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5(21) 52nd Meeting

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 5 NOVEMBER 1981 at 10.00 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 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 Patrick Jenkin MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Transport

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council

The Rt Hon George Younger MP
Secretary of State for Scotland

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The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Sir Michael Havers QC MP
Attorney General

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

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

SUBJECT

LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING LEGISLATION

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LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING LEGISLATION
Previous Reference: E(81) 31st Meeting, Item 1

THE COMMITTEE considered a memorandum by the Secretary of State for the Environment (E(81) 110) on the Local Government Finance Bill to provide for interim rating arrangements for England and Wales.

The detailed record of this discussion has been circulated separately.

The Committee -

Agreed that the Secretary of State for the Environment should publish on 6 November a Local Government Finance Bill providing for referenda but not for powers of specific direction.

Cabinet Office

9 November 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX

E(81) 32nd MEETING MINUTES

THURSDAY 5 NOVEMBER 1981 at 10.00 am

SECRET

LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING LEGISLATION

Previous reference: E(81) 31st Meeting, Item 1.

THE COMMITTEE considered a memorandum by the Secretary of State for the Environment (E(81) 110) on the Local Government Finance Bill to provide for interim rating arrangements for England and Wales.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had prepared two draft Bills. Both made supplementary rates subject, in certain circumstances, to referenda. One of these draft Bills gave the Secretary of State powers to give specific directions to a local authority which had lost a referendum; the other Bill excluded these powers. The case for including the power of specific direction was that it could be necessary for the Secretary of State to take specific action to direct a local authority which, having lost a referendum, wished to obstruct the Government's policies by, for example, cutting sensitive services perversely. There were three broad approaches to be considered. First, the Government could proceed forthwith with either of the two Bills which he had prepared; this gave the best chance of getting Royal Assent before the beginning of the financial year 1982-85, as was essential if rating decisions and expenditure were to be influenced in that year. Secondly, it would be possible to proceed only with the Audit Commission and block grant provisions in the Bill which were essential, to rely entirely on block grant mechanisms and holdback of grant to influence spending decisions; he considered this course unacceptable in view of the public statements

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already made that the Government intended to introduce legislation limiting the power of authorities to levy excessive rates. Thirdly, it would be possible to amend the Bill significantly by removing the referendum provisions and substituting for them either elections, as he had originally proposed and still preferred, or a procedure of direct intervention as described in the Annex to E(81) 110. The disadvantage of this course was that it would delay the Bill by two weeks and so add to the already considerable pressures on the Parliamentary timetable. He was convinced that it would not be practicable to adopt in England a system of direct intervention similar to that in Scotland. The Secretary of State for Scotland was responsible for all local authority services in Scotland, and so was in a position to make a judgement on whether expenditure by a particular authority was unreasonable and excessive; the Secretary of State for the Environment, however, dealt with only a minority of the English local authority services and so could not make such a judgement without involving all the other local authority Ministers concerned. Moreover, there were relatively few authorities in Scotland but 413 in England, including a number of Labour authorities who might well welcome martyrdom by seeking to challenge the Secretary of State in the Courts. An alternative approach, using one feature of the Scottish system, would be to make certain supplementary rate increases subject not to a referendum but to an order of the House. The objection to this would be that it would represent an increase in central government control and, in practice, would increasingly force him to move from formula based targets to total scrutiny of individual services. He accordingly invited the Committee to agree that he should publish forthwith a Bill providing for referenda and for powers of specific direction.

The following points were made in discussion -

a. Although the various proposed measures for restricting rate increases were difficult and controversial, it was not acceptable politically for the Government to do nothing. The level of rates was a major issue in many parts of the country and, in view of the statements already made, the Government would not be able to maintain its credibility unless new legislation was introduced to supplement the existing powers to restrain local authority expenditure in England and Wales. In addition it would be worthwhile to explore the scope for strengthening the present system, for example by toughening the existing arrangements for hold back of grant.

b. If the supplementary rate were to be made conditional on an election rather than a referendum, this lessened the risk of confrontation with a defiant local authority. Serious objections to this course had however been identified in earlier discussion in the Committee: an election could not be confined to the narrow issue of rates, and no action could be taken in respect of non-elected precepting authorities such as the Inner London Education Authority. A requirement for an election rather than a referendum would be unlikely to ease the Bill's passage through Parliament.

c. There were strong arguments against supplementing the referendum requirements with a power of specific direction. This would increase opposition to the Bill, and would draw the Government into detailed intervention in local administration. The argument for such a power had been that a local authority which had failed in a referendum would react by taking steps unacceptable to the Government such as cutting the provision of essential services or increasing rents and fares. It was however doubtful whether an authority which had failed to secure public support in a referendum would feel able to take action of this kind.

d. In view of the strong objections of principle which many of the Government's supporters had to the referendum proposal and the doubts about whether it would be accepted by Parliament, careful consideration should be given to an approach similar to that adopted in Scotland which would enable the Government to intervene directly to control rate levels. Direct central Government intervention of this kind in England and Wales would however provoke just as much controversy on legal and constitutional grounds as the referendum proposals, if not more.

e. There were also doubts as to whether arrangements analogous to those in Scotland could be made to work in England and Wales where there was a much larger number of local authorities, where services were the responsibility of several different Secretaries of State and where local authority expenditure was not determined by individual guidelines but by general formulae. This latter point had been an important part of the Government's case in the legal action involving the London Borough of Camden.

f. There might be a more workable variant of the Scottish arrangements on the lines indicated on the last page of the Annex to E(81) 110. The criteria by which high spending local authorities were identified for control could be the same as those envisaged by the Secretary of State for the Environment under his referendum scheme. The difference would be that, instead of being required to submit itself to a referendum, the local authority seeking a supplementary rate would have to make application to the Secretary of State who would, after considering whether the application was justified, put an Order before the House of Commons.

g. Without more detailed study, Ministers could not assess whether the alternative approach involving a Commons Order would be practicable and acceptable to Parliament. Meanwhile there was an urgent need to introduce a Bill if the Government was not to risk missing the opportunity to affect the level of rates in 1982/83. It might be better to consider the Commons Order option as a fall-back position which might, depending on developments, be substituted for the referendum requirement at the Committee Stage or at some subsequent stage during the Bill's passage through Parliament.

h. The degree of opposition from local authorities to the referendum proposal, and possibly to any other proposal for restricting rate increases, would be affected by the Government's decisions on Rate Support Grant and council house rents. These issues would be coming before the Cabinet in the following week. It was however doubtful whether the Government could reach decisions on these matters which would significantly reduce local authority opposition without departing too far from their public expenditure objectives.

i. On present evidence about Parliamentary opinion both in the Commons and in the Lords it seemed doubtful whether the tightly compressed timetable for the Bill which had been envisaged earlier would be practicable and in particular whether a guillotine motion could be contemplated. The position would need to be reviewed after the Second Reading.

THE PRIME MINISTER, summing up the discussion, said that there was clear agreement that legislation should be introduced in the current Session to restrict rate increases in England and Wales. It was also agreed that this legislation should not include a power of specific direction, and that the ways in which limits should be set, and local authorities caught by the new controls, should be as proposed by the Secretary of State for the Environment. There were three possible means of control: the local authority seeking a supplementary rate could be required to submit itself to re-election, to submit itself to a referendum, or to make application to the Secretary of State who would, after considering whether the proposal was justified, put an Order before the House of Commons. The majority of the Committee were not in favour of the election option. In considering the remaining two options, the Committee favoured, on balance, the immediate introduction of a Bill which included a referendum requirement. Further work should however be done to assess the practicability and desirability of the alternative option involving a Commons Order, which might have to be considered as a substitute for the referendum requirement if that did not attract sufficient Parliamentary support. At some stage the Government might need to make clear its willingness to consider this alternative approach, depending on the further studies and on the assessment of Parliamentary opinion, this should not be done before the Second Reading. The timetable for the Bill would need to be reconsidered after Second Reading in the Commons. In order to permit the Bill's introduction on 6 November, it should not be further discussed by Legislation Committee.

The Committee -

1. Agreed that the Secretary of State for the Environment should publish on 6 November a Local Government Finance Bill providing for referenda but not for powers of specific direction.

2. Invited the Secretary of State for the Environment, in consultation with other Ministers concerned, to arrange for a detailed study of the alternative approach referred to in the Prime Minister's summing-up and to report back to the Committee in time to permit a discussion, if necessary, before the Second Reading in the Commons.

Cabinet Office

9 November 1981