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CC(82) 4th
Conclusions

COPY NO 79

CABINET

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

THURSDAY 4 FEBRUARY 1982

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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

The Rt Hon Francis Pym MP
Lord President of the Council

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

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

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 Humphrey Atkins MP
Lord Privy Seal

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

SECRET

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery (Items 2 and 3)
Mr P L Gregson (Items 4 and 5)
Mr D M Elliott (Items 2 and 3)
Mr D J L Moore (Items 4 and 5)
Mr D H J Hilary (Item 1)
Mr L J Harris (Item 1)

C O N T E N T S

Item	Subject	Page
1.	PARLIAMENTARY AFFAIRS	1
	London Transport Fares	1
2.	FOREIGN AFFAIRS	
	Poland	3
	United States	3
3.	COMMUNITY AFFAIRS	
	1982 Community Budget	4
4.	INDUSTRIAL AFFAIRS	
	British Rail	5
	British Leyland	5
	De Lorean	6
5.	ALTERNATIVES TO DOMESTIC RATES: NEXT STEPS	6

PARLIAMENTARY
AFFAIRS

London:
Transport Fares

Previous
Reference:
CC(81) 41st
Conclusions,
Minute 1

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

THE SECRETARY OF STATE FOR TRANSPORT said that the Government were in a strong position to counter the arguments being put forward by the Greater London Council (GLC) that the recent ruling by the House of Lords would compel them to cut subsidies to London Transport (LT) to the point where LT would be forced to raise their fares beyond the 100 per cent increase planned for 21 March. It was proving more difficult to convince the public that the blame for the increase already announced rested squarely with the financial mismanagement of the GLC. A massive campaign had been mounted by the GLC, and by the unions and other pressure groups with GLC support, and the Government had so far had little success in getting across the point that, while there was no objection and no legal bar to a reasonable subsidy being paid to LT, the reductions in fares imposed by the GLC had involved an excessive burden on the London ratepayers. The Labour majority on the GLC must be held to blame for the resulting unfairness and the other consequences, including the effects of any block grant penalties.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Attorney General had now given a written opinion which made it clear that the GLC, like other local authorities, had a fiduciary duty to strike a reasonable balance between the provision of services and the level of their rates. This meant in the context of LT that the GLC were free to pay reasonable subsidies, provided that they were paid in the context of a policy designed to provide efficient and economic services without excessive fare increases. LT had received legal advice in similar terms, but the GLC's advice was that the House of Lords' ruling obliged LT to break even without subsidy. The GLC had also argued that by providing subsidies to LT they would incur block grant penalties, and would therefore be held to be failing in their fiduciary duty to London ratepayers. The Attorney General had advised that a local authority did not necessarily breach its fiduciary duty by raising its expenditure to the point where it incurred penalties, provided that it did so in a way which struck a reasonable balance between the various interests. The GLC incurred additional penalties as a result of paying subsidies to LT because of their overspending over the whole range of their activities, including their expenditure of £250,000 on an advertising campaign in support of their fares policy.

THE PRIME MINISTER, summing up the discussion, said that it was of great importance that the Government should get across the message that any difficulties which the GLC experienced in paying reasonable subsidies to LT stemmed from their irresponsible general overspending, not just from their London Transport fares policy. All Ministers should take every opportunity to ensure that the Government's position was clearly explained, and the support of the Conservative Councillors of the GLC in conducting a more effective campaign against the policies of the majority party should be enlisted. The Attorney General's advice would be circulated to all members of the Cabinet as background information. The Secretary of State for Transport should circulate a note setting out the subsidies which had been and still could be paid to LT by the GLC, while the Secretary of State for the Environment should prepare a separate note on the line to be taken on GLC expenditure generally. The Paymaster General should also circulate a note for the use of all Ministers and other Government supporters which clearly identified the way in which the GLC had wasted ratepayers' money on excessive and unnecessary expenditure.

The Cabinet -

1. Instructed the Secretary of the Cabinet to arrange for the Attorney General's advice on the fiduciary duties of local authorities to be circulated.
2. Invited the Secretary of State for Transport to circulate a note setting out the history and present position on the payment of subsidies by the Greater London Council to London Transport.
3. Invited the Secretary of State for the Environment to circulate a note on the general expenditure policies of the Greater London Council.
4. Invited the Paymaster General to prepare a note for the use of all Ministers and other Government supporters dealing with particular items of irresponsible expenditure by the Greater London Council.

FOREIGN
AFFAIRS

Poland

Previous
Reference:
CC(82) 3rd
Conclusions,
Minute 2

2. THE LORD PRIVY SEAL said that the internal situation in Poland remained generally calm; but there had been trouble in Gdansk on 30 January, and further outbreaks were possible at any time. General Jaruzelski's Government had announced only minor relaxations in the martial law regime and were showing no sign of movement towards the kind of normalisation demanded by the West. As regards the Western response, a difficult situation had developed in the previous week, with the Americans showing signs of wishing to go much further than their European allies, who were themselves divided over what should be done. There had been a real danger both of damaging public disunity within the Alliance and of the United States adopting measures which would do disproportionate harm to their allies' interests. The Prime Minister had therefore invited the United States Secretary of State, Mr Haig, to visit London on his way home from the Middle East on 29 January, and had warned him of the risks involved. This had paved the way for a reasonably successful meeting of the North Atlantic Council (NAC) on 3 February, which had agreed on a satisfactory list of European measures against both Poland and the Soviet Union. The Germans had taken a more robust and helpful line, and the Americans had made clear that they would not seek to precipitate an immediate Polish default. Further United States measures in other areas had not been mentioned at the NAC, but remained under consideration in Washington; it was to be hoped that Europe would be consulted about these before any decisions were taken. Meanwhile officials were giving urgent further consideration to the implications of terminating the Anglo/Soviet Maritime Agreement and to the possibilities of restricting Soviet shipping; the position would need to be clarified before any announcement could be made.

United States

THE CHANCELLOR OF THE EXCHEQUER said that President Reagan's State of the Union message had not adequately addressed the anxieties which were widely felt about the prospective United States budget deficit. No tax increases or expenditure cuts had been proposed, and longer-term measures for transferring functions from the Federal Government to the States had no immediate relevance. The initial reaction in the market had been moderated by reassuring statements from both the United States Treasury and the Federal Reserve, but since then a further set of high money supply figures had been released, and a number of banks had raised their prime rates. Three-month Eurodollar rates were now $15\frac{1}{2}$ per cent, or $1\frac{1}{2}$ per cent higher than United Kingdom interbank rates. The broad economic objectives being pursued by the United States Government clearly deserved support, but a sustained campaign would be needed to bring home to the Americans the dangers inherent in a large budget deficit and high interest rates.

He himself had sought to contribute to this process in a Parliamentary speech the previous week, and the Governor of the Bank of England had spoken in the same vein more recently. A helpful attitude had also been taken by the Chancellor of the Federal Republic of Germany, Herr Schmidt, and the Prime Minister of France, Monsieur Mauroy, at their meeting in Bonn on 29 January.

The Cabinet -

Took note.

3. THE LORD PRIVY SEAL said that, as he had announced in a statement to the House of Commons on the previous day, the Council of Ministers had now decided that it would institute proceedings against the European Parliament and the Commission in the European Court in respect of the disputed items in the 1982 Community budget as adopted by the Parliament. The amounts at issue were relatively small - representing about £30 million a year so far as the United Kingdom's share was concerned - but the United Kingdom and the majority of its partners believed that the Parliament had acted illegally in adopting a larger budget than the one agreed by the Council. To persuade the Council to act together in this way, it had been necessary for the United Kingdom to accept that all member states should pay their contributions on the basis of the budget as adopted. The Council had also decided to open discussions with the Parliament as soon as possible to resolve the problem.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

1982 Community
Budget

Previous
Reference:
CC(82) 3rd
Conclusions,
Minute 3

INDUSTRIAL
AFFAIRS

British Rail
Previous
Reference:
CC(82) 3rd
Conclusions,
Minute 4

4. THE SECRETARY OF STATE FOR TRANSPORT said the leaders of the Amalgamated Society of Locomotive Engineers and Firemen (ASLEF) were considering an appeal to take part in the inquiry which the Advisory, Conciliation and Arbitration Service (ACAS) had asked Lord McCarthy to undertake. It was unlikely that the Inquiry would go ahead if ASLEF refused to take part. Meanwhile ASLEF had announced that there would be further one-day strikes on Tuesday, 9, Thursday 11 and Sunday 14 February, rather than on Wednesday, Thursday and Sunday as had been the practice previously. The British Railways Board (BRB) had announced that Sunday work by those employees who were not in dispute would be limited and the unions concerned had accepted this. Evidence was becoming available that some freight and passenger traffic might be diverted permanently to the roads as a result of the industrial action. Commuter morale had so far been high but there were some signs of increasing public pressure for action to end the dispute. The next step was to see whether the ACAS Inquiry went ahead, and then for Ministers to consider in the following week a paper about the means which might be available to bring about an early resolution of the dispute.

The Cabinet -

1. Took note.

British Leyland

Previous
Reference:
CC(81) 34th
Conclusions,
Minute 5

THE SECRETARY OF STATE FOR INDUSTRY said that there was a strike in progress at Leyland Vehicles, the truck and bus subsidiary of British Leyland (BL), about the planned reorganisation and consequential redundancies. This had now been made official by the Amalgamated Union of Engineering Workers (AUEW). At a meeting the previous day with union representatives BL's management had made it clear that the strike could put in jeopardy the future of BL's truck and bus business, but the talks had been inconclusive, and a further meeting had been arranged on Monday 15 February. Meanwhile the BL Board, at its meeting on 10 February, would consider the action which might be necessary, including the possible issue of dismissal notices. Feelings had been exacerbated at the Bathgate plant in Scotland because of the disposal of the tractor business to another company. It seemed likely that, as in other BL disputes, the management would need to go to the limit in putting at stake the future of the truck and bus operations.

The Cabinet -

2. Took note.

De Lorean

Previous
Reference:
CC(82) 3rd
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR NORTHERN IRELAND reported on the position of De Lorean Motor Cars Limited, and said that he would report further to his colleagues the following week in the light of advice from Sir Kenneth Cork and the Coopers and Lybrand team.

The Cabinet -

3. Took note.

5. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(82) 2) on alternatives to domestic rates.

The Cabinet -

1. Invited the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer and with the Secretaries of State for Scotland and for Wales, to report further in May:-

i. on the outcome of the public consultations on the Green Paper 'Alternatives to Domestic Rates' (Cmnd 8449) and of the further interdepartmental study by officials of the fiscal and distributional effects of the alternatives under consideration;

ii. on what early changes could be made to remove anomalies and make improvements in the present system of domestic rates.

2. Invited the Secretary of State for Education and Science, in consultation with the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for the Environment, other Ministers concerned and the Central Policy Review Staff, to examine the case for changes in local government's present financial responsibility for education services, the options for changes, and the implications of any such changes for other local government services, and to report in May.

3. Agreed to resume discussion in May of the alternatives to domestic rates in the light of the reports by the Secretaries of State for the Environment and for Education and Science.

Cabinet Office

4 February 1982

ALTERNATIVES
TO DOMESTIC
RATES: NEXT
STEPS

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Sir Robert Armstrong
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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 4th Conclusions, Minute 5

Thursday 4 February 1982 at 10.30 am

The Cabinet considered a memorandum by the Secretary of State for the Environment (C(82) 2) on alternatives to domestic rates.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, although the Conservative Party had been committed since 1974 to the "abolition of the rates", there was still no agreement either within the Government or among its supporters on the way forward. He would be ready to make further proposals in May in the light of the current consultations, which would end on 31 March, on the Green Paper "Alternatives to Domestic Rates" (Cmnd 8449) and of further inter-departmental work by officials on "gainers and losers" under the alternatives. In the meantime he would welcome the views of the Cabinet on whether he should attempt, during the consultative period, to canvass with Conservative Members of Parliament the merits of any particular option, and on whether the aim should be to legislate in this Parliament or to publish a White Paper in 1983, indicating the Government's intentions with a view to legislation later. If it were accepted that the present domestic rating system should continue, it would be possible to legislate in the present Parliament to permit the introduction of a reformed rating system, based on capital valuation, in 1988 or 1989; but in his view this course would be unacceptable to the Conservative Party. There seemed to be some support for reducing rate bills by transferring some or all of the financial responsibility for education from local to central Government, and consideration should be given to whether this should now be examined in further detail. These changes, together with relatively minor changes to remove anomalies and make improvements in the present system, were the only possibilities for legislation in the present Parliament. Mainly because of the timing of central Government computerisation programmes, a Local Income Tax could not be introduced before 1991 and a Local Sales Tax not before 1987; for both these taxes legislation in 1983-84, even if practicable, would be premature. A Poll Tax might be introduced in 1985 or 1986 but it was doubtful whether legislation could be ready for

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ALTERNATIVES
TO DOMESTIC
RATES: NEXT
STEPS

1983-84. All three of these taxes, and Local Income Tax in particular, were opposed by some groups and there was a risk that any of them would be met with a blocking vote. It was desirable that the Central Policy Review Staff's study of the relationship between central and local Government should keep pace with interdepartmental work on the outcome of the consultations, on the analysis of gainers and losers, and any new work on the financing of the education services.

In discussion the following main points were made -

a. Although there were considerable difficulties in implementing any of the main alternatives under discussion, some action had to be taken. There was widespread discontent with the inequities of the present domestic rating system, and with the complexities of the Rate Support Grant system, and an expectation that the Government would take action to deal with these. Although it was not practicable to legislate this Parliament to enable the introduction of any of the three alternative taxes under discussion, the Government should be ready to state before the next General Election its firm intentions for the system by which the local authorities raise revenue. In the meantime action should be taken as soon as possible to deal with anomalies and to make improvements in the present system.

b. Opinion differed on the timing of a White Paper in which the Government might set out its proposals. A White Paper in 1983 could enable opponents to make use in their own proposals of the good points and to criticise the Government on other counts. It might, therefore, be better to postpone any such White Paper until immediately before the Election. On the other hand, the Government could not remain silent following the conclusion in March 1982 of the consultative period on the Green Paper, and a White Paper in 1983 seemed inevitable.

c. It would be premature to reach conclusions on any of the options until the consultations on the Green Paper had been completed, and before the analysis of gainers and losers was available. In the light of this further information it would then be necessary to look for a solution which dealt both with the problem of unfair distribution and with that of high annual increases in the local authorities' financing demands.

d. Mr Terence Higgins MP and others had proposed the abolition of domestic rates and the financing of local services by grants from central Government. The implications for central Government taxation, and for the Retail Price Index, would need careful consideration; the Government would be liable to widespread criticism if rates were to be reduced, or removed, at the

expense of significantly increased taxes. The system would be defensible only if central Government were able to impose ceilings on the expenditure of each local authority. Such a change would, however, be criticised by many as bringing about a fundamental and undesirable change in the balance of power between local and central Government.

e. It was agreed that the possibility of revising the arrangements for financing local education services should be considered further, although such a change would give rise in some degree to the same problems that were applicable to a general replacement of rates by central Government financing. Account should be taken of the implications for other local government services, and in particular those financed by specific grants, of any changes proposed for financing education services.

f. Further consideration should be given to the problem of the industrial and commercial rates which were a growing burden on industry and a continuing source of complaint.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet needed to decide on action to deal with the deep and growing criticism of the rating system, and to make firm proposals before the General Election. They would resume their discussion later in the year, if possible in May, when the Secretary of State for the Environment would be able to advise further in the light of the consultations on the Green Paper, Cmnd 8449, and of the analysis of gainers and losers under various alternatives. The Cabinet agreed that urgent consideration should be given to the possibility of central Government taking over all or part of the financial responsibility for education from local government, although they recognised the difficulties in this proposal and, in particular, the need to take account of the implications for other local government services and for the relationship between central and local government.

The Cabinet -

1. Invited the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer and with the Secretaries of State for Scotland and for Wales, to report further in May:

i. on the outcome of the public consultations on the Green Paper "Alternatives to Domestic Rates" (Cmnd 8449) and of the further inter-departmental study by officials of the fiscal and distributional effects of the alternatives under consideration;

ii. on what early changes could be made to remove anomalies and make improvements in the present system of domestic rates.

2. Invited the Secretary of State for Education and Science, in consultation with the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for the Environment, other Ministers concerned and the Central Policy Review Staff, to examine the case for changes in local government's present financial responsibility for education services, the options for changes, and the implications of any such changes for other local government services, and to report in May.

3. Agreed to resume discussion in May of the alternatives to domestic rates in the light of the reports by the Secretaries of State for the Environment and for Education and Science.

Cabinet Office

8 February 1982