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CC (65)
51st Conclusions

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CABINET

*CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 14th October, 1965,
at 10.30 a.m.*

Present:

The Right Hon. HAROLD WILSON, M P, Prime Minister

The Right Hon. GEORGE BROWN, M P, First Secretary of State and Secretary of State for Economic Affairs	The Right Hon. HERBERT BOWDEN, M P, Lord President of the Council
The Right Hon. LORD GARDINER, Lord Chancellor	The Right Hon. JAMES CALLAGHAN, M P, Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M P, Secretary of State for Defence	The Right Hon. Sir FRANK SOSKICE, Q C, M P, Secretary of State for the Home Department
The Right Hon. ARTHUR BOTTOMLEY, M P, Secretary of State for Common- wealth Relations	The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. JAMES GRIFFITHS, M P, Secretary of State for Wales	The Right Hon. DOUGLAS JAY, M P, President of the Board of Trade
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal	The Right Hon. RICHARD CROSSMAN, M P, Minister of Housing and Local Government
The Right Hon. DOUGLAS HOUGHTON, M P, Chancellor of the Duchy of Lancaster	The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. FREDERICK LEE, M P, Minister of Power	The Right Hon. TOM FRASER, M P, Minister of Transport

The Right Hon. BARBARA CASTLE, M P,
Minister of Overseas Development

The following were also present:

The Right Hon. MARGARET HERBISON, M P, Minister of Pensions and National Insurance (<i>Item 2</i>)	Mr. WALTER PADLEY, M P, Minister of State for Foreign Affairs
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Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. J. H. LOCKE

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Rhodesia
(Previous
Reference :
CC (65) 50th
Conclusions,
Minute 4)

1. The Cabinet had before them a Note by the Prime Minister (C (65) 131), to which was attached a record of the discussions which he had recently held with the Prime Minister of Rhodesia, Mr. Ian Smith.

The Prime Minister said that Mr. Smith had now returned to Rhodesia after discussions which had been completely frank on both sides and had fully revealed the extent of the differences of principle which still separated the two Governments. United Kingdom Ministers had made no concessions to Mr. Smith; but they had indicated to him several alternative courses of action which would enable the Rhodesian Government to escape from the present deadlock if they were prepared to compromise on their rigid stand. Moreover, as a result of approaches by our Embassies and High Commissions overseas many other Governments had sent messages to Mr. Smith, warning him of the dangers of a unilateral declaration of independence (u.d.i.). In particular, the United States Government, both in messages to Mr. Smith and in a statement by their Representative at the United Nations, had given a stern warning of the likely consequences of such action.

In the United Kingdom itself Mr. Smith's appearances on television had initially had a favourable impact on public opinion and had momentarily succeeded in creating the impression that the United Kingdom Government were insisting on immediate majority rule in Rhodesia. But this was not so; and there now appeared to be a more informed appreciation of the real issues at stake, together with wide general support for the Government's policy. Our proposal that a Commonwealth Mission, consisting of a number of Commonwealth Prime Ministers under the chairmanship of the Prime Minister of Australia, Sir Robert Menzies, should visit Rhodesia in a mediatory capacity had placed Mr. Smith in a new dilemma in as much as, if he refused to receive it, he would forfeit any remaining sympathy in the United Kingdom and in other countries. Even the Governments of South Africa and Portugal now appeared to be counselling caution. The longer a u.d.i. was postponed, the greater the chance that in fact it would never be made.

The Commonwealth Secretary said that, while the situation was still evenly balanced, it appeared that the outcome of the recent discussions, together with the pressure brought to bear on Mr. Smith by world opinion, had at least postponed a u.d.i. and to that extent could be regarded as a success. As regards the projected Commonwealth Mission, Sir Robert Menzies was prepared to accept the chairmanship if this were acceptable to Mr. Smith and to African opinion. But there could be no question of a Mission consisting only of representatives of the older Commonwealth countries. African representation was essential; nor would anything else be acceptable to Sir Robert Menzies himself. President Kaunda of Zambia had declined to serve on the understandable ground that his country was too intimately concerned with the problem. The Prime Minister of Uganda, Dr. Obote, had accepted membership, while the Prime

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Ministers of Nigeria and Ceylon were still considering our invitation. Other influences were also being brought to bear on Rhodesian opinion. In particular, a mission of leading industrial and financial interests in the United Kingdom was leaving that day for Rhodesia and would seek to persuade the European population of the dangers of a u.d.i. in relation to business confidence and the prospects of future investment in Rhodesia.

Discussion showed full agreement with the policy which had been pursued. The following main points were made:

(a) There was as yet no indication of any effective political opposition to Mr. Smith's Party by other leading political figures in Rhodesia. But a postponement of a udi and a growing realisation of its consequences might lead in due course to a change in this situation.

(b) There had been no further drawing down of Rhodesian sterling balances after certain recent transactions; and there was as yet no indication of any renewed calls upon them.

(c) The Prime Minister's broadcast earlier in the week had had a very favourable effect on international opinion, particularly as regards African sentiment.

The Prime Minister, summing up the discussion, said that the situation was still extremely delicate. The United Kingdom and Rhodesian Governments had failed to agree; but the latter had not yet committed themselves to any illegal action and relations had not, therefore, been finally broken off. In these circumstances it was imperative that we should refrain from any public action or statement which could be regarded as provocative. Ministers should therefore abstain as far as possible from any public reference to the Rhodesian problem in the immediate future: and, in so far as they found it necessary to mention it, they should agree the text of their remarks with the Commonwealth Secretary.

The Cabinet—

Took note, with approval, of the statements about Rhodesia by the Prime Minister and the Commonwealth Secretary.

**Local
Government
Finance**
Rates Rebates
and Rates by
Instalments
(Previous
Reference:
CC (65) 45th
Conclusions,
Minute 4)

2. The Cabinet considered a memorandum (C (65) 132) by the Secretary of State for Scotland and the Minister of Housing and Local Government, proposing that a short Bill should be introduced early in the 1965-66 Session to provide a measure of relief to ratepayers with low incomes and also to provide for the payment of rates by instalments.

The Minister of Housing and Local Government said that the present system of local rating was very regressive and bore with particular severity on families with incomes just above the National Assistance level. The Allen Report had shown that ratepayers with an income of between £6 and £10 a week had to pay over 6 per cent

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of their disposable income in rates, whereas those with an income of over £20 a week paid only 2.7 per cent in rates. Although individuals in receipt of National Assistance had their rates paid, in effect, by the National Assistance Board, no less than 500,000 ratepayers who were eligible for National Assistance were not claiming it. There was therefore an urgent need to provide some measure of relief to those poorer households, particularly since the average increase of 10 per cent in local rate demands in the current year was likely to be followed by a similar increase in 1966. It would be desirable in due course to reconstitute the whole rating system on a less regressive basis; but this could not be achieved in the near future, since much of the information needed for this purpose was not yet available. The present scheme had therefore been devised as an interim, short-term measure, to be in operation by April 1966. It provided for a householder to apply to his rating authority for relief if his rate liability exceeded £5 a year and his income did not exceed £8 a week in the case of a single individual or £10 a week in the case of a married couple, with an extra 30/- a week for each dependant child. There would be provision for marginal relief for those just outside these limits. The Exchequer would reimburse local authorities to the extent of 75 per cent of the cost of the rebates; but, since the scheme would be operated by local authorities, it was essential that the balance of the cost should be borne by them in order to give them an incentive to operate it conscientiously. The burden falling on other ratepayers as a result of the rebates would, however, be relatively small. The cost to the Exchequer if all those eligible applied was estimated in C (65) 132 at £35 million; but more refined calculations suggested that it would lie between £25 and £30 million. Since the ratepayers who would benefit were responsible for only 7 per cent of the total rates, it should therefore be possible to ensure a very substantial alleviation of hardship, for up to 2½ million households, at a relatively small cost to the Exchequer. The scheme would be preferable to an increase in the general Exchequer grant to local authorities, since this would benefit all ratepayers regardless of need. Moreover, as to about one half of it would accrue to industry and commerce, not to the householder.

The scheme was admittedly a rough and ready measure; and it would inevitably create certain anomalies. It would therefore be important to emphasise, in presenting it to public opinion, that it was no more than an interim attempt to moderate the impact of rates regarded as a form of tax and should not be interpreted as a social benefit similar to National Assistance or alternative to the proposed income guarantee. For this reason there was no question of incorporating in the scheme a family means test or an arrangement for disregards of income. Those who were already receiving assistance from the National Assistance Board in respect of their rates would continue to do so. But it would be inadvisable that the scheme should be operated by the National Assistance Board; and a ratepayer should be able to apply to the rating authority for relief as of right. The anomalies and imperfections of the scheme could be defended

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if it were presented as a short-term measure, which would subsequently need to be incorporated, perhaps in a different form, in a fundamentally reconstituted rating system.

The proposed Bill would also provide that local authorities must make provision for domestic ratepayers to pay by monthly instalments. This would be a desirable reform.

The Secretary of State for Scotland said that it was essential to provide a measure of relief from rates to the poorer families. Local authorities in Scotland might be reluctant to operate a local means test in addition to the national one. Nevertheless, the social arguments in favour of the measure were very great.

The Chancellor of the Exchequer said that, although the proposal might represent the most effective means which could be devised for giving relief to poorer ratepayers, it would be preferable that it should be included in the main Bill on Local Government Finance which would come into effect in April 1967 rather than be enacted hastily as a special measure. The main Bill would be introduced into Parliament by February 1966, and would fully redeem the pledges made by the Labour Party at the General Election to reform the rating system and to transfer part of the burden of expenditure from rates to taxes. Moreover, it had been necessary to defer many other desirable types of expenditure in the light of the present economic situation; and further demands for Government expenditure were now coming forward which had not been included in the estimates so far approved by the Cabinet. These included assistance to colliery closures, a large increase in the deficit of British Railways and additional expenditure on the European Launcher Development Organisation. In addition both the Minister of Housing and Local Government and the Minister of Public Building and Works had proposed that additional claims should be made on national resources through an expansion of building programmes. It would be the more difficult to seek to accommodate these and other items if the Government committed themselves to an additional expenditure of £25 to £30 million on rate rebates in 1966-67, which would have to be met by an increase either in taxation or in Government borrowing.

In discussion the balance of opinion favoured the introduction of the proposed rebate scheme as soon as possible on the grounds that, despite the administrative difficulties and anomalies which it would involve, it would represent a desirable measure of social justice.

In further discussion the following main points were made:

(a) Tenants of local authority houses who at present paid a combined sum for rent and rates would obtain the appropriate degree of rate relief grant by an abatement of rent.

(b) The income limit for the purposes of rate rebate would be higher than in the case of National Assistance and National Insurance; and pressure might develop to increase these rates in step.

(c) Local authorities should not make it a condition of the rate rebate that an applicant first applied for National Assistance, even though he might be eligible for it. The scheme should be available to assist those who were not prepared to apply for National Assistance.

(d) Difficulties might arise in connection with the administration of the scheme. Individual incomes often fluctuated and would sometimes be higher and sometimes lower than the qualifying limit. It might therefore be necessary to assess income on other than an annual basis. Difficulties might also arise in relation to the treatment of unearned income. For these reasons the scheme would be liable to be expensive and difficult to administer. On the other hand many local authorities already had experience of problems of this nature in connection with rent rebate schemes; and they had confirmed that a rate rebate scheme of the kind proposed should be workable.

(e) The scheme provided for assistance in all cases where the rate liability exceeded £5 a year. This figure seemed low; and it would be desirable to consider whether a somewhat higher figure would be appropriate.

(f) If the scheme was to remain in operation for several years, it would be desirable to incorporate in the Bill provision for amending the qualifying income limits in the light of changes in circumstances.

(g) On balance it would be undesirable to provide for a statutory appeal against the decisions of local authorities on the rebate scheme. On the other hand there would undoubtedly be cases where applicants would feel that they had not been fairly treated; and local authorities should be encouraged to make definite provision for the hearing of dissatisfied applicants.

(h) Even if provision were made for the payment of rates by monthly instalments, individuals with very small incomes would still be liable to be hard pressed. An arrangement whereby they could purchase stamps which could then be used to meet the rate demands would be very valuable. It might be uneconomic to introduce special stamps for this purpose; but consideration might be given to the use of, *e.g.*, National Savings stamps for the payment of rates.

(i) It would not be possible to include in the proposed Bill provision for the rating of empty property, since this issue involved problems which would need further examination. But the question would be dealt with in the main Bill on Local Government Finance which would be introduced later in the Session.

The Prime Minister, summing up the discussion, said that the Cabinet were in favour of proceeding with the scheme as an interim measure in order to alleviate the worst effects of a system of local taxation which was socially unjust and was becoming increasingly regressive. The necessary legislation should precede the main measure on Local Government Finance in order that the rate rebate scheme might be in operation by April 1966. The scheme should be presented, however, as an interim measure, designed to meet an immediate need while a basic reform of the whole rating system was being prepared; and its introduction should not be allowed to retard work on this permanent and long term reform. The Bill should not include provision for appeals against decisions of the rating authorities in relation to rebates; but local authorities should be encouraged to establish appropriate machinery for hearing complaints. The

arrangements proposed for the payment of rates by instalments should also be adopted. Further consideration should be given, however, to the various points which had been raised in discussion in connection with the administration of these proposals (including the £5 level of minimum rate liability) and to the possibility of enabling ratepayers to discharge their liabilities by the tender of appropriate stamps.

The Cabinet—

Approved the proposals in C (65) 132, subject to further consideration of the points indicated in the Prime Minister's summing up of their discussion.

*Cabinet Office, S.W.1,
14th October, 1965.*



