

E(81) 37th Meeting

COPY NO 66

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 3 DECEMBER 1981 at 10.45 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 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
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Item 1)

The Rt Hon Lord Mackay of Clashfern
Lord Advocate
(Item 1)

Sir Ian Percival QC MP
Solicitor General
(Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

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

CONTENTS

Item No	Subject	Page No
1	LOCAL GOVERNMENT FINANCE BILL	1
2	FIXED CROSS-CHANNEL LINK	6

1. LOCAL GOVERNMENT FINANCE BILL
Previous Reference: E(81) 35th Meeting Minutes, Item 1

The Committee considered a Memorandum by the Secretary of State for the Environment (E(81) 125) on the Local Government Finance Bill and a Memorandum by the Secretary of State for Transport (E(81) 126) on possible legislative measures applying to transport authorities.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had considered further which elements of Part I of the Local Government Finance Bill should be maintained and what were the alternatives which might be introduced. There remained a strong demand for the Government to introduce provisions to deter local authorities from making excessive increases in the rates and, for that reason, he was opposed to dropping Part I in its entirety. One possibility would be to impose a statutory duty on authorities to consult rate payers before levying supplementary rates. This would be criticised as inadequate: it would be difficult to give precision and meaning to the duty to consult, and many local authorities would not in practice find consultation a constraint. He remained of the view that central controls through a system of Parliamentary Orders - applying to supplementary rates or to temporary borrowing - were impracticable. The Attorney General had advised that it would be impossible to avoid a serious risk of legal challenge to decisions by the Secretary of State; if realistic limits were set there could be applications for supplementary rates or temporary borrowing from as many as 30 or 40 authorities. It was not practicable to operate the system so precisely as to catch only, say, 6 authorities: it would be very uncertain which authorities would be involved and some high spenders could be excluded. Nor was it practicable to apply the Scottish system to England, where there were far more authorities and responsibility for the relevant services was spread between a number of Departments. Against this background, he had concluded that the right course was to ban the levying of supplementary rates altogether, as in Scotland. In recent years supplementary rates had been a major irritant to rate-payers and the measure would be seen as an answer to that. It would prevent a situation where, when there was a change in the political control of authorities, new councils levied large supplementary rates in order to finance higher levels of expenditure. There were risks: authorities

could set their main rates at a high level and blame the Government; it would be necessary for him to use his existing powers to sanction temporary borrowing to cover emergencies and contingencies not foreseen at the time of the making of the main rate. On balance, however, he judged that these risks should be accepted. Subject to the outcome of the House of Lords judgement on the current case on London Transport fares, he favoured legislation to control the spending of the London Transport Executive (LTE) and of each of the Passenger Transport Executives (PTEs). Further thought should be given to the imposition of general duties on local authorities to require them to repay rates raised for transport expenditure which was not subsequently authorised; otherwise local authorities could divert the rate income in question to the financing of other services.

THE SECRETARY OF STATE FOR TRANSPORT said that there were two main possibilities for taking separate legislative action to limit transport subsidies: one was to set External Financing Limits for the LTE and for each of the PTEs, with powers for the Secretary of State to intervene as necessary; the other was to place the Greater London Council and the Metropolitan Counties under a statutory duty to take account of guidelines from the Secretary of State as to what he considered to be the maximum reasonable level of subsidy. One or other of these measures would be necessary if there were not to be new measures to limit local authority rates in general. No firm decision could be taken until the House of Lords had given their judgement on the current case on London Transport fares. He doubted whether in practice it would be possible to require a local authority to repay that part of its rate income which had been raised to finance transport subsidies which were not subsequently authorised; when rates were raised no specific amount of income was earmarked for particular services.

In discussion the following were the main points made -

- a. Apart from the possibility of legislation on transport subsidies, which would be considered further in due course, the only practicable alternatives were either to drop Part I of the present Bill or to ban the levying of supplementary rates.

- b. There were some disadvantages in abolishing supplementary rates. At present an authority wishing to raise a supplementary rate exposed itself to criticism for high-spending. If supplementary rates were not allowed, local authorities might rate higher than otherwise in 1982 and put the blame on the Government's decision to reduce the Rate Support Grant to 56 per cent in 1982-83. Alternatively they might rate higher than otherwise in 1983. Some local authorities would criticise the change as a further example of central government limiting the powers of local government.

- c. The balance of argument was, however, in favour of banning supplementary rates, provided that there would be a Parliamentary majority in favour of this provision. As the Secretary of State for the Environment had argued, the measure would answer those who had been critical of high supplementary rates in recent years and would stop newly elected councils from introducing supplementary rates in the Summer of 1982.

- d. There could be difficulties over the authorisation, or refusal, of temporary borrowing by local authorities who claimed they had to finance contingencies not foreseen at the time of the main rate increase. The Secretary of State for the Environment would either have to approve temporary borrowing, and the expenditure it was financing, or to refuse it and risk being blamed for consequent cuts in services and, perhaps, for difficulties in debt servicing by the authority. Local authorities would, for the first time, not be forced to cover all their revenue expenses from income. As a result one of the main securities of local authority borrowing would be abandoned and, if the confidence of the financial markets were shaken, this could lead to some rise in the cost of local authority borrowing and to difficulties in raising finance. To deal with this problem consideration should be given to providing for supplementary borrowing to be repaid in the following year, and the adequacy of the Secretary of State's present powers to control temporary borrowing by local authorities should be re-examined.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the choice had narrowed to one of abandoning Part I of the Local Government Finance Bill or replacing it by provisions to ban the levying of supplementary rates in England and Wales. The Secretary of State for the Environment and the Chief Whip should now urgently consult Conservative Members of Parliament on this choice; in doing so, they should make clear that the Government's preference was for banning supplementary rates and that there were no other practicable alternatives. It was essential that any new legislative measures proposed should command the support of a majority in the House of Commons; the Committee would take a final decision on which course to follow in the light of the outcome of these consultations. In either event, the present Clause 5, which protected non-domestic rate payers from the full effect of supplementary rates, would have to be dropped, and this would have to be explained with care to industry and commerce. The Secretary of State for Transport should arrange for drafting of legislation on the two alternative bases set out in E(81) 126; this would be on a contingency basis, and the Committee would decide what action to take in the light of the House of Lords' judgement in the current case on London Transport fares.

The Committee -

1. Invited the Secretary of State for the Environment and the Chief Whip to consult Conservative Members of Parliament, as indicated by the Prime Minister in her summing up of their discussion, on the alternatives of abandoning the provisions in Part I of the Local Government Finance Bill and of providing for the abolition of supplementary rates, and to report.
2. Invited the Secretary of State for the Environment, in consultation with the Chief Secretary, Treasury, to consider further the arrangements for temporary borrowing by local authorities to cover contingencies not foreseen at the time of the main rate, and to report.
3. Invited the Secretary of State for Transport -
 - i. In consultation with the Secretary of State for the Environment, to consider further the provision of a duty to require local authorities to repay rates raised for transport expenditure which was not subsequently authorised.

ii. To arrange for the drafting, on a contingency basis, of legislative measures to deal with transport subsidies on the two alternative approaches discussed in E(81) 126 and taking account of the outcome of 5.i.

4. Agreed to consider further, in the light of reports on the further work they had commissioned and of the House of Lords' judgement on London Transport fares, the Local Government Finance Bill and new legislative measures to deal with transport subsidies.

2. FIXED CROSS-CHANNEL LINK

The Committee considered Memoranda by the Secretary of State for Transport (E(81) 121), by the Chief Secretary, Treasury (E(81) 122) and by the Central Policy Review Staff (CPRS) (E(81) 124) on the proposals for a fixed cross-channel link.

THE SECRETARY OF STATE FOR TRANSPORT said that there were broadly three main types of fixed link: bored tunnels, operated as a railway; bridges; and immersed tubes. The next stage of discussions with the French Government would need to clarify three fundamental questions: whether to go for a quick start on a rail tunnel, with the necessary legislation in the present Parliament; whether to study bridges or tubes more thoroughly, implying a much longer time-scale and no legislation in this Parliament; or whether to rely on development of existing services, on which he was waiting for a report from the Dover Harbour Board which represented port and shipping interests. Since all these options were regarded as open by both sides, it was unnecessary to advise the French that the Government had doubts about whether a fixed link was worthwhile. The aim was to finance the project by private capital; the French would, however, seek guarantees from the Government against cancellation of the project for political reasons, and there was pressure for other forms of Government guarantee and undertakings. In the light of the further work on the economic appraisal of the alternatives, and of the options for financing, he would make proposals to the Committee in the New Year.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the French had charged the last Government with bad faith when, in 1975, they had withdrawn the United Kingdom's support for a channel tunnel. This had done great harm to relations between the two countries. It was, therefore, essential in the present negotiations to keep the French informed of the Government's thinking.

In discussion the following were the main points made -

- a. There should be no commitment to any particular course until the risks had been fully assessed and the Government was satisfied that the project merited the use of the resources necessary to it. Decisions

on technical and organisational issues would have to be taken in the light of the economic appraisal. It would be a mistake to rule out at this stage the more imaginative schemes, such as the Euroroute scheme backed by the British Steel Corporation; though there was a risk that such schemes were more expensive.

b. It should not be assumed that legislation would win swift and ready support. Experience of earlier proposals showed that other regions feared the effects of a concentration of resources in the South East; in the South East itself there could be environmental objections.

c. If there were to be a link, further consideration would need to be given to the problems of immigration controls.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Transport should proceed with the economic and financing studies in hand and report further in the New Year. Further work, and any discussions with the French, should be on the basis that all the options discussed in E(81) 121, including that of relying on existing services, remained open and that the Government was not yet committed to any particular course; it was essential to avoid any possibility of misunderstandings with the French Government. If there were to be a fixed cross-channel link, the aim should be to fund it with private sector capital and to reduce any Government involvement and undertaking to a minimum.

The Committee -

Invited the Secretary of State for Transport to be guided, in arranging for further studies and discussions with the French Government, by the Prime Minister's summing up of their discussion, and to report further in the New Year.

Cabinet Office

4 December 1981