on an April 1981 base and would be 6-7 per cent less if the basis included supplementary rate increases during 1981-82. On the other hand, while the estimates were obviously open to question, the Department of the Environment had a good record in estimating rate increases.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had agreed on a number of provisional assumptions which would be the basis for further work on the RSG settlement for 1982-83. The total of local authority current expenditure in England should be increased for realism from £17,800 million to £18,000 million; the £200 million increase represented the £350 million proposed by the Secretary of State for the Environment, less £100 million specifically attributable to the education services, less a further £50 million to be found from other local authority services. Corresponding increases would be made in the Scottish and Welsh programmes. The Cabinet agreed on balance that the arguments on council house rents pointed to an average increase of £2.50 a week; they noted that the Secretary of State for the Environment might also wish to make proposals for a minimum level of increase. The Cabinet recognised that there was a difficult problem over the treatment of surpluses on housing revenue accounts and that if this were not resolved satisfactorily it could lead to



serious criticism of the Government. The Secretary of State for the Environment and the Chief Secretary, Treasury, should discuss this further with a view to reaching agreement as quickly as possible. If the total provision for expenditure on housing were not to be increased, rent increases averaging £2.50 would require offsetting savings of about £225 million on housing capital expenditure. The Cabinet would need to consider this further in the context of their discussion of public expenditure programmes as a whole. Until they had seen exemplification of these assumptions the Cabinet could not decide on the appropriate RSG percentage, but they agreed that the options to be examined should be 54 per cent, 56 per cent, and 57 per cent.

The Cabinet -

1. Invited the Secretary of State for the Environment -

i. To prepare further exemplifications of the effects on the English local authorities of provisional assumptions of total local authority current expenditure, other than housing, of £18,000 million, of increases averaging £2.50 a week on council house rents, and of Rate Support Grant percentages of 54, 56 and 57; and to report the results to Cabinet urgently, and if at all possible for their meeting the following week.

ii. To consider urgently with the Chief Secretary, Treasury, the treatment of surpluses on housing revenue accounts.

2. Agreed that the public expenditure provision for housing capital and maintenance expenditure should be considered further in the light of their final decision on council house rents and in the context of their further discussions of the 1981 Public Expenditure Survey.

Cabinet Office

13 November 1981