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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 8 NOVEMBER 1984
at 9.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham of St Marylebone
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 Michael Heseltine MP
Secretary of State for Defence

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

The Rt Hon Lord Young of Graffham
Minister without Portfolio

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CC(84) 36th
Conclusions

The Rt Hon Viscount Whitelaw
Lord President of the Council
The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
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 Michael Jopling MP
Minister of Agriculture, Fisheries and
Food
The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
The Rt Hon Earl of Gowrie
Chancellor of the Duchy of Lancaster

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THE FOLLOWING WERE ALSO PRESENT

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

Mr John Gummer MP
Paymaster General

The Rt Hon Paul Channon MP
Minister of State, Department of Trade
and Industry (Item 4)

Mr Norman Lamont MP
Minister of State, Department of Trade
and Industry (Item 4)

Mr John Cope MP
Treasurer of the Household

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Items 4 and 5)
Mr D F Williamson (Items 2 and 3)
Mr B G Cartledge (Items 2 and 3)
Mr M S Buckley (Items 4 and 5)
Mr C J S Brearley (Item 1)
Mr R Watson (Item 1)

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PARLIAMENTARY
AFFAIRS
FOREIGN
AFFAIRS
United States
Presidential
Election

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister had already sent a message of congratulation to President Reagan on his remarkable achievement in the Presidential Election on 6 November. The scale of Mr Reagan's victory had been at the highest end of the range of expectations before the election. It was right that the British Government should acknowledge the extent of the President's triumph and record their desire to maintain the unique degree of consultation and co-operation which characterised the United Kingdom's relationship with the United States. The outcome of the Congressional elections had been less clear-cut. Although the Republican Party had re-couped 15 of the 26 losses which it had sustained in the House of Representatives in 1982, the Republicans had suffered a net loss of two seats in the Senate. All the signs were that President Reagan would maintain, in his second term, his attempts to construct a better relationship with the Soviet Union: but the defeat in the election of Senator Percy (Illinois), the former Chairman of the Senate Foreign Relations Committee, and the possibility that Senator Helms (North Carolina) might replace him in that role could prove to be a complicating factor. It was difficult, at this stage, to forecast what action, if any, President Reagan would take to curb the United States budgetary deficit.

Media
Previous
reference:
(84) 35th
conclusions,
page 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the internal situation in India, following the assassination of the Prime Minister, Mrs Indira Gandhi, was now calmer. The new Prime Minister, Mr Rajiv Gandhi, had taken a number of steps to assert his authority, including putting an end to Governmental interference in reporting by foreign journalists, following representations by the British High Commissioner. The repercussions of Mrs Gandhi's murder nevertheless continued to create serious problems in the United Kingdom, not least with regard to the activities of the Sikh leader, Dr Chauhan. The possibility of instituting legal proceedings against Dr Chauhan was being urgently considered but it was clear that Dr Chauhan himself had access to very competent legal advice. It was important that the British Government should continue to express the dismay and shock with which they viewed inflammatory comments and provocative behaviour by Sikhs in the United Kingdom; the statements made by the Prime Minister before and during her visit to Delhi for Mrs Gandhi's funeral had been very helpful in this respect. A march by Sikhs in central London, to mark the anniversary of the founder of their religion, had apparently been postponed for the time being; but the Indian High Commission had made it clear that if it took place it would have a most severe effect on relations between the United Kingdom and India.

In a short discussion it was reported that the Attorney General had been sent a collection of the evidence on which possible legal proceedings against Dr Chauhan might be based; but the chances of securing a prosecution

did not at this stage seem strong. The fact that Dr Chauhan had already been resident in the United Kingdom for 11 years could be an obstacle to his possible deportation. Although the Internationally Protected Persons Act of 1978 created the possibility of prosecution for incitement to murder, and although the law would be applied as rigorously as possible, it remained to be seen whether the evidence against Dr Chauhan was adequate for the purpose. So far as the proposed Sikh march was concerned, the position was that the possibility of holding it in central London on 18 November was still being considered by its organisers: if they decided to go ahead it would be open to the Commissioner of the Metropolitan Police to apply for it to be banned. It was not acceptable that the quarrels of India should be transferred to the streets of London, and every effort should be made, including contacts with leaders of the Asian communities, to prevent this. It was clear that manifestations by Sikhs in the United Kingdom could have a serious effect on relations with India, including trade.

THE FOREIGN AND COMMONWEALTH SECRETARY said that international efforts to ease the famine in Ethiopia were continuing; the appointment of a relief co-ordinator by the Secretary-General of the United Nations should have a useful effect. The promptness of the United Kingdom's relief measures had led to a substantial response by other countries and it was to be hoped that this would be sustained. There was some risk of pressure from the Ethiopian Government, probably at Soviet instigation, to move the Royal Air Force Hercules aircraft involved in the relief operation away from Addis Ababa, particularly during the period of the conference of the Organisation of African Unity, on the grounds that the facilities at the airport were inadequate for the number of aircraft now using it. There was therefore a contingency plan to transfer the aircraft to Djibouti if necessary; but no formal request for a move had yet been received.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the elections which had been held in Nicaragua on 4 November had been reported in relatively favourable terms both by the press and by Members of Parliament who had been present in Nicaragua as observers. There had been a high poll, of up to 90 per cent in some areas, and the electoral mechanisms appeared to have functioned reasonably well. This picture did not, however, take account of events in the period leading up to the elections, which had been characterised by pressures on the electorate by mobs organised by the Sandinista regime; the Sandinista Minister for Home Affairs had gone so far as to describe the mobs as "divine". The fact that smaller opposition parties had won nearly one-third of the popular vote had tended to distract attention from the fact that the main conservative and liberal opposition groups had not participated in the elections at all.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the arrival in a Nicaraguan port of a Soviet merchant ship which might be delivering military aircraft had apparently taken the United States Government by surprise.

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There was still no firm information as to the nature of the vessel's cargo, although the Americans had apparently been given an informal indication by the Soviet Union that it did not include MIG fighter aircraft. The Nicaraguans, for their part, had declared that no fixed-wing aircraft were being delivered, which implied that the cargo might include helicopters. The supply of MIG fighters to Nicaragua by the Soviet Union would give rise to the strongest objections from the United States. Counter allegations by the Nicaraguan regime concerning hostile activities by the United States navy had not so far been substantiated.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that work on budget discipline had continued in the Committee of Permanent Representatives and progress had been made. It was possible that a text might be adopted by the Council of Ministers next week. There would also be some discussion with the European Parliament, but the European Parliament did not have power to change the text.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the results of the Conference on the Protection of the North Sea, held in Bremen on 31 October and 1 November, had been satisfactory for the United Kingdom. The Conference had not supported either a special status for the North Sea or a complete ban on the dumping of waste there.

The Cabinet -

Took note.

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4. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

5. The Cabinet considered memoranda by the Lord President of the Council (C(84) 32) on the 1984 Public Expenditure Survey and by the Secretary of State for the Environment (C(84) 33) on housing. Their discussion and the conclusions reached are recorded separately.

6. THE CHANCELLOR OF THE EXCHEQUER described the current economic situation and prospects, on the basis of which he expected to make his Autumn Statement on Monday 12 November.

Cabinet Office

8 November 1984

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LIMITED CIRCULATION ANNEX

CC(84) 36th Conclusions, Minute 4

Thursday 8 November 1984 at 9.30 am

THE SECRETARY OF STATE FOR ENERGY said that there had been a sharp increase in the number of miners at work since the beginning of the week. Recently the weekly increase had been in the range of 200-300. In the four days of the current week nearly 2,000 had returned to work. Compared with the position at the beginning of August the number of pits on strike or picketed out had declined from 119 to 85, while the number of pits with some men in attendance had increased from 55 to 89. Attendances at particular pits had increased markedly, for example at Shirebrook (North Derbyshire) (611 compared with 247 a week ago), and at Manton in South Yorkshire (61 compared with 11 a week ago). The National Coal Board (NCB) had launched a direct mail campaign to draw striking miners' attention to the financial advantages available to those returning to work before 19 November. Although the growth in the number of pits where some miners were at work created additional problems for the police, it also made it more difficult for the National Union of Mineworkers (NUM), financially constrained as it was by the sequestration of its assets, to mount effective picketing. Coal movements in the previous week had been at the exceptionally high level of 947,000 tonnes and power station coal stocks had increased by about 150,000 tonnes. The main uncertainty at present was the attitude of the Trades Union Congress where the division of opinion had widened. One possible move was an approach to the Government to get talks restarted. Another possibility was an attempt to launch effective sympathetic action by some sections of the trade union movement, for example those members of the Transport and General workers' Union involved in maintaining oil supplies to power stations. The recent personnel problems at the NCB had given rise to adverse publicity but the position appeared to be improving; the new NCB spokesman, Mr Eaton, had performed well.

In discussion the following main points were made -

- a. The NCB had said that 73,000 of their employees were now at work. This figure included members of the two smaller unions, the National Association of Colliery Overmen, Deputies and Shufflers (NACODS) and the British Association of Colliery Managers. Lower figures quoted by the NUM were likely to refer to members of that union only.

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INDUSTRIAL
AFFAIRS
Industry
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reference:
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b. Although 19 November was an important date in the campaign to encourage a return to work, it would be important to maintain the momentum after that date, when there would remain some, although smaller, financial incentives for those going back to work.

The PRIME MINISTER, summing up the discussion, said that the first priority was to assist the return to work. Any attempts to take political credit for the encouraging developments of the past week would probably be counter-productive. The figures could be allowed to speak for themselves. Ministers should continue to emphasise that what was currently on offer to miners, including the agreement reached with NACODS, was the best deal since nationalisation.

Cabinet Office

9 November 1984

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LIMITED CIRCULATION ANNEX

CC(84) 36th Conclusions, Minute 5

Thursday 8 November 1984 at 9.30 am

The Cabinet considered a memorandum by the Lord President of the Council (C(84) 32) about the 1984 Public Expenditure Survey, and a memorandum by the Secretary of State for the Environment (C(84) 33) on the housing programme.

THE LORD PRESIDENT OF THE COUNCIL said that at their meeting on 5 July the Cabinet had decided that the public expenditure planning totals should be £131.7 billion for 1985-86, £136.3 billion for 1986-87, and £140.4 billion for 1987-88, and invited the Chief Secretary, Treasury to pursue bilateral discussions of expenditure programmes with the Ministers responsible. On 4 October the Chief Secretary, Treasury reported that, although good progress had been made, he had not been able to reach agreement with the spending Ministers concerned on a number of programmes. The Prime Minister had invited him to be the Chairman of the Ministerial Group on Public Expenditure (MISC 106) to consider and make recommendations on those issues which had not been resolved. The Group's recommendations were set out in C(84) 32, which also gave brief descriptions of the policy implications of the agreements reached bilaterally between the Chief Secretary, Treasury and spending Ministers. He wished to express his thanks to the other members of the Group and to spending Ministers for their hard work and co-operation.

MISC 106 had agreed with the spending Ministers concerned on the following recommendations:

- a. Provision for defence should be increased by £105 million in 1985-86 and by £300 million in 1987-88.
- b. Provision for Foreign and Commonwealth Office programmes should remain unchanged, apart from certain minor agreed adjustments.
- c. Provision for agriculture should be reduced by £36 million in 1985-86, £78 million in 1986-87, and £112 million in 1987-88.
- d. Provision for other environmental services should be reduced by £29 million in 1985-86 and by £1 million in 1987-88, and increased by £9 million in 1986-87.

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PUBLIC EXPENDITURE SURVEY 1984
Previous reference: CC(84) 32nd Conclusions, Minute 9

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e. The Urban Programme should be reduced by £30 million in 1985-86, and by £55 million in each of 1986-87 and 1987-88.

f. Provision for health and personal social services should be increased by £198 million in 1985-86, £286 million in 1986-87, and £597 million in 1987-88.

g. Provision for social security should be increased by £519 million in 1985-86, £296 million in 1986-87, and £1,327 million in 1987-88.

Fuller details were given in Annexes C-G of C(84) 32.

After MISC 106 had finished their work the Secretary of State for Energy had agreed with Treasury Ministers that the combined External Financing Limits (EFLs) of the British Gas Corporation and the electricity supply industry (England and Wales) should be reduced by £62 million in 1985-86 and £85 million in 1986-87, and held to baseline provision in 1987-88. Although these figures assumed that the corporation tax bill of the electricity industry in 1987-88 was likely to be at least £200 million less than had previously been thought likely, the Secretary of State for Energy had made it clear that even if the reduction did not materialise he would expect the industry to stay within its EFL for 1987-88 by savings from some other source.

The only remaining programme was housing. MISC 106 considered that gross expenditure on the housing programme should be reduced by £380 million in 1985-86, £470 million in 1986-87, and £560 million in 1987-88. The reductions would fall most heavily on the construction of new dwellings and conversions and home improvement grants, allowing a modest increase in expenditure on renovation and repairs. The Secretary of State for the Environment, however, considered that the resulting provision would not be adequate to meet irreducible housing needs. The Secretary of State for the Environment proposed additional gross expenditure of £250 million in 1985-86, £350 million in 1986-87, and £400 million in 1987-88, mainly for additional expenditure on renovation and repairs to deal with the substantial new need for repairs to industrialised and system-built housing of the 1950s and 1960s.

If the recommendations of MISC 106, and the agreement between the Secretary of State for Energy and Treasury Ministers on the gas and electricity industries, were endorsed, the overall effect would be to exceed baseline provision by £348 million in 1985-86, £411 million in 1986-87, and £934 million in 1987-88. He hoped that the Chancellor of the Exchequer would be able to accommodate these prospective overruns.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Government was committed by its Election Manifesto to making Britain "the best housed nation in Europe". Good progress had been made towards this objective in the owner-occupied sector. But the Government was falling badly

behind in new building in the public sector for those who could not afford to buy their own homes, in public sector renovation, and in help to poorer owner-occupiers with repairs and improvements. The proposals on housing in C(84) 32 would have very serious effects. The number of households was rising at 190,000 a year. About 30 per cent of all households were unable to afford owner-occupation. There was a case for 75,000 new starts a year in the public sector to deal with the resulting need. In the light of the public expenditure situation he was prepared to defend a figure of 40,000. But the proposals in C(84) 32 would mean only 19,000 starts a year. There would be a consequent increase in homelessness and overcrowding which could not be defended. There were about 4³/₄ million dwellings in the public sector which had to be kept in reasonable repair. It was already estimated that about 125,000 prefabricated reinforced concrete dwellings would need structural repairs to make them safe, at a cost of about £1.5 billion. Although the exact size of the problem was not established, a large number of system-built flats and houses, including Ronan Point type blocks, would need even larger expenditure. Finally, the condition of the private sector housing stock was deteriorating. The increases in expenditure on home improvement grants in 1982-83 and 1983-84 had arrested the deterioration, but had not reversed it. If the proposals in C(84) 32 were adopted, the deterioration would accelerate. Many poorer owner-occupiers could not afford to undertake expenditure on major repairs; and there was a public interest in maintaining the condition of the nation's housing stock, whether it was in public or private hands.

In discussion, the following main points were made -

- a. It was vital to consider the issues raised in C(84) 33 against the background of the general public expenditure situation. A significant excess over the planning totals was in prospect. The excess would be uncontainable if the proposals in C(84) 33 were accepted. The Government had gained great credit for its constant adherence to its published expenditure plans. By the same token, the effects on market confidence if it appeared to have abandoned that adherence would be severe. One effect would be an increase in interest rates, which would do particular damage to the housing programme itself.
- b. C(84) 33 appeared to treat housing need as autonomous and unavoidable, but it was well known that the rate of formation of new households, in particular, depended heavily on the price and availability of accommodation. It was arguable that even the figure of 40,000 new starts proposed by the Secretary of State for the Environment, let alone the figure of 75,000, greatly overstated the extent of genuine need.
- c. Expenditure had to be contained within what could be afforded. This was especially relevant to home improvement grants. It had been reasonable to increase expenditure on the grants in 1982-83 and 1983-84, when money had been available. Now that the expenditure

outlook was more difficult, they should be cut back. Moreover, there was a danger that if expenditure on the grants continued at a high level an expectation would grow up that they would always be paid; and the Government would de facto have created a new form of subsidy to which many people would think they were entitled and which would be hard to reduce. Although cutting back on home improvement grants would be unpopular, it was better to take the step now than later.

d. Many features of housing policy needed fresh examination. Large sums of public money were being paid out in housing benefit, though in many cases the social justification for this was open to question. The prospective addition to the cost of housing benefit was one of the obstacles to a revival in the private rented sector, which was otherwise very desirable. There was a good case for substituting loans for home improvement grants, at least in part. A large number of people continued to be housed by the public sector, although they could afford to be owner-occupiers. It might well be that fresh incentives to sales of council houses should be offered, though the danger of further reducing the stock of housing available for rent, and so impeding labour mobility, should not be overlooked. All these matters deserved investigation.

e. Reductions in the housing programme on the scale proposed in C(84) 32 would have serious effects on the construction industry. It was relevant that at their recent conference the Confederation of British Industry had expressed strong opposition to reductions in public expenditure falling on capital investment in the nation's infrastructure.

f. Housing provision raised special problems in Wales. The proposals in both C(84) 32 and C(84) 33 assumed that there would be substantial additional receipts, whereas in Wales the public sector housing stock had originally been smaller proportionately than in England, and sales had been higher in previous years. There was little chance that receipts in Wales could be increased beyond existing estimates. The available evidence suggested that the condition of the housing stock in Wales was worse than in England. There was a large backlog of applications for home improvement grants, equal to several years' expenditure. All these problems would be greatly aggravated if the proposals in C(84) 32 were accepted and the Welsh block budget required to accept consequential reductions in accordance with the normal arrangements.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet considered that the housing programme should be reduced from the original Survey baseline by amounts of £312 million in 1985-86, £142 million in 1986-87, and £100 million in 1987-88 rather than by the amounts proposed at the end of paragraph 28 of C(84) 32. These figures assumed that it would be possible to increase receipts in the programme, particularly through higher sales of council houses, by an additional £100 million a year, so that total receipts would be

£1,700 million in 1985-86, £1,500 million in 1986-87 and £1,400 million in 1987-88. If these estimates should prove excessive, the Secretary of State for the Environment would be entitled to seek a review of the size of the programme in future Public Expenditure Surveys. So far as he could, bearing in mind that the allocation of expenditure was largely a matter for local authorities, the Secretary of State for the Environment should try to ensure that the main weight of reductions in expenditure fell on home improvement grants. The Cabinet's discussion had revealed a number of unsatisfactory features in present housing policy, which should be reviewed. She would give thought to how this might best be arranged.

The Cabinet -

1. Agreed that the housing programme should be reduced to the extent and on the basis indicated by the Prime Minister in her summing up.
2. Took note that the Prime Minister would give thought to how a review of housing policy might best be arranged.

THE CHANCELLOR OF THE EXCHEQUER said that it seemed unlikely that the gap between the planning totals previously agreed by the Cabinet and the recommendations in C(84) 32, as modified by the conclusions which the Cabinet had just reached on the housing programme, could be bridged. What was crucial to market confidence, however, was to avoid exceeding the planning totals for 1985-86 and 1986-87 which had been published in the White Paper on the Government's Expenditure Plans (Cmnd 9143) and the projection for 1987-88 in the 1984 Financial Statement and Budget Report. These were somewhat higher than the figures that had been agreed in July. In his view, it would be possible to keep expenditure plans within them by assuming higher, though still attainable, sales of assets in 1986-87 and 1987-88. It would be essential to take an exceedingly stringent attitude to all claims on the Reserve in 1985-86. He was most grateful to the Lord President of the Council, to the other members of MISC 106, and to spending Ministers for the efforts which had made possible this satisfactory outcome of the 1984 Public Expenditure Survey.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet thanked the Lord President of the Council and the other members of MISC 106 most warmly for their work. The Cabinet approved the recommendations in Annexes B-G of C(84) 32, and endorsed the agreement on gas and electricity EFLs which had been reported by the Lord President of the Council. The resulting figures for 1985-86 would appear in the Chancellor of the Exchequer's Autumn Statement, to be published on Monday 12 November; more detailed figures for that year and for 1986-87 and 1987-88 would appear in the 1985 Public Expenditure White Paper. Questions from the media about the outcome of the Cabinet's discussion would be answered by saying that the Cabinet

had agreed public expenditure programmes for 1985-86, 1986-87 and 1987-88 and that the figures would be announced in the way that she had just described. It would be for the Ministers responsible to answer detailed questions on their programmes. They should vigorously defend the Government's decisions, against the background of the overriding need to contain public expenditure and uphold financial discipline.

The Cabinet -

3. Endorsed the Prime Minister's expression of thanks to the Lord President of the Council and the other members of MISC 106.
4. Approved the recommendations in Annexes B-G of C(84) 32.
5. Endorsed the agreement on the External Financing Limits of the British Gas Corporation and the electricity supply industry (England and Wales) reported by the Lord President of the Council.
6. Agreed that the response to questions from the media, and the public presentation of the Cabinet's decisions, should be as described by the Prime Minister in her summing up.

Cabinet Office

9 November 1984