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CC(86) 41st
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held in the Prime Minister's Room, House of Commons
THURSDAY 11 DECEMBER 1986
at 10.15 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 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 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 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 FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

The Rt Hon Baroness Young
Minister of State,
Foreign and Commonwealth Office

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SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 3 and 4)
Mr C L G Mallaby (Items 3 and 4)
Mr A J Langdon (Items 1 and 2)
Mr M J Eland (Items 1 and 2)

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PARLIAMENTARY
AFFAIRS

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

Teachers' Pay, Duties and Conditions of Service
Previous Reference:
CC(86) 40.2

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE, said that consideration of the remaining stages of the Teachers' Pay and Conditions Bill had begun in the House of Commons on the previous day. The House had sat throughout the night and was likely to complete its consideration later that day. In the meantime the process of unions consulting their membership continued. The consultation exercise mounted by the Assistant Masters' and Mistresses' Association should be completed that weekend, and that mounted by the National Union of Teachers should be completed in the following week. The other two unions which had initially associated themselves with the package agreed between employers and unions - the Secondary Heads Association and the Professional Association of Teachers (PAT) - had now announced that, following consultation, they intended to seek variations in its terms. It was believed that the revised terms to be sought by the PAT would be very close to those put forward by the Government. There had been some speculation in the media that a meeting of the Burnham Committee would be convened for early January. It therefore remained important to secure Royal Assent to the Teachers' Pay and Conditions Bill at the earliest opportunity.

THE SECRETARY OF STATE FOR SCOTLAND said that the prospect that he too might take powers in legislation to impose a settlement had had a beneficial impact on the discussions with the Scottish teachers' unions. The unions had now accepted that any settlement must fall within the total amount of his offer, and good progress was now being made in discussions on pay structure and conditions of service. A further meeting of the negotiating committee was to take place on the following day and he would report further to colleagues in the following week.

The Cabinet -

Took note.

HOME AFFAIRS

The Solvency of Local Authorities

2. THE SECRETARY OF STATE FOR THE ENVIRONMENT, reporting on recent developments on local government finance, said that two or three dozen local authorities had borrowed very significant amounts of money through various "creative accounting" devices designed to avoid the financial disciplines that the Government had imposed, and the servicing of these debts would undoubtedly be a problem for the future. In the short term, acute difficulties could be predicted with a handful of local authorities, mostly in London, which were controlled by the Labour Party and which appeared set on course to spend at a higher level than they could, or were prepared to, finance. In total, the extent of this unfunded spending could be several hundred million pounds.

These problems might become unmanageable in about the spring of 1987, when Hackney might be the first council to run out of money. The Audit Commission were preparing a report on these matters. He intended to refrain from comment until the report was formally published in the New Year, but as soon as the report was published the Government would need to be seen to respond very quickly.

THE PRIME MINISTER, summing up a short discussion, said that the matters reported by the Secretary of State for the Environment were of the greatest importance, and he should submit a paper on them to an appropriate Cabinet Committee soon after Parliament resumed in January.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion, and invited the Secretary of State for the Environment to bring forward a paper on the lines indicated in the Prime Minister's summing up.

The Attorney General v Heinemann Australia and Wright

THE PRIME MINISTER, on behalf of the Cabinet, welcomed the Secretary of the Cabinet on his return from Sydney, New South Wales. The Cabinet's thanks to him should be recorded for the admirable way in which he had given evidence in the Government's action against the publication of a book by a retired Security Service officer, Mr Peter Wright. Press accounts of the trial had been much distorted.

Previous Reference: CC(86) 40.1

THE ATTORNEY GENERAL said that the process of taking evidence in the case had now been completed, and Counsel would make their final submissions to the Court in the following week. Judgment would be reserved; it was understood that the Judge hoped to deliver a judgment before Christmas but this timetable could prove unrealistic. If the judgment went against the Crown, he would then advise those colleagues most concerned on whether an Appeal should be lodged and about the grounds on which such an Appeal might be based.

Flotation of British Gas

THE SECRETARY OF STATE FOR ENERGY said that it appeared that the flotation of British Gas had attracted some two million new investors who were buying shares for the first time, and was thus a notable success for the Government's policy of encouraging wider share ownership.

Previous Reference: CC(86) 40.2

In a short discussion it was noted that the programme on the flotation in the Granada Television series "World in Action" had contained a particularly tendentious account of the Government's privatisation policy and that this bias had been the subject of adverse comment in the press.

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The Cabinet -

2. Took note.

FOREIGN
AFFAIRS

France

Previous
Reference:
CC(86) 31.1

3 THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (BARONESS YOUNG) said that the Prime Minister of France, Monsieur Jacques Chirac, was in difficulties following demonstrations by students against the Government's education bill, which had been withdrawn. Monsieur Chirac's position had been weakened in relation to that of the President, Monsieur François Mitterand, who had not been helpful to the Government during the recent events. Monsieur Mitterand had spoken of the possibility of pardoning an Arab terrorist gaoled in France if all French hostages held in Lebanon were released, though not in an explicit bargain. Such remarks were not helpful to other Governments which took a firm stand against pressure from terrorists.

South
Africa

Previous
Reference:
CC(86) 39.2

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that further sweeping controls on reporting in the media in South Africa were likely to be announced that day. A new definition of subversive activity was likely to be introduced. The South African Government was likely to show greater readiness to take action against foreign journalists. These measures were part of a general tightening up by the Government.

In discussion, it was noted that the Minister of Home Affairs of South Africa, Mr Stoffel Botha, had spoken against the ideas for power-sharing arrangements which had been worked out among the various races in Natal and Kwazulu with the discreet backing of Chief Buthelezi. The South African Government was, however, saying that Mr Stoffel Botha had spoken in his capacity as the leader of the Nationalist Party in Natal, and that the Government had not yet taken any position about the ideas for power-sharing. A general election might take place in South Africa in April 1987 and it was unlikely in the meantime that the situation would improve or that the Government would contemplate any kind of reform.

The Cabinet -

Took note.

Hong Kong

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that the funeral of the late Governor of Hong Kong, Sir Edward Youde, on 9 December had been a very moving occasion. Large numbers of people had signed the books of condolence and had lined the streets for the funeral. This display of sadness and emotion was uncharacteristic for

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the people of Hong Kong and demonstrated that Sir Edward had been seen as a great and well-loved Governor. The Minister of State, Foreign and Commonwealth Office, Mr Timothy Renton, had represented the Government at the funeral. The question of a successor to Sir Edward Youde was under urgent consideration.

The Cabinet formally recorded their great appreciation of the remarkable contribution of Sir Edward Youde to Hong Kong, especially during the negotiations with China leading to the agreement on Hong Kong, and invited the Secretary of the Cabinet to convey their condolences to Lady Youde.

COMMUNITY
AFFAIRS

European
Council

Previous
Reference:
CC(86) 40.4

4. THE PRIME MINISTER said that the European Council in London on 5-6 December had been very successful. It had concentrated on practical problems in relation to business and jobs and measures against terrorism, illegal immigration and drug abuse, as well as an agreement to exchange information on ways of checking the spread of Acquired Immune Deficiency Syndrome (AIDS). The European Council had benefited from the good work undertaken by the United Kingdom Presidency in the specialist Councils, for example on progress towards the internal market on which 32 new measures had already been adopted during the Presidency. The United Kingdom had decided for good reasons that it would not be worthwhile to have a fundamental discussion of future financing at this European council. the Commission had not yet put forward its report, although the President of the Commission, Monsieur Delors, advanced some ideas on 5 December and indicated that the financial situation of the Community was very serious. Furthermore, the text agreed at the Fontainebleau European Council did not make a reference to any change in the Community's own resources before 1 January 1988; and that reference was in any event an option, not a commitment.

In the European Council on 5-6 December there had been disagreement on three points:

- a. Some member states had tried to strengthen references to the cohesion of the Community because they considered that this ought to be achieved by direct transfers of resources to poorer countries. The United Kingdom and some other member states, on the other hand, considered that the main method of achieving greater cohesion was by convergence of policies in the member states.
- b. It had not been possible to get a stronger reference to lower air fares because of the opposition of some member states, in particular Spain. It was nonetheless true that half the member states were now broadly in line with United Kingdom views on this point.
- c. The Federal German Chancellor had opposed for electoral reasons a more robust reference to the need for action on agriculture and, in particular, on milk and beef.

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On 7 December she had reported on the United Kingdom Presidency and the European Council to the European Parliament in Strasbourg. It was regrettable that Monsieur Delors had taken a different line in the European Parliament from that which he had taken in the European Council. After explaining to the Heads of Government in London the real financial difficulties of the Community, he had called in Strasbourg for substantively higher expenditure. This tended to undermine confidence in the institutions of the Community.

In discussion it was said that the United Kingdom abatement was now firmly entrenched in the Own Resources Decision. A supplementary budget in 1987 provided that it left expenditure within the own resources ceiling, was not inconceivable. We should not, however, indicate that we could accept in 1987 financing outside the Community budget by an intergovernmental agreement. The full United Kingdom abatement, however, might be received later if the option were totally closed.

Community
Budget for
1987

Previous
Reference:
CC(86) 39.3

THE CHANCELLOR OF THE EXCHEQUER said that the meeting between the Council and the European Parliament on the Community's draft budget for 1987 had reached no agreement. The European Parliament wanted an increase in the maximum rate for non-obligatory expenditure, but the Council had refused to concede this. The European Parliament was now voting on its possible amendments. If these amendments gave rise to figures exceeding the maximum rate for non-obligatory expenditure agreed by the Council, it was unlikely that the President of the European Parliament would sign the budget. In that event there would be no 1987 budget and Community expenditure in 1987 would be determined by the arrangements known as provisional twelfths relating generally to the level of expenditure in 1986.

Economic and
Finance
Council:
Subsidies on
Greek Cement

THE CHANCELLOR OF THE EXCHEQUER said that the Economic and Finance Council had agreed on 8 December on a measure on standardised presentation of accounts of banks. This would contribute towards the completion of the internal market. The Council had also agreed that the second part of a loan for Greece should be released by the Commission under tight conditions. These included a commitment by Greece first to reduce and then to abolish by 1 April 1987 its import deposit scheme and to reduce export subsidies at the beginning of 1987 and to phase them out thereafter. He had also ensured that the quantity of Greek cement for the British market would be held down to a low level.

In discussion it was argued that there was strong reasons why the Greek export subsidy on cement should be eliminated altogether at the end of this year. Information on the measures now being taken should be made available to the Prime Minister and other colleagues concerned.

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Research and
Development

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the Research Council on 9-10 December had failed to reach agreement on the multi-annual framework programme for Community research and development. It was expected to meet again on 22 December. Discussion had concentrated on attempting to agree on the resources to be made available for a three year period. Since the Budget Council had decided on provision of about 1.05 billion ecu for 1987, it was to be expected that a three year programme of at least 3.15 billion ecu would be suggested. The Commission and some member states, however, were looking for a significant rate of increase each year. He doubted whether France and the Federal Republic of Germany, which had supported the United Kingdom's restrictive position on finance, would be prepared at a later Council to maintain the common line.

In discussion it was said that efforts should be made to keep the French and Germans committed to a programme of acceptable size. The United Kingdom's position on finance had been decided by the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Economic Affairs (E(A)) on 20 November.

Action
Against
Terrorism

THE HOME SECRETARY said that a meeting of European Ministers concerned with action against terrorism had now reached agreement on an analysis of the threat from terrorism, which covered specific countries and organisations. The Greeks had dissented. The agreement on a threat analysis was a useful sequel to the conclusions of the European Council. There had also been a useful meeting with the United States which had complemented the work going forward in Europe.

A Programme
for Jobs

THE SECRETARY OF STATE FOR EMPLOYMENT said that the broad endorsement of the programme for jobs by the European Council was welcome. Opposition was coming only from some parts of the Commission and certain trade union interests in the Community. He was hopeful that the programme for jobs and the proposals relating to small business would be agreed in the specialist Councils.

The Cabinet -

1. Took note.
2. Invited the Secretary of State for Trade and Industry, in consultation with the Chancellor of the Exchequer, to report to the Prime Minister on the agreement reached with the Greek Government on imports of cement.

Cabinet Office

11 December 1986

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SUBJECT

MOST CONFIDENTIAL RECORD

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MOST CONFIDENTIAL RECORD
TO
CC(86) 41st Conclusions

LOCAL
GOVERNMENT
FINANCE
LEGISLATION

THE LORD PRESIDENT OF THE COUNCIL said that urgent legislation was required to rectify a flaw in the interpretation of local authorities' total expenditure under the Local Government, Planning and Land Act, 1980. Total expenditure formed the basis for the distribution of block grant to local authorities, and played a key role in the rate and precept limitation process, and all these mechanisms were at a standstill until the matter was resolved. Although the Government's interpretation of total expenditure had been adopted at the request of the local authority associations in 1980, the Attorney General had now advised that it was wrong in law. Operating on a strict interpretation of the statutory language was not a realistic option. There was, therefore, no alternative but to validate the Government's existing interpretation, both retrospectively and prospectively, by a Bill that would need to be enacted as quickly as possible. The preparation of this measure had proved to be more complex than had been expected and it was now clear that, if it did no more than validate the point at issue, the sequence of Orders and consultative periods on rate and precept limitation would extend through May, and even to June. He had therefore agreed with the Secretary of State for the Environment and other Ministers most closely concerned, including the Lord Privy Seal and the Chief Whip, that there was no realistic alternative but to enact rate limitation and precept limitation on the face of the Bill, by reference to classes of authorities, in order to avoid problems of hybridity. The Bill would need to be introduced in the following week, and taken to Royal Assent by Easter. Its Parliamentary passage could be difficult, and the Government would doubtless be accused of muddle. But there was no alternative.

THE SECRETARY OF STATE FOR THE ENVIRONMENT agreed with the Lord President's statement of the problem. The interpretation of total expenditure that the Government had adopted was, in fact, less effective as a matter of financial discipline than would be a strict interpretation of the 1980 Act, but he agreed there was no alternative but to validate the interpretation that had been used in practice. The legislation would have to be introduced urgently, not only to secure Royal Assent in time to bear on the next financial year, but because the point at issue would be exposed in a case brought against his Department by Greenwich Council, which was being heard the following Wednesday. The essential point to stress throughout the presentation of this legislation would be that it did no more than validate the law as it had generally been supposed to be, and did not in any way represent a substantive new policy initiative.

THE PRIME MINISTER, summing up a short discussion, said that the need for the legislation described by the Lord President of the Council was manifest, and that it was essential that it should not itself contain any flaws. The Secretary of State for the Environment might wish to



arrange for it to be seen in draft by leading Counsel. The necessity of the Bill, in order to validate the law as hitherto understood, should be emphasised at all stages of its Parliamentary passage. The Cabinet noted that the Secretary of State for the Environment did not intend to make a Statement about the Rate Support Grant (RSG) settlement for England for 1987-88 until January, after a reasonable consultation period on his latest proposals, though the Secretary of State for Wales had not put proposals out to consultation and was therefore under some pressure to make a Statement soon. The Secretary of State for Wales should consult the Lord Privy Seal and the Chief Whip about the timing and handling of a Statement on the RSG settlement for Wales: it was unlikely that this could be finalised until the Secretary of State for the Environment had made his Statement on the need for validating legislation, and the Parliamentary response to that had been assessed.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion.
2. Invited the Secretary of State for the Environment to make a Statement in the following week about the need for legislation to validate the existing practice on the existing practice on the interpretation of local authorities' total expenditure, and to bring forward a Bill as described by the Lord President of the Council for introduction as soon as possible.
3. Invited the Secretary of State for Wales to discuss with the Lord Privy Seal and the Chief Whip the timing of a Statement on the Rate Support Grant settlement for Wales for 1987-88.

Cabinet Office

12 December 1986