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(81) 35th Meeting

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 25 NOVEMBER 1981 at 9.30 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
Education and Science

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

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 Industry

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

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 Sir Michael Havers QC MP
Attorney General

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

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 GOVERNMENT FINANCE BILL

Previous Reference: E(81) 32nd Meeting

The Committee discussed the Local Government Finance Bill. Their discussion and conclusions are recorded separately.

THE SECRETARY OF STATE FOR THE ENVIRONMENT SAID THAT THE COUNCIL AND PARLIAMENTS OF GREAT BRITAIN AND NORTHERN IRELAND HAVE AGREED THAT THE LOCAL GOVERNMENT FINANCE BILL WHICH WOULD BE INTRODUCED IN 1982-83 SHOULD BE INCREASED TO £12,500 MILLION TO BE PAID TO LOCAL AUTHORITIES IN 1982-83. THE BREAKDOWN OF THIS TOTAL BETWEEN ENGLAND AND WALES AND NORTHERN IRELAND IS AS FOLLOWS: ENGLAND AND WALES £11,500 MILLION; NORTHERN IRELAND £1,000 MILLION. HE SAID THAT THE GOVERNMENT IS COMMITTED TO THIS TOTAL AND HAS LISTED IN TABLE 1 OF E(81) 32 THE PROPOSED EXPENDITURE OF LOCAL GOVERNMENT FINANCE BILL. THESE WOULD BE PAID, MAINLY BECAUSE OF THE INFLATION IMPLIED BY THE PUBLIC SECTOR INFLATION TARGETS OF 1 PER CENT PER ANNUM FOR THE YEAR. IN TOTAL THEY ALLOWED FOR ONLY 0.5 PER CENT MORE EXPENDITURE IN 1982-83 THAN IN THE PRESENT YEAR, EVEN FOR SPENDING WHICH WOULD BE REQUIRED TO MAINTAIN THE RATE OF 1 PER CENT, AND THIS WOULD HAVE TO BE PAID BY UP TO 7 PER CENT. THESE AUTHORITIES SPENDING OVER THEIR TARGET WOULD BE SUBJECT TO HALFBACK OF GRANT, BUT HE NOW RECOMMENDED THAT AUTHORITIES SPENDING AT OR BELOW THEIR GREAT BRITAIN EXPENDITURE (GEBE) SHOULD BE EXEMPT FROM HALFBACK EVEN IF THEY WERE SPENDING OVER THEIR TARGET. THIS WOULD BE IN LINE WITH THE PROVISION IN 1981-82 AND WOULD AVOID CHARGES OF INEQUITY WHICH WOULD BE DIFFICULT TO RESOLVE. HE PROPOSED TO PUBLISH THESE FIGURES ON A PROVISIONAL BASIS AND TO ISSUE FIVE FIGURES WHEN THE BILL WAS PASSED. HE RECOMMENDED THAT THE GEBE PERCENTAGE SHOULD BE 10.5 PER CENT COMPARED WITH 9.1 PER CENT IN THE CURRENT YEAR. THE HALFBACK APPLIED TO ALL AUTHORITIES SPENDING ABOVE TARGET, HIS DEPARTMENT'S BEST ESTIMATE WAS THAT THE DOMESTIC RATE INCREASES ON AVERAGE MIGHT BE 12 PER CENT, AS THE STRATEGIC FUND HALFBACK WHICH HE NOW PROPOSED THE AVERAGE MIGHT BE 9 PER CENT. THE COMPENSATION WAS ON THE BASIS OF THE MAIN RATE IN 1981-82, AND LEFT OUT OF ACCOUNT SUPPLEMENTARY RATE INCREASES DURING THE YEAR EXCEEDING 12 PER CENT. THIS YEAR ON YEAR COMPENSATION WAS THE ONE WHICH WOULD BE PAID TO LOCAL AUTHORITIES. HE SAID THAT THE GOVERNMENT HAD NOT YET DECIDED WHETHER TO HALFBACK THE GRANT WHICH WAS LIKELY TO APPLY TO SOME AUTHORITIES WHOSE ACTUAL RATE OF GRANT WOULD BE LESS THAN 57 PER CENT. HE RECOMMENDED THAT THE DETAILS OF THE GRANT DISTRIBUTION SHOULD BE LEFT FOR SETTLEMENT BY MEMBERS OF THE HOUSE OF COMMONS' SELECT COMMITTEE.

2. RATE SUPPORT GRANT SETTLEMENT 1982-83

The Committee considered memoranda by the Secretary of State for the Environment (E(81) 117) and by the Chief Secretary, Treasury (E(81) 118) on the Rate Support Grant (RSG) settlement in England for 1982-83.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Cabinet had provisionally agreed that the total provision for local authority current expenditure in England in 1982-83 should be increased to £18,000 million; he had listed in Appendix A of E(81) 117 the breakdown of this total between services as agreed by the Departments concerned. He now invited the Committee to endorse these proposals. He had listed in Table 1 of E(81) 117 his proposed expenditure targets for each local authority. These would be tough, mainly because of the squeeze implied by the public sector inflation factors of 4 per cent for pay and 9 per cent for prices. In total they allowed for only 0.3 per cent more cash expenditure in 1982-83, than in the present year; even low spending authorities would be required to make volume cuts of 1 per cent, and high spenders would have to cut by up to 7 per cent. Those authorities spending over their target would be subject to hold-back of grant, but he now recommended that authorities spending at or below their Grant Related Expenditures (GREs) should be exempt from hold-back even if they were spending over their targets; this would be in line with the practice in 1981-82 and would avoid charges of unfairness which would be difficult to rebut. He proposed to publish these targets on a provisional basis and to issue firm figures when the main RSG report was published. He recommended that the RSG percentage should be 57 per cent compared with 59.1 per cent in the current year. Had hold-back applied to all authorities spending above target, his Department's best estimate was that the domestic rate increases on average might be 12 per cent; on the arrangements for hold-back which he now proposed the average might be 9 or 10 per cent. The comparison was on the basis of the main rate in 1981-82, and left out of account supplementary rate increases during the year totalling 6 to 7 per cent; this year on year comparison was the one which most rate-payers would make since the majority of authorities had not levied supplementaries. As it was, the hold-back of grant which was likely to apply to some authorities would mean that the actual rate of grant would be less than 57 per cent. He recommended that the details of the grant distribution should be left for settlement by members of the Home Secretary's MISC 21 Group. He wished to

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proceed immediately with the necessary statutory consultations with authorities and to announce as soon as possible the broad shape of the RSG settlement. It would not now be possible to publish the RSG report until after Christmas.

THE CHIEF SECRETARY, TREASURY, said that he recommended an RSG percentage of 52 per cent. He did not agree with the Secretary of State for the Environment's assessment of the consequences for the rates of an RSG of 57 per cent. The rate increase would be reduced by the concessions now proposed for hold-back during 1981-82; the figures for individual authorities took no account of the probable reduction in expenditure, and hence in rates, of lowering the grant percentage; no account was taken of the effect of block grant penalties and targets; the figures assumed significant overspending and provision for contingencies. An RSG percentage as high as 57 would provide more cash for the local authorities, would make them less willing to resist excessive pay demands and would increase the likelihood of overspending. The settlement as a whole now risked being too weak; planned expenditure was to be increased by nearly £1½ billion for realism and the arrangements for hold-back had been substantially modified.

In discussion the following were the main points made -

a. It was very difficult to judge how individual authorities would respond in terms of expenditure and rating decisions to an RSG settlement. If authorities regarded targets as unrealistic and grants as inadequate, some of them might well react by maintaining services, rating high and blaming the Government for the consequences. It was important to maintain the confidence in the Government of those authorities which were doing their best to control expenditure and rates. It should be remembered that the RSG percentage had already been reduced from 61 per cent to 59 per cent and further reductions were now proposed.

b. Given the widespread criticism of provision for education services, particularly in the non-metropolitan counties, there might be a case for easing the targets for low spending authorities and making them correspondingly more severe for high spenders. It was, however, agreed that this should not be necessary if, as was desirable, targets for authorities spending below GRE should be indicative only and the authorities concerned not subject to hold-back of grant.

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c. The targets for the metropolitan counties would mean that those which had introduced cheap transport fares in 1981-82 would have to put up their fares substantially in order to meet their targets. It would be necessary to make clear that this situation arose because the councils in question had chosen to increase their budgets this year, by the introduction of low fares, rather than reducing them in line with the Government's request.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed on balance that the RSG percentage should be 56 per cent. They approved the expenditure targets for individual authorities recommended by the Secretary of State for the Environment and agreed that hold-back of grant should not apply to those authorities spending at or below their GRES. The Secretary of State for the Environment should seek the agreement of the members of MISC 21 to the remaining details of the settlement; the Secretaries of State for Scotland and for Wales should reach agreement with the Secretary of State for the Environment and the Chief Secretary, Treasury on the arrangements for the settlements in Scotland and Wales. Decisions on housing expenditure, which were relevant to the RSG settlement, would be taken by Cabinet.

The Committee -

1. Confirmed that the total provision for local authority current expenditure in England in 1982-83 would be £18,000 million divided between services as in Appendix A of E(81) 117.
2. Approved the expenditure targets for individual authorities listed in Table 1 attached to E(81) 117.
3. Agreed that authorities spending at or below their Grant Related Expenditures should not be subject to hold-back of grant.
4. Agreed that the grant percentage for England in 1982-83 should be 56 per cent.
5. Invited the Secretary of State for the Environment -
 - i. to consult further with the Prime Minister, the Chancellor of the Exchequer, Members of MISC 21 and the Secretary of State for Energy on the arrangements for consultations and announcements discussed in paragraphs 22 and 23 of E(81) 117;
 - ii. to seek the agreement of Members of MISC 21 to the remaining details of the Rate Support Grant settlement in 1982-83.
6. Invited the Secretaries of State for Scotland and for Wales to agree with the Secretary of State for the Environment and the Chief Secretary, Treasury what should be the implications for the Scottish and Welsh settlements of the Committee's decisions on England.

Cabinet Office
25 November 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(81) 35th Meeting Minutes, Item 1
WEDNESDAY 25 NOVEMBER 1981 at 9.30 am

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LOCAL GOVERNMENT FINANCE BILL

Previous Reference: E(81) 32nd Meeting

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that from consultations with Conservative Members of Parliament it was clear that there was insufficient support to ensure Parliamentary approval of the provisions in the Local Government Finance Bill which made supplementary rate increases subject to referenda. While there remained a strong wish for the Government to take some alternative action to deter local authorities from making excessive increases in the rates, there was no consensus on the form of this action. The Attorney General had advised him that it was not practicable to pursue the option whereby a local authority seeking a supplementary rate would be required to make an application to the Secretary of State who would, after considering whether the proposal was justified, put an Order before the House of Commons. He was now considering what other options might be suitable. If action were to be taken which would be effective in 1982-83 it was now probably too late to revert to the idea of making supplementary rate increases subject to re-election of a council, even if that were acceptable. He would wish to maintain the proposed limits on the initial main rate, and the provisions for shielding non-domestic rate payers from the full effect of supplementary rates. It might be possible to make supplementary rates subject to prior consultations by councils of rate payers; this might deter councils from proposing supplementary rates but would not prevent them. It was also desirable to require councils to send separate rate demands to council house tenants.

THE ATTORNEY GENERAL said that the proposals put forward by the Secretary of State for the Environment for making applications subject to an Order were, in his view, impracticable. They could involve as many as 30 to 40 applications from authorities. The Secretary of State would be open to challenge in the courts on the grounds on which he had exercised his discretion. Unlike the Secretary of State for Scotland, the Secretary of State for the Environment would have to consult, and rely upon information, from other Government Departments. There was inevitably a considerable risk of mistakes in this process.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the provisions in the Local Government Finance Bill for referenda on supplementary rates should not be pursued further. The Local Government Finance Bill should be withdrawn and a new Bill introduced as soon as possible which would preserve the provisions in Parts II and III of the present Bill for holding back of Rate Support Grant and for the Audit Commission. Before this decision was announced, and the Bill withdrawn, the Committee wished to decide which of the provisions in Part I of the present Bill should be kept and what new provisions should be introduced. The Committee agreed that the aim should be to continue to provide for the shielding of the non-domestic rate payer from the full effect of any supplementary rate; this made it all the more important to introduce measures which would protect the domestic rate payer. A number of Ministers doubted whether a "centralist" solution, involving Parliamentary approval of Orders, would be acceptable; further consideration should, nevertheless, be given to the possibility of such an approach designed to apply to only a very few high spending authorities and on the lines of the arrangements now operating in Scotland. The Committee also wished to have advice on the case for withdrawing from English and Welsh local authorities the right to levy supplementary rates, so bringing them into line with the arrangements in Scotland. They wished to consider further the possibility of measures, perhaps in a separate Bill, applying to expenditure by transport authorities. The Committee's decision on these options would turn in part on whether the House of Lords confirmed the recent judgement against the Greater London Council's action in respect of London Transport fares. The aim should be to enact the new Bill, or Bills, in time for the provisions to be effective in the financial year, 1982-83. Pending further consideration of these questions, it could be announced if necessary that the Government was considering alternatives to the referendum proposal.

The Committee -

1. Invited the Secretaries of State for the Environment, and for Transport, in consultation with other Ministers as necessary, to consider urgently which provisions in the present Local Government Finance Bill should be preserved and, taking account of the Prime Minister's summing up of their discussion, to advise what further provisions might be introduced, in place of the referendum proposal, in a new Bill or Bills, and to report.

2. Agreed that the Local Government Finance Bill should not be withdrawn until their further discussions had been completed, and that in the meantime, no announcement should be made of their decision that the provisions for referendas on supplementary rates should not be pursued further.

Cabinet Office

25 November 1982