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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 26 JANUARY 1989

at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

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 Lord Mackay of Clashfern
Lord Chancellor

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Wales

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

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 Trade and Industry

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

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Moore MP
Secretary of State for Social Security

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

The Rt Hon Antony Newton MP
Chancellor of the Duchy of Lancaster

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

The Rt Hon Peter Brooke MP
Paymaster General

SECRETARIAT

Sir Robin Butler
Mr R T J Wilson (Item 5)
Mr R G Lavelle (Items 3 and 4)
Mr P J Weston (Items 3 and 4)
Mr A J Langdon (Items 1 and 2)
Mr G Monger (Item 5)
Mr S S Mundy (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.

Personal
Communication
Networks

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he would be making a statement in the House of Lords later that day about three developments in the field of personal communication networks. The growth in the ownership of cellular telephones had vastly exceeded expectations, with around 520,000 already in circulation compared with the projection which had been made in 1985 of 100,000 sets by 1990. He would be announcing that 400 additional channels would be made available, over an area bounded by the M25 motorway, to the two existing cellular radio-telephone operators, Cellnet and Racal-Vodafone. Those channels had previously been reserved for use by the Ministry of Defence, and he was most grateful to the Defence Secretary for agreeing to release them. He had also decided to award four licences to run telepoint systems, and he would be announcing in his statement the names of the successful companies. Telepoint, which was a British development and represented the next generation of portable telephones, would allow subscribers to make outgoing telephone calls from locations near telepoint base stations, using their own portable digital cordless handsets. The United Kingdom had the opportunity to become the world leader in the manufacture of this equipment, for which there was great export potential, and he estimated that within two years there could be around one million sets in use in the United Kingdom. Telepoint base stations, which were around the size of a shoe-box and had short aerials, would not be environmentally damaging. He expected that initially they would be concentrated in the South East and would mainly be sited in high streets, railway stations and shopping centres, and that they would spread gradually to other areas. He would also be announcing the publication of a discussion document which would propose the licensing of at least two new public mobile telecommunications operators in the early 1990s, to operate on new networks based on digital personal communicators.

The Cabinet -

Took note.

HOME AFFAIRS

Toyota

2. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the Japanese firm Toyota had been examining the possibility of setting up a car plant in Europe which would initially have the capacity to manufacture 200,000 cars per annum. The United Kingdom was their preferred location because the conditions for establishing an industrial plant were better than in any other European country. They would not seek any Government financial assistance, but merely general Government approval. Toyota were collaborating with the French firm Renault in a joint venture to manufacture engines and would also be

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considering whether the plant for this should be based in the United Kingdom. Toyota had no doubt been influenced by the Government's policy of encouraging Japanese inward investment and of seeking to ensure that the products could circulate freely within Europe.

In discussion, the point was made that until recently the Government had been primarily concerned to channel new industrial plants towards areas of high unemployment, but a major consideration now was the availability of adequate land for housing. The point was also made that Nissan were being forced to bus skilled workers from the West Midlands to the North East: there was a large number of Employment Training Scheme places available in the North East, many of which had been taken up, and in time the pool of skilled workers living in the North East would increase.

THE PRIME MINISTER, summing up the discussion, said that it would be very welcome if the planned investment by Toyota were located in the United Kingdom. It was all the more necessary to resolve the problem caused by France's counting of cars produced by Japanese companies based in the United Kingdom against the quota for cars imported from Japan.

The Cabinet -

Took note.

FOREIGN
AFFAIRS

Report to
Thames
Television on
"Death on the
Rock"

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the report prepared by Lord Windlesham for Thames Television following criticism of their 1988 television programme "Death on the Rock" was to be published that afternoon. The report virtually exonerated the makers of the programme and claimed that the jury at the inquest on the deaths of the three Irish terrorists killed in Gibraltar in March 1988 by members of the security forces were sufficiently robust when faced with court evidence to be able to ignore any extraneous influence from the showing of the television programme. By abjuring hindsight the report had condoned factual inaccuracies in the programme or had acknowledged them as occasional lapses in a very benign manner. The report was due to be debated that evening on Thames Television's programme "This Week". There would be a panel discussion between Lord Thomson and Mr Roger Bolton on the one hand and Mr Michael Mates MP and the editor of the Sunday Times, Mr Andrew Neill, on the other. The central failing of Lord Windlesham's report was the contention that unlawful killing was only one possible interpretation of the "facts" as presented by the television programme, whereas the actual thrust of the programme had been altogether more categorical in that sense.

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In discussion, the following points were made:

a. Lord Windlesham's report was a disgraceful whitewash. One of the worst things about it was that even where an acknowledgement that there had been something wrong with the television programme was unavoidable the report had put an exculpatory gloss on matters, describing such instances as no more than small lapses.

b. The bias of Lord Windlesham's report was hardly surprising given that Thames Television had appointed the Chairman of another television company to preside over the inquiry. In that sense it was a media-based and not an independent inquiry.

c. If the Government was to take detailed issue with the report it would be important to concentrate on the errors of fact in the programme rather than matters of opinion. But it would be important not to be drawn into debating again matters settled by the inquest. Although therefore the statements prepared by the Foreign and Commonwealth Office and the Ministry of Defence should be issued, the best line for Ministers to take was that issues relating to the shootings had been properly settled in a court of law.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that Lord Windlesham's report was a whitewash. In any comment that she herself was required to make she would stand by the position that the definitive judgement on the shootings in Gibraltar had been given by a jury at the coroner's inquest who had returned a verdict of lawful killing. In any other comments, it would be important to concentrate on errors and inaccuracies of fact whether in the original television programme or in Lord Windlesham's report itself, without being drawn into re-opening debate on matters settled by the inquest.

Earthquake
in the Soviet
Union

THE FOREIGN AND COMMONWEALTH SECRETARY said that the earthquake earlier that week in Soviet Tadzhikistan had been another tragedy, coming up so soon on the heels of the earlier earthquake in Soviet Armenia. According to latest information from a member of the British Embassy in Moscow who had been to the area and attended a press conference given by the Chairman of the Tazhik Council of Ministers, casualties had now reached 274 and were expected to be below the much higher estimates originally given. The local authorities claimed to have plenty of relief workers available on the spot. Strong expressions of sympathy had been sent by Her Majesty The Queen and by the Government.

Elections in
the Soviet
Union

THE FOREIGN AND COMMONWEALTH SECRETARY said that elections would be held in the Soviet Union on 26 March for the new style Supreme Soviet. Although not full blooded free elections in the sense understood in

Western democracies, they were the first to have provided some genuine opportunity for electoral activity for a very long time in Soviet history. Their approach was providing the opportunity for some opposition to President Gorbachev to surface. He was likely to come under criticism from various quarters and could therefore face a difficult time over the coming weeks.

East German
and Soviet
Defence Cuts

THE FOREIGN AND COMMONWEALTH SECRETARY said that the East German Government had announced on 23 January some token cuts in military personnel and tanks as well as a reduction in defence expenditure. It was not yet clear what these would mean in real terms. As for the Soviet defence cuts announced by President Gorbachev and the Soviet Foreign Minister, Mr Eduard Shevardnadze, on 18 and 19 January, the net reductions in weapons would be very modest. The withdrawal of two dozen short range nuclear systems by the Soviet Union from Eastern Europe had to be seen against the background of deployment of some 1,400 such systems on the Warsaw Pact side compared with less than 90 for the North Atlantic Treaty Organisation.

New Admini-
stration in
the United
States

THE FOREIGN AND COMMONWEALTH SECRETARY said that the new American Administration under President George Bush had made a good start and the process of transition had been managed well. President Bush had made a good inaugural speech on 20 January, emphasising the need to deal with the United States budget deficit. President Bush had also made clear that he would consult with allies before any substantive moves by the new Administration in East-West relations. He had re-affirmed the special relationship between the United States and the United Kingdom. All this should be noted with satisfaction.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Imports of
Hormone
Treated Meat

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the main issue considered at the meeting of the Foreign Affairs Council on 23 January was whether a date should be fixed when Community counter-measures should come into effect against United States trade sanctions introduced following the Community's ban on hormone treated beef. Despite strong pressure from Italy, who was the member country hardest hit by the United States measures, it had proved possible to avoid setting a date for implementation of a counter retaliation list. It had been agreed that action should continue to resolve the dispute within the General Agreement on Tariffs and Trade.

Fraud

THE PRIME MINISTER said that she was greatly concerned about the extent of fraud in the Community revealed by investigations carried out by the Court of Auditors. Its report had indicated, for example, that no reliance could be placed on the published figures for the quantities and values of products held in intervention storage at the end of the financial year nor on the related expenditure in the year. There had been suggestions that the sums involved in fraud could amount to as much as 20 per cent of the total European Community budget, or £6 billion. The problem derived in part from the system of agricultural support itself which offered opportunities for malpractice. It appeared that the Commission were powerless to carry out adequate follow up action. If it were the case, as had been suggested, that in Italy fraudulent claims had been a source of finance for the mafia the issue was still more serious. There was little evidence that the Commission paid adequate attention to questions of value for money generally. The United Kingdom was a net contributor to the European Community budget to the extent of some £2 billion. It was wholly unacceptable that adequate steps were not being taken to confront these issues.

In the United Kingdom, effective action was needed to tackle fraudulent practices at the Irish land boundary. More generally it was for consideration whether the lack of concern with value for money within the Community was an issue which should be raised at the next European Council.

In discussion it was noted that precise figures could not be put on the extent of fraud in the operation of the common agricultural policy. The issue had been brought to attention by the Court of Audit as a result of the influence brought to bear by the United Kingdom member. The Paymaster General had held talks with the Commission's Anti-Fraud Unit and the increased attention now being given to the problem within the Commission was to a large extent associated with continuing United Kingdom pressure. One of the underlying problems was to get member states to take effective action. The possibility of fraudulent practices arose whenever substantial financial support transaction took place. But it would also be of great importance to strengthen the position of the Commission's Anti-Fraud Unit.

Summing up the discussion, the Prime Minister said that the degree of waste in the Community as a result of fraud and lack of concern for value for money was unacceptable. The United Kingdom would need to take vigorous action to stimulate the Commission itself and member countries to take effective action. This might be a suitable subject for an initiative by the United Kingdom at the next European Council.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

WHITE PAPER
ON THE
REFORM OF
THE NATIONAL
HEALTH
SERVICE

5. The Cabinet considered a draft White Paper on the reform of the National Health Service (NHS), circulated under cover of a memorandum by the Secretary of State for Health (E(A)(89) 2).

THE PRIME MINISTER said that the central theme of the White Paper was the need to provide a better service for patients. It emphasised the need to devolve as much responsibility as possible within the NHS down the line to those who provided the service to the patient. Important reforms which it proposed included the establishment of self-governing hospitals within the NHS; budgets for some General Practitioner (GP) practices for a defined range of services; tax relief for medical insurance premiums for the elderly; removing the political element from Health Authorities and making them more efficient and businesslike bodies, and the creation of an extra 100 consultant posts and reform of the terms of consultants' contracts. The package of reforms was consistent with the Government's general philosophy while retaining an NHS which was open to all, regardless of income, and financed mainly out of general taxation.

THE SECRETARY OF STATE FOR HEALTH said that devolution of decision-taking was a major theme of the White Paper. At the centre there would be a Management Executive with a Chief Executive with clearly defined responsibilities for management matters, and with maximum devolution to Regions, from Regions to Districts and from Districts to operating units. The introduction of self-governing hospitals would be a major step towards devolving responsibility. These hospitals would be able to take their own management decisions, including the determination of the pay and conditions of their staff, and they would be free to borrow money subject to an overall financing limit. Their income would be derived from selling their services to Health Authorities, GPs and the private sector. Health Authorities would move away from direct provision of services themselves, and would be responsible for buying services, for example from self-governing hospitals, as they judged best to meet the needs of the population they served. A new and simpler method of allocating funds to the Authorities would be introduced, based on weighted capitation, with an extra 3 per cent for the Thames Regions to recognise the special problems of the capital. Larger GP practices would be able if they wished to hold their own budgets for a defined range of services, including in particular elective surgery. All these changes would help to ensure that in future money went with patients to those parts of the NHS best able to meet their needs.

The composition of the Health Authorities would be changed. They would be smaller bodies, with a balance of executive and non-executive members, and managerial in character with the removal of the political element in their membership. Family Practitioner Committees also would be reformed to remove the domination of representatives of the practitioners whose contracts they managed, and to give a greater weighting to consumer interests. The White Paper also proposed important reforms to increase value for money. There would be a system of medical audit throughout the service to monitor and raise medical standards. The Audit Commission would be given responsibility for

auditing the accounts of the NHS, and would undertake wide-ranging value for money studies. Separate chapters in the White Paper dealt with the application of its principles to the separate systems in Scotland, Wales and Northern Ireland.

These reforms would be controversial with many professionals, but should be welcomed to the public generally. The Government would be able to demonstrate that it was committed to maintaining and strengthening the NHS, and in particular that the main objective of its reforms was to improve the service for patients. As to presentation and timetable, the proposal was to publish the White Paper, with an oral statement to Parliament, on 31 January. A major exercise was being mounted to explain it to NHS staff to help produce an immediately favourable response. Following publication of the White Paper working papers would be published inviting comments not on the principle of the reforms but on how they could best be implemented in practice. Major legislation would be needed next Session to provide for many of the changes, for example the introduction of self-governing hospitals and the changes in the composition of Health Authorities. The benefit of some of the changes, directly affecting patients, should be felt quickly, and by 1991 most of the changes including the first self-governing hospitals, should be coming into effect.

In discussion the following main points were made:

- a. There was likely to be criticism of the proposals in the White Paper from some professionals in the NHS. Some of those who sympathised with the Government's objectives might be reluctant to provide support in public. Efforts should be made to encourage those who were likely to support the proposals - such as participants in last year's seminars - to speak out.
- b. It was also important that information about the Government's proposals should be available to the public at large quickly and in a readily comprehensible form. The Department of Health were planning a shorter version of the White Paper, which was mainly for NHS staff but would also be helpful to the general public; a shorter leaflet which would be generally available, for example at Post Office counters; and a video for NHS staff which should also be made available for the public.
- c. The proposal to increase the number of consultants by 100 would have a greater effect than that number might suggest on the problems of waiting lists and the working hours of junior doctors. This was because the additional posts would be concentrated in a few specialities, such as general surgery, general medicine and obstetrics, where these problems were greatest. Nevertheless, it would be a mistake to claim too much for this proposal.
- d. The replacement of the system of allocating funds was bound to be controversial. Local lobbies would try to work out whether their areas would be gainers or losers from the change, and

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there would be opposition from those areas which had had high expectations from the existing system. It would be important for the Government to avoid involvement in argument of this sort. They could say that detailed calculations for particular areas were misleading, since so much would have depended on the targets given priority under the existing system and on future decisions about public expenditure allocations.

The reference in paragraph 7.22 to taking reserve powers for the Government to control the number of GPs would attract criticism and it was questionable whether it was worth including it. On the other hand, the present system under which the number of GPs was not constrained by the demand for their services could not continue. In the last resort the Government needed reserve powers over the number, but it would be made clear in presenting the White Paper that these powers would be used only if absolutely necessary.

The Prime Minister, summing up the discussion said that the Cabinet endorsed the White Paper which the Secretary of State for Health had circulated. Subject to minor drafting changes, it should be published as proposed on 31 January.

The Cabinet -

Took note with approval of the Prime Minister's summing up of their discussion and invited the Secretary of State for Health to proceed accordingly.

Cabinet Office

26 January 1989

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