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Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 9 JULY 1987
at 10.00 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 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 Havers of St Edmondsbury
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 Wakenham MP
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

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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, 2 and 5)
Mr S S Mundy (Items 1, 2 and 5)

C O N T E N T S

Item	Subject	Page
1.	PARLIAMENTARY AFFAIRS	1
	MPs' Pay	1
2.	HOME AFFAIRS	
	Teachers' Pay and Conditions	2
	Child Abuse	2
	Midland Bank	2
	Coal Industry	3
	Northern Ireland	3
3.	FOREIGN AFFAIRS	
	Mr Terry Waite	3
	Iran/Iraq War	4
	Cyprus	4
	Turkey	4
	Indonesia	4
	Australia	5
	State Visit by the King of Morocco	5
4.	COMMUNITY AFFAIRS	
	1987 Budget	5
	Tax Approximation	6
5.	THE LEGISLATIVE PROGRAMME	6

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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.

MPs' Pay

THE LORD PRIVY SEAL said that the House of Commons had resolved on 19 July 1983 that there should be phased increases in MPs' pay to a link with 89 per cent of the maximum of the scale for Senior Principals in the Civil Service. The final phase, which would require an increase of 21.88 per cent, from £18,500 to £22,548, was due to take effect on 1 January 1988. Under the terms of the 1983 resolution, it was necessary to confirm this within three months of the new Parliament assembling and therefore a decision could not be postponed. Despite the difficulties of supporting an increase of this magnitude, he was of the clear view that it would not be sustainable to seek to secure any further phasing of this increase, and he believed that the Government should now accept the inevitable. Since the time of the 1983 resolution, an extra point had been added to the Senior Principal scale to provide for merit pay. The resolution on MPs' pay would if necessary need to make clear that the linkage was with the top of the main scale and not with the additional point for merit pay. Neither this nor the proposal to freeze the secretarial allowance at £20,140, in line with the recommendation by the Top Salaries Review Body (TSRB), was likely to give rise to any significant opposition.

In discussion the following main points were made -

- a. Under the terms of the 1983 resolution, MPs would be due a further increase in pay on 1 April 1988, the settlement date for Senior Principals. An increase then, coming so soon after the substantial increase on 1 January 1988, would be hard to defend and it should be postponed until 1 January 1989.
- b. The Government would need to take a decision shortly on Ministerial pay. There was a strong case for increasing the differential between the pay of Parliamentary Under Secretaries and of MPs and for improving the pay of Ministers in the House of Lords.
- c. While MPs had generous pension arrangements, the pension arrangements for Ministers were relatively poor. This matter, together with the question of severance pay for Ministers, might be referred to the TSRB.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Government should not seek to block the implementation with effect from 1 January 1988 of the final phase of the 1983 pay settlement. Clearly, however, linkage of MPs' pay should be with the top of the main point of the Senior Principal pay scale and not with the additional point on the scale for merit pay. The increase which would be due on 1 April 1988 should be held over to 1 January 1989 and consideration should be given to whether increases due in subsequent

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years should be held over on a similar basis. The Chancellor of the Exchequer should bring forward proposals on Ministerial pay, in the light of which the Lord President of the Council might wish to comment on the pay of Ministers in the House of Lords. Further consideration would need to be given to the matters to be referred to the TSRB.

The Cabinet -

Invited the Lord Privy Seal and the Chancellor of the Exchequer to proceed in accordance with the Prime Minister's summing up of their discussion.

HOME AFFAIRS

Teachers' Pay and Conditions

Previous Reference: CC(87) 22.2

2. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that at a recent meeting he had made clear to the National Union of Teachers (NUT) and the National Association of Schoolmasters and the Union of Women Teachers (NAS/UWT) that it would not be possible to establish new machinery for settling teachers' pay and conditions in time for the next pay round. He hoped to publish a Green Paper shortly setting out proposals for establishing a permanent machinery. The NAS/UWT would be calling some selective half-day strikes before the end of the summer term but the effects would be barely discernible. They had not decided what action, if any, they would take in the following term. The NUT had no plans to take further industrial action.

Child Abuse

Previous Reference: CC(87) 22.2

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Minister of State, Department of Health and Social Security (the Minister for Health) would announce later that day that an inquiry was to be established into child abuse in Cleveland. He hoped that the inquiry could be completed by the end of September.

The Cabinet -

1. Took note.

Midland Bank

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he was awaiting advice from the Director General of Fair Trading on whether he should refer to the Monopolies and Mergers Commission, under the Fair Trading Act 1973, the proposed sale by the Midland Bank to the National Australian Bank of the Clydesdale Bank, Northern Bank and Northern Bank (Ireland).

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THE CHANCELLOR OF THE EXCHEQUER said that there were parallel powers under the Banking Act 1987 to scrutinise and if necessary block proposed changes of control of banks involving 15 per cent or more of voting rights. The Bank of England were, however, satisfied on prudential grounds about the proposed take-over by the National Australian Bank. The Banking Act 1987 also included powers for the Government to block proposed take-overs by foreign undertakings on grounds of reciprocity, though the full powers would not become operative until 1 October 1987. It was clearly necessary for the Midland Bank to strengthen its balance-sheet which had been weakened by the deterioration in the quality of its Latin American holdings and the losses it had suffered over the Crocker Bank.

Coal Industry

THE SECRETARY OF STATE FOR ENERGY said that the National Union of Mineworkers delegate conference had voted the previous day against flexible working but had agreed to put the matter to a ballot of the full membership. There were signs that some areas would like to negotiate independently with the British Coal Corporation on this matter.

Northern
Ireland

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he had arranged through the usual channels to meet the leaders of the Official Unionist Party and the Democratic Unionist Party for exploratory talks. Although it was impossible to predict what progress would be made, it was an encouraging sign that the leaders of the two unionist parties had agreed to meet him.

The Cabinet -

2. Took note.

FOREIGN
AFFAIRS

Mr Terry
Waite

Previous
Reference:
CC(87) 17.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been conflicting rumours about the fate of Mr Terry Waite, the Archbishop of Canterbury's Special Representative, who had disappeared in Lebanon some six months previously. In fact, there was no clear indication at all about Mr Waite's circumstances. The Government continued to watch for reliable indications and remained in close touch with the office of the Archbishop of Canterbury.

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Iran/Iraq War THE FOREIGN AND COMMONWEALTH SECRETARY said that the draft resolution calling for a ceasefire in the Gulf War, which had been agreed between the five Permanent Members of the United Nations Security Council, would probably be tabled in the Council in the following week. Comments were still being received from non-permanent members of the Council. This resolution would be a first step. There was no confidence that Iran would comply with the call for a ceasefire. Enforcement measures might thus be needed, for instance, an embargo on arms supplies. Pressure for an end to the war would need to be maintained.

Previous Reference:
CC(87) 22.3

Meanwhile, he was promoting, with friendly states in the Gulf and Western countries including the United States, the idea of pressing Iraq to desist from attacks on ships using the Gulf. This was part of a pattern of activity designed to defuse the situation.

Cyprus

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Report on Cyprus by the House of Commons Select Committee on Foreign Affairs, which had been published on 2 July, had caused irritation to both the Greek and Turkish sides. The suggestion in the Report that the United Kingdom might adopt a higher profile in the search for a Cyprus settlement was unlikely to prove helpful. The Government would reply to the Select Committee in due course.

Turkey

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit from 5-8 July of the Foreign Minister of Turkey, Mr Vahit Halefoglu, had gone well. There were prospects for significant orders in Turkey for the United Kingdom.

Previous Reference:
CC(87) 13.2

Indonesia

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit from 2-4 July of the Minister for Research and Technology of Indonesia, Dr Bachruddin Yusuf Habibie, had been useful. He had met most of the major British companies that were interested in business in Indonesia. Although Dr Habibie had not concluded a co-operation agreement that had been contemplated with British Aerospace plc, the Company did not think this likely to affect its major prospects for contracts in Indonesia.

In a brief discussion, it was noted that Dr Habibie was an expert in aircraft production and a man of notable vigour who was energetically promoting expansion of the private sector of the Indonesian economy.

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Australia

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Liberal and Country Parties had made gains in the opinion polls preceding the general election in Australia on 11 July; but, despite the closing of the gap between the Opposition and the ruling Australian Labour Party, the general expectation was that the latter would win the election and remain in government.

The Cabinet -

1. Took note.

State Visit
by the King
of Morocco

THE FOREIGN AND COMMONWEALTH SECRETARY said that King Hassan of Morocco would be paying a State Visit to the United Kingdom from 14-17 July, in return for Her Majesty The Queen's State Visit to Morocco in 1980. The press, recalling incidents during the 1980 visit, would be alert for any sign that King Hassan might be slighting his hosts, for instance by not observing the times of the events on his programme. Care was being taken, in planning the programme, to minimise the risk of this happening. When asked about the political purposes of the invitation to King Hassan to make a State Visit, the Government would say that it was a return visit and would point to trade relations between Britain and Morocco and to the latter's moderate role in the politics of the Middle East.

The Cabinet -

2. Invited the Foreign and Commonwealth Secretary to consider whether the reasons the Government could give for the invitation to King Hassan could be strengthened.

COMMUNITY
AFFAIRS

1987 Budget

4. THE CHANCELLOR OF THE EXCHEQUER said that, following the European Council, there had been a meeting of the Budget Council on 2-3 July to discuss the 1987 budgetary situation. The agreement reached was, in all the circumstances, reasonably satisfactory. The overspending on agriculture would be covered by changing the advance payment arrangements. The other changes involved more elements of deferred expenditure than of genuine savings. There was, however, no financing outside the system by an intergovernmental agreement and there was no tax on oils and fats. The European Parliament had tried to reject the amended budget but had not been able to muster a sufficient majority. It would therefore be adopted.

In discussion it was said that some of the propositions which other member states had readily accepted in the European Council were now causing them difficulty at home or with their own Parliaments; the Budget Council had shown, for example, that the Dutch Government

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was in considerable difficulty over the temporary waiving of the 10 per cent of levies and duties retained by member states for collection costs.

Tax
Approximation THE CHANCELLOR OF THE EXCHEQUER said that the Commission was preparing proposals, within the responsibility of Lord Cockfield, for the approximation of value added tax and excise duties in member states. So far there was no agreement on this within the Commission. When the proposals appeared, these would be likely to create very serious difficulties for many member states. Under the Treaty unanimous agreement would be required for their adoption, and this was not in prospect.

The Cabinet -

Took note.

THE
LEGISLATIVE
PROGRAMME

Previous
Reference:
CC(87) 12.5

5. The Cabinet considered a memorandum by the Lord President of the Council (C(87) 12) reporting on the review of the provisional programme that had been carried out by The Queen's Speeches and Future Legislation Committee (QL).

THE LORD PRESIDENT OF THE COUNCIL said that The Queen's Speech approved by the Cabinet had committed the Government to a massive and highly controversial programme. He had no doubt that this was the right approach at the outset of the Government's third term of office, but the programme would stretch the machinery for preparing legislation to its limits and would consume all the available Parliamentary time. It did not at present contain any margin ~~even~~ for unconvenanted additions, and it certainly contained no margin for error. QL therefore wished to emphasise as strongly as they could that the programme needed to be managed with exceptionally tight discipline and that the introduction of Bills must not be allowed to drift late. If that happened, there would not only be an immediate impression of lack of competence, but major Bills would at the end of the Session pile up into an unmanageable log jam, in which Bills could well be lost, or be secured only at the cost of damaging concessions.

Against that background, QL was clear that a final decision now had to be taken one way or the other on the inclusion of a main Water Privatisation Bill. Keeping open the option of accommodating such a large and late Bill would henceforth absorb more resources than could be spared from servicing the rest of the programme, and the choice between that Bill and another of equal weight now had to be confronted. If the decision was to postpone the Bill, he was sure that QL would look favourably on giving it advance drafting authority for the following Session. The second major issue that preoccupied QL was the

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management of the three major Bills on Abolition of Domestic Rates, Housing and Education. These Bills would themselves monopolise all the available time for legislation in the House of Lords between Easter and the end of July and it was therefore essential that they should be introduced into the House of Commons by mid-November at the very latest. He was grateful to the Secretaries of State for the Environment and for Education and Science for their recognition of this. Whilst the Abolition of Domestic Rates Bill formed a complete whole, and the contents of the Education Bill had been set out in fair detail in The Queen's Speech, the Government had not entered into any specific commitments on the Housing Bill. That measure would need to be followed by further major housing legislation in the following Session in any event. He hoped that the Secretary of State for the Environment would be able to introduce by mid-November all the housing proposals that he had in mind, but in the circumstances he had outlined it would be open to the Government to defer those that were not then ready, and this was the course that he would be bound to recommend. He might need to return to colleagues on this point nearer the time. Similarly, the Housing and Rent (Scotland) Bill had grown to some 100 clauses, which was clearly more than the Parliamentary machine could bear. He looked to the Secretary of State for Scotland for help in substantially reducing the size of this measure. For the rest, QL's proposals, set out in C(87) 12, were straightforward. He had noted that the statement to be made that day about alleged child abuse in Cleveland would refer to the need for legislation on child care; QL would take into account the response to that statement when they considered the selection of Bills to be given advance drafting authority.

The following main points were made in discussion -

- a. It now had to be accepted that a main Water Privatisation Bill could not be accommodated in the present Session. The importance of this privatisation had not diminished, however, and it was desirable that QL should give the Bill advance drafting authority. Furthermore, the Secretary of State for the Environment should consider ways of reducing the delay between the Bill's eventual Royal Assent and the first flotations, so that the decision to postpone the Bill did the minimum damage to the momentum of the privatisation programme.
- b. It had been agreed between the Ministers concerned that paving measures for electricity privatisation should be included in the paving Bill that had been prepared for water privatisation and metering. The presentation of the expanded Bill, which was to be introduced before the Recess, would need to be handled carefully. Expanding the Bill to cover an even wider field would transform it into a much more problematic and contentious measure and should not be pursued.

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c. The Housing and Rent (Scotland) Bill could be substantially reduced by dropping from it the provisions on improvement grants. These were desirable on financial control grounds, however, and, while there might be no better way of securing the necessary reduction in the Bill, the matter should be considered further.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet took full note of QL's assessment of the weight of the programme and endorsed the Lord President's comments on the importance of introducing Bills promptly. Ministers responsible for Bills should pay close personal attention to this. The Cabinet agreed that a main Water Privatisation Bill could not be accommodated in the present Session, though they invited QL to give it advance drafting authority for the following Session. The Secretary of State for the Environment should consider ways of shortening the period between the Bill's Royal Assent and the first flotation of water undertakings. The major Bills on Abolition of Domestic Rates, Housing and Education should certainly be introduced by the end of the second week of November at the latest, and the contents of the Housing Bill, in particular, might need to be adjusted to meet that requirement. The Secretary of State for Scotland should consider further with the Lord President how the scope of the Housing and Rent (Scotland) Bill might be reduced. The Cabinet agreed that the Prohibition of Torture Bill should be dropped from the programme and that the only new Bill to be added to it should be the Financial Markets Bill, which should be prepared as drafting resources became available. Paving provisions for electricity privatisation should be incorporated with those for water privatisation in the manner that had been described in discussion. With these adjustments, the programme was approved.

The Cabinet -

1. Approved the legislative programme set out at Annex A to C(87) 12, subject to the deletion of the Prohibition of Torture Bill, the addition of the Financial Markets Bill and the expansion of the Water (Powers and Charges) Bill to include paving provisions for electricity privatisation.
2. Invited the Lord President of the Council to arrange for The Queen's Speeches and Future Legislation Committee to give a main Water Privatisation Bill advance drafting authority for the following Session and to consider the selection of other Bills for that purpose.
3. Invited the Secretary of State for the Environment to consider ways of shortening the period between a Water Privatisation Bill's enactment and the first flotations of water undertakings.

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4. Invited the Secretary of State for Scotland to consider further with the Lord President of the Council how the Housing and Rent (Scotland) Bill might be substantially reduced.

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9 July 1987

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