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CC(83) 26th
Conclusions

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CABINET

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

THURSDAY 28 JULY 1983

at 9.30 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

SECRET

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Earl of Gowrie
Minister of State, Privy Council Office

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Item 5)
Mr A D S Goodall (Items 2-4)
Mr D F Williamson (Items 2 and 3)
Mr R L L Facer (Item 4)
Mr D H J Hilary (Item 1)
Mr M S Buckley (Item 5)
Miss J A Lewis-Jones (Item 1)

C O N T E N T S

Item	Subject	Page
1.	PARLIAMENTARY AFFAIRS	1
2.	FOREIGN AFFAIRS	
	Conference on Security and Co-operation in Europe	1
	Zimbabwe	1
	Gibraltar	1
	Central America	2
	Middle East	2
	Sri Lanka	2
3.	COMMUNITY AFFAIRS	
	Steel	3
	Community Budget and United Kingdom Refunds	3
	Fisheries	3
4.	A DEFENCE SUPPRESSION WEAPON FOR THE ROYAL AIR FORCE	4
5.	ABOLITION OF THE GREATER LONDON COUNCIL AND THE METROPOLITAN COUNTY COUNCILS: POLICE AND FIRE SERVICES	7

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	Central America	2
	Middle East	2
	Sri Lanka	2
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	Steel	3
	Community Budget and United Kingdom Refunds	3
	Fisheries	3
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SECRET

PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the week beginning 24 October.

FOREIGN
AFFAIRS

Conference on
Security and
Co-operation
in Europe

Previous
Reference:
CC(83) 24th
Conclusions
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that all the countries participating in the Conference on Security and Co-operation in Europe (CSCE) had agreed on the final document except for Malta, which (as it had done in 1975 and 1978) was seeking to impose its own views. There was increasing impatience with the Maltese Government's tactics and the Soviet Union favoured going ahead without Malta. This would, however, have serious consequences for the CSCE process and would devalue the final document. The alternative might be to accept some slippage in the date of the final session of the Conference, provisionally fixed for 7-8 September.

Zimbabwe

Previous
Reference:
CC(83) 24th
Conclusions
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Thames Television film on the trial of the Zimbabwe Air Force officers had been shown as planned on 21 July, despite the Government's representations. So far there had been no reports of adverse reactions, either in Zimbabwe or in the United Kingdom. There were reports of renewed atrocities by the Zimbabwe Army in Matabeleland, although the Korean-trained 5 Brigade was now said to have been withdrawn from that area. Although the facts had yet to be established, the alleged improvement in the conduct of 5 Brigade on the basis of which the United Kingdom had agreed to the Zimbabwe Government's request to include it in the training programme operated by the British Military Advisory Training Team might now be open to question. In effect, however, the Zimbabwe Government was seeking British help in bringing 5 Brigade under better control.

Gibraltar

Previous
Reference:
CC(83) 23rd
Conclusions
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that, following the visit to Gibraltar by the Parliamentary Under Secretary of State for Defence Procurement, Mr Ian Stewart, a satisfactory agreement had been reached with the Chief Minister of Gibraltar, Sir Joshua Hassan, on 26 July on arrangements to close the Royal Naval Dockyard and establish a commercial operation in its place. The announcement of this agreement had attracted relatively little attention in the United Kingdom. It provided for closure of the Royal Naval Dockyard six months later than previously intended and the transfer to the Gibraltar Government of land currently held by the Ministry of Defence. In return, however, the Gibraltar Government had agreed to give public support for commercialisation on the new timescale and accepted that there should be a clear break between the present arrangements and the management of the dockyard as a commercial enterprise. The agreement was currently being debated in the Gibraltar Assembly.

Central
America

THE FOREIGN AND COMMONWEALTH SECRETARY said that there was insufficient understanding in the United Kingdom of the difficulties facing the United States in Central America, where the Americans had a legitimate and immediate interest. British interest in the stability of the Caribbean and the presence of the British garrison in Belize meant that the United Kingdom shared United States concern to prevent Central America from falling under Soviet and Cuban influence. Unfortunately the existing Governments through which the United States had to work were unattractive allies. The United States Government was trying to use the right mixture of civil aid and military assistance to improve the situation: there were ten times as many Cuban military advisers in the area as American, and there was no reason to doubt President Reagan's assurances that there would be no United States military intervention in Central America. Unfortunately, the recently announced United States military and naval exercises in the area were frightening the United States' allies as well as their enemies.

Middle East

Previous
Reference:
CC(83) 22nd
Conclusions
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in the Lebanon continued to deteriorate. The timing of the partial Israeli withdrawal would depend on the outcome of the talks which the Israeli Foreign and Defence Ministers were currently having in Washington. The objection to Israeli partial withdrawal was that it paved the way for partition of the Lebanon (although the Israelis could argue that partition might well take place in any case). The Syrians were up to no good, there was a risk of renewed fighting and the credibility of the Lebanese Government of Monsieur Gemayel was being seriously undermined. Meanwhile agreement had not been given for the British contribution to the Multinational Force to be deployed over a wider area, but its stay in the Lebanon had been extended for a further limited period from 7 August.

Sri Lanka

THE FOREIGN AND COMMONWEALTH SECRETARY said that intercommunal tension between the Sinhalese and the Tamils had erupted into violence and remained high. Potential British travellers to Sri Lanka were being advised to keep away and British tourists on the island were being advised to stay out of sight.

The Cabinet -

1. Took note.
2. Instructed the Secretary of the Cabinet to record their warm congratulations and gratitude to the Parliamentary Under Secretary of State for Defence Procurement upon his skilfull and successful conduct of negotiations with the Gibraltar Government.

COMMUNITY AFFAIRS

Steel

Previous Reference: CC(83) 21st Conclusions Minute 3

3. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the meeting of the Council of Ministers (Steel) on 25 July had been satisfactory for the United Kingdom. The Commission's decision on reductions in Community steel capacity had been confirmed. The United Kingdom steel industry could accommodate the reduction without problems. Italy, France and Germany were required to make more substantial cuts in capacity. The United Kingdom had also obtained an increase of 380,000 tonnes in its production quota, of which 240,000 tonnes would be for the public sector and 140,000 tonnes for the private companies. In addition, we had now obtained approval for the modernisation of the plant at Port Talbot.

Community Budget and United Kingdom Refunds

Previous Reference; CC(83) 24th Conclusions Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Council of Ministers (Budget) on 20-22 July, at which the Financial Secretary, Treasury had represented the United Kingdom, had established the draft 1984 Community budget including provision on budget lines, not in the reserve chapter, for measures implementing the full United Kingdom 1983 refund of 750 million ecu net (£437 million). The Stuttgart agreement had been respected. In the draft 1983 supplementary budget, however, the Council had not made full provision for the additional payments due to the United Kingdom under the 1982 risk-sharing agreement negotiated in October 1982. The figure was £42 million less than the amount to which in our view the United Kingdom was entitled. The United Kingdom had therefore voted against the draft 1983 supplementary budget. He did not intend to let the matter rest in the continuing negotiations. In discussion it was noted that the Germans, whose position was crucial, had failed to support the United Kingdom on the 1982 risk-sharing payments.

Fisheries

Previous Reference: CC(83) 24th Conclusions Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that the Council of Ministers (Fisheries) on 25-26 July had not reached agreement on North Sea herring. The Danes had again invoked the Luxembourg compromise. The Council had decided, however, with the United Kingdom voting against, that the Norwegians should be allowed to fish the remainder of the herring quota in the North and central parts of the North Sea. About 10,000 tonnes of this quota remained to be fished. Scottish herring fishermen were strongly opposed. There was, however, some compensatory advantage because Norway would not now block fishing for cod and other species in Norwegian waters.

The Cabinet -

Took note.

A DEFENCE
SUPPRESSION
WEAPON FOR
THE ROYAL
AIR FORCE

4. The Cabinet resumed their consideration of a note by the Secretary of the Cabinet (C(83) 28) to which was attached a note by officials on the choice of a defence suppression weapon for the Royal Air Force.

In discussion the following main points were made -

Previous
Reference:
CC(83) 25th
Conclusions
Minute 2

a. If ALARM were chosen, in preference to HARM, and there was (as there could well be) some slippage in delivery dates, the Tornado aircraft would be without a weapon capable of suppressing Warsaw Pact air defences for two or three years longer than if HARM was chosen. The important date would be that by which an initial operational capability could be achieved, rather than the date on which delivery would be completed. Unless it was reasonably certain that there would be no conflict with the Warsaw Pact during this period, a decision in favour of ALARM would incur considerable defence risks. The planning assumption of successive Governments in the 1920s and 1930s that there would be no major conflict in the next ten years had led to British forces being inadequately equipped when war did break out in 1939. As against that, however, a conflict with the Warsaw Pact during the next decade would involve the United Kingdom only in company with allies. It would be possible for United States aircraft to undertake the task of suppressing Warsaw Pact radar defences. There would be no requirement for advanced defence suppression weapons in the type of conflict in which the United Kingdom would be engaged alone, such as had occurred in the South Atlantic. Even without a defence suppression weapon, the Tornado aircraft would have electronic equipment designed to deal with enemy defences and significantly reduce the attrition rate: the purpose of the defence suppression weapon was to reduce that rate further, to a level which commanders would regard as acceptable. If a conflict occurred from 1990 onwards, ALARM would be more advantageous in defence terms than HARM.

b. The employment considerations affecting the choice of system were evenly balanced. Compared with HARM, the ALARM programme would create only some 700 extra job opportunities a year over seven years. ALARM had poor export prospects, whereas participation in the HARM programme would provide British firms (albeit against competition from American firms) with an opportunity to participate in a world-wide market estimated at 25,000 missiles.

c. While it was not realistic for the United Kingdom to maintain a capability in every area of defence technology, the long-term implications of losing the capability for homing-head technology would be serious. United States firms would not offer attractive arrangements for participation by British firms unless there were a competitive industrial base in this country. Nor would it be right on strategic grounds to become dependent on the United States for all the future weapons systems for which homing-head technology was likely to be of central importance.

d. There were grounds for scepticism both about the size of the price reduction which British Aerospace had offered and about the shortness of the period allowed for development and production of the weapons. But to reject British Aerospace's proposals for ALARM would be to signal publicly that the Government lacked confidence in some of the United Kingdom's most important companies with a recognised capability in advanced technology. Criticism of a decision in favour of ALARM could nevertheless be expected from those companies and areas which stood to benefit from participation in the HARM programme.

e. The Royal Air Force's original preference had been for HARM. Their requirement was for 750 missiles. But it would be possible to decide to purchase more missiles later on, since the production line for ALARM would remain open until 1990.

f. At the previous discussion, concern had been expressed about the financial risks to British Aerospace following the price reduction which the company had offered. The Chairman of British Aerospace had pointed out that the company would be sharing the risk with its sub-contractors, which included major companies such as the General Electric Company. Sir Austin Pearce had also made it clear that if the company did not obtain the contract for ALARM there would be substantial redundancies. The ALARM programme would enable British Aerospace to spread their overheads more widely and avoid redundancies, which was a more important consideration than the financial penalties the company might incur by entering into the ALARM contract on the basis of their latest offer. The Government could not permit the company to recoup any losses on other defence contracts. It would also be important to avoid financial consequences which might make further sales of the Government's shareholding more difficult.

g. It would be necessary closely to monitor the progress of the ALARM programme. Treasury officials should be associated with this process, as also with the contractual terms. Neither the penalty clause for late delivery to the company nor the cost of slippage were sufficient to give the Government any effective control.

h. Care would be needed in explaining a decision in favour of ALARM to the United States Administration and Congress. But it should be possible to continue to sell British defence equipment to the United States: British weapon systems sold on their merits; and the influential Chairman of the Senate Armed Services Committee, Senator Tower, had indicated that he was ready to look for ways of offsetting the imbalance in defence trade between the two countries which would occur as a result of the purchase of the Trident missile system. For their part, the United States Government would never allow a foreign company to become the principal supplier of equipment vital to their national defence interests.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the ALARM missile should be chosen to meet the Royal Air

Force's requirement for a defence suppression weapon. Every effort must be made to ensure that the programme was successful and on time. Its progress must be carefully monitored and major developments reported to Ministers. The choice reflected the Government's confidence in British industry and the importance of preserving a national capability in an area of advanced technology vital for defence. Before Ministers were faced with further decisions of the same kind on major defence equipment projects, officials should produce a comprehensive report on the areas of defence technology which it was essential to retain in the United Kingdom: participation in the study should include officials from the Treasury and the Department of Trade and Industry, as well as from the Ministry of Defence. The United States Government should be informed of the decision, but care should be taken that the news did not leak in Washington before Parliament had been informed.

The Cabinet -

1. Agreed that the ALARM missile should be procured to meet the requirement for a defence suppression weapon for the Royal Air Force.
2. Invited the Foreign and Commonwealth Secretary, in consultation with the Secretary of State for Defence, to inform the United States Government of their decision.
3. Invited the Secretary of State for Defence, in consultation with the Chief Secretary, Treasury, to arrange for regular monitoring of the ALARM programme.
4. Invited the Secretary of State for Defence to arrange for officials to consider and report on the areas of defence technology in which a national capability should be maintained, on the lines indicated by the Prime Minister in her summing up.

ABOLITION OF
THE GREATER
LONDON COUNCIL
AND THE
METROPOLITAN
COUNTY
COUNCILS:
POLICE AND
FIRE SERVICES

5. The Cabinet considered the effects of abolition of the Greater London Council (GLC) and the Metropolitan County Councils (MCCs) on the organisation and financing of the police and fire services. They had before them minutes of 22 and 27 July from the Secretary of State for the Environment to the Prime Minister.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Ministerial Group on the Abolition of the Greater London Council and the Metropolitan County Councils (MISC 95) had been considering the future organisation of the police and fire services in the relevant areas. The Group was clear that those services must be organised by joint boards of the constituent lower-tier authorities. There was, however, a difference of view within the Group about the appropriate method of financing the joint boards and the extent to which their expenditure and staffing should be directly controlled by central Government. Two options had been identified -

Option A

The joint boards could be made directly responsible for their expenditure decisions and the grant and rating consequences - including grant penalties - in the same way as local authorities. This implied that the boards should receive block grant and specific and supplementary grants from central Government and raise their own finance by precept. They should therefore be subject to the selective scheme of rate control which the Government intended to introduce.

Option B

Responsibility for funding the boards would be placed with the constituent lower-tier authorities. The boards would receive specific and supplementary grants from central Government (eg. police grant) but not block grant. The constituent districts or boroughs would receive block grant on their share of the boards' expenditure and rate for the rest of their contribution. The control schemes would have to be applied indirectly through the constituent districts.

Most members of MISC 95 favoured Option A. They took the view that it would be more effective than Option B in controlling the expenditure of police and fire joint boards. They appreciated that Option A raised political and constitutional difficulties. But these were presented more by control of police or fire operations, which was not suggested, than by control of budgets. It was also relevant that the Government already had substantial powers relating to the police and fire services. He too supported Option A. In his view, it was a necessary condition of securing the savings in staff and expenditure which were the basic reasons for abolition. Under Option B the joint boards would not be responsible for the financial consequences of their proposals and would have insufficient incentive to rein back expenditure. An individual borough or

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district could be forced by other constituent authorities to contribute to an excessive budget. This contribution would count as its own expenditure for the purposes of both block grant penalties and the selective control scheme. The consequence could be that the authority was forced into grant losses or control through no fault of its own. This would be regarded as so unfair that it could lead either to the exemption of police and fire expenditure from any form of control or to failure to carry the control scheme through Parliament. Either result would be unacceptable. He proposed that the White Paper setting out the details of the Government's abolition proposals, which he hoped to publish in the autumn, should make it clear that the Government favoured Option A.

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THE HOME SECRETARY said that he strongly favoured Option B. In his view, it would in fact be more likely to restrain expenditure than Option A. This was demonstrated by experience during the Government's first term of office. The Government had been successful both in encouraging local authorities to spend more on law and order and in refusing to accept this as a valid reason for an increase in total of local authority expenditure. The effect had been to put downward pressure on expenditure on other services, but without passing judgment on the appropriate level of expenditure on any individual service. Expenditure on the police and fire services by most of the authorities that would be affected by abolition was already in excess of the relevant grant-related expenditure assessment (GRE). It would not be easy for the Government to amend the GREs; or to bring expenditure closer to them; or to condone apparent overspending. The likely upshot was therefore higher expenditure and higher rates. A further consideration was that under Option A the members of constituent local authorities would have no incentive to restrain the expenditure of joint boards, because the precept levied by the board would not count as their own expenditure for the purposes of the Rate Support Grant and holdback schemes or the scheme of selective rate limitation. He did not consider it probable that constituent local authorities would be forced to incur grant penalties or be brought under selective control by the decision of other authorities represented on the same joint board. Expenditure on the services in question was a relatively small proportion of the budgets of the relevant authorities; a high proportion of the expenditure was already controlled by the Home Office; and it was unlikely that authorities which were extravagant spenders in other fields would seek to spend excessively on the police. Apart from the arguments relating to control of expenditure there were political and constitutional objections to Option A. It would mean that, for the first time, central Government would be deciding the maximum level of expenditure on an individual local authority service in a particular area. It would establish a different system of control of police expenditure in the metropolitan areas and the shire counties. This would be regarded as a first step towards a direct Government control of policing in inner city area.

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He recognised that there was a particularly serious problem of control during the period of transition from the present organisation of local government in metropolitan areas. He was therefore willing, if his colleagues agreed that Option B was appropriate for the longer term, to seek powers to extend his control over police establishments to cover civilian staff, and to seek similar powers over fire

service establishments as over police establishments. This would in practice give the holder of his office control over 87 per cent of the police budget and 89 per cent of the fire budget.

The following were the main points made in discussion -

- a. Although the Government had been reasonably successful in the past in reconciling increases in expenditure on law and order services with general restraint of local authority expenditure, it was now proposing to change the organisation of local government; and it would not be safe to assume that past successes would continue. Ministers would inevitably be forced to take a more overt and explicit view of the appropriate level of expenditure on individual local authority services in several areas.
- b. Whether or not it was likely that individual local authorities would be subjected to grant penalties or be brought under selective control as a result of the decisions of other authorities, it was wrong in principle to set up a system which could have that effect.
- c. Although the minute of 22 July from the Secretary of State for the Environment discussed the police and fire services as though they were on all fours, the constitutional objections to Option A were much weaker in the case of the fire services, and the need for effective control of expenditure was great.
- d. There was no doubt that the Inner London Education Authority and Passenger Transport Authorities would need to be controlled under Option A. The budget and precept of the Metropolitan Police were already controlled directly by the Home Secretary, as police authority for the Metropolis. It was difficult to justify different treatment only for the police in metropolitan areas outside London.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet recognised that the present system of financing the police and fire services in metropolitan areas had served the Government and the country well; and they sympathised with the arguments advanced by the Home Secretary. Nevertheless, it was clear that Option A would have to apply to all services, other than the police, managed by joint boards in the areas affected by abolition of the GLC and the MCCs. A clear majority of the Cabinet took the view that it would not be possible to justify different treatment only for the police in metropolitan areas outside London. The White Paper which the Secretary of State for the Environment proposed to issue in the autumn should therefore be drafted on the basis that Option A would apply to all services in the relevant areas managed by joint boards.

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The Cabinet -

Agreed that the proposed White Paper on the detailed implications of the abolition of the Greater London Council and the Metropolitan County Councils, which the Secretary of State for the Environment intended to issue in the autumn, should be drafted on the basis that Option A would apply to all services in the relevant areas managed by joint boards.

Cabinet Office

28 July 1983

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