

CC(86) 36th
Conclusions

CONFIDENTIAL

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 6 NOVEMBER 1986
at 9.30 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 George Younger 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 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 QC MP
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 3 and 4)
 Mr J B Unwin (Item 5)
 Mr A J Wiggins (Item 5)
 Mr A J Langdon (Items 1 and 2)
 Mr N H Nicholls (Items 3 and 4)
 Mr M J Eland (Items 1 and 2)

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PARLIAMENTARY
AFFAIRS

1. THE PRIME MINISTER said that the Cabinet would wish to congratulate the business managers in both Houses on the way in which a particularly heavy legislative programme had been brought to a successful conclusion.

The Cabinet -

1. Congratulated the business managers on the successful completion of the legislative programme.

HOME AFFAIRS

Anniversary
of the
Anglo-Irish
Agreement

2. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the anniversary of the signing of the Anglo-Irish Agreement fell on 15 November. A number of unionist protest rallies were being organised to mark the event. One event that had some disturbing overtones was a "service of dedication" in the Ulster Hall which was being organised under the auspices of the Free Presbyterian Church in which the Democratic Unionist Party leadership were predominant. The meeting, which would be addressed by Mr Paisley, was being organised with great secrecy, and official unionists were being excluded from attending. As far as wider action was concerned, it was not thought that strikes were being planned although there would undoubtedly be sporadic attempts to set up road blocks and take other disruptive action. Positive steps would be taken to counter this and the Royal Ulster Constabulary were prepared to move in speedily.

Teachers' Pay,
Duties and
Conditions of
Services

Previous
Reference:
CC(86) 35.5

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that union attitudes towards the Government's offer on teachers' pay were now crystallising. The National Union of School Masters/Union of Women Teachers had made it clear that their demand was for a 50 per cent increase in pay; that would be widely seen as unreasonable and could only assist the Government in the presentation of their case. The National Association of Head Teachers had indicated general support for the offer, although at a meeting with him later that day they would no doubt wish to discuss further some points of detail. The Professional Association of Teachers were likely to indicate support for the offer. The other main unions had rejected it. The Conservative members of the management panel of the Burnham Committee were insisting that the Government offer should be brought into consideration at the forthcoming meeting of the Committee in Nottingham. This was likely to be resisted by Labour members and the main unions. It was too early to predict how this conflict would end, although the Conservative members had threatened to walk out if the offer was not considered. In the meantime he was making every effort to put across the terms of the Government offer to the teachers themselves. He had written to all headteachers asking them to draw the letter to the attention of their staff, and all national newspapers that morning carried full page advertisements explaining the terms of the Government offer in some detail.

THE SECRETARY OF STATE FOR SCOTLAND said that in Scotland the union reaction had concentrated on the phasing of the proposed increase, to which they were hostile; public reaction had been more favourable. The key event now was the ballot of all teachers in Scotland, the results of which were expected in about two weeks' time.

Acquired Immune Deficiency Syndrome (AIDS)

THE PRIME MINISTER informed the Cabinet that a Sub-Committee of the Home and Social Affairs Committee had been set up, under the chairmanship of the Lord President of the Council, to consider and co-ordinate proposals for measures to limit the spread of the AIDS virus in the United Kingdom and to deal with its effects. Although the question of AIDS was now being given very extensive coverage by the media, much more would need to be done to make the public aware of the full extent of the problem.

Rate Support Grant

Previous Reference: CC(86) 14.1

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that a difficult situation was developing with a number of Government supporters in the House of Commons who represented areas that did not do well under the rate support grant settlement that he proposed to make for 1987-88. It was too early yet to assess how far these members might carry their protest, but anything that made difficulties for the passage of the Bill that would be needed in the forthcoming Session to abolish local government grant recycling would clearly be a very serious matter. Under the formula embedded in the Local Government Planning and Land Act 1980 it was inevitable that grant was diverted from the higher resource areas to the poorer ones and no amount of ingenuity could prevent that effect, which was disproportionately suffered by local authority areas represented by Government supporters. Overspending was also a factor in the situation: if authorities spent responsibly there should generally be no need for high rate increases. Where local authorities committed themselves to large wage increases the Government should not subsidise them. He was seeing every Government supporter in the House of Commons whose constituency was significantly affected, and was explaining to them the background that he had described.

The Cabinet -

2. Took note.

FOREIGN AFFAIRS --- United States

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Republican Party in the United States had fared worse in the mid-term elections than had been expected: the Democrats would enjoy a majority of eight or ten seats in the Senate and had increased their representation in the House of Representatives. This was a substantial setback for the United States President, who had campaigned hard; and, although he had declared

his intention to continue with his present policies, his position would be weakened. It was likely that the United Kingdom and European Community would encounter greater difficulties over trade. On the other hand, the results might strengthen United States perceptions of European concerns over defence and arms control. The expected assumption of the chairmanship of the Senate Armed Services Committee by Senator Nunn, who was sensitive to the importance of the European link, would be helpful.

In discussion, it was noted that the Republicans had achieved a better result in the gubernatorial elections, where personalities might have counted for more. It was thought that agriculture had had an important effect on the election results.

Arms Control

Previous
Reference:
CC(86) 34.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that, while in Vienna earlier in the week for the opening of the review of the Conference on Security and Co-operation in Europe, he had met the United States Secretary of State, Mr Shultz, and the Soviet Foreign Minister, Mr Shevardnadze, as well as a number of his European Community counterparts. The Soviet Union were in confident mood, taking the line that the recent meeting at Reykjavik had resulted in agreement to all elements of their negotiating position and that the Strategic Defence Initiative (SDI) constituted the sole obstacle to an accord on nuclear arms control. They were also beginning once again to criticise the United Kingdom and France for not being prepared to participate in discussions about reductions in nuclear weapons.

The United States position remained unclear. The Administration refused to accept that insistence on the SDI remained an obstacle to progress. It was disconcerting that Mr Shultz had given imprecise answers when questioned about Administration thinking on nuclear arms reductions. His European counterparts were equally disturbed at the apparent United States failure to perceive the implications for deterrence of the elimination of strategic nuclear weapons, and were making separate representations to the United States Government.

In discussion it was noted that there were welcome signs that the United States Secretary of Defense, Mr Weinberger, shared British concerns about the proposal to eliminate ballistic missiles. He was hoping to be present when the Prime Minister met the United States President later that month. If so, he would be a useful ally.

Syria

Previous
Reference:
CC(86) 35.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had spoken to Mr Shultz and to his European Community counterparts about possible action against Syria in the wake of the recent conviction of Mr Nezar Hindawi (for attempting to sabotage an El Al flight from Heathrow Airport). He had also raised the question of Syrian and Libyan support for terrorism with Mr Shevardnadze. There were signs that, when

European Community Foreign Ministers met in London on 10 November, agreement would be reached on wider measures against Syria. The United States Government, while supportive, were anxious not to jeopardise their current attempts to secure the release of United States hostages in the Lebanon. They had not been forthcoming about the recent reports, which had not been officially denied, that they had been in contact with the Iranian Government. There were signs of a shift in United States policy towards the supply of arms to Iran, which now seemed to be linked more to Iran's ceasing to support terrorism than to the Gulf War. The French were being equally reticent about their reported contacts with Syria and Iran, designed to secure the release of their hostages in the Lebanon.

In discussion, it was noted that there had been no change in the United Kingdom's policy of refusing to supply arms to either Iraq or Iran which would enhance their offensive capability. It was noted also that the two British hostages believed still to be held in the Lebanon were in the hands of one of the more intractable groups.

Mozambique
Previous
Reference:
CC(86) 34.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Joaquim Chissano, previously the Foreign Minister, had been appointed President of Mozambique. This was probably the least bad outcome for the West.

Falkland
Islands
Fisheries
Previous
Reference:
CC(86) 35.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that Argentina was predictably mounting an extensive diplomatic campaign against the planned establishment of a fisheries conservation zone around the Falkland Islands; Argentina would pursue the matter at the meeting of the Organisation of American States the following week. He had raised the matter with Mr Shultz. Although the conservation arguments were generally understood, the United Kingdom's action had not been welcomed internationally. British diplomatic posts would continue to explain the reasons for the action, laying stress on the United Kingdom's preference for and efforts to achieve a multilateral fisheries arrangement in the South Atlantic.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Employment
Initiative

4. THE PAYMASTER GENERAL said that there was a concerted effort by the European Trade Union Confederation (ETUC), assisted by some of those responsible for social policy within the Commission, to derail the United Kingdom's initiative on creating the conditions for employment growth. This initiative had been put forward jointly by the United Kingdom, Italy and the Republic of Ireland, and at the informal meeting of Social Affairs Ministers in Edinburgh it had obtained the broad support of all member states. The Trades Union Congress and the ETUC, however, did not like the stress which was now being placed on deregulation, on facilitating small businesses and on other aspects of the new approach. At least some members of the Social Affairs Directorate of the European Commission were identified with trade union views on these matters; the President of the Commission, Monsieur Delors, however, was supportive of the new ideas. It was the United Kingdom Presidency's objective to keep the other member states on course and to seek to minimise the difficulties which the ETUC might raise in the period up to the European Council on 5-6 December and the Social Affairs Council later in December.

Fisheries

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at the Fisheries Council on 5 November agreement had been reached on a regulation providing better control over the operation of the common fisheries policy, including the closing of a fishery when the total allowable catch was exhausted and an increase in Commission inspectors' powers. He considered this a step forward which would be of value in checking over-fishing. There had been no discussion in the Council of the United Kingdom's decision to declare a fisheries conservation zone for the Falkland Islands, but in discussions in the margins of the Council there had been support for the British action.

Exports of
Lamb to
France

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that excessive French inspections of British lamb seemed now to have been stopped. He would maintain the pressure in order to ensure that the improved situation was maintained. Pressure from French sheep farmers might be reduced if there were a decision in Brussels that week to make an advance payment of premium. He was considering quite separately whether the United Kingdom should step up its inspections of imports of Golden Delicious apples.

Previous
Reference:
CC(86) 33.4

The Cabinet -

Took note.

PUBLIC
EXPENDITURE
SURVEY 1986

Previous
References:
CC(86) 28.7
and
CC(86) 32.2

5. The Cabinet considered a memorandum by the Lord President of the Council (C(86) 22) about the 1986 Public Expenditure Survey.

THE LORD PRESIDENT OF THE COUNCIL said that at their meeting on 17 July the Cabinet had agreed that the Chief Secretary, Treasury and spending Ministers, in carrying forward discussions of the 1986 Survey, should work within the published planning totals of £144 billion for 1987-88 and £149 billion for 1988-89, and within a newly set planning total of £153 billion for 1989-90. Settlements had been reached bilaterally between the Chief Secretary, Treasury and the responsible spending Ministers covering a considerable number of programmes, but there had remained eight programmes on which it had not proved possible for bilateral settlements to be reached. The Ministerial Group on Public Expenditure (MISC 130) which he had chaired had therefore been established to tackle these remaining programmes, which by definition were the most difficult ones, with the objectives of reaching settlements and reducing the amounts of the additions. Following some very difficult discussions, the Group had agreed settlements on all the outstanding programmes; but they had had less success in containing the additions to programmes. In practice they had had very little room for manoeuvre; the largest elements in the upward pressures for additions to programmes came from local authority current spending, which was outside the Government's direct control, and from demand-led social security programmes, about which the Group could do practically nothing. Leaving aside previously agreed additions for demand-led social security expenditure, the Group had eliminated nearly half the additional bids on the programmes they had considered for 1987-88, about 70 per cent for 1988-89, and about 60 per cent for 1989-90. It had not been an easy task, and spending Ministers had been pressed to the limit of what was politically sustainable. The difficulties of containing additional bids had increased in each successive Survey, and future years would be no easier. He was grateful to his colleagues on the Group for the work they had done, and to the spending Ministers concerned for their goodwill and forbearance. He commended to the Cabinet the settlements reached by the Group, and those previously concluded bilaterally by the Chief Secretary, Treasury.

THE CHIEF SECRETARY, TREASURY expressed his gratitude to the Lord President of the Council and the other members of the Group for the help they had given, and to his colleagues responsible for spending programmes for the substantial reductions they had accepted in their additional bids. He endorsed the Lord President of the Council's comments about the difficulties presented by local authority expenditure and the social security programme. Difficulties in these areas were also affecting expenditure in the current year; he now expected a planning total outturn of £140.4 billion, as against the published planning total of £139.1 billion. He had had to accept additions of £5.8 billion to programmes, as against the available Reserve of £4.5 billion; the main factors were local authority current expenditure (an excess of £2.8 billion, or 9 per cent), local authority capital (£0.5 billion) and social security (£1.5 billion). Colleagues should do their utmost to avoid any further claims on the Reserve, which was already far

overspent; indeed, all possibilities for savings should be energetically pursued, whether or not there was any question of the programmes concerned of further claims on the Reserve.

THE CHANCELLOR OF THE EXCHEQUER said that the outcome of the Survey represented a serious problem for the Government, not least in the financial markets. He was grateful to the Lord President of the Council and the other members of MISC 130, and agreed that the settlements they had reached were at the limits of political feasibility. But there was no escaping the fact that the additions to programmes exceeded the available Reserves in all three Survey years. Moreover it was essential to reconstitute credible Reserves which had to be added to the revised programme totals. The privatisation programme was going well, and it would be reasonable to assume a small increase in projected receipts in each Survey year from £4.75 billion to £5.0 billion. Given that the revised programme totals now incorporated realistic provision for local authority current expenditure, and an adequate allowance for demand-led expenditure on social security benefits, rather lower Reserve figures could be contemplated than were shown in the 1986 White Paper; on this basis an appropriate allowance might be £3.5 billion for 1987-88, £5.5 billion for 1988-89 and £7.5 billion for 1989-90. This meant that the planning totals would need to be increased by £4.7 billion for 1987-88, £5.5 billion for 1988-89 and £8.3 billion for 1989-90.

Great care would be needed in presenting these increases in the planning totals, and in rebutting accusations of pre-Election laxity. He would make clear that realistic figures had been included for programmes which the Government were not in a position to control; that continuing restraint had been shown on other programmes, and where there were increases these represented a deliberate recognition of priorities; that public expenditure would continue its steady fall since 1982-83 as a proportion of Gross Domestic Product (GDP); and that there would be no relaxation in the Government's fiscal stance as set out in the Medium Term Financial Strategy: additional spending would have to be fully covered by additional tax receipts. Inevitably this would have implications for the changes in taxation to be made in the 1987 Budget, but it was too soon to assess the size of any fiscal adjustment. The credibility of the Government's position on borrowing would be strengthened by economic developments during the current year; although the public expenditure outturn would be higher than projected in the 1986 Budget, increases in revenues (mainly Value Added Tax and Corporation Tax, offset by some reductions in oil revenues) should be sufficient to offset both the expenditure increase and also the early repayment of £300 million of Advance Petroleum Revenue Tax (APRT) during the current year, so confirming the £7 billion forecast for the Public Sector Borrowing Requirement made at the time of the 1986 Budget. In addition to the earlier repayment of APRT, which would be of particular help to smaller independent British oil companies and which would require a short Bill to be introduced early in the new session, the Autumn Statement would confirm national insurance contribution rates at their present levels for 1987-88 and adjust the lower and upper income limits in line with inflation.

More generally, the wider economic outlook was reasonably encouraging. Although growth during the current year would be a little slower than forecast at the time of the Budget, the Autumn Statement would show 3 per cent growth of the GDP in 1987, with manufacturing production, non-oil exports and investment all going ahead at a reasonable rate alongside continuing strong growth of consumers' expenditure (growth during 1986 was particularly heavily dependent on consumers' expenditure). Exports should over time respond to the fall in the exchange rate in recent months, but in the short term, before these effects worked through, the immediate impact of the exchange rate movement would be a deterioration in the trade balance. A current account deficit of £1.5 billion was thus forecast for 1987, as against a position of broad balance during the current year. Despite the fall in the exchange rate, however, only a small upward movement in inflation was in prospect, to about 3.75 per cent in the fourth quarter of 1987. In accordance with established practice, no forecast would be given of unemployment; but the measures taken by the Department of Employment, together with the acceleration in economic growth, offered the prospect of some downward movement.

In discussion the following main points were made -

- a. The behaviour of local authorities was a continuing problem. Two-thirds of their current expenditure was on pay, and of that expenditure two-thirds was on employees other than teachers, where local authorities had shown themselves all too ready to concede unjustified large increases, particularly to manual workers. Although they complained about increases in rates, or in fees and charges, they were unwilling to accept the need for effective financial discipline; their response to financial pressures was to demand more assistance from central Government rather than put their own house in order. None the less, given the Government's recognition of the need to give higher priority to education and housing, which were the responsibility of local authorities, care would need to be taken in criticising their activities.
- b. In those areas where the Government exerted the primary authority, priority had been given to expenditure on health, housing, roads and law and order programmes. Expenditure on housing would be sustained by the recent large increase in the flow of receipts from sales of local authority houses, new town assets and other properties.
- c. The factors behind the rising trend of public expenditure would produce continuing problems in future years. Where programmes (eg the Department of Trade and Industry) could readily cut back, this had already been achieved in the course of recent Surveys. If significant reductions were to be made in future, these would need to be concentrated on the main social security, health, defence and housing programmes, where the largest amounts of money were at stake.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet thanked the Lord President of the Council and the other members of MISC 130 most warmly for their work. The 1986 Survey had been difficult for all Ministers concerned. The Cabinet approved the settlements of all the individual programmes, both those concluded bilaterally with the Chief Secretary, Treasury and those arrived at in the course of the work of MISC 130. They recognised that much of the difficulty faced by the Government resulted from local authority current expenditure, over which they had no direct control, and from demand-led social security programmes. Where the Government were in a position to make clear policy choices, the settlements had been tough, and such increases as had been agreed were carefully directed towards specific purposes to which the Government attached priority. The Cabinet also accepted the need to reconstitute the Reserves for each of the Survey years, and therefore agreed the additions to the planning totals proposed by the Chancellor of the Exchequer: the programme figures were realistic, particularly bearing in mind the pressures arising on the local authority current expenditure and social security programmes; for the rest; and the Government's decisions were responsible and carefully costed, and directed towards clearly identified priorities. The Cabinet agreed that the Chancellor of the Exchequer should make his Autumn Statement that afternoon, covering the results of the Survey, the forecast for 1987 and the limited fiscal measures he had outlined. The printed version of the Statement, together with the appropriate supporting material, would be published when Parliament resumed on 12 November; meanwhile press notices would be issued that afternoon by the responsible Departments setting out the main elements in their programmes over the three Survey years. In order to ensure consistency of presentation, the Chancellor of the Exchequer should circulate the text of his Statement to Cabinet colleagues in time for them to draw on it in presenting their own programmes that afternoon.

The Cabinet -

1. Endorsed the Prime Minister's expression of thanks to the Lord President of the Council and the other members of the Ministerial Group on Public Expenditure.
2. Approved the settlements of the individual programmes as set out in paragraphs 8 to 16 of C(86) 22 and in Annex B to that paper.
3. Agreed the revised planning totals of £148.6 billion for 1987-88, £154.2 billion for 1988-89 and £161.5 billion for 1989-90, as proposed by the Chancellor of the Exchequer.
4. Agreed that the results of the Survey, together with the economic forecast for 1987, should be announced to Parliament in the Chancellor of the Exchequer's Autumn Statement that afternoon, the printed text of which, together with appropriate supporting material, would be published on 12 November.

Cabinet Office

6 November 1986