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PRIME MINISTER

Local Government Finance  
and Taxation:

C(83)15

BACKGROUND

The Ministerial Group on Local Government Organisation and Finance (MISC 79) recommended making no large changes in the rating system. In particular, it recommended against replacing or supplementing the rates by any new form of locally-raised revenue, and against any system of direct control by central government of the rates or expenditure of individual local authorities. It did, however, put forward a package of relatively minor reforms of the rating system, of which the most important was a scheme of discounts for single-person households. The Cabinet decided that these recommendations were an inadequate response to the demands of the situation, and that it was essential to go further. They took no decision on the minor reforms recommended by MISC 79 (CC(83)1st Conclusions, Minute 7).

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2. You subsequently set up the Ministerial Sub-Committee on Local Government Finance (E(LF)) under your own chairmanship. This has now reached conclusions. These, with the results of a separate meeting which you held last week, are the basis of the current memorandum by the Secretary of State for the Environment (C(83)15). This recommends that there should be a system of control by central government of the rates of individual local authorities. Initially, at least, control would be applied selectively to a small number of high-rating and high-spending authorities. But the Government would also take reserve powers to introduce a general scheme applying to all local authorities. Legislation to provide the statutory basis for both schemes (but not the detailed criteria for their application, which would be left for secondary legislation) would be introduced in the 1983-84 Session of Parliament.

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3. Most of the minor reforms recommended by MISC 79 reappear in paragraphs 14 to 17 of C(83)15. However, the Secretary of State for the Environment suggests that if it is decided to mitigate the burden of rates by a control scheme it is unnecessary to pursue the proposed scheme of discounts for single-person households. As agreed by E(LF), he omits the proposal to hold a revaluation of non-domestic property in England and Wales, but adds a proposal that the discretion of local authorities to rate empty industrial property should be removed.

4. E(LF) reached no decision on a supplementary tax in addition to the rates; and it was clear that several of the Sub-Committee's members doubted the wisdom of such a tax. Paragraph 24 of C(83)15 proposes a form of words intended to keep the question open.

#### MAIN ISSUES

5. The main issues before the Cabinet are as follows.

- (i) Should there be a scheme of control by central government of the rates of individual local authorities?
- (ii) If so, should it be selective or general?
- (iii) Should other changes be made in the rating system?
- (iv) What should be the scope and timing of any legislation needed to give effect to the Cabinet's decisions of substance?
- (v) How should the Government's decisions be announced?
- (vi) What, if anything, should the announcement say about other possible sources of local revenue?

You are familiar with the issues; and this brief is largely an aide-memoire.





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Central Government Control of Rates

6. Some members of the Cabinet may argue that, whether for constitutional or practical reasons, it would be wrong for central government to control the rates of individual local authorities; others may be concerned at the potential conflict with local government interests, not least among the Government's own supporters. They may also point to the success of the Government's policies in reducing the average level of rate increases (see, for example, paragraph 2 of C(83)15) and suggest that it is unnecessary to go further. Some of your colleagues may also be concerned at the implications of any scheme of control for the position of Ministers with responsibilities for individual local authority services, especially in England: their decisions would, in effect, have to be subject to the decisions of the territorial Secretary of State on the permissible total of expenditure.

7. On the other hand, it can be argued that rate increases in some local authority areas are manifestly excessive, and that some local authorities show so little regard either for the interests of their own ratepayers or for the constitutional convention that central government is entitled to decide the totality of local authority expenditure that, at the very least, selective controls directed at the worst offenders are fully justified. There is also the question whether the Government can safely rely on the existing block grant and holdback mechanisms continuing to restrain local authority rates in all foreseeable circumstances.

Selective or general scheme?

8. Whether a scheme of control should be selective or general has been extensively discussed in E(LF). As you know, the essential arguments are:

In favour of a general scheme: that it would give a much larger number of ratepayers assurance against excessive rate increases and would be marginally less exposed to legal challenge;





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In favour of a selective scheme: that it would be less likely to generate an unmanageable number of cases requiring extensive Ministerial and official consideration, and would probably be more easily accepted by local government interests.

In effect, the proposals in C(83)15 aim to get the best of both worlds by threatening to introduce a general scheme if local authorities do not behave responsibly.

Other changes in the rating system

9. Most of the more detailed recommendations in paragraphs 13 to 18 of C(83)15 are likely to be readily accepted by the Cabinet. Some Ministers may wish to press for the retention of the scheme of single-person discounts proposed by MISC 79. Certainly such a scheme would have presentational attractions in that it would deal directly with what is widely perceived as one of the main objections to rates: the single-person living next door to a family including several earners and paying the same rates as they do.

10. On the other hand, as MISC 79 itself recognised, there are good arguments against such a scheme.

(a) Many couples pay as much in rates as many single people from a smaller income and with more calls on that income.

(b) It is not necessarily true that the proverbial 'little old lady' living by herself makes no call on local authority services: she may be receiving a good deal of attention from the personal social services, and get a local authority home help and a bus pass.

(c) Rate rebates are there to deal with those on low incomes.

Some of the objections might be met by extending the scheme of discounts, for example to cover pensioner couples, but only at the expense of other anomalies and higher costs. The Cabinet may therefore conclude that it is unnecessary to pursue the scheme if it is decided to tackle the problem of excessive rates by direct control.





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11. The Cabinet is also unlikely to press for the reinstatement of the MISC 79 recommendation for an early revaluation of non-domestic property in England and Wales. But the logic of C(83)15 is that the rates are here to stay for a long time - perhaps indefinitely. Their base cannot really be left to get ever further out of line with reality. It may therefore be prudent to recognise that a revaluation will be needed later, if not sooner.

#### Scotland

12. The rating system in Scotland differs in several important respects from that in England and Wales, as does the system of controlling local authority expenditure. The Secretary of State for Scotland proposed to E(LF) a number of consequential of the likely English decisions: in particular, he indicated that he would wish to have new general powers of clawback from rate support grant to complement his existing selective powers over individual authorities, just as the Secretary of State for the Environment wants new selective powers to complement his existing general powers. He may therefore find paragraph 12 of C(83)15 unsatisfactory.

13. The Cabinet will probably not have time to discuss the Scottish implications in detail. They may therefore wish to invite the Secretary of State for Scotland to agree proposals, reflecting decisions on C(83)15, with the Secretaries of State for the Environment and Wales, and the Chief Secretary, Treasury, and to clear them with you as soon as possible: no doubt there will be heavy pressure for the Government to state its proposals for the Scottish rating system during the Election campaign.

#### Legislation

14. The legislative programme for the 1983-84 Session provides for legislation on local government finance; and there is unlikely to be any disagreement that legislation reflecting the Cabinet's decisions on C(83)15 should be presented as soon as possible. The only points likely to arise are as follows.

- (i) Is it right to legislate on both the selective and the general schemes in the same Bill? Doing so will make the





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Government determination to exercise effective control clearer; and it will avoid the possible need to pass two contentious Bills. But it will mean a very long and complicated single Bill, which may be more strongly opposed by local government interests fearful that the Government will move quickly to a general scheme of control.

(ii) Should default powers be held over for possible legislation in 1984-85 as proposed in paragraph 4 of C(83)15? It must be quite likely that some local authorities will defy the Government at once; unless the Government is willing to see local services collapse it will have to be ready to take them over. It can therefore be argued that default powers are a logical consequence of a control scheme, and that they should be included in the original legislation.

#### Announcements

15. In due course, it will no doubt be necessary to set out the details of the Government's proposals in a Green or White Paper. But the immediate need is for a brief, but clear, statement. The drafting of any immediate announcement of the detailed proposals in paragraphs 14 to 18 of C(83)15 can be left to the Secretary of State for the Environment, consulting you and the other colleagues directly concerned as necessary: the Cabinet will wish to concentrate on the form of words proposed in paragraph 24.

16. This form of words raises the question of what is to be said about an alternative tax to the rates. It is clear that the Government is not in ~~the~~ position to announce that it has decided in favour of a particular alternative or supplementary tax. Some of your colleagues may well wish to go further and say that the Government has decided not to introduce, at least at this stage, any new form of local taxation and intends to rely on direct control of the rates. In favour of such course it could be argued, in particular:

(i) that no alternative tax is likely to be popular; and





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(ii) that the proposed form of words is misleading, since it is clear from the E(LF) discussions that if an alternative tax could be introduced quickly the Government would still wish to limit the rates (it would indeed be easier to control rates if there were a 'safety valve'; and the need to control the expenditure of local authorities armed with two sources of taxation would be no smaller than it is now).

It might therefore be better to omit the opening clause of the fourth sentence of the draft and either to say that the Government have decided not to introduce a new form of local taxation, or that the Government are continuing to study the issues.

#### HANDLING

17. You will wish to invite the Secretary of State for the Environment to introduce his memorandum. You might then invite the Secretaries of State for Scotland and Wales, as the other local government Ministers, to contribute. The Chief Secretary, Treasury could then be invited to speak, as the main advocate of a scheme of general control of the rates and because of his responsibilities for the taxation system. All your colleagues are likely to wish to speak. The Attorney General will be present to deal with any technical legal questions.

#### CONCLUSIONS

18. You will wish the Cabinet to reach conclusions on the matters raised in paragraphs 23 and 24 of C(83)15.

RIA

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Cabinet Office.  
9 May 1983

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Ref. A083/1313

PRIME MINISTER

Local Government Issues: General Handling

The Cabinet tomorrow will have three papers on local government issues before them. I suggest that it will be convenient to consider them in the following order.

2. First, C(83) 15 (local authority rates). As you will be well aware from E(LF), the issues are complicated and have not been considered in detail by the Cabinet before. The decisions on C(83) 15 may well condition decisions on the other papers.

3. Second, C(83) 13 (future of the GLC and the metropolitan county councils). This is a larger question than the future of the ILEA. Moreover, if it is decided that the GLC should be abolished, then there is no doubt that ILEA must be reconstituted. The question will be how, not whether.

4. Third, C(83) 12 (future of ILEA).

RIA

ROBERT ARMSTRONG

9 May 1983