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CC(86) 1st  
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on

THURSDAY 9 JANUARY 1986

at 10.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Viscount Whitelaw  
Lord President of the Council

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Leon Brittan QC MP  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP  
Secretary of State for the Home Department

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Education and  
Science

The Rt Hon Peter Walker MP  
Secretary of State for Energy

The Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
(Items 1 and 2)

The Rt Hon George Younger MP  
Secretary of State for Scotland (Items 1-5)  
Secretary of State for Defence (Items 6 and 7)

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon John Biffen MP  
Lord Privy Seal

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

The Rt Hon Norman Tebbit MP  
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP  
Secretary of State for Ireland

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

The Rt Hon Lord Young of Graffham  
Secretary of State for Employment

The Rt Hon Kenneth Baker MP  
Secretary of State for the Environment

The Rt Hon Kenneth Clarke QC MP  
Paymaster General

The Rt Hon John MacGregor MP  
Chief Secretary, Treasury

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ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong	
Mr D F Williamson	(Items 3 and 4)
Mr C L G Mallaby	(Items 3-5)
Mr J B Unwin	(Items 1, 2, 6 and 7)
Mr A J Langdon	(Items 1, 2, 6 and 7)

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PARLIAMENTARY  
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the week beginning 13 January.

WESTLAND PLC

Previous

Reference:

CC(85) 37th

Conclusions,

Minute 1

THE PRIME MINISTER invited the Cabinet to consider further developments since their last discussion of the situation created by the financial difficulties of Westland plc.

The Government had decided long ago not to put public money into Westland, apart from writing off launch aid on the W30-300 helicopter but to leave the company to find its own solution to its problems through the market.

When the Cabinet discussed the matter on 19 December 1985, there were two proposals on the table for a financial reconstruction of Westland (not a takeover) involving either United Technologies and Fiat or a European consortium taking a minority shareholding in Westland. At that meeting the Cabinet had agreed that it remained the policy of the Government that it was for the company to decide what was the best course to follow in the interests of Westland and its employees, and it had agreed that, given that that was the Government's policy, no Minister was entitled to lobby in favour of one proposal rather another and that information about the implications of defence procurement for Westland's workload should be made equally available to both groups as well as to Westland and its bankers, and questions on the subject should not be answered in any way which favoured one group or proposal rather than another. She had answered questions in the House of Commons on 19 December 1985 accordingly and had written to the Chairman of Westland on 1 January 1986 a letter, the text of which had been agreed with the Departments concerned, in accordance with those decisions.

Members of the Cabinet knew what had happened since then. Comment and headlines in the newspapers, including those normally favourable to the Government, had been extremely damaging. The Government had entered the New Year in a way very harmful to the reputation of the Cabinet and to the public esteem in which the Government was held, just at the time when there were signs of a recovery in the Government's political fortunes. If the situation continued the Government would have no credibility left. She had never seen a clearer demonstration of the damaging consequences that ensued for the coherence and standing of a Government when the principle of collective responsibility was not observed. It was essential now to restore the standing of the Government and to reassert the collective responsibility of Ministers for the decisions of Government. The Cabinet should agree to observe in full the conclusions agreed at their meeting on 19 December.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that since 19 December revised proposals had been put to Westland by both the United Technologies-Fiat and the European consortia. In each case the new proposals were an improvement on their previous proposals. Each involved the consortium concerned taking a minority shareholding in Westland. The board of directors at Westland were recommending

acceptance of the United Technologies-Fiat proposal. He himself had continued to emphasise that it was for the board of directors to recommend and the shareholders of the company to decide what course should be followed. The European consortium had put their proposals forward direct to the shareholders of Westland. At their meeting on 14 January 1986 the Westland shareholders would have three resolutions to consider:

- i. the first to increase the company's borrowing limits, which required a simple majority; and
- ii. the second and third to give effect to the United Technologies-Fiat reconstruction proposals which would require a 75 per cent majority.

THE SECRETARY OF STATE FOR DEFENCE said that he had very little to add. He had put his views to colleagues as clearly as he could. At the meeting of Cabinet on 19 December he had said that developments could take place which would call for a view to be taken by the Government. Those developments had taken place. The situation had, however, changed when the Chairman of Westland had made recommendations to the shareholders. After that had happened, the Government clearly could not intervene. What would be the outcome of the shareholders' meeting on 14 January was uncertain. In the meantime he would watch developments; he had no intention of declaring himself publicly in favour of one proposal or the other, though he would continue to answer questions about procurement policy if he were asked. It would be very important that anything that was said to the media after this meeting of the Cabinet should not be seen as leaning towards one side or another in the Westland affair; otherwise the situation to which the Prime Minister had drawn attention would continue. The Government stand must be one of complete neutrality, to the effect that there was nothing to add and that it was now a matter for the shareholders of Westland. It was most important for the Government now to put itself above the battle and to distance itself from the issues to be decided. No attempt should be made to steer press comment. In that way it might be possible to create a situation in which decisions could be taken by the company. If the decision of the Cabinet was simply to reaffirm their conclusions of 19 December, as repeated by the Prime Minister in introducing the discussion, and that was the indication which came out from the meeting, it would look as if the Cabinet was backing the board of directors of Westland.

In discussion the question was raised what would happen if there was not a 75 per cent majority at the shareholders meeting on 14 January for the United Technologies-Fiat proposal. THE SECRETARY OF STATE FOR DEFENCE said that there was a certain anxiety that the shareholders of Westland were being given only one choice. The European consortium proposed to have documents available which could be put before the meeting of shareholders at once, if the recommendations by the board of directors on the United Technologies-Fiat proposal did not receive a 75 per cent majority. There need therefore be no question of the company going into receivership provided that solicitors representing Westland

did not deny solicitors representing the European consortium access to the appropriate information. If there was not a 75 per cent majority in favour of either proposal, or if 10 per cent of those present sought a delay, then decisions might be delayed until a further Extraordinary General Meeting. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he understood that, if the resolutions proposed by the board of Directors in favour of United Technologies-Fiat proposal did not receive the support of a 75 per cent majority, United Technologies and Fiat would not then be bound by their agreement with Westland and it would be open to the board of directors of Westland to put forward whatever proposal they thought fit to the shareholders.

There was general agreement that the time had now come to put aside what had happened, to leave it to the company to conduct negotiations with the two consortia and to reach their decisions, and for the Government to disengage from the issue. It would be important to demonstrate a determination to re-establish the credibility and coherence of the Cabinet.

THE PRIME MINISTER suggested to the Cabinet that the time had now come for the company and its bankers to be left to deal with representatives from the two consortia and to come to their decisions without any further intervention, directly or indirectly, by Ministers or by other people acting on their behalf. That must be accepted and observed by everyone and there must be no lobbying or briefing directly or indirectly. Because of the risks of misrepresentation, during this period of sensitive commercial negotiations and decisions answers to questions should be cleared interdepartmentally through the Cabinet Office, so as to ensure that all answers given were fully consistent with the policy of the Government.

THE SECRETARY OF STATE FOR DEFENCE said that it would be impossible to clear every answer through the Cabinet Office. He did not envisage making any new statements. If any new statements needed to be made, he would be ready to clear them collectively. If, however, he was asked to confirm statements which he had already made, it could create an extremely difficult situation, particularly for the European consortium, if he were not able to confirm them without delay. Any delay would give the impression of hesitation or uncertainty which could prejudice the commercial situation. Equally, if he were asked a question of fact about procurement requirements, he needed to be able to reply without delay once again, any delay in answering in order to consult would give the impression of hesitation or of uncertainty about future policy.

In further discussion the following points were made:

- a. it should be possible to answer further questions about procurement matters by reference to the Prime Minister's indication in the House of Commons on 19 December 1985 that major issues of procurement policy were for collective decision by the Government;
- b. it was highly desirable that so far as possible any questions to the Government which arose between now and the meeting of

Westland shareholders should be answered by reference to statements already on the record and an indication that there was nothing to add. It was suggested, however, that even so it might be necessary to consider whether answers already given were still completely appropriate in present circumstances: it was not unreasonable that a short time should be taken to reflect, even on an answer that had already been given. It should be possible to ensure collective agreement on any answers that had to be given between now and the date of the shareholders' meeting; matters could be considered again in the light of the new situation after that meeting.

Some of the difficulties of dealing with questions that called for confirmation of existing statements or replies and of anticipating difficult questions could be dealt with by the preparation and interdepartmental agreement of an agreed fact sheet or a list of possible questions and answers which could be used as a source for the preparation of answers to actual questions.

THE SECRETARY OF STATE FOR DEFENCE said that he did not want at this stage to comment publicly on the situation that might arise after the meeting of the shareholders and he would have no problem about seeking agreement to any answer that might be called for about that. He was, however, concerned about the period between now and the meeting of the shareholders on 14 January. The proposals of the European consortium rested in part on statements which he had made, all of which had been circulated to colleagues. If there was any suggestion that these statements were in question, that could be material to the decisions taken by the shareholders. It would not be acceptable to have a position in which delay in answering could be a weapon to be used to the disadvantage of one side or the other. He did not believe that it could be constitutionally right for a departmental Minister to be obliged to clear interdepartmentally through the Cabinet Office replies on matters which fell within his Ministerial responsibility. He was prepared to clear collectively any new statements which he might be called upon to make, but he must be able to confirm without the delay implicit in the requirement to consult any statement already made. He would be ready to inform the Cabinet Office of any answers which he gave on that basis.

In discussion other members of the Cabinet considered that, in the especially sensitive period between now and the meeting of shareholders, it was of paramount importance to maintain the Government's decision that the matter should be left to the shareholders without Government intervention and to ensure that all Government pronouncements were consistent with that decision. That made it necessary to adopt a procedure of interdepartmental clearance even in respect of confirmation of statements already made or replies already given. Some statements which had already been made had appeared to be ex parte or conflicting as between one Minister and another: in these circumstances the confirmation of a given response could oblige another Minister to reassert a different position and the appearance of Government disunity would continue. It was now necessary that all statements and replies by members of the Government on this matter should be cleared interdepartmentally through the Cabinet Office until after the meeting

of shareholders. Only that would ensure the restoration and maintenance of collective responsibility.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it was for the company to decide what was the best course to follow in the interests of Westland and its employees; that the time had now come for the company and its bankers to be left to deal with representatives of the two consortia and to come to their decisions, without any further intervention, directly or indirectly, by Ministers or by other people acting on their behalf. The Cabinet also agreed that, in the interest of ensuring adherence to that decision and of restoring and maintaining collective responsibility of the Government, during the particularly sensitive period of commercial negotiations and decisions which lay ahead all statements or replies by members of the Government in relation to Westland, including replies which confirmed statements already made, should be cleared with the Departments concerned through the Cabinet Office. Consideration should also be given to the preparation under Cabinet Office auspices of an interdepartmentally agreed fact sheet which could be drawn upon as a source of answers to questions.

THE SECRETARY OF STATE FOR DEFENCE said that there had been no collective responsibility in the discussion of this matter. There had been a breakdown in the propriety of Cabinet discussions. He could not accept the decision recorded in the Prime Minister's summing up. He must therefore leave this Cabinet.

THE SECRETARY OF STATE FOR DEFENCE withdrew from the meeting at that point.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion.
2. Reaffirmed that it was the policy of the Government that it was for the company to decide what was the best course to follow in the interests of Westland and its employees, and that the time had now come for the company and its bankers to be left to deal with representatives of the two consortia and to make their decisions without any further intervention, directly or indirectly, by Ministers or by other people acting on their behalf.
3. Agreed that all statements or replies by members of the Government on matters relating to Westland between now and the meeting of shareholders on 14 January should be cleared interdepartmentally through the Cabinet Office, and that consideration should be given to the preparation of an agreed fact sheet on the lines indicated in the Prime Minister's summing up.
4. Invited the Secretary of the Cabinet to make the arrangements necessary to give effect to that decision.

5. Took note, with extreme regret, of the decision by the Secretary of State for Defence to leave the Cabinet.

The Cabinet proceeded to consider Foreign Affairs, Community Affairs and Northern Ireland Affairs (see Minutes 3, 4, and 5). The meeting was then adjourned for half an hour. When the meeting resumed after the adjournment, the Prime Minister said that Mr Heseltine had informed the press as he left 10 Downing Street that he had resigned from the Government. Guidance was being given to the press on the following lines:

"The Cabinet have reaffirmed that it is the policy of the Government that it is for the company to decide what course to follow in the best interest of Westland and its employees. Cabinet discussed how this decision should apply in practice to ensure that collective responsibility was upheld. It was agreed that during this period when sensitive commercial negotiations were in process, all statements by Government Ministers should be cleared interdepartmentally through the Cabinet Office to ensure that all answers given by the Government were consistent with the policy decided by Cabinet.

Mr Heseltine found himself unable to accept this procedure and left the Cabinet. The Prime Minister expressed her regret at his decision".

THE PRIME MINISTER informed the Cabinet that The Queen had approved the appointment of the Rt Hon George Younger MP to be Secretary of State for Defence and Mr Malcolm Rifkind MP to be Secretary of State for Scotland.

The Cabinet -

6. Took note.

FOREIGN  
AFFAIRS

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Libya

Previous  
Reference:  
CC(85) 8th  
Conclusions,  
Minute 2

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that it was almost certain that the terrorist attacks at the airports at Rome and Vienna on 27 December 1985 had been carried out by the terrorist group known as Abu Nidhal, and that Libya had in some way been involved. Steps had been taken to strengthen security arrangements at airports in the United Kingdom, especially those from which the Israeli airline, El Al, operated. Particular care would be needed during the visit to the United Kingdom from 21 to 26 January of the Israeli Prime Minister, Mr Shimon Peres.

The United States had been seeking a way of showing its revulsion at these incidents and the deaths in them of United States citizens. Some kind of military retaliation had been under consideration but the United States Administration had decided on economic sanctions against Libya. The United States had not invited the United Kingdom to join in these sanctions but had asked its allies not to undercut the United States



measures and to consider an effort to defeat international terrorism and the particular problem posed by Libya in the long term. The British reaction had been to remind the United States of the measures taken by this country against Libya in 1984 and to agree not to undercut the new United States measures. The view of the Government regarding economic sanctions against Libya was that they were likely to have no useful effect on Libyan behaviour and to make it harder for this country to sustain its opposition to mandatory sanctions against South Africa. There would be discussion among the twelve members of the European Community about reactions to Libyan behaviour and to the United States moves and about greater international co-operation against terrorism.

Southern  
Africa

Previous:  
Reference:  
CC(85) 37th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that two white people had been killed and two had been injured in a landmine explosion on 4 January in South Africa, close to the border with Botswana. The United Kingdom interest was to exert influence to reduce the likelihood of further incidents of this kind. The Government had urged South Africa to seek a diplomatic solution to the immediate problem and had called on Botswana to do everything possible to prevent violence of this kind, despite the difficulty which that country experienced in controlling its borders.

Nigeria

Previous  
Reference:  
CC(85) 35th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the new Nigerian Foreign Minister, Mr Akinyemi, had visited the United Kingdom from 7 to 9 January. He was an intelligent and agreeable interlocutor. In the talks with Mr Akinyemi, the Government had sought to take account of the long term importance of Nigeria in Africa. Efforts had been made to show Mr Akinyemi that everything possible was being done to co-operate with Nigeria. The Government wished to restore the presence of High Commissioners in both capitals; it was not clear whether this would be possible in the near future. Representations had been made to Mr Akinyemi about the two British engineers of Bristow Helicopters Limited who were in prison in Nigeria. Mr Akinyemi had pressed less strongly than expected about the case of Major Mohammed Yusufu who had been sentenced in the British courts for the kidnap of the Nigerian former Minister for Transport Mr Umaru Dikko, and not at all about the case of Mr Dikko.

Uganda THE FOREIGN AND COMMONWEALTH SECRETARY said that things were going badly in Uganda. The peace agreement signed on 17 December 1985 was not being implemented. There was a possibility that it would not succeed, which would be most regrettable. The Government were adhering to the position that the United Kingdom could not become engaged in monitoring the implementation of the agreement but was willing to help in other ways.

Previous Reference: CC(85) 37th Conclusions, Minute 2

The Cabinet -  
Took note.

COMMUNITY AFFAIRS

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The Commission of the Enlarged Communities

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that in the redistribution of portfolios within the Commission on the accession of Spain and Portugal Lord Cockfield had retained all his existing responsibilities and Mr Clinton Davis had maintained his two principal responsibilities for environment and transport, losing only consumer protection and forestry. In general, the redistribution was satisfactory for United Kingdom interest: it might even be advantageous that the fisheries portfolio would now be held by the Portuguese Commissioner.

Inter-governmental Conference

Previous Reference: CC(85) 37th Conclusions, Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that it was not yet known whether the Italian and Danish reserves on the results of the Intergovernmental Conference would be lifted. He was considering with colleagues the handling of the United Kingdom reserve on the possible effect on small and medium-sized businesses of measures on the working environment.

The Cabinet -  
Took note.

NORTHERN IRELAND AFFAIRS

Previous Reference: CC(85) 37th Conclusions, Minute 4

5. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the Provisional Irish Republican Army (PIRA) had continued during the Christmas and New Year period to engage in acts of terrorism in Northern Ireland. There had been further attacks on police stations. The PIRA had successfully intimidated workers in local firms which might have undertaken reconstruction of the police stations. The Government had decided that the Spearhead Battalion should be sent to reinforce the army in Northern Ireland and that more Royal Engineers should be sent to help in the reconstruction of police stations. The arrival of the Spearhead Battalion had been well received in Northern Ireland.

A complicating factor had been that three of the 27 recently convicted terrorists from the Irish National Liberation Army (INLA) had resorted to hunger strikes. But the strikes had not been well co-ordinated in the INLA and had been abandoned without any concessions by the authorities. One factor had been that it had become clear that the appeals launched by the terrorists against conviction would be heard, with less delay than had been expected, in about six months. The question of the hunger strikers had been discussed in a special meeting of the Anglo-Irish Intergovernmental Conference on 30 December 1985.

Unionist hostility to the Anglo-Irish Agreement of 15 November 1985 remained very strong. The Ulster Unionist Party and the Democratic Unionist Party were at one on this. There were also ominous stirrings of the paramilitary groups among the unionists. Unionists appeared to have given little thought to the policies they would adopt after the series of by-elections on 23 January. The number of seats where the Unionist candidate would be opposed was not yet clear, but the Social Democratic and Labour Party would probably put forward candidates in four seats. Unionist supporters would turn out to vote and it was likely that the unionist parties would win all the seats, probably with increased majorities. The Secretary of State for Northern Ireland said that he would be speaking at the Annual Conference of the British-Irish Association on 10 January, and would emphasise the opportunities for unionists presented by the Anglo-Irish Agreement. The situation in Northern Ireland was in general calm but there might be a heightening of tension as the by-elections approached, and the situation could become worse in the period after that.

The Cabinet -

Took note.

ECONOMIC  
AFFAIRS

6. THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures, to be published that day, would show an adjusted increase of 15,000 and an unadjusted increase of 14,000. The figures related to 12 December, and were conditioned by the attitudes of employers about taking on new labour before Christmas. In statistical terms the figures for the last six months were substantially level. The figures for next month, however, were likely to show a record new headline total.

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LOCAL  
GOVERNMENT  
FINANCE  
STUDIES:  
DRAFT GREEN  
PAPER

7. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(86) 1) about the local government finance studies, to which was attached a draft Green Paper. Their discussion and the conclusions reached are recorded separately.

Previous  
Reference:  
CC(84) 32nd  
Conclusion,  
Minute 7

Cabinet Office

10 January 1986

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CABINET

LIMITED CIRCULATION ANNEX

CC(86) 1st Conclusions, Minute 7

Thursday 9 January 1986 at 10.00 am

LOCAL  
GOVERNMENT  
FINANCE  
STUDIES:  
DRAFT GREEN  
PAPER

Previous  
Reference:  
CC(84) 32nd  
Conclusions,  
Minute 7

The Cabinet considered a memorandum by the Secretary of State for the Environment (C(86) 1) about the local government finance studies, to which was attached the text of a draft Green Paper.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the review on which he was reporting had been initiated by his predecessor, who had concluded that the present system of local government finance was under unacceptable strain. It had been a basic policy of the present Government that the level of central government funding of local government should be reduced, and it had been hoped that ratepayers would exert their full influence in keeping local government spending down. In the event, however, ratepayers had used their influence only to a modest extent and the "top-down" pressures imposed by the Government had been damaging in a number of directions. The proliferating complexity of the financial system that had been brought into being was undesirable in itself and inherently vulnerable to legal challenge. Tension between central and local government had been stepped up to an almost intolerable degree. The extremist policies that were emerging in the inner cities fed on these features of the present situation. The business world had been forced into making a vast subsidy to local government through non-domestic rates, while the domestic tax base only represented half of the electorate. Of the 36 million electorate, only 18 million were ratepayers and of those only 12 million paid rates in full. Against that background, doing nothing was not an option. Each year of local government finance was more difficult than the last. There must be a radical change and the choice could only be between more central control of more local accountability.

The proposals set out in the Green Paper rested on three main factors: a uniform national non-domestic rate, a new community charge that would be levied on all adults, and a simplified flat rate Government grant that would not be changed during the year. The community charge would clearly be controversial, but the property base of rates was inadequate, especially when it was considered how wide a range of services local authorities now provided. The only possible alternatives to a community charge were a local sales tax, which could only begin to make sense if there were large regional authorities, and a local income tax, which was

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open to the most fundamental objections, in particular because it would provoke a head-on clash between central and local government and would almost certainly result in higher local government spending. Against that background, a community charge of the kind proposed was, despite all its difficulties, the only way forward.

The proposals he was making were carefully modulated, both through the safety net arrangements and through the lengthy transitional period proposed, so as not to lead to unacceptably violent and sudden changes. In the first year of the new arrangements over 80 per cent of households would gain, or lose no more than £1 a week. When rates were finally phased out and replaced completely by the community charge, just over half of all households would be better off.

He proposed that the Green Paper should be published at the end of January, that comments should be requested for England and Wales by 1 October, and that a White Paper should be published at the end of the year. The timing of the main legislation could be settled later, but there was a good case for legislating on a new system of control of local government capital expenditure in the next session of Parliament, and the Green Paper kept that option open. Legislation on the main issues was of such complexity that it could not be prepared in time for the next session of Parliament, and the three months' consultation being suggested in relation to Scotland did not appear to be enough: he would prefer that these reforms should be considered on a Great Britain basis.

When the Green paper was published there would be a substantial educational job to do, and he and his Ministerial colleagues in the Department of the Environment proposed to set about an energetic programme of speaking engagements throughout England, with a particular eye to explaining the proposals to Conservative Party organisations. It would also be necessary to ensure that Government supporters in Parliament were very fully briefed.

In discussion the following main points were made -

- a. There should be no illusion that the proposals would be politically attractive. More than half of existing ratepayers would see themselves paying more under the proposed arrangements, and the voices of losers would be louder than those of gainers. The proposed community charge would be criticised, both because of its resemblance to a full tax and because of the major administrative complications of registration, enforcement and rebates.
- b. It was important that the consultative period was exploited to the full, and that the Government's case for reform should be vigorously and coherently presented. Since the points of principle were identical north and south of the border, a danger in allowing a shorter time for consultation in Scotland than in England and Wales was that it would appear that the Government had made up its mind on the major issues within the Scottish timescale, and that

subsequent consultation in England and Wales would appear no more than a charade; there was, therefore, a strong case for the same consultation period for all three countries.

c. On the other hand, the last rates revaluation in Scotland had stirred up passionate feelings and an election manifesto commitment to legislate would be inadequate to meet the political need in Scotland. What was proposed for Scotland was legislation that would not cover all the ground, but would be more in the nature of a major interim measure. In particular, it would introduce the community charge and would peg non-domestic rates. If such legislation were enacted in the next session of Parliament, it would begin to be implemented in April 1989.

d. There were important questions still unresolved about the future of the safety net arrangements, and these needed to be given continuing attention by officials while the consultative process went ahead.

e. Given the history of earlier studies that had concluded that change of the kind now proposed, particularly the community charge, were impossible, it was important that the Green Paper itself, and the presentational exercise associated with it, should be able to explain the considerations that had enabled different conclusions to be reached.

f. Presentationally there would be much to be said for putting forward the arguments for local influence upon spending more in terms of improving local democratic responsibility than as an exercise of local accountability which might give the impression of being concerned only with financial balance sheets;

g. Since the new community charge was unlikely to have many friends, it was important that the consultative period should be used to the full to disabuse people of the idea that local income tax was a realistic alternative. Local income tax was likely to be the device most favoured by the Social Democratic Party and it could well come to be accepted as the most attractive option unless the Government presented the arguments against it very strongly. There was, indeed, a risk that the community charge could be converted into something closely akin to local income tax if too many concessions were made to accommodate it to particular personal circumstances. It was important that the Government should hammer home the facts about the level of local income tax that would be needed to support local government spending at its present level.

h. Particular difficulty could be expected from the student lobby. Students were losing out under the changes that had been agreed on housing benefit, and they now stood to lose by having to bear the community charge.

i. It was important also that capping the community charge should be seen as an integral and continuing part of the Government's policy. It would be unsafe to rely on local accountability alone to keep local authority spending under adequate control. The present text of the Green Paper focused on the maintenance of capping arrangements during the transitional phase.

j. The establishment of a national non-domestic rate should bring very positive benefits in encouraging regeneration in the inner cities. This aspect should be presented vigorously, and it might have a part to play in deflecting negative comment on the community charge.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that, despite all the acknowledged difficulties, the proposals set out in the draft Green Paper represented the only acceptable way forward that had been identified out of the present unsustainable situation. The general principles of the Green Paper were endorsed, and should be vigorously presented both initially and throughout the consultation period. The Green Paper's reference to the maintenance of capping arrangements should be looked at again in the light of the discussion and more detailed examination of the safety net arrangements, and the possibilities for phasing them out, should continue. The foreword to the Green Paper should be signed by the Secretaries of State for the Environment, Scotland and Wales, but a single statement should be made by the Secretary of State for the Environment at the time of publication. Comprehensive and vigorous briefing should be provided for Government supporters at that time.

Discussion had disclosed the difficulties that were feared in different consultative periods were allowed in Scotland and England and Wales. The political requirements in Scotland, however, were different from those in the rest of the country. The precise period of consultation for Scotland should be agreed with the Secretary of State for Scotland, but it had to be accepted that legislation would be needed in Scotland earlier than in England and Wales.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Endorsed the general principles embodied in the Green Paper and agreed that they should be vigorously presented.
3. Agreed that the Green paper should be published on 28 January, with arrangements as the Prime Minister had described.



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4. Invited the Secretary of State for the Environment to ensure that the passage in the Green Paper dealing with capping arrangements did not rule out the possibility of capping the community charge after the transitional period.

5. Agreed that officials should continue to give consideration to the safety net arrangements and the possibilities for phasing them out.

6. Invited the Secretaries of State for the Environment, Scotland and Wales to agree on a consultation date, or dates, in accordance with the Prime Minister's summing up.

Cabinet Office

10 January 1986

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