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E(81) 18th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
THURSDAY 21 MAY 1981 at 9.15 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 Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

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 John Biffen MP  
Secretary of State for Trade  
(Item 2)

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of  
Lancaster and Paymaster General

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  
Social Services

The Rt Hon Mark Carlisle MP  
Secretary of State for  
Education and Science

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

Mr J R Ibbs  
Central Policy Review Staff

## SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D J L Moore

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1. NATIONAL COAL BOARD FINANCES: 1981-82  
Previous Reference: E(81) 16th Meeting, Item 1

THE PRIME MINISTER reported the outcome of further discussion between the Ministers primarily concerned of the National Coal Board's finances in 1981-82. The Committee's discussion and the conclusions reached are recorded separately.

2. LOCAL GOVERNMENT FINANCE  
Previous Reference: E(81) 17th Meeting

The Committee considered memoranda on local government finance by the Secretary of State for the Environment (E(81) 60), the Secretary of State for Scotland (E(81) 55) and the Secretary of State for Wales (E(81) 56).

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Secretary of State for the Environment should inform Parliament (preferably by Written Answer to an arranged Question) on 1 June, and the Consultative Council on Local Government Finance on 2 June, that he was inviting each of the English local authorities to submit by mid-July revised budgets for their current expenditure in 1981-82. The Committee agreed on balance that, in view of the prospective over-spending revealed by the authorities' present budgets, the Secretary of State for the Environment should warn that the Government was prepared to consider withholding grants totalling up to £450 million, should continued overspending make this necessary. He should make clear that the decisions on what grant, if any, was to be withheld from each authority would be taken later in the year in the light of the revised budgets, no penalty would be imposed on any authority spending within its volume target and that, for the rest, the intention was that the burden would fall mainly on those authorities which were persisting in planning to spend substantially in excess of their volume targets and their Grant Related Expenditure. So that an unrealistically heavy burden did not fall on the Metropolitan authorities, including the London boroughs,

the distribution of the grant to be withheld would be based on the 'lower Grant Related Expenditure differential' method. In making this announcement the Secretary of State for the Environment should not say anything specific about the measures which the Government might or might not introduce at a later stage to tackle the deep-seated problems of the rating system and of public expenditure by local authorities; he could however indicate the Government's intention to introduce interim measures on local government finance in the next session of Parliament, and to produce a consultative document on more fundamental changes which might be made in the longer term with a view to legislation in the 1982-83 session. The Committee would like to consider proposals at an early date, both for the content of the interim legislation and the content of the consultative document dealing with long-term reform. In view of the judgement of the Secretary of State for Wales that there was a good prospect of the Welsh local authorities voluntarily taking action to keep their budgets in line with the targets set to them, the Committee agreed that he should defer his decision on whether to withhold grants until 1982-83 when firm information on the outturn for 1981-82 would be available. The Committee also agreed that the Secretary of State for Scotland should have authority to settle with the Chief Secretary, Treasury and the Secretary of State for the Environment on the action he should take to deal with prospective overspending by the Scottish local authorities in 1981-82, provided that such action was consistent with the decisions the Government had taken on the treatment to be accorded to overspending authorities in England.

The Committee -

1. Invited the Secretary of State for the Environment -

i. to circulate a draft, on the lines indicated by the Prime Minister in her summing up of their discussion, of the announcement which he would make to Parliament (preferably by way of Written Answer rather than by oral statement) on 1 June on local authority expenditure in England.

ii. To circulate a memorandum setting out his proposals for measures to be implemented, subject to legislation where necessary, from April 1983, and for the options to be considered and the procedures for consultation, for the introduction in the longer-term of alternatives to the domestic rating system.

2. Approved the proposal in paragraph 15b. of the Secretary of State for Wales' memorandum E(81) 56.

3. Invited the Secretary of State for Scotland to decide, in consultation with the Secretary of State for the Environment and the Chief Secretary, Treasury, on the action which he should take to deal with prospective overspending by the Scottish local authorities in 1981-82 and to ensure that this was consistent with the action which the Committee had agreed should be taken for the English local authorities in that year.

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26 May 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 18th MEETING MINUTES, ITEM 1  
THURSDAY 21 MAY 1981 at 9.15 AM

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1. NATIONAL COAL BOARD FINANCES: 1981-82

Previous Reference: E(81) 16th Meeting Minutes, Item 1

THE PRIME MINISTER recalled that, at their meeting on 13 May, the Committee had agreed, among other things, that the National Coal Board's (NCB) External Financing Limit (EFL) for 1981-82 should be revised to £1,100 million and had invited the Secretary of State for Energy to agree with the Chief Secretary, Treasury, what should be the approved level of capital investment by the NCB in 1981-82. The two Ministers had now agreed, with the approval of herself and of the Chancellor of the Exchequer, that the capital investment approval for 1981-82 should be set at £805 million, which was the same in money, though not real, terms as the Board's investment in 1980-81. The other decisions which the Committee had taken on the NCB's finances, including the EFL of £1,100 million, remained unchanged.

In a brief discussion one Minister drew attention to the pressures which there could well be to increase the EFL later in the year, given the pay assumption on which the figure of £1,100 million was based.

The Committee -

Took note.

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26 May 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

—  
MOST CONFIDENTIAL RECORD  
—

E(81)18th MEETING MINUTES, ITEM 2  
THURSDAY 21 MAY 1981 at 9:15 AM  
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2. LOCAL GOVERNMENT FINANCE

Previous Reference: E(81)17th Meeting.

THE COMMITTEE considered memoranda on local government finance by the Secretary of State for the Environment (E(81)60), the Secretary of State for Scotland (E(81)55) and the Secretary of State for Wales (E(81)56).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he wished to announce in Parliament on 1 June, and at the Consultative Council on Local Government Finance on 2 June, that, in view of the prospective overspending of £1,350 million cash by comparison with the volume targets set for their current expenditure in 1981-82, he was inviting each of the English local authorities to submit revised budgets to him by mid-July. He proposed that he should warn that, if necessary, the Government would withhold up to £900 million grants - or £774 million if no account were taken of the current expenditure of the Metropolitan police - but make clear that decisions on any grant to be withheld would be taken later in the light of the revised budgets. He would explain that those authorities which were achieving their volume target would be entirely exempt from grant penalty and those that were within 4 per cent of it would be partly exempt. To avoid the risk of removing the incentive to find savings, he would not announce now that those authorities which were spending below their Grant Related Expenditures (GRE) but above their volume targets might be exempted from penalties; this could be considered further when the Committee came to take their actual decisions on the grants to be withheld. To avoid putting an

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unrealistically heavy burden on the Metropolitan authorities, and in particular the London boroughs, the distribution of the grant holdback should be based on the 'lower GRE differential' method; though this would mean that initially more of the burden would appear to fall on the Shire counties. He wished to announce at the same time that, subject to consultations and to legislation in the 1981-82 Session, the Government intended to introduce measures to impose a limit on non-domestic rate increases; to revalue the non-domestic sector (which could be done without legislation); to require specified tranches of expenditure above a certain level to be financed by supplementary rates, with those tranches other than the first subject to referendum or fresh election of the council; and to establish a new body to be responsible for improving the management efficiency of local authorities and for the appointment and supervision of the auditors. He also wished to announce that, in pursuit of its commitment to abolish domestic rates, the Government had narrowed the options to local income tax, local sales tax, poll tax or 100 per cent grant financing by central Government, and that it might be necessary to accompany such changes by reorganisation of local government. A consultation document on these alternatives could be issued in the Autumn leading to decisions in 1982, legislation in the 1982-83 Session, and implementation in the next Parliament.

THE SECRETARY OF STATE FOR SCOTLAND said that he wished to deal with the prospective overspending by the Scottish authorities in 1981-82 by selective action, under the new powers which would be available to him shortly, rather than by any general withholding of grants.

THE SECRETARY OF STATE FOR WALES said that he judged that there was a good chance that the Welsh local authorities would act voluntarily to bring their expenditure within target, and he proposed that he should not take corrective action until 1982-83 when the 1981-82 outturn figures would be available. He reluctantly agreed not to press his proposal for telling the Welsh and English local authorities now that the Government would restore at least part of the £200 million grant withheld from them for 1980-81 if the outturn figures available in the Autumn justified it.

In discussion the following were the main points made:-

- (a) Some Ministers argued that the proposed grant holdback of £900 million (or even £774 million) was far too high. It would lead to large rate increases, for which the Government would be blamed, and to painful cuts on

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services, particularly education. Because it was so high it could well provoke all authorities to unite in criticising the Government for attempting to place on them a burden with which they could not possibly cope. Those authorities which were spending above their volume targets but below their GREs would be particularly critical; they would not be aware of the possibility that they might be exempted from penalty, and they might be led to make unnecessary increases in their rates. The potential excess now revealed by the authorities' budgets was very similar to that identified a year ago for 1980-81 for which it now seemed that the threat, and subsequent imposition, of withholding £200 million grants had been successful in bringing the authorities down to about  $1\frac{1}{2}$  per cent over their targets. This suggested that a grant holdback of the same order might be appropriate for 1981-82.

(b) Other Ministers argued that, unless the Government were to abandon its plans for controlling local authority public expenditure, it had to take substantial action to deal with prospective overspend of £1,350 million. A threat to withhold as little as £200-300 million would be wholly inadequate: authorities could deal with it by rate increases, for which the Government would be blamed, and avoid volume cuts; although the measures taken in 1980-81 had been successful up to a point, the likely overspend would still be in the order of £500 million. It would be better to indicate a figure somewhere between £600 and £750 million.

(c) It was suggested that a reasonable compromise would be to threaten to withhold £450 million grants: this would be more than double the amount withheld in 1980-81, and would therefore leave no doubt of the Government's seriousness of purpose in maintaining public expenditure controls; it would not, however, be so high as to be impossible of achievement.

(d) It was arguably misleading to announce a total figure for the grants which might be withheld, since this wrongly implied that, to the extent that some authorities were exempt from penalty, the penalties on the others were correspondingly higher; the reality was that decisions had to be taken for each separate local authority against agreed criteria. Nevertheless, the Secretary of State for the Environment had better reveal the total, and explain its basis: otherwise he could be accused of attempting to duck the issue of the extent to which the Government was taking action on the

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authorities' overspending; and commentators, and the authorities themselves, would in any event add the figures up to reach the total.

(e) The Committee had not had opportunity to consider the far-reaching and contentious proposals for medium term measures to reduce the deficiencies of the present rating system and the longer term measures which might be introduced in place of the domestic rating system (set out in, respectively, paragraph 12 and paragraphs 17 and 18 of E(81)60.) The Secretary of State for the Environment should, therefore, indicate in general terms on 1 June that the Government was considering the introduction of medium and longer term measures but he should give no indication of the possibilities. It would be necessary to reach agreement as soon as possible on these issues so that, if necessary, consideration could be given to finding room for the medium measures in the 1981-82 legislative programme (though this could mean dropping another Bill to make room), and so that consultations on the longer term alternatives to the domestic rates could be put in hand. Unless the Government were soon to indicate publicly what were its proposals it would be very difficult to answer the mounting criticism from the rate-payers.

(f) It would be necessary to consider in particular the proposed constraints on supplementary rates: a referendum of the whole electorate, rather than rate payers alone, would mean that the former could vote for expenditure by the latter; fresh elections of councils would be expensive and difficult to administer. The case for introducing a revaluation of the non-domestic sector was questionable. Of the longer term options, that of imposing 100 per cent grant financing by local government was highly contentious and would be more satisfactorily expressed as 'limiting local authority expenditure'.

(g) Paragraph 3 of E(81)60 wrongly implied that the Metropolitan police, whose budget was set by the Home Secretary, were overspending.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Secretary of State for the Environment should inform Parliament (preferably by Written Answer to an arranged Question) on 1 June, and the Consultative Council on Local Government Finance on 2 June, that he was inviting each of the English local authorities to submit by mid-July revised budgets for their current

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expenditure in 1981-82. The Committee agreed on balance that, in view of the prospective over-spending revealed by the authorities' present budgets, the Secretary of State for the Environment should warn that the Government was prepared to consider withholding grants totalling up to £450 million, should continued overspending make this necessary. He should make clear that the decisions on what grant, if any, was to be withheld from each authority would be taken later in the year in the light of the revised budgets, no penalty would be imposed on any authority spending within its volume target and that, for the rest, the intention was that the burden would fall mainly on those authorities which were persisting in planning to spend substantially in excess of their volume targets and their Grant Related Expenditure. So that an unrealistically heavy burden did not fall on the Metropolitan authorities, including the London boroughs, the distribution of the grant to be withheld would be based on the 'lower Grant Related Expenditure differential' method. In making this announcement the Secretary of State for the Environment should not say anything specific about the measures which the Government might or might not introduce at a later stage to tackle the deep-seated problems of the rating system and of public expenditure by local authorities; he could however indicate the Government's intention to introduce interim measures on local government finance in the next session of Parliament, and to produce a consultative document on more fundamental changes which might be made in the longer term, with a view to legislation in the 1982-83 Session. The Committee would need to consider proposals at an early date, both for the content of the interim legislation and the content of the consultative document dealing with long-term reform. In view of the judgement of the Secretary of State for Wales that there was a good prospect of the Welsh local authorities voluntarily taking action to keep their budgets in line with the targets set to them, the Committee agreed that he should defer his decision on whether to withhold grants until 1982-83 when firm information on the outturn for 1981-82 would be available. The Committee also agreed that the Secretary of State for Scotland should have authority to settle with the Chief Secretary, Treasury and the Secretary of State for the Environment on the action he should take to deal with prospective overspending by the Scottish local authorities in 1981-82, provided that such action was consistent with the decisions the Committee had taken on the treatment to be accorded to overspending authorities in England.

THE COMMITTEE -

1. Invited the Secretary of State for the Environment -

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- i. To circulate a draft, on the lines indicated by the Prime Minister in her summing up of their discussion, of the announcement which he would make to Parliament (preferably by way of Written Answer rather than by oral statement) on 1 June on local authority expenditure in England.
  - ii. To circulate a memorandum setting out his proposals for measures to be implemented, subject to legislation where necessary, from April 1983, and for the options to be considered, and the procedures for consultation, for the introduction in the longer-term of alternatives to the domestic rating system.
2. Approved the proposal in paragraph 15b. of the Secretary of State for Wales' memorandum E(81)56.
3. Invited the Secretary of State for Scotland to decide, in consultation with the Secretary of State for the Environment and the Chief Secretary, Treasury, on the action which he should take to deal with prospective overspending by the Scottish local authorities in 1981-82 and to ensure that this was consistent with the action which the Committee had agreed should be taken for the English local authorities in that year.

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27 May 1981

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