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P.01011

PRIME MINISTER

Local Taxation: Control of Rate
Increases and Expenditure

E(LF)(83)11 and 12.

BACKGROUND

Tomorrow's meeting of the Sub-Committee is a resumption of the discussion on 27 April; and the same papers are relevant. In addition, as requested by the Sub-Committee (E(LF)(83)3rd Meeting, Conclusion 3), the Secretary of State for the Environment has circulated a memorandum (E(LF)(83)11) discussing the criteria which might be used:

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FLAG A - - -

(i) to decide which local authorities would be eligible for derogations under a general scheme of limitation on rate increases, such as that advocated by the Chief Secretary, Treasury in E(LF)(83)9; and

FLAG F - - -

(ii) to decide which local authorities would be chosen for selective scrutiny and control under the scheme advocated by the Secretary of State for the Environment in E(LF)(83)7.

FLAG C - - -

The Chief Secretary has circulated a memorandum (E(LF)(83)12) setting out a rather different approach to the criteria for a general scheme of limitation of rate increases.

FLAG B - - -

2. This brief discusses the two new memoranda. The brief I submitted for the previous meeting, which discusses E(LF)(83)7 to 10, stands. The Sub-Committee will need to reach decisions tomorrow on the matters raised in E(LF)(83)7 to 10 - which go a good deal wider than E(LF)(83)11 and 12 - if the Government is to be in a position to announce its decisions, even in outline, this month. The provisional arrangements for Cabinet meetings suggest that the Cabinet might consider rates

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and local taxation on 19 May (and it may well be that more than one meeting will be needed to resolve the issues). That leaves little time to prepare and circulate the papers on this notoriously complicated subject.

MAIN ISSUES

3. The main issues are as follows:

i. you will wish first to seek agreement on whether the interim scheme should involve a selective or general limitation of rate increases;

(if the issues are fully explored but agreement still cannot be reached, the right course may be to put this to the Cabinet as an unresolved matter, bearing in mind the tightness of the timetable)

ii. in the light of i. you will wish to seek agreement on whether a long term scheme is needed and, if so, what it should be and what should be the basis on which public consultation takes place;

iii. decisions are also required on the package of minor reforms (eg the discount for the single person household etc).

Selective v general scheme

4. A general scheme would have great political attraction in that it would offer all rate payers protection against excessive rate increases and not only those in a few authorities. The problem is whether it would work in practice. The crucial consideration is that the general limit would have to be set provisionally as early as July, and would have to be set on the low side so that it would not have the perverse effect of encouraging higher rate increases. The danger is that the Secretary of State would be swamped with a large number of applications for derogation; most of these applications might well be unsuccessful ultimately but the mere fact of having to consider them conscientiously and having to defend decisions on some of them in the courts would present the problem.

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5. The Secretary of State for the Environment argues in E(LF)(83)11 that the criteria for derogations cannot be drawn tightly enough to prevent this swamping effect. He has concluded that whether a narrow but general criterion was adopted or a specific list of considerations, authorities would still find it easy to put forward a prima facie case. In E(LF)(83)12 the Chief Secretary disagrees. He proposes a series of filters, initially quantitative and mechanistic but subsequently more subjective, designed to reduce the number of applications for derogations requiring intensive scrutiny to manageable proportions.

6. It may be felt that the Secretary of State for the Environment overstates a little the difficulties involved in devising criteria for derogation under a general scheme, for example:

i. it is suggested that local authorities might be able to cite pay increases as "unforeseen circumstances". Against this it might be argued that where the local authorities themselves negotiate the pay increases these are under their own control within the financial parameters already set for them; and that, since the pay increases apply generally, they could not provide grounds for derogation for particular authorities. It must however be admitted that the pay outturn will always tend to be higher than the assumption used in the previous July because this assumption will have been designed deliberately to lower expectations. It would be undesirable to have a system which was so tight that the Government had either to allow a large number of derogations or to force many local authorities into default.

ii. It is argued that, in order to avoid an unduly rigid system, any list of specific grounds for derogation would have to be supplemented by a general escape clause and that this would provide a potential way in for all local authorities. Against this it could be argued that the Secretary of State would be able to turn down promptly all such applications as were plainly unacceptable. It has to be admitted however that this would provide an uncomfortably wide area for challenging the Secretary of State's discretion in the courts.

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7. The conclusion may be therefore that even if some of the arguments in the Secretary of State for the Environment's paper may not bear all the weight he puts on them, they give some considerable grounds for anxiety about the workability of a general scheme.

8. In considering the Chief Secretary's paper (E(LF)(83)12) the Sub-Committee will wish to consider whether he plays down the difficulties of a general scheme unduly, for example:

i. It would certainly be convenient to have an initial filter of a mechanistic and quantitative kind. The question is how feasible this would be. Experience of the existing rules for block grants and holdback shows how difficult it is to apply strict quantitative rules of a general kind without producing nonsenses affecting individual local authorities. The tighter the initial criteria are set, the more likely it is that some local authority will be put into an impossible position, with no hope of derogation and possibly driven into default. If however the initial quantitative criteria are kept loose, they do not achieve the objective of cutting down the number of applications for derogation. It should also be noted that even the Chief Secretary's initial criteria are not wholly quantitative and include "emergencies and other unforeseeable contingencies", about which there would be some room for argument.

ii. The total effect of the Chief Secretary's proposals would be that the Government would determine in a complex and elaborate way the expenditure of all local authorities. There is of course no constitutional objection to this arrangement; if Parliament decides that the powers of local authorities should be so circumscribed, that is the end of the matter. Ministers will however need to weigh very carefully whether the political advantage of having a general as opposed to a selective scheme for limiting rate increases is sufficient to outweigh the political difficulty of circumscribing the powers of all local authorities in this way.

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Other issues

9. On the other issues you may wish to refer back to the earlier brief submitted on 26 April.

HANDLING

10. You will wish to ask the Secretary of State for the Environment and the Chief Secretary, Treasury to introduce their memoranda. All members of the Sub-Committee are likely to wish to contribute. Unfortunately, the Attorney General cannot be present because he will be in Belfast. But we understand that he takes the view that the legal issues have been thoroughly aired and that the decision now before the Sub-Committee is essentially a matter of policy.

CONCLUSIONS

11. You will wish to reach conclusions on the following matters:

- i. whether the interim scheme for limiting rate increases should be on a selective or a general basis;
- ii. whether there is the need for a longer term scheme involving an additional source of local taxation; and, if so, what it should be and on what basis should public consultation take place;
- iii. whether the following minor reforms should be introduced throughout Great Britain:
 - a. a discount for single person households;
 - b. separate billing of rate payers by different tiers of local government (already applying in Scotland);
 - c. a statutory obligation on local authorities to consult local representatives of industry and commerce;
 - d. revaluation of the non-domestic sector;
 - e. streamlining of valuation procedures;

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f. abolishing (or, as the Chief Secretary would prefer, reducing to 25 per cent of the full rate) rates on empty industrial property;

iv. whether the Secretary of State for Scotland should be authorised to go ahead with some reforms affecting Scotland only (eg domestic revaluation, and changes in valuation assessment and appeal procedures, and improvements in his grant-withholding powers.)

RG
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4 May 1983

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