

CC(86) 21st
Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 22 MAY 1986
at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

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 Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

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

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Northern Ireland

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

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

The Rt Hon Malcolm Rifkind
Secretary of State for Scotland

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

The Rt Hon John Moore MP
Secretary of State for Transport

ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

CONFIDENTIAL

SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 4 and 5)
Mr C L G Mallaby (Items 4 and 5)
Mr J B Unwin (Item 6)
Mr A J Wiggins (Item 6)
Mr A J Langdon (Items 1-3)
Mr M J Eland (Items 1-3)

C O N T E N T S

Item	Subject	Page
1.	MEMBERSHIP OF THE CABINET	1
2.	RESIGNATION OF SIR KEITH JOSEPH MP	1
3.	PARLIAMENTARY AFFAIRS	1
	Power Workers' Negotiations	1
	Redundancies in the Coal Industry	1
	Terms and Conditions of Service for National Health Service General Managers	2
	Picketing of Department of Health and Social Security Office in Liverpool	2
	Report by HM Inspectors of Schools on the Effects of Local Authority Expenditure Policies on Education Provision in England - 1985	2
4.	FOREIGN AFFAIRS	
	South Africa	3
	The Netherlands	4
5.	COMMUNITY AFFAIRS	
	Discussions with the Commission	5
6.	PAY REVIEW BODY REPORTS 1986	5

CONFIDENTIAL

MEMBERSHIP OF THE CABINET

1. The Cabinet welcomed the Secretary of State for Transport as a new member following the Ministerial changes announced the previous day.

RESIGNATION OF SIR KEITH JOSEPH MP

2. The Cabinet expressed their deepest and heartfelt appreciation of the dedicated public service and inspiration which Sir Keith Joseph had given as a member of the Cabinet in every Conservative Administration since 1962. He would be very much missed from their counsels.

PARLIAMENTARY AFFAIRS

3. The Cabinet were informed of the business to be taken in the House of Commons on its return from the Spring Adjournment.

Power Workers' Negotiations

Previous Reference: CC(86) 20.6

THE SECRETARY OF STATE FOR ENERGY said that, with the assistance of the Advisory Conciliation and Arbitration Service, a settlement had now been reached in the negotiations between the Electricity Council and the unions in the electricity supply industry. This included a pay increase of 6½ per cent and a formula which remitted for future consideration the question of a new bridging grade between industrial staff and the engineers.

Redundancies in the Coal Industry

THE SECRETARY OF STATE FOR ENERGY said that the National Coal Board (NCB) intended to make significant manning reductions in the coal industry over the following two years. These were being considered region by region. In the coming year there would be substantial redundancies declared in Yorkshire and in Scotland. Against this, NCB Enterprise Limited, the company set up by the NCB to provide a source of alternative employment in the areas affected by redundancies, was making very good progress. It had already created some 6,800 job opportunities and several large projects were under contemplation which would significantly increase this total. It had also had considerable success in attracting investment from the private sector. This was currently running at more than five times the initial investment in the company by the NCB. It was important to secure as much publicity as possible for this.

CONFIDENTIAL

Terms and
Conditions of
Service for
National
Health
Service
General
Managers

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that an announcement would be made that afternoon of the new terms and conditions of service of General Managers in the National Health Service (NHS). The main feature of the new arrangements would be the introduction of short-term contracts (usually of three years duration) with loss of rights associated with any previous NHS post and no rights of renewal of contract. An element of compensation for this loss of tenure was included in the proposed new pay rates. The consequence of these changes was that some individuals would in the normal course of events receive increases which could be represented as out of keeping with the rates recommended by the various Review Bodies whose reports the Cabinet were to consider under a subsequent item of the agenda. He believed that the chances of such criticism could be largely avoided by adopting a two-stage approach and he had agreed this course with the Chief Secretary, Treasury. The Written Answer and press notice by means of which the announcement would be made, would stress the balance being struck between loss of tenure and pay. Taken as a whole, the arrangements represented a very significant step forward in promoting efficiency in the NHS. It had to be accepted, however, that some General Managers faced with the change might choose to resign; whilst, on the other hand, there could never be a guarantee against mischievous comment in the media about apparently generous pay awards, however good the reason for them.

Picketing of
Department of
Health and
Social
Security
Office in
Liverpool

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that an ugly situation was developing in connection with a cleaning contract for a Department of Health and Social Security (DHSS) local office in Liverpool. The cleaning of the office had been contracted out to the private sector for many years and the contract had recently been awarded to a small local company. The Transport and General Workers' Union had objected to this change, and were now organising intimidatory mass picketing of the office and seeking to escalate the dispute. He believed it would be wrong for the Government to stand aside, and was in consultation with the Attorney General and other colleagues about the most appropriate legal action to take.

Report by
HM Inspectors
of Schools on
the Effects
of Local
Authority
Expenditure
Policies on
Education
Provision in
England - 1985

THE PRIME MINISTER said that the report by HM Inspectors of Schools, published on 21 May, had been most unfairly treated in the press. Newspaper headlines had given the misleading impression that the main thrust of the report had been to criticise the resources available for schools, whereas in fact the report had made useful comments on the quality and performance of teachers.

In discussion it was noted that the press reception had been at least partly attributable to the contents and layout of the Department of Education and Science's press release itself, which had been circulated in draft too late for colleagues to make all the considered points they

would have wished. The former Secretary of State for Education and Science had acted swiftly to limit the damage, and the coverage in that day's newspapers was more balanced. One way of minimising the risks of similar incidents in future might be to reinstate the practice of Chief Information Officers meeting weekly under the chairmanship of a Minister with responsibilities for the co-ordination of Government information.

THE PRIME MINISTER, summing up the discussion, said that the incidents emphasised the need for effective co-ordination of Government information. She would wish to consider the best arrangements for this.

The Cabinet -

Took note.

FOREIGN
AFFAIRS

South Africa

Previous

Reference:

CC(86) 20.3

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the raids by South Africa on targets in Zambia, Zimbabwe and Botswana on 19 May had been militarily ineffective. The targets did not appear to have been logically selected. For instance, a meeting between South Africa and Botswana on the control of border incidents had been due to take place four days later. The raids appeared to serve no South African interest, save perhaps as a demonstration to the right wing in South African politics. The decision to carry out the raids had appeared to ignore the work of the Commonwealth Eminent Persons Group (COMGEP), although the Group had been visiting South Africa at the time. A letter from President Botha to the Prime Minister, attempting to justify the raids, appeared to be a standard letter addressed to a number of Heads of Government; it had not referred to COMGEP or sought seriously to explain the South African raids. The South African action had been condemned across Africa and much more widely. There would be increased pressure for further sanctions against South Africa. In the United States Senate, which had successfully pressed President Reagan to introduce some sanctions in 1985, new moves were likely. The work of COMGEP was in serious jeopardy. The British member, Lord Barber, had made a major contribution in helping the members, who represented very different countries and views, to develop a coherent group personality. Lord Barber had thus been able to persuade the Group to proceed with a meeting with South African Ministers shortly after the raids. The meeting had been inconclusive, not least because the South African Government remained divided about the proposals of the Group. The South African Government's reply to the Group was therefore still outstanding. Earlier, the Group had had reasonably encouraging meetings with the African National Congress and with Mr Nelson Mandela. The Group had not abandoned all hope of continuing to play a useful role. They were due to meet in London in two weeks' time, to consider their report on their work. The Government should do everything possible to keep the Group in play. A key consideration would be whether the coherence of the Group

would be undermined when individual members were subjected to pressures by their own Governments. If the Group held together, it might still have a useful role.

In discussion, the following points were made -

- a. The Government should make strenuous efforts to support COMGEP and to keep negotiations going. The imposition of sanctions on South Africa could place 120,000 jobs in the United Kingdom at risk. If South Africa deteriorated into violence, many of the South Africans with a right of abode in the United Kingdom might wish to settle in this country. The consequences for the United Kingdom of major deterioration of the situation in South Africa or of sanctions would be much greater than for other Western countries.
- b. The Governments of the Federal Republic of Germany, France and the United States would probably wish to maintain opposition to sanctions against South Africa. It was in the Government's interest to work hard to influence them in this sense. There would be significant disadvantages if the United Kingdom were to become isolated in opposing sanctions.
- c. A meeting of certain Commonwealth Heads of Government to review the Accord on South Africa agreed at the Commonwealth Heads of Government meeting in 1985 was due to take place in London at the beginning of August, to consider the work of COMGEP. If the Group's role were to come to an end prematurely, there would be pressure to bring the meeting of Heads of Government forward.

The
Netherlands

THE FOREIGN AND COMMONWEALTH SECRETARY said that, contrary to the expectations of some observers, the right of centre coalition government of the Christian Democrat and Liberal Parties had won the general election in the Netherlands on the previous day. The two parties together had secured the same number of seats and the same majority as before. Within the coalition, the Christian Democrats had won seats at the expense of the Liberals, and had overtaken the Labour Party as the largest party in Parliament. The Labour Party had also increased its number of seats by winning those previously held by the Communist Party.

In a brief discussion, it was noted that the coalition government had followed a policy of financial discipline and constraints on public expenditure. The Netherlands Government's election victory should ensure that its earlier decision to carry out the stationing of the Netherlands and United States intermediate range nuclear forces would no longer be seriously questioned.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Discussions
with the
Commission

5. THE FOREIGN AND COMMONWEALTH SECRETARY said that, in preparation for the United Kingdom Presidency in the second half of 1986, he had had full discussions on 21 May with the President, Monsieur Delors, and members of the Commission about the United Kingdom's objectives and approach. These discussions had been satisfactory.

The Cabinet -

Took note.

PAY REVIEW
BODY REPORTS
1986

6. The Cabinet considered a note by the Secretary of the Cabinet (C(86) 15) about the recommendations of the Pay Review Bodies (PRBs).

THE PRIME MINISTER said that it was necessary to reach decisions on the recommendations of the PRBs concerned with the armed forces, doctors and dentists, nurses, midwives and professions allied to medicine, and those of the Top Salaries Review Body (TSRB). As in previous years, the PRBs' recommendations presented the Government with serious problems, because the members of these bodies, who had no responsibility for finding the money, continued to be excessively influenced by comparability and to pay little or no regard to affordability. The recommendation of the Ministers directly concerned was that the recommendations, apart from those of the TSRB, should be accepted, but that action should be taken to reduce the costs during the current financial year by deferring their implementation until 1 July. This would reduce the average increases paid within the current financial year from the 7.5-8 per cent recommended by the PRBs to a little under 6 per cent. The costs of the pay award for the armed forces would be found from within the defence budget; but the recommendations in the Health Service were more than could be afforded without prejudicing services to patients. The Chief Secretary, Treasury had therefore, exceptionally, offered to increase Hospitals and Community Health Services cash limits by £60 million (for the United Kingdom as a whole) which, together with the benefit of lower than expected inflation and continuing progress with Health Authorities' cost improvement programmes, should enable services to be maintained. In the case of the groups covered by the TSRB (which had proposed increases averaging 6.5 per cent) the recommendation was that, following the very large increases awarded in 1985, increases should be restricted to the amount required to keep pay broadly constant in real terms. Accordingly the pay bill for these groups in 1986-87 would increase by 3 per cent, which translated into increases averaging 4 per cent payable - as in the case of the other Review Body groups - from 1 July. At the same time it was proposed to implement the TSRB's 1985 recommendation that a system of discretionary increments above the normal scale maxima should be introduced for Grades 2 and 3, where the benefits from the 1985 pay restructuring had been rather more modest. This would make it possible to reward exceptional service more effectively; the discretionary additional increments would be withdrawable if performance ceased to merit them, and would therefore not be pensionable. At the same time it was also proposed to make the

increments up to the normal maxima for Grades 2 and 3, which were introduced for the first time in 1985, no longer automatic; such increments, once awarded, would not be subject to withdrawal and would be pensionable; it was to be expected that the performance of people qualified for promotion to these grades would normally be such as to warrant the award of these increments. Subject to the approval of the Cabinet, it was proposed that the Government's decisions on all the PRBs' recommendations should, in accordance with established practice, be announced that afternoon by Written Answer at 4.00 pm. At the same time a letter addressed by the Chancellor of the Exchequer to all Members of Parliament explaining the Government's decisions would be available in the Vote Office and the Whip's Office. Drafts of the Written Answer and the Chancellor of the Exchequer's letter were attached to C(86) 15.

In discussion the following main points were made -

- a. The £60 million increase in Health Service cash limits should not be justified exclusively in terms of the Review Body recommendations. The existing cash limits already included an allowance for higher pay and prices, and the Health Service would also have available £150 million from the cost improvement programme; these amounts had to cover not only the Review Body increases, but also pay settlements with other Health Service employees and rising demands for patient care for demographic and other reasons. It was essential not to give the impression that further increases would be made in cash limits to finance pay settlements for non-Review Body Health Service staff.
- b. The proposals concerning performance-related pay for Civil Service Grades 2 and 3 would require careful handling. Appropriate consultation would be required with staff interests, and a good deal of work remained to be done to define the criteria for the award of discretionary additional increments. The announcement of these new arrangements, alongside those for the pay of Health Authority General Managers, would be a positive step towards establishing sensible performance-related pay differentiation at senior levels; but it was doubtful whether the withdrawal of automaticity of increments below the present Grade 2 and 3 maxima - which had not been recommended by the TSRB, and which might be seen by the Staff Side as foreshadowing a wider attack on automatic increments throughout the Civil Service - should be included in the package.
- c. Given the special steps taken in the case of the TSRB, it seemed likely that criticism of the Government's decisions would focus on the deferment of the pay award to nurses. Nevertheless the Government's decisions should be seen as representing a fair balance, and it seemed likely that the PRBs would not react adversely to them.

d. Despite the difficulties encountered in 1985, it would be right to make the Order increasing the salary of the Lord Chancellor, so as to maintain the present differential with that of the Lord Chief Justice; there was unlikely to be any particular difficulty in securing the necessary Affirmative Resolutions.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed all the proposals set out in C(86) 15 for responding to the PEBs' recommendations, apart from the withdrawal of automaticity from increments below the Grades 2 and 3 maxima. They also agreed that an Order increasing the salary of the Lord Chancellor by £2,400 should be laid before Parliament in due course. Appropriate arrangements should be made to notify the Review Body Chairmen and representatives of the staff concerned of the Government's decisions. The arrangements for the announcement of the Government's decisions and their presentation should be as set out in C(86) 15. No amendment was needed to the draft Written Answer she would give to reflect the change in the treatment of increments paid to Grades 2 and 3, since the text contained no direct mention of this.

The Cabinet

1. Approved the proposals set out in C(86) 15, subject to the minor change noted in the Prime Minister's summing up.
2. Took note that the Prime Minister would announce the Government's decisions that afternoon by means of a Written Answer, and approved the text annexed to C(86) 15.
3. Endorsed the steps taken to ensure effective presentation and explanation of the Government's decisions.

Cabinet Office

22 May 1986