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E(81) 22nd Meeting

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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 25 JUNE 1981 at 11.30 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 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 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

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

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

Rt Hon Michael Jopling MP
Parliamentary Secretary
to the Secretary of State for
Education and Science

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

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

SUBJECT

LOCAL GOVERNMENT FINANCE

LOCAL GOVERNMENT FINANCE

Previous Reference: E(81) 18th Meeting, Item 2.

The Committee considered memoranda by the Secretary of State for the Environment (E(81) 71) and by the Secretary of State for Scotland (E(81) 70) on local government finance.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, with the agreement of the Committee, he had already announced to Parliament that the Government would put forward medium-term measures, to come into force in April 1985, aimed at bringing home to local authorities and their electorates the consequences of high spending policies. The Cabinet had agreed that there should be legislation to this end in the 1981-82 Session. The measures he proposed, in paragraph 5 of E(81) 71, would apply only to local authorities spending at a high level in relation to their needs as measured by Grant-Related Expenditure assessments (GRES). An authority proposing to spend above its threshold level would be obliged to finance excess expenditure by a supplementary rate (the amount of which would be limited) not earlier than July and to finance any further excess by a second and later supplementary rate. This second supplementary rate could not be levied until the authority had first submitted itself for re-election; this had the advantage over a referendum that it would produce either a new Council or a clear and specific mandate for high spending financed by high rates. The legislation would enable him to prescribe ways in which supplementary rates could be limited for the non-domestic rate payer, so that the incidence of high spending could fall more heavily on the domestic rate payer. Before final decisions were taken, it would be necessary to issue a consultative document to the local authorities; he would make proposals later on the timing of this in the light of the authorities' progress in submitting revised budgets for 1981-82. He further recommended that the auditing arrangements for the local authorities should be brought under a new Audit Commission on the lines set out in his earlier memorandum E(81) 54. In the meantime, under existing powers, he would appoint private sector accountants as additional district auditors in about 16 local authorities, including both low and high spenders, with the aim of identifying the possibilities for getting better value for money. The Committee had already agreed that a consultation document should be issued in the autumn on the longer-term alternatives to the domestic rates. He recommended that officials should be instructed to prepare a framework for that document for consideration by Ministers in July, and a full draft in September.

THE SECRETARY OF STATE FOR SCOTLAND said that, apart from the proposal to make the second supplementary rate subject to re-election rather than referendum, he broadly agreed with the medium-term measures proposed for England. He would consider how they might be adapted to arrangements in Scotland and he would seek the Committee's agreement in correspondence to the issue of a consultative document for Scotland in due course.

In discussion the following were the main points made -

a. Some Ministers thought that the proposed medium-term measures were so complex and controversial that they were not worth introducing for an interim period up to the introduction of a long-term alternative to the domestic rating system; it would be better to introduce some relatively simple controls of expenditure, perhaps on the lines of those now operating in Scotland. A majority of Ministers, however, supported the proposals as the best means of controlling local authority expenditure in the medium-term, bearing in mind that it could take a number of years before any new system could be in operation.

b. Further work, involving all the Departments concerned, was necessary on the details of the proposed measures. GREs were still rough and ready and it was questionable whether they would carry credibility as a base-line for the new controls. It might be preferable for the limit applying to the supplementary rate to be in terms of the rate rather than expenditure. There would be difficulty in any attempt to reinforce the provisions by setting a limit on the main rate levied by a high spending authority. Difficulties had arisen with some local authorities over law and order programmes, and the Department of the Environment should consult further with the Home Office on how best to deal with these.

c. A number of Ministers thought it preferable to make a second supplementary rate subject to a referendum rather than re-election of the Council. A re-election would inevitably be decided upon a wide range of issues, not just on the raising of the rate, and people would be likely to vote on party lines. Councillors who had opposed the proposed rate increase would have to submit to re-election and could be defeated. The Inner London Education Authority were major over-spenders but, like other precepting powers, were not subject to election.

d. A disadvantage of referenda was that the vote could go against the supplementary rate but the Council concerned would remain in office and could seek confrontation with the Government by continuing high spending services which could not be financed. To deal with this possibility, further consideration should be given to sanctions applying to Councils which did not accept the verdict of a referendum: it might be possible to make Councillors voting for expenditure which could not be financed, liable to surcharge; or to consider appointing Commissioners to run such a council. It would first have to be clarified whether the referendum should be advisory or whether the result should be mandatory. Further consideration would need to be given to how the questions should be formulated in a referendum. Referenda on second supplementary rates could lead to unwelcome demands for referenda on other issues, both local and national.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed on balance that further work should go ahead on the medium-term proposals summarised in E(81) 71. The Secretary of State for the Environment should ensure that his Department consulted all other interested Departments; it was particularly important that they should consult the Home Office on problems arising from the attitude of some local authorities to law and order programmes. The Committee had not reached a final view on whether it was better to make a second supplementary rate subject to re-election of the Council or to a referendum; for the time being both options should be kept open and further examined. The Committee agreed with the proposals for an Audit Commission; the Secretary of State for the Environment would need to consult further with the Chancellor of the Exchequer on the terms and timing of its announcement so as to ensure that account was taken of the implications for the Government's reply to the Public Accounts Committee's report on the role of the Comptroller and Auditor General. The Committee would discuss at a later meeting the proposals for arrangements in the longer term; in the meantime the Ministers concerned might wish to consider some aspects of these further.

The Committee -

1. Invited the Secretary of State for the Environment -

- i. to arrange for further work on the medium term-measures proposed in E(81) 71, consulting all the Departments concerned and taking account of the points made in the discussion;
- ii. to make further proposals in due course on the timing and terms of the consultative document on the medium-term measures;
- iii. to consult the Chancellor of the Exchequer on the timing and terms of the announcement of the proposed Audit Commission.

2. Agreed to discuss at a later meeting the longer term strategy discussed in E(81) 71.

3. Invited the Home Secretary to discuss with colleagues directly concerned certain implications of the longer-term strategy.

Cabinet Office

26 June 1981