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CC(83) 36th  
Conclusions

COPY NO 76

CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 20 OCTOBER 1983  
at 9.45 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Leon Brittan QC 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 Peter Walker MP  
Secretary of State for Energy

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP  
Secretary of State for the Environment

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

The Rt Hon Lord Cockfield  
Chancellor of the Duchy of Lancaster

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

SECRETARIAT

|                      |                 |
|----------------------|-----------------|
| Sir Robert Armstrong |                 |
| Mr P L Gregson       | (Item 4)        |
| Mr A D S Goodall     | (Items 2 and 3) |
| Mr D F Williamson    | (Items 2 and 3) |
| Mr M S Buckley       | (Item 4)        |
| Mr C J S Brearley    | (Item 1)        |
| Mr R Watson          | (Item 1)        |

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PARLIAMENTARY  
AFFAIRS

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

FOREIGN  
AFFAIRS

Middle East

Previous  
Reference:  
CC(83) 29th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit to London earlier in the month of the Deputy Prime Minister of Iraq had been followed by a visit from the Foreign Minister of Saudi Arabia, Prince Saud. There had been no significant change in the situation in the Gulf. The arrival of six French Super Etendard aircraft in Iraq was still unconfirmed. Although the aircraft would make little practical difference to Iraq's fighting strength, they would be an added element of instability in a highly unstable situation. At the United Nations the United Kingdom was participating in efforts to table a balanced draft resolution on the Iran/Iraq war which would command a majority in the Security Council but avoid alienating the Arab world.

In the Lebanon the ceasefire was just holding. The national reconciliation talks due to start that day were being postponed because of objections from the Druze leader, Mr Jumblatt, to the proposed venue at Beirut airport. The British contingent to the multinational force continued to provide the guard for meetings of the ceasefire committee. Arrangements were nearing completion for the deployment of an observer force of Greek and Italian troops loosely linked to the United Nations.

Falkland  
Islands

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United Nations General Assembly would shortly be debating the Argentine draft resolution on the Falkland Islands, although the date for the debate was not yet fixed. Argentina had been campaigning strenuously in favour of its own draft, which was an updated version of last year's resolution. Despite British efforts to the contrary, the United States would be voting in favour of the Argentine draft resolution as they had done last year. The United Kingdom was working hard to limit the growth of support for the Argentine draft and to discourage proposals to amend it. Italy was playing an unhelpful role with the Europeans and the French attitude could be of crucial importance. It would be desirable to raise the issue with President Mitterrand of France when he came to London later that day.

Disarmament  
and Arms  
Control

Previous  
Reference:  
CC(83) 29th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the West German Foreign Minister, Herr Genscher, had had eleven hours of talks with the Soviet Foreign Minister, Mr Gromyko, in Vienna on 16 and 17 October. Herr Genscher had skilfully presented the Alliance case for the deployment of cruise and Pershing 2 missiles, but Mr Gromyko's subsequent speech in East Berlin had reverted to the harsh tone of President Andropov's statement of 28 September. Meanwhile the communique issued after the meeting in Sofia on 13-14 October of the Foreign Ministers of the Warsaw Pact had been less menacing in tone than previous statements, as well

as deliberately imprecise. It was still not possible to predict whether the Soviet Union would walk out of the Geneva arms control negotiations if deployment went ahead. But it was clear that the Russians were embarked on a major propaganda offensive in an attempt to play on German fears and prevent deployment taking place as planned. He had himself seen Mr Kostandov, one of the Soviet Deputy Prime Ministers, in London the previous day and had impressed on him that although the Alliance was determined to go ahead with deployment the Western desire for progress on arms control and disarmament was genuine and strong.

Cyprus

THE FOREIGN AND COMMONWEALTH SECRETARY said that the risk of a unilateral declaration of independence by the Turkish Cypriots was increasing. Such a development would directly affect the United Kingdom as a guarantor of the territorial integrity of Cyprus and could prejudice continued British use of the Sovereign Base Areas. The United Kingdom was therefore doing everything possible to discourage the Turks from going ahead. The Defence Secretary had seen leading members of the Turkish Government in Ankara two days earlier, and the Minister of State, Foreign and Commonwealth Office, Baroness Young, was at present in Cyprus where she would be speaking to leaders of the Turkish Cypriot community.

THE SECRETARY OF STATE FOR DEFENCE said that he had talked in Ankara to the President, Prime Minister and Foreign Minister of Turkey and explained British concerns to them. Unfortunately the imminent general election in Turkey (due on 6 November) gave them little room for manoeuvre and their attitude to relations with Greece was paranoiac.

Hong Kong

THE FOREIGN AND COMMONWEALTH SECRETARY said that a report was still awaited on the outcome of the second day of the fifth round of talks with the Chinese about the future of Hong Kong. But the terms of the agreed communique, which described the talks as "useful and constructive", were as reassuring as could have been hoped for and should help to strengthen confidence in Hong Kong.

Previous Reference: CC(83) 28th Conclusions, Minute 1

Grenada

THE FOREIGN AND COMMONWEALTH SECRETARY drew attention to reports that the Prime Minister of Grenada, Mr Bishop, and a number of other political figures had been killed in violent clashes in Grenada where it appeared that power had successfully been assumed by the Deputy Prime Minister, Mr Coard. The new regime was likely to be even more Marxist/Leninist than its predecessor.

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the introduction of a state of emergency in and around Brasilia appeared designed to facilitate the passage through the Brazilian Congress of an amended decree to limit salary increases which was crucial to the implementation of Brazil's agreement with the International Monetary Fund.

The Cabinet -

Look note.

COMMUNITY AFFAIRS

Community Budget and United Kingdom Refunds

Previous Reference:  
CC(83) 28th  
Conclusions,  
Minute 2

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that, at the Special Council of Ministers on 10-12 October, there had been some signs of movement towards the United Kingdom's position on future financing. All member states accepted that a solution had to be found. The French had suggested that the Danish proposal should be amended in a way which, in principle, went in the United Kingdom's direction. The task now was to put in place a sufficient framework before the European Council in Athens. On the strict financial guideline for agricultural expenditure there were wide divergences of view, but the Dutch had a useful proposal on the table.

In Strasbourg the European Parliament had now voted in favour of the risk sharing element of the United Kingdom's 1982 refunds which was included in the draft supplementary budget for 1983. The problem of the insufficient amount decided by the Budget Council remained but at least there were no further difficulties. It was probable, however, that when it came to consider the 1984 draft budget the European Parliament might seek to impose conditions on the payment of the United Kingdom's refund for 1983.

International Trade

THE FOREIGN AND COMMONWEALTH SECRETARY reported that there had been a first discussion in the Council of Ministers (Foreign Affairs) on 17-18 October about the implementation by the Community of the declaration of the recent Economic Summit at Williamsburg against protectionism. The French had not been able at this meeting to go along with the specific proposals. There was Community agreement, however, on a clear declaration about insufficient efforts so far made by Japan.

Agriculture

Previous Reference:  
CC(83) 29th  
Conclusions,  
Minute 2

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that at the Council of Ministers (Agriculture) on 17-18 October an agreement had been reached on certain changes for Mediterranean products which would unblock this aspect of the enlargement negotiations with Spain and Portugal. It should also ensure that these difficult issues did not burden the agenda of the next European Council. For fruit and vegetables the results were substantially better for the United Kingdom than the demands of the Mediterranean producers. On olive oil the result did not

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prejudice the negotiations with Spain and Portugal. A joint declaration by the United Kingdom, Germany and the Netherlands had made clear that, to render the olive oil regime suitable for an enlarged Community, mechanisms should be introduced to fit production to foreseeable market outlets. There had also been discussion of access for New Zealand butter from the beginning of 1984; the Commission had been helpful, but the first exchange of views in the Council indicated that there would be considerable difficulties with some member states, particularly Ireland. It was most unsatisfactory that for the present the proposal on the United Kingdom's less favoured areas had been blocked by Germany, France and Denmark.

Fisheries

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that the Council of Ministers (Fisheries) on 19 October had again failed to agree on North Sea herring and thus on 1983 quotas generally.

Previous Reference: CC(83) 29th Conclusions, Minute 2

Transport: Channel Tunnel and Lorry Weights

THE SECRETARY OF STATE FOR EMPLOYMENT reported that, in his former capacity of Secretary of State for Transport, he had attended the informal meeting of Community Transport Ministers on 6-7 October. The French Minister of Transport had raised with him there the question of the Channel Tunnel, suggesting that, as a future joint report was expected to base itself on finance from private sources with public guarantees, there should be no difficulty in making a forthcoming response at the Anglo-French Summit Meeting on 20-21 October. In response he had made clear that it would not be possible for the United Kingdom Government to comment in this sense on a report which they had not yet seen and studied. The German Minister of Transport had also raised with him the question of harmonising lorry weights with the Community at a figure higher than 38 tonnes. He had made clear that he saw absolutely no possibility that the United Kingdom Government would reopen this issue; the existing arrangements in the United Kingdom had been accepted by Parliament on the understanding that they would not be reopened. It might, however, be possible to reach agreement on a basis which allowed for harmonisation at a level which must not exceed 40 tonnes.

The Cabinet -

Took note.

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PUBLIC  
EXPENDITURE  
SURVEY 1983

4. The Cabinet considered progress on the Public Expenditure Survey 1983. Their discussion and the conclusions reached are recorded separately.

Previous  
Reference:  
CC(83) 24th  
Conclusions,  
Minute 5

Cabinet Office  
20 October 1983

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CABINET

LIMITED CIRCULATION ANNEX

CC(83) 30th Conclusions, Minute 4

Thursday 20 October 1983 at 9.45 am

PUBLIC EXPENDITURE SURVEY 1983  
Previous Reference: CC(83) 24th Conclusions, Minute 5

The Cabinet considered progress on the Public Expenditure Survey 1983. They had before them minutes dated 18 October from the Chief Secretary, Treasury to the Prime Minister on the progress of the Survey and on targets for Civil Service manpower up to 1 April 1988.

SECRET

Economic Situation

THE CHANCELLOR OF THE EXCHEQUER said that at the Cabinet's previous discussion he had reported that the prospects for output and inflation were encouraging; but that budgetary prospects were not easy. That picture remained broadly accurate. The gross domestic product in the first half of 1983 was estimated to have been some 3 per cent higher than in the first half of 1982. Future growth would be greatly influenced by the speed of recovery in our export markets, especially in Western Europe; but prospects were reasonably satisfactory. The underlying trend of inflation was downwards, although a temporary upward departure from this trend might persist for a few months. Even so, the rate of inflation in the later part of the current year was likely to be lower than the forecast that had been published at the time of the Budget. The Public Sector Borrowing Requirement (PSBR) in the first half of 1983-84 had been some £7 billion, compared with £4½ billion for the corresponding period in 1982-83 and with the Budget forecast for the whole year of £8.2 billion. Although the PSBR would be substantially lower in the second half of the financial year than in the first, and the measures which he had announced in July would help to contain it, it was still virtually certain that the figure for the year would be significantly higher than the Budget forecast. This was largely due to additional expenditure on demand-determined programmes and to the fact that the shortfall on cash-limited programmes which had been experienced in the past seemed unlikely to be repeated this year. A shortfall in the expected yield from indirect taxes, due to lower than expected inflation, had also contributed to the

higher borrowing requirement. Nevertheless, interest rates were at their lowest for five years, mainly because the consistency of the Government's fiscal and monetary policies commanded confidence in the market. Many of the factors which he had mentioned would continue and make the budgetary position in 1984-85 difficult. It was essential that the Government should adhere to its published expenditure plans for that year in order to minimise the risk that taxation might have to be increased.

In discussion the following main points were made -

- a. Expectations of changes in the rate of inflation in the current and immediately following months could be expected to influence pay settlements in the formative stage of the pay round. It might therefore be useful if Government spokesmen could suggest that the rate of inflation would soon fall. On the other hand, it might be wiser not to anticipate the Industry Act forecast, which was normally published around the end of November. It would be sufficient at this stage to make the point that the trend in inflation was downwards, without giving precise figures.
- b. In principle, the economic recovery should generate higher revenue and so improve the fiscal outlook. Much of the benefit of the recovery had, however, accrued in the form of higher profits. This was desirable in itself, but, as corporation tax was collected a year in arrears, the benefit in terms of higher revenue would not be felt until 1985-86.
- c. It was surprising that, although the PSBR was higher than had been anticipated, interest rates were nevertheless the lowest for five years. On the other hand interest rates were probably influenced more by expectations about the PSBR and about the Government's policies than by its current level.
- d. It would be easier for the Cabinet to take an informed view of the situation and to consider decisions about public expenditure if information could be made available about the likely revenue outturn when reports were made on the prospects for expenditure. Revenue was however hard to predict. The best estimate which could be made was that revenue in the current year was unlikely to be different from that forecast earlier and that unless public expenditure was held within the published totals there was a risk that taxation would have to be increased.

Public  
Expenditure

THE CHIEF SECRETARY, TREASURY said that in their previous discussion the Cabinet had agreed that the objective for the 1983 Public Expenditure Survey should be to hold to the published totals for 1984-85 and 1985-86; and that total spending should be held at the same real level in 1986-87. The figures were to include adequate planning reserves. He had been invited to hold bilateral discussions accordingly with spending Ministers. Thanks to the co-operation of his colleagues those

discussions had made good progress; but there were still some programmes on which it had not been possible to reach agreement, and a wide gap remained. Several Ministers had outstanding bids for additional expenditure. In order to achieve the objectives agreed by the Cabinet it was necessary not only that those bids should be withdrawn or offset but also that further savings of about £600 million in 1984-85, £775 million in 1985-86, and just over £1 billion in 1986-87 should be made. The outstanding issues arose on defence, agriculture, foreign affairs, education, arts and libraries and the nationalised energy industries; he had also not yet reached agreement on local authority current expenditure in 1985-86 and 1986-87. He proposed that a small group of Ministers should be asked to consider the issues.

On Civil Service manpower, he had now agreed with all colleagues but one on target figures for 1 April 1988 and each intervening year. Allowing for a contingency margin of 7,500 they amounted to a total of around 593,000 at 1 April 1988 for the Civil Service as a whole, a further reduction of 6 per cent on the target figure for 1 April 1984. Details were given in Annex A to his minute of 18 October. He had not yet reached agreement with the Secretary of State for Defence. The figures he proposed were consistent with his proposals on expenditure programmes. They reflected the best estimate it was possible to make of the manpower needed to perform the essential tasks of each Department as they were now foreseen. The contingency margin was included to give a measure of flexibility in planning; it was larger than it would otherwise have been in 1987 and 1988 to allow scope for the establishment of the proposed National Prosecution Service, if it was decided that this should be staffed by civil servants. As far as possible, allowance had been made for expected productivity gains. The figures also reflected agreed plans for privatisation, hiving-off and contracting out. But it was probable that further savings would be identified over the period; the figures would therefore be reviewed in the course of each successive Public Expenditure Survey. He proposed that the figures should be published alongside the expenditure plans. It would be made clear that they would be reviewed annually during each Survey; but that the presumption was that they would be adhered to, or reduced where circumstances warranted.

In discussion the following main points were made -

e. Although the Cabinet regarded it as desirable to protect capital expenditure, it seemed probable that the overall effect of what was now proposed on public expenditure would be to reduce capital programmes disproportionately. It would be helpful if figures could be made available to the Cabinet showing the distribution between capital and current expenditure in prospective expenditure programmes, and in the reductions that had been agreed, before the Cabinet took final decisions.

f. There was a particular difficulty in dealing with the problem of local authority current expenditure in 1985-86 and 1986-87 as the Chief Secretary, Treasury proposed. This was not a matter on which the Secretary of State for the Environment could commit his colleagues who were responsible for individual services run by

local authorities. On the other hand, it was necessary to take decisions in the context of the Public Expenditure Survey. The sums at stake were substantial. The Government should not be forced into reducing programmes to which it attached high priority in order to accommodate overspending by local authorities on matters of lower priority. As against this, until the proposed legislation on rates limitation had been passed, it was impossible for the Government to ensure that local authority spending conformed to published plans. Nothing would be gained by basing plans on unrealistic forecasts.

g. Some members of the Cabinet considered that the figures for Civil Service manpower proposed by the Chief Secretary, Treasury were insufficiently demanding. It should not be assumed that because the Government had made good progress in its first term of office the scope for economies had been exhausted. There was still much organisational slack.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet took note of the Chancellor of the Exchequer's statement on the economic situation and of progress towards bringing public expenditure for 1984-85 and later years within the previously published planning totals. The Cabinet might wish to resume discussion of the economic situation when the outcome of the November economic forecast was available. She would establish a small Group of Ministers, under the chairmanship of the Lord President of the Council, to try to resolve the outstanding issues on public expenditure and to report to the Cabinet. The Cabinet noted the difficulty of dealing with the local authority current expenditure within this Group: the Chief Secretary, Treasury, the Secretary of State for the Environment and those Ministers responsible for substantial local authority expenditure programmes should therefore attempt, in the first instance, to resolve the issue informally among themselves, and bring the matter before the Lord President's Group on public expenditure as necessary. The Chief Secretary, Treasury should ensure that information on the distribution of capital and current expenditure, and how reductions in expenditure programmes would affect this, was available to the Cabinet before they took final decisions on the 1983 Public Expenditure Survey. The targets for Civil Service manpower proposed by the Chief Secretary, Treasury were acceptable to the Cabinet on the understanding that every attempt would be made to improve on them. In this connection, the Prime Minister recalled references in a previous discussion (CC(83) 24th Conclusions, Minute 5) to the need to consider possible ways of facilitating premature retirement from the higher ranks of the Civil Service where that might help to improve the promotion prospects of talented younger staff. The response to inquiries from the media about the Cabinet's discussion of public expenditure should be to the effect that good progress had already been made towards the Government's objective of adhering to the published planning totals, and that final decisions would be taken over the coming weeks. There would be no objection to confirming, if asked, that a Group of Ministers would be examining the issues and would report to the Cabinet.

The Cabinet -

1. Took note that the Prime Minister would establish a small Group of Ministers under the chairmanship of the Lord President of the Council to try to resolve outstanding issues on public expenditure and to report to the Cabinet.
2. Invited the Chief Secretary, Treasury, in consultation with the Secretary of State for the Environment and the other Ministers concerned, to attempt to reach agreement on the appropriate provision for local authority current expenditure in 1985-86 and 1986-87, and to proceed as indicated in the Prime Minister's summing up.
3. Invited the Chief Secretary, Treasury to ensure that information was available to the Cabinet on the distribution of current and capital expenditure on the lines indicated in discussion and in the Prime Minister's summing up.
4. Approved the targets for Civil Service manpower up to 1 April 1988 proposed by the Chief Secretary, Treasury on the basis described in the Prime Minister's summing up.
5. Agreed that the response to inquiries from the media should be on the lines described by the Prime Minister.

Cabinet Office  
21 October 1983