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E(LF) (86) 6th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 20 NOVEMBER 1986 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

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

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

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Moore MP
Secretary of State for Transport

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Nicholas Ridley MP
Secretary of State for the
Environment

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

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

The Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry

Dr Rhodes Boyson MP
Minister of State, Department of
the Environment (Minister for
Local Government)

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Chief Secretary, Treasury

Mr John Major MP
Minister of State
Department of Health and Social
Security (Minister for Social Security)

Mr Michael Ancram MP
Parliamentary Under-Secretary of State
Scottish Office

SECRETARIAT

Mr J B Unwin
Mr A J Langdon
Mr J E Roberts

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EXTENSION OF THE LONDON DOCKLAND LIGHT RAILWAY

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the London Docklands Development Corporation (LDDC) and London Regional Transport (LRT) were proposing to seek legislation in the current session to provide for the extension eastwards of the London Docklands Light Railway. The draft Bill would need to be deposited in the Private Bill Office by LRT by 27 November, but the necessary plans were required by Standing Orders to be deposited by 10.00 am that morning. The LDDC had estimated that the scheme would cost £125 million, but that it was economically justified since it would increase land values by £200 million. Under normal circumstances he would wish to see the full economic case before indicating that the Government would support this proposal. But if the Government delayed the introduction of the Bill, they would be accused of hindering progress in the regeneration of docklands. Formal consent from the Secretary of State for Transport was not required before the plans could be deposited, but the LDDC and LRT would not wish to proceed against the Government's wishes.

He apologised for bringing this issue before colleagues at such short notice and without papers which set out the issues; although his officials and those of the Department of Transport had been in discussion with the LDDC and LRT for some time, he had only become aware of it late the previous day.

THE PRIME MINISTER, summing up a short discussion, said that it was impossible to take decisions on matters that were presented to colleagues in this way. Given the good record of the managers of the scheme and the fact that they had apparently had the matter under discussion with officials, however, the Government would not wish to close the option of the Bill going ahead. The LRT should therefore be informed that there was no objection to the plans being deposited provided it was clearly understood that the Government had not yet formed a view on their proposal and were not committed to it in any way. The Secretary of State for the Environment should circulate a paper the following day, with a view to a discussion if necessary in the Ministerial Sub-Committee on Economic Affairs (E(A)) very early the following week.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed that, on the understanding indicated by the Prime Minister, London Regional Transport should not be prevented from depositing their plans before Parliament.
3. Invited the Secretary of State for the Environment to circulate a paper the following day.

POSSIBLE EXEMPTION FOR THE MENTALLY HANDICAPPED FROM THE COMMUNITY CHARGE

The Sub-Committee considered the case for exempting the mentally handicapped from liability for the Community Charge. They had before them a minute of 19 November from the Secretary of State for Scotland to the Prime Minister.

THE SECRETARY OF STATE FOR SCOTLAND said that it was an important principle that the community charge which was to replace domestic rates should be a universal obligation. During the passage of the Scottish legislation there would be great pressure to exempt various categories including for example the disabled. It would be important to take a robust line, although ultimately it might be necessary to make some concessions in order to secure the Bill. He considered, however, that there was a special case for exempting the mentally handicapped since the principle of accountability could not be extended to those unable to make rational decisions. He recognised that there would be difficulties of definition, and that further work would be required to draft a workable scheme, but he sought authority to indicate that the Government were prepared to make a concession on this issue.

In discussion the following points were made

- a. There was no general bar on those incapable of making rational decisions from voting in local elections, and it would be unwise to throw open the question of local government franchise.
- b. There was a large range of mental handicap. Many of those who were less severely handicapped were as capable of exercising rational choices as many of the ordinary population. Conversely, many elderly people were incapable of making rational choices, yet

no exemption was proposed for them. Those with the most severe handicap were living in hospital and would therefore be exempt from the community charge in any event.

The thrust of policy was towards community care for the mentally handicapped. To provide an exemption from the community charge would run contrary to this.

d. It would be unfortunate to introduce a fiscal incentive for parents to have their children certified as incapable. Many parents struggled hard to keep their handicapped children at home and to shield them from stigmatisation.

e. It would be difficult in practice to enforce the community charge against mentally handicapped people. Each adult, would, unless married, be individually responsible for paying the charge. It would not be possible to proceed against, for example, parents in respect of their children.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee recognised that there could well be strong Parliamentary pressure to make concessions for the mentally handicapped. But if the Government were to concede on this point at the outset, they would be under increasing pressure to make wider and wider concessions for other groups. The most severely handicapped were likely to be in hospital and thus would in any case be exempt from the community charge. The Secretary of State should make this clear, but he should not offer any further concession at the outset, although he should be prepared to listen to the debate. In the meantime, he should give further consideration to how a practicable scheme of exemption might be devised should one prove necessary, and in particular what degree of mental handicap might provide the basis for exemption and how this might be defined.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Scotland to proceed accordingly.

3. NON-DOMESTIC RATES

The Sub-Committee considered the indexation of the proposed national non-domestic rate poundage. They had before them a minute of 18 November from the Secretary of State for the Environment to the Prime Minister.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that a key feature of the new local government finance system was the setting of a uniform national non-domestic rate, set at the national average and thereafter linked to a measure of inflation. Since the aggregate total of non-domestic ratable values increased annually by about 1-2 per cent, if the poundage increased annually in line with inflation the actual yield would increase slightly in real terms. Some colleagues had suggested that industry might be relieved of part of the burden of rates either in setting the initial level of the national average poundage, or by increasing it by, say, 1 percentage point less than the rate of inflation. In his view it would not be right to index at less than the rate of inflation, because this would put undue pressures on local government finance and lead in turn to pressure for extra central government grant. He therefore proposed that the non-domestic poundage should be increased annually in line with inflation, and that the Retail Price Index (RPI) should be used as the appropriate measure.

THE PRIME MINISTER, summing up the discussion, said that statutory indexation of the national non-domestic poundage was intended to provide an important safeguard for industry and commerce. It might not always be appropriate to allow local authorities the full benefit of the buoyancy, and indexation should therefore represent the upper limit of the annual increase. Within that upper limit it would be right for the Chancellor of the Exchequer to review annually the appropriate share of local

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government finance that industry and commerce might be expected to bear. The initial poundage at the start of the new system would need to be considered carefully nearer the date of introduction and should not itself be stipulated on the face of the legislation. The legislation should, however, provide thereafter for the poundage to be increased annually by order by up to a maximum of the rate of inflation over the appropriate preceding twelve month period as measured by the RPI.

The Sub-Committee -

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

Cabinet Office

20 November 1986

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