

PRIME MINISTER

after the main meeting is over
ms

Tom King is coming in on Monday to discuss Somerset House with you. He will be very anxious to assure himself that the paper he is about to put round the Cabinet on rates is on the lines you wish. He will pick up the conclusions of your short meeting with Lord Bellwin and Terry Heiser on Friday -

i) That the decision is for both a selective and a general scheme, with the latter as a reserve power, held back as a threat in case the selective powers do not work.

ii) The aim will be to set out in outline only the criteria under which the selective powers will operate and under which the derogations from the general order would be permitted.

It would be left for later to devise the details, which could be put in place by secondary legislation.

iii) With such a broad ranging set of powers, there ought to be no need for the single person occupied rebate scheme costing £250-300m (although there still might be a case for the highly selective rebate schemes suggested by George Younger on Thursday).

You will wish also to concert with Tom King how best to rally opinion in the Cabinet round these conclusions in advance of the discussion on Thursday.

MS

6 May 1983

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6 May 1983

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Dem Michael

E(LF)

Following the meeting of E(LF) yesterday my Secretary of State has prepared the first draft of a paper for Cabinet. As I have explained to you, he is in Merseyside and Manchester today and the attached text has therefore been prepared by officials in the light of his instructions at a meeting last night. It was, therefore, prepared before the meeting which the Prime Minister had with Lord Bellwin this morning and does not reflect any points made in that discussion. A revised paper will be worked on again by the Secretary of State over the weekend. My Secretary of State had felt that it would be helpful if the Prime Minister had an opportunity to see this draft version at the earliest possible moment, but you may now feel that events have moved on to such an extent that this would not be useful. My Secretary of State would appreciate the opportunity of a word with the Prime Minister about the substance of a paper on Monday, prior to circulation to Cabinet colleagues.

We have also sent to Cabinet Office today the paper on the abolition of the GLC and Metropolitan Counties.

John
Dail

D A EDMONDS
Private Secretary

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LOCAL GOVERNMENT FINANCE AND TAXATION

1. Following Cabinet discussion of a report by MISC 79 on 20 January (C(83)1st, Item 7), there have been further discussions in E(LF) on the reform of rates. I now submit to colleagues further proposals that have emerged from those discussions.

2. When we took office in 1979, local government expenditure and manpower had risen relentlessly for many years. We took steps to reverse this trend, and we have had a certain degree of success. In England, manpower (excluding police) has fallen by about 7%. Numbers employed are now lower than ^{at} any time since 1975. Moreover despite substantial cuts in rate support grant the average level of rate increases has fallen steadily as inflation has come under control - 6½% in 1983-84 as compared with 23% in 1980-81.

3. But we have a good way to go. There is still a totally unacceptable degree of waste and inefficiency in most local authorities of all political complexions. Domestic rates form a heavy burden on many households. Jobs in industry are being destroyed by extravagant and irresponsible spending policies, especially by Labour authorities in the urban areas.

LIMITS ON RATE INCREASES

4. Our experience has shown the major difficulties that can arise from direct intervention in the affairs of individual authorities. Nonetheless I believe that there is a political imperative to take action. I therefore consider that we must now commit ourselves to introduce legislation in 1983-84 which will protect ratepayers -

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domestic and non-domestic - from the quite unreasonable demands of the highest spending authorities; and also to be ready to introduce a general scheme of control to protect all ratepayers if the selective scheme does not have the desired effect. Such legislation would take effect on 1 April 1985.

Selective Scheme of Control

5. A scheme of selective control would be aimed at the authorities with the highest levels of spending. We would scrutinize all authorities against published criteria. Those whose levels of expenditure exceeded the limits set by the criteria would be required to submit their budgets for my approval not later than the autumn preceding the next financial year. Authorities so selected would be debarred from making a rate without my approval.

6. If a selective scheme had been applied to only the "top 15" authorities (see Annex A) in 1983-84, it would have protected 4m out of 17½m domestic ratepayers in England, as well as the non-domestic ratepayers in these areas. It is worth noting that despite a 3% reduction in the Exchequer grant between 1982-83 and 1983-84, if these authorities had met their spending targets this year, the average rate increase over the whole of Great Britain would have been about [1%] rather than about [6%].

7. I believe that other authorities would have a strong desire to stay well clear of the risk^{of} such intervention as our powers would permit.

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General scheme of control

8. The presentational attraction of a general scheme in which we would impose a strict limit on the rate increase each year are clear. To be attractive, the limit would certainly need to be at or below the rate of inflation, and apply to every local authority, whether a high spender or low spender. There would need to be a system of derogations to meet special circumstances, and there would be a clear risk of a substantial number of applications. There would need to be a statutory specification of eligible items designed to help reduce significantly the number of applications for derogations; enable me to reject applications more readily; and give a better chance of success in resisting legal challenges.

9. But in our discussions the Minister for Local Government has stated his strong belief that a general scheme, applicable to authorities of all persuasions, would alienate the majority of our supporters in local government. I agree with him. There is also the question whether a scheme implying control of all local authorities would be easy to legislate - not least in the House of Lords. For these reasons I believe we would be wise to advance a general scheme only on a contingent basis. My concern continues to be whether the criteria could provide a sufficient deterrent to keep the number of applications and court challenges down to reasonable proportions.

10. Any legislation on the control of rates will certainly shift the boundaries between central and local government in favour of the former. But the argument to justify this approach is that the traditional relationship between central and local government, in which local government accepted a responsibility to achieve the central government's

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expenditure plans, is being consciously challenged by a number of local authorities. Moreover the accountability of authorities to their electorates has been seriously eroded by the development of supplementary benefit and rate rebates.

10A. Any general scheme of control should apply to Great Britain as a whole.

RATING REFORMS

11. MISC 79 made a number of proposals for rating reform, which I have now reviewed in the light of our more recent discussions in E(LF). My immediate proposals are as follows: others can be considered later.

12. We should provide a discount for those domestic ratepayers who make relatively little use of local authority services. MISC 79 recommended a discount scheme confined to households consisting of a single adult living alone. There are 4.3m of these, and the proposed discount of 50% of the rate bill, up to a maximum of £1.50 a week, would cost about £150m a year. Queries have been raised as to whether this is the right category to benefit. Annex B shows other possible categories, with the numbers in each and the costs of applying a discount scheme to them. My own view is that we should introduce a discount applying to single adults living alone and all pensioner households. This would provide additional help to 2.5m households already in receipt of rebates and bring in another 1.1m at a total net cost of £240m a year.

13. Each of the main tiers of local government should provide a separate statement for each ratepayer (with a unified single bill). Council tenants should receive annual rate statements.

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14. Local authorities should be put under a statutory obligation to consult local representatives of industry and commerce before setting rates.

15. We should give more businesses the right to pay rates by instalments.

16. In addition to these proposals from MISC 79, I propose that we should stop the rating of empty industrial property as soon as possible.

ABOLITION OF THE GREATER LONDON COUNCIL (GLC) AND THE METROPOLITAN COUNTY COUNCILS (MCCs)

17. In addition to this package I believe that we should commit ourselves to the abolition of the GLC and the MCCs. They are widely recognized as a superfluous tier of local government, whose very existence tends to generate extravagant spending proposals.. Their abolition will be extremely popular. I am submitting a separate paper to Cabinet on this subject.

CONCLUSIONS

18. I invite colleagues to agree to:

a) legislation next Session to protect ratepayers from the demands of the highest spending authorities;

b) a commitment to a general scheme of control if a selective scheme does not have the desired effect;

c) legislation next Session to reform the rating system as described at paragraphs 12 to 16.

19. Cabinet will wish to consider the timing and form of any announcements.

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