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NOTE OF A MEETING AT 10 DOWNING STREET AT 1800 HOURS ON
12 DECEMBER, TO DISCUSS THE LOCAL GOVERNMENT BILL

Present:

Prime Minister
Secretary of State for the Environment
Sir Robert Armstrong
Mr C A Whitmore
Mr M A Pattison

The Secretary of State for the Environment explained that the capital controls provisions in the Local Government Bill were an essential part of Government strategy. He had agreed in Opposition to abolish them, and to use a ceiling approach as a quid pro quo. But the details of the arrangements for future capital control were still under negotiation with the Treasury. These would not appear in the Bill, and could not yet be announced pending agreement with the Treasury. He was therefore having to sell the least attractive part of his Bill without the compensations. It was essential to get the project control mechanisms sorted out. The Prime Minister said that the Bill read as a dirigiste piece of legislation. She was getting loud messages that the Party were very unhappy. The Bill would have to be shortened. Was it essential to deal with capital controls this year? Mr Heseltine said that he could drop 60 clauses, but the unitary grant and the capital control provisions were essential. He and his Junior Ministers had already planned a series of visits around the country to explain the intentions. He was confident that he could sell the package. He did need the Prime Minister's assistance in expediting agreement with the Treasury. But if he dropped the capital control provisions now, the local authorities would start to attack the unitary grant provision. Despite the constant

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claims of all local authorities that they were running tight ships, he knew that this was not so. He was trying to steer a very difficult path to ensure that local authorities had to work with fewer central government controls, whilst he would need reserve powers to deal with the small proportion of unacceptable proposals. He also intended to require local authorities to provide clearer financial information to councillors for meetings, and to publish this information, thus allowing public reaction to force good management on the authorities. Copies of the documents would also go to his regional offices as a back-stop. In a vast majority of cases they would not intervene, although reserve powers would exist.

The Prime Minister said that Mr. Heseltine undoubtedly had the ability to sell his programme, and made it sound impressive. She was nevertheless facing a rebellion. The Home Secretary and the Chief Whip had impressed upon her the need to withdraw the capital controls provision. Mr. Heseltine would have to persuade them. He should also recognise that future Ministers might be able to use his reserve powers in damaging ways even if he did not propose to do so. If he was able to calm the fears of colleagues, and of the Party in the country, she would be content. But he would have to convince Cabinet colleagues, and he should be aware that he might still be forced to split the Bill, withdrawing some of the controversial elements as well as the 60 odd clauses which he had mentioned. She felt that the drafting of the Bill must have been at fault to allow these problems to arise.

In further discussion, Mr. Heseltine explained the detailed proposals which would provide much greater freedoms for local authorities, and argued that the main local authority reaction had not been as deeply opposed as the Prime Minister might have been led to believe. He would like to be able to leave the Bill as it was, less the 60 odd clauses to which he had referred, to undertake his campaign of presentation, and to leave any

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reconsideration to the time of Second Reading. Sir Robert Armstrong said, with the Second Reading some way off, it might be possible to prepare draft orders which would show the balance of the package, and to remove some of the dirigiste clauses from the existing Bill. This would leave a stronger position for the Second Reading, and would still allow for reconsideration if this seemed essential.

In response to the Prime Minister, Mr Heseltine explained that the Financial Secretary to the Treasury was not prepared to agree to abandon project control until he was satisfied on the details of future handling of public sector subsidies to local authorities. Mr. Heseltine appreciated the need for the Treasury to be so satisfied, but asked the Prime Minister to use her influence to speed up the reaching of agreement.

The Prime Minister invited Mr. Heseltine to maximise the number of clauses which he could withdraw, leaving in the capital controls provisions. He would then have to defend this position in Cabinet himself. She would arrange for a message to be sent to the Financial Secretary asking him to ensure that the Treasury and the Department of the Environment reached agreement on future capital spending sanctions as quickly as possible. (The Prime Minister later decided to raise this orally with the Chancellor of the Exchequer.)

The meeting concluded at 1635.

12 December 1979