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CC(83) 22nd  
Conclusions

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## CABINET

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

THURSDAY 7 JULY 1983

at 10.00 am

## P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime MinisterThe Rt Hon Viscount Whitelaw  
Lord President of the CouncilThe Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth AffairsThe Rt Hon Nigel Lawson MP  
Chancellor of the ExchequerThe Rt Hon James Prior MP  
Secretary of State for Northern IrelandThe Rt Hon Michael Heseltine MP  
Secretary of State for DefenceThe Rt Hon Nicholas Edwards MP  
Secretary of State for WalesThe Rt Hon John Biffen MP  
Lord Privy SealThe Rt Hon Norman Tebbit MP  
Secretary of State for EmploymentThe Rt Hon Lord Cockfield  
Chancellor of the Duchy of LancasterThe Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries  
and FoodThe Rt Hon Lord Hailsham  
Lord ChancellorThe Rt Hon Leon Brittan QC MP  
Secretary of State for the Home DepartmentThe Rt Hon Sir Keith Joseph MP  
Secretary of State for Education and ScienceThe Rt Hon Peter Walker MP  
Secretary of State for EnergyThe Rt Hon George Younger MP  
Secretary of State for ScotlandThe Rt Hon Patrick Jenkin MP  
Secretary of State for the EnvironmentThe Rt Hon Norman Fowler MP  
Secretary of State for Social ServicesThe Rt Hon Cecil Parkinson MP  
Secretary of State for Trade and IndustryThe Rt Hon Tom King MP  
Secretary of State for TransportThe Rt Hon Peter Rees QC MP  
Chief Secretary, Treasury

## THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP  
Attorney General (Item 4)

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

## SECRETARIAT

Sir Robert Armstrong  
Mr P L Gregson (Items 5 and 6)  
Mr A D S Goodall (Items 2 and 3)  
Mr D F Williamson (Items 2 and 3)  
Mr D H J Hilary (Items 1 and 4)  
Mr M S Buckley (Items 5 and 6)  
Mr R Watson (Items 1 and 4)

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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.

Debate on  
Capital  
Punishment

Previous  
Reference:  
CC(83) 20th  
Conclusions,  
Minute 1

THE HOME SECRETARY said that in his speech in the debate on the motion for the reintroduction of the death penalty for murder he would give the factual background, make it clear that the Government as such did not have a view, and state his own personal position, which was that capital punishment should be reintroduced for terrorist murders only. The Secretary of State for Northern Ireland would make clear his own views before the debate, probably in a letter to his constituents. Neither Minister would discuss his personal views with the media before the debate. If the House approved the reintroduction of capital punishment, the Government would draft a Bill for a Private Member and would make time available for it. There would be a free vote on all stages of the Bill.

THE LORD PRESIDENT OF THE COUNCIL said that the House of Lords would not debate the matter if the motion in the Commons was defeated by a reasonable majority. If the votes were very close, there would have to be a debate in the Lords before the Summer Adjournment.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS

Middle  
East

Previous  
Reference:  
CC(83) 15th  
Conclusions,  
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that recent developments had not improved the prospects for a Palestinian settlement. The expulsion of Mr Arafat, the leader of the Palestine Liberation Organisation, from Damascus had strengthened the Syrians' hold over the organisation. Partial Israeli withdrawal from the Lebanon now looked inevitable; and the visit to Middle East capitals by the United States Secretary of State, Mr Shultz, which had ended in Damascus, appeared to have revealed no flexibility in the Syrian position.

Conference on  
Security and  
Co-operation  
in Europe

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Madrid Conference was drawing to a conclusion on the basis of a compromise proposed by the Spanish Prime Minister, Senor Gonzales, on 17 June. In regard to human rights it would mark a modest advance on the Helsinki Final Act. But it would be important to ensure that Soviet attempts to erode the concluding document were resisted and that the firm commitment to an experts' meeting on human contacts was retained.

Gibraltar

Previous Reference: CC(83) 21st Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Parliamentary Under Secretary of State for Defence Procurement, Mr Ian Stewart, had visited Gibraltar following the previous week's discussions in London with the Chief Minister of Gibraltar, Sir Joshua Hassan. Mr Stewart had explained to the Gibraltar Council the terms of the generous offer which the Government had made in respect of the Gibraltar Dockyard. The Gibraltar Council were not persuaded, but the position was open for further discussion. The matter would require further consideration on the basis of Mr Stewart's detailed report.

Hong Kong

Previous Reference: CC(83) 19th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that, as had been announced, the second phase of talks with the Chinese Government about the future of Hong Kong would start in Peking on 11 July. The Prime Minister and he had discussed the handling of the talks with members of the Hong Kong Executive Council in London the previous week and had reached agreement with them on how to proceed. It was clear that the talks with the Chinese would be difficult. It would be essential to maintain confidentiality.

East/West Relations

THE FOREIGN AND COMMONWEALTH SECRETARY said that the talks which the Federal German Chancellor, Dr Kohl, had had with Soviet leaders in Moscow on 4 and 5 July had shown that the health of Mr Andropov, the Soviet President, was giving cause for concern. Chancellor Kohl had given the Russians a firm statement of the Western position on intermediate range nuclear forces. There had been no give on the Soviet side and the Russians had emphasised that they would respond to North Atlantic Treaty Organisation deployments with additional measures to strengthen their own security. He would be receiving a first-hand account of the talks from the Federal German Foreign Minister, Herr Genscher, in Brussels that evening.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Herring Fishery

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that at the meeting of the Council of Ministers on 30 June nine member states had been prepared to accept interim measures on fishing for herring in the North Sea. The Danes, however, did not agree and invoked the Luxembourg compromise. As a result no decision was taken. A solution satisfactory for the United Kingdom might be reached at the meeting of the Council of Ministers (Fisheries) on 11-12 July but this depended on the Danish position.

Steel: United States Measures

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY reported that the United States had now imposed special tariffs on a range of special steels. The United Kingdom export trade affected was not very large but it was of significant importance for some companies. The Community would now have

to respond. There would be an urgent meeting of officials of the member states the following day. The Foreign and Commonwealth Secretary would also be raising the issue in Brussels the following day when the special Council of Ministers would be meeting. It would also be desirable for some direct contact to be made with Mr Brock, the United States Special Trade Representative.

The Cabinet -

Took note.

4. The Cabinet considered a memorandum (C(83) 19) and a note (C(83) 20) by the Lord President of the Council setting out the recommendations of the Queen's Speeches and Future Legislation Committee (QL) on the legislative programme for 1983-84.

THE LORD PRESIDENT OF THE COUNCIL said that to a large extent the programme was determined by the need to enact essential Bills, Bills which had fallen at the dissolution and Bills which had been promised in The Queen's Speech. These alone provided a programme which was already too heavy for comfort. To them had to be added the Local Government (Greater London and Metropolitan Counties) Bill and the Public Services Transfer of Functions Bill. QL also recommended four Scottish Bills and nine Bills whose introduction would be conditional on the Opposition's agreement to their being taken under the Second Reading Committee procedure in the House of Commons. The Bills recommended by QL were set out in the Annex to C(83) 19 and their proposed contents were summarised in C(83) 20. No other Bills could be added if there was to be any hope of completing the programme without the need for a spillover in the autumn of 1984. It was important to avoid this if the Bill to abolish the Greater London Council and the Metropolitan County Councils was to be given an early start in the next Session.

In discussion the following main points were made -

- a. A Government-sponsored Bill to control offensive video tapes ("video nasties") was likely to be taken up by Mr Graham Bright MP, who had drawn first place in the ballot for Private Members' Bills.
- b. The possibility of expanding the Co-operative Development Agency Bill to include changes in the legislation on Regional Development Grants (RDGs) should be considered when the policy on RDGs had been agreed. The changes could save up to £150 million a year and would relate payment of grant to the number of jobs created.
- c. Although the Dock Work Regulation Bill had not been included in QL's recommendations, it might be necessary to legislate on the docks in this Session, for example to deal with the financial position of the Port of London Authority. This legislation might have to be more extensive than the Dock Work Regulation Bill as previously envisaged.

LEGISLATIVE  
PROGRAMME  
1983-84

Previous  
Reference:  
CC(83) 12th  
Conclusions,  
Minute 4

d. The Pollution (Protection of Food and Marine Environment) Bill was not in the recommended programme. Its purpose was to provide control powers which might be necessary in the event of an accident such as that at Three Mile Island in the United States. The issue might be raised at the Sizewell inquiry. It was suggested that, in the event of such an accident, it might well be possible to invoke the powers of the Emergency Powers Act; but there might be a need for new legislation in due course.

e. There was a danger that the Agricultural Holdings (Amendment) Bill, which was due to be introduced in the House of Lords, would be substantially amended there, but the overall management of the programme made it necessary for this Bill to start in the House of Lords.

f. It was still hoped to persuade a Private Member to take up the Crown Land (Planning Permission) Bill. Otherwise the Bill might be considered for the Second Reading Committee procedure in the House of Commons; but it was very uncertain whether the Opposition would be prepared to agree to that.

g. The legislation required to permit the transfer of the National Bus Company to the private sector and to enable the capital reconstruction of British Airways to take place prior to privatisation had not been recommended by QL for inclusion in the programme. The sale of the National Bus Company would produce up to £150 million in the year of sale, but there was not room for this legislation in the programme for the current Session.

h. There might be need for a Bill to prevent personation in elections in Northern Ireland. It had been reported that up to 25 per cent of the Sinn Fein vote had come from personation. Changes in election procedures in the United Kingdom as a whole were being considered but would not be ready for introduction in this Session.

i. The Tourism (Overseas Promotion) (Scotland) Bill had not been recommended by QL. It would be a short measure arising from a commitment in the Scottish Manifesto and would be generally welcomed. The possibility of adding this Bill to the programme might be left open, although it might be decided to legislate on a Great Britain basis in a future Session.

The Cabinet -

1. Agreed that the possibility of combining the Co-operative Development Agency Bill with provisions on Regional Development Grants should be considered further when future policy on the grants had been settled.

2. Took note of the possible need for a Docks Bill, a Bill on elections in Northern Ireland and a Tourism (Overseas Promotion) (Scotland) Bill.

3. Agreed that, if no Private Member took up the Crown Land (Planning Permission) Bill, consideration should be given to the possibility of using the Second Reading Committee list for it.

4. Invited the Minister of Agriculture, Fisheries and Food to consider whether, in the event of an accident at a nuclear power station, the Emergency Powers Act could be used to achieve the objectives of the Pollution (Protection of Food and Marine Environment) Bill.

5. Subject to 1-3 above, approved the recommendations of the Queen's Speeches and Future Legislation Committee set out in C(83) 19.

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(83) 21) on public expenditure in 1983-84.

THE CHANCELLOR OF THE EXCHEQUER said that public expenditure was running well ahead of the figures published in the White Paper on the Government's Expenditure Plans (Cmnd 8789). Demand-related programmes - particularly agricultural support and social security benefits - were growing rapidly. Local authority current expenditure and borrowing by the nationalised industries were likely to be higher than envisaged. Expenditure on cash-limited programmes was running ahead of profile; although the limits were not expected to be exceeded, it was now estimated that shortfall was likely to be only about £600 million instead of the £1,200 million assumed in Cmnd 8789. These developments were reflected in high rates of public borrowing. The central Government borrowing requirement for the first quarter of 1983-84 would be published on 11 July. It was likely to be about £5,400 million, nearly one half of the amount envisaged at the time of the Budget for the whole year. The public sector borrowing requirement was running in a similar way. The markets would react adversely to the publication of these statistics, and interest rates would rise, unless the Government took early corrective action. An increase in interest rates would have serious implications for economic recovery and the Government's strategy. Action was therefore required to bring public expenditure back within the planned total. The Ministers responsible for demand-determined programmes should consider what action they could take to correct the increases now emerging. It would be necessary to supplement this by action on cash limits. He proposed that the non-pay element of all central Government cash limits should be reduced by 2 per cent and the elements for pay and general administrative expenditure by 1 per cent. Action on the pay elements was necessary in order to ensure that the whole burden of the necessary adjustments did not fall on the provision of services and private sector suppliers; but it was necessary to take account of the pressures on the pay side from the Government's previous decision to finance the non-industrial Civil Service pay increase from the original provision. The external financing limits (EFLs) of the nationalised industries should be reduced in aggregate by 2 per cent; the reduction should be allocated in proportion to turnover. The Rate Support Grant should be excluded, as should local authority capital expenditure. To help Departments manage their programmes more efficiently, and to reduce the customary surge in expenditure at the end of the financial year, which had probably contributed to the present problem, he proposed that a scheme of end-year flexibility, broadly on the lines described in the note by officials circulated to the Cabinet by the previous Chief Secretary, Treasury, under cover of C(82) 29, should be introduced. It should apply only to carry forward of underspending, and to central Government capital and equivalent programmes.

As an alternative to these proposals he had considered using the "regulator" to increase indirect taxation. In his view, this would be mistaken. The markets would be concerned if overruns in public expenditure were accepted. Higher taxation would imperil economic recovery.



The proposed reductions in cash limits and EFLs should save about £500 million in the current year. The scheme of end-year flexibility should save a further £100 million, though it would tend to increase expenditure in later years. He also intended to increase the programme of disposals of public sector assets with a view to raising a further £500 million. This would produce a package of over £1 billion, apart from any savings that could be found in demand-determined programmes. In his judgment, the markets would regard this as adequate. It would be presented, not as a reduction in public expenditure, but as evidence of the Government's determination to hold to the expenditure figures which they had previously published. He proposed to announce the Government's decisions in general terms that afternoon; it would be important to follow them up as soon as possible with a more detailed statement of the changes in individual cash limits.

The present problem arose in part because of unreliability in forecasts of rates of spending, especially towards the end of the financial year. Detailed proposals would be put forward at official level for improving the flow of financial information from departments to the Treasury. He hoped his colleagues would give those proposals their support.

In discussion, some Ministers queried the case for action on the lines proposed in C(83) 21. If the loss of control of public expenditure was serious, the savings proposed might be inadequate to restore confidence. If it was not serious, the financial gains from the proposals might be outweighed by the political penalties. Against that there was a wide measure of agreement that it was vital to do everything possible to prevent higher interest rates, which would jeopardise economic recovery. The Government's credibility depended on its maintaining firm control of public expenditure. Although the Chancellor of the Exchequer's proposals would create difficulties in some areas, the alternatives were clearly worse: in particular, it would be wrong to increase taxation.

In further discussion, the following points were made:

a. It was regrettable that the Cabinet had been asked to take decisions at such short notice. The Cabinet had been put in a very difficult position by the reports in the newspapers that morning, which would have created expectations that it would be dangerous to disappoint. Whatever the source, the unauthorised disclosures on which those reports were based were much to be deplored. Nonetheless, even if those reports had not appeared, the imminent publication of unfavourable borrowing figures would have made some action necessary.

b. Although the need for speedy action was undeniable, it was unsatisfactory that C(83) 21 did not include important items of information which were relevant to the Cabinet's discussion. Much of this information had presumably been available to the Treasury for some time. Ministers collectively should be kept informed of the economic situation as it developed.

- c. It would be important in public presentation of the Government's decisions to avoid any impression that there was a crisis. The appropriate stance was that the Government was taking corrective action in good time in order to make savings to prevent a threatened overrun in public expenditure and so adhere to its previously published figures.
- d. It would be important for the management of expenditure programmes to have some flexibility to allocate the total savings required between cash limits within programmes. There might also be a case for allowing some limited flexibility as between cash-limited and non-cash-limited expenditure.
- e. It would be important to avoid any suggestion that certain programmes were being singled out for larger reductions than others: the reductions should apply on a similar basis, as proposed in C(83) 21, to all cash-limited programmes.

THE PRIME MINISTER, summing up the discussion, said that the opinion in the Cabinet was in overwhelming agreement with the Chancellor of the Exchequer's proposals. It was a matter for the gravest concern that extensive indications of those proposals had appeared in the press: it was vital to maintain the confidentiality of the Cabinet's discussions and to observe instructions regarding the handling of Cabinet documents. The Chancellor of the Exchequer should announce the Government's decisions, in general terms, by a Parliamentary statement that afternoon. This should include an indication, also in general terms, of the Government's intention to increase the disposal programme by some £500 million: the overall package would then be of a sufficient size to reassure the markets. It should not be presented as a package of cuts in expenditure but as a package of savings to contain a prospective overrun of public expenditure in order to remain within the previously published expenditure totals. Ministers responsible for spending programmes should now agree detailed reductions with the Chief Secretary, Treasury: the resulting figures should be published as soon as possible. So long as the general pattern of reductions within each programme conformed to the approach described in C(83) 21, some measure of flexibility between individual cash limits and between pay and non-pay elements would be acceptable. The possibility of reductions in non-cash-limited expenditure to replace reductions in cash limits was not wholly excluded; but there were obvious difficulties in substitutions of this sort; and the case for each would need to be fully made out. In no circumstances should any proposed reduction require new primary legislation.

The Cabinet -

1. Approved the proposals in C(83) 21, subject to the points made by the Prime Minister in her summing up.
2. Invited the Chancellor of the Exchequer to make a statement in Parliament that afternoon of the Government's decisions on the lines indicated by the Prime Minister.

TOP SALARIES  
REVIEW BODY  
REPORTS  
Previous  
Reference  
CC(83) 21st  
Conclusions,  
Minute 1

6. THE LORD PRIVY SEAL said that, following the Cabinet's discussion the previous week, he had conducted soundings of all parties about Report No 20 of the Top Salaries Review Body (TSRB) on Parliamentary pay and allowances; the Chief Whip had also carried out extensive soundings among the Government's backbench supporters. It was desirable to devise a response to the Report which would be consistent with the Prime Minister's statement to the House of Commons on 2 May 1983 indicating that the salary increases proposed by the TSRB were far too high, but which would also command sufficient support in the House of Commons. To meet these requirements the response should in his view contain the following elements: acceptance of the TSRB's recommendations on allowances; acceptance of the proposal for a faster accrual rate for Parliamentary pensions but with an increase in the contribution from 6 per cent to 9 per cent rather than 8 per cent as proposed by the TSRB; and a salary increase of 10 per cent compared with the increase of 31 per cent recommended by the TSRB. If the same 10 per cent increase applied to the salaries of Ministers and other office holders, it could be demonstrated that Cabinet Ministers had foregone 4/5ths of the increase of 47 per cent which the TSRB had recommended for them. There was a good prospect that proposals on these lines could be carried in the House of Commons. The Chief Whip's soundings suggested that it would be much less likely that the Government would be able to carry a motion for a salary increase of only 4 per cent.

In discussion the following main points were made -

- a. The soundings had taken place before the statement on public expenditure which the Chancellor of the Exchequer would be making that afternoon. In the light of that statement there might be a greater readiness on the part of the Government's backbench supporters to accept an increase of 4 per cent.
- b. It might be better for the Government to accept defeat on a motion for a 4 per cent increase rather than to be identified with a proposal for an increase as high as 10 per cent; on the other hand, if implementation of the full TSRB recommendations was secured through the votes of the Government's own backbench supporters, it would be difficult for the Government to distance itself from this outcome.
- c. It was likely that there would be an official Labour Party amendment calling for full implementation of the TSRB's recommendations. It was not clear what would happen if both this amendment and the Government's substantive motion were defeated. Much would depend on what other amendments were put down and the arrangements for voting on them.
- d. Acceptance of the proposed 4 per cent salary increase might be made easier if the Government accepted the TSRB recommendation for an increase in pension contributions of only 2 per cent; this would however have undesirable repercussions on the Government's efforts to secure more realistic pension contributions in the public sector.

e. Junior Ministers in the House of Lords had to make considerable financial sacrifices in accepting Ministerial office because they did not, unlike their Commons colleagues, receive 58 per cent of the Parliamentary salary; it might therefore be desirable to find a way of increasing their salaries by more than 4 per cent.

THE PRIME MINISTER, summing up the discussion, said that it was agreed that the Government should accept all the recommendations in TSRB Report No 20 except those relating to salary increases. In particular the increase in the pension contribution should be 2 per cent as recommended by the TSRB. The increase in salary for Members of Parliament and for Ministers and other office holders should be 4 per cent. She would however consider further, in consultation with the Lord President of the Council, the Chancellor of the Exchequer and the Lord Privy Seal, whether a somewhat higher increase might be possible for junior Ministers in the Lords, perhaps by giving them the same absolute increase in salary as a Commons junior Minister. All members of the Cabinet should assist the Chief Whip in trying to secure the maximum possible support among Government backbenchers for the Government's proposals in the debate, which was likely to be on Tuesday 19 July. The Lord Privy Seal and the Chief Whip would consider further how best the various amendments might be handled. Report No 19 by the TSRB on the Top Salaries Groups would be considered when the outcome of the debate on the pay of Members of Parliament was known.

The Cabinet -

Agreed that the Government's response to Report No 20 of the Top Salaries Review Body on Parliamentary Pay and Allowances should be on the lines set out in the Prime Minister's summing up of their discussion.

Cabinet Office

7 July 1983