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CC(84) 25th
Conclusions

COPY NO 74

CABINET

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

THURSDAY 5 JULY 1984

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 Lord Hailsham
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Department

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon James Prior MP
Secretary of State for Northern Ireland

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

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
Secretary of State for Trade and Industry

The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Mr John Gummer MP
Minister of State, Department of Employment

SECRETARIAT

Sir Robert Armstrong	
Mr P L Gregson	(Items 4 and 5)
Mr D F Williamson	(Items 2 and 3)
Mr B G Cartledge	(Items 2 and 3)
Mr M S Buckley	(Items 4 and 5)
Mr C J S Brearley	(Item 1)
Mr R Watson	(Item 1)

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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
(Interim
Provisions)
BillPrevious
Reference:
CC(84) 24th
Conclusions,
Minute 1

THE LORD PRESIDENT OF THE COUNCIL said that the Government had suffered a serious defeat during the Committee Stage of the Local Government (Interim Provisions) Bill. An amendment moved by Lord Elwyn-Jones, which would prevent the operation of the main provisions of the Bill until after Royal Assent had been given to the Bill to abolish the Greater London Council and the Metropolitan County Councils, had been agreed by 191 votes to 143. The size of the defeat was largely due to a considerable number of Conservative Peers refusing to attend because they disliked the suspension of elections before the passage of the main Bill was complete, and particularly the change in political control in London during the interim period which would result from the operation of the Bill's provisions. They regarded this as a bad precedent and a procedure with which a Conservative Government should not be involved. In his view it was now essential to produce a compromise policy which still postponed the May 1985 elections in the authorities to be abolished, but which did not provide for councillors to be nominated by the lower tier authorities in the interim period. After discussion and consultation he had concluded that this could best be achieved by an amendment which would remove the Elwyn-Jones amendment, but, in substitution, provide for the period of office of the existing councillors to be extended until April 1986, when abolition would take place. This would, however, increase the time in which the existing councillors could, if they wished, follow obstructive policies. He considered that it would therefore be necessary to add powers to the Bill to prevent major asset stripping. It would not be possible to counter all forms of obstruction, but large scale obstruction would not necessarily be to the advantage of the abolition authorities. He felt that it should be possible to get such a package accepted by the House of Lords and he therefore proposed that the necessary amendments should be tabled at Report Stage in the House of Lords.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed with the course of action proposed by the Lord President of the Council. It would be necessary to take great care in releasing the news of the Government's decision, since it would not be appropriate for the House of Commons to discuss the issue before the House of Lords had completed their consideration of the Bill. There must be no suggestion that the House of Lords were being taken for granted.

The Cabinet -

1. Agreed that amendments to the Local Government (Interim Provisions) Bill on the lines proposed by the Lord President of the Council should be tabled for the Bill's Report Stage in the House of Lords.
2. Took note that the disclosure of the Government's proposals would require careful handling.

THE LORD PRIVY SEAL said that the date when Parliament would rise for the Summer Adjournment would depend on progress with Bills in the next few weeks. It was, in particular, important that all stages of the Local Government (Interim Provisions) Bill should be completed before Parliament rose. It might be necessary to sit into the week beginning 29 July. It was likely that the House of Lords would return for the spillover on 15 October and the House of Commons a week later. The State Opening of the new Session was planned for 6 November.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that 11 July was the last date on which Liverpool City Council could set a rate for 1984-85. If they failed to do so, or if the rate was not a legal rate, the auditors would be required to take action. He would be meeting the leaders of the Council on 9 July. It was very difficult to judge what the Council would do. He might need to consult colleagues urgently about any Government action in the light of the Council's decision.

The Cabinet -

3. Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY, giving an account of his visit to the Soviet Union from 1-3 July, said that he had gone to Moscow with low expectations and that these had been justified. His five hours of discussions with the Soviet Foreign Minister had included an 80 minute harangue from Mr Gromyko about United States policies; but Mr Gromyko was still his versatile self, mixing humour with asperity. The prevailing theme of hostility towards the United States was evidently rooted in Soviet perceptions which had their origins in the United States failure to ratify the second Strategic Arms Limitation Treaty. During the talks, he had raised the issues of human rights, Afghanistan and Poland, without evoking any Soviet response. By contrast, there had been quite useful discussions on

Summer Adjournment

Liverpool Previous Reference: CC(84) 17th Conclusions, Minute 1

FOREIGN AFFAIRS --- Soviet Union Previous Reference: CC(84) 20th Conclusions, Minute 2

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the Gulf and the Middle East. He had stressed the independent positions and attitudes of the individual Western leaders with whom the Soviet leadership had recently engaged in talks, but it was clear that the Russians were, for the time being, reluctant to revise their negative view of the West as a whole and that their minds were closed. There had, however, been some indication of Soviet embarrassment over the exchanges between the Soviet and United States Governments, which had coincided with his visit, about possible negotiations on arms control in outer space. The condition of the Soviet President, Mr Chernenko, had seemed unchanged since his meeting with the Prime Minister in February last. He had read rather incoherently from a prepared statement although he had also taken a page of manuscript notes of the Foreign and Commonwealth Secretary's response. The Foreign and Commonwealth Secretary's strictures on the puerile language in which his Soviet interlocutors occasionally indulged in attacking the United States had drawn something approaching an apology from Mr Chernenko. Mr Gromyko was clearly pre-eminent in determining the Soviet Union's relations with the rest of the world, and the choice of Mr Chernenko to succeed Mr Andropov doubtless owed much to his limited capacity for interference in this and other areas of policy. The Foreign and Commonwealth Secretary nevertheless took the view that his visit had been worthwhile; and that the attempt both to persist in such exchanges and to dissuade the United States from action which could feed Soviet prejudices towards the West should continue.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in the Gulf remained broadly unchanged, although there had been a further three attacks on shipping. The long awaited Iranian land offensive had still failed to materialise, possibly because of internal disagreements in Iran in which fears of the use of chemical weapons by Iraq might be a factor among others.

THE FOREIGN AND COMMONWEALTH SECRETARY said that, on his way to the Soviet Union, he had attended a meeting of the European Democratic Union in Oslo. The unusually wide international range of participation in the meeting, for example from Central American countries, had given the meeting particular value and he had found it impressive and useful. The meeting had demonstrated the importance of the effective public presentation of Western policies in problem areas such as Central America.

THE SECRETARY OF STATE FOR DEFENCE gave an account of the progress which had been made towards the re-organisation of the Ministry of Defence since his statement to the House of Commons on 12 March. It was his intention to circulate to members of the Cabinet in draft and then to publish, on 19 July, a White Paper setting out the proposed changes. The Cabinet's discussion is recorded separately.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY reported that the work necessary to follow up the conclusions of the European Council in Fontainebleau on 25-26 June was going ahead and that progress so far was satisfactory.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the results of the Council of Ministers (Environment) on 28 June had been good. In particular, the Community had now accepted in principle the United Kingdom's initiative on lead-free petrol.

The Cabinet -

Took note.

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Defence

COMMUNITY AFFAIRS

Community Budget and United Kingdom Refunds

Previous Reference: CC(84) 24th Conclusions, Minute 3

Environment: Lead in Petrol

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute
Previous
Reference:
CC(84) 24th
Conclusions,
Minute 4

4. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

Non-
Industrial
Civil
Service
Pay
Negotiations
1984

THE CHANCELLOR OF THE EXCHEQUER reported to the Cabinet on the latest position in the non-industrial Civil Service pay negotiations for 1984. The Cabinet's discussion is recorded separately.

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5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(84) 17) on economic prospects; a memorandum by the Chief Secretary, Treasury (C(84) 18) on the 1984 Public Expenditure Survey; and a further memorandum by the Chief Secretary, Treasury (C(84) 16) on using private enterprise in Government.

THE CHANCELLOR OF THE EXCHEQUER said that the outlook for growth and inflation in the United Kingdom remained much the same as at the time of the Budget; but the pressures on the world economy from United States policies were a cause for continuing concern. In the world economy, recovery was continuing. Inflation among member countries of the Organisation for Economic Co-operation and Development averaged about 5 per cent; the United States, West Germany and Japan had lower rates than our own. Growth and low inflation were helping international trade, which was expected to rise by about 6 per cent in 1984 and 1985. Nevertheless, the international prospect remained a source of considerable concern, mainly because of the size and persistence of the United States deficit and the consequent high level of United States interest rates, which had risen sharply in recent months.

Domestically, the underlying growth in output remained at around 3 per cent, ahead of most of the rest of Europe. The coal miners' strike had naturally had an effect on output, as well as on public expenditure and the balance of payments; but this was only temporary. The present recovery would soon have persisted for longer than any other recovery since the war. Companies were in a better position than for many years: real rates of return for non-North Sea companies were back to the levels of 1978-79; company liquidity was now at near-record levels; and, with higher profits, companies were well placed to invest. Fixed investment by industry might increase by some 10 per cent (at constant prices) in 1984, with another sizeable rise in 1985. The growth of total domestic demand might slow a little to 3 per cent in 1984. But exports were recovering strongly, so that the overall prospect remained one of growth in total output of 3 per cent in 1984, with perhaps a similar increase in 1985. Inflation was firmly under control and was expected to edge down to 4½ per cent by the fourth quarter of 1984. This had not, however, been reflected in pay settlements: earnings growth remained obstinately high. This was the most important single reason why it was proving difficult to bring down unemployment. The need for greater realism on pay must continue to be hammered home.

The financial markets were going through a difficult period, mainly because of concern about the international outlook. Nonetheless the prospects for public sector borrowing this year and, given a satisfactory public expenditure review, next year remained broadly as forecast at the time of the Budget. Domestic monetary conditions gave no cause for alarm. He saw no need for corrective action of the kind the Government had been obliged to take in July 1983. Nevertheless, it was essential to maintain the firmest possible control of spending as the year proceeded. Looking further ahead, the prospects, though inevitably uncertain, were reasonably promising, again provided that firm control was maintained over public spending.

THE CHIEF SECRETARY, TREASURY said that the baseline for the 1984 Public Expenditure Survey was £131.7 billion in 1985-86, £136.3 billion in 1986-87 and £139.0 billion in 1987-88. For 1985-86 and 1986-87 this represented the planning figures in the White Paper 'The Government's Expenditure Plans 1984-85 to 1986-87' (Cmnd 9143) less the savings resulting from the abolition of the National Insurance Surcharge. For 1987-88 the baseline had been constructed by adding 2½ per cent to the provision for 1986-87, excluding the Falkland Islands and the local authority unallocated margin. His colleagues had put forward substantial bids for additional provision in all three years, totalling, in net terms, £5 billion in 1985-86 rising to £8½ billion in 1987-88. Acceptance of the bids would totally undermine the Government's achievements in rolling back the growth of public spending. It was essential to stick to the baseline in 1985-86 and 1986-87 in order to maintain the credibility of the Government's economic strategy and to provide some room for easing the tax burden. For 1987-88 however, the baseline figures had been intended to establish a margin to allow the adjustment of priorities between programmes; he therefore proposed that the planning total should be increased by 3 per cent (instead of 2½ per cent) between 1986-87 and 1987-88, giving a figure of £140.4 billion. It would not be prudent to adopt a higher figure. There would be considerable difficulty in holding to these totals. Some of the additional bids were virtually unavoidable; there was little or no prospect of accommodating the others. Cmnd. 9143 had provided reserves of £2.75 billion, £3.75 billion and £4.75 billion respectively for the forward years. There were already very substantial pressures on the reserve in 1984-85. This suggested that there was a strong case for providing substantially larger reserves than in Cmnd. 9143 for the three forward years. If, however, colleagues accepted that the reserve arrangements should be operated as stringently as possible, he considered that it would be acceptable to risk setting the reserve provisions at £3 billion, £4 billion and £5 billion respectively for the forward years.

The existing manpower plans had been agreed on the understanding that every attempt would be made to improve on them. There were, however, small additional bids for all years before 1988; and even for that year, claims already made on the agreed contingency margin of 7,500 suggested that a bigger margin would be needed. He suggested 10,000. There was scope for significant reductions in the figures proposed by Departments. During the rest of the survey he would press for further manpower savings. The aim should be to reduce Civil Service numbers significantly below 593,000 at 1 April 1988.

Departmental running costs had increased in each of the last five years faster than general inflation. The latest figures showed an increase in prospect of only 3½ per cent between 1984-85 and 1985-86; this was a welcome improvement on earlier years. But present arrangements needed improving. As a first step, he proposed that the backward-looking annual scrutiny of running costs should be replaced by a forward-looking scrutiny to provide the basis for detailed

Estimates discussions during the coming winter. Increased use of competition and contracting out was one way of reducing Civil Service numbers. It also provided, more generally in the public sector, a much-needed incentive for increasing value for money and other benefits. Progress so far had been disappointing. The obstacles included union opposition, management inertia and, in the case of some local and health authorities, politically-motivated obstruction. The Secretary of State for the Environment was expected to report to Ministers collectively on the legislative options for extending contracting out in local government. In September 1983 all health authorities had been asked to draw up programmes to implement compulsory tendering for cleaning, catering and laundry services. The responses to this request were being assessed by the Department of Health and Social Security. He suggested that the Secretary of State for Social Services should be invited to inform his colleagues of the conclusions of that assessment as soon as it was completed, and to make proposals for further action. In central Government, some 20,000 posts and £18 million net a year had been saved by contracting out between 1979 and April 1984. Present plans assumed that only a further 2,000 could be saved by April 1988. He could not believe that this represented the full scope for contracting out by Departments. Government Departments should be required to test the market for contracting out a range of specified services; they should also use their top management systems to identify functions which could suitably be contracted out. If his colleagues agreed, he would arrange for officials to consider how best and in what timescale to proceed, and would make a further progress report to the Cabinet in the following year.

In discussion, there was general agreement with the approach to economic policy and public expenditure outlined by the Chancellor of the Exchequer and the Chief Secretary, Treasury. It was particularly important that the Government had created an expectation that public expenditure would not be allowed to rise in real terms over the lifetime of the present Parliament; this expectation was still fragile and must on no account be broken.

The following points were also made -

- a. There were threats to the prospects for a continued fall in inflation from the decline in the value of sterling against the United States dollar. It was reassuring that the Chancellor of the Exchequer was confident that, provided strict fiscal and monetary disciplines were maintained, the inflation forecast remained realistic.
- b. The continued high level of increases in earnings in the private sector was a major cause for concern. It was partly justified, as reflecting higher productivity and an increase in hours worked. Nevertheless, unit labour costs in this country were moving unfavourably in comparison with

many of our competitors. Moreover, the difference in the rate of increase in earnings between the public and private sectors was bound to lead to demands for higher increases in the public sector. It would be desirable to discuss the situation with the Confederation of British Industry.

c. The Government must bring home to public opinion that excessive pay increases reduced employment. It was a striking fact that over the past ten years real earnings per head in the United States had fallen, and the numbers in employment had increased by some 15 million, while in Western Europe over the same period real earnings had increased substantially and the number of people in work had fallen. There was less unemployment in the United States and Japan than in other industrialised countries because pay increases there were related to output, public expenditure took a lower proportion of the gross domestic product, and the labour markets were more flexible.

d. These points should also be brought to the attention of European partners. In this context it would be helpful to present certain of the British proposals for developing the European Community, such as freer trade in services, as ways of increasing employment.

e. Although the Government's economic strategy had brought about great improvements, there was no room for complacency. Much still remained to be done to increase economic efficiency. The Government's aim should be not merely to hold public expenditure constant in real terms, but to reduce it.

f. It was a matter for serious concern that unemployment was not falling. It was true that the number of people in work had risen and was now some 250,000 higher than in early 1983; but many of these were married women and part-time workers who had not been on the unemployment register. It was a serious problem politically, economically and socially, that large numbers of middle-aged men could not get a job and had little prospect of doing so. Much more imaginative measures were needed to deal with this problem.

g. Although there had been substantial changes in the balance of public expenditure between different programmes, several members of the Cabinet suggested that more formal and explicit mechanisms were required for considering public expenditure priorities. Experience in Scotland, Wales and Northern Ireland, where the Secretaries of State had block budgets within which they were free to switch expenditure, illustrated the potential benefits.

h. Table 2.4 of the 1984 Financial Statement and Budget Report showed a public expenditure planning total for 1987-88 of £141½ billion instead of the £140.4 billion proposed by the Chief Secretary, Treasury. The difference was partly due to technical factors and partly to the use of a different uplift factor. It did not reflect an intention to impose a general squeeze on public expenditure.

j. Many of the problems of controlling public expenditure were due to local authority expenditure, both capital and current. Relations between central and local government were strained; and many local authorities systematically lobbied Members of Parliament and others to influence them against the Government's policies. Moreover, local government finance had become extremely complicated: this aggravated the problems of control and of fostering greater public understanding.

k. Some members of the Cabinet considered that the manpower targets in C(84) 18 were insufficiently demanding and suggested that there was a widespread feeling among Departments that reductions in manpower were either unnecessary or impossible. Other members of the Cabinet, however, took a different view: the pressures for reductions in manpower were strong, and the matter was taken seriously. It was also suggested that, although it was important to continue to improve efficiency and to reduce Civil Service numbers where improvements in efficiency made it possible to do so, it would be unwise for the Cabinet to deal with questions of Civil Service manpower impersonally and by means of arbitrary target reductions: Ministers should beware of giving the impression that they had scant regard for the work of the Civil Service or were unappreciative of the efforts that were being made to improve efficiency.

l. The Chief Secretary, Treasury's proposals regarding running costs were fully justified; but it would be important to avoid imposing requirements on Departments that were unduly onerous or in conflict with the Financial Management Initiative.

m. Despite the attempts that had been made in the Budget to correct the anomaly that work done by the public services 'in house' escaped liability to Value Added Tax while work contracted out did not, it was suggested that some distortions remained in financial appraisals of contracting out. The position should be investigated urgently by Treasury Ministers.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet wholeheartedly endorsed the approach to economic policy and public expenditure outlined by the Chancellor of the Exchequer and the Chief Secretary, Treasury and approved the specific proposals in C(84) 16 and 18. The Chief Secretary, Treasury should pursue bilateral discussions of expenditure programmes and manpower allocations with the Ministers responsible and then report further to the Cabinet. If necessary, a small group of Ministers, under the Lord President of the Council's chairmanship, might have to be convened to consider any difficult issues which could not be resolved bilaterally. The Chief Secretary, Treasury should also urgently investigate the point that had been made in discussion concerning Value Added Tax. The response to inquiries from the media about the Cabinet's discussion would be that the Cabinet had discussed public expenditure and agreed to maintain the planning totals for 1985-86 and 1986-87 and to maintain the total broadly unchanged in real terms in 1987-88.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals in C(84) 16 and 18.
3. Invited the Chief Secretary, Treasury to report again on the 1984 Public Expenditure Survey when he had completed discussions with the Ministers responsible on individual expenditure programmes and manpower allocations.
4. Invited the Chief Secretary, Treasury to consider urgently whether the incidence of Value Added Tax distorted appraisals of the merits of carrying out certain work 'in house' in the public services as against contracting it out; and to report.

Cabinet Office

5 July 1984

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 25th Conclusions, Minute 2

Thursday 5 July 1984 at 10.00 am

FOREIGN
AFFAIRS

Defence

THE SECRETARY OF STATE FOR DEFENCE recalled that at its meeting on 8 March he had explained to Cabinet that he proposed to reorganise the Ministry of Defence (MOD) to strengthen substantially its capability to produce the best defence solutions to problems and to provide a streamlined management structure which would ensure that decisions were implemented down clear lines of responsibility. The reorganisation would in no sense call into question the separate identities of the fighting services, which were of paramount importance to morale and effectiveness. Nor would it affect the legal position of either the Defence Council or the Service Boards. His objective was to bring fully into effect the underlying purpose of the 1963 reorganisation, which had to some extent been checked by the tendency for the separate Service structures to continue to predominate within a "unified" Ministry. Following the Cabinet's endorsement, he had published a consultative document which had been generally welcomed. A Steering Group had been established to work out a detailed organisation under the chairmanship of the Permanent Secretary and with the full involvement of the Chief of the Defence Staff (CDS) and the Chief of the Naval Staff: the Group had now presented a recommended model for the new organisation within the guidelines laid down in the Open Government document.

The main features of the proposed organisation were -

- a. the position of the CDS as the principal military adviser to the Government, with full authority over the Service Chiefs of Staff, would be consolidated and enhanced, following the reforms associated with Lord Lewin's period in that office;
- b. the CDS would be supported by a properly integrated and unified Defence Staff, bringing together work on defence policy and priorities, the control of operations, and the military aspects of equipment requirements;
- c. the Service Chiefs of Staff would continue to participate in policy making through their membership of the Chiefs of Staff Committee and of the Defence Council. They would retain

their right of access to the Prime Minister. Their principal task in future would be the oversight of the management of the individual Services, for whose efficiency and morale they would retain full responsibility. They would retain substantial staffs under their direct control as well as having full access to the Defence Staff;

d. in keeping with the Government's Financial Management Initiative, executive management tasks would be delegated where practicable to Commands and other managers outside the Ministry, operating under a regime of responsibility budgets;

e. budgetary and financial control would be strengthened by the creation of an Office of Management and Budget under the Permanent Secretary, with the Second Permanent Secretary serving as 'Finance Director';

f. the defence scientific staffs, who played a key role in providing independent long-term thinking and scrutiny, would be centralised under the Chief Scientific Adviser;

g. a new Defence Arms Control Unit, organisationally separate from the Defence Staff, would bring together military and civilian staffs working in this important area. The MOD would continue to work closely with the Foreign and Commonwealth Office who were the lead Department on these issues.

As a result of all of these changes there would be substantial savings in posts at senior levels and he was at present addressing the savings to be made throughout the new organisation.

He had held a number of meetings with the Chiefs of Staff and others concerned since receiving the recommendations of the Steering Group in the middle of June. The Chiefs of Staffs had initially seen advantage in the new system in terms of concentrating policy matters in a mixed military/civilian staff in the centre of the Ministry and in the central control of operations; but they had expressed concern about the capability of the Service Chiefs of Staff to fulfil their responsibilities. In the light of these concerns he had agreed the arrangements recommended to him by the Steering Group for the staffs under each of the Service Chiefs of Staff and had emphasised the importance of working arrangements which would enable matters to be addressed on both defence and Service bases. The Chiefs of Staff had concluded that the new organisation could be made to work, though they would prefer the existing arrangement. Over the last few days, however, their views had hardened. They had put it to him that over a period of time the position of the Service Chiefs of Staff would be so weakened that the quality of the advice they could offer the Government in a crisis would ultimately be diminished. They had asked that their grave concern should be expressed, since in their view the Government might live to regret these decisions in time of war. These were strong words and he would not wish to conceal them from his colleagues.

He had of course discussed the Chief of Staff's views with them at length. He had told them that he did not believe that the conclusion they had reached was supported by detailed analysis. There was nothing intrinsic in the new organisation which would distance them from crucial decisions affecting their Services: and such a train of events could not be set in hand in the future without them being able at once to bring the issue to the Prime Minister.

The Secretary of State did not believe that there were real grounds for concern about command and control arrangements in war. Here the objective was simply to build on and extend the arrangements, centred on the CDS, which had served so well in the Falkland Islands campaign. The Chiefs of Staff were, however, very concerned about the proposal in the new organisation to place within the Defence Staff all of the professional military staff concerned with the Service programmes, which involved the allocation of resources between the services and the definition of equipment requirements. They would much prefer the existing arrangement under which each Service Chief of Staff directly controlled his own staff in this area and a small central staff scrutinised what was proposed and sought a defence solution. In other words, they were seeking to maintain the status quo in the area which went to the heart of the resource allocation process, where there was a broad view both outside the MOD and at lower levels within the Ministry itself that the present fragmented arrangements were inadequate to the task. If defence solutions to problems, rather than those which suited individual Service interests, were genuinely to be achieved, there was no room for making concessions to their point of view in this area.

He therefore intended to proceed on the basis which he had outlined in his consultative document and which the Steering Group had now recommended to him. The Chiefs of Staff had assured him that, if that was his decision, they would loyally work with him to make the new system work. The Prime Minister had seen the Chief of Staff the previous day and had reassured them about their place within the new organisation. Subject to the views of Cabinet colleagues, he would circulate a draft White Paper on the lines described to Cabinet on the following day and intended to publish it on 19 July.

THE PRIME MINISTER said that she had seen the CDS on the previous day. The CDS had assured her that he would work loyally to implement the proposed reorganisation, but he felt bound to report to her the concerns which had been expressed to him by the Chiefs of Staff, who were very disturbed by the decisions impending. She had therefore held a subsequent meeting with the Chiefs of Staff, themselves when she had endeavoured to reassure them that their role in the formulation of policy would not be diminished by the organisational changes and that they would be provided with staff fully adequate to the discharge of this function. She had explained that the new central

Defence Staff was to be constructed around the building blocks provided by the single service elements of the existing Defence Staff. The roles of the Chiefs of Staff would in fact be enhanced by the reorganisation: it was clear that previous decisions on weapon procurement, for example that on Stingray, could not have been taken without full reference to the individual services concerned, and this situation would not be changed. The CDS and the Service Chiefs of Staff would, as before, play a central role in such decisions. She had made it clear to the Chiefs of Staff that their right of direct access to the Prime Minister would remain and she had suggested that there should in future be an annual meeting between the Prime Minister and the Chiefs of Staff which would underline this. She had explained that the proposed changes in the MOD would be reviewed in due course. They were part of an evolutionary process and she was convinced that they should proceed as planned. She had expressed her confidence that the Chiefs of Staff would work loyally to put the changes into effect. She understood the inevitable difficulties of moving from the familiar to the novel. There was, however, no question of moving towards unification of the three services as Canada had done. In the light of this explanation, the Chiefs of Staff had said that they accepted that the reorganisation would go ahead. She hoped that the Cabinet would endorse the proposals made by the Secretary of State for Defence and also express their gratitude to the Chiefs of Staff for their loyalty and effectiveness.

In discussion, it was noted that there was no uniformity among Western countries in their defence organisations, but that the changes proposed in the United Kingdom had stimulated debate elsewhere and had evoked a sympathetic response. At lower levels of the three services there appeared to be a very substantial measure of support for, or at least understanding of, the reorganisation. Much of the opposition to the proposed changes emanated from retired senior officers of the armed services, some of whom held very strong views on the matter and had recently been more than usually active in the House of Lords. General support was expressed in the discussion for the reorganisation and for its implementation as planned, although it was suggested that difficulties might arise over its public and Parliamentary presentation and that appropriate steps should be taken to anticipate this.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet noted the report made to it by the Secretary of State for Defence, endorsed his assessment of the situation which had arisen, and agreed that he should proceed with the publication of the White Paper setting out in detail the reorganisation of the MOD which was envisaged.

The Cabinet -

Invited the Secretary of State for Defence to proceed with the publication of the White Paper on the reorganisation of the Ministry of Defence in accordance with the Prime Minister's summing up.

Cabinet Office

6 July 1984

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 25th Conclusions, Minute 4

Thursday 5 July 1984 at 10.00 am

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute
Previous
Reference:
CC(84) 24th
Conclusions,
Minute 4

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THE SECRETARY OF STATE FOR ENERGY said that pits fully working numbered 35 with a further 10 on holiday; those with some production numbered five with a further three on holiday; and pits with some workers in attendance numbered four with a further one on holiday. The gradual increase in the number of miners working, after allowance had been made for holidays, was continuing and there had been some encouraging developments in North Derbyshire. The number of coal trains running had the previous day shown a small improvement on the recently reduced levels and British Rail hoped for further improvement shortly. Talks were resuming that day between the National Coal Board (NCB) and the National Union of Mineworkers (NUM). The NCB's position had always been that it was prepared to continue discussions on the constructive basis which had emerged at the Edinburgh meeting but which had then been abandoned at the subsequent Rotherham meeting. He had drawn attention to this in answering Parliamentary Questions the previous Monday. The NUM General Secretary, Mr Heathfield, had indicated in a press interview that there might be a basis for negotiation over the definition of the grounds on which a pit might be deemed to be exhausted, but had subsequently been prevented by the NUM President, Mr Scargill, from developing these ideas on television. It was not clear whether any useful progress would be made at the talks. If they broke down, the NCB would be ready to make available promptly to the media a statement of its position and the advantages to the miners of the offers already on the table. The NUM's Delegate Conference would be taking place the following week but was likely to be dominated by left-wing delegates as those recently elected in areas where miners were not on strike had not yet taken office.

THE HOME SECRETARY said that the police were making strenuous efforts to prevent intimidation of those miners who wished to return to work. He had drawn attention to these efforts in a speech the previous weekend in the hope of encouraging those suffering from intimidation to seek assistance from the police. Police operations to control picketing had continued to be successful. The South Yorkshire Police Authority, where there was a left-wing majority, was however opposed to such operations. It had withdrawn the Chief Constable's discretion to incur expenditure of up to £2,000 without prior approval and refused authority

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for expenditure on providing accommodation for police support units from other forces. He had made it clear that the Chief Constable had his full backing in his operations to maintain law and order. The Attorney General had the previous day sought a judicial review of the Police Authority's actions and it was expected that the court would declare them to be unreasonable. The Attorney General was also considering whether he should seek an injunction preventing the Police Authority from suspending the Chief Constable on improper grounds but, since a threat of suspension had not yet been made, this might not be necessary.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that there were still no significant problems for industry, although suppliers to the NCB were facing some difficulty. Iron ore, coal and coke were now being delivered to Llanwern and Ravenscraig by road convoys, and reasonable levels of production were being maintained at all the British Steel Corporation's major plants.

The Cabinet

Took note.

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6 July 1984

SECRET

Sir Robert Armstrong
(Round Volume)

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LIMITED CIRCULATION ANNEX

CC(84) 25th Conclusions, Minute 4

Thursday 5 July 1984 at 10.00 am

INDUSTRIAL
AFFAIRS

Non-
Industrial
Civil
Service Pay
Negotiations
1984

THE CHANCELLOR OF THE EXCHEQUER said that, although the pay settlement date for the non-industrial Civil Service was 1 April 1984, no settlement had yet been reached. The Government's initial offer of 3 per cent had been increased to 3.7 per cent and then, on 31 May, to around 4.5 per cent overall. This comprised an increase of 5 per cent for those on flat rate salaries and maximum scale points and 4 per cent for others, with a minimum increase of £3 per week. The unions had recommended rejection of the offer, and this recommendation had been supported in consultations with their members. The Ministers most closely concerned had the previous day reviewed the position which had now been reached, and had concluded that the unions should be told the Government was not prepared to improve its offer, and that when, as was likely, the unions asked for arbitration, this should be refused by the Secretary of State for Employment on grounds of policy. There were precedents for such a refusal on grounds of pay policy but the grounds on this occasion would be the need to restrain public expenditure. The unions were expected to object strongly to the refusal of arbitration. The Ministers most closely concerned had however agreed that, after allowing time for representations, the Government should take action to implement its offer in time for this to be reflected in monthly pay for August. There could be some industrial action but it was not expected to be sustained or widespread.

The Cabinet -

Agreed that the 1984 pay settlement for the non-industrial Civil Service should be dealt with on the basis outlined by the Chancellor of the Exchequer.

Cabinet Office

6 July 1984

SECRET