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MR. MOUNT

cc: Mr. Butler ✓

LOCAL GOVERNMENT EXPENDITURE AND RATES REFORM

This note records in outline a discussion which the Prime Minister had this afternoon, with the Secretary of State for the Environment, about local government expenditure and rates reform. You and I and Robin Butler were also present.

The Prime Minister said that there would be a great political prize in a decision that there would be no further increases in rates. It would be best not to describe this as "freezing" the rates, since such a description would suggest that rates would remain at their existing levels - higher in some places and lower in others - in perpetuity. This would be manifestly unjust; and undesirable. What was required, rather, was a ceiling upon rates, either at their present level, or on whatever levels they were at when the ceiling was announced. The hope would be that local authorities would reduce their rates under this ceiling. There was a case for providing that, once reduced, rates could not again be raised. On the other hand, this might lead local authorities never to reduce their rates.

The imposition of such a ceiling would need to be accompanied by a number of other measures. After their rates were frozen in this way, local authorities would either require a new source of finance to bridge the gap between their rate revenue and their inescapable cost increases; or there would have to be a re-distribution of functions between central and local government. On the first of these possibilities, there could be, in effect, a new tax. This would best be a tax on expenditure, and since any new form of taxation was ruled out as politically unacceptable, this pointed to a local VAT. Alternatively, there could be an increase in Rate Support Grant payments, or, where the local authority concerned received no RSG, some form of supplementary grant.

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Another possibility would be to increase the grant paid to the Police, say, to 75 per cent or for central Government to take over the pay of teachers' salaries. These latter possibilities led into the alternative general solution, canvassed above, of shifting the border-line of responsibilities between central and local government.

The Prime Minister asked you to discuss these issues with Mr. Heiser at the Department of the Environment, in order to assist the preparation of Mr. King's paper for the Prime Minister's small Group of Local Government Expenditure and Rates next week. The aim would be to circulate a paper as soon as possible, so as to allow time for the other Ministers concerned to put forward their own views.

7 February 1983

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