

E(81) 27th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 16 SEPTEMBER 1981 at 3.00 pm

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 Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

Mr Norman Tebbit MP  
Secretary of State for Employment

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

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy

Mr Cecil Parkinson MP  
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon David Howell MP  
Secretary of State for Transport

The Rt Hon Tom King MP  
Minister of State, Department of the  
Environment (Minister for Local  
Government and Environmental Services)

Mr J Patten MP  
Parliamentary Under-Secretary of State  
Northern Ireland Office

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

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

The Rt Hon Paul Channon MP  
Minister of State, Department  
of Education and Science  
(Minister for the Arts)

Mr J R Ibbs  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P L Gregson  
Mr D J L Moore

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## 1. LOCAL AUTHORITY RATES.

The Committee considered a memorandum by the Secretary of State for the Environment (E(81) 85), and a memorandum by the Secretary of State for Transport (E(81) 86) on Local Authority Rates. They also had before them a letter of 14 September from the Lord President of the Council to the Prime Minister, and minutes to the Prime Minister of 14 and 15 September from the Chief Whip and the Chancellor of the Duchy of Lancaster on the implications of these proposals for the management of the 1981-82 legislative programme. Their discussion and conclusions reached are recorded separately.

2. GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

The Committee considered a memorandum by the Secretary of State for the Environment (E(81) 85) on the alternatives to domestic rates. Their discussion and conclusions reached are recorded separately.

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(81) 85a Meeting Minutes Item 1  
WEDNESDAY 16 SEPTEMBER 1981 at 3.00 pm

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DOMESTIC RATES

The Committee considered a memorandum by the Secretary of State for the Environment (E(81) 85) on measures to improve accountability of all levying of rates by high spending local authorities, and a memorandum by the Secretary of State for Transport (E(81) 86) to encourage a reduction in the subsidies paid by the Greater London Council (GLC) to the Metropolitan Counties to the London Transport Executive (LTX) and the Passenger Transport Executives (PTEs). They also had before them a letter of 14 September from the Lord President of the Council to the Prime Minister, and minutes to the Prime Minister of 14 September from the Chief Whip and the Chancellor of the Exchequer on the implications of these proposals for the 1981-82 legislative programme.

Cabinet Office  
18 September 1981

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the revised proposals submitted by the local authorities to August had shown that many of them were persisting in their plans for spending above target. He had therefore, with the agreement of other Ministers, included in his announcement of 3 September about the reduction of block grant for local authorities in 1981-82 a statement that the Government would introduce legislation to deter authorities from levying high rates to finance high expenditure and that such measures would be needed in the next session. He proposed that this legislation should set limits for each authority on the initial basic rate and on the level of any supplementary rates which they could levy; should make any supplementary rate subject not to a limit but to a requirement

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 27th Meeting Minutes Item 1  
WEDNESDAY 16 SEPTEMBER 1981 at 3.00 pm

CONFIDENTIAL

LOCAL AUTHORITY RATES

The Committee considered a memorandum by the Secretary of State for the Environment (E(81) 85) on measures to improve accountability for the levying of rates by high spending local authorities, and a memorandum by the Secretary of State for Transport (E(81) 86) on measures to control the subsidies paid by the Greater London Council (GLC) and the Metropolitan Counties to the London Transport Executive (LTE) and the Passenger Transport Executives (PTEs). They also had before them a letter of 14 September from the Lord President of the Council to the Prime Minister, and minutes to the Prime Minister of 14 and 15 September from the Chief Whip and the Chancellor of the Duchy of Lancaster on the implications of these proposals for the management of the 1981-82 legislative programme.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the revised budgets submitted by the local authorities in August had shown that many of them were persisting in their plans for spending above target. He had therefore, with the agreement of other Ministers, included in his announcement of 3 September about the reduction of block grant for certain local authorities in 1981-82 a statement that the Government would introduce legislation to deter authorities from levying high rate poundages to finance high expenditure and that such measures would be needed in the next session. He proposed that this legislation should set limits for each authority on the initial main rate and on the first of any supplementary rates which they could levy; should make any second supplementary rate subject not to a limit but to a requirement

that the Council should first stand for re-election; and provide that all supplementary rates would be levied at a reduced poundage on non-domestic rate payers. He strongly advised against the alternative of making the second supplementary rate subject to the outcome of a referendum. There were formidable difficulties about drafting the question on which voters would be invited to vote; and, if it was subject to the approval of the Secretary of State, this exercise of his <sup>discretion</sup> ~~discretion~~ could be and would be challenged in the courts. After such a referendum, the majority party on the Council would still be in power and might respond to a vote against a second supplementary rate by frustrating attempts to carry on the council's business. It would be far better to rely on re-elections which would either confirm the majority party's mandate for higher rates or bring in a new majority party with a mandate to cut expenditure and hold down the rates. The risk of losing an election should be a potent deterrent against any majority group contemplating second supplementary rates. In view of the need to take action urgently to discourage further high rate increases and over-spending, he recommended that the passage of the Bill should be accelerated so that it could be enacted in time for the measures to take effect in the financial year 1982-83. To comply with the arrangements for setting the initial main rate at the beginning of the financial year, it would probably be necessary to have Royal Assent by about the end of February 1982 so that Orders setting out the limits for the authorities could be laid in the first half of March. To ease the severe problems which this would cause for the management of the legislative programme, he would consider further whether it might be possible to announce the limits during the passage of the Bill on the understanding that the Orders to give effect to them would be laid later, and not necessarily in early March. He would issue a consultative document, on the lines of the draft at Annex A to E(81) 85, and invite urgent comments on it prior to publication of the Bill.

THE SECRETARY OF STATE FOR TRANSPORT said that it was essential to take early action to control the subsidies paid by the GLC and the Metropolitan Counties to transport undertakings; otherwise there would be increases in subsidies, and public expenditure, of £400 million

in 1982-83 financed by further high rates increases. If it were agreed that the measures proposed by the Secretary of State for the Environment should be enacted in time to take effect in 1982-83, it would not be necessary to have separate legislation to deal with transport subsidies. If the general measures could not take effect until 1983-84, he would wish to add provisions to one of the Transport Bills already in the 1981-82 programme to enable him to fix for each transport undertaking an External Finance Limit covering all income other than fares and receipts; under this system, even if an authority increased the rates for the purposes, it could not pass the yield on to the transport undertaking to finance expenditure over the EFL.

In discussion the following points were made -

a. There was a very strong case for accelerating the passage of the Bill so that the measures could take effect in 1982-83. The level of rates was now the main political issue in many areas; non-domestic rate payers, including many small businesses, bitterly resented the burden on them. The contrast was drawn with the controls available to deal with the Scottish local authorities and with the highly successful measures which the Secretary of State for Scotland had recently taken to deal with the Lothian Regional Council. The Government would be severely censured if it now failed to take swift and effective action to bring in new controls for application in England and, separately, in Wales. While there would be criticism of these measures, the opposition to them would be muted by the appeal which they would undoubtedly have to the many who were critical of high rates.

b. The business managers had strongly advised that it would be impossible for a Bill on rates to get Royal Assent by February without a guillotine and without a drastic re-appraisal of the present legislative programme for 1981-82. There would be acute problems for the conduct of business in both Houses.

The legislation would, moreover, take the Government into new and uncharted waters on the relationship between central and local Government; in particular, any changes in this relationship could make it more difficult to secure agreement with local authorities on the financing of additional police expenditure and on law and order programmes. The Bill would be opposed by many, including some supporters of the Government and Conservative controlled authorities. It was, however, suggested that it might be possible to include provisions in the Bill which, though complex, were not retrospective but would nonetheless ensure that the measures effectively bound local authority rating decisions in March 1982, even though the Bill had not completed its passage through Parliament by then. This would ease the problems of the business managers.

c. Most Ministers strongly favoured making any second supplementary rate increase subject to a referendum, with the result mandatory rather than merely advisory. Elections would inevitably be based on much broader issues than the question of a rate increase; a council might manipulate the timing of such an election so as to maximise the advantages to itself and the embarrassment to the Government; local members who supported the Government, and opposed high spending, could lose their seats. Referenda would be cheaper and, unlike elections, could apply to the Inner London Education Authority and other non-elected preceptors which were high spenders. Consideration should be given to reducing the risk of delays under a system of referenda by providing for the terms of the question to be laid down in the primary legislation with the particular amounts to be determined separately. Further thought should be given to whether the system could involve making councillors liable to financial sanctions if, for example, they were to authorise spending in excess of what they could confidently finance from the rates; the fear of personal liability to surcharges were one of the most potent deterrents to irresponsibility available.

d. It was agreed that all supplementary rates should be levied at a reduced poundage on non-domestic rate payers. It would be important, when the details of this system were worked out, that the differential was pitched so that non-domestic rate payers retained sufficient interest in the outcome of a referendum (or election) and would actively participate in any campaign on a proposal for a further rate increase.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that it was essential for the Government to respond swiftly to the present and widespread disquiet over high rates and to legislate in time for the proposed measures to be effective from the outset of the financial year 1982-83. On this assumption, it would not be necessary to have separate legislation to deal with transport subsidies. The Home Secretary would need to consider with the business managers the implications of this decision for the management of the 1981-82 legislative programme and to make proposals as necessary; the Ministers who had supported the acceleration of this Bill should, if necessary, be willing to accept that other Bills for which they were responsible might have to be dropped or deferred. The Secretary of State for the Environment, consulting the Chief Secretary, Treasury and the Law Officers, should consider urgently whether there was any way of deferring the date by which the Bill had to reach the statute book (so as to ease the pressure on the legislative programme) but still making its provisions effective in respect of rating decisions for 1982-83. The balance of view was in favour of making any second supplementary rate subject to mandatory referendum rather than to re-election of the council. The Secretary of State for the Environment, in consultation as necessary with the Home Secretary, should make recommendations on how the system would work; in doing so he should advise in particular on the arrangements for setting the question on which the referenda would be based and on the possibility of making councillors liable to financial sanctions under the system. The Committee agreed in principle the proposals for reducing the impact of all supplementary rates on non-domestic rate payers; they attached importance, however, to ensuring that non-domestic rate payers still had a firm incentive for campaigning rigorously in any referenda on supplementary rates.

The Committee -

1. Agreed that the Bill to provide for interim rating measures, proposed in E(81) 85, should be enacted in time for those measures to be effective in respect of local authority rating decisions for the financial year 1982-83.

2. On that understanding, agreed that there was no need for separate legislation, of the kind discussed in E(81) 86, to deal with controls on transport subsidies.

3. Invited the Home Secretary, in consultation with other Ministers as necessary, to consider the implications of this for the 1981-82 legislative programme.

4. Invited the Secretary of State for the Environment -

i. in consultation with the Chief Secretary, Treasury, and the Law Officers, to advise urgently whether there was any way of deferring the date by which the Bill had to reach the statute book, while still making its measures effectively binding upon rating decisions to be taken in March 1982;

ii. in consultation with the Home Secretary, and taking account of the points made by the Prime Minister in her summing up, to make recommendations on how to give effect to the Committee's decision that any second supplementary rate increases should be subject to mandatory referenda;

iii. to ensure that the arrangements for mitigating the effect of all supplementary rates on non-domestic rate payers were such that the latter still had a strong incentive to participate actively in any campaign on a proposal for a rate increase;

5. Invited the Secretary of State for Scotland to make proposals for any new arrangements which he might wish to introduce for the Scottish local authorities.

6. Agreed to resume their discussion at a further meeting to be held the following week.

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18 September 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 27th Meeting Minutes, Item 2  
WEDNESDAY 16 SEPTEMBER 1981 at 3.00 pm

CONFIDENTIAL

2. GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

The Committee considered a memorandum by the Secretary of State for the Environment (E(81) 85) to which was attached, at Annex B, a draft of a Green Paper on the alternatives to domestic rates.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had already announced that the Government intended to issue in the autumn a consultation document on the alternatives to the domestic rates which might be introduced in the longer term. The present draft discussed, without commitment, the alternatives of local sales tax, local income tax, poll tax, the assigning by central Government of a share of the revenue from the national taxes, and combinations of these approaches; and it indicated willingness to consider proposals for the retention of a reformed system of domestic rating. The draft showed the broad distributional effects of these changes - as between types of household and as between geographical areas - and this brought out that the alternatives would lead to a higher financial burden for many people than at present. In the light of comments by the Committee, he would wish to consider further both the detailed drafting and the broad political presentation of the Green Paper. For that reason, and because of the need to concentrate on the immediate future on the interim measures discussed earlier in the meeting, he advised that it was no longer practicable to publish it before the Party Conference in October.

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In discussion, the following were the main points made -

- a. It was clear from the draft that there were major difficulties in all the alternatives, which would each be unwelcome to many groups. It would, therefore, be unwise to raise expectations too much on the likelihood of their implementation. The Green Paper should, without appearing negative towards the possibility of pursuing one of the alternatives or seeming to suggest a qualification of the Government's Manifesto commitment, should not exclude improvement of the present system as a possible option. Whether the rates system were to be improved or replaced, there should be discussion of some new arrangements, as proposed by the Chief Secretary, Treasury, for capping local authorities' expenditure or revenue (from the rates or from any other source) and limiting their access to borrowing.
- b. The introduction of some alternative to the present domestic rating system was central to the policies of the opposition parties. The publication of this Green Paper, and its very full analysis of the alternatives, would make clear that there were no easy and painless solutions.
- c. The question of local government finance had implications for the question of the structure of local government; but whatever the merits or disadvantages of that it was not an issue for this Parliament, and the question of finance would have to be considered on its own.
- d. The present deficiencies in the arrangements for non-domestic rates would also need examination; important issues would in any event arise over the revaluation of industrial and commercial property.

The Committee -

1. Invited all Ministers who so wished to send to the Secretary of State for the Environment as soon as possible their comments on the draft Green Paper at Annex B of E(81) 85.
2. Invited the Secretary of State for the Environment to revise the draft Green Paper in the light of the comments from other Ministers, and taking account of the points made in their discussion, with the aim of publication late in October or early in November, if possible before the opening of the new Session of Parliament.

Cabinet Office

18 September 1981