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CABINET

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

THURSDAY 18 FEBRUARY 1988

at 10.00 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
Chancellor of the Duchy of Lancaster

The Rt Hon John MacGregor MP
Minister of Agriculture, Fisheries
and Food

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 Services

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

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

The Rt Hon Richard Luce MP
Minister of State, Privy Council Office
(Item 2)

The Rt Hon Peter Brooke MP
Paymaster General

SECRETARIAT

Sir Robin Butler
Sir Christopher Mallaby (Items 4 and 5)
Mr R T J Wilson (Items 2 and 6)
Mr R G Lavelle (Items 4 and 5)
Mr A J Langdon (Items 1 and 3)
Mr G Monger (Items 2 and 6)
Mr S S Mundy (Items 1 and 3)

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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.

Local
Government
Bill:
Contract
Compliance

THE LORD PRIVY SEAL said that the Local Government Bill would complete its Report Stage in the House of Lords later that day. On the previous Tuesday an amendment had been carried by heavy cross-bench voting against the Government which sought to enable local authorities to ask questions of potential contractors about the way in which they discharged their obligations towards the disabled. This would give local authorities a loophole that they might exploit against the Bill's provisions requiring the contracting-out of services, and the Secretary of State for the Environment was therefore considering the best way to repair the damage without creating problems with the interest groups for the disabled. He understood that one possibility might be for the legislation to specify the questions concerning the disabled that it was permissible for local authorities to ask. Such an approach would be in line with the provisions concerning racial discrimination that were already in the Bill.

THE PRIME MINISTER, summing up a short discussion, said that the amendment would cause grave damage to the Government's policies on the contracting-out of local authority services, and there could be no question of allowing it to stand. The Secretary of State for the Environment should consider the best method of closing the loophole opened by the amendment and should circulate his proposals to his colleagues most closely concerned before the necessary Government amendment was tabled.

The Cabinet -

Invited the Secretary of State for the Environment to be guided by the Prime Minister's summing up of the discussion.

THE NEXT
STEPS

2. The Cabinet considered a Note by the Secretary of the Cabinet (C(88) 2): Improving Management in Government: The Next Steps.

THE PRIME MINISTER said that the Efficiency Unit had at her request carried out a scrutiny to review progress with the reform of management in Government Departments and to consider the way forward. Their report was attached to C(88) 2, and had been considered by a Group of Ministers. It was now proposed that the Government should accept the recommendations to set up agencies to carry out executive functions; to commit itself to a programme for implementing agencies progressively; to see that staff were trained and equipped effectively for the delivery of services; and to ensure that the centre of Government pressed steadily for those improvements. The general purpose of these changes was to

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give civil servants with executive work greater responsibility for the conduct of that work, with a consequent improvement in incentives and efficiency. It had originally been suggested that most of the Civil Service should be organised into agencies, but the proposal now was that the Government should start by setting up 12 covering over 71,000 civil servants. It was important that the establishment of these agencies should be rigorously negotiated with the Treasury, and that they should be given clear objectives. The unions would be consulted about the setting up of individual agencies. Finally, she proposed, subject to the agreement of Cabinet, to announce these decisions in a Parliamentary Statement that afternoon, and a draft of the Statement was attached to C(88) 2.

In discussion the following main points were made -

a. It would be said that the new system had important implications for Parliamentary accountability. This was indeed a sensitive area, and the decision not to go further at that time in setting up agencies had been taken partly to avoid adding to fears about Parliamentary accountability. On the other hand, direct contact between Members and the responsible officials already happened to some extent under the present system, in the case of the more executive Departments. It did not therefore represent an innovation. Moreover Permanent Secretaries would continue to be the accounting officers for the work of their Departments, including the agencies, although they would probably be accompanied by the head of the relevant agency when answering for its affairs to the Public Accounts Committee. Ministers would continue to be responsible for broader political decisions, as they always had been. It would be important in presentation to emphasise these elements of continuity and to show that no fundamental change had taken place in Parliamentary accountability.

b. The Group of Ministers considering the report had identified some risks, including the possible criticism about Parliamentary accountability, but had reached the conclusion that the potential advantages in improving management and efficiency outweighed the risks. It was however important to make it clear that the only recommendations and views to which the Government was committed were those in the draft Statement. It was important too that the procedures set out in Annex B of C(88) 2 should be followed, to ensure adequate control over public expenditure, and especially public sector pay.

c. Some of the recent press reports suggested that there was a danger of overselling the changes and the benefits to be derived from them. This danger should be avoided. On the other hand, there was a risk that unless the Government gave a strong impetus to the reforms they would lack the necessary momentum for their successful implementation.

d. The emphasis the report put on the importance of management skills in the Civil Service was fully justified. It was possible that not enough weight had been given to them in career development and senior appointments.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed the proposals in C(88) 2 and the draft of the Statement she was to make later that day.

The Cabinet -

1. Endorsed the proposals in C(88) 2.
2. Noted that the Prime Minister would make a Statement in Parliament later that day on the lines indicated in C(88) 2.

HOME
AFFAIRS

Industrial
Action in
the Coal
Industry

Previous
Reference:
CC(88) 5.2

3. THE SECRETARY OF STATE FOR ENERGY said that the National Association of Colliery Overmen, Deputies and Shotfirers (NACODS) had continued their industrial action over the previous weekend by refusing to work overtime. By the previous day, however, all pits were working normally except for six in North Yorkshire where NACODS members were still disputing British Coal's re-rostering arrangements. THE NACODS leaders were in a state of considerable confusion which made it difficult to predict their actions. Nevertheless he considered that in all probability the episode would end with NACODS accepting the arbitration of the National Reference Tribunal, which was due to hear the matter at the end of the month. There had been virtually no impact on the substantial stocks of coal available to the Central Electricity Generating Board.

The Cabinet -

1. Took note.

Industrial
Disputes in
the Motor
Industry

Previous
Reference:
CC(88) 5.2

THE SECRETARY OF STATE FOR EMPLOYMENT said that the management of the Ford Motor Company had made a revised offer which would run for two years rather than the three-year period originally planned. The offer comprised an increase in pay of 7 per cent in the first year and either 2½ per cent above the Retail Price Index or 7 per cent, whichever was the greater, in the second year. They also now proposed that flexible working should be made subject to local agreement rather than imposed as part of the pay settlement. Union representatives had recommended their members to accept the offer and, although the shop stewards at the Halewood and Dagenham plants had been reported as having recommended rejection, he expected the Ford employees to settle on the terms proposed, which represented a considerable movement by the Ford

management from their original offer. Members of the Transport and General Workers Union at Vauxhall had voted narrowly in favour of strike action over pay, and employees at Land Rover, who had been offered a pay deal worth 14 per cent over two years, had said that they would begin strike action on the following Monday. It was too early to tell whether employees at either Vauxhall or Land Rover would carry out their threatened action.

THE PRIME MINISTER, summing up a short discussion, said that the Rover Group had received £2.9 billion from the taxpayer since it had come into public ownership. Pay settlements of 14 per cent over two years were very generous, and the public would have no sympathy for workers in a company that had depended so crucially on public support who resorted to industrial action in pursuit of even higher increases.

The Cabinet -

2. Endorsed the Prime Minister's comments.

Industrial
Action in
Department
of Health
and Social
Security
Offices

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Civil and Public Servants Association (CPSA) were balloting all their members in Department of Health and Social Security (DHSS) offices, with a view to unlimited industrial action from mid-March. The CPSA were pointing to a number of pretexts to justify their action, though it appeared to be aimed at blocking the Government's social security reforms. Industrial action arising from a dispute about a separate issue was also taking place in inner London, where a few DHSS offices were being affected.

Unemployment
Previous
Reference:
CC(88) 1.4

THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for January would be published that day. The seasonally adjusted total had fallen by about 51,000 in January to 2.563 million. Unemployment had fallen by about 550,000 in the previous 12 months and the rate of unemployment had fallen from 11.2 per cent to 9.2 per cent in that period. Unemployment had continued to fall in all regions, with the largest reductions occurring in Wales, the West Midlands, the North and the North West. Revised estimates showed that the employed labour force had increased by 453,000 in the 12 months to September 1987, with a large increase in self-employment. The annual record of industrial disputes would also be published later that day. 3.5 million working days had been lost through industrial action in 1987 and, while this was slightly above the figure for the preceding year, it was otherwise the lowest in over 10 years. In each of the previous three years, the number of strikes had been lower than in any other year since 1940. A matter for concern was that the growth of earnings remained too high. Average earnings had increased by 8½ per cent in the 12 months to December 1987 and, while some of this increase had been caused by higher overtime and bonus payments, it also reflected excessive pay settlements in both the private and public sectors.

The Cabinet -

3. Took note.

FOREIGN
AFFAIRS

Visit by the
Foreign and
Commonwealth
Secretary to
the Soviet
Union

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that he had that week visited Moscow and Kiev. During a crowded programme, he had held five hours of talks and a working dinner with the Soviet Foreign Minister, Mr Edward Shevardnadze, whose approach to the matters discussed had been candid. He had also had two and a half hours with the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev. He had appeared live on Soviet television for half an hour. It was clear that Mr Gorbachev was determined to press ahead with domestic reform in the Soviet Union. He had much support for this, but there was also opposition. The intensity of the need for economic reform had been illustrated by a visit to a machine tool factory near Kiev. This factory had presumably been chosen for inclusion in the programme of the visit because it was a good one by Soviet standards. But the impression it gave was of poor management and antiquated plant.

In discussion of international affairs, Mr Gorbachev had reaffirmed his recognition that the British nuclear deterrent would be retained and modernised. Mr Shevardnadze, in a speech during the visit, had said that the Soviet Union did not accuse the United Kingdom of "nuclear fetishism"; this was a recognition that it was legitimate for the United Kingdom to have a nuclear element in its current defence arrangements. Mr Gorbachev had accused the United Kingdom of delaying progress towards a ban on chemical weapons; this had been refuted, *inter alia*, by reference to the secretiveness of the Soviet Union about its chemical weapons.

On human rights, the Foreign and Commonwealth Secretary said that he had pressed the case for improvements in the Soviet record. Thirteen individual cases of family reunification had been resolved on the eve of his visit; only one remained outstanding. The Soviet Union had agreed to hold bilateral consultations on human rights between officials, in which the British side would be able to raise individual cases. But there was no Soviet movement on the fundamentals of human rights. The United Kingdom should continue to press for change.

In discussion of the Iran/Iraq war, Mr Shevardnadze had been brought to agree that work in the United Nations on a resolution imposing an embargo on arms supplies to Iran should be accelerated. The United States Secretary of State, Mr George Shultz, would shortly be visiting Moscow and would follow this up. On Afghanistan, Mr Gorbachev had made the most of his recent statement on the possibility of withdrawal of Soviet forces. He had said, in effect, that the Soviet Union had accepted the Western view that Soviet forces should withdraw from Afghanistan but the West was now imposing further conditions. Afghanistan was one example of how Mr Gorbachev was re-examining important Soviet policies. Mr Gorbachev had reaffirmed his wish to pay

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another visit to the United Kingdom. Visits by Parliamentary delegations had also been discussed. The Soviet side had emphasised the importance of a healthy bilateral relationship.

In discussion of Afghanistan, it was argued that the West should keep up pressure on the Soviet Union to facilitate the return to Afghanistan of refugees in Pakistan and the involvement of the Afghan Resistance in the government. At the same time, it would be wrong to press these considerations to the point where the Soviet Union could justify keeping forces in Afghanistan. The right policy might be to urge these considerations on the Russians, but to desist if the Soviet Union insisted on a withdrawal without specific progress being made on the considerations. It had to be accepted that, if the Soviet forces withdrew, there was a high probability of civil war in Afghanistan. Some elements among the Resistance were Islamic fundamentalists. One risk was that the Soviet Union might provide large quantities of arms to its supporters in Afghanistan but insist that the West should not provide arms to other groups in Afghanistan. A critical factor in considering this whole subject was the importance to the West of stability in Pakistan.

Prime
Minister's
Visit to
the North
Atlantic
Council

THE PRIME MINISTER said that she had spoken on the previous day to the North Atlantic Council in Brussels. She had made clear her view that the forces of the Alliance must always be kept up to date, just as the Soviet Union was doing as a matter of course. This should apply to nuclear weapons among others, and indeed a decision to modernise them had been taken as long ago as 1983. It was impossible to deter aggression with obsolete equipment. There was a tendency in some countries in the Alliance to interpret the new policies of the General Secretary of the Communist Party of the Soviet Union as meaning an end to the Soviet threat to Europe. It would be helpful if members of the Alliance were fully informed about the advances in military technology and the upgrading of military equipment which the Soviet Union was still undertaking. If the Soviet Union could achieve the abolition of nuclear weapons its objectives in Europe could be achieved without a war. It would be important that the Summit meeting of the Alliance on 2 and 3 March should reaffirm the basic doctrine of deterrence, including nuclear deterrence. This would not be easy, because of attitudes in the Federal Republic of Germany and some of the smaller allied countries.

The Cabinet -

Took note.

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COMMUNITY
AFFAIRS

European
Council
11-13
February

5. THE PRIME MINISTER said that she had made a detailed statement about the outcome of the European Council to the House of Commons on 15 February. Its major achievement was German acceptance of price penalties as the main way to reduce agricultural surpluses. For cereals, the agreement provided that if production exceeded a threshold set for the next four years at 160 million tonnes, well below the expected 1988 harvest, there would be price cuts of 3 per cent a year. Those cuts would be cumulative with the prospect therefore of a 12 per cent price cut by the fourth year, plus a cut of 2 per cent in the current year. In addition there was provision for an increase of up to 3 per cent in the co-responsibility levy. For rapeseed, the threshold had been set at 4.5 million tonnes compared with a forecast harvest of 6.3 million tonnes. On this basis there would be a price cut of 8 per cent this year on top of 10 per cent last year. The price cuts would become still larger in following years if production continued to rise. She shared the judgment put to her by the Secretary General of the Commission that the overall agricultural package was a tough one. In his view, the problem of surpluses would have been overcome by 1992. Although we would like to have done still better, it was satisfactory that the agricultural guideline itself would in future rise at only 74 per cent of the rate of growth of the total resources available for Community expenditure.

THE PRIME MINISTER said that the Council had expected to confirm agreement on stabilisers for eight further commodities on which agreement had been reached in principle at Copenhagen. The French Prime Minister, Monsieur Chirac, had sought to reopen this position, no doubt for electoral reasons. The Dutch Prime Minister, Mr Lubbers, and she had made clear that agreement to all the measures before the European Council was conditional on the adoption of these eight stabilisers in their present form. It was on that basis that the matter had been referred to the meeting of Foreign Affairs Council on 22-23 February. As regards the own resources ceiling, agreement had been reached on a figure of 1.2 per cent Gross National Product, on a traditional payments basis, well below the Commission's proposal. In future the United Kingdom's abatement would be outside the agreed own resources ceiling. Concluding, the Prime Minister said that the performance of the Dutch had been exemplary throughout in contrast to that of some other Member States.

In discussion, it was agreed that it would be essential that the meeting of the Foreign Affairs Council should reaffirm the decisions reached there, in the run-up to the Brussels Council, that the Copenhagen package covering eight other commodities should not be reopened. This issue should not be allowed to be put back to the Agricultural Council with a possibility there of a majority vote decision. In the follow-up to the Council, it would also be important to ensure that the Declaration on unfair trade practices was not allowed to operate as a loophole to the agricultural guideline. The toughness of the package had been spelt out in recent debate in the House of Commons. As this sunk in within the farming community it would be necessary to reinforce the message that without such measures there would have been a collapse

of the Common Agricultural Policy, and that the decisions reached promised greater stability and certainty of conditions. The agreement would involve an increase in the United Kingdom's contribution of the order already recognised in earlier discussion. But it amounted to a breakthrough in containment of the Common Agricultural Policy which had been achieved with the abatement arrangements unimpaired. This was a result on which the Prime Minister and all those concerned with the negotiations should be congratulated.

The Cabinet -

Took note and congratulated the Prime Minister, the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food and others concerned on the outcome of the Council discussions.

ECONOMIC
STRATEGY

6. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(88) 3) on economic strategy.

THE CHANCELLOR OF THE EXCHEQUER introduced a discussion of the economic strategy and prospects, as a background to the Budget on 15 March.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet congratulated the Chancellor of the Exchequer on his successful management of the economy and endorsed the need in framing the Budget to follow a prudent policy, as described in C(88) 3. It should be made clear in the light of the discussion that the Cabinet's view was that the Budget would be the occasion for reviewing taxation and borrowing, not the public expenditure plans.

The Cabinet -

Invited the Chancellor of the Exchequer to take account of the discussion in preparing his Budget.

Cabinet Office

18 February 1988