PREM 19/829

PART 1 ends:-

MCS to CPRS 28.6.82

PART 2 begins:-

Misc 79(82)13 23.7.82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
H(79) 12	7.6.79
H(79) 2nd Meeting, Minute 2	13.6.79
C(79) 21	15.6.79
CC(79) 7th Conclusions, Minute 5	20.6.79
H(79) 29	10.7.79
H(79) 8th Meeting, Minute 5	25.7.79
L(81) 67	8.5.81
E(81) 53	8.5.81
H(81) 30th Meeting, Minute 2	24.11.81
H(81) 76	11.12.81
H(81) 33rd Meeting, Minute 1	17.12.81
C(82) 2	1.2.82
CC(82) 4th Conclusions, Minute 5 & LCA.	4.2.82
L(82) 37	11.2.82
L(82) 6th Meeting, Minute 2	17.2.82
MISC 79 (82) 1st Meeting, Minute 3	16.6.82
MISC 79 (82) 2nd Meeting, Minute 2	

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed OMWayland Date 27 September 2012

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Green Paper: Alternatives to Domestic Rates
HMSO, December 1981

Signed OWayland Date 27 September 2012

PREM Records Team

CONFIDENTIAL

File

JD

Local Govt -

10 DOWNING STREET

From the Private Secretary

Mr. Sparrow

Misc 79: Alternatives to Domestic Rates

Thank you for your minute of 25 June.

I put to the Prime Minister over the weekend the suggestion that the Government could say that it would not rule out local income tax as a longer term option, and that this might be a way of reconciling divergent views within Misc 79. As you will have seen from my letter today to John Halliday, the Prime Minister prefers to proceed in the way proposed by the Home Secretary, by squarely ruling out all alternatives other than reform of the rating system.

I am sending a copy of this minute to Sir Robert Armstrong.

MS

28 June, 1982.

CONFIDENTIAL

CONFIDENTIAL

File

D

10 DOWNING STREET

From the Private Secretary

MISC 79

HO. DES SO LPO DHSS CDLO PUSS, WO

DOE DOI D/Trans CSO, HMT M/S, DOE D/EMP PUSS, DHSS CPRS CO + remainder of Cabinet

28 June, 1982.

Misc 79: Alternatives to Domestic Rates

The Prime Minister was grateful for the Home Secretary's minute of 18 June about the future work of the Ministerial Group on Local Government Organisation and Finance (Misc 79).

The Prime Minister concurs with the Home Secretary's conclusion that the Group should eliminate all the alternatives other than reform of the rating system from its future work. On one of these alternatives - a local income tax - the Prime Minister has commented that she is wholly opposed to this option, which would not catch the black economy in any way. She agrees, therefore, subject to the views of colleagues, that the Group should drop further consideration of all the alternatives set out in the Home Secretary's minute other than reform of the rating system. She has commented that if there is not general agreement on this proposition, the matter will need to be discussed in E Committee.

I am sending copies of this letter to the Private Secretaries to the other members of Misc 79, to the other members of Cabinet and to David Wright (Cabinet Office).

MS

John Halliday, Esq.,
Home Office.

CONFIDENTIAL

RM

PRIME MINISTER

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE: ALTERNATIVES TO DOMESTIC RATES

The Home Secretary's minute (Flag A) suggests that his Ministerial Group on Local Government Organisation and Finance should now drop consideration of all alternatives to the present system of domestic rates except a Reformed Domestic Rating System.

Mr. Younger's minute (Flag B) argues for a local income tax.

Ferdie Mount's note (Flag C) puts in a plug for reform on the expenditure side; he is again canvassing his view that education expenditure might be shifted to central government (the problem is that local authorities would probably reduce their rates by too small an amount and ~~increase~~ keep their spending at ~~up to~~ traditional levels, on e.g. social services, so we would get a net increase in public spending).

John Sparrow (Flag D) suggests a way of reconciling the views of Mr. Younger and the Home Secretary.

Agree with the Home Secretary's conclusion that he should now drop consideration of all alternatives except a Reformed Domestic Rating System? Do you wish X in John Sparrow's note pursued?

MCS

I am totally against a Local Income Tax. It would not catch the black economy in any way.

25 June 1982

I am prepared to agree Home Sec's suggestion if other colleagues are satisfied. If not, we will discuss in 'E' MT ec JU

D

CONFIDENTIAL

Qa 05963 25 June 1982

To: MR SCHOLAR

From: JOHN SPARROW

MISC 79 - Alternatives to Domestic Rates

1. The Home Secretary's minute of 18 June asks the Prime Minister (and other Cabinet colleagues) to agree that other forms of local taxation should not be examined further as alternatives to rates. The Secretary of State for Scotland is against ruling out local income tax (LIT) - his minute of 22 June.

2. I believe MISC 79 has been mainly concerned with measures that can be taken soon, and has not yet given much attention to the longer term. Given this, the two positions are not irreconcilable. None of the versions of LIT favoured by the Secretary of State for Scotland could be introduced in less than a decade. Hence the need to reform rates (even though capital valuation, the largest option, would take 5 years or so). But the Government could still say, in stating its general position (perhaps in a White Paper), that it would not rule out LIT as a longer-term option when the computerisation of national income tax makes this possible in the 1990s. MISC 79 could be asked to examine this on its own merits, and it might also be a way of reconciling the divergent views in the Committee. X

3. I am sending a copy of this minute to Sir Robert Armstrong.

JS.

CONFIDENTIAL

CONFIDENTIAL

cc JU 4pps

Management and Personnel Office
Whitehall London SW1A 2AZ
Telephone 01-273 } 4400
GTN 273 }

23 June 1982

The Rt Hon William Whitelaw, CH, MC, MP
Secretary of State for the Home
Department
50 Queen Anne's Gate
LONDON SW1H 9AT

Dear Willie,

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE:
ALTERNATIVES TO DOMESTIC RATES

– in PM's Box

Thank you for sending me a copy of your minute of 18 June to the Prime Minister.

My own view on the feasibility of alternatives to reform of the rating system is entirely in agreement with MISC 79. The political reality, as you rightly say, is that if substantial numbers of people find themselves paying a new tax the hostility generated will outweigh the public perception of any benefits.

I therefore support the proposals in your minute that MISC 79 should concentrate its attention exclusively on reform of the rating system, including changes in the system of non-domestic rates; and on arrangements to deal with overspending.

I am copying this letter to the Prime Minister and to the other recipients of your minute.

Yours ever

Janet

BARONESS YOUNG

CONFIDENTIAL

B

c JV

CONFIDENTIAL

Home Secretary

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE: ALTERNATIVES TO DOMESTIC RATES

I have seen a copy of your minute of 18 June to the Prime Minister, as well as the minutes of the first meeting of MISC 79.

As your minute recognises, I had to leave the meeting early (because of a by-election commitment at Coatbridge). I was therefore unable to develop my arguments in support of Local Income Tax as I would have wished and I am extremely concerned at the possibility that a decision might be taken to rule it out without a proper discussion.

The inescapable fact is that our supporters regard us as having given a commitment to abolish domestic rates and I am sure that to go for a long-term solution which is based on the rating system, however much we tinker with it, will be seen as a breach of faith for which many of our supporters will never forgive us and which would be extremely damaging in electoral terms.

Local income tax is the only alternative to domestic rates which seems to me to be worth pursuing. Above all, it is fair, reflecting as it does ability to pay. It is also a concept which can be readily understood and administered in a practicable way.

As I indicated in paragraph 45 of MISC 79(82)3 part of my contribution to Michael Heseltine's memorandum, my immediate proposal is for LIT 1 to be based on a computerised PAYE scheme. I recognise that this solution raises problems, mainly that a supporting tax would be required for the lower tier authorities and to offset the lumpiness of LIT. For that reason in paragraph 46 I suggested reformed domestic rates. This need only be an interim measure, a step towards a more developed form of LIT based on universal end-year assessment (LIT 3) which I understand the computerised tax system would be able to accommodate. With LIT 3, according to paragraph 6.22 of the Green Paper, lower-tier authorities would be able to set their own rates of tax.

This advantage of LIT 3 would make it possible to end the domestic rating system. Until that happens, however, domestic rates would play a very subordinate role and the bulk of local authority income on the domestic side would be derived from a broad-based LIT. Recognising that we shall have to ask the ratepayers to be patient while we find a suitable solution, implement it and develop it to a point at which they can begin to benefit, I have suggested offering them an early advantage in the form of income-tax relief. I know the administrative price for such a benefit is likely to be a high one and that only taxpayers would benefit from it; nevertheless I believe that our supporters would see immense advantage in it.

Although these proposals are set out briefly in my section of MISC 79(82)3, I am grateful for the opportunity to develop them. I believe that they constitute a coherent scheme for the replacement of domestic rates with an equitable broadly-based and productive tax over a period of time that is not too protracted for a proposal intended to resolve a problem as long-standing as that of domestic rates.

I therefore cannot accept the proposal in your minute that we should rule out LIT without further discussion and I hope we can return to the matter at tomorrow's meeting of MISC 79 or at some other early opportunity. I am copying this minute to the Prime Minister, members of MISC 79, other members of the Cabinet and to Sir Robert Armstrong.

G.Y.

22 June 1982
Scottish Office

CONFIDENTIAL

c/c JV

Prime Minister

NBPM

MCS 22/6

Treasury Chambers, Parliament Street, SW1P 3AG

John Halliday Esq
Private Secretary to the
Secretary of State
Home Office
50 Queen Anne's Gate
London SW1H 9AT

22 June 1982

Dear John,

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE: ALTERNATIVES TO DOMESTIC RATES

The Chief Secretary has seen your Secretary of State's minute with PM of 18 June to the Prime Minister. He agrees with the conclusions of MISC 79 recorded there, and has asked me to say that he would not wish any further work to be done on any of the alternatives which MISC 79 decided to drop from further consideration.

I am copying this letter to Michael Scholar at No.10, to the Private Secretaries to Members of MISC 79, to the Private Secretaries to other Members of the Cabinet, and to David Wright.

Yours sincerely

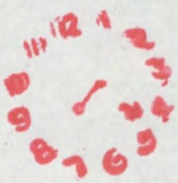
Terry Mathews

T F MATHEWS

Private Secretary

CONFIDENTIAL

2-23 JUN 1982



C

21 June 1982

MR SCHOLAR

RATING REFORM - MR WHITELAW'S REPORT ON MISC 79

The MISC 79 Group has come up against the perennial truth that people don't like their tax bills going up, even if they only go up in line with inflation. The particular unpopularity of the rates is due to the fact that they go up with such painful visibility.

The emerging view in the Group is that a reformed rates system is the least bad method of raising local revenue. That is a matter of opinion, but MISC 79 has still to address itself to the matter of fact - which is that the rating system has, for years now, raised less than half the revenue necessary to finance those services which are locally controlled.

The Policy Unit has already argued that it is this disparity between locally raised revenue and local expenditure which both makes councils so imperfectly accountable, and makes it so difficult for central government to control local government expenditure.

Central government has attempted, throughout this century, to conceal this disparity by a series of acts - notably the 1958 Local Government Act, but not excluding the 1980 Act - which weakened Whitehall's detailed control over local government expenditure. Each reinforcement of the block-grant system inevitably added to the freedom of local government while diminishing its responsibility to be thrifty and cautious in drawing up its plans.

If MISC 79 does not wish to pursue fundamental alternatives to the rating system, then it is implicitly accepting that even with a reformed rating system, local authorities will continue to raise roughly the same amount of money through the rates as they do at present. For rating reform is unlikely to be a practical possibility if it means huge increases in the rates bill.

The questions which MISC 79 need to ask therefore concern local government expenditure. If 50-60% of local government expenditure is to be planned by the local authorities but paid for by central government grant, how is it possible to make local government more accountable? And if it is not possible, is there any other way to balance the equation but to begin to shift to central government the detailed control of the largest single item of expenditure, namely education?

I suggest that we might reply to the Home Secretary's note saying that, if MISC 79 prefer the status quo on the revenue-raising side, then it would be reasonable to hope that they will find a way of coming up with far-reaching reform on the expenditure side.

But the Home Secretary's minute does indicate further work in prospect on the expenditure side (antepenultimate para)

MCS.

FM

FERDINAND MOUNT

CONFIDENTIAL

C ① fc JV

Prime Minister

*Agree these preliminary conclusions, in particular to drop consideration of all alternatives except Reformed Domestic Rating System?

* please also see now Ferdy Mount's advice (attached)

PRIME MINISTER

MLS 21/6

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE: ALTERNATIVES TO DOMESTIC RATES

minutes attached.

The first meeting of the Ministerial Group on Local Government Organisation and Finance (MISC 79) took place on 16 June. One of the items which we discussed, on the basis of very full papers by the Secretary of State for the Environment, was alternatives to the present system of domestic rates.

As you know, the main possibilities are as follows:

Assigned Revenues

Local Income Tax

Local Sales Tax

Poll Tax

Reformed Domestic Rating System (perhaps associated with changes in the system of non-domestic rates).

Technical arguments aside, it is clear that replacing the rates by an alternative tax would mean that large numbers of people lost, even if large numbers also gained. Resentment among the losers would be certain to be stronger than gratitude among the gainers. This argument is reinforced by the fact that if inflation continues, even at the substantially lower rates that it is our firm intention to achieve, any change of system would be blamed for increases in the level of local taxation between one year and another due to inflation.

We must also take account of the results of the extensive soundings of opinion that have been conducted in the Parliamentary Party. There is no real support for assigned revenues or local sales tax; there is some limited support for the introduction of local income tax in the longer term, but just as much opposition; there is considerable support for some form of poll tax, but again just as much opposition. It is very doubtful whether any of the courses I have mentioned would command enthusiastic support in the Party.

Finally, we cannot overlook the use, or misuse, of a new form of local taxation that might be made by irresponsible local authorities.

CONFIDENTIAL

The upshot of our discussion was that, with the exception of a reformed rating system, none of the possibilities commanded any general support within the Group. Although individual members saw merit in one or other of the alternatives (and I should in fairness mention that the Secretary of State for Scotland, who favours some form of local income tax, had to leave the meeting early) the balance of opinion was strongly against all of them.

I regard it as an important part of the work of MISC 79 to eliminate possibilities that have little or no chance of proving politically acceptable. For the reasons that I have given, we believe that we should eliminate all the alternatives, other than reform of the rating system, from our future work.

There is one other aspect that we intend to study further. The problem of overspending by local authorities is so serious that it is essential to study the possibility of controlling total current expenditure by individual authorities, for example by setting individual cash limits or by 'capping' rate increases. The difficulties, of course, are formidable; but we feel obliged to make sure that all the possibilities are studied.

These preliminary conclusions are fundamental to the future work of MISC 79. I should, therefore, be grateful to know whether you, or any of our Cabinet colleagues, consider that any of the alternatives which we have decided to drop from further consideration ought to be studied further. It would be helpful if replies could reach me by close of business on Wednesday, 23 June and could set out the arguments behind them reasonably fully.

I am copying this minute to members of MISC 79, to other members of the Cabinet, and to Sir Robert Armstrong.

WW.

18 June 1982

CONFIDENTIAL

Local Govt.

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Prime Minister

MAP 12/2.

The Rt Hon William Whitelaw CH MC MP
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON SW1H 9AT

11 February 1982

Dear Willie.

On 4 February the Cabinet invited me, in consultation with you and others, to examine the case for changes in local government's present financial responsibility for education services, the options for changes and the implications of any such changes for other local government services, and to report in May. The purpose of this letter is to let you and other colleagues know how I propose to proceed.

I am asking Mr E H Simpson, a deputy secretary, to be in charge of the work here. With the help of a small group of officials in this Department he will aim to circulate by the beginning of March a paper setting out our views on the remit. This will take account of what was said in Annex B to the Green Paper and in Chapter 11. He will then invite comments from the other Departments concerned on the implications for local government finance generally and for other services (including libraries and museums, for which Paul Channon is the Minister directly responsible) of any changes in the financing of education.

On the basis of this work at official level I would then hope to discuss with you and the other Ministers concerned, immediately after Easter, a draft of my report to Cabinet. My objective would be to circulate the final version of this report in time for a Cabinet discussion before the end of May.

If you and other colleagues responsible for local authority services in Great Britain are content with this procedure, I shall be grateful if you will arrange for Mr Simpson to be given the name of an official whom he can regard as his point of contact.

CONFIDENTIAL

The Prime Minister has agreed with your proposal of 4 February concerning the role of the Metropolitan authorities. We will have to bear that in mind in the present study.

I am copying this letter to the Prime Minister; to Geoffrey Howe, Peter Walker, Michael Heseltine, George Younger, Nick Edwards, John Biffen, David Howell, Norman Fowler, Norman Tebbit, Cecil Parkinson and Paul Channon; and to Sir Robert Armstrong and Mr Robin Ibbs.

Yours.

Keith.

12 FEB 1982

Ref: A07317

CONFIDENTIAL

PRIME MINISTER

Alternatives to Domestic Rates: Next Steps

In C(82) 2 the Secretary of State for the Environment invites views on further work leading to the introduction of an alternative to the present system of domestic rating; in particular, he is concerned with whether planning should proceed on the assumption of legislation before the next General Election or whether there should be a White Paper in 1983 with legislation at a later stage. The Cabinet's conclusions on these questions will affect both the pace of further work and the nature of the expectations which Ministers will wish to arouse in the course of further consultations.

2. The Green Paper (Cmnd 8449) on "Alternatives to Domestic Rates" published in December 1981 called for comments by 31st March this year. In the meantime, the Department of the Environment and the Treasury are preparing a further report, which will be available in April, on "gainers and losers" under the alternative taxes discussed; the preliminary analysis suggested that the better off would pay more under these alternatives.

3. You have also agreed that, if the Central Policy Review Staff have resources available, they should study the relationship of central and local government and look at the allocation of functions, the methods of raising revenue, and the problem of local accountability versus central control. It is recognised that the extent and timing of this study will depend a good deal on Cabinet's decisions on Thursday about the timing of legislation on rates. In his minute of 2nd February to your Private Secretary, Mr. Ibbs suggests that, if the three closely related issues of functions, revenue and central funding are to be given adequate attention, this would point to a White Paper in 1983 for which the CPRS study could be an input.

MAIN ISSUES

4. The Secretary of State for the Environment advises that the Government's supporters will expect, preferably, legislation before the next election or, at the very least, a White Paper in 1983 followed, if possible, by the introduction

of a Bill before the election. The Cabinet will need to consider the practical constraints on legislation before the election which are discussed in C(82) 2. These are analysed in relation to the main options i.e.:

Local income tax (LIT) and local sales tax (LST).

Poll tax.

Reformed rates.

Local Income Tax (LIT) and Local Sales Tax (LST)

5. The arguments against legislation in 1982-83 or even in 1983-84 to provide for either LIT or LST are as follows:-

(i) LIT cannot be introduced before 1991 and LST not before 1987 because of the need to link with computerisation of, respectively, Pay as you Earn and Value Added Tax.

(ii) The legislation would be wide-ranging and highly complex and would open up the possibility of detailed and difficult questions for Government Ministers in the 1983-84 Session with the possibility of amending legislation in the next Parliament.

(iii) Given the gap of several years between enactment and implementation the Government could be criticised for taking up time in the legislative programme when a statement of intentions in a White Paper would have served equally well. (I am not aware of any precedents for such a gap).

If, however, legislation in 1983-84 were ruled out for these reasons it would still be possible to have a White Paper which gave a firm and comprehensive statement of the Government's intentions without necessarily getting tied down on the details which would be in the subsequent legislation.

Poll Tax

6. According to the Annex to C(82) 2, it is doubtful whether there could be legislation as early as 1983-84 to introduce a Poll Tax and implementation could not be before 1986. The timing would turn on further work, in consultation with the local authorities, on the method of collection; on how to deal with the problems arising from the fact that it would be a very regressive tax; and on

consideration of whether it should operate in conjunction with other forms of local tax or with domestic rates retained at a lower level of yield.

7. Cabinet may well conclude that they must suspend judgment on these questions, and on the timing of any legislation, until they are able to consider the outcome of the consultations and the further analytical work now in hand.

Reformed Domestic Rates

8. Apart from modest changes to distribute the burden more fairly, the main option for a reformed system of domestic rates would be to put it on a basis of capital valuation. The Secretary of State for the Environment advises that if work was put in hand now, in advance of the outcome of consultations on the Green Paper, legislation could be introduced in 1982-83. There would however need to be a major valuation exercise involving 1600 additional staff and the new system could not be introduced before 1988.

9. The Secretary of State for the Environment considers this option to be 'politically unacceptable to our Party', although the Green Paper states that 'the well tried practicability of the system and its qualities from the point of view of accountability and financial control nevertheless give a reformed domestic rating system a claim to consideration along with the other alternatives'. The Green Paper notes that some changes in the present system could be considered as transitional measures and that a reformed and probably simplified system of domestic rates, at a lower level of yield, could have a continuing role in conjunction with one or other of the alternative sources of local revenue under discussion.

General Assessment

10. The Cabinet may judge that it is not possible to decide in advance of the conclusion of the consultations on the Green Paper, of the further work on 'gainers and losers', and of consideration of the CPRS study, whether there is a case for going ahead with a reform of the domestic rating system and, if so, on what basis. Instead they may prefer to defer a decision until later this year when the outcome of this further work will be known. If so, the possibility of legislation in 1982-83 (which in any event would be feasible only for reformed domestic rates) would be ruled out.

Education

11. In paragraph 6 of C(82) 2, the Secretary of State for the Environment raises the question whether there should be an urgent examination of the possibility of central government taking over all or part of financial responsibility for education from local government; this was discussed in Annex B of the Green Paper. This idea raises fundamental questions about the relative roles of central and local government. Major options would need to be considered - for example, central government could take over entire responsibility for the education services; or the services could continue to be run by local authorities with central government providing all, or most, of the finance; central government could take over responsibility for teachers' pay. If the Cabinet agrees that this question should be studied further, this could be done either by the Department of Education and Science in consultation with other Departments concerned, or by the CPRS as part of their study.

Non-Domestic Rates

12. The Green Paper does not discuss alternatives to non-domestic rates but it suggests that, under a new system for the domestic sector, non-domestic rates might be turned into a centrally determined tax collected locally. This again is something which the CPRS could consider further in their study.

HANDLING

13. After the Secretary of State for the Environment has introduced his paper you will wish to invite the Chancellor of the Exchequer to speak: in addition to his general concern with the fiscal and economic effects of the alternatives he will have a direct concern with either LST or LIT. The Cabinet will then wish to hear the views of the Secretaries of State for Scotland and for Wales. The Home Secretary may wish to comment on the possibilities of a Poll Tax; his Department would be directly concerned if it were based on the electoral register. The Secretary of State for Education and Science will wish to comment on the case for a study of financial responsibility for education. The Lord President of the Council will want to comment on the case for legislation in this Parliament; and the Chief Whip and the Paymaster General will have views on the likely attitudes of Government backbenchers and of the Conservative Party generally.

14. The main questions for decision are:

(i) whether work should be commissioned now with a view to legislation in 1982-83 on reformed domestic rates or whether decisions on whether to reform or replace rates should be deferred until later this year, when account can be taken of the outcome of consultations on the Green Paper, of the further work on gainers and losers, and of the CPRS study, in the knowledge that any legislation would then be in 1983-84 or later;

(ii) whether consideration should be given to the possibility of central government taking over all or part of financial responsibility for education from local government and, if so, whether this should be done by the Department of Education and Science and the other Departments concerned, or should be included in the CPRS local government study;

(iii) whether, on the assumption that legislation is unlikely to be feasible before a General Election, the objective should be to issue a White Paper in 1983 setting out the Government's intentions for legislation in the next Parliament.

CONCLUSIONS

15. In the light of the discussion you will wish:

(i) to record decisions on the three questions listed in paragraph 14 above;

(ii) to ask the Departments directly concerned and/or the CPRS to consider any further ideas which are raised in discussion;

(iii) to note that there will be collective discussion before the summer Recess of the CPRS Report (which might be either a final report or an interim report leading to further recommendations after the Recess) and consideration of advice from the Secretary of State for the Environment and the Chancellor of the Exchequer on the outcome of the consultations on the Green Paper and of the analysis of gainers and losers from the various alternatives.

RTA

Robert Armstrong

3rd February 1982

cc AD

Local Govt.

Prime Minister

CONFIDENTIAL

Qa 05806

2 February 1982

To: MR SCHOLAR

From: J R IBBS

Local Government and Rates (C(82)2)

1. The paper by the Secretary of State for the Environment invites views on the timing of legislation on alternatives to rates. It shows that the only option on which it would be possible to legislate in 1982/83 would be a reformed rating system. Legislation in 1983/84 on any of the other options would be possible. But because of the highly complex situation that has to be explored, and the time required for full consultation on the details of any major tax changes, there would be a serious risk that proposals would be based on inadequate thought leading to unsatisfactory patching and compromise. Yet it would not advance the date for implementation, which is determined by the speed of computerisation of PAYE and VAT.

2. It is possible that the option of a reformed rating system may turn out to be the best. But in the CPRS view it would be unwise to go for this option simply because it is the only one which could be enacted before a General Election - particularly when it could not be implemented before 1988 even with legislation in 1982/83.

3. There is more at stake here than just the reform of the method of raising revenue for local authorities. In part the present confusion stems from having considered financial arrangements separately from functions. It would be logical to consider first which services are better delivered by a locally elected authority, and what degree of discretion and local funding this entails. The possibility of a greater degree of central funding for education is raised by the Green Paper, and according to the Secretary of State is gaining some support (paragraph 6), but there are various models for its organisation which need to be considered.

4. If these three closely related issues of functions, revenue and central funding are to be given adequate attention, this would point to a White

Paper in 1983. If Ministers so decide, the study which the Prime Minister has asked the CPRS to undertake would be an input leading to the White Paper.

5. I am sending a copy of this minute to Sir Robert Armstrong.

JR

FILE

Local Govt.

10 DOWNING STREET

From the Private Secretary

22 December, 1981

Future Legislation on Rates

The Prime Minister was grateful for your Secretary of State's minute of 17 December on the Government's proposal for removing or reforming domestic rates.

The Prime Minister thinks it a good idea for your Secretary of State to run in parallel to the public consultation a detailed consultation of the Parliamentary Party, as proposed by your Secretary of State. She also agrees to an early discussion at E Committee of these issues.

I am sending copies of ~~this~~ letter to the Private Secretaries to the other members of Cabinet; to the Chief Whip and to Sir Robert Armstrong.

M. C. SCHOLAR

David Edmonds Esq
Department of the Environment

CONFIDENTIAL

Prime Minister

Agree to a discussion at E in the New Year?

c/c AD

Yes not

17 December 1981

(suggest you glance at Parl'y Counsel's letter, attached). MCS 18/12

Prime Minister

FUTURE LEGISLATION ON RATES

I thought it right to involve colleagues in the very real difficulties we face next year over our proposals to remove or reform domestic rates.

The Green Paper has been published and we are asking for replies to the consultation by 31 March. Effectively this allows only 3 months and we could not realistically reduce it significantly.

If we wait for responses to the Green Paper to come in, we shall need at least 2 months to consider them and further information on the distribution of burden of taxes in order to decide whether we reform the existing system, or, if we decide to abolish it, what tax or taxes replace it. Even if we decided not to wait for the Green Paper responses we still would need the information on burden of taxes which cannot be ready before Easter.

It is just conceivable, therefore, that we might be able to reach a primary conclusion on a new tax or taxes in June. But if we wish to legislate next Session - we would then have only 4 months to take further decisions on the form and detail of the chosen tax and draft a complex piece of legislation.

This is a very tight timetable particularly when one remembers that the Parliamentary Party - to say nothing of our supporters in local government - would expect to have a period to absorb the Government's conclusions, albeit in an informal way, before final decisions were taken. You will also wish to see the views of First Parliamentary Counsel in his letter of 1 December attached. The timetable may well prove impossible if we replace rates with a new tax.

The key question is whether we try to keep open the option of legislating next Session. If we don't so wish, of course, a more extended timetable is possible - for example, publishing a White Paper in the Autumn and a Bill at the end of the 1982/83 Session but I believe at this stage that we should at least keep our options open to be able to introduce a Bill next Session. Obviously, the more radical our decisions, the less realistic this option becomes. In the light of what I have said I know colleagues will wish to avoid giving an impression publicly that could be interpreted as a commitment to legislate to any particular timetable.

But in order that the options remain as open as possible I propose to run in parallel to the public consultation a very detailed consultation of the Parliamentary Party, together with the Leaders of both Houses and the Chief Whips. I will seek to establish the preferences of each Tory member of the Commons and appropriate members of the Lords.

I would bring an initial view of these consultations, the further work on tax burden, and responses to the Green Paper to colleagues in April. I shall then consider if it is possible to give advance guidance to my officials if we feel at that time that we can see our way forward. But my initial feeling is that officials will not be able to undertake useful work until we have taken a firm decision on whether we abolish rates, and, if so, what tax replaces them. I would welcome an early opportunity to discuss this with colleagues and suggest that this minute might provide the basis for a discussion at E Committee early in the New Year.

I am copying this to members of Cabinet, the Chief Whip and Sir Robert Armstrong.

MH

MH

CONFIDENTIAL

C.O

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY
Telephone Direct line 01 273 5288
Switchboard 01 273 3000

1 December 1981

D C R Heyhoe Esq
Private Secretary to the
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON SW1

RECEIVED IN
-1 DEC 1981
PRIVATE OFFICE

Dear David

ABOLITION OF RATES

In the course of Prime Minister's Questions on Tuesday 24 November (Hansard col.752) the Prime Minister said that the speed of consultation after the publication of the forthcoming Green Paper on alternatives to the domestic rating system would determine "whether we can bring forward a Bill, as I believe would be advisable if it is possible, during the present Parliament".

2. A Bill to abolish rates and set up some other form of local taxation in their place would clearly be a major undertaking involving as it must not only the introduction of a new system of taxation but also the re-writing of all or most of the existing law on the financing of local authorities in England and Wales, and I imagine in Scotland and Northern Ireland as well.

3. A Bill of this size and complexity cannot be drafted in a few months. For such a Bill to be anything like ready for publication in the Autumn of 1982, drafting would have to begin not later than the beginning of March - which means that detailed policy decisions would have to be taken in time for drafting instructions to be prepared and delivered by the end of February. As the Green Paper has

CONFIDENTIAL

not yet appeared, it is pretty clear that, as regards the 1982-83 Session, the boat has already been missed.

4. Moreover since the present Parliament cannot continue beyond the Spring of 1984, it seems unlikely that a Bill of this size and difficulty could achieve Royal Assent in a Session beginning in the Autumn of 1983. If, however, that were the aim, the Bill would obviously need to be ready for introduction at the very beginning of the 1983-84 Session, in which case drafting ought to start as early as possible in 1983. And this in turn would mean devoting to it some of the drafting capacity that would otherwise be available for Bills in the 1982-83 Session.

5. I may add that the idea that major items of legislation such as this need to be planned for and got under way will before the Spring or Summer of the year in which they are to be introduced is not a new one. It has been urged on Ministers by successive First Parliamentary Counsel on various occasions over the past decade and more.

I am sending copies of this letter to D A Edmonds, Jim Nursaw and Robert Armstrong.

Yours sincerely

GEORGE ENGLE

Cabinet Folder

Local Govt

10 DOWNING STREET

From the Private Secretary

1 Mr Pattison MAP.
2 Prime Minister

H(81)76.

In view of your comments on the attached, I have suggested to the Home Secretary's Office that he should report the conclusions of H to Cabinet tomorrow under the Parliamentary affairs item. H meets before Cabinet.

The important point is that the Green Paper deals with reform of the domestic rating system. The Scottish Secretary wishes to announce a revaluation of the non domestic sector. H is likely to conclude that such an announcement would complement the Green Paper ~~rather than~~, and that it would not be seen as inconsistent.

WFSR
16/12

SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

c/c AD

MBRM

15th December 1981

Dear Michael

LOCAL GOVERNMENT FINANCE BILL: STATEMENT ON GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

Thank you for sending me copies of your letter of 11 December and enclosed outlined statement.

I agree that we should take the opportunity presented by your statement on the Green Paper to comment on our revised proposals for the Local Government Finance Bill. I also agree with your view that it would be wrong when authorities meet unexpected expenditure for this to be met by an increase in grant which would, unless Treasury were prepared to enter into an open-ended commitment to increase the RSG total, be at the expense of other authorities' grant. I am sure our strict borrowing conditions provide a more effective constraint on excessive expenditure than if authorities knew that they could receive 100% grant support notwithstanding that they would have to face the need to repay it in the next financial year.

On the question of temporary borrowing permission, you will know that local authorities in Wales will need to apply to me for borrowing approval if unexpected, non-rated expenditure takes place and I would be glad if paragraph 6 of your draft statement could be amended to make that clear.

I am content with the general lines you propose in your outlined statement on the Green Paper.

I am copying this to the Prime Minister, Members of Cabinet, the Chief Whip and Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON

Local Govt Rates

CC MAP B1

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

15 December 1981

Dear Diane

LOCAL GOVERNMENT FINANCE BILL/STATEMENT ON GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

My Secretary of State wrote to the Lord President on Friday 11 December, with a copy of the draft Bill which is to be given First Reading and published tomorrow, and a copy of a draft oral statement.

I am writing to confirm that arrangements are now in hand for publication at 3.30 pm tomorrow and First Reading. I attach a very substantial revised oral statement. If Cabinet colleagues have any views on this, the Secretary of State would be grateful to see them by close of play this evening.

I am copying this, and the enclosure, to the Private Secretaries to the Prime Minister, members of Cabinet, the Chief Whips (Commons and Lords), and to Sir Robert Armstrong.

Yours sincerely

David

D A EDMONDS
Private Secretary

David Heyhoe Esq
PS/Lord President of the Council

NSR.

I passed the Prime Minister's comment on the last page to Mr Edmonds.

Mike 16/xii

STATEMENT ON LOCAL GOVERNMENT FINANCE

Mr Speaker, I will, with permission, make a statement about a number of rating and local government finance matters.

Our election manifesto restated our determination to reform the domestic rating system.
In the meantime, the Government is determined to reduce the level of local government current expenditure and to ensure through the distribution of the rate support grant that the consequences of high spending policies are financed more fairly by those local communities where the highest spending takes place.

The majority of local authorities have now proved by achieving the Government's expenditure targets that those targets were realistic and obtainable.
The continuing wish of most local authorities to co-operate with Government by reducing the rate borne costs of public expenditure in their areas is further reinforced by the publication today of the late local government manpower figures for England.
These show the largest total drop in manpower ever achieved in one yea
At 1.9 million the number of full-time equivalent employees in local government in England is the lowest total recorded since the joint manpower watch system was introduced, and effectively eliminates all the manpower growth that has taken place since 1974.

In its determination to maintain pressure on current expenditure, particularly in authorities which do not co-operate with the overall policy of securing a better balance between the public and private sector, the Government decided to legislate this Session to deter high spending.
The Government intends to proceed with legislation, but in one way different from our original intention.
The proposal to establish an audit commission will stand but instead of the proposal to permit high spending only after a poll of local communities the Government will ban the financing of extra expenditure by supplementary rates.
The new Bill which I am introducing today will ban the levying of supplementary rates in 1982/83 and subsequent years.

It may be that during the financial year an authority may incur unexpected expenditure - for example, because of some natural disaster for which it has not rated.

In these circumstances it could apply to me for temporary borrowing permission.

I would not grant such permission unless it was absolutely essential for the expenditure to be incurred in the year.

I should normally require the borrowing to be repaid within the first quarter of the following year.

The Government recognises the need to make progress with its plans to reform the rating system.

I am today publishing a Green Paper setting out a range of possible alternatives and reforms of the present system.

I look forward to wide ranging consultations between now and next April.

These will enable the Government to reach conclusions on the way forward.

Rating paper needs a para. It is dealt with in an off-handed manner at present.

MT

CONFIDENTIAL

010

G/C A

Management and Personnel Office

Whitehall London SW1A 2AZ

Telephone 01-273 / GTN 273 4400

Chancellor of the Duchy of Lancaster

15 December 1981

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1

Dear Michael,

LOCAL GOVERNMENT FINANCE BILL/STATEMENT ON GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

I have seen the substantially revised draft Statement on local government finance which your office circulated today. The thrust of the draft Statement is now very much on the need to contain public expenditure in the short term. It is important that we get public expenditure down. But it is also important that we do so in a way which maximises public support for our policies. Backing for the new Local Government Finance Bill, in Parliament, but also more generally, will be strengthened if we are seen to be adopting a constructive attitude towards the more long term and fundamental questions discussed in the Green Paper. References to these questions and the Green Paper in the Statement will be seen as key pointers to the Government's attitude.

I would therefore like to see a change in the draft Statement. I believe we would reap goodwill which we shall need from our supporters in local government if the penultimate paragraph read:

> The Government recognises the need to make progress with its plans to reform the rating system. Responsible local government needs a fair and independent source of finance. But I do not suggest the way ahead is easy. I am today publishing a Green Paper setting out a range of possible alternatives and reforms of the present system.

I am copying this to the Prime Minister, members of Cabinet, both Chief Whips and Sir Robert Armstrong.

Yours ever

Janet

BARONESS YOUNG

CONFIDENTIAL

From: Rt Hon Michael Jopling MP

CM 16/12

Government Chief Whip

12 Downing Street, London SW1

14 December 1981

Dear Michael

RATING REVALUATION ON NON-DOMESTIC PROPERTIES

Thank you for sending me a copy of your letter of 10th December to Geoffrey Howe about non-domestic revaluation.

I have only one comment to make, and that concerns the timing of this. I am very concerned at the reactions of our backbenchers to this announcement, coming as it will so soon after the issue of our Green Paper on Rating Reform.

I am copying this to all members of E and H Committees, and to Sir Robert Armstrong.

Yours

Michael

The Rt Hon Michael Heseltine MP

RESTRICTED

ACTION

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

H(81)76 COPY NO 2

11 December 1981

It is very silly to announce it, when we have a green paper reconsidering the whole future of rates.
MT

CABINET

HOME AND SOCIAL AFFAIRS COMMITTEE

1983 RATING REVALUATION IN SCOTLAND

Memorandum by the Secretary of State for Scotland

---

1. Mrs ~~Pattison~~
2. Prime Minister 2

Mr Younger wants to make an announcement about the Scottish revaluation on 17 or 18 December, whether or not a decision has been taken on revaluation in England and Wales.

WFSR
14/12

1

local Govt

PRIME MINISTER

Following the decision by H Committee that Mr. Younger should proceed with a non-domestic rating revaluation in Scotland, Mr. Heseltine has written to the Chancellor proposing that he should set in hand a similar revaluation in England and Wales.

There were two reasons why Mr. Heseltine shied away from taking this decision earlier. First there was the problem of the extra manpower necessary to carry out a revaluation in England and Wales. This objection did not apply in Scotland since the assessors required were already employed by local authorities. Mr. Heseltine proposes to get round this problem by using private surveyors.

Second, there was the argument that a revaluation would not be advisable when the whole future of the rating system was being discussed. Mr. Heseltine considers that he cannot use this as an argument for not proceeding with the revaluation now that the decision to proceed in Scotland has been taken.

His letter to the Chancellor seeks approval for using private surveyors.

11 December 1981

~~Prime Minister~~

~~Mr Hotchkins~~

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19334/81

Your ref:
10 December 1981

Dear Chancellor of the Exchequer

RATING REVALUATION ON NON-DOMESTIC PROPERTIES

Thank you for your letter of 17 November about non-domestic revaluation. , copy requested H Committee has since decided on ~~24~~ November that there should be a non-domestic revaluation in Scotland and I am inclined to agree with you and other colleagues who have commented to Tom King that the technical arguments point to an early decision to proceed with revaluation of non-domestic property in England and Wales. I also appreciate the need to reach agreement in respect of England and Wales very shortly in order to accommodate our Scottish colleagues.

The main point outstanding on which H has to take a veiw with regard to England and Wales is of course the question of the additional Inland Revenue staff needed to bring the Valuation Office back up to strength for the revaluation. I note that the manpower cost, which I understand will be in the region of 800-900 posts, cannot be found from within your Departments. I fear that I cannot offer any help on this.

It appears to me, nevertheless, that the manpower requirement involved in periodic revaluations is an inevitable cost of the current system of rating. Given that non-domestic rates will continue in existence for the immediately foreseeable future and that there has been no revaluation in England and Wales since 1973, I do not feel we should delay a non-domestic revaluation further on manpower grounds. This is particularly true now that a decision has been taken to go ahead with such a revaluation in Scotland, where the last revaluation took place as recently as 1978. Could we not use private surveyors to carry out the revaluation? This is perhaps unusual but I am successfully using private sector professional advice in the historic buildings listing work, in the English house conditions survey and as planning inspectors. The idea of private sector valuers would be desirable in itself, as well as avoiding some or all of the need for additional civil service manpower. Otherwise, would you propose that this manpower cost should be treated as a call on the central contingency margin or that it should be found by savings elsewhere?

Manpower must primarily be a question for you. In the meantime, I attach a contribution, covering the technical aspects of the question, to what I hope could be a joint H Committee paper, if one is necessary. It is clearly most important to Scottish colleagues to resolve the matter in time for a decision and announcement to be made before Christmas, so I hope that it may be possible for colleagues to agree by correspondence, first that there should be a non-domestic revaluation in England and Wales, as well as Scotland; secondly, the staffing arrangements that you will be proposing; and thirdly, that we should make a co-ordinated Great Britain announcement as soon as these matters are settled provided that is after 16 December, when the Green Paper will be published.

I am copying this to all members of E and H Committees, and to Sir Robert Armstrong.

Yours sincerely

MICHAEL HESELTINE

Approved by the Secretary of State and signed in his behalf.

2F

RATING REVALUATION OF NON-DOMESTIC PROPERTY IN ENGLAND AND WALES: DRAFT CONTRIBUTION TO JOINT MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER AND THE SECRETARY OF STATE FOR THE ENVIRONMENT

INTRODUCTION

1. This paper proposes the preparation of new valuation lists for non-domestic properties in England and Wales for 1 April 1985. A similar revaluation, planned to take effect in Scotland on 1 April 1983, was approved by H Committee on 27 November ~~has already been proposed by George Younger in H(81)62~~. The proposal as it affects England and Wales was first raised in correspondence with the Chief Secretary on 14 August 1981 by the Minister for Local Government and Environmental Services. That correspondence was copied to members of E Committee.

BACKGROUND

2. Under the Local Government Act 1948 it was intended to hold a general revaluation every five years. However, since 1945 revaluations in England and Wales have taken place in 1956, 1963 and 1973 only. The Local Government Planning and Land Act 1980 repealed the statutory requirement for a quinquennial revaluation and provided that general or partial revaluations would be carried out when prescribed by Order of the Secretary of State. A general revaluation had been planned for 1983, but this was deferred pending the outcome of the Government's review of the domestic rating system. In Scotland, however, the quinquennial cycle of revaluations has been broadly maintained since 1961 with the last one having taken place in 1978.

3. A partial revaluation in England and Wales will take almost three years' work. A decision to proceed in December would allow for revaluation to be completed by the end of 1984 and for the new valuation list to come into effect on 1 April 1985.

THE TECHNICAL ARGUMENTS

4. The present rental basis of the rating system necessitates periodic revaluation of hereditaments in the interests both of equity and economic efficiency. Considerable changes have taken place since the last revaluation in England and Wales in 1973 in the relative values of various kinds of industrial and commercial property. The effect of these is to distort the way in which the rate burden is now distributed among non-domestic ratepayers, leading to cross-subsidisation and in consequence a degree of inefficiency in the use of resources.

5. Evidence available to the valuation office suggests that a revaluation of non-domestic property in England and Wales would tend to:

substantially reduce the comparative rate burden for:

- larger, older, labour-intensive factories in the Midlands and North;
- older steelworks;

slightly reduce the comparative burden for:

- newer steelworks;
- local shops;
- older offices in some cities outside London;

slightly increase the comparative burden for;

- new offices in more prosperious centres;
- small factories on modern industrial estates;

substantially increase the comparative burden for:

- shops in primary locations; and
- modern oil refineries.

6. Such a revaluation would not however alter the relative rate burden on the non-domestic and domestic sectors while the domestic rating system remained in existence. In exercising his power to order a partial revaluation, the Secretary of State for the Environment is required to prescribe a 'multiplier', the effect of which would be to preserve the overall ratio between the revalued and unrevalued sectors.

[STAFFING COST]

7.

CONCLUSION

8. Although the staffing consequences will be considerable, we consider that a decision to proceed with the revaluation is justified for the following reasons:

(i) on grounds of equity and efficiency: substantial anomalies have arisen in relative rateable values in the non-domestic sector since 1973 and these will have further increased by 1984-5:

(ii) the non-domestic rating system will continue to operate in the immediately foreseeable future and periodic revaluations are essential if this system is to operate on a sound tax base and to enjoy public confidence;

(iii) the publication of the Green Paper on alternatives to domestic rating inevitably raises the question of non-domestic revaluation and highlights the technical arguments in its favour.

10. We therefore invite colleagues to agree that there should be a non-domestic revaluation~~s~~ in England and Wales ~~and Scotland~~ to produce new valuation lists to come into force on 1 April 1985 ~~and 1 April 1983 respectively~~; and that an announcement of the proposals for Great Britain as a whole ~~to this effect~~ should be made on publication of the Green Paper on Alternatives to Domestic Rates or as soon as possible thereafter.

11 DEC 1981

Prime Minister

(2)

MLS 8/12

Treasury Chambers, Parliament Street, SW1P 3AG

David Edmonds Esq
Private Secretary to the
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

7 December 1981

MS

Dear David,

GREEN PAPER ON DOMESTIC RATES

The Chief Secretary was grateful for your Secretary of State's letter of 4 December enclosing a copy of the proofs of the Green Paper. He very much appreciates the effort your Secretary of State has made to meet his points.

We discussed the manuscript addition your Secretary of State proposes to insert after paragraph 1.13, and agreed on the following text which has been endorsed by your Secretary of State and by the Chief Secretary:-

> "It could be argued that the Government should supplement the existing arrangements by seeking powers to take direct action where necessary to restrain public expenditure so as to protect the interests of local rate-payers. The weaker the influence of the local tax system in restraining expenditure, the more pressure will develop on central government to impose direct controls on levels of local government expenditure. For example, statutory upper limits could be imposed on local authorities income and expenditure. The case for the Government taking such powers has to be judged against the very considerable constitutional and practical difficulties that would be involved."

I am sending copies of this letter to Michael Scholar at No 10, to the Private Secretaries to Members of the Cabinet, and to Murdo MacLean.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

8 DEC 1981

Telephone
01-212 8001

DEPARTMENT OF THE
ENVIRONMENT
2 MARSHAM STREET
SW1P 3EB

SECRETARY OF STATE FOR THE ENVIRONMENT

MG

With the Compliments of the
Private Secretary to the Secretary of
State for the Environment

②

Prime Minister

MCS 8/12

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

7 December 1981

Dear Terry

GREEN PAPER

TPmid

My Secretary of State mentioned in his letter to the Chief Secretary of Friday that he was looking again at the Chapter in the Paper on Conclusions. He has slightly expanded the draft that you have seen, and I enclose his version. It would be a very great help if you could let me know first thing tomorrow morning whether you, or any of those to whom this is copied, have any comments on this.

I am copying this to the Private Secretaries to the Prime Minister, all members of Cabinet, and to the Chief Whip.

Yours ever
David

D A EDMONDS
Private Secretary

Terry Mathews Esq
PS/Chief Secretary

CHAPTER 14

CONCLUSION

14.1 The Government is committed to the reform of the domestic rating system. This paper marks the essential first step towards that end. It identifies the range of realistic alternatives on which consultation can now take place and which provide the basis on which decisions can be made.

14.2 This Paper also seeks to identify, for the first time, the possible effects that each of the alternatives could have on personal and family finances, showing the different impact on different types of household. These projections are, of course, subject to other changes in income and spending patterns, and above all to the expenditure levels of the local authority itself. Nor are the considerations only in respect of the individual ratepayer/taxpayer, but could be of major significance in their national economic and fiscal impact. The Paper also, therefore, seeks to set out the implications that either new systems of local revenues or a reformed rating system would have for the interests of central and local government as well.

14.3 The arguments for and against the rates are already well rehearsed. The system has become particularly controversial as spending grows and in times of high inflation. This paper examines the options for reform and compares them against each other. None of them is easy - no tax is popular. The Government will consider very closely all representations. But the country views this matter with a sense of urgency and the Government therefore wishes to move ahead as quickly as possible. Its aim is to produce proposals for a system which would remedy as fully as possible the shortcomings of the existing system of domestic rating and which would command the widest possible acceptance in the country as a whole.

CONFIDENTIAL

Local Govt

Prime Minister

(2)

2 MARSHAM STREET
LONDON SW1P 3EB

MLS 4/12

My ref:

Your ref:

4 December 1981

Dear Leon

GREEN PAPER ON DOMESTIC RATES

Thank you for your 2 letters of 20 and 27 November about the Green Paper. With the agreement of the Prime Minister to publish, and considering the tightness of time, I have, as you know, sent the draft to the printers to be set. You will see from the attached copy of the proofs that I have been able to take into account most of your suggestions. However, I do not feel that it would be right to include the full text of the version that you have proposed for paragraph 1.13 of the paper, about controls on local government revenues or expenditure.

I recognise the strength of the Treasury view on this point, and the proof therefore contains in manuscript an addition which goes as far as I believe we should reasonably go. I do not think that we should go further for 2 main reasons. First, in the discussions we have had on these proposals in Cabinet in recent weeks, the Attorney General's advice has been that controls of this sort would not work. A piece in the Green Paper suggesting they might work would raise expectations we could not fullfil. Secondly, the natural reaction to such a piece would be to ask why we are not following this course in our interim measures if it is a practical proposition. There is also the pointless offence that a more strongly-phrased piece might cause in local government. I hope that my suggested revision will be satisfactory to you.

Two further points on which you enclosed proposed amendments with your letter of 20 November. John Stanley and I both prefer to stick to the shorter treatment, as slightly amended on the proof, of the paragraph (13.7) on economic effects on housing which appeared in the draft I circulated on 9 November. I hope, also, that you will be content to retain the original text of paragraph 7.4, on which you made a drafting suggestion. I understand that Willie Whitelaw would be most unhappy with a change of this sort, which would affect my compromise draft about the practicality of using the electoral register as a poll tax roll - a subject on which no consensus has been reached.

Wherever possible, we have taken the drafting points made by colleagues. However, Patrick Jenkin suggested a change in paragraph 10.5 of the draft to commit the Government now to a review of alternatives to non-domestic rates. This would be a new undertaking, with major and far-reaching implications on which we have not had the opportunity for collective discussion. My own opinion is that we ought to assess the response to what the Green Paper has to say about rates in general and non-domestic rates in particular before committing ourselves. I have therefore retained the text as it stood in the draft of 9 November.

On further reflection, I am not sure that the conclusion as drafted and as shown in the attached copy is full enough. I shall be considering over the weekend the possibility of a fuller version.

As for handling, subject to the agreement of the Prime Minister and the Lord President, I would propose to publish on Tuesday 15 December, and on that day to make an oral statement in the House of Commons.

I am copying this to the Prime Minister, all Members of Cabinet, and to the Chief Whip.

Yours ever

MICHAEL HESELTINE

Rt Hon Leon Brittan QC MP

cc J Vereker
A Walters

Prime Minister

②

To note. This letter*
rather makes me think that
we were bounced into
writing when we
did last
week.

MCS 3/12

+ see also Mr
Heseltine's letter of
4/12, attached.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

27 November 1981

Dear Secretary of State,

GREEN PAPER ON RATES

The Prime Minister's Private Secretary has written conveying the Prime Minister's authority for you to publish the Green Paper, during the course of the next month.

I realise that publication in December limits the opportunity for you to reflect in the Green Paper progress on the rating part of the Local Government Finance Bill, as I earlier suggested. You will obviously need to adjust the present references to the Bill. I have already suggested doing so in my proposed revision of the passage on rate capping - to which I attach considerable importance. If we do not take a convincing stance on this, we shall lose credit with our supporters. It has been quite clear from their reactions to the Bill that, while there is considerable unhappiness about the means, there is no doubt that something must be done to protect ratepayers from the worst excesses of profligate authorities.

I have some sympathy with the point Keith Joseph makes in his letter of 20 November: that we should avoid unnecessary provocation. But I could not accept the sort of changes he proposes. They would effectively negate the whole thrust of this important passage, and close off options I believe must be left open. However, I do see scope for some adjustment to the wording I originally proposed, and attach a redraft which I believe goes a long way towards meeting Keith's point.

I trust you will adopt the wording I now propose, as well as the other amendments I sent you on 20 November. I believe all will strengthen the Green Paper. The housing passage, in particular, seems to me to remedy a weakness which could lay us open to justified criticism from informed opinion.

I have one further comment, arising from Patrick Jenkin's letter of 19 November. He is no doubt right when he says that if the domestic system of local taxation is to be completely overhauled we shall almost certainly be bound at some stage to review the future of the non-domestic system. But I am not sure that we would be wise to commit ourselves firmly to such a review, at least until we have a clearer idea about the policy we want to pursue on the rating system generally.

Might the best answer be to substitute something on the following lines:

> "Before making final decisions, however, it would be necessary to consider whether the taxation system should continue in the long run to include a local tax on non-domestic property"?

I am copying this letter to the Prime Minister, other members of the Cabinet, the Paymaster General, the Chief Whip and Sir Robert Armstrong.

yours sincerely

LEON BRITTAN

(Approved by the Chief Secretary and signed in his absence)

PARAGRAPHS 1.13 AND 1.14:REVISED DRAFT

1.13 Some people question whether the delicate balance between national and local interests is pitched correctly at present, and suggest further action to restrain public expenditure and to protect the interests of local taxpayers. The weaker the influence of the local tax system in keeping local expenditure within bounds, the greater the need for such action might seem. Measures to strengthen the influence of local democracy on authorities' rating decisions have often been suggested. It can also be argued that some kind of limits on local authorities' income or expenditure would be preferable: for example, in the form of a maximum permissible tax rate, or a ceiling on tax increases, along with appropriate borrowing controls; or an expenditure ceiling. Any of these would protect local taxpayers from very high tax increases, because local authorities would effectively have to plan their expenditure within a prescribed upper bound.

1.14 Central influence need not necessarily imply central control, however. Many local authorities are prepared to accept a degree of self-restraint in the common good, and to respond to Government guidance on the aggregate levels of spending the economy can afford. This Government has supplemented such guidance by reforms of the grant system to provide clearer incentives to prudence, and by measures designed to increase electors' awareness of the activities of their Councils and the costs they entail. There could be scope for further action along similar lines. Ultimately, however, the effectiveness of all such measures depends on local authorities' own sense of responsibility towards their ratepayers and towards national needs.

27 NOV 1981

CONFIDENTIAL

Local Gov

File

10 DOWNING STREET

From the Private Secretary

24 November 1981

Dear David,

<u>Green Paper on Alternatives to Domestic Rates</u>

The Prime Minister was grateful for your Secretary of State's minute of 9 November which enclosed a draft Green Paper on alternatives to domestic rates.

The Prime Minister is content with this draft. As I told you on the telephone this afternoon, the Prime Minister at Question Time committed the Government to publication of the draft Green Paper during the course of December.

I am sending a copy of this letter to the Private Secretaries to other members of the Cabinet, the Paymaster General and the Chief Whip; and to David Wright.

Yours sincerely,

Michael Scholar

D.A. Edmonds, Esq.,
Department of the Environment.

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DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1 3EB

20 November 1981

Dear Michael,

You sent me a copy of your minute of 9 November, covering a copy of the latest draft of the draft Green Paper on Alternatives to Domestic Rates.

I am broadly content with the draft, but I believe that the reference to direct control over local authority revenues or expenditure in paragraphs 1.13 and 1.14 will needlessly antagonise the local authority world, and will offend those who might be expected to have sympathy with our objectives. As you note in your minute, the reception of the Green Paper will not be helped if it is too provocative to local government. Moreover, the thrust of the interim rating measures lies in precisely the opposite direction, increasing local authorities' accountability to their local electorate.

If the reference is to remain, it ought, I believe, to be modified. The detailed examples of methods of control in the third sentence of 1.13 might be deleted; and paragraphs 1.14 might be amended to read as follows:-

> "1.14. The balance between shielding the local taxpayer and restricting local authorities' freedom to determine their expenditure would need to be struck with care, taking account of local authorities' statutory responsibilities and of any discrepancy between their aggregate budgets and the Government's public expenditure plans. Local democracy would in any event be seriously weakened; and although, if all else fails, it might be necessary to pay this price for securing restraint in local authority expenditure, the Government believes that the strengthening of local accountability is a better way forward."

I am copying this letter to the Prime Minister, other members of the Cabinet, the Paymaster General, the Chief Whip and Sir Robert Armstrong.

Yours ever,
Keith

CONFIDENTIAL

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Prime Minister

(4)

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

MCS 19/11

PRIME MINISTER

GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

1. I have seen the Secretary of State for the Environment's minute of 9 November to you and the revised draft Green Paper which he circulated with it. I agree that the Green Paper should be published jointly by the Secretaries of State for the Environment, for Scotland and for Wales. If it can be published soon, I also agree that it is reasonable to seek comments by 1 April 1982. We must allow interested bodies a few months to consider their responses but a later date would raise doubts about our determination to proceed quickly.

2. There is a strong possibility that the Select Committee on Scottish Affairs will want to take evidence related to the Green Paper and its contents as their next inquiry. Because that will enhance public interest in rating issues, there may in the event be pressure for an oral announcement on publication. Undoubtedly there will be extensive public and press interest, and it is essential, as the Secretary of State for the Environment recognises, for the initial press arrangements to be co-ordinated. I shall be glad to participate.

3. In the text, changes are required to paragraph 4.11 which does not take into account my decision not to have referendums in Scotland, and in paragraph 10.17 on a technicality relating to partial revaluation. My officials are taking up these points with the Department of the Environment, together with some minor textual changes. I am naturally anxious to make an announcement as soon as possible that a partial revaluation of non-domestic properties should proceed, since in Scotland the staff involved are employed by the local authorities and they need to know for planning purposes. This is a matter which I shall shortly raise in H Committee. Otherwise I am content.

4. I am copying this minute to the recipients of the minute from the Secretary of State for the Environment.

G.Y.

G.Y.

Scottish Office
18 November 1981

cc CST
FST
MST(C)
MST(L)
Mr Cropper
Mr Battishill
Mr Kitcatt
Mr Griffiths
PS/IR

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 November 1981

The Rt. Hon. Michael Heseltine, MP.,
Secretary of State for the Environment

Dear Minister

I will try and let you have by the 20 November any comments I have on the revised draft of the Green Paper on Alternatives to Domestic Rates. The draft also raises (Chapter 10) the question whether or not we are going to have a non-domestic revaluation and in view of the tight timetable I am writing to you about this first.

The Green Paper says that we are treating non-domestic revaluation as a separate issue and that it will be announced shortly whether a non-domestic revaluation will take place.

The timetable is largely dictated by the position in Scotland. At the beginning of October Malcolm Rifkind was saying that Scotland needed a mid-November announcement if the Scottish revaluation was to take place as planned for 1983. I am told that the Scottish Office are resigned to some slippage but they are now looking for an announcement at the same time as the Green Paper and by the end of the year at the latest. Their problem is that a 1983 revaluation means that new lists have to be produced by December 1982. For England and Wales the proposal is to revalue for 1985 but to do this a start will need to be made in 1982. This also points to an early announcement. Although there is less immediate pressure it would be difficult to make an announcement about Scotland without saying something about England and Wales.

I agree that there is a strong case for a non-domestic revaluation although there is a substantial manpower cost which cannot be found from within my Departments. This problem does not arise in Scotland since I understand that the valuation offices responsible for the work there are still staffed on the basis of quinquennial valuations. In England and Wales we have not had a revaluation since 1973 and numbers in the Valuation Office have been run down.

We always recognised that the timetable would be tight but the original intention was I believe to leave ourselves time to consider the revaluation issue on its merits after the Green Paper had been published so that the decision could take account of initial reactions

/to the

to the Green Paper. This does not now seem possible. If the announcement will now have to come at the same time as or, at best, hard on the heels of the Green Paper some revision of Chapter 10 will be necessary. Ought we not seek the agreement of colleagues to non-domestic revaluation at the same time as we seek their agreement to the Green Paper?

I am copying this to George Younger, James Prior and Nicholas Edwards.

GEOFFREY HOWE

FROM THE PRIVATE SECRETARY TO THE LEADER OF THE HOUSE
AND THE CHIEF WHIP

13 November 1981

Dear David,

The Chancellor of the Duchy has seen your minute to the Prime Minister of 9 November on Domestic Rates.

As Leader of the Lords she has suggested that any written answer (referred to in paragraph vii of the minute) should also be answered in the Lords.

I am copying this letter to Mike Pattison at No 10 and to Sir Robert Armstrong but not to the private secretaries to the other recipients of the Minute.

Yours ever
Michael Pownall

M G POWNALL

David Edmonds Esq
Private Secretary to the
Secretary of State for the
Environment

16 NOV 1981

CONFIDENTIAL

Prime Minister

CPRS are looking at this. Subject to any comments are you content with the draft Green Paper? MCS 13/11

Yes mt.

Prime Minister 9 November 1981

At E Committee on 16 September I was asked to produce the attached revised draft Green Paper on Alternatives to Domestic Rates. In order to avoid arousing unrealistic expectations without prejudicing the Government's commitment to reform, E Committee decided that a reformed system of domestic rates should be considered on the same terms as alternative forms of revenue. This has called for structural changes, which are summarised in the attached note. Otherwise, in spite of extensive drafting changes, content and structure remain broadly the same.

I should draw attention to some further points:-

(i) In the Preface I have suggested 1 April 1982 as the date by which comments should be submitted.

(ii) I was asked to include a reference to the Chief Secretary's suggestion of direct control over local government revenues or expenditure. Chapter 1 includes a contribution from his officials which I have shortened. The reception of the Green Paper will not be helped if it is too provocative to local government.

(iii) Because of problems with a high poll tax rate, and of the tax's regressivity in particular, I consider that poll tax could almost certainly not replace domestic rates on its own; and that its most likely function would be to supplement a "lumpy" major tax such as sales tax. The drafting of the paper reflects this view.

(iv) The validity of the contention in paragraph 7.4 that eligibility to vote and liability to poll tax ought to be coterminous is obviously open to argument and I have put the sentence in square brackets. But I think the point should be made and I hope that the present draft is acceptable to all views. However, we should be aware that such an arrangement would exempt foreign nationals (other than citizens of the Commonwealth and the Republic of Ireland) from contributing directly to the cost of local services.

(v) Local development land tax does not seem significant enough to merit specific mention and it has been deleted from Annex A (rejected options).

(vi) I propose, if George Younger and Nicholas Edwards are content, that we should publish the Green Paper jointly.

(vii) When we publish I see no need for an oral announcement in the House, since we are not making firm proposals. I think that a written answer might be appropriate. There will need to be a press conference which I suggest I co-ordinate with George Younger and Nicholas Edwards having informed other colleagues.

The draft must be with the printer about 2 weeks before the proposed publication date. We should aim to publish as soon as possible. I should therefore be most grateful for early comments, or notice of comments, and for these to reach me by Friday, 20 November.

I am copying this minute and the draft paper to all Members of Cabinet, the Paymaster General, the Chief Whip and to Sir Robert Armstrong.

MH

GREEN PAPER ON ALTERNATIVES TO DOMESTIC RATES

CHANGES SINCE 16 SEPTEMBER IN THE STRUCTURE OF THE PAPER

CHAPTER 1: THE CONTEXT OF THE GREEN PAPER

Shortened since 16 September and made more general. Some material on economic effects has been moved to Chapter 13 and some on the rating system to Chapter 4.

CHAPTER 2: THE MAIN REQUIREMENTS

Shortened and redrafted in general terms to allow the criteria for assessment to be applied to domestic rates on the same terms as to the alternatives.

CHAPTER 3: THE POSSIBILITIES FOR CHANGE

A new linking Chapter explaining the structure of what follows.

CHAPTER 4: DOMESTIC RATES

Brought forward in the structure to give a frame of reference for the ensuing discussion of the other alternatives on common criteria.

CHAPTER 13: FISCAL AND ECONOMIC EFFECTS

Now incorporates some economic material formerly in Chapter 1. Links with distributional annex (Annex C).

PREFACE

1. For some time there has been dissatisfaction with the way in which local people contribute to the cost of local services through the present system of domestic rates. Some domestic ratepayers believe that they pay too large a share of that cost, pointing out that other local people who are not householders are not required to pay rates at all. Many of those professionally concerned with rating and valuation matters believe that the technical basis of the domestic rating system is no longer satisfactory in some respects.

2. The Secretary of State for the Environment said on 2 June 1981 "The Government have ... to consider ... the extent of the inequities in the way in which local revenue is raised through the rates. The Government therefore intend to issue a consultation document on the alternatives to domestic rates in the autumn".

3. This Green Paper therefore offers for public discussion the results of a review by the Government of possible local revenues. The paper considers ways in which the domestic rating system might be improved and describes a number of possible alternative systems. It considers what the consequences of the adoption of these alternatives might be for local and central government, for the taxpayers who contribute towards the cost of local government services through various forms of exchequer support, and for those who pay domestic rates at present. It also considers implications that changes to the domestic rating system might have for non-domestic ratepayers (alternatives to non-domestic rates as a tax are not within the scope of the present review).

4. This paper deals with the situation in England, Scotland and Wales. The Government will want to consider separately its implications for the rather different arrangements for local government-type services in Northern Ireland. The Government's intention in publishing the Green Paper has been to set out the alternatives and draw attention to the considerations involved in each of them, and to suggest ways in which difficulties could be met, without at this stage setting out a preferred strategy or firm proposals. Comments are invited from local government, professional bodies, commerce and industry and the public on the green paper and the issues that it raises: in England they should

be sent by [1 April 1982]

The Secretary of State for the Environment
Room A105
Romney House
43 Marsham Street
London SW1P 3PY

In Scotland and Wales respectively, they should be sent to:

The Secretary
Local Government Finance Division
Central Services
Scottish Office
New St Andwers House
Edinburgh EH1 3SX

The Secretary of State for Wales

Y Swddfa Gymreig	Welsh Office
Parc Cathays	Cathays Park
Caerdydd CF1 3NQ	Cardiff CF1 3NQ

CHAPTER 1

THE CONTEXT OF THE GREEN PAPER

THE SCALE OF LOCAL GOVERNMENT

1.1 Local government in Great Britain is expected to spend about £30 billion in the financial year in 1981/82. About 16% of this expenditure will be covered by rents and various other fees and charges. The balance, of some £25 billion, will be borne by rates and Government grants; this will be a quarter of all public spending, and represent 6½% of the gross domestic product. Currently, local government has a capital debt of £31 billion and employs some 2.3 million people, or about one tenth of the work force.

THE SOURCE OF LOCAL REVENUE

1.2 Of the £25 billion of local rate and grant borne expenditure in 1981-82, nearly 60% will be provided from the Exchequer by central government in the form of rate support grant, specific and supplementary grants, rate rebate payments and payments of rates through the supplementary benefit system. Of the remainder, 40% is expected to be contributed by domestic rates and 60% by industry, commerce and other non-domestic ratepayers.

1.3 The wider issues of local government finance have been thoroughly examined before, most notably by the Layfield Committee of Enquiry into Local Government Finance, chaired by Sir Frank Layfield QC which reported in 1976. This Green Paper concentrates on one particular area which is important and complex: the £4,700 million (before deduction of rebates) which will be contributed to local revenues in 1981/82 by domestic rates.

CRITICISMS OF THE RATING SYSTEM

1.4 There has been a good deal of criticism in recent years of the way in which the domestic rating system operates.

1.5 A common criticism is that the burden of domestic rates is unfairly shared as between different types of household or as between people occupying property of a similar kind in different local authority areas.

1.6 Another frequent complaint is that domestic rates bear too little relationship either to ability to pay (because, for example, earners who are not householders do not contribute directly to domestic rates) or to the use that is made of local government services.

1.7 The basis of the present system of domestic rates has also been criticised on technical grounds by those professionally involved in its operation. In particular, the professional bodies concerned with rating and valuation told the Layfield Committee that there was insufficient market information available to allow a further rating revaluation to be carried out in England and Wales on the present basis of rental values (see paragraph 4.23).

WIDER CONSIDERATIONS

1.8 This Green Paper considers ways in which these criticisms could be met either by improvements to the existing rating system or by new forms of local taxation. Chapters 4 - 7 examine the possibilities in the light of the requirements for any satisfactory system of local taxation discussed in Chapter 2.

1.9 The remainder of this chapter sets out the broad political and economic background against which the alternatives must be considered.

1.10 Local government has traditionally enjoyed a degree of discretion on the amount of local revenue it raises and the amount of expenditure it incurs. It is obviously desirable that authorities should be able to tailor local revenues and expenditure to the provision of a level of services on which they decide, provided that, on the one hand, the levels of revenue raised and expenditure incurred to not prejudice the Government's objectives for the national economy; and on the other, that local services are provided to acceptable standards.

1.11 The Government, however, has overall responsibility for all public services, including those provided by local authorities, and for national economic objectives. Neither local government nor local.

taxpayers are in a position to assess either the relative claim of local services as a whole to national resources or the overall economic impact of local expenditure. These are matters on which central government must take a strategic view in the course of its management of economic policy. For all these reasons, it is essential that Government should be able to influence local revenue-raising and local expenditure.

1.12 Some new local taxes and other revenues which have been suggested in place of domestic rates would make it easier for the central government to influence the decisions of local authorities about revenue-raising and expenditure; others would make it more difficult. This is one of the factors dealt with in the chapters of this green paper which discuss possible alternative new forms of revenue. The Government believes that the retention of an appropriate central influence over the amount of public expenditure incurred by local authorities must be a feature of any system of local taxation.

1.13 The Government is already acting, as described in paragraph 4.11, to modify the present rating system so as to increase local incentives to restrain public expenditure and to protect the interests of ratepayers. Those ends could also be served by a different kind of approach: placing statutory limits on local authorities' income or expenditure. Such a limit might be expressed as a maximum permissible tax rate, or a ceiling on tax increases along with appropriate borrowing controls; or as a restriction in terms of local authority expenditure. By any of these means local taxpayers could be protected from very high tax increases, and local authorities would effectively have to plan their expenditure within a centrally prescribed upper band.

1.14 The balance between shielding the local taxpayer and modifying local authorities' freedom to determine their expenditure would need to be struck with care. In particular, it would reflect any discrepancy between local authorities' budgets in aggregate and the government's public expenditure plans.

ECONOMIC CONSIDERATIONS

1.17 Given the scale of local government expenditure and revenue the system of local taxation cannot fail to be an important influence on economic behaviour. The Government will therefore need to give careful consideration to the economic implications of changes in the present arrangements and in particular, to the economic effects of replacing domestic rates - which are a tax on housing - either wholly or partially with a wider-based tax on consumers' expenditure, or a local tax on personal incomes. Some of these effects are discussed in the chapters dealing with each alternative tax. They are also brought together in chapter 13.

EFFECTS ON HOUSEHOLD INCOMES

1.18 Any major change in the system of local taxation would be likely to result in significant redistributions of the tax burden between individuals and householders and to some extent between areas. Some of these effects are touched on in chapters 4 to 7. They are also dealt with in chapter 13 and Annex C. The Government will, of course, take careful account of the effects of any new system on poorer households.

CHAPTER 2

LOCAL TAXATION: THE MAIN REQUIREMENTS

INTRODUCTION

2.1 Chapter 1 outlined the origins of the Government's present consideration of alternatives to domestic rates and set out the broad political and economic background against which the alternatives must be considered. This chapter discusses the requirements which any system of local taxation must be capable of meeting.

2.2 The Government considers that the following criteria are the most important:

i. Is it practicable?

ii. Is it fair?

iii. Does it make those who take decisions on local expenditure properly accountable to local people who pay?

iv. Can the costs of administration and collection incurred by the tax-gathering authorities and businesses be kept within acceptable limits?

v. Are the implications for the rest of the tax system acceptable?

vi. Does it encourage proper financial control?

vii. Is is suitable for all tiers of local government?

PRACTICABILITY

2.3 This is an essential requirement. To be practicable as a source of revenue for local government any local tax must, either on its own or in combination with other taxes:

a. be capable of producing a yield similar to the £4,700 million raised at present by domestic rates;

b. provide each local authority with a potential yield sufficient to meet an appreciable part of its expenditure;

c. enable each local taxpayer's liability to be determined with reasonable certainty in a way which commands general acceptance.

2.4 The base for any new local tax need not necessarily be evenly distributed among local authority areas: some differences can be compensated for by Government grants. But the local tax base in each area must be large enough to enable the local authority to fix a tax rate sufficient to meet a reasonable proportion of its expenditure if it is to be accountable to its electorate both for the rate of local taxation and the expenditure it helps to finance.

2.5 Domestic rateable values are used for a number of purposes in addition to the rating system itself. For example, they form the basis for charging virtually all domestic premises in Great Britain for water and sewerage services, as well as for a number of other legal and administrative purposes. Alternative ways of achieving these purposes would have to be found it domestic rates were abolished.

FAIRNESS

2.6 Any system of local taxation which is to command a wide degree of public support must be seen to be broadly fair. Judgements about the fairness of any one tax or another inevitably tend to be somewhat subjective. But any assessment of alternative forms of local taxation is bound to have regard to considerations of coverage, or how many of the people who benefit from local services pay local tax; individual capacity to pay; and perceived fairness between people who may live in different areas, but whose circumstances are broadly similar and who enjoy broadly similar levels of service from their local authorities.

ACCOUNTABILITY

2.7 Public authorities should be accountable to their electorates for what they spend and for the revenue they raise. To encourage efficiency and safeguard against extravagance by local authorities local electors need to be aware of decisions about expenditure and revenue and the effects of those decisions on the level of local taxes that they pay.

2.8 To foster accountability a local tax should:

i. be clearly perceptible to local electors and taxpayers, who should be aware of how much tax they are paying, which authority they are paying it to and what services it provies; and

ii. as far as possible be paid directly by as many as possible of those who benefit from the services provided by the local authorities.

COST OF ADMINISTRATION

2.9 Any local tax or combination of taxes must be capable of being collected reasonably cost-effectively. It must not impose an unacceptable burden of administration either on the taxing authorities or on the rest of the community, including employers or traders who may be required to incur additional ~~compliance~~ costs. in collecting and accounting for such a tax.

FISCAL DIMENSIONS

2.10 Local taxation is an important component of the United Kingdom tax system. This year local authorities are expected to raise from domestic rates about as much as the central Government receives in corporation tax or from the exise duties on hyro-carbon oils, or from the the taxes on North Sea oil and gas production. The yield is also equivalent to more than one third of the revenue from VAT and one sixth of that from income tax. Consideration of any changes in the system of local taxation must have regard, therefore, to the implications for the balance of the tax system and for the distribution of the tax burden between different individuals and households. This applies particularly to any changes that involve introducing new local taxes, such as a local income tax or a local sales tax, which overlap with existing national taxes, but also to reforms of the present rating system.

FINANCIAL CONTROL

2.11 To budget sensibly and tightly, local authorities need to be able to predict their income and their cash flow with reasonable precision. An unpredictable yield from local taxes would weaken financial control because local authorities might have to maintain large balances to avoid the possible need to borrow to make up shortfalls. The problem could perhaps be lessened by arrangements under which the risk of shortfalls was shared out among all local authorities in some way. It might even be possible for central government to take on a share of the risk - though no administration would be keen to take on a commitment of this sort if other solutions were available.

2.12 The bouyancy of the yield from local taxation also has implications for financial control. If the local tax revenue can be expected to keep pace with the growth of prices or earnings more or less automatically, local authorities are more likely to be able to support the volume of goods and services financed by the tax at the same level without varying the nominal rate of tax. For a tax that is not buoyant the nominal rate has to be increased (in a time of inflation) even if the level of services provided stays the same. This has the advantage of increasing the perceptibility of local authorities decisions to local taxpayers.

2.13 Problems for financial control also arise if the yield of a local tax is lumpy. If the minimum practicable change in the tax rate produces a large variation in tax revenue, local authorities may find it necessary to run high balances, or a tendency may develop for local authorities to gear their spending to the yield of the tax rates that are predictable. This could restrain expenditure growth in some areas and make expenditure increases easier in others.

2.14 Central Government's concern with these issues is not, however, confined to its role as paymaster. As Chapter 1 points out, the Government has a direct concern with the claims of local services on national resources and the overall economic impact of local expenditure. For these purposes, too, it is necessary for it to be able to foresee the consequences of local actions in time to exercise an influence over the course of events, and to respond as appropriate in its own fiscal and other decisions.

2.15 If a local tax were were both buoyant and lumpy, many local authorities could leave their tax rates unchanged for many years at a stretch and would be tempted to do so. A decision to change the tax rate, even by the smallest available step, could therefore assume significant importance in local politics. Conversely, small variations in expenditure levels might not be immediately appreciated by local taxpayers.

2.16 The degree of predictability, buoyancy and, particularly, of lumpiness of a local tax may also have a considerable impact on the shape of exchequer grant to local government. This question is considered further in chapter 9.

SUITABILITY TO ALL TIERS OF LOCAL GOVERNMENT

2.17 Any system of local taxation needs to be capable of providing an independent source, or sources, of income for each of the tiers of local government. The level of expenditure of authorities in each tier varies between different parts of the country. The expenditure levels of shire counties in England and Wales, for example, are higher than those of metropolitan counties: this reflects differences in their statutory functions. Authorities in both tiers at present draw on domestic rates to finance the services they provide and would need to have similar recourse to any alternative local tax or taxes.

2.18 Parish and community councils in England and Wales, as well as the two main tiers in Great Britain as a whole, also need access to a local tax or taxes if they are to retain their freedom to determine their own levels of expenditure.

Chapter 3

THE POSSIBILITIES FOR CHANGE

3.1 In the light of the considerations set out in chapter 1 and the requirements for a viable system of local taxation described in chapter 2, the remainder of this Green Paper examines the criticisms that have been made of domestic rates and ways in which they could be met either by modifying the present system or by introducing new forms of local taxation.

3.2 Chapter 4 looks at ways in which the existing system of domestic rates could be changed so as to make it more generally acceptable.

3.3 Chapters 5, 6 and 7 consider three possible new forms of local taxation: a local sales tax, a local income tax, and a poll tax. The Government has examined a range of other suggested new local taxes but has concluded that they do not merit further serious consideration. They are:

local duties on petrol, alcohol or tobacco;
local vehicle excise duty;
charges for licences for the sale of alcohol or petrol; and
local payroll tax.

The reasons for rejecting these options are discussed in Annex A.

3.4 An alternative approach would be to replace the yield from domestic rates with an assigned share of a national tax or taxes. The implications of this alternative for the relationship between central and local government are discussed in chapter 8 .

3.5 This Green Paper does not consider new revenues to replace the proportion of the rate fund revenue provided at present by non-domestic rates. Chapter 10, however, discusses the implications for non-domestic rates of the replacement of domestic rates by a new form of revenue and looks at the arrangements which could be made to ensure that at a minimum the relative burden of taxation on commerce and industry was not increased.

3.6 A number of the possible alternatives to domestic rates would have implications both for the amount of exchequer grant made available at present to local authorities and for the way in which it is paid. At one extreme, it could be possible to make arrangements for financing local government services under which local authorities could be self-sufficient and which therefore required no exchequer grant to be paid at all. On the other hand, there could be a need for an increase in the total amount of exchequer grant paid to local government if new local taxes were set at a level which did not raise as high a revenue as that yielded at present by domestic rates. Corresponding adjustments to the total of central government taxation would then be necessary. Exchequer grant is discussed in Chapter 9.

3.7 Chapters 11 - 13 discuss some other matters which are relevant to the theme of the Green Paper. Chapter 11 deals with the fees and charges that local authorities levy for some services and the contribution that they make to local government revenues. Chapter 12 discusses how more than one local tax could be combined to replace the present domestic rating system and the implications that such composite solutions could have. Some fiscal, economic and distributional questions are discussed in Chapter 13.

CHAPTER 4

A REFORMED DOMESTIC RATING SYSTEM

4.1 The rating system has operated in the British Isles since 1601. The £4,700 million which it is estimated that domestic rates will raise in 1981/2 is equivalent to about 16% of expenditure incurred by local authorities.

This chapter describes the present system of domestic rating, considers it against the main requirements identified in Chapter 2 for any system of local taxation and reviews a number of suggested ways in which it might be possible to make it fairer and more generally acceptable.

DOMESTIC RATES

4.2 The present basis of domestic rating is that each local authority sets a rate poundage (expressed as a number of pence per pound per year) which is applied to the rateable value of each property in its area. In England and Wales that rateable value is assessed by the Valuation Officer (an officer of the Inland Revenue who is independent of the local authority) and is based on annual rental value at the date of the last revaluation (1973 in England and Wales, 1978 in Scotland). In Scotland the assessment of rateable values is carried out by Assessors who, though employed by local authorities, are answerable only to the courts for the level of their valuations and thus operate independently. Principles of valuation in Scotland differ in some respects from those in England and Wales. Relative rate burdens in different parts of the country are shown in Table 1.

TABLE 1

DOMESTIC RATE BILLS BY REGION 1981/2

	Average domestic poundage	Average domestic rateable value	Average unrebated domestic rate bill
Northern	144p	£141	£204
Yorkshire & Humberside	129p	£135	£175
North West	129p	£171	£221
East Midlands	104p	£168	£174
West Midlands	120p	£202	£242
East Anglia	112p	£185	£207
Greater London	124p	£284	£353
Rest of South East	112p	£232	£259
South West	110p	£181	£199
ENGLAND	119p	£200	£239
WALES	125p	£122	£153
SCOTLAND	106p	£235	£250
GREAT BRITAIN			£236

4.3 The impact of domestic rates is modified in three major ways:

(i) Domestic rate relief reduces the poundage charged to all domestic ratepayers, compared with that for non-domestic premises. The reduction amounts to 18½p in the pound in England (though larger reductions apply in parts of Inner London), 36p in Wales and 3p in Scotland. The relief is paid by the Exchequer to local authorities as the domestic element of Rate Support Grant, amounting to £720m in 1981/82, or 7% of total RSG. In money terms, the value of domestic relief increases with rateable value (in England, for example, it is worth £37 a year on a house of £200 rateable value, and £74 on a house of £400 RV). As a proportion of the rate bill, it favours those living in areas with relatively low rate poundages. The proportion varies in England from 8% of the rate bill in areas with the highest rates to 19%; in Wales from 18% to 28%; and in Scotland from 2% to 4%.

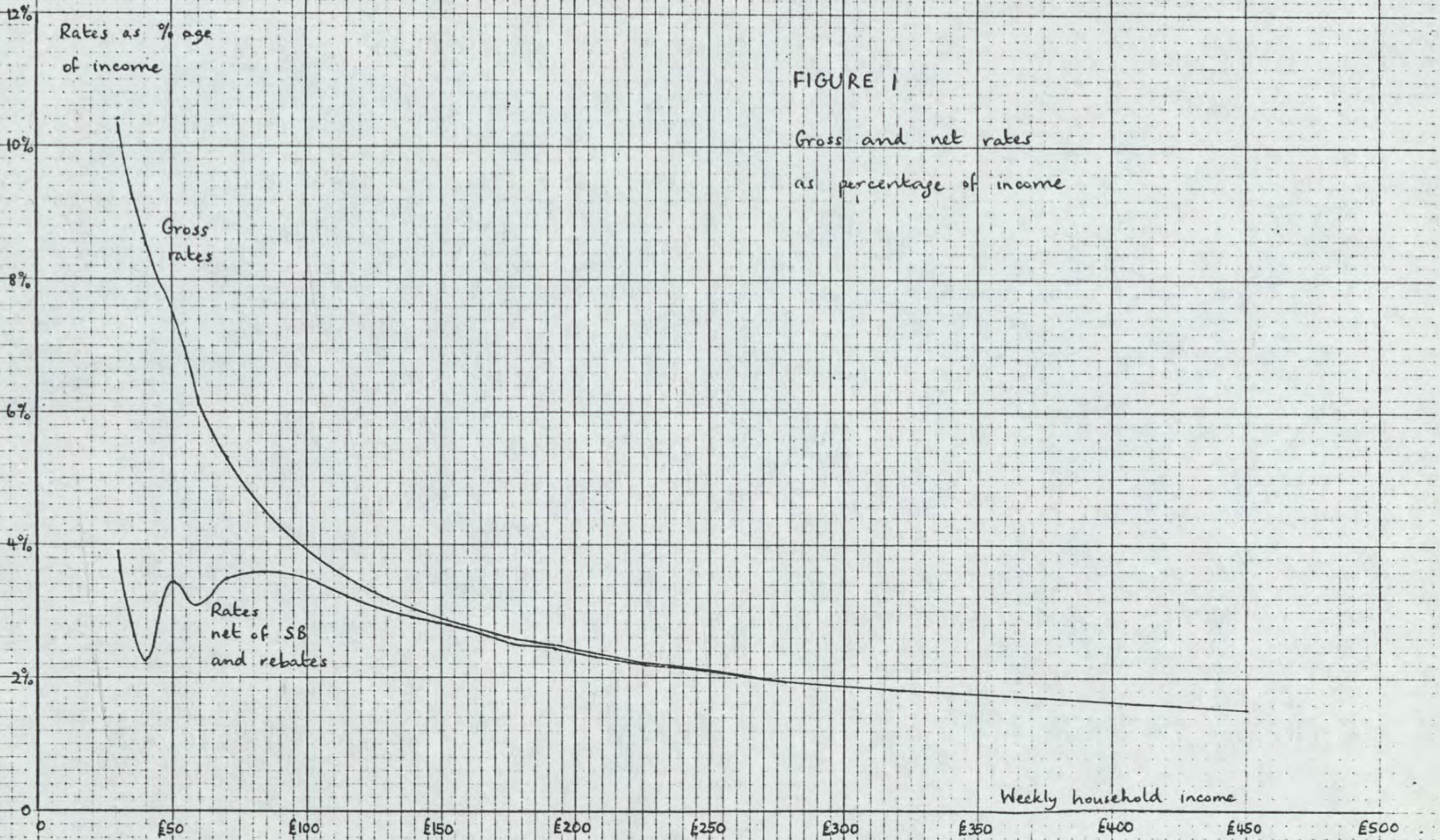
(ii) Rate rebates are a form of rate relief intended to reduce the burden that domestic rates impose on those on low to moderate incomes. The amount of rebate depends on the size of the rate bill, the income of the ratepayer and his or her spouse, and on the type of household. The cost of rebates in England and Wales in 1981/82 is likely to be some £300m, 90% of which is met by central government and 10% from local authority rate funds. There were 2.68m recipients in 1979/80 amounting to 14% of all English and Welsh households and to about 70% of those eligible. The cost of rebates in Scotland is estimated at £50m in 1981/82; there were 383,000 receipients in 1979/80.

(iii) Supplementary benefit takes account of the rates payable by a claimant as part of his or her housing costs. Housing requirements are added to the claimant's normal requirements and any additional needs, such as extra heating costs. The Claimant's income (less some disregards) is subtracted from his requirements to arrive at his or her entitlement to SB. The benefit is not available to those in full-time work, or to those whose income exceeds their requirements, or to those with more than £2,000 in capital. It is estimated that rate bills for SB households will amount to £450m in 1980/81. The number of households in 1980 was 2.45m, an estimated take-up rate of 75% among those eligible.

4.4 Figure 1 illustrates the distribution of the rate burden as a proportion of gross household income both before and after allowance has been made for rate rebates and Supplementary Benefit. It shows that unrebated rates take a higher proportion of the incomes of less well off households than of wealthier ones. When rebates and SB are taken into account, this effect is slightly reversed for those on low-to-middle incomes, but it persists for those on higher incomes.

FIGURE 1

Gross and net rates as percentage of income



PRACTICABILITY AND COST OF ADMINISTRATION

4.5 The present system of domestic rates is workable and reasonably well-understood by the public. There is therefore no doubt about the system's practicability, though a number of technical criticisms have been levelled against it in recent years. These criticisms and ways in which they might be met are discussed later in paragraphs 4.15 - 4.26. Although there are wide variations between areas in rateable value the tax base is sufficiently large to support revenue requirements. The cost of administering domestic rates (including rate rebate administration and valuation costs) is estimated at £120m in 1981/82 (2½% of yield). There is little scope for avoidance or evasion because rates are a tax levied on fixed property. There is a great deal of administrative experience with the present system and a highly-developed body of statute law.

FAIRNESS

4.6 As discussed in Chapter 1, a major criticism of domestic rates is that they bear little relationship to ability to pay for those on middle to high incomes, although rebates and supplementary benefit relate rates to income for the worse off. The illustrative examples in figure 2 show that there is a wide variation in the amounts that households with similar incomes pay in rates.

4.7 A related point is that non-householders are not required to make any direct contribution to domestic rates. A household which consists of a single person therefore pays the same amount as a household with several incomes. Table 2 shows, as one would expect, that the higher the number of earners in a household, the smaller the proportion of household income taken by rates. This effect is not eliminated by rate rebates, though it is lessened by them, and many would argue that it was inequitable.

4.8 A further point is that the base on which rates are levied is unevenly distributed across the country, and this distorts the principle of equalisation which is applied in distributing rate support grant. In ensuring that a similar rate poundage is needed to provide the local contribution to a similar level of services across the country, the tax burden varies from area to area. For example, rateable values in SW England tend to be rather lower, as a proportion of net disposable income, than rateable values in the South East and especially in London. Rates paid for equivalent levels of service from the local authorities tend to be correspondingly lower. The effect is that rates, even with the equalising effect of the Rate Support Grant, produce a more general variable local tax burden than woul a tax based on a more general expenditure or income basis.

TABLE 2

AVERAGE RATIO OF RATES TO INCOME BY NUMBER OF EARNERS

Number of earners	Gross rates	Net rates
	as a percentage of gross income	
0	5.72%	3.14%
1	3.11%	2.77%
2	2.28%	2.24%
3 or more	1.67%	1.64%

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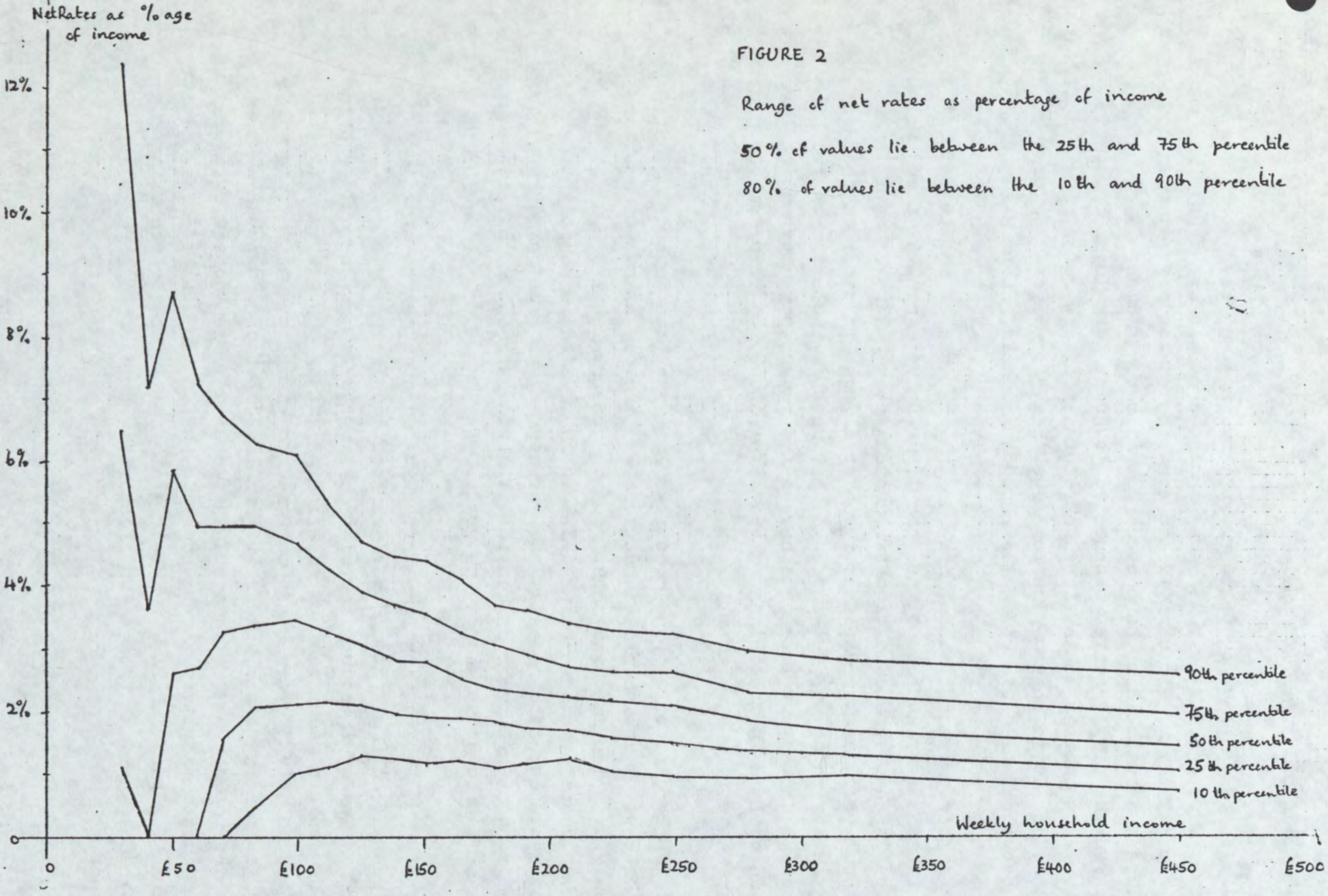

FIGURE 2

Range of net rates as percentage of income

50% of values lie between the 25th and 75th percentile

80% of values lie between the 10th and 90th percentile

4.9 Because rate poundages are not buoyant and have to be reset every year, domestic rates are highly perceptible. This perceptibility, although it has contributed to the criticisms of domestic rates which have been made in recent times, is one of the strengths of the system because it tends to make local authorities more responsible to the local electorate for the level of expenditure they decide to incur. The poundages levied by each tier of local government are set out in the rate demand note, which must be accompanied by further explanatory material. Most council tenants and many private tenants, however, pay rates as an inclusive charge with their rent and do not necessarily receive a single demand which spells out the amount of their annual rates bill. Council tenants should receive the explanatory material sent to other ratepayers with demand notes, but those who pay rates - inclusive charges for accommodation are likely to have a lower perception of rating levels, and charges in them, than ratepayers who receive rate demands direct from their local authority.

4.10 Perceptibility and accountability are both somewhat reduced in the case of recipients of rebates, who may pay a small proportion only of rates due; and those receiving Supplementary Benefit, who in most cases pay no rates at all. As the system is constituted at present, domestic rates do not, of course, provide any direct link of accountability or perceptibility between local authorities and non-householders, who pay no rates.

4.11 Pending any long-term changes which may be made to the domestic rating system, the Government has recently announced its intention to introduce legislation for 1982/83 which would provide for certain modifications to existing rating procedures. The Government's proposals are designed to bring home to individual high-spending local authorities in 1982/83 the consequences of their policies, to afford some protection to non-domestic ratepayers in such authorities and to increase the accountability of authorities planning particularly high levels of expenditure by requiring them to seek approval from their electors by means of a referendum.

FINANCIAL CONTROL

4.12 The tax base is relatively constant, since rateable values generally vary little from year to year between revaluations. This means that the yeild of domestic rates is highly predictable. Rate poundages can be varied in steps of 0.01p, so that the yeild is not lumpy. Owing to this combination of predictability and flexibility, domestic rates compare favourably with alternative forms of taxation from the point of view of financial control.

FISCAL DIMENTIONS

4.13 Although rates are entirely a local tax, they affect the aggregate amount of taxation levied in Great Britain as a whole, as well as having important consequences for the level of total public expenditure. Since the abolition in 1963 of the old Schedule A income tax, rates have been the only tax in this country applying specifically to the occupation of domestic property. These characteristics of domestic rates are reflected in the overall balance of the present taxation system.

SUITABILITY FOR ALL TIERS

4.14 Rates provide revenue for county, district, parish and community councils in England and Wales; and in Scotland for regional, district and islands councils.

REFORMS OF THE RATING SYSTEM

4.15 A number of possible reforms of domestic rates which would be capable of being implemented in the short - or medium-term are listed below. Most of these reforms have been suggested as ways of achieving greater fairness in the distribution of the rate burden. Others are ways of reducing the overall impact on households and of removing technical difficulties associated with the present system.

<u>Earning non-householders</u>

4.16 A levy on all earners, rather than limiting liability to householders, has often been proposed as a means of improving fairness and widening the rate base. A scheme could be devised to add a fixed amount to the rate bill for each non-householder who had some income during a given period. Since the levy would be relatively small it would almost certainly not be cost-effective to relate the amount to income, though consideration could be given to excluding income from part-time or occasional work. There could nevertheless be scope for evasion, which could be difficult to counter. A more easily workable version of the proposal might involve a discount for households containing only one earner.

4.17 A levy of this kind would on average result in a relative reduction in rates for those on lower incomes, but at the expense of creating some anomalies. A family with a single earner, for example, would pay less in rates than another where both husband and wife worked, even if their combined income was no greater than the single earner's.

OFFSETTING RATES AGAINST INCOME TAX

4.18 Another means of improving the position of ratepayers in relation to non-householders would be tax relief for those who pay rates. The relief could take the form of an additional allowance, either at a fixed level or varying according to actual rate payments. The benefit would vary according to the ratepayer's income level. It would provide no benefit for ratepayers whose incomes were below the tax threshold; and the greatest benefit would go to those paying the higher rates of income tax. There would be substantial administrative costs in identifying those income tax payers entitled to the relief, and the amount due to each if it were based on actual rate payments. A large part of the cost of domestic rates would be shifted on to the Exchequer, and, other things being equal, this would need to be recovered by an increase in national taxes.

Restructuring domestic rate relief

4.19 It might be possible to make the rating system in England and Wales fairer without increasing the cost by changing the form of domestic relief from a flat poundage to a different basis. (In Scotland domestic rate relief is too small to contribute to a significant redistribution of the rates burden). Some alternatives are set out below.

4.20 A discount on rateable values at a rate of £25 would cost about the same as the existing domestic relief in England. It would be of most benefit to people living in low rated houses and in areas with high poundages.

4.21 A percentage reduction in domestic rate bills of 14% could replace the poundage discount in England. It would favour areas with high ratéable values or charging above-average poundages.

4.22 The relief could instead be related to rate bills on standard houses. A standard house would be a national composite of several well-defined house types for which valuations had been made thoughout the country. This would be a way of paying a similar amount of relief in respect of properties of similar quality wherever they might happen to be in the country: it would even out differences in the rateable values of similar properties caused by differences in the relative desirability of their locations. The relief could take the form of a percentage reduction in rate bills, so that the average relief of 14% in England would apply in areas where the standard value was the same as the national average, a 28% reduction applying where the standard RV was twice the national average, etc. A further possible refinement would be to take account of regional income variations in calculating the extent of relief.

CAPITAL VALUATION

4.23 The Layfield Committee recommended that the next revaluation of domestic property should be carried out on the basis of capital values, ie sale prices on the freemarket, rather than on the present basis of the rent which the property would command on the free market. Capital valuation would have the advantage of plentiful comparators compared with the scarce evidence available of market rentals in in England and Wales owing to the decline of the private rented sector and the wide influence of rent control in what remains of it. (The position is somewhat different in Scotland). This scarcity makes it difficult for householders to form a view on the fairness of a rating assessment, because changes in the renting market have made the assumptions on which rateable values are assessed more and more notional, whereas it should be possible for them to reach a better informed opinion on the reasonableness of a capital valuation of their homes.

4.24 The introdcution of capital valuations for the domestic sector would cause some redistribution of the rate burden between households. It appears likely that the main effect would be a slight increase in the relative values of both large and small houses compared with the middle range of properties.

4.25 Any revaluation for rating purposes of the domestic sector, which comprises some 20 million hereditaments, would take some time to complete, whether on a rental or capital basis. It might be thought desirable to introduce some simplifications into the valuation process. These might include a system of banding, so that properties lying within a certain range of values were allocated the same valuation for rating purposes. There would inevitably be some rough justice involved in such a scheme, but it could be argued that this would be a reasonable price to pay in order to achieve valuations based on up-to-date and easily understandable information.

4.26 A further possibility would be the introduction of a "beacon" system. This would involve the valuation in each district of a very limited number of properties chosen to be representative of broader types of domestic property. These properties would be linked to the most appropriate "beacon" and would be assigned that beacon's rateable value. Such a system could save time and money, though it would be even more rough and ready than a system of banding and would require thorough investigation and analysis before it could be considered feasible.

CONCLUSION

4.27 The Government believes that domestic rates should be abolished if an alternative can be found, which commands **sufficient support.**

The well-tried practicality of the system and its qualities from the point of view of accountability and financial control nevertheless give a reformed domestic rating system a claim to consideration along with the other alternatives. The Conservative Party manifesto at the 1979 general election made clear that the abolition of domestic rates could not take precedence over other changes in the national system of taxation and it is clear that, in any event, it will not be possible to replace domestic rates overnight. However, some of the changes described in paragraphs 4.15 - 4.26 could be considered as transitional measures, rather than necessarily as long-term alternatives to the present system.

CHAPTER 5

LOCAL SALES TAX

5.1 The possibility of a local sales tax has been canvassed from time to time in recent years. It was considered, in particular, by the Layfield Committee, which identified a number of strong arguments against local sales tax as a means of raising revenue for local authorities. Nevertheless, the Government considers that it would be inappropriate to exclude such a tax from the present review. For reasons explained in paragraph 5.21, however, a sales tax would not be a suitable sole replacement for domestic rates and it would almost certainly have to be complemented by some more flexible form of revenue.

TYPE OF SALES TAX

5.2 The Government has looked at the possibility either of a single-stage sales tax or a multi-stage tax akin to VAT. Theoretically, a local sales tax could take the form of a full-scale value added tax levied locally on all the transactions currently subject to national VAT. The Government believes, however, that this possibility is not worth pursuing. A value added tax is charged not only on supplies of goods and services to the final consumer, but at each preceding stage of the process of manufacture and distribution. There is provision (the input tax deduction system) to allow businesses to reclaim tax on purchases of goods and services for business purposes. If local authorities were free to set their own local rate of tax, an item might incur tax in a number of different areas at a number of different rates during the process of manufacture, distribution and sale. This would impose a considerable burden on traders in producing an appropriate analysis of their input tax deductions in their tax return, and it would entail a major responsibility for central Government in allocating input tax deductions to local authority accounts. The Government considers that in practice such a system would prove unworkably complicated.

5.3 In any case, any new form of sales tax would have to be compatible with the European Community rules relating to indirect taxes. Existing Community rules require that VAT should be charged uniformly throughout each Member State, and they prohibit the introduction of turnover taxes in addition to VAT. This of itself probably means that it would be preferable to introduce any local sales tax in the UK in the form of a single-stage tax which it would be more difficult to characterise as a turnover tax. Nevertheless, there would still be a number of common features between local sales tax and VAT.

5.4 The Government has therefore concluded that any local sales tax should be of the single-stage variety. In examining the options the Government have considered two basic models:-

<u>Model I</u>:

> A single stage tax administered and collected in conjunction with the Value Added Tax system by H M Customs and Excise on behalf of local authorities; the single-stage tax would be applied to all goods and services currently subject to VAT but local authorities would be given freedom to set the rate of tax, possibly within limits to be set by Parliament.

Model II:

A single stage tax with an entirely separate system of collection administered by local authorities themselves; as with model I, local authorities could have the freedom to set their own rate of tax. It would be for consideration whether they should also be given the power to decide which goods and services should be taxable.

DEFINITION OF A SALES TAX

5.5 A major problem with a sales tax would be that of defining the transactions to which it applied. Since it would be a replacement for domestic but not for non-domestic rates, it should in theory be limited in its application to goods and services purchased by households. In this sense a sales tax is often thought of as a tax on retail sales. However, such an approach would run into two immediate difficulties. First, the concept of a retail sale is essentially related to goods; special rules would still be required for services. Secondly, there would be no readily identifiable group of "retailers" or those making retail sales. For example, of the 1,350,000 businesses registered for VAT, about one-quarter make the bulk of their supplies to other businesses, about one-quarter to domestic households and about one-half make supplies to both businesses and domestic households. Considerations of equity would suggest that under a Model I sales tax all those supplies of taxable goods and services to domestic households which already bear VAT should also be subject to sales tax. At the same time it would be difficult totally to exclude all business purchases, especially at the retail level.

Further examination would be required of the best way of overcoming the difficulties of definition while minimising the anomalies.

RATE OF TAX AND TAX BASE

5.6 Assuming for the purposes of illustration that a local sales tax were to be levied on the same range of goods and services to which VAT currently applied, and that a way could be found to exclude most business purchases, an average rate of 7% would be required to raise the £4,700m at present raised by domestic rates when the effects on demand are taken into account. The rate of sales tax providing a partial replacement for domestic rates would obviously be lower and would depend on the way in which it was combined with other taxes.

5.7 The question of the interaction of a local sales tax rate and the VAT rate would need careful examination. At present, European Community rules require that VAT should be levied on a base including all other taxes, duties, levies and charges. Hence, VAT would have to be charged on a tax base which already included local sales tax. This would mean that, for example, a 7% rate of local sales tax and a 15% rate of VAT would produce a composite rate of 23.05% on basic price. To achieve a composite rate set in whole percentage points would require rates of local sales tax to be set to several decimal places. Either alternative could pose difficulties for retailers, who have found VAT easiest to operate when set at "convenient" round rates of tax, and would be difficult for the general public to understand. It is possible that, if a local sales tax were introduced, the Government would have to consider seeking a derogation from Community rules to enable sales tax and VAT to be charged in parallel on a common base, which, taking a 7% rate of local sales tax and 15% VAT would entail a readily understood composite tax rate of 22%. Even this, however, would not be free from difficulties for the retailer who worked from tax-inclusive prices.

Registration threshold

5.8 A further problem would be to decide which traders should be included within the local sales tax net. The present VAT registration limit is £15,000; this is considerably higher than in other EC countries and has been deliberately maintained at such a level in order to reduce the administrative and compliance costs of collecting very small amounts of tax from a large number of small businesses. Because of the way the VAT system works, the resultant revenue loss and the trading advantage enjoyed by unregistered traders are in practice related only to their value added, not to the whole of the tax apparently at risk. In the case of a local sales tax, on the other hand, because all the tax would be levied at the retail stage, exemption from registration would mean the loss of all the potential revenue involved while the competitive advantage gained by the traders concerned would be much greater than with VAT. On the other hand, the adoption of a lower limit for the local sales tax would involve the registration of a large number of traders who have been purposely kept out of the VAT system, and would considerably increase both the administrative costs of the tax authorities and compliance costs for the small businesses concerned. Notwithstanding the revenue and other arguments, the operation of different registration rules for sales tax and VAT could lead to anomalies and increased accusations of inequity.

CROSS-BORDER SHOPPING

5.9 A quite different problem which was identified by the Layfield Committee as a significant consideration in the case of sales tax is cross-border shopping. There has been a growing tendency with the increase in private transport and the development of supermarkets and hypermarkets for large towns and cities to become the shopping centres for surrounding regions. Generally speaking, a large proportion of domestic purchases are no longer made in the village or suburban shop, but in stores in urban centres. The revenue from a sales tax might therefore tend to accrue to different local authorities in a distorted fashion, unduly favouring those accommodating popular shopping centres near their borders at the expense of neighbouring authorities where consumption actually took place. Any such trend would, of course, be expected to divert trade, particularly in the more expensive consumer durables, to areas where the rate was low. In the particular case of a Model II system under which local authorities were allowed to vary the coverage of the tax, there would be a further problem. The incentive to cross-border shopping would be greatly increased if the difference was not just a matter of a percentage point or two on the rate of tax but the difference between the item being taxable or tax-free.

5.10 Two further aspects of cross-border trading would pose particular problems. The first would be the question of where services should be treated as being supplied, and the rate of tax to be charged when the trader lived in one local authority area and the customer in another. To charge tax at the rate of the trader's local authority could risk significant distortion of competition; to charge it at that of the customer's local authority would involve the trader in additional, possibly substantial, compliance costs. The other problem would be the position of mail-order traders. Unless special arrangements were made for charging the tax according to where customers lived, which again might greatly increase traders' costs, there would be a considerable incentive for mail-order companies to establish themselves in low tax areas, and these areas would gain.

COSTS

5.11 It is not possible to give any detailed estimate of the additional administrative costs incurred by the taxing authority or of the operating costs for business of compliance with a sales tax without a much more detailed study of the form such a tax might take. The costs of a taxation system depend very much on its complexity. The costs of a local sales tax would, therefore, depend on the extent to which it could be tailored to fit in with the existing VAT system and whether such difficult matters as determining the rate of tax on imports and the exclusion of business purchases from the incidence of the tax would be dealt with satisfactorily without unduly complicating the tax structure. If in the light of this Green Paper it were decided to proceed with further considerations of a sales tax option, some qualification of cost would clearly be necessary before any final decision could be taken. However, preliminary study suggests the following conclusions:

(a) Administrative costs. Under a Model I tax administered in conjunction with the VAT system, costs could be significant, but would be likely to be substantially less than the estimated £120m cost of domestic rates. Under a Model II tax each local authority would have to set up a separate tax gathering force. This would greatly increase costs of administration and could approach more closely, or could even exceed, the present cost of collecting domestic rates.

(b) Compliance costs. Quantification is again impossible. However, experience with VAT suggests that even under a Model I system, there would be some substantial additional costs which would tend to bear disproportionately heavily on small businesses who would make up the bulk of those traders operating a sales tax system. A Model II sales tax which differed from the VAT system would greatly increase compliance costs because retailers would have to apply two different sets of rules to their sales and possibly have to keep a separate set of records in addition to their VAT accounts.

5.12 It is also important to note that, even if a sales tax were introduced only as a partial replacement for domestic rates, control and compliance costs would remain much the same as for a rate of tax which provided for total replacement. In terms of cost per £ of revenue collected, the effect of partial replacement would therefore be that a sales tax would become a much more expensive tax to collect.

TIMETABLE

5.13 The Government does not consider that a local sales tax on either model could become operative before 1987/8 at the earliest. In the case of model I this is because Customs and Excise are engaged in replacing their VAT computers, which are coming to the end of their operational life. This involves major re-programming prior to the changeover of computer systems and the introduction of a sales tax could not be contemplated until the new computers were fully operational. A Model II tax would require local authorities to set up their own tax administrations, which would almost certainly need to be computer-based. This would require a great deal of detailed planning and it would be unlikely that these could be completed much earlier than five years from a decision to proceed.

FAIRNESS

5.14 At present, VAT is charged on about 50% of consumer expenditure and it does not apply to necessities like food, heating fuel, housing, and public transport.
In general a local sales tax that was levied on the same

items as VAT should tend to take a higher proportion of the income of richer households than of poorer ones because richer households, generally speaking, would tend to spend a higher proportion of their incomes on taxable items, while most necessities would reamin non-taxable. However, those on low incomes could be expected to lose from a change to a local sales tax unless some new form of support were to be introduced to replace rate rebates and (payments of rates in) supplementary benefit assistance with rates.

The introduction of local sales tax might go some way to meet the criticism, often made against rates, that a tax should be distributed to fall broadly equally on individuals or households of similar means. It would also widen the incidence of tax to include all domestic consumers, compared with the 20 million heads of households who pay domestic rates at present.

5.15 The fairness of a Model II tax in which local authorities were allowed to vary coverage would be strongly influenced by the resulting shape of the tax. It is unlikely that the progressivity of VAT could be significantly improved by adding to the present reliefs, while reducing the extent of reliefs (in order, for example, to lower the rate at which tax needed to be charged) could make the tax regressive. A sales tax charged on all goods and services would certainly be regressive.

ACCOUNTABILITY AND PERCEPTIBILITY

5.16 As noted in paragraph 5.9 above, the sales tax that an authority received would not necessarily be paid only by those living in its area, with the result that local accountability would not be complete. The perceptibility of a local sales tax would clearly depend on the extent to which its effect could be separately identified by the customer when a purchase was made. A high degree of perceptibility could probably only be achieved if traders could be required to show the tax as a separate item on bills and receipts. Such a requirements would, however, add significantly to traders' costs, particularly for those traders who do not normally issue receipts and might find themselves having to purchase new and possibly more sophisticated cash registers. Moreover, the requirement would probably be inconsistent with the operation of the special accounting schemes for retailers which already apply to VAT and would need to be extended to local sales tax.

5.17 An alternative might be to place local authorities under a duty to write annually to each household with an explanation of their rate of tax and other financial information on similar lines to the publication of performance information to be published in connection with rate demands by virtue of section 2 of the Local Government, Planning and Land Act 1980.

FINANCIAL CONTROL

5.18 There could be real problems in predicting the yield of a local sales tax each year. Experience with VAT suggests that the national outturn of a local sales tax would vary from its estimate for each year. In most years the variation in the VAT outturn has been of the order of 2% or a little more, but in 1980/81 it approached 10%. For sales tax this margin of error would itself very between individual authorities. For example, revenue receipts would be particularly susceptible to change from year to year in local authority areas with small populations which were visited by large, but fluctuating, numbers of tourists. Furthermore, accurate predication might be difficult if varying levels of tax in neighbouring authorities led to a significant increase in cross-boundary shopping.

5.19 The substitution of a tax with an unpredictable yield for domestic rating, the yield of which is highly predictable, would raise problems of financial management. This is inevitable although (as with local income tax) the unpredictability could be made to fall either on local or central government.

5.20 The yield of a local sales tax would be more buoyant than that of domestic rates, so local authorities would probably not have to change their tax rates frequently unless it were necessary to do so because expenditure had gone up or down in real terms. This would be particularly true if sales tax were supplemented by some other more flexible local revenue. Adjustments to the tax rate could be necessary, however, even without real changes in the level of local authority's expenditure if local authority costs, which mainly comprise wages, salaries and loan charges, increased more quickly or slowly over a period of time than the price of goods and services on which the tax was levied. Where an authority's need to spend on local services was declining, there could be a danger that caution and a desire to budget for a sufficiency of income over a number of years might tend to make it slower to revise its rate and local sales tax downwards than it would have been with an alternative form of tax whose yield was more accurately predictable.

5.~~20~~ 21 Changes in the tax rate by local authorities would have to be limited by consideration for the impact on traders, many of whom already experience difficulty in operating VAT correctly. The Government thinks that this would mean that steps of the order of 1% would be the minimum acceptable, but the actual position would depend on the way the local sales tax rate was combined with the VAT rate (paragraph 5.7 above). Steps of whole percentage points, however, would cause a problem for local authorities because of the extreme lumpiness of the yield. A 1% change in the average tax rate would change the yield by about 10% - 15%. Because of this problem, the Government believes that a sales tax would be inappropriate as a complete replacement for domestic rates, and that it would need to be supplemented by some other more flexible source of income (see Chaps 12 and 7). Even a hybrid solution would not eliminate all the local authorities' budgeting problems.

5.~~21~~ 22 A local sales tax would in any case imply restrictions on local authorities' freedom to make frequent changes of rate, because any rate change would cause problems for businesses. For example, stock repricing would be an onerous task in shops with a large range of low unit-price goods. Where advance bookings and orders were concerned, identifying the rate of tax to be charged could become difficult. Moreover, if local sales tax accounting were to be integrated with VAT accounting, those businesses which use the VAT retail schemes could have to carry out certain accounting adjustments or possibly an extensive stock-taking. Larger traders with computer-based accounts, such as the major retailing chains, would have to carry out reprogramming, as would other concerns who produce all their accounts from a single central source - (telephone bills, for example).

5.23 For the reasons set out in paragraphs 5.18 - 5.20 the Government believes that among the leading options a local sales tax would cause local authorities the greatest difficulties for stable financial planning.

FISCAL DIMENSIONS

5.24 A local sales tax designed to replace entirely the present yield from domestic rates and running in parallel with national VAT would produce a combined sales tax/VAT rate of about 22% (paragraph 5.7 above) and even a partial replacement would be likely to result in a high combined rate, perhaps of the broad order of 20%. This would obviously have implications for prices and for the demand for taxed goods. It would be bound to constrain the freedom of central Government in relation to changes in the rates or rate structure of VAT. Future Chancellors would also have to bear in mind that the impact on patterns of consumer expenditure of any change in the VAT rate could have a significant effect on local authority revenue. So, too, could any changes in national VAT coverage (eg changes in zero-rating or exemptions) if the local tax were to be levied on an identical base.

5.25 Conversely, decisions by local authorities about their tax rates would have an impact on Government revenue, especially if the tax rates were set at a higher level than expected. In any case, if local authorities set their tax rates before the Budget each year, the Government would have to take these decisions into account in framing the Budget judgment.

5.26 These problems could be mitigated to some extent if there were some formal constraint on the freedom of local authorities to levy sales tax at whatever level they chose. On the other hand, such a constraint would, of course, have implications for the independence of local government and its accountability to local electors.

SUITABILITY FOR ALL TIERS OF LOCAL GOVERNMENT

5.27 The Government's view is that a local sales tax with independently variable rates could not reasonably be operated at any level below that of the 66 authorities in the upper tier of local government - counties in England and Wales, regions and the islands authorities in Scotland. The Government considers that to vary the tax rates at the level of the 450 or so local authorities in the lower tier would be disproportionately costly to operate both for the tax collecting agency, whether the central government or the local authorities, and for traders (especially multiple traders). The Government further considers that the divergence of tax rates at district level could tend to stimulate an undesirable amount of cross-boundary shopping.

CONCLUSIONS

5.28 The Government considers that a local sales tax might conceivably be capable of providing a source of local revenue to replace in the upper tier of local Government a substantial part of the local authority income at present raised by domestic rates. Devising a workable system, however, would involve finding solutions to a diverse range of important problems. For both local and central government, a local sales tax would bring financial control problems which would have to be surmounted. Because of the unpredictability of the yield, local authority budgeting would become more difficult; while the "lumpiness" of the yield would mean that even relatively small changes in the rate would produce considerable variations in income. The high combined effective tax rate of national value added tax and the local sales tax could have implications for the government's overall fiscal policy and its freedom for manoeuvre, while the interaction of the two taxes would almost certainly impose some restrictions on local authorities. For these reasons the Government does not believe that a sales tax could be a satisfactory sole replacement for domestic rates. It would be more effective if combined with some other form of local revenue.

attempt the difficult task of

5.29 Even as a partial replacement, a local sales tax would present a number of problems. It would be necessary to producing a scheme based on a definition of a taxable supply which ensured that as far as possible all goods and services consumed by households bore the tax, while those consumed by businesses (who would still be paying non-domestic rates) were excluded: or, alternatively, the scheme might be widened to include businesses, with a corresponding reduction in business rates. The

Government would still need to take a view on the extent to which local authorities could be given an unfettered ability to vary local rates of tax. It would also be necessary to minimise the extra costs of compliance for businesses, especially for the smaller retailers who would form a large proportion of those accounting for the tax. Questions of accountability and perceptibility would also require consideratio Any new incentive to cross-border shopping would not only further reduce the predictability of the yield, but could mean that more people would be paying tax outside their own local authority area. In any case it might be difficult to make the local population properly aware of the incidence of a local sales tax without either imposing onerous burdens on traders or additional administrative requirements on the authorities themselves. The perceptibility and accountability of a local sales tax would not necessarily therefore be very high, although it would have the advantage that its incidence would on the whole be seen to fall more equitably than that of the present rating system.

5.30 Any system of local sales tax would have to be compatible with the United Kingdom's continuing obligations to the European Community.

5.31 Of the two possible models of a local sales tax the Government has considered, Model I seems preferable on the grounds of lower administrative cost and lesser burden on traders. On the other hand, Model II would offer the advantages of being more obviously locally based and administered.

Chapter 6

LOCAL INCOME TAX

6.1 The feasibility of a local income tax has received close attention in recent years. In particular, the Layfield Committee gave qualified approval to one form of local income tax as a supplement to domestic reates in the context of their proposals for a clarification of the relative responsibilities of central and local government. The Committee recognised, however, that it would not be without its problems and that the cost of operating it would be substantial. They did not recommend that local income tax should be a substitute for domestic rates.

6.2 The main arguments advanced for a local income tax are that it would significantly widen the local tax base by bringing in all national income tax payers, and the relative burden of each would be more clearly related to ability to pay. The possible distributional effects of a local income tax replacing domestic rates are discussed in chapter 13 and Annex C.

6.3 On the other hand any form of local income tax would be administratively complicated, would require a substantial public sector staff to run it, and some of the variants would involve additional work for employers. A local income tax would also increase the level of taxation of incomes - by about the equivalent, on average, of 5p on the basic rate if domestic rates were wholly replaced by the tax. Proposals for a local income tax therefore need to be considered in the wider context of Government policies for simplifying the tax system, reducing public sector manpower, easing administrative burdens on businesses, and the balance between direct and indirect taxation.

6.4 A local income tax could take a number of different forms. This chapter looks first - and in most detail - at a local income tax fully integrated with the present income tax system, the kind of local income tax the Layfield Committee favoured. It then goes on to consider how a local income tax might operate if the national system were radically changed so that an assessment was made on each taxpayer every year; and two schemes involving collection of local income tax by local authorities themselves are discussed. Finally, a local income tax is considered against the criteria identified in Chapter 2.

LOCAL INCOME TAX FULLY INTEGRATED WITH THE NATIONAL INCOME TAX SYSTEM

6.5 After detailed discussions with the Inland Revenue, the Layfield Committee recommended that, if a local income tax were to be introduced, it should be fully integrated with the national tax system. This would be the most straightforward way of operating a local income tax. But it would impose a number of important constraints on the form of a local income tax, and the timing of its introduction. In particular, as explained below, it would probably be suitable only for the 128 major spending authorities, and could not be introduced until the 1990s.

Tax base

6.6 A local income tax of this kind would be charged on the same tax base as the national income tax. It would thus be levied on income from earnings and pensions, investment income and the profits of unincorporated businesses, but not on company profits.

Residence

6.7 As the Layfield Committee recognised, the most appropriate link between an individual taxpayer and the local authority levying a local income tax would be the taxpayer's place of residence. The rate of tax payable would thus be determined by the local authority area in which the taxpayer lived. The Layfield Committee preferred a tax based on place of residence (rather than, for example, place of work) mainly because the services which local authorities provide are generally related to where people live.

6.8 For national income tax purposes, however, a taxpayer's place of residence within Great Britain is of limited significance; in general, the tax system is not organised on the basis of where the taxpayer lives. In particular, for PAYE, the tax affairs of all the employees of the same employer are handled together usually by one tax office. A local income tax would thus entail a new requirement of establishing the place of residence of every taxpayer (some 25½ million in Great Britain) before the start of each tax year, so that the appropriate rate of local income tax could be charged, and the tax paid over to the right authority. Information to determine place of residence for this purpose could be included in the income tax return forms, but at present these are received by only about one-third of taxpayers each year. Some other means - such as a separate enquiry - would therefore have to be used for the others. In most cases there would be little difficulty in establishing the area of residence, but special rules would be needed for those who have more than one home, or who move frequently. Also - for the reasons explained in paragraph 14 - it would be necessary to establish the position well before the beginning of the tax year. Given the number of people who move house each year, this would mean that in any particular tax year a large number of people would not be paying tax to, or at the rate levied by, the authority in whose area they then levied.*

PAYE

6.9 Since under an integrated system local income tax would be collected by the same machinery used to collect national income tax, it is necessary to consider in particular the implications for PAYE, which brings in about 85 per cent of the yield of national income tax. The PAYE system collects the tax due from wage and salary earners and from occupational persioners, a total of about 24 million taxpayers in Great Britain.

6.10 The aim of the PAYE system is to obtain an accurate match in as many cases as possible between the tax deducted in the course of the year and the taxpayer's ultimate liability so that no adjustment is required at the end of the tax year. At present this result is possible for the large majority of cases - about 5 out of 6. To achieve this, there is a system of codes which mainly reflect the taxpayer's allowance and reliefs. These codes are notified to employers who can then calculate the tax to be deducted from the earning of each taxpayer from official tax tables.

6.11 For a local income tax to operate as part of the PAYE system,

* The number would depend on how far before the start of the tax year the residence position had to be determined, and the number of levying authorities. If the place of residence was determined on the factsat the beginning of the previous tax year, and if, as suggested in paragraph 13, only the 128 major spending authorities could levy local income tax, this number might be as many as 2 million.

this system of coding and tax tables would have to be elaborated to enable employers to deduct local income tax at the appropriate rate for each employee. An additional element would have to be added to each code - a local authority tax rate indicator - and additional tax tables would be needed to cover the various combinations of local and national tax rates. These changes would considerably complicate the operation of PAYE for employers as well as for the Inland Revenue. Codes would be more complex, and liable to more frequent changes; and tax tables would be more elaborate, with different tables often necessary for different employees.

6.12 If these additional complications to the operation of PAYE, including the burden on employers, were to be kept within bounds, some limit would have to be placed on the number of tax rates which local authorities could use. This would mean that the rate of tax would have to be set in fairly broad steps, which would have implications for the lumpiness of the yield. At present, it seems unlikely that it would be practicable to operate a system with steps of less than ½p; but if automated methods of calculating tax deductions became more widespread amongst smaller employers, or if the total spread of rates for a local income tax was limited to a fairly narrow band, somewhat finer graduation - say by ¼p - might be possible.

6.13 Even with this limitation, however, there would be substantial practical difficulties in adapting PAYE to accommodate local tax rates set independently by the 458 lower tier authorities, and the Layfield Committee considered that such a scheme would be impracticable. A local income tax on these lines would therefore probably have to be restricted to no more than the 128 major spending authorities - the County Councils (in Scotland, the Regions and Islands Authorities) plus the Metropolitan Districts and, perhaps, the London Boroughs.

6.14 Tax codes have to be notified to employers before the start of the tax year. If they are to include an indicator of the appropriate local rate for each taxpayer, it would be necessary to start to determine, perhaps 12 months before a tax year began, the area to which the taxpayer belonged for local income tax purposes for that year. Local authorities would have to bring forward their budget cycle and determine their tax ratetowards the end of the calendar year so that the right tax rate for each of their taxpayers could be passed on to employers before the start of the new tax year. This would involve some difficulties for local authorities in their budgeting, and for central government in determining the total level of Exchequer grant.

Profits of the self-employed

6.15 Tax on the profits of self-employed people is collected by means of individual assessments. Local income tax could be collected as part of the national income tax assessment.

Investment income

6.16 Applying different rates of local income tax to investment income would be difficult because of the variety of tax collection arrangements which are used for collecting national income tax on this type of income. Income tax at the basic rate is deducted at source from many types of interest. Tax on interest paid by building societies is not deducted at source, but is paid by the society at a composite rate under special arrangements. Separate arrangements also apply to the collection of tax in respect of company dividends which carry a tax credit covering the shareholder's liability to the basic rate of income tax. Other investment income - such as bank interest and rents - is generally paid gross, and the tax due collected individually in various ways by the Inland Revenue.

6.17 It would be impracticable for the various institutions which pay investment income to deduct tax at rates which varied according to the recipient's place of residence. Equally, it would not be possible, except at unacceptable cost, for the Inland Revenue to collect, by direct assessment, the small sum of local income tax which would be due on the large number of mainly small amounts of income, when the national tax liability had already been collected, in most cases, without the need for an assessment. Other arrangements would therefore be needed. One possibility might be a uniform surcharge levied, at a single rate, by central government on investment income and distributed to local government; and deduction of tax at source (at a rate which included a standard local authority rate) might have to be extended to types of income to which it does not a present apply.

Costs

6.18 A detailed costing for a local income tax integrated with the existing national income tax system was made for the Layfield Committee. The estimate then was that about 12,000 to 13,000 extra staff would be needed in the Inland Revenue. This would cost about £110m at 1981-82 prices. Additional cost falling on employers are very difficult to estimate, but could be of a broadly similar order. The costings prepared for the Layfield Committee assumed that the scheme would be integrated with PAYE operated on the present mainly manual basis. The nationwide computerisation of PAYE is now under way but at this early stage it is not possible to say by how much this would reduce the costs as estimated for the Layfield Committee. If a local income tax replaced domestic rates entirely there could be a saving of around 1800 staff in the Valuation Office of the Inland Revenue and possibly further savings in local authorities. It would be for consideration whether any additional costs to the Inland Revenue of administering a local income tax would be deducted from the yield so that they were borne by the authorities levying the local tax.

Timing

6.19 As well as representing a major organisational change in its own right, for which careful planning would be needed, the introduction of local income tax integrated with the national tax system would require extensive changes in the design of the computerised PAYE system. The time needed to introduce both local income tax and to computerise PAYE would inevitably be greater than for either alone and there would be a high degree of risk involved in trying to do both at once. It would therefore be a question of suspending computerisation of PAYE to introduce local income tax on a manual basis or postponing local income tax until computerisation was complete. The first course would delay the substantial staff savings and other benefits of computerisation while running local income tax at greater cost manually: the second would make it unlikely that this form of local income tax could be effective before the end of the decade, since PAYE computerisation is not expected to be completed before 1988.

OTHER FORMS OF LOCAL INCOME TAX

6.20 As explained above, a local income tax integrated with the national tax system would be suitable only for the major spending authorities, and could operate only with a limited range of local income tax rates. If local income tax were to be available to a large number of local authorities, and to offer a wider range of tax rates, it would be necessary either to introduce important prior changes in the national tax system, or to collect local income tax separately from national income tax.

A LOCAL INCOME TAX LINKED TO A NEW NATIONAL SYSTEM OF UNIVERSAL END-YEAR ASSESSMENT

6.21 In some countries the system of collecting tax from wages and pensions is radically different from PAYE. Instead of deductions which are designed to represent the final liability in most cases, so minimising end-year work, these systems provide for a less precise system of deduction during the year, coupled with the assessment of every taxpayer (following receipt of an annual return) each year to establish any further liability or the amount of any refund due. If such a system were introduced for the national income tax, it could be more easily modified to include a local income tax. The level of deductions would need to take account of the general run of local income tax rates, and information about residence would need to be included in the return every taxpayer would make each year. The local tax position would be finalised in the end of year assessment which under such a national system would need to be made in every case.

6.22 For local income tax, such a scheme would present a number of advantages. It would enable local authorities down to the level of the 450 or so lower-tier bodies to set their own rates of local income tax. For employers, the codes and tax tables would be simpler because tax deductions would be more provisional and would not attempt to be exact. Variation of tax rates under this scheme by steps of less than ½p would not add to the burden on employers since a single average rate of local income tax would be built into the deduction system. It would therefore be possible to vary local rates down even to one or two decimal points, which would eliminate lumpiness in the yield and make financial planning by local authorities easier. Local authorities could also determine their budgets, as now, in February to March.

Investment income could be taxed at the appropriate local rate instead of at a national standard rate, as this would be included in the normal end of year assessment procedure. The cost of adding a local element to a national tax scheme of this kind cannot be estimated at present, but it seems likely that it would be less than the cost of a scheme integrated with the present national income tax system.

6.23 Adopting such a system for national income tax would, however, be a profound change with wide implications going well beyond questions of local government finance. Major issues of tax policy and administration would be raised which would need to be examined thoroughly and in detail on their own merits before any change of this kind could be made. Moreover, a restructuring of the tax system on this scale would need to be spread over a number of years and would call into question the present programme for the computerisation of PAYE. A restructured system incorporating local income tax would probably need to be computer-based, and it seems unlikely that such a system could be introduced before the end of the decade.

ASSESSMENT AND COLLECTION MY LOCAL AUTHORITIES ON INFORMATION ABOUT INCOMES PROVIDED BY INLAND REVENUE

6.24 Under this hybrid system, the taxable income of each taxpayer would be determined by the Inland Revenue, who would notify it to the local authority for the area in which the taxpayer lived. The local authority would then be responsible for assessing the local tax at its own rate, and collecting it direct from the taxpayer.

6.25 Like the previous scheme, this system would allow local income tax to be levied on the basis of a year-end assessment. For that reason, and because PAYE employers would have no extra tasks, a tax on these lines could be levied at rates which could vary at the level of the lower-tier local authorities, and which could be adjusted by steps of less than ½p. It would therefore have the same flexibility and benefits for local authorities' financial control as the previous scheme.

6.26 There would, however, be some substantial difficulties. The tax base on which local authorities operated would be out of date, sometimes seriously. A taxpayer's taxable income during Year 1 would be determined in arrear by the Inland Revenue and notified to the local authority generally at some time during Year 2. In some cases, however, the final amount of all sources of income is not settled until well after the end of Year 2, in which case the local authority would either have to wait for its local income tax, or make a provisional assessment on the basis of some extra notification from the Inland Revenue. Even in a straightforward case, the assessment of the taxpayer's liability for Year 1 could not be made until well into Year 2, by which time he might have moved out of the local authority's area. This would mean that local authorities would be faced with recovering their tax anywhere in the country - or arranging to transfer responsibility to the authority in whose area the taxpayer now lived.

6.27 At a practical level, however, the main problem would probably be the sheer volume of information which would have to be exchanged each year between tax offices and local authorities. The transmission of information about 25½ million taxpayers to 458 local authorities by about 700 local tax offices of the Inland Revenue would be an additional and highly complex task. It would also require the Inland Revenue to determine - again a substantial additional task - the place of residence for local income tax purposes of each taxpayer for the year in question.

6.28 This transfer of information from central to local government would also raise potentially difficult issues of confidentiality. Information held by the Inland Revenue about individual incomes is not at present disclosed outside the Department, even to other branches of central government, except in certain strictly limited circumstances which are specifically authorised by statute. The introduction of the necessary powers to enable the Inland Revenue to disclose such information on a regular and widespread basis to local authority officials of the area in which the taxpayer lived could prove highly contentious.

6.29 As with the other schemes, the cost of a local income tax in this form is difficult to establish. It is tentatively estimated, however, that its costs might be double that of a scheme integrated with the present national tax system; that is about £220m*. This

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* There would be some off-setting savings if local income tax replaced, rather than supplemented, domestic rates - see paragraph 18.

higher cost is due partly to the complex arrangements required for transfer of data, and partly to the heavy collection cost, since there would be no possibility of deducting tax from pay at source, nor - as with rates - any link with the occupation of property. Since this scheme would involve major additional tasks for the Inland Revenue the problems described in paragraph 19 would again arise, and it could probably not be effective before the end of the decade.

LOCAL INCOME TAX ADMINISTERED INDEPENDENTLY BY LOCAL AUTHORITIES

6.30 The final possibility would be for each revenue-rasing authority to run its own income tax system quite separately from the national system. This would require each authority to be responsible for issuing tax returns to its own residents, establishing their taxable income, assessing it, and collecting the tax due. Whether a completely separate tax base was used or the national rules were adopted, this would be an extremely expensive operation as each authority (or each group of authorities if a grouping arrangement were found preferable) would be separately responsible for the application of a complex legal code. All taxpayers would have to make returns to two authorities, national and local. It would be very burdensome to ask employers to operate two separate PAYE schemes, and the tax would therefore probably have to be paid after the end of the income tax year in a lump sum or by instalments, like rates at present.

6.31 A system of this kind would be cumbersome to operate, confusing to taxpayers and expensive in staff. If the local authorities between them needed no more staff than the Revenue have at present administering income tax, the numbers required would be around 55,000 costing roughly £500m* a year. A local income tax on this basis could be planned and introduced without regard to the computerisation of PAYE but it is doubtful whether it could be effective in less than 5 years.

FAIRNESS

6.32 Local income tax would apply to everyone in a local authority area whose income was above the tax threshold (there are currently

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* See footnote on page 50.

about 25½ million individuals liable for income tax in Great Britain, compared with the total adult population of our 40 million, and about 20 million domestic ratepayers). Liability would - unlike rates - be directly related to income, which is widely regarded as a more apt measure of ability to pay. It could be argued, however, that in practice this advantage would be eroded because the scope for avoiding or evading liability would be greater than with rates. If it was necessary for administrative reasons to tax investment income at a unform rate set nationally, a local income tax would favour taxpayers with investment income living in areas with higher rates of local tax compared with those living in areas with lower rates.

6.33 The position of unincorporated businesses would also need to be considered. If such firms remained liable to non-domestic rates, and the proprietors were charged local income tax on the whole of their profits, it could be argued that they were at a disadvantage compared with companies, which would not be liable to local income tax, and whose proprietors would only pay local income tax on amounts withdrawn from the business which formed part of their own taxable incomes.

6.34 The possible distributional effects of replacing domestic rates by a local income tax are considered in Chapter 13 and Annex C. For the illustrative household types used there a local income tax would generally tend to reduce the burden that domestic rates impose at present on those with low incomes, while the burden on those with high incomes would correspondingly increase. As might be expected, the tax burden would be shifted towards households with two or more earners.

PERCEPTIBILITY AND ACCOUNTABILITY

6.35 It is unlikely that many local government electors would find a local income tax integrated with the present national tax system very perceptible. Some taxpayers might give closer attention to their tax deductions, but national and local tax rates would probably have to be combined in composite tax tables if the employers' job in operating PAYE was to remain manageable, and local and national components of the tax deducted from the taxpayer's earning would therefore probably not be readily distinguishable, except, perhaps, in his annual statement of pay and tax. Because the Inland Revenue would be responsible for the administration of both national and local income taxes, central government would tend to be seen by man people as being responsible for the rates of local tax levied. To try to overcome this local authorities could be required to send out annual statements to each taxpayer explaining and justifying the rate of tax they had set. A local income tax based on a recast national tax system involving end of year assessment might be little more perceptible that one integrated into the present tax system. The local tax would be highly perceptible, however, under the two schemes in which it would be collected directly by the local authority.

FISCAL DIMENSIONS

6.36 The introduction of a local income tax would increase the total burden of direct taxation. This would run counter to the Government's policy of switching more of the burden of total taxation away from personal incomes and on to personal expenditure. In principle it would be possible to offset this increase in the burden of tax on income by a corresponding reduction in national rates of income tax coupled with increases in other taxes. In practice the scope for a change of this kind might be limited.

6.37 The use of a single tax base for both central and local government income tax would lead to problems. On the one hand, the Chancellor's Budget decisions on personal allowances and other tax reliefs would have direct repercussions on the yield of local income tax to local authorities after they had set their local rate of tax for the year in question. On the other hand, a local income tax would raise the marginal rates of tax for all income taxpayers and could be an important constraint on a Chancellor's budgetary freedom of manoeuvre. Such considerations might make it necessary for central government to limit local authorities' powers to set local tax rates, with implications for relations between central and local government. Whether such limits would in practice be necessary would depend in part on whether a local income tax would be likely to be preceptible - that is how far it would encourage local accountability and discourage high expenditure and consequent high tax rates. On this score, a local income tax collected by local authorities would be likely to do better than one collected by the Inland Revenue.

FINANCIAL CONTROL

6.38 Any local income tax would give rise to problems of predictability of yield broadly similar to those already discussed in relation to local sales tax (see Chapter 5.18). The yield of local income tax might vary by a s much as 5 per cent from the level predicted by the local authority in its budgeting - more if it were affected by subsequent budgetary changes in the national income tax base.

6.39 The yield of local income tax would be buoyant, and normally it would be unnecessary for local authorities to change their tax rates often except when there was a change in the real levels of expenditure to be financed from local resources. On the other hand, in contrast to rates, it would probably not be possible to increase the yield from local income tax part way through the year by increasing the rate of tax.

6.40 The lumpiness of yield of local income tax has already been mentioned in paragraphs 12 and 22. Although a local income tax integrated with the present national tax system would pose problems of lumpiness, the difficulties would be less than those associated with a local sales tax (see Chapter 5.21) and, there could be scope for mitigating these problems by combining a local income tax with some less lumpy source of income for local authorities. This possibility is dealt with further in Chapter 12.

SUITABILITY FOR ALL TIERS OF LOCAL GOVERNMENT

6.41 As explained in paragraph 13, a local income tax integrated with the present national tax system would probably have to be restricted to shire counties in England and Wales, and to regional and island authorities in Scotland, plus metropolitan districts and, perhaps, the London Boroughs. A local income tax system operating on the basis of end year assessment, or collected directly by local authorities, could be operated down to district level, though not down to parishes.

CONCLUSION

6.42 Compared with domestic rates, a local income tax would be seen to spread the tax burden wider, and an individual's tax liability would be related more closely to his ability to pay. The most straightforward means of introducing a local income tax would be to integrate it with the present national income tax system. But this would entail adding significant extra tasks to an already complex system, which could call for substantial additional staffing requirements in the Inland Revenue, as well as additional work for employers. Because of the programme for computerising PAYE, such a scheme could probably not be introduced until the early 1990s. There would be difficulties arising from central and local government sharing the same tax base, and for local authorities there would be problems of budgeting and financial control caused by the unpredictability and lumpiness of the tax yield. Such a system would be suitable only for the major spending authorities, and would not be very perceptible to taxpayers as a local tax.

6.43 Alternative schemes linked to end of year assessment for national income tax, or to a system under which the local tax was collected by the local authorities themselves, would overcome some of these drawbacks. The first of these alternatives would, however, require major changes to the national tax system which would have to be decided on their own merits, and could not be implemented until well into the 1990s; while the second would involve much higher administrative costs. Both the Royal Commission on the Constitution and the Layfield Committe considered that a local income tax system under which the tax was administered by local authorities was not worth further examination, and it seems doubtful whether the high cost of a completely independent system could be justified. A system under which the Inland Revenue gave details of income to local authorities, and they collected their own tax, could make local income tax available to both tiers of local government, with comparatively few problems of financial control. It would be less expensive than a fully independent system, but much more costly than integrated schemes because of the duplication of the assessing and collection machinery, and the complex arrangements required for the transfer of information about incomes from the Inland Revenue to local authorities.

CHAPTER 7

POLL TAX

7.1 A fixed annual charge could be levied on individuals living in a local authority area as a contribution to the cost of providing local services. A capitation charge, or poll tax, of this kind has not been operated in Britain for some centuries but is employed in some countries. It has not, however, been given much consideration in previous examinations of possible reforms of local authority finance.

PRACTICABILITY

7.2 A poll tax could, in principle, be levied according to a number of different criteria. For example, it could be levied on every adult, every elector or every person with an income. In general, the higher the proportion of the adult population liable for the tax, the more evenly it would be spread among the recipients of local government services. The more universal the coverage of the tax, also, the smaller the costs incurred in providing the exceptions and differing methods of assessment.

7.3 There are about 40 million adults in Great Britain. In order to raise £4,700 million annually it would therefore be necessary to levy a poll tax of about £120 per head on average if all adults were liable. If there were any significant exemptions the tax might have to be significantly higher. These figures would not be very different if electors, rather than all adults, were taxed; but if only those with incomes were to pay, then the yield would be nearly halved (or the average tax rate nearly doubled). The Government believes that a flat-rate annual capitation charge of this order of magnitude would almost certainly not be a practical proposition. If a poll tax were used to supplement another tax, however, the tax rate would obviously be lower, and it is in this way that poll tax is most likely, in practice, to be able to contribute to a system of local revenues.

7.4 There is much to be said in principle for making the liability to pay poll tax coterminous with the eligibility to vote. [Even although there will be some rough edges - eg foreign nationals will not be liable to pay - such an identity of liability and eligibility best serves accountability.] A Major objection is that such a scheme could be interpreted as paying for the right to vote. If, however, it is accepted, the principal evidence for liability to pay would be the electoral register and there is a real danger that people might be deterred from registering. To prevent evasion there would need to be some possibility of catching those who had deliberately avoided registration as well as cases where, for example, people had moved across boundaries after registration but before paying tax.

7.5 Evasion and mobility would also present difficulties if a separate poll tax roll were to be compiled. However, a separate roll would have the advantage that it could include adults not on the electoral register and exclude individuals in groups it was desired to exempt. But it would cost at least as much as the electoral register to compile (£21m per annum), and probably a good deal more if local authorities thought it necessary to run cross-checks with lists maintained for other purposes such as the electoral register. Cross-checks could also increase under-registration on these other lists.

7.6 A new poll tax, even at a comparatively low level, would require a new statutory code of enforcement and penalties. Administration could well cost at least as much as that of domestic rating, since mobile individuals are harder to trace than occupiers of fixed property. Enforcement might be helped by making heads of households responsible for the tax for which all members of the household were liable. But this could work unfairly in some cases, eg where people living in the household were not all of the same family.

7.7 As a flat rate payment a poll tax would represent a higher proportion of a lower income than a high one, but whether particular households would be better or worse off than paying domestic rates would also depend on the number of adults they contained; and on any other components of the new system. If poll tax were combined with another tax the rate per head could be much lower than the £120 per adult that would be needed to replace the entire present yield of domestic rates - perhaps £25 or £30. It is interesting to compare these figures with other lump sums: the average quarterly electricity bill is £43, a colour television licence is £34 a year and the vehicle excise duty on a car is £70 a year, for example. Television licences and vehicle excise duty can be paid for by stemps which can be bought at post offices, and rates can be paid by monthly instalments. There would be a case for providing similar schemes to help people to budget for poll tax, particularly if at a high level, but this would inevitably add to the cost of running the system. As well as easy-payment arrangements of this sort, it would be possible to retain arrangements similar to the rate rebate system. This also would increase the cost of administration. The rebate scheme could be financed either by putting up the nominal rate of poll tax or, like the present rate rebate scheme, mainly out of general taxation.

7.8 The position of individuals who had no incomes of their own would have to be considered. A decision would have to be taken on whether housewives and students should be exempted or whether they should pay.

COST OF ADMINISTRATION

7.9 It is not possible to estimate with any degree of certainty the cost of administering poll tax; this depends on the system adopted. The simpler the system, the lower the cost. As explained in paragraph 7.7, however, enforcement problems would probably make the tax at least as expensive as domestic rates to collect. If there were a separate register, the cost of maintaining it would be additional. The cost of administering a rebate system would depend in part on the size of the tax (whether it were a supplement to other taxes or free-standing), but could be as much as the present rate rebate system.

PERCEPTIBILITY AND ACCOUNTABILITY

7.10 A poll tax would be highly perceptible - possibly even more so than domestic rates. This should tend to strengthen the accountability of authorities to their electorates.

FINANCIAL CONTROL

7.11 Like rates, poll tax would produce a predictable yield. Also like rates, it would lack buoyancy and annual re-setting of the tax rate would be necessary. This would make the tax even more perceptible. The tax rate could be altered in comparatively small steps, however, so the yield would not be lumpy. A poll tax could provide a stable and predictable source of income and would be readily adaptable for use in conjunction with an equalising Exchequer grant.

FISCAL DIMENSIONS

7.12 As an entirely new tax, a poll tax would have rather different implications for the shape and structure of the total tax system than alternative local taxes, like a sales tax or a local income tax, which would overlap much more directly with existing national taxes. Their effects would also depend on how much of the revenue currently produced by domestic rates the poll tax was made to levy.

7.13 Poll tax could be made to provide revenue for both main tiers of local government. It is particularly suitable for use as a supplement to other taxes. It is the only option discussed in this Green Paper which would clearly be capable of operating at parish level.

CONCLUSION

7.14 A poll tax would have a very broad base and would be suitable for all tiers of local government. It would be possible to take advantage of these desirable features while minimising enforcement difficulties and the effect of the tax on those on lower incomes if a poll tax was used only to supplement a major revenue-raising tax. A flat rate poll tax at an average rate of, say, £25-£30 a head a year, for example, could raise £1,000-£1,200 million. The cost of enforcement could not be expected to be proportionately reduced, however, although a scheme of poll tax at low rates would be somewhat cheaper to enforce than a scheme operating at higher rates because of the diminished incentive for evasion. Possible combinations of poll tax with other sources of revenue are discussed in Chapter 12.

CHAPTER 8

AN ALTERNATIVE APPROACH: ASSIGNED REVENUES

8.1 One radically different alternative would be to replace the yield of domestic rates, not with a new local tax, but with an assigned share of the revenue from a national tax or taxes. This solution could be very much less complicated, and therefore cheaper to run, than any of the possible new local taxes. It would also give central government a much stronger and more direct influence over local government revenue. The division of financial influence over local government services might tempt some local authorities to irresponsibility and the incentives to efficient management would be greatly reduced. The structure of the relationship between central and local government would be fundamentally altered: eventually local authorities might cease to enjoy any effective autonomy.

THE ROLE OF THE CENTRAL GOVERNMENT

8.2 Central government would, in practice, be able from year to year to vary the amount of revenue to be assigned to local government. The central government's responsibility for the oversight of public expenditure and for the management of the economy generally would make the pressure to take decisions of this sort practically impossible to resist. To replace domestic rates with assigned revenues would therefore be to replace a revenue whose annual yield is determined locally with a revenue whose annual yield would, in practice, be decided centrally. It would not be possible to make arrangements which would prevent such intervention. A government could not bind Parliament or its own successors: even legislation which provided for assigned revenues to be determined each year on a fixed basis free from central government control would be subject to annual review by Parliament.

8.3 Even if the central government did not nominally vary the total of assigned revenues from year to year, it would still be able to influence total revenues more directly than at present because exchequer grant could smoothe out any variations. In effect, there would be little practical difference between finance by assigned revenue supplemented by grant and 100% exchequer grant.

8.4 In either case, the only way in which local authorities could influence the size of the revenue that they received in lieu of domestic rates would be by bidding for the maximum exchequer resources to be made available each year, either through assigned revenues themselves or as grant.

CENTRAL/LOCAL GOVERNMENT RELATIONSHIPS

8.5 A system of this sort would have implications for the existing constitutional relationship between central and local government. Even if local authorities had another source of revenue whose yield they were free to determine locally, assigned revenues would reduce considerably their present freedom to take decisions about overall revenue and expenditure and about what level of local services should be provided. If local authorities were dependent on assigned revenues and non-domestic rates but no longer free to determine their non-domestic rate poundages (see paragraphs 10.5 - 10.6), their income would be determined entirely by the central government. This could, at the extreme, call into question the justification for elected local authorities as they are constituted at present. The effect of assigned revenues on accountability of authorities to their electorates is further discussed in paragraph 8.10 below. The implications of assigned revenues for the relationships between central and local government, and between local authorities and local electors, would therefore have to be weighed very carefully before and decision to adopt them was made.

DISTRIBUTION

8.6 It may be that the yield of the assigned local tax would be distributed in proportion to the yield of assigned national revenue in individual local authorities' areas, though this would depend on the availability of adequate information on the geographical distribution of tax yields. Depending on the source of national revenue chosen, this could produce distribution between local authorities and assignment itself would be a complicated operation. If the scheme operated in conjunction with an equalising grant, however, the most practical and convenient method of distribution would, for the reasons outlined in paragraph 8.3, be to merge the arrangements for distributing assigned revenues with those for distributing grant and to distribute the combined amount according to some sort of needs assessment.

PRACTICABILITY

8.7 If the second approach were adopted, the administrative arrangements needed to operate a system of assigned revenues could be much simpler to make than those for any of the local tax options.

FAIRNESS

8.8 The fairness of the system would depend on the distribution of the national tax or taxes which yielded the revenues to be assigned. The local effects would be no more nor less fair than those of the national tax or taxes concerned.

COST OF ADMINISTRATION

8.9 Costs would be negligible compared to those of other options.

PERCEPTIBILITY AND ACCOUNTABILITY

8.10 The substitution of assigned revenues for domestic rate income would break the present link of accountability between authorities and their electors. The system would not be at all perceptible locally because there would be no separate collection of local revenues from those who now pay domestic rates. Local authorities would no longer have the discipline of accounting to domestic ratepayers for rate poundages that they were free to set. Their freedom to decide their responsibility to local people for the level of those services, would also be affected. Such changes would be likely to lead to pressure for central government to seek more control over the level of services provided by individual local authorities and the degree of value for money they represented. The constitutional significance of these effects has already been touched on in paragraph 8.5.

FINANCIAL CONTROL

8.11 Assigned revenues would allow local authorities to budget for the coming year on the basis of a definite figure which should be known in good time beforehand. On the other hand, the ability of central government to influence the amount of assigned revenue payable from year to year would in practice make revenue unpredictable for more than one year ahead.

8.12 There would also be problems for authorities if their income from assigned revenues and other exchequer sources fell short of the levels which had been budgeted for. Because replacing domestic rates with assigned revenues would reduce the freedom of authorities to increase their revenue such shortfalls would be more difficult to make up. If authorities' freedom to decide the level of revenue to be raised through non-domestic rates were also to be constrained in some way as discussed in paragraph 8.5, authorities could conceivably find themselves without any means of making up such shortfalls.

FISCAL DIMENSIONS

8.13 Whilst this option would not involve the levying of separate local taxation, it would require a corresponding increase in other taxes to make good from central revenues the yield now provided by domestic rates.

SUITABILITY FOR ALL TIERS OF LOCAL GOVERNMENT

8.14 Provided that central assessment of local spending needs could be satisfactorily taken down to district level, a system of assigned revenues could provide a source of revenue for either or both main tiers of local government. It would leave parishes in England and Wales without an independent source of revenue, however, and some other means of financing them would have to be found. One possibility would be for parishes in England and community councils in Wales to be financed by grant from one or both main tiers of local government.

CONCLUSION

8.15 A system of assigned revenues would be administatively simpler and cheaper to run than a new local tax. These advantages give assigned revenues a claim to serious consideration. But the system would be less flexible for local authorities than the present system of domestic rates. It would also very significantly reduce the extent to which local authorities were accountable to local people for the revenue they raised, and would change the relationship between central and local government in a way which would raise constitutional issues which went wider than questions of finance alone.

CHAPTER 9

EXCHEQUER GRANTS TO LOCAL AUTHORITIES

9.1 Exchequer grants from central Government currently provide local authorities in England and Wales with more than half their rate fund income (£12½ billion out of £22 billion in 1981/82.

Specific Grants

9.2 Some of the total of Exchequer grants is paid in the form of specific grants to support expenditure by local authorities on particular services. Such grants typically involve a fairly close degree of central government involvement and oversight of the particular programmes on which the money is spent. The police grant and the urban programme grant are two examples of such grants. For the purposes of this Green Paper it is assumed that the reasons for existing specific grants would not in general be affected by a change to a new tax base for local government, and that they can therefore be assumed to continue essentially unchanged. It might however be appropriate to consider a more extensive use of hypothecated grants, particularly if any system adopting in place of domestic rates was not readily capably of raising the full £4,700m that they yield at present. One possibility which might merit further consideration would be the reintroduction of a general grant in support of education. Clearly there are a number of forms which this could take. The main possibilities are examined in Annex B.

Rate Support Grant

9.3 The major part of Exchequer support to local government is given in the form of an unhypothecated rate support grant for the support of local authority expenditure in general. Rate Support Grant accounts for £9.8 billion out of the total £12½ billion of all Exchequer grants in 1981/82. Rate Support Grant in its present form is intricately interwoven with the rating system, and a major change in the local tax base would therefore make it necessary to review this grant system.

Purposes of a General Grant System

9.4 The present rate support grant system serves three main purposes:

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(i) Transferring a major part of the cost of providing local authority services from rates onto the wider and more equitable range of national taxes which are drawn on to finance the rate support grant (along with all other central government expenditure);

(ii) Equalising the cost to ratepayers of receiving a similar standard of local authority service in different areas;

(iii) Enabling central government to influence the general level of local authority expenditure while maintaining the freedom of individual authorities to make their own budget decisions, and to decide priorities between services.

In considering the need for a new grant system to support a new local tax base it would be necessary to consider how each of these three objectives of the present grant system might feature in the new situation. In addition it would be necessary to consider how a grant system might assist in partially overcoming some of the problems identified in relation to some of the possible alternative taxes, notably

- lumpiness;
- unpredictability of yield; and
- how a grant system would work in a system with more than one local tax.

This Chapter sets out some considerations on these problems, though a deeper study would be needed before any new local taxation system could be adopted.

9.5 Although the details of the present system in Scotland differ significantly from that in England and Wales, (eg more direct means are available to influence local authority expenditure), the aim is the same and is achieved by pursuing a similar principle of equalising local needs and resources up to accepted standards. Introduction of a new local taxation system in Scotland would entail grant considerations broadly similar to those applicable to England and Wales.

Transferring the Cost of Local Services to Central Government

9.6 Whether it would be necessary to continue to transfer a major part of the cost of local services from local to central government would depend on the capacity of the new local tax or taxes to generate income in an acceptable and equitable way. A poll tax might not be sufficiently equitable to provide more than a small part of the income needed by local government so that a comparatively high level of grant might be needed if poll tax were the sole tax. On the other hand a local income tax or a local sales tax might, in principle, be capable of producing sufficient local revenue to make it unnecessary to have a large Exchequer grant.

9.7 In reaching a decision on this it would however be necessary to consider how far central Government was continuing to draw on the same tax base. For example, to make room for a local income tax levied at an average to say 10p, and producing £9½ billion for local government, it would no doubt be necessary to reduce the level of national income tax, which would raise much larger questions about the Government's overall fiscal strategy. In deciding on the level of grant it would also be important to note that a high level of grant tends to cushion local authorities from taking resources into account when taking expenditure decisions.

Equalisation

9.8 Different local authorities face different problems, and their areas and populations have different characteristics and different needs. The cost per head of population of providing a similar level of service therefore varies between local authority areas. The resources of different local authority areas measured in terms of rateable value per head of population also vary substantially. Successive Governments since the war have considered it right to compensate authorities for these differences by means of Exchequer grant.

9.9 The form of the grant, and the extent of the compensation for such differences has been changed several times. The present block grant, introduced in England and Wales in 1981, is intended to provide virtually full equalisation between authorities in respect both of differing needs and of differing resources (as did the system it replaced).

It aims to do this by distributing grant in such a way that local authorities are able to provide similar standards of service by levying a similar rate in the pound.

9.10 The introduction of a new tax base cannot alter the fact that the cost per head of providing similar standards of service varies between authorities. Moreover, it is virtually certain that whatever new tax or taxes are chosen there will still be significant differences between the resources per head of authorities as measured in terms of the tax base for the new tax (eg the average income per head of the residents of each local authority area if a Local Income Tax were adopted). There is therefore likely to be a continuing case for equalising needs and resources under any new local tax system.

9.11 The present block grant system in England and Wales provides a mechanism for achieving this kind of equalisation in conjunction with rates. The essential feature of this system is the rate poundage schedule which lays down a tariff of the "grant-related rate poundages" that an authority is assumed to levy in order to provide any particular level of services. The amount of block grant to be paid is then determined as being the difference between the total expenditure of an authority, and the amount assumed to be raised locally by the levy of the notional "grant-related poundage" for that level of expenditure.

9.12 Exchequer grant is a convenient means of achieving equalisation. It is not however essential. In theory it would be equally easy to achieve equalisation by means of a rate pool or equalisation scheme without any central grant. Under such a scheme high resources or low need authorities would have to contribute some of their local revenue to a central pool for redistribution to areas of low resources or high needs. The calculations involved would be essentially similar, though there might possbily be more difficulty in practice in persuading the taxpayers of contributing authorities of the equity of the arrangements.

9.13 With a different local tax base equalisation could in principle be achieved in a similar way, either by means of an Exchequer block grant distributed on equalising principles, or by means of a revenue pooling or sharing arrangement.

Grant as a Means of Influencing Local Authority Expenditure

9.14 In order to be able to manage the national economy and the levels of public expenditure central Government needs means of influencing the overall level of local authority current expenditure. At the same time however successive Government have wanted local authorities to have a wide measure of independence and local autonomy over the budgets and priorities, and to be accountable to their own electorates for their decisions on these matter rather than to central government.

9.15 An unhypothecated grant has for a number of years provided the main means of reconciling these objectives. The level at which the grant is set, and the way in which it is distributed, can exert a considerable influence on the general level of local authority expenditure. This has been enhanced by the new block grant system which enables central government to exert greater pressure on high levels of spending by making each increment of "high" expenditure more expensive for local authorities in terms of the rate poundage they must levy to pay for it. Individual authorities remain free, however, to determine their own level of expenditure, provided they are prepared to levy the necessary rates; they also have freedom to determine their own priorities as between their different services.

9.16 Under a new structure of local taxes, it should in principle be possible for central government to use a block grant system to exercise a similar degree of general influence over the level of local authority spending while leaving individual authorities with full freedom over their own expenditure decisions and priorities. Alternatively, if it were decided to reduce or eliminate Exchequer grant, and to use a revenue-pooling arrangement for equalisation, the revenue pooling system could be set up in such a way as to exert a similar degree of pressure on high-spending; this could be achieved by making high-spending authorities contribute more to the pool for each additional increment of expenditure than lower-spending authorities.

Lumpiness

9.17 The lumpiness of some of the alternative sources of local revenue has been identified as a problem in previous Chapters (paragraphs 2.13-2.16, 5.21, 6.12 and 6.22). In the case of a sales tax for example the average rate might initially be 5% on all sales, and for practical reasons the tax might be variable in steps no smaller than 1%, so that the authority's revenue from the tax would change by 20% at a time. It would be possible to use a block grant system to overcome this problem but only at the price of distorting the equalisation objective to some extent. This would be achieved in the block grant calculations by assuming a notional sales tax of say 5% for all levels of expenditure from an initial level up to an expenditure level 20% higher, when the notional tax rate would go up to 6%. Throughout each step of this 20% expenditure increase, block grant would increase progressively to take up the full extra cost, but would reduce again when expenditure reached the level at which the notional tax rate moved up to 6%. In this way the authority would be assured of a smoothly increasing revenue as its expenditure increased. But the equalisation objective would be seriously distorted, and the influence of grant on expenditure levels would be perverse in that all increases in expenditure in the 20% range discussed would be paid for 100% by the grant.

9.18 An alternative approach would be to make the block grant calculations using the assumption for this calculation alone that the new tax would vary in much smaller steps. This would then preserve the influence of grant on expenditure. For these reasons it would probably be preferable. It would however leave the authority itself to deal with the consequences of a lumpy revenue source. They might do this by running much larget balances as a matter of course.

9.19 Alternatively, it would be possible to overcome this difficulty if each authority had a package of local revenue sources that included at least one that could be varied by small amounts - say increments of 3% of the authority's expenditure or £1 per head of population. In a system like this, as discussed elsewhere in this paper, lumpy taxes might perhaps provide the bulk of the income, but more finely-adjustable taxes would provide scope for adjustments at the margin. (Poll tax might fill the role of the less lumpy tax; see Chapter 7).

Predictability

9.20 Paragraph 2.11 discussed how a tax whose yield could not be predicted accurately each year could cause local authorities to maintain higher levels of balances as ways of guarding against the possibility that revenue might, in some years, be lower than expected. It would be possible to avoid these effects by using exchequer grant to make good any shortfall of yield from the predicted levels. This would be a new function, which the present grant system does not fulfil. In practice, local authorities might receive grant payments, or contributions from pooling arrangements which not only performed an equalising function, but also compensated for differences between authorities' taxation and prior estimates of them.

More than One Local Tax

9.21 At present, local authorities have only one kind of local tax: rates. Because abolition of domestic rates would make local authorities dependent on more than one tax - non-domestic rates plus one or more new local taxes, for example - the mechanics of any exchequer grant system would have to cater for the complications that this would cause. In practice, this would mean that notional "exchange rates" would have to be established between the different taxes for the purposes of calculating grant. In other words, it might be necessary, for example, to calculate a level of non-domestic rate poundage which was notionally equivalent to a rate of 1% on the new tax: it would then be possible for any combination of levels of different taxes to be expressed as an equivalent level of a single tax against which the grant schedules could be constructed. For example, a level of non-domestic rate poundages might be set which was notionally equivalent to a rate of 1% on the new tax. It would

then be possible for any combination of levels of different taxes to be expressed as an equivalent level of a single tax against which the grants schedules could be constructed. Such an "exchange rate" between domestic and non-domestic supplementary rate poundages is a feature of the interim measures mentioned at Chapter 4.11.

CHAPTER 10

NON-DOMESTIC RATES

10.1 There are some two million non-domestic ratepayers in Great Britain. Rates are paid, not only by private industry and commerce, but also by nationalised industries and undertakings, entertainment and recreational concerns, educational, medical and cultural institutions and many others (including the Crown). Non-domestic rates will provide an estimated 24% of local government rate fund revenue in 1981/82, compared with the 19% contributed by domestic ratepayers and the 57% which will come from exchequer sources in one form or another. In cash terms, their estimated yield is £6,000 million for the current financial year. They thus make a large and important contribution to the cost of local services.

10.2 Over the last two years the Government has received a number of pressing representations from industry and commerce arguing for a reduction of the burden imposed on them by non-domestic rates, which in some areas may be particularly substantial. It has been suggested that industrial property should be derated, as it has been at certain times in the past, and as agriculture is at present. Alternatively, it has been suggested that a measure of rate relief should be provided for non-domestic ratepayers by means of a similar arrangement to that under which relief is provided at present in the domestic sector. It has been suggested that this relief should apply either generally or, more specifically, to premises, plant and machinery which have been temporarily "mothballed" owing to reduced production.

10.3 These suggestions are not without difficulties. Derating of industry would mean a considerable change in the contribution that firms make through local taxation towards the cost of the local services from which they benefit, often substantially. All of the measures mentioned above would lead to decreases in local revenues which, to the extent that they were not made good from national taxation, would fall on the local domestic sector. The Government will nevertheless keep under review the contribution that industry and commerce make through rates to the cost of local services, and does not rule out the possibility of measures to reduce that contribution if it should become essential to do so.

10.4 There are various ways, however, in which the abolition of domestic rates and their replacement by some alternative form of revenue could have repercussions for non-domestic rates. All of the alternatives to domestic rates discussed in this Green Paper involve changes in the overall national pattern of taxation which, unless preventive measures were taken, could result in a shift in the balance of taxation between those who currently pay domestic rates and others, including industrial and commercial firms, who pay non-domestic rates. In particular, if domestic rates were replaced by assigned revenues, or by some other form of local taxation which authorities were not free to use to increase revenue at their own discretion, there would be a temptation to finance higher levels of expenditure by increasing non-domestic rate poundages.

10.5 The scope of this Green Paper does not extend to alternatives to non-domestic rates. That is a question which goes beyond the issues raised by the possible alternatives to the domestic system. It may nevertheless be necessary to consider separately whether, in the long run, the national taxation system should continue to include a local tax on non-domestic property; and in what form and from whom, alternative revenues might be raised. For the present, the Government will pay close attention to the implications for non-domestic ratepayers of all the alternatives proposed to replace domestic rates. In particular, the Government is concerned that any new arrangements should not increase the relative burden of taxation on commerce and industry, which in some high spending local authorities, is seriously damaging employment and development prospects.

10.6 It is conceivable that this objective could require some constraint to be imposed on the present freedom of local authorities to decide their own non-domestic rate poundages. This is the more likely because, particularly since the abolition of the so-called business vote in 1969, there has been no direct link of accountability between local authorities and their industrial and commercial ratepayers similar to that which exists between authorities and domestic ratepayers, who are able to vote in local elections. The legislation which the Government is promoting in the current session of Parliament would afford some protection to non-domestic ratepayers (see Chapter 4.11).

CONTROL OF NON-DOMESTIC POUNDAGES

10.7 One possible means of controlling the demands of local government on commerce and industry through non-domestic rates would be for the central government to bring forward legislation which would give it the power to determine each year, by order, a single, national non-domestic rate poundage which would apply equally to each local authority in the country either in Great Britain as a whole or separately in Scotland, Wales and England. Orkney? Shetlands? Sullom Voe Flotta

10.8 This approach would allow the Government to safeguard the interests of non-domestic ratepayers. It would ensure that local authorities would not be able to finance excessively high levels of expenditure by increasing non-domestic rate bills. When prescribing the rate poundage each year, central government would no doubt take account, as it does in determining the total of exchequer grant, of its own expectations about inflation, the expenditure plans of local government and the revenue which it estimated would be available to local authorities as a whole from other sources. A national standard poundage, in eliminating the possibility of excessive demands on commerce and industry and the rest of the non-domestic sector, would clearly affect the financial flexibility that the rating system as a whole gives to local authorities at present. In effect, it would turn non-domestic rates into a nationally-determined tax whose collection and use was delegated to local authorities: an assigned revenue, in fact. This would mean that local authorities would be wholly reliant for the rest of their income on whatever new form of revenue they were given in place of domestic rates, coupled with any continuing system of exchequer grant. Another effect would be that local authorities would not be able to use small variations in their non-domestic rate poundages to compensate for the lumpiness of another local tax such as sales tax. Central control of non-domestic rate poundages would therefore mean that any reformed domestic system relying largely on a lumpy tax would have to include a less lumpy tax of some sort to allow the necessary compensation to be made.

NATIONAL ADMINISTRATION OF NON-DOMESTIC RATES

10.9 As an alternative to providing for non-domestic rates at a centrally-prescribed poundage to be collected locally by each authority, it would be possible for the national revenue from the tax to be collected by the central government and redistributed to local authorities either through the grant system or as an assigned revenue. The extent to which the effects of such an arrangement differed from those of a system under which a centrally-set poundage was levied locally would depend on the way in which any exchequer grant arrangements operated and how far they resulted in a redistribution of resources between authorities.

LINKAGE OF NON-DOMESTIC RATES WITH LOCAL TAX RATES

10.10 It might also be possible to preserve a fair balance between the interests of non-domestic ratepayers and those of domestic ratepayers, who would pay any new local tax or taxes, by linking non-domestic rate poundages in some way with the new local tax rates.

10.11 This would be more complicated and administratively difficult than either of the possibilities discussed in paragraphs 10.7 - 10.9. If different taxes were chosen to provide revenue in place of domestic rates for the different tiers of local government, for example, and a linkage was thought desirable, then poundages would have to be linked to the type and rate of tax levied by each tier. Assume, for example, that counties were given a local sales tax and the districts a poll tax, and that both tiers continued to levy non-domestic rates. In this situation, the rate poundages that the counties levied would have to be linked to their rates of sales tax, and the poundages that the districts levied would have to be separately linked to their poll tax rates. Complicated linkages of this sort would be feasible, but would require a difficult judgement by central government on the appropriate balance to be established between non-domestic poundages and the levels of the different taxes at the different tiers.

10.12 Such linkages would obviously also bring considerable technical difficulties. The new local tax - local sales or income tax, for example - might be buoyant, while non-domestic rates are not. This would make periodic adjustments to the linkage necessary, perhaps by means of indexing.

10.13 Also, if the new local tax were lumpy - sales tax, for instance - then a direct linkage would make non-domestic rates similarly lumpy. This might be overcome by allowing the ratio of the two sources of revenue to vary within a stipulated range, rather than being fixed absolutely, but that in turn could reduce the protection that the linkage gave to non-domestic ratepayers: because the levels of the lumpy tax could not often be changed, it would be tempting for local authorities to use non-domestic rates as far as possible to make any marginal adjustments to their income which might be necessary from year to year.

REINTRODUCTION OF THE BUSINESS VOTE

10.14 It has been suggested that the interests of non-domestic ratepayers could be protected to some extent even without the introduction of controls on non-domestic rate poundages if something like the so-called business vote were reintroduced. This arrangement was not really a business vote as such: it was a non-residential vote exercised by the owner of property in an area where he was not a resident. Incorporated companies did not have votes. It is argued, however, that enfranchising businesses might make local authorities accountable to the industrial and commercial community in their areas in the same way as they are accountable at present to domestic ratepayers, who are able to vote in local elections. The difficulties of providing for a business vote in a way which could produce a real degree of accountability, however, would be daunting. This would be particularly true if it were desired to find ways of enfranchising large industrial and commercial concerns and retail chains which may have interests very widely spread over the areas of many local authorities. Of the two million business ratepayers in England and Wales, only 150,000 were entitled to vote before 1969. The view of the present Government has therefore been that the interests of business ratepayers can be more effectively represented to local authorities through the influence that central government itself brings to bear on local government's revenues and expenditure levels and through direct representations to local authorities by individual firms and representative bodies than through a business vote.

A NON-DOMESTIC REVALUATION

10.15 While the non-domestic rating system continues in its present form, it is necessary to consider a revaluation of the rate base. The last revaluation took place in 1973 in England and Wales and in 1978 in Scotland: since 1973 there have been some quite large changes in the relative values of some categories of non-domestic property. The effect of these changes is that some categories of non-domestic ratepayer are paying larger rate bills than would be the case if the values of all non-domestic property were brought up to date. Effectively those ratepayers subsidise other categories of non-domestic ratepayer whose burden would, at present-day values, be higher. Present indications suggest that a revaluation of non-domestic property in England and Wales might possibly produce the following broad effects:-

(i) Substantially reduced comparative rate burdens for:

- larger, older, labour-intensive factories in the Midlands and the North;
- older steelworks.

(ii) Slightly reduced comparative rate burdens for:

- newer steelworks;
- local shops;
- older offices in some cities outside London.

(iii) Slightly increased comparative rate burdens for:

- new offices in more prosperous centres;
- small factories on modern industrial estates.

(iv) Substantially increased comparative rate burdens for:

- shops in primary locations; and
- modern oil refineries.

These indications must, however, be treated with caution, as it would not be possible to forecast the effects of a revaluation with precision until one was well under way.

10.16 The Government is considering separately from the issues in this Green Paper whether non-domestic revaluations should be held in both Scotland and England and Wales: decisions will be announced shortly.

10.17 The revaluation of non-domestic property would not affect the relative rate burdens borne by the domestic and non-domestic sectors while domestic rates remained in existence. The powers under which the Secretary of State may require a partial revaluation (that is, in this instance, a revaluation of non-domestic, but not of domestic, property) to be carried out oblige him to make an order prescribing a "multiplier" whose effect would be to preserve the ratio which obtained before the revaluation between the aggregate of the values of those categories of property which had been revalued and those which had not. In other words, a revaluation of non-domestic property which took place while the present domestic rating system remained in existence would not shift any of the present proportional burden of rates from domestic onto non-domestic ratepayers or vice-versa.

CHAPTER 11

FEES AND CHARGES

THE CONTRIBUTION OF RENTS, FEES AND OTHER CHARGES

11.1 A number of local authority services are expected to be financed primarily from charges. These are the Trading Services which account for about 21% of total current expenditure in England and Wales. They include public passenger transport, local authority ports and aerodromes, civic halls and theatres, and a number of other services. Sales, fees and charges within the trading services yielded £400m in 1979/80, covering 65% of costs.

11.2 The largest single source of revenue from charges is local authority housing rents. In 1979/80 rents totalled £1,400m, and covered 38% of local authorities' current expenditure on housing. The proportion of authorities' costs met by rents is, however, rising, following changes in the subsidy system which have the effect of concentrating Government assistance where it is most needed.

11.3 The remainder of local authority services, referred to as Rate Fund Services, cost £21,000m in 1979/80, which was 83% of total local authority expenditure in England and Wales. These services are financed primarily by central and local taxes; sales, fees and charges yielded £1,700m and covered 8% of total costs. The main sources of revenue were fees for adult and further education, school meals and milk, and charges for personal social services.

11.4 In all, rents, fees, sales and other charges amounted to 14% of total current expenditure in England and Wales in 1979/80. This proportion is likely to increase to around 16% in 1981/82 - a similar contribution to that made by domestic rates.

THE ARGUMENTS FOR AN EXTENSION OF CHARGING

11.5 It has been suggested that charging for a wider range of local authority services, or increasing the levels of existing charges, could provide some or all of the revenue currently raised by domestic rates. The main argument for financing a higher proportion of local authority spending from charges is that it would make users pay a greater contribution to the cost of the services they consume than they do at present. There is also an argument that an increased level of charging would help to achieve a more efficient use of resources by relating the provision of services to the prices that users were willing to pay for them.

11.6 Many local authority services have features which make it either impracticable or inefficient to try to charge consumers the economic cost of the services that they consume. This applies to a considerable extent in the case of services such as the cleaning and lighting of streets, highways, the provision of public open space and the police and fire services, which are all provided by the community for the public good. Although it is possible to charge users for some of the functions that the police perform, for example, it is hard to imagine how charges could be made for the whole range of their activities, including the prevention and prosecution of crime. Any system which sought to achieve this would be so cumbersome, and the logic of its operation would be so far from evident, that it would be unrealistic and uneconomic to try to devise one.

11.7 Other local services, though the mechanics of systems of charges for them would be less problematical, are intended to be redistributive: that is, they are financed in a way which deliberately prevents the worse off from having to bear their full cost. Charging consumers the full economic costs of these services would often defeat the redistributive intention of the services themselves. The public financing of education, for example, is very largely redistributive in its intentions, though charges are made for some parts of the service (school meals, for example). Full economic charges for education, combined with a statutory responsibility on parents to send their children to school up to the age of 16, could clearly impose an intolerable strain on the finances of less well-off families. Similarly, although charges are levied in respect of some of the personal social services - home helps, for example - the purpose of the social services as a whole would be defeated if their full economic cost was recovered from beneficiaries by means of charges.

11.8 Education, law and order, highways, and the social services together account for 70% of current rate fund expenditure and offer little scope for additional charging. This suggests that it would not be possible to replace a significant proportion of the revenue currently raised through domestic rates with an extended system of fees and charges.

11.9 Nevertheless there are, particularly within local environmental services, a number of individual services where charges may have a very considerable role to play. The Government have recently received a report from consultants about charging in this area which shows, if the sample of authorities considered is representative, that there is room for very substantial improvement in practice. Not only do some authorities not seem to have a policy in relation to charging at all, but many of those that have ignore major questions which should be taken into account, such as the true financial cost of uneconomic charging, the wishes and needs of the clientele of the service and the effect on the service as a whole of indiscriminate subsidisation. The Government will be discussing this report with the local authority associations shortly.

CHAPTER 12

COMBINATION OF NEW LOCAL TAXES

12.1 Though they have been discussed individually in this Green Paper, the five main possible sources of local revenue identified - local sales tax, local income tax, poll tax, assigned revenues and a reformed domestic rating system - can be treated as components which could be combined to produce, along with non-domestic rates, various systems of revenue having different characteristics. The variables which would have to be taken into account in building up a system which depended on more than one local tax are:-

- different tiers of local government;
- different new local taxes;
- different models of each local tax;
- different quantities of exchequer grant; and
- if appropriate, the continued existence of a (modified or unmodified) system of domestic rates.

12.2 The number of possible permutations is very large, and it would not be practical for this Green Paper to try to identify and discuss them all. One important general point, however, is that many permutations would be expensive to run because more than one set of administration and compliance costs would be involved.

HOW THE TAXES MIGHT BE COMBINED

12.3 Each of the major candidates for a new local tax has characteristics which affect the way in which it could fit into an overall structure of local revenues. Some of the possible types of combinations are set out in the table and then discussed against the criteria on which the individual taxes were assessed in earlier chapters.

TABLE Examples of schemes combining more than one source of revenue.[1]

			Comments
(A)	SALES TAX		
(1)	Sales tax for counties and Scottish regions[2]	Poll tax or reformed domestic rates for districts[2], boroughs and parishes	Level of sales tax would vary considerably between metropolitan and shire areas; counties' tax would be lumpy
(2)	Sales tax supplemented by poll tax or reformed domestic rates for counties and Scottish regions	Assigned revenue from sales tax and poll tax or domestic rates for districts and boroughs. Poll tax or domestic rates for parishes	Problem of allocating sales tax among districts within each county
(B)	INCOME TAX		
(3)	Income tax for major spenders (shire counties, metropolitan districts, London boroughs, Scottish regions)	Poll tax or reformed domestic rates for minor spenders (districts and metropolitan counties) and parishes	Lumpy tax for major spenders if income tax is integrated with existing PAYE system
(4)	Income tax and poll tax or reformed domestic rates for major spenders	Poll tax or reformed domestic rates for minor spenders and parishes	
(C)	POLL TAX		
(5)	Poll tax at low rates for all tiers, augmented by sales tax or income tax as in A and B above, by higher levels of Rate Support Grant or by assigned revenues (or as a supplementary source of revenue if domestic rates[3] were retained).		

Notes:

1. Non-domestic rates (either at fixed poundages or at poundages linked with the rates of other taxes or unconstrained) would continue to be available to both county and district tiers.

2. Taxes proposed for either tier elsewhere could generally be suitable for Scottish islands authorities as well as districts or regions.

3. The Layfield Committee's preferred solution was one based on income tax plus rating for major spenders and rating alone for other authorities - though this was seen as a way to enlarge the share of local taxation in local revenue, rather than as a revenue - neutral replacement for the existing system of domestic rates.

SALES TAX SCHEMES

12.4 A sales tax could be levied only by English and Welsh counties and Scottish regions and islands, and it would be a lumpy tax (see paragraph 5.21). Counties would therefore need a further tax in order to make marginal changes in income, and districts and London boroughs would have to be allocated a separate tax.

12.5 This would create difficulties for combined schemes involving a sales tax. Since the metropolitan counties are responsible for much lower levels of expenditure than shire counties, they could manage with a relatively low rate of sales tax. The yield of sales tax in shire counties close to metropolitan areas would therefore tend to be low and difficult to predict, since goods subject to the tax could be bought at lower prices in neighbouring areas. Furthermore, a combination of revenues which required counties to rely on sales tax could tend to be confusing for local people, since these differences in tax rates would reflect not only decisions taken by authorities about the level of services to be provided, but also differences in the services for which shire and metropolitan authorities are statutorily responsible.

12.6 To avoid this problem it might be possible to arrange for both major tiers of local government to receive a share of sales tax although it would be collected only by the counties. If so, there would need to be a formula determining how much of the sales tax revenue should be allocated to districts or boroughs within each county and how it should be shared out between them. The allocation might be related to each district's desired spending level, or to a standard assessment of need to spend (such as the grant related expenditure assessment used for block grant) or to the estimated yield of sales tax in the district. However, there would be objections to any of these methods of distributing the tax, and practical problems as to how any shortfall in expected yield would be shared between the tiers.

12.7 There are doubts, therefore, as to how well a sales tax would work if shared between both tiers. If it were to be a source of revenue for counties only, the tax would score badly against the criteria of accountability and fairness, since the rates of tax would be quite different in metropolitan and shire areas. Either version of a sales tax scheme would require a further tax to be available to both tiers - perhaps either a poll tax or, possibly, domestic rates at a reduced level. Financial control would be more difficult in relation to sales tax than income or poll taxes owing to its lumpiness and unpredictability of yield. For the reasons given in paragraph 5.11, it is not possible to quantify the cost of schemes including a sales tax precisely at this stage. If it were decided to pursue these schemes further some quantification would clearly be necessary before any final decision could be taken. Nevertheless, it is clear from preliminary examination that sales tax schemes, because they would probably have to include poll tax or some other non-lumpy revenue, would cost more than domestic rating does at present. The cost would vary with the method of running the sales tax: a poll tax and a sales tax run independently of the VAT system would be particularly expensive.

INCOME TAX SCHEMES

12.8 A local income tax integrated with the existing national income tax system would be suitable for the major spending authorities - shire counties, metropolitan districts, Scottish regions and islands and, perhaps, the London boroughs. Since the services provided by these authorities are of the same order of magnitude, differences in income tax would largely reflect the level of services provided. As this type of income tax would be somewhat lumpy, it would have to be supplemented by a further source of revenue for the major spenders; either poll tax or domestic rates as well as non-domestic rates. The remaining authorities - shire districts, metropolitan counties and Scottish districts - would need to have access to poll tax or domestic rates, as well as non-domestic rates.

12.9 A combined scheme involving local income tax integrated with the present national system plus poll tax or rates would have the potential to replace the present yield of domestic rates. Administrative cost would be high, however, since two new local taxes would be involved - about £110m for the income tax alone, plus more than as much again for the rating or poll tax component.

12.10 The other variants of local income tax - if they proved practicable - could be made available to both main tiers of local government, and so have the advantage that they could stand on their own as a replacement for domestic rates. Since they are not lumpy, they could work in combination with non-domestic rates set at either a fixed or variable poundage. There would remain the problem of how parishes would raise their revenue if neither domestic rates nor poll tax were available.

12.11 It would be feasible for any of the variants of local income tax to be combined with poll tax or domestic rates if it were decided that they should not replace domestic rating on their own. It would be possible for a scheme similar to that discussed in paragraphs 12.14 - 12.15 to be implemented, or different revenue sources could be assigned to different tiers, so that the major spenders would levy income tax and the minor spenders, plus parish councils, have access either to poll tax or possibly to a reformed system of domestic rates.

12.12 The degree of perceptibility of local income tax would depend on whether its collection was integrated in the national tax system or whether separate assessment was carried out by local authorities. In the latter case, if the tax were collected only by one tier of authorities, it would be difficult for the taxpayer to identify separately to himself the respective demands of county and district authorities. Since some local electors would not be income tax payers, a second local tax in addition to local income tax would tend to ensure greater accountability to the electorate as a whole.

12.13 From the point of view of financial control, the retention of a predictable form of revenue such a poll tax or a reformed system of domestic rates would be preferable to reliance on income tax alone. Such a combination would also have a smaller impact on central government's freedom to set appropriate national rates of tax, since the local income tax rate - and hence the overall national level of taxation of incomes - would be correspondingly lower.

POLL TAX SCHEMES

12.14 The use of poll tax as an adjunct to a local sales or income tax has been discussed earlier in this chapter. Alternatively, it could perhaps be levied at a relatively low level, the gap being made up by additional Exchequer grant or by assigned revenues. In either case, all tiers of local government could be given access to poll tax.

12.15 The characteristics of a poll tax were discussed in Chapter 7. It should be added that if domestic rates were to be replaced by a low-level poll tax in combination with an increased level of exchequer grant there would be an obvious loss of accountability. A scheme of this sort would run the danger of increasing the overall contribution of industry and commerce to the cost of local services through the national tax system if the grant or assigned revenues were financed from general Exchequer revenues. (Non-domestic rates would, as explained in Chapter 10, continue for the immediate future.) These criticisms would not apply if the poll tax were operated in conjunction with a reformed domestic rating system rather than with grant or assigned revenues.

CONCLUSION

12.16 A local income tax (unless integrated with the present national tax system) could be used on its own as a replacement for domestic rates. Sales tax, however, could almost certainly not function without the aid of a secondary source of revenue and it might also be considered desirable to combine a local income tax with either poll tax or domestic rates retained at a lower level of yield.

CHAPTER 13

SOME FISCAL AND ECONOMIC EFFECTS

13.1 Earlier chapters have examined the background to the Green Paper and the present examination of the alternatives to the existing system of domestic rates. They have also:-

- discussed various general consequences for central and local government and individual and corporate taxpayers of replacing the present system with alternative revenues;
- looked at the more promising alternatives; and
- examined how far the individual alternatives could stand on their own and how far they would have to be combined with other forms of revenue or local taxation to produce the income currently yielded by domestic rating.

This chapter compares the tax rates which would probably have to be levied if any of the new local taxes discussed in chapters 5 - 7 replaced the whole of the present yield of domestic rates on its own; and draws together some of their fiscal and economic implications.

LOCAL TAX RATES AND THE NATIONAL TAXATION SYSTEM

13.2 A local sales tax which was levied on the "retail" transactions which are currently liable to national VAT would have to be set at an average rate of 7% to raise the same revenue as domestic rates: a local sales tax on all goods and services, including those zero-rated or exempt from VAT, would have to average 3 - 4%. A local income tax would have to average five pence in the pound to raise the same amount nationally, and a poll tax would have to average £120 a head to produce the same revenue.

13.3 Domestic rates can be regarded as a tax on expenditure, at least in their effects. In the absence of any compensating changes in the level of national income tax, the replacement of domestic rates by a local income tax would therefore alter the balance in the present taxation system between taxes on income and on expenditure by increasing overall marginal rates of taxation of personal incomes. It might be necessary in those circumstances to consider making offsetting adjustments in national tax rates in order to restore the overall balance of the taxation system with, of course, consequential adjustments elsewhere to make up for any loss of revenue from national income tax.

13.4 The replacement of domestic rates with a local sales tax would similarly increase the total level of taxation on the range of goods and services involved. This would not alter the overall level of taxation on personal expenditure as a whole, but it would alter the relative rates of taxation which would apply to housing on the one hand and other goods and services on the other.

13.5 Because it would be an entirely new form of taxation in modern times in this country, a poll tax might be thought to have less direct implications for other taxes than either a local sales tax or a local income tax. Nevertheless it would be important, in judging the case for a poll tax, to consider its impact on the shape of the tax system as a whole.

ECONOMIC EFFECTS

13.6 The economic effects of changes in the system of local taxation would depend on the tax or taxes involved, how far those changes affected the prices of goods and services and the way in which they altered the distribution of real disposable incomes for individuals and households. The following paragraphs discuss in broad terms some of the more general considerations.

HOUSING

13.7 Rates are the only tax charged at present specifically on the occupation of housing. Even if the present revenue of domestic rates were raised in alternative forms of taxation, therefore, their abolition ought to increase the attractiveness of housing in comparison with other goods and services. Such changes would give an initial shock to relative prices reflected - probably after some delay - in a change in relative levels of demand. These effects could be sharply felt

EFFECTS ON DEMAND

13.8 More generally, if the abolition of rates could affect relative prices, so too could the introduction of an alternative source of revenue. This effect would probably be most marked with a local sales tax, as this would increase the prices of those goods on which LST was levied relative to those goods which were untaxed. A LST with the same coverage as VAT would increase the relative price of goods and services that currently account for about half of consumers expenditure. This change in relative prices could be expected to lead to an increase in demand for the goods not subject to LST and a decrease in demand for the taxed goods with, in time, a shift in the pattern of output, employment and investment. These changes however might take a long time to work through.

EFFECTS ON PRICES

13.9 The effect on the general level of prices would depend on the alternative tax chosen to replace or supplement domestic rates. Abolishing rates would directly reduce the Retail Prices Index by about 3 per cent. A LST with the same yield as domestic rates would raise the RPI by about the same amount. A local income or poll tax would not affect the RPI directly, so that replacing rates by one of these would lower the RPI, though the more comprehensive Tax and Prices Index would not be affected. (However any rise in house prices or rents would be reflected in both indices.)

13.10 The alternative taxes would in principle have somewhat different effects on incentives to work. For instance an LIT would raise the marginal rate of tax on income, while a poll tax would not. But the effects on incentives, whether due to changes in marginal or average effective rates, cannot be reliably quantified.

DISTRIBUTIONAL EFFECTS

13.11 Where alternative local taxes were intended to raise an equal amount of revenue to domestic rates, households as a group would experience no change in income. However, particular households and individuals would have gains or losses of income from the change to the alternatives. These distributional effects are discussed in the following paragraphs.

13.12 No estimate can be made, at this stage, of how many households would gain or lose, or by how much, by the adoption of the alternative local revenues described in this Green Paper. It is possible, however, to illustrate some likely financial effects of alternative taxes on some notional but representative households of differing composition and income. Estimated savings from the abolition of domestic rates can be set against estimates of what such households might be expected to pay under the alternative forms of new taxation. Assumptions and results of some such comparisons are set out in Annex C.

13.13 Comparisonson this basis cannot of course show the full range of possible gains or losses to particular households; nor do they show the numbers of potential gainers or losers. As pointed out in Chapter 4, Figure 2, rate payments differ widely among households of the same type: and there will also be differences in, for example, tax allowances and expenditure patterns which would affect payments of LIT or LST. All this individual variation is inevitably suppressed in comparisons made between 'representative' households. The limitations of the present analysis should therefore be kept in mind.

13.14 Estimates are made in the Annex of the gains and losses to representative households in London and the South East, the rest of England, Scotland and Wales. It is assumed for the illustrations that the amount of tax revenue to be raised in each country within Great Britain would equal the total that would be raised by domestic rates, but there would be shifts in the tax burden; the shift from London and the South East to the rest of England in the illustrations is an example. There would also be substantial variations between local authority areas within these broad regions. These reflect in part the variation of rate payments against income noted in Chapter 4.

13.15 It is important to note that no allowance is made in the comparisons in Annex C for support to low income households to replace rate rebates and rate payments in supplementary benefits. The absence of such allowance is purely a working assumption made for the technical purposes of the calculations: it does not imply a view on the part of the Government that no analogous forms of relief would be made available. The provision of any relief of this kind would of course modify the distributional effects as set out in the Annex. Various alternative schemes might be envisaged but the total cost and the relative gains to low income households would depend on the nature of the schemes and cannot be allowed for in any general way.

13.16 Illustrations in Table 2 in the Annex show a range of effects on disposable household incomes from a gain of nearly 4% to a loss of 4.8%, with about three quarters of the cases lying between a gain of 2% and a loss of 2%. Variations for low income households would be greater, as Table 3 shows. However, each of the cases illustrated is itself a stylized mid-point of a range that would be found in reality, in particular because of the variability of rate payments already noted.

13.17 For most of the household types in the illustrations, a local income tax would be the most effective means of reducing the burden that domestic rates impose at present on those with low incomes, though it would correspondingly increase the burden on those with higher incomes. Those on low incomes but not in receipt of supplementary benefit might gain slightly. The omission of mortgage interest relief and some other tax relief from the estimates somewhat exaggerates these effects but this is unlikely to affect the overall conclusions. It is also notable in the illustrations that with either a local income tax or a local sales tax the burden of taxation, as one might expect, would be shifted towards households with two or more earners.

13.18 With low income households, in general pensioner households not on Supplementary Benefit would tend to gain from replacement of domestic rates by either a local income tax or a VAT-based local sales tax. Very low income households with children would experience little change with the introduction of a local income tax.

13.19 The relative effects of a local sales tax on those on high and low incomes are more uncertain than those of a local income tax because the composition of household expenditure tends to vary with income. With a VAT-based tax those with higher incomes would bear a higher tax burden, but this would not be the case with a more widely-based tax.

13.20 With a poll tax gains and losses would depend mainly on the number of adults in the household. A poll tax is assumed for the calculations in this Annex to fall on adults who are not necessarily earners in general. It would impose a higher relative tax burden than domestic rates on households with lower incomes, and a lower relative burden on those with higher incomes. On the assumption of no new relief, low income households would lose heavily.

CHAPTER 14

CONCLUSION

14.1 In publishing this Green Paper, it has been the Government's intention to identify the range of realistic alternatives and to put them in a common context with domestic rates for public discussion. Although it is not possible to quantify precisely the effects that each possible change would have on the whole range of the personal and family finances of those who would contribute, the Green Paper has sought to give a broad indication of what those effects would be likely to be. Equally, it has sought to bring out the nature of the implications that either new systems of local revenues or a reformed domestic rating system would have for the interests of central and local government and of the taxpayer generally.

14.2 The Government will consider very closely all representations. Its aim is to produce proposals for a system which would remedy as fully as possible the shortcomings of the existing system of domestic rating and which would command the widest possible acceptance in the country as a whole.

ANNEX A : THE REJECTED TAX OPTIONS

INTRODUCTION

1. Paragraph 3.3 listed a number of forms of local taxation which the Government considers can be eliminated at this stage as possible alterations to domestic rates. They are:

   local duties on petrol, tobacco or alcohol;
   local vehicle excise duty;
   charges for licences for the sale of alcohol or petrol; and
   local payroll tax.

This Annex explains the Government's reasons for rejecting each of these possibilities. In most cases, the reasons are related to practicability and cost.

LOCAL DUTIES ON PETROL, ALCOHOL AND TOBACCO

PRACTICABILITY

2. In order to simplify administration and because the very high proportion of tax in price provides an obvious incentive to evasion, the excise duties currently levied on petrol, alcohol and tobacco are collected at an early point in the distribution chain - either when they enter the country or when they leave specially approved and controlled premises for distribution to the UK market. But to be used as local revenues, duties on these goods would have to be charged at the final point of sale. If a duty were charged at the wholesaling stage or earlier, the distribution of the tax base between local authority areas would be seriously distorted. Levying duty through individual petrol stations, off-licences or corner tobacconists would require very high rates to tax to be collected at single points of retail sale. This would lead to formidable problems of accounting and control for the taxing authority and would greatly increase accounting costs for traders, who would have to keep a second set of tax records in addition to those kept at present for VAT. The Government believes that these

problems are so great as virtually to rule out local duties on grounds of impracticability.

3. Locally variable rates of duty could result in prices being higher in some local authority areas than in others. Where this happened, consumers would tend as far as possible to stock up on alcohol, tobacco and petrol from low tax areas, and firms would tend to buy petrol in bulk in low tax areas. This movement of trade towards low-tax areas would handicap traders in high tax areas, and particularly those whose businesses were close to local authority boundaries. It would also tend to weaken the accountability of local authorities to their electorates for their decisions about spending.

4. Local duties would fall on a narrow range of goods and would tax individuals in the population very unevenly - only about 50% of households have a car, for example. They would have to be levied at very high rates to recoup a significant part of the revenue forgone by the abolition of domestic rates. Their yield would be unpredictable, since demand for drink, tobacco and petrol varies more within any given area than other possible tax bases such as, for example, income or total retail sales. This unpredictability would be substantially increased by the effect of cross-border trading between high and low-duty areas.

5. Duties on alcohol, tobacco and petrol are important sources of central government revenue and can be used between budgets, via the regulators, to vary Government income. Their usefulness to the Government would be diminished to the extent that local authorities shared any of their yield or reduced overall demand by imposing supplementary local rates of duty.

6. The Government believes that the problems of accounting, collection, enforcement and financial control rule out local duties on grounds of impracticability for both local authorities and traders.

LOCAL VEHICLE EXCISE DUTY

7. The collection of a local vehicle excise duty would be

expensive and administratively burdensome. Even if the local duty was collected by the Department of Transport's Driver and Vehicle Licensing Centre at Swansea on behalf of the local authorities, its introduction would inevitably give rise to administrative complications and higher costs than the present system. The Centre's computers are being replaced between 1983 and 1985 and a local duty could not be introduced until after that.

8. Accounting and control would present major practical problems. Variable local duties would encourage firms to register company vehicles in low-duty areas, and private motorists would do the same if they could. At present, there is no direct link between the registration of a vehicle and the owner's place of residence. The registration system would have to be changed to introduce such a link in order to prevent the evasion of duties in more highly-taxed areas. (Increased evasion would decrease the reliability of the vehicle register, on which the police rely heavily). The problems of compiling a register based on residence and keeping it up to date would be comparable to those of compiling a poll tax register (see Chapter 7). There would be a shift in the burden of local taxation from the domestic sector to industry and commerce if a local duty applied to goods vehicles and to the two million cars owned by businesses.

9. About a half of all households own cars, so that local vehicle excise duty would tax the local population fairly unevenly. It is hard to see how a duty could be related to the ability of the car-owner to pay: the duty would therefore bear much more heavily on poorer households than on the better-off (except to the extent that wealthier households might own, and pay duty on, more than one car). Some business car-users might, in practice, have the duty paid for them by their employers. This would be seen as unfair by private motorists who paid their duty from their own resources. By tending to cushion some business motorists against the effects of decisions by local authorities about spending, it would also reduce the perceptibility of the tax and the accountability of the local authority to its electorate.

10. The Government considers that vehicle excise duties (whose

present yield is £1,600m, substantially less than half of the yield of domestic rates) could at best do no more than provide a partial replacement for the domestic rating system. Because of this limitation, taken together with the narrow base of the tax and the problems of accounting, accountability, control and enforcement, which it would present, the Government considers that local vehicle excise duty can be disregarded as a possible alternative local tax.

CHARGES FOR LICENCES FOR THE SALE OF ALCOHOL OR PETROL

11. It would be possible to impose a tax on any type of premises which had to be licensed for any purpose. There would be a substantial and prohibitive cost in setting up any entirely new licensing system, however. The most widespread existing systems of licensing apply to premises used for the storage of petrol and the sale of alcohol.

PETROL

12. In the case of petrol, the main reason for licensing is to ensure its safe keeping: all premises where petrol is stored are licensed, not only those where it is sold. It would therefore be difficult for a licence fee based on the present licensing system to be levied only on premises selling to domestic customers. It is also doubtful whether a system designed for public safety should be used as a base for revenue collection because of the incentive this would give for illegal and potentially unsafe storage. Moreover, such a licensing system would have only a small yield: a flat rate charge of £1,000 for a licence for a year would raise some £130m. For these reasons the Government considers that petrol licensing can be ruled out as an alternative to domestic rates.

ALCOHOL

13. About 150,000 premises are licensed for the sale of alcohol; clubs, hotels and restaurants as well as pubs and off-licences. It should be possible to devise practical and enforceable method of charging but, like petrol licensing, this tax could produce

only a small yield. To yield £150m a year at a flat rate, each retail outlet would have to pay £1,000 a year for its licence. This would be a substantial burden for traders and would raise alcohol prices to the consumer.

Substantially higher tax rates than this would penalise small retailers and could produce other economic distortions and encourage the setting-up of illegal outlets.

14. Although the Government might expect the full cost of the tax to be passed on to consumers, traders would see a licence as a new tax on their businesses in addition to the business rates that they would continue to pay; and would consider that the narrow base of the tax singled them out for unfair treatment. If levied at a flat rate, the tax would affect large traders less than small ones and could affect the competitiveness of the latter. The cost of collection would be high in relation to yield. Although charges might be substantially passed on in consumer prices, marginal charges in licence charges (reflecting local authority budget changes) would seldom be apparent to the consumer. For this reason, licence fees would be largely imperceptible to most of the local electorate and local authority accountability would be affected accordingly.

15. The Government considers that licence charges for premises selling alcohol can be dismissed as an alternative to domestic rates because of their very limited yield, the additional tax burden they would impose on traders, their adverse effect on the competitiveness for small business and their low perceptibility to the consumer.

PAYROLL TAX

16. A local payroll tax of 4 per cent levied on the same basis as the National Insurance Surcharge could raise sufficient revenue to replace local rates, but that would mean replacing a tax on individuals with a new tax on businesses, which would continue to pay non-domestic rates. The Government is concerned that any new local system of taxation should not increase the proportion of the burden borne by industry and commerce. On these grounds alone, the Government considers that payroll tax must be ruled out as an alternative to domestic rates.

ANNEX B: FINANCING THE EDUCATION SERVICE

1. Chapter 9 touches upon the possibility of reorganising the distribution of Exchequer grant in support of local authority services. One kind of change would be to pay a high specific grant in support of one service or services, leaving the remainder of the Exchequer grant as an equalising grant to be distributed among local authorities without hypothecation to services. This would require local authorities (and their taxpayers) to meet a much higher proportion of the cost of the remainder of the services than they do at present. Local taxpayers might then be more concerned that their elected representatives sought and obtained proper value for their money, with beneficial results for local authority efficiency.

2. The natural candidate for separate Exchequer grant is the education service - indeed such an arrangement existed until 1958. The education service accounts for about half of all expenditure by local authorities, and it is more than four times the size of any other single local authority service.

3. To put the scope for change in perspective, at present in England the costs of education might be said to be borne about equally by local taxpayers and by the Exchequer through block grant. The cost of other local authority services in aggregate could therefore be said to be borne about 60% by the Exchequer (because the two major specific and supplementary grants are for non-education services, police and transport), and 40% by the local taxpayer. If the Exchequer were to bear the whole cost of education and to deduct the cost of the service from the present level of block grant, aggregate Exchequer support for the remainder of local authority services might fall to under 25%. Variations part way along the road would also be possible. For example, an 80% specific grant for education could lower aggregate Exchequer grant for remaining services to under 40%. The figure would, of course, be somewhat different in Scotland and Wales.

4. There are various possibilities for alternative ways of financing the education service. Only the major alternatives are outlined here.

5. Financial responsibility for the education service could be removed altogether from local authorities. This would involve a radical change from the present position. Central government would become responsible for supplying the funds to support any given level of education expenditure; and would in practice have to determine the budget and monitor the performance of each authority with educational responsibilities. Local accountability, whether by the continuation of the present local authorities' education committees, or otherwise, would have to be reconsidered.

6. Other options would leave some financial responsibility with local authorities while supplying a substantial tranche of central government funds to meet more of the cost of the education service. One possibility which has been raised from time to time is that central government should become responsible for meeting the cost of teachers' salaries, which currently account for more than half of local authority expenditure on education. It might then be necessary to return to the old practice of fixing teaching complements centrally, since otherwise the Exchequer grant would be open-ended. At the same time major areas of responsibility for the education service would remain with the local authority, which would nonetheless have greatly reduced discretion. In practice the division of responsibility would probably prove unsatisfactory.

7. A further option would be to pay an education "block grant" in support of education expenditure by local authorities. Payment of specific elements of this grant could, if desired, be made conditional on their being devoted locally to specific items of education expenditure. The cash limit on the grant could be set at a level which was high enough to remove most of the financial burden of the service from local authorities while still retaining a sufficient local financial stake to allow the partnership between central and local government to continue. An assessment could be made of each authority's need to spend, comparable to the grant-related expenditure (GRE) assessment under the present English system; grant would be paid as a percentage of actual expenditure up to this level, and could be tapered on expenditure above it.

8. An education block grant regime of the kind outlined in paragraph 7 above would have attractions as a means of adjusting the local taxpayer's stake in other local services, and of encouraging a greater degree of consistency in standards of educational provision across the country. There would, however, be costs: any option involving an hypothecated grant for education would reduce the freedom that local authorities have at present to determine their own spending priorities between local government services: it would also require an increase in central government manpower, probably without any offsetting reduction in local authority staff.

ANNEX C : THE DISTRIBUTIONAL EFFECTS ON HOUSEHOLDS OF ALTERNATIVES TO DOMESTIC RATES

This annex sets out in greater detail the assumptions and methodology used in calculating distributional effects of alternative taxes summarised in Chapter 1.., together with a fuller account of the distributional effects by tax, by region and by household type.

2. The effect on households of replacing rates by an alternative tax will depend on a variety of household circumstances - their rate payments, income tax allowances, expenditure patterns etc. A full analysis taking all these factors into account is beyond the scope of this Green Paper.

3. As a first step, the approach adopted here is to set up a number of household types which differ in composition, income etc and for 'representative' households of each type to estimate the gain from the abolition of rates, the loss from the imposition of each of the alternative taxes, and the overall gain/loss from these two changes, expressed as a percentage of the household's net income.

4. The household types are described in Table 1. Three income levels were used for each household type in the main analysis: $^2/_3$, average and 1½ times regional average household income for that household type (as estimated from the Family Expenditure Survey). This range of incomes covers the great majority of households .

5. Estimates of the rate payments of 'representative' households of given composition and income level can be derived from the FES. Estimates of VAT payments - as a basis for calculating payments of LST - can be derived from the same source. There is of course

a great deal of variation in practice among households of a given type and income level in both rates and VAT payments. Thus the full range of possible gains and losses cannot be shown in comparisons between 'representative' households with stylised (though typical) expenditure patterns. This limitation of the method should be kept in mind.

6. Estimates of household net income (the denominator of the comparisons) and of liability to LIT have been derived in a stylised way by applying 'standard' tax allowances and assumptions about national insurance contributions for each household type. These are set out in Table 1. This will overestimate taxable income and LIT payments since other tax allowances eg mortgage interest relief and work expenses are not included.* Payments of poll tax are determined by the number of adults in the representative households (from Table 1) multiplied by the appropriate tax per head from paragraph 14 .

7. This approach is not satisfactory for households with incomes above about 1½ times the average for that type because of data limitations, and they have not been considered. Such households are a small proportion of the total number of households. For households on Supplementary Benefit, and with low incomes, a modified version of the main approach was used.

Low Income Households

8. Two groups of low-income households were considered: those on SB and those not on SB, but with gross household income (including benefit income) less than half the national male average earnings. For each of these groups a limited number of household types were chosen including pensioner households, and one-parent families. (Table 3).

* A more accurate 'representative' calculation would however require mor detailed estimates of tax allowances etc by region, by household type and by income level, than are currently available.

9. Data from the FES were used to derive for each household type, and region, average payments of rebated rates, LST, LIT and poll tax. The gain to these households from the abolition of rates was limited to the net rebated rate payments; for SB households this was assumed to be zero. SB households were assumed to pay no LIT; they would therefore be unaffected by the replacement of rates by LIT. The effects shown for replacement of domestic rates by LST or poll tax make no allowance for any scheme of assistance to low income households to replace rate rebates.

10. Given the small sample sizes on which the overall gains/losses are based, the results on low income households in Table 3 should be treated with considerable caution and be seen as indicating direction rather than precise magnitude.

Local Tax Rates

11. To provide these illustrative effects of the change to the alternative taxes some broad assumptions have been made about their form. It has been assumed that the LST will be a tax on all retail sales liable to VAT (thus restricting its coverage to around a half of total consumer expenditure). LIT is assumed to be a flat-rate addition to all ratesof tax levied on the whole of a household's taxable income (which is calculated as for national income tax). Poll tax is assumed to be paid at the specified rate by all persons aged 18 and over, without any exemptions. For these illustrations, the poll tax rate is equivalent to an entire replacement of domestic rates with poll tax. Chapters 7 and 12 point to poll tax as possible partial replacement for domestic rates only; the effects of poll tax on disposable income if it were levied to replace any proportion of domestic rates would be proportionally lower than those illustrated.

12. The local tax rates are set for England, Scotland and Wales at levels which would yield approximately the same revenue (in 1981/2) as domestic rates in each country (ie to be revenue-neutral). They are based on (somewhat rough) estimates of the alternative tax yields in each country.* Thus households in each country would as a whole be paying about the same in the alternative local taxes as they pay in domestic rates and there is no redistribution between households as a whole in England and households in Scotland or Wales.

* The LST rate makes some allowance for the possibility that households may switch expenditure away from taxed goods and services, thus eroding the tax base.

13. There may however be significant redistribution between local authority areas within a country due to the exchequer support grant arrangements. A change in the tax base would redistribute central government grant and change the tax burden on households in some areas. Local variation in rate poundages will also be reflected in the rates at which alternative taxes are levied. It has not been possible to analyse this element of distribution between local authority areas, though a broad distinction is made in the figuring between London and the South East and the Rest of England.* Thus households in Scotland, Wales and the two 'regions' of England are treated as 'typical' of the country or region as a whole, though in practice households in some parts of a country may fare less well than similar households in other parts of a country.

14. The calculated rates of income tax, sales tax and poll tax have been expressed, respectively, to the nearest ½p, ½% and £1 per head per annum. These tax rates are illustrative of the sort of local tax-rates that might be faced, on average, in an area. For 1981-82, the rates at which the new taxes would have to be levied to approach revenue neutrality are :-

	Wales	Scotland	London and SE	Rest of England	GB (av)
LIT	4½p	5½p	5p	5p	5p
LST	5½ %	7%	7%	7%	7%
Poll Tax	£77 pa	£117 pa	£118 pa	£121 pa	£120 pa

15. Apart from the replacement of domestic rates, it is assumed that there is no further change to the taxation system, nor to the overall level of exchequer support grant. The alternative local

* The tax rates are set in proportion to rate poundages in these two broad regions of England.

9

tax arrangements considered here do not include any mechanism to provide assistance to low-income households. Such assistance would modify the distributional effects in Table3, but the total cost of assistance and the gains to particular (low income) households would depend on the nature of possible schemes and cannot be allowed for in any general way.

Results

16. Results for a selection of representative household types with incomes of $^2/3$, 1 and $1\frac{1}{2}$ times average household income are shown in Table 2. This gives their overall gain/loss from the replacement of rates by each alternative tax expressed as a percentage of household net income. It should be remembered that the overall gain/loss is based on an 'average' rate payment for the household type and income level, and other stylised assumptions about tax allowances, expenditure patterns etc. The figures in Table 2 thus cannot show the full variation in gains/losses that may result for particular households.

17. Figures 1-3 give a diagrammatic presentation for GB as a whole showing how the gains/losses as a percentage of net household income vary for the representative household over a range of gross household incomes. A downward-sloping line indicates that the tax change is progressive for that household type: a greater slope indicating greater progressivity.

Local Sales Tax

18. Over the range 2/3 to $1\frac{1}{2}$ times average household income, payments of VAT increase rather more than proportionately to household income, while rate payments increase less. Replacing domestic rates by a local sales tax on goods and services subject to VAT thus substitutes a progressive tax for a regressive tax. Households on $1\frac{1}{2}$ times average household income gain less (or lose more) than households on $^2/3$ average income. [See Table 2.] The number of children in the household makes little difference to the proportionate gain or loss. (Compare, for example, representative household type 2 with 4 and 6 or 3 with 5 and 7), but Table 2 does not assume take up of rate rebates. For the single earners with dependents who to take up rate rebates, the charge in their disposalbe incomes would be more distributed that that shown in Table 2. These cases are asterisked in the Table.

19. Most representative households at the bottom end of the income range (Table 3) however lose substantially. Rate payments are low because of rebates or supplementary benefit receipts, so that they gain little from the abolition of rates, while paying more on taxed goods.

Local Income Tax

20. Since income tax is even more progressive than VAT, replacing rates by a local income tax till tend to give a wider range of gains/losses between lower and higher income households than the local sales tax. The number of children again makes little difference to the pattern of gains and losses.

21. At the bottom end of the income scale, (Table 3) households not on supplementary benefit may gain (though both their rate payments and income tax payments are likely to be small). The illustrative households on supplementary benefit are not affected since they are assumed to pay neither rates nor income tax.

A Poll Tax

22. A poll tax is asssmed to be levied on all adults in the household irrespective of income. For any given household type therefore the poorer households would pay a higher proportion of their income in tax than the richer. Moreover, since domestic rates increase with income - though less than proportionately - replacing rates by a poll tax will mean that the richer households gain more or lose less (in £/wk) than the poorer households of the same type. But note that in some circumstances, the gain to a poorer household may be larger in relation to its income than the gain to a richer household of the same type, even though the gain in £/wk is less. (See for instance the percentage gains and losses for 'representative' single adult/earner households in Table 2.).

23. Figure 3 suggests that (within the limitations of the methods of comparison used here) the range of gains and losses for households between 2/3 and 1½ times average is smaller, when rates are replaced by a poll tax rather than a local sales or income tax. A poll tax thus alters the progressive/regressive balance of taxation (for those not taking up rate rebates) less than a local income or sales tax.

24. Not surprisingly, the 'representative' households with many adults tend to lose and single adult households to gain. The notable exception here is households at the bottom end of the income range who save little on rates (because these are rebated or covered by supplementary benefit) but become liable for poll tax at the full rate, and whose losses may be as much as 10 per cent of their net income (in the absence of support system for low incomes).

TABLE 1

HOUSEHOLD TYPES CONSIDERED: ASSUMPTIONS ABOUT COMPOSITION, INCOME AND ALLOWANCES

HOUSE-HOLD TYPE	COMPOSITION	AVERAGE INCOME (£ per week)	EXTRA INCOME	PERSONAL ALLOWANCES AVAILABLE AGAINST TAX	NATIONAL INSURANCE CONTRIBUTIONS
1	Single adult: earning	£115	-	Single person's allowance: £1,375	NIx1
2	Two adults: one earning	£149	-	Married man's allowance: £2,145	NIx1
3	Two adults: both earning	£203	-	Married man's allowance <u>plus</u> single person's allowance: £3,520	NIx2
4	Two adults: one earning 1-2 children	£163	Child (2) benefit x 2	as for 2	NIx1
5	Two adults: both earning 1-2 children	£194	CB x 2	as for 3	NIx2
6	Two adults: one earning 3 or more children	£174	CB x 4	as for 2	NIx2
7	Two adults: both earning 3 or more children	£200	CB x 4	as for 3	NIx2
8	3 or more adults: two earners	£242	-	as for 3	NIx2
9	3 or more adults: 3 or more earners	£306	-	as for 5 plus single person's allowance: £4,895 in total	NIx3

(1) based on 1978 and 1979 Family Expenditure Survey gross household income dat for Great Britain revalued to 1981-82 levels.
(2) £5.25 per week per child (non-taxable)
(3) National Insurance contributions at contracted-in rate of 7¾% on earnings up to £200 per week (but no contribution on earnings below £27 per week)

TABLE 2 GAINS AND LOSSES BY HOUSEHOLD TYPE AND INCOME LEVEL

Gain or loss as percentage of net household income

	HOUSEHOLD TYPE 1 Single adult earner			2 Two adults, one earner			3 Two adults, both earning			4 Two adults, 1-2 children, one earner		
	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average
LONDON & SOUTH EAST												
Local sales tax	4.0%*	1.6%	-0.1%	3.5%*	1.8%	0.6%	1.4%	-0.1%	-1.3%	3.0%*	1.4%	0.0%
Local income tax	2.0%*	-0.9%	-3.0%	2.0%*	-0.6%	-2.5%	1.0%	-1.5%	-3.4%	1.5%*	-0.8%	-2.5%
Poll tax	3.0%*	2.3%	1.7%	0.9%*	1.0%	1.0%	0.6%	0.5%	0.5%	0.8%*	0.9%	1.0%
Gross household income	£85	£127	£190	£114	£171	£256	£148	£222	£333	£120	£179	£269
Net household income	£61	£87	£126	£83	£119	£176	£112	£159	£228	£97	£135	£196
REST OF ENGLAND												
Local sales tax	3.7%*	1.3%	-0.5%	2.5%*	1.0%	-0.2%	0.5%	-1.3%	-1.5%	2.3%*	0.7%	-0.6%
Local income tax	1.8%*	-0.9%	-2.9%	1.7%*	-0.9%	-2.7%	0.9%	-2.2%	-3.4%	1.3%*	-0.8%	-2.8%
Poll tax	1.7%*	1.4%	1.1%	-1.4%*	-0.7%	-0.2%	-0.7%	-1.0%	-0.1%	-0.6%*	-0.2%	0.0%
Gross household income	£72	£108	£162	£92	£137	£206	£129	£193	£290	£102	£153	£229
Net household income	£53	£75	£109	£69	£98	£141	£100	£141	£201	£86	£118	£168
SCOTLAND												
Local sales tax	1.9%*	0.4%	-0.6%	1.9%*	1.1%	0.4%	0.3%	-0.8%	-1.6%	1.5%*	0.6%	-0.2%
Local income tax	0.5%*	-2.0%	-3.9%	0.3%*	-1.9%	-3.4%	0.2%	-2.1%	-3.9%	0.0%*	-2.1%	-3.5%
Poll tax	1.2%*	1.1%	1.0%	-0.9%*	-0.1%	0.4%	-0.7%	-0.2%	0.2%	-0.1%*	0.3%	0.7%
Gross household income	£74	£111	£166	£106	£159	£239	£132	£198	£297	£121	£182	£273
Net household income	£54	£77	£111	£78	£112	£164	£103	£144	£205	£98	£136	£199
WALES												
Local sales tax	3.0%*	1.0%	-0.4%	1.7%*	0.1%	-1.0%	-0.4%	-0.9%	-1.3%	1.6%*	0.4%	-0.6%
Local income tax	0.3%*	-1.8%	-3.3%	0.1%*	-1.8%	-3.3%	-0.2%	-2.1%	-3.6%	0.2%*	-1.6%	-3.0%
Poll tax	1.1%*	1.0%	0.8%	-0.9%*	-0.4%	-0.1%	-0.6%	-0.3%	-0.1%	-0.1%*	0.1%	0.2%
Gross household income	£69	£103	£155	£92	£138	£207	£125	£188	£282	£100	£150	£225
Net household income	£51	£72	£104	£70	£98	£142	£98	£137	£196	£85	£116	£165

TABLE 2 GAINS AND LOSSES BY HOUSEHOLD TYPE AND INCOME LEVEL (continued)

Gain or loss as percentage of net household income

	HOUSEHOLD TYPE 5 Two adults, 1-2 children, two earners			6 Two adults, 3+ children, one earner			7 Two adults, 3+ children, two earners			8 Three or more adults, two earners			9 Three or more adults, three or more earners		
	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average	2/3 average	Average	1 1/2 average
LONDON & SOUTH EAST															
Local sales tax	1.8%*	0.5%	-0.4%	2.6%*	1.1%	-0.1%	1.7%*	0.8%	0.0%	1.2%	-1.8%	-0.8%	0.3%	-0.9%	-1.6%
Local income tax	1.5%*	-0.8%	-2.6%	1.2%*	-1.0%	-2.6%	1.6%*	-0.5%	-2.4%	-0.1%	-2.1%	-3.6%	-0.2%	-2.3%	-4.0%
Poll tax	0.8%*	0.9%	0.9%	1.0%*	1.0%	1.0%	0.9%*	1.0%	1.0%	-0.8%	-0.2%	0.3%	-0.7%	-0.3%	0.0%
Gross household income	£141	£212	£318	£127	£191	£287	£140	£210	£316	£186	£278	£418	£216	£324	£487
Net household income	£119	£163	£229	£113	£152	£219	£129	£172	£238	£136	£194	£282	£163	£230	£331
REST OF ENGLAND															
Local sales tax	1.0%*	-0.2%	-1.1%	1.6%*	0.6%	-0.1%	0.8%*	-0.2%	-0.9%	0.4%	-0.7%	-1.6%	-0.5%	-1.5%	-2.2%
Local income tax	1.3%*	-0.9%	-2.8%	0.6%*	-1.2%	-2.6%	0.9%*	-1.1%	-2.9%	-0.1%	-2.3%	-4.0%	-0.7%	-2.6%	-4.2%
Poll tax	-0.4%*	-0.1%	0.1%	-0.6%*	-0.1%	0.3%	-0.3%*	-0.1%	0.1%	-2.7%	-1.8%	-1.2%	-1.9%	-1.2%	-0.7%
Gross household income	£123	£185	£277	£109	£164	£246	£131	£196	£295	£149	£223	£334	£197	£295	£443
Net household income	£107	£146	£203	£101	£135	£190	£123	£164	£225	£113	£159	£228	£151	£212	£304
SCOTLAND															
Local sales tax	1.3%*	-0.1%	-1.2%	2.3%*	0.7%	-0.7%	1.8%*	0.4%	-0.7%	1.3%	-0.5%	-1.8%	0.0%	-1.4%	-2.3%
Local income tax	0.9%*	-1.6%	-3.6%	0.7%*	-1.6%	-3.3%	1.7%*	-0.7%	-2.8%	-0.4%	-2.8%	-4.7%	-0.8%	-3.0%	-4.8%
Poll tax	0.1%*	0.2%	0.2%	0.7%*	0.7%	0.7%	0.7%*	0.7%	0.7%	-1.5%	-1.0%	-0.6%	-1.1%	-0.7%	-0.4%
Gross household income	£133	£200	£299	£123	£185	£277	£127	£190	£285	£167	£250	£375	£207	£310	£466
Net household income	£114	£155	£217	£110	£148	£212	£120	£160	£219	£124	£176	£254	£157	£221	£318
WALES															
Local sales tax	0.2%	-0.5%	-0.9%	0.9%*	-0.1%	-0.9%	0.0%*	-0.6%	-1.0%	0.0%	-1.0%	-1.6%	-0.7%	-1.4%	-1.8%
Local income tax	-0.3%	-1.7%	-3.0%	-0.1%*	-1.3%	-3.0%	-0.2%*	-1.6%	-2.8%	-1.4%	-2.9%	-4.1%	-1.3%	-2.8%	-4.0%
Poll tax	-0.4%	0.1%	0.5%	0.0%*	0.1%	0.3%	-0.3%*	0.2%	0.5%	-1.6%	-0.9%	-0.5%	-1.1%	-0.6%	-0.3%
Gross household income	£130	£195	£293	£110	£164	£247	£132	£198	£296	£162	£243	£364	£198	£297	£446
Net household income	£112	£152	£213	£102	£136	£190	£123	£164	£226	£121	£172	£247	£152	£213	£306

* indicates households eligible for rate rebates. If rebates were claimed, gains would be lower and losses higher

TABLE 3 SUPPLEMENTARY BENEFIT AND LOW INCOME HOUSEHOLDS

Gain or loss as percentage of net household income

	HOUSEHOLD TYPE: Single adult, retired SB	Single adult, retired Not SB	Two adults, retired SB	Two adults, retired Not SB	Single adult, non-retired SB	Single adult, non-retired Not SB	Two adults, non-retired SB	Two adults, non-retired Not SB	Two adults, with children SB	Two adults, with children Not SB 1-2 children	Two adults, with children Not SB 3+ children	Single parent household SB	Single parent household Not SB
LONDON & SOUTH EAST													
Local sales tax	-1.9%	1.9%	-2.0%	0.6%	-3.0%	-1.0%	-6.0%	-4.8%	-5.2%	-4.4%	-6.6%	-3.5%	-5.3%
Local income tax	0.0%	3.9%	0.0%	3.4%	0.0%	1.6%	0.0%	1.9%	0.0%	0.8%	0.0%	0.0%	0.6%
Poll tax	-6.8%	-3.0%	-7.8%	-4.6%	-5.8%	-2.7%	-10.5%	-8.2%	-9.5%	-7.3%	-9.0%	-5.9%	-6.0%
REST OF ENGLAND													
Local sales tax	-1.6%	0.8%	-1.8%	0.0%	-3.1%	-1.3%	-6.0%	-3.9%	-4.4%	-5.8%	-6.2%	-2.9%	-4.2%
Local income tax	0.0%	2.9%	0.0%	2.3%	0.0%	1.0%	0.0%	1.1%	0.0%	0.4%	0.2%	0.0%	0.5%
Poll tax	-7.0%	-3.5%	-8.0%	-5.3%	-6.9%	-3.8%	-12.1%	-8.7%	-9.2%	-7.8%	-8.3%	-5.7%	-5.8%
SCOTLAND													
Local sales tax	-1.6%	1.2%	-1.9%	-0.1%	-3.8%	-0.6%	-5.8%	-3.9%	-4.2%	-7.1%	-7.0%	-3.4%	-5.5%
Local income tax	0.0%	3.0%	0.0%	2.9%	0.0%	1.4%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Poll tax	-6.9%	-2.7%	-7.5%	-5.1%	-8.2%	-3.2%	-11.2%	-9.1%	-8.4%	-8.1%	-8.4%	-6.2%	-8.7%
WALES													
Local sales tax	-1.3%	0.2%	-1.5%	0.1%	-2.3%	-0.6%	-3.9%	-3.1%	-4.2%	-3.5%	-5.2%	-2.7%	-3.5%
Local income tax	0.0%	2.2%	0.0%	2.3%	0.0%	0.8%	0.0%	1.0%	0.0%	0.8%	0.0%	0.0%	-0.1%
Poll tax	-4.5%	-1.9%	-5.0%	-2.8%	-4.2%	-1.1%	-6.3%	-5.3%	-6.9%	-5.2%	-5.9%	-4.2%	-4.0%

Note

SB - Household in receipt of Supplementary Benefit
Not SB - Household not receiving Supplementary Benefit but having an income less than 50% of national male average earnings (New Earnings Survey basis)

FIGURE 1

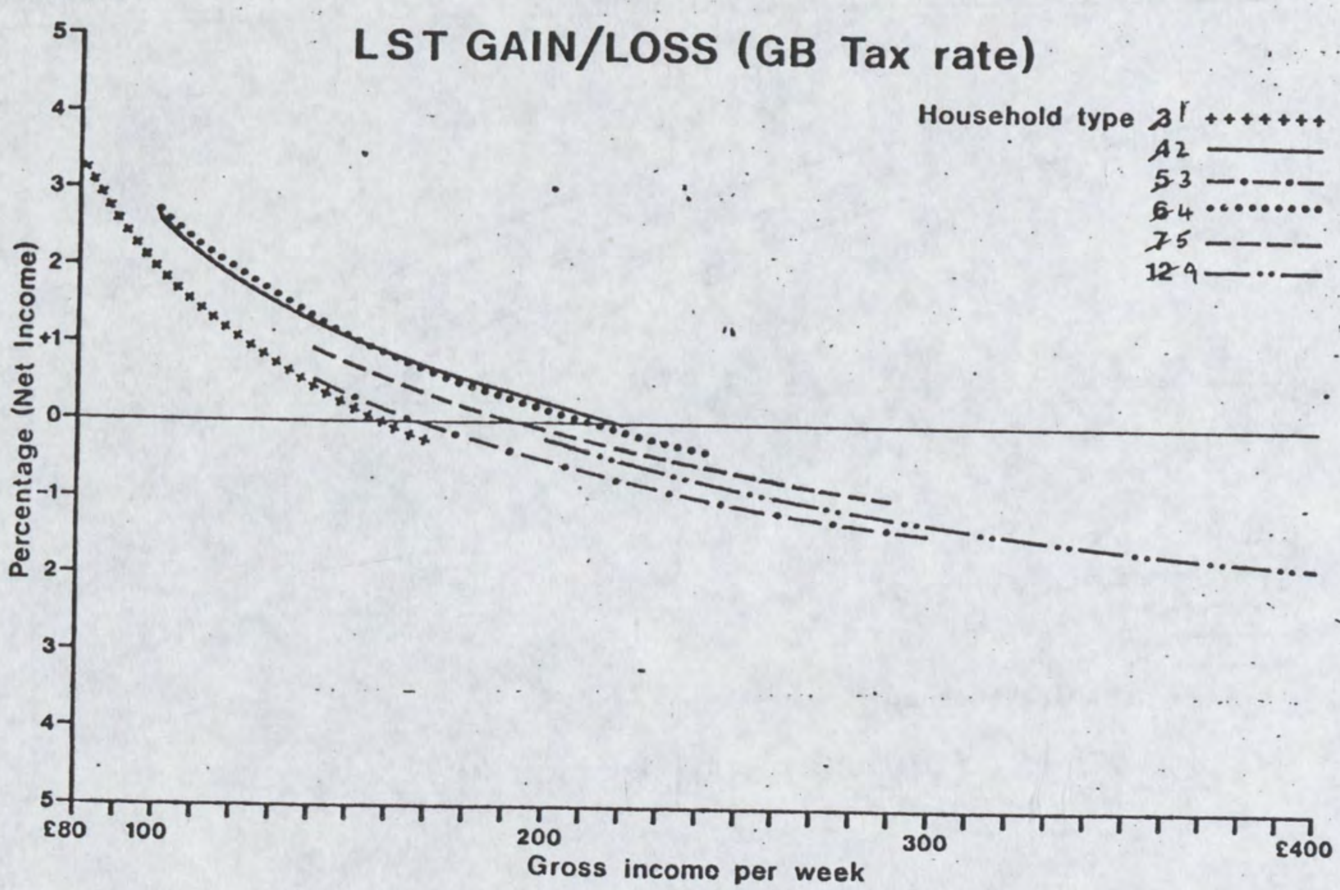

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FIGURE 2

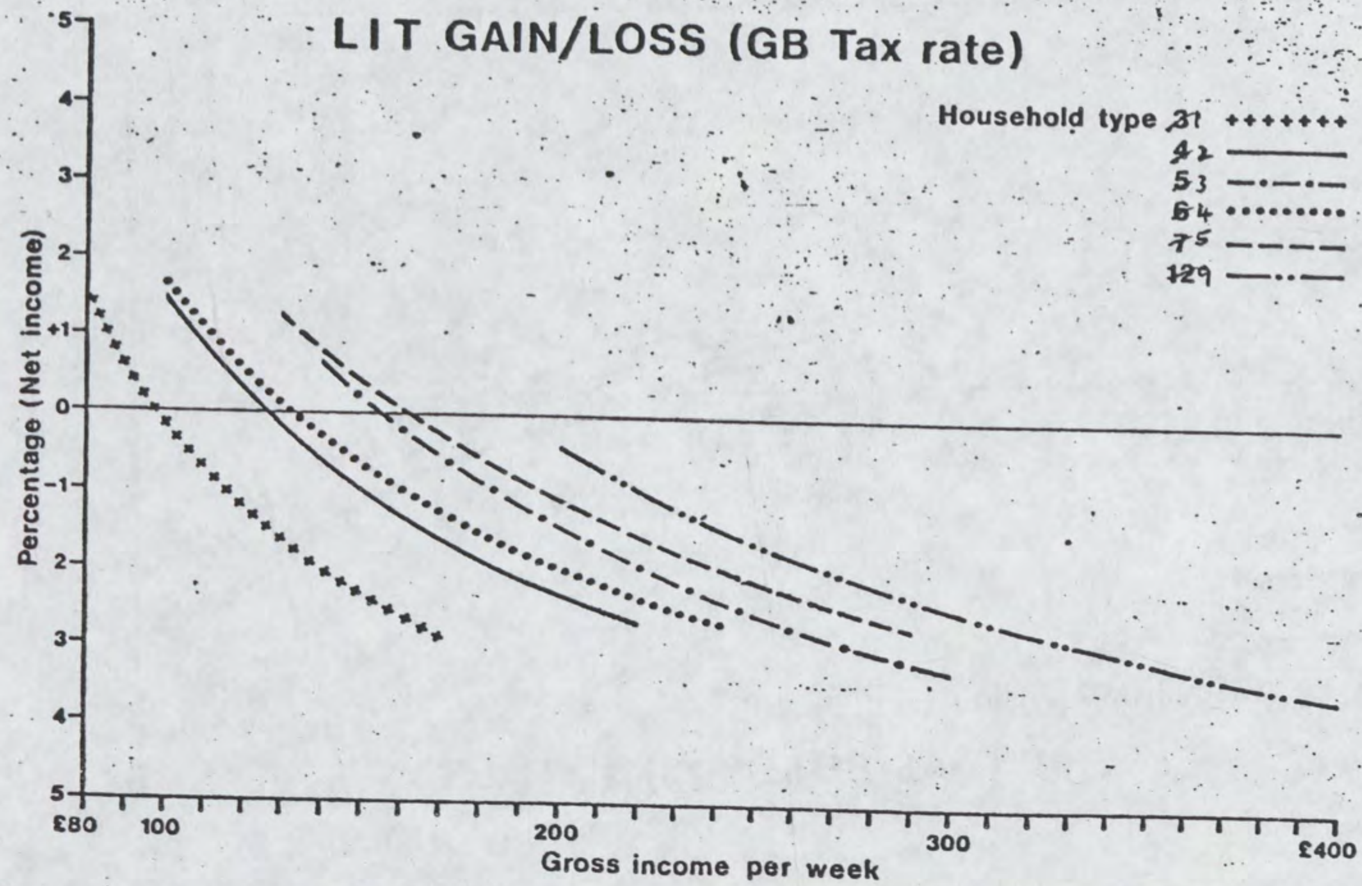
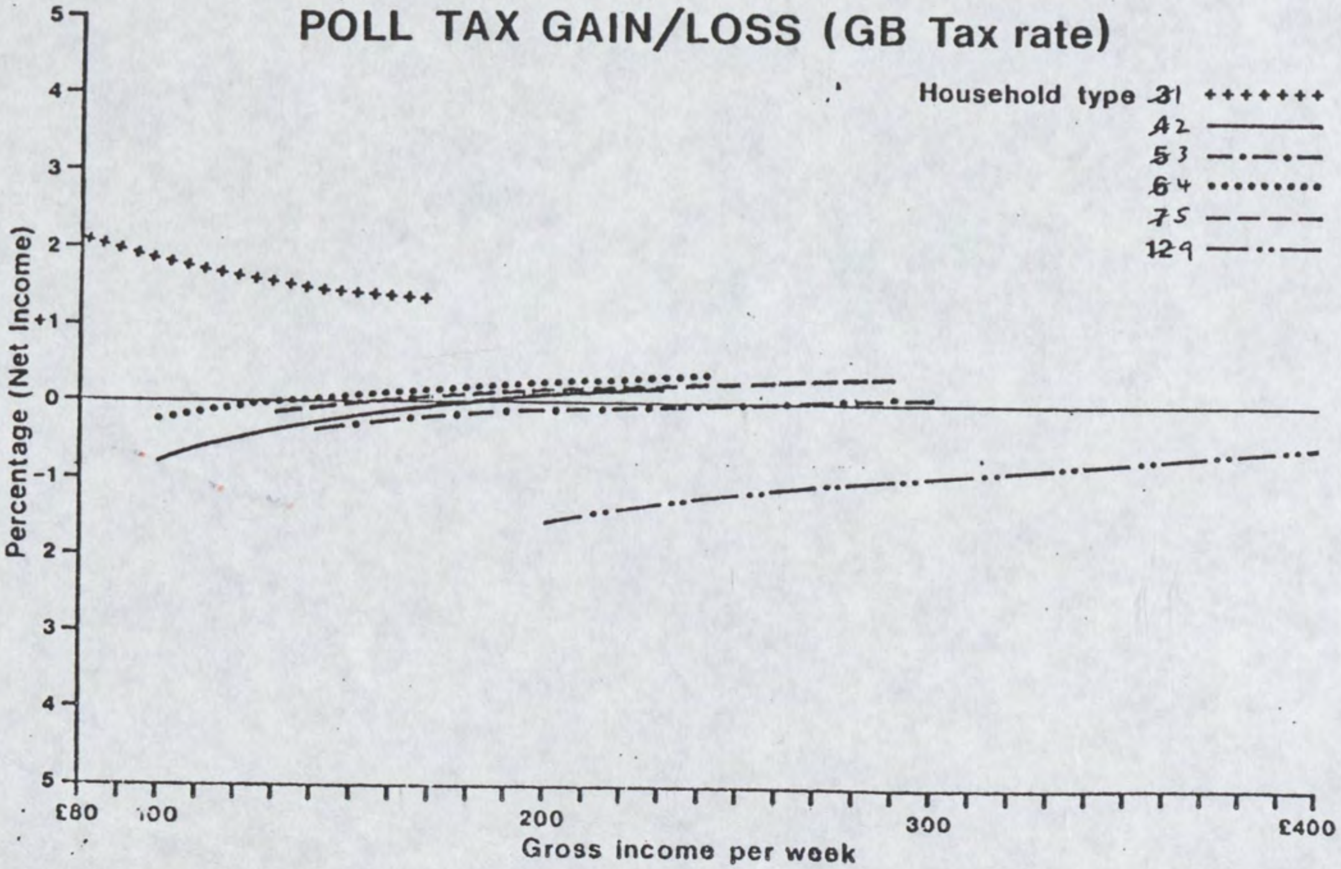

LIT GAIN/LOSS (GB Tax rate)
Household type ~~3~~1
~~4~~2
~~5~~3
~~6~~4
~~7~~5
~~12~~9
Percentage (Net income)
5
4
3
2
+1
0
-1
2
3
4
5
£80
100
200
300
£400
Gross income per week

FIGURE 3



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Local Gov
Prime Minister

PRIME MINISTER

You asked me to report to you on the debate on Rates at the Scottish Conservative Conference.

The debate revealed a deep hostility from almost all present to the way in which the rating system is operating at the present time. The one speaker who defended the present system (a councillor from the Borders) was loudly booed and heckled.

Most speakers accepted that there was no easy alternative to the rating system but they expected the Government to pursue the options of a local rates tax or income tax with a sense of urgency.

The main demands, however, were for immediate amelioration by:

(a) a ceiling on rates increases

(b) ending the anomaly whereby earning non-householders vote but pay no rates while business pay rates but have no votes

At the end of the debate the proposer called upon the whole conference to stand to demonstrate the urgency of the need for reform. He received a 100% response.

My own impressions are that rates are in the course of becoming an explosive political issue which could greatly damage the Government.

Rightly or wrongly the public believed that a Conservative Government was going to protect the ratepayer and end the rating system. Instead they have seen dramatic increases in the rates well beyond the level of inflation.

Current proposals within Government to penalise local authorities for overspending, to reduce the grant percentage further and to introduce cash planning will lead to further rates explosions as local authorities refuse to co-operate.

While the public will allocate some of the blame for rates increases to the local councils which have imposed them they will be even more hostile to the Government for failing to protect the ratepayer.

My own view is that the only short-term reform that would meet the demands of our supporters and effectively control local authority expenditure would be to put a ceiling on individual rates increases and require any local authority which wishes to rate above that level to seek the permission of its local electorate by a local referendum. There are precedents for local polls and I am convinced that such a reform would be both highly effective and immensely popular.

Malcolm Rifkind

MALCOLM RIFKIND
12 May 1981

Ref: A04877

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Local Gov 164
Relation with Central
Local Gov

CONFIDENTIAL

PRIME MINISTER

Local Authority Expenditure: Reform of Rates: Accounts Commission
(E(81) 53 and 54)

BACKGROUND

In E(81) 53 the Secretary of State for the Environment proposes a number of measures, for implementation in 1983-84, to back up his proposals for controlling local authority expenditure and to modify perceived unfairness in the rating system pending more fundamental changes. He rejects the alternatives of transferring responsibility for some parts of local expenditure to central Government and of imposing statutory controls on local authority income or expenditure. He may be right in doing so, but the effect is to leave the Committee with a host of complex alternatives. Some members of the Committee may feel that the more dramatic options should at least be studied further: they could well have greater political appeal.

2. In paragraph 6 of E(81) 53 the Secretary of State for the Environment recommends eight measures for further study by his Department, and the other Departments concerned, followed by a report to the Ministerial Committee and decisions in July on which of them are to be adopted. If the Committee agrees with this approach, he would give a tentative trailer of what is in mind in his statement on 2nd June. In summary the eight proposal are:-

I. For the non-domestic ratepayer

(a) A limit on the level of non-domestic rates for authorities spending over a specified level.

Implies a greater burden on the domestic ratepayer.

(b) Revaluation of the non-domestic sector.

Due anyway, might help some older industries, but incidence uncertain, and no implementation until 1985.

II. For the Domestic ratepayer

(c) Flat rate domestic rate relief.

(d) Discounts to single (possibly two adult) households.
A loss of rate income.

(e) All expenditure above a certain level to be financed by supplementary rate demands.

(f) All such supplementary rate demands to be subject to approval by local referendum or re-election.

(g) Rate demands separated from rent demands for Council tenants.
Administrative cost £10 million a year.

(h) Establishment of an Accounts Commission.
See E(81) 54 and paragraphs 5 to 8 below.

These measures would be aimed at different audiences and would be complementary.

3. All but (b) (revaluation) would require legislation. This gives rise to a major difficulty. The proposals for the 1981-82 legislative programme, which the Cabinet will be discussing on Thursday, provide for a Housing Bill but not for the Public Bodies (Management) Bill which the Secretary of State for the Environment wanted, and in which he would like to include his Local Government Finance provisions. If room were to be found for some, or all, of such provisions the Cabinet would need to decide what the Bill should replace. There would be a further problem over when the Bill would be ready for introduction. It would be complicated and controversial and, if policy decisions were not taken until July, the Secretary of State would be hard pushed to have it ready for introduction before the end of the calendar year. On the other hand, if legislation on these measures is ruled out, the Secretary of State will not of course wish to refer to them on 2nd June. In that case he may wish to modify his proposals for threatening grant hold-back of as much as £900 million in 1981-82.

4. The Secretary of State further proposes (in his paragraph 8) that he should announce in June the launching of a study of the impact of alternative taxes on households and authorities for completion by the Summer of 1982. This would look in particular at the impact of local income tax, sales tax and poll tax. The study would be conducted by his Department and the Treasury in consultation with the other Departments with local authority interests. It would have to be published.

An Accounts Commission for Local Government

5. The Secretary of State for the Environment has set out his proposals for an Accounts Commission in more detail in E(81) 54. He wishes to announce a decision in principle on 2nd June subject to consultations immediately thereafter on the detailed arrangements.

6. In proposing an Accounts Commission, the Secretary of State rejects (in his paragraph 4) either continuing to use the District Audit Service or, as the Public Accounts Committee have proposed, putting local Government audi under the Comptroller and Auditor General. The fundamental objection he sees to the latter is that it would bring local authorities into a relationship with Parliament which would be inconsistent with their constitutional status as separately elected bodies not responsible to it. The discussion will show whether your colleagues accept this view. It would be easier to maintain if local authorities were self-financing. But, given that Parliament provides 60 per cent of local authority funds and is constitutionally the superior body, with power to change its relationship with local authorities in any way it pleases, the contrary case can be argued.

7. The aim would be for the Accounts Commission to provide more value-for-money auditing and better comparative information between authorities. Its responsibilities are listed in paragraph 3 of E(81) 54. It would be appointed by the Secretaries of State for the Environment and for Wales (assuming it is to cover Wales also). Its members would include some local authority representatives and some outsiders with relevant financial and management expertise. It would take over a number of the

Secretary of State's responsibilities including that for the District Audit Service. The present Advisory Committee on Local Government Audit would be abolished. The additional costs would be relatively small - about £1 million a year. Legislation would be necessary.

8. If the Committee were to endorse this proposal in principle, and if it were to be announced on 2nd June, Treasury Ministers would need to give further thought to what should be said to the PAC. In particular they would need to explain to the PAC not only why this particular route has been taken but why the Government had taken it now, in advance of more general consideration of the PAC's report, including their proposals for the nationalised industries.

HANDLING

9. It would in any case probably be sensible to defer some of the discussion of these papers to the meeting on 19th May, because the present meeting may well not have time to do justice to them. Subject to that, you might ask the Secretary of State for the Environment to introduce his two papers and then the Secretary of State for Wales to say to what extent he wishes them to apply to Wales. The Chancellor of the Exchequer might then comment generally, and in particular on what needs to be said to the PAC if the proposed Accounts Commission were to go ahead. Each of the Ministers with local authority responsibilities will wish to comment - the Secretary of State for Education and Science, the Home Secretary (who will also have views on the implications for the legislative programme), the Secretary of State for Transport and Sir George Young. The Secretary of State for Scotland will wish to say what changes, if any, he would wish to make.

10. On the medium term measures listed in paragraph 6 of E(81) 53 and on the Accounts Commission (E(81) 54) the main question for the Committee is whether they are sufficiently attractive for the Cabinet to be asked to consider the possibilities for making room for them in the 1981-82 legislative programme. To answer this question the Committee may wish to run through the summary proposals (a) - (g) in paragraph 6 of E(81) 53 and then turn to that for the Accounts Commission in E(81) 54. Although the Committee will undoubtedly have views on the merits of each of 6(a) - (g) it its not essential to rule out any at this stage since the proposal is that

decisions on them should be taken in July after further work by officials. On the other hand you will wish to bear in mind that the proposal is to indicate on 2nd June that they are to be studied and so the Committee will wish to rule out any complete non-starters.

11. If some, or all of the proposals were to be ruled out, the Secretary of State for the Environment may wish to reopen whatever decision the Committee will have taken on hold-back of grant in 1981-82.

12. If, on the other hand, the Committee is attracted to the idea of further work on the proposals, it may be necessary to resume discussion of them on 19th May in the light of the Cabinet's discussion on 14th May of the legislative programme.

13. The Committee will also wish to consider whether they endorse the proposal in paragraph 8 of E(81) 53 for a study of the longer term alternatives to the rating system. You will note that the Secretary of State for the Environment would wish to announce the setting up of this study in June; it would probably have to be published when it was completed in 1982.

CONCLUSIONS

14. The first conclusion will relate to whether the Committee accept the broad thrust of Mr. Heseltine's suggestions or whether they wish to consider the radical alternatives of (i) moving substantial parts of local authority expenditure e.g. on education, from local to central Government or (ii) legislating to restrain local authority freedom to set their rates at will. If the Committee accept Mr. Heseltine's approach, you will wish to sum up the discussion with reference to the recommendations on the future of the rating system listed in paragraph 13 of E(81) 53 and on the proposed Accounts Commission listed in paragraph 13 of E(81) 54.

15. Any decisions taken, apart from the proposed revaluation of non-domestic properties, would have to be contingent on Cabinet's discussion of th legislative programme for 1981-82. In any case, it seems unlikely that the Committee can complete their consideration of this complicated set of paper on 13th May, and they will almost certainly need to resume discussion at thei meeting on 19th May.

RA

(Robert Armstrong)

12th May 1981

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Copy Relations between Central & Local

Chancellor of the Duchy of Lancaster

12 May 1981

Dear Prime Minister,

I shall not be able to attend tomorrow afternoon's meeting of the Ministerial Committee on Economic Strategy, but I want to voice my disquiet about the way in which it is proposed we should handle the two items on local government finance. In both cases, it is being suggested that we should commit ourselves publicly to courses of action which will inevitably arouse expectations of early implementation before all the implications of what is proposed have been fully explored. The Secretary of State for the Environment in E(81)53 and E(81)54 seems to envisage that both the reform of the rating system and the creation of an Accounts Commission for local government will be dealt with in a Bill next Session, but QL have not included such a Bill in their recommendations to the Cabinet. I am very dubious whether properly thought out legislation on this subject can be ready in time for the 1981-82 Session. Statements on either of these issues in early June, as suggested by the Secretary of State, would in my view be premature, but if E Committee conclude that some kind of statement is essential, there can be no commitment at this stage to legislation next Session. This is, of course, something we can consider further in the context of the legislative programme as a whole at Cabinet next Thursday.

I am copying this minute to the other members of E Committee, to the Chief Whip, and to Sir Robert Armstrong.

Yours ever

Francis

FRANCIS PYM

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

CONFIDENTIAL

File AT

Loc Govt

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

FUTURE OF RATING

I have shown the Prime Minister your minute A04394 of 6 March 1981 to me.

She thinks that Mr Heseltine is already well aware of her views on this subject and she does not believe there is any need for me to write again on her behalf.

FWW.

9 March 1981

AT

1. Prime Minister.

Content for me to write as drafted?

[initials]

6 iii

Ref: A04394

MR. WHITMORE

Future of Rating

The Secretary of State for the Environment's Private Secretary sent me a copy of his letter of 3rd March to you, replying to your letter of 6th February about the review of local government finance.

attached. Flag A

I think that it might be helpful if you were to reply to that letter on the lines of the draft attached.

RA

(Robert Armstrong)

6th March 1981

They already know my views on this. We shall have to do a considerable measure of switching to indirect taxation. MT

DRAFT LETTER FROM MR. WHITMORE TO
MR. D.A. EDMONDS, DEPARTMENT OF THE ENVIRONMENT

Future of Rating

Thank you for your letter of 3rd March.

The Prime Minister hopes that among the options canvassed in your Secretary of State's paper will be that of developing a source of local government revenue other than the property rating system. She thinks that the inequitable and unrepresentative nature of the system has become so glaring and the feeling of the need for a fundamental change so widespread that developing some other source of revenue, either in substitution for or as a complement to the rating system, has become a matter of real political urgency.

I am sending copies of this letter to John Wiggins (Treasury), Godfrey Robson (Scotland), John Craig (Wales) and David Wright (Cabinet Office).

CONFIDENTIAL

VLB

cc: HMT
DOE
WO
CSO, HMT

10 DOWNING STREET

From the Principal Private Secretary

11 February 1981

Dear Godfrey,

Future of the Rates

The Prime Minister has seen a copy of your Secretary of State's letter of 9 February 1981 to Mr. Heseltine about the future of the rates.

She agrees with Mr. Younger that we must regard the abolition of the domestic rating system as our ultimate objective and she has commented that the Government is indeed still committed to its abolition.

I am sending copies of this letter to John Wiggins (HM Treasury), David Edmonds and Peter Cash (Department of the Environment), John Craig (Welsh Office) and Terry Matthews (Chief Secretary's Office).

Yours ever,

Clive Whitmore.

Godfrey Robson, Esq.,
Scottish Office.

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CONFIDENTIAL 2

We are still committed to abolishing the domestic rating system MT

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister.

We have of course asked Mr Heseltine for a report on where his review of local government finance has got to.

[illegible]
10 ii

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3AH

9 February 1981

Dear Secretary of State,

FUTURE OF THE RATES

We met under Geoffrey Howe's Chairmanship on 13 January to discuss the control of local authority expenditure, the general issue arising primarily in the context of the future of ILEA. You referred at the meeting to the report on the Alternatives to Domestic Rating which was prepared for us by officials in June 1980. That report has never been tabled for collective consideration. I do not think that our discussion in January was intended to regard that report as having been considered in substance and I think that we ought at least to have it properly discussed in a meeting for that purpose as soon as possible.

The Treasury record of the meeting noted my view that we should not abandon our objective of abolishing the domestic rating system, though other colleagues were inclined to the view that the Layfield Report and the report on Alternatives to Domestic Rating had both demonstrated conclusively that the alternatives were worse than the present system. You agreed to prepare a paper on measures to improve the rating system; and in summing up Geoffrey Howe said that, so far as the rating system was concerned, the broad conclusion was that its retention was inevitable.

Agreed MT

I certainly accept that we could not abolish domestic rating in the immediate future and that we shall therefore have to consider, on the basis of your paper, possible improvements to the system. I still feel however that we must regard the abolition of the system as our ultimate objective. I very much hope therefore that we will not rule it out completely, and I should like to table for consideration when we next meet, something on the lines of the enclosed note.

I am sending copies of this letter to Geoffrey Howe, Nick Edwards, Leon Britton and Tom King and, because of her close interest, to the Prime Minister. If we reconvene as on 13 January, I should like Malcolm Rifkind to accompany me.

Yours sincerely

[illegible signature]

Approved by the Secretary of State
and signed in his absence

FUTURE OF THE RATING SYSTEM

NOTE BY THE SECRETARY OF STATE FOR SCOTLAND

1. Our Election Manifesto in 1979 referred to the abolition of domestic rates but made it clear that their abolition was for the longer term. That raised expections among ratepayers in general and our supporters in particular. Those expectations have not been fulfilled. Our decisions to reduce the levels of Rate Support Grant and Block Grant, coupled with the irresponsible policies of some local authorities, have produced a flood of protests about rate rises. Our supporters, including many in industry and commerce, keep asking why the Government cannot abolish (or amend in time) a system which is widely regarded as iniquitous.

2. We asked officials to look at possible alternatives to domestic rates. Their report of last summer has not yet been considered substantively by us collectively. Moreover, I do not think that the Layfield Report or the officials' report on Alternatives to Domestic Rating demonstrated conclusively that the alternatives to domestic rating are worse than the present system. Our predecessors, in their Green Papers, said that they "reluctantly" accepted the conclusion of the Layfield Committee that the rating system should continue with some modifications. We have given reduction of Income Tax priority over the abolition of domestic rates, but we remain publicly committed to their abolition.

3. The officials' report on alternatives looked at sales tax, local income tax and poll tax schemes and warned that it would take several years to introduce any of these options. I accept that this is so but, despite the conclusions of our meeting on 13 January, I am sure we should collectively discuss whether one or other of those options should be pursued so as at least to be rid of domestic rates, if not the whole rating system.

4. Our officials have given much thought to the demerits of all the alternatives to rates, and these must certainly be faced. We do not, however, seem to have asked them to consider also the demerits of the rating system itself, perhaps because these are to be found in Layfield.

5. There is a strong case to be made that the disadvantages of the rating system are at least as great and perhaps greater than the shortcomings of the alternatives. Rates are not only intensely unpopular, but are based on principles which are quite incomprehensible to any layman, as is the Rate Support Grant which works at the level

of Government support for the rates. They are not at all related to the ability to pay except at the low levels of income which attract rebate. They are unfair because many of those who are well-off, do not pay them because they are not householders, and they are largely undemocratic because the vast majority of those who benefit from local expenditure made no direct contribution which they can identify towards raising the money. This is made worse by the ill-defined rent collection system which enables most Council tenants to believe that they do not pay rates, only rent.

6. The system as it affects industry is possibly worse, in that the method of assessment is even more obscure and industry as such has no vote at all but pays, in many cases, the lions share of local rates.

7. In any case the situation has changed markedly since the Layfield Report and even since last year. Several local authorities have clearly indicated their intention of abusing the freedom to raise revenue which the present system affords. They plan to incur expenditure in excess of what we regard as tolerable in the national interest. We must respond to the situation and we must respond when the rates are fixed. I accept that immediate abolition of the rating system is out of the question. We need to take some short-term steps to show our awareness of the ratepayers' difficulties and we should ask our officials as a matter of urgency to advise on the best means of sharing that awareness.

8. Those short-term measures must be placed in the framework of our long-term objective - the abolition of the rating system. Abolition will, I accept, have very important consequences for the Treasury; but only if we select one of the alternatives - sales tax, local income tax, poll tax - and make clear our determination to put it in the place of the rates will we convince our supporters and the country as a whole that we mean business. I find it hard to believe that the problems of financial control involved in the alternatives will outweigh those we suffer with rates. We need now to examine seriously the alternatives which officials have presented in their report.

G.Y.

9 February 1981

CONFIDENTIAL

VLS

FILE

Local Govt

10 DOWNING STREET

From the Private Secretary

2 October 1980

Future of the Rating System

Your Secretary of State, accompanied by Mr. King, spoke to the Prime Minister this afternoon about their work on the future of the rating system.

Your Secretary of State explained that, after examining the available options, he had reached the preliminary conclusion that any alternative was likely to be at least as unpopular as the present system. In addition, the most likely alternatives, such as local income tax or sales tax, would produce a local revenue system which was both lumpy and buoyant. This would be counter productive at a time when Ministers were trying to squeeze expenditure at all levels. He was due to produce a paper for colleagues shortly. He now felt that that paper should be focussed on seeking means of eliminating anomalies within the rating system instead of ways to replace rates with a new tax.

In the course of a lengthy discussion, the Prime Minister made it clear that she was not prepared to abandon the objective of replacing the rating system. She acknowledged the formidable difficulties. She would be happy to explore arrangements which substantially increased the proportion of local expenditure funded through the Rate Support Grant. She felt that there should be ways of applying a sales tax system, but if your Secretary of State really found no alternative to a property tax, she would prefer to see one based on space in preference to the present system linked to the concept of a rental market in private housing which was now defunct.

At the end of the discussion, your Secretary of State suggested that, for immediate purposes, he should look at palliatives to deal with the worst anomalies, and he should at the same time make it clear that Ministers were waiting to assess the way in which block grant worked, at a time when public expenditure considerations were paramount. The overall issue of rating reform would thus be left open.

/ The Prime Minister

CONFIDENTIAL

The Prime Minister did not dissent from this approach. She agreed that the public expenditure constraints must be stressed. She felt that your Secretary of State should endorse the view that the rating system was unfair, whilst emphasising the need to avoid change for its own sake which might result in an even more inequitable system. The consequences of any change would need to be thoroughly thought through, and the idea of any change to a capital base clearly discarded. The Prime Minister also stressed that she was not ready to accept failure in the search for an alternative to domestic rates as a means of raising local revenue. She accepted that it was not now possible to tackle the issue in isolation from the growing problem of industrial rates.

M. A. PATTISON

David Edmonds, Esq.,
Department of the Environment.

CONFIDENTIAL

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NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 1545 HOURS ON 2 OCTOBER TO CONSIDER THE FUTURE OF THE RATING SYSTEM

Present: Prime Minister

Secretary of State for the Environment

Minister for Local Government and Environmental Services (Mr. Tom King)

Mr. M.A. Pattison

* * * * * *

The Prime Minister said that she was now concerned as much about industrial rates as about domestic. Mr. Heseltine agreed that industrial rates were now a major problem, covering £6.7 billion in annual revenue. He had been studying alternatives to the rating system in some detail. He was now concerned that any alternative would prove no more satisfactory than the present system. Unfortunately many people believed that the abolition of rates would mean the abolition of the expenditure financed from rates. There was a risk that any alternative system would therefore produce a worse reaction.

Mr. Heseltine saw particular problems in making changes in the present climate. The Government was committed to squeezing public expenditure. The best alternative system - an income or sales tax - would produce both lumpy and buoyant revenue. There was also a belief in the country that the rating system did apply some discipline to local authority expenditure. Any new system might appear to lose this advantage. He was optimistic that the new block grant system would have a salutory effect on local authorities. He was already having to seek ways of lessening its effect in London. He acknowledged that the Party had a commitment to tackling the problem of rates. He now felt that his paper to colleagues should focus on ways to eliminate the anomalies within the system, and not on its replacement by a new tax. The worse excesses of the present system were confined to a few places, and block grant would change much of this.

/ The Prime

CONFIDENTIAL

The Prime Minister responded that this was not good enough. Rates in their present form were a most undemocratic tax. She would much prefer to see rate support grant meet 90% of local expenditure than the continuation of the present system. Rates involved two expensive and unnecessary blocks of administration - the assessment and rebate systems. A link to the tax system would also save on collection costs. Industrial rates might have to accrue to central government, to prevent Labour authorities levying even greater charges on private industry.

Mr. King saw difficulties in greater funding through the centre, although there was now a high proportion of central funding in Scotland and Wales. There were already signs that Labour authorities like Lambeth and Manchester felt unable to propose further major rates increase next year. Experience showed that local authorities always responded to central government pressure for cut backs, even if it took time.

The Prime Minister said that the rating system was tied to a notion of a private rented sector, but this not longer existed. If there had to be a property tax, it would be fairer to base it on square footage. Mr. Heseltine pointed out that this would need massive equalisation arrangements, and the net result would be expensive change with little real differences in what individuals paid. Rates were always controversial when they rose fast in periods of high inflation. If the Government won its economic battle, rates would cease to be a major issue within 18 months. Over time, local government had an excellent record of meeting expenditure targets. Central government set volume figures, and was therefore responsible if the targets were too high. Manpower remained the key. Results were just beginning to come in. He and Mr. King had been unwise to accept in the previous year that local authorities would tackle this problem, but now the September quarter was likely to show the biggest fall ever. The Prime Minister suggested that, with spending volume set for three years ahead, the Government would need a further volume squeeze through cash limits. Mr. Heseltine said that this must not be done in a way which distinguished local from central government. The local record was better on wages in the last year if Clegg awards were excluded.

Mr. Heseltine said that the Party Conference motion called for the abolition of domestic rating. If he could get the Chancellor's agreement, he would like to say that he wanted to deal especially with the problem of the widow/widower in the large family house. In effect, he wanted a reverse poll tax arrangement. He would avoid the problem of concealment of who was living in a house and the need to check this by putting the onus on the ratepayer to apply for this treatment. The Prime Minister felt that this would simply add one more anomaly to the system. The issue needed to be examined much further.

In further discussion, the Prime Minister touched on the possibility of individual cash limits for each local authority . Mr. King expressed some surprise. The Prime Minister said that she was being told that the Government could do nothing. She could not stand this approach and did not believe it. To her surprise, Mr. Heseltine was becoming a prisoner of his officials. Mr. Heseltine stressed that he had examined the issue personally in great detail, and that the recommendations were his own. In practice, other systems were only working in countries with a geographical land mass suited to local revenue. Given the public expenditure constraints, he saw no real scope for change. The Prime Minister suggested that he should consider industrial derating in England and Wales like that in Scotland. She accepted that rates could not be abolished in this Parliament. But she still wished Mr. Heseltine to develop a scheme for their gradual removal. Mr. King asked whether this should be a greater priority than reduction in personal tax. The Prime Minister said not. She still saw a sales tax, part of which could be tied to local needs, as the best option. But she would go for a much higher RSG with a correspondingly limited role for the tax. Mr. King stressed that any change in the rates system would be wildly unpopular with the local government community. The present level of domestic rates was the equivalent to 4% on VAT. The Prime Minister said that any additional sales tax or alternative scheme would have to have a neutral effect on the retail price index. On industrial rates, a different collection system was required. We should study the operation in other countries. Small businesses faced horrendous problems from rates. Mr. Heseltine pointed out that any possible system would leave businesses to provide the same revenue somehow.

/ The Prime Minister

The Prime Minister suggested that there might be a pilot study to assess reactions if council tenants were offered a reduction in charges, equal to the rate element in their rent, at the price of a local increase in VAT or a sales tax.

In further discussion, Mr. Heseltine stressed his concern about any move in a direction which conflicted with basic Government strategy. He and Mr. King had come simply to expose to the Prime Minister the difficulty they had encountered. The Prime Minister conceded that many 1980 rate increases might have been set as a basis for avoiding further increases in 1981. She also accepted that if a new easily raised, tax was introduced, public expenditure would go up.

Mr. Heseltine suggested that, in reply to the Party Conference motion, he should look at possible palliatives, refer to the prospects for the block grant system, the effects of which had yet to be evaluated, and stress the public expenditure dimension. This would serve to keep the ball in the air, which he had achieved for several years up to now. The Prime Minister agreed that public expenditure problems should be stressed. She wished Mr. Heseltine to agree publicly that the rating system was unfair. He could then point to the risk of change for its own sake which could produce an even more unfair system. It was therefore necessary to think through the consequences most thoroughly. He should rule out any change to a capital base.

In conclusion, the Prime Minister asked Mr. Heseltine to keep working at the problem. £3 billion was not so enormous a sum that there was no alternative means of raising it. But she accepted that industrial rates would need to be tackled on a similar timescale.

MAP

3 October 1980

B/F 1/10/80 1.

no papers required.

PRIME MINISTER

Michael Heseltine would like to have another word with you about the future of domestic rates. You will know that he has to reply to a difficult motion at the Party Conference. I have put him in for 15 minutes at 0915 on Thursday 2 October, immediately before E.

MAP

Agreed mt

19 September 1980

15.30

CONFIDENTIAL

Local Govt

cc Master Set

RECORD OF A MEETING TO DISCUSS THE REFORM OF THE RATE SYSTEM HELD ON WEDNESDAY, 25 JULY, 1980 at 1700 HRS AT 10 DOWNING STREET

Present:-	Prime Minister
	Secretary of State for Environment
	Minister for Housing and Construction
	Mr M A Pattison

The Prime Minister said that there would be renewed pressure for changes in the rating system, and she wanted to know whether there were prospects of legislation, perhaps the year after next. To date, work had focussed on domestic rates, but the rating problem was now a central issue in industrial problems. Mr Heseltine commented that industrial rates were also a major issue in local authority spending. He and Mr King had prepared a paper which should be available to colleagues in the autumn. Mr King commented that there had been representations from the CBI and others about industrial rates. In present conditions, if companies made no profit they faced no corporation tax, but they could still find their rates bill rising by 25%. If industrial rates were to be included in the work in hand, £7 billion would be in question.

Mr Heseltine said that he would be circulating to colleagues in September a paper on over-spending. This would include some politically sensitive proposals on how to control over-spenders. The over-spending authorities could not be let off the hook at a time when the Government's own supporters were facing difficulty with their loyal supporters for cutting back on expenditure to meet central government requirements. The Government's requirement for cut backs was actually making progress, even with most Labour councils, but the regular over-spenders continued in their usual way. This could not be allowed to continue.

Mr King said that the study of rating had raised one fairly new factor, the issue of the central government target for local authority expenditure. Many alternatives to rates would provide a buoyant income, which might undermine central control. With a sales tax, for instance, one could increase in units of 1% or perhaps ½%, but it would be very difficult to shade increases. The Prime Minister asked about the RPI effect of possible alternatives. Mr King said that this should be neutral, although the

CONFIDENTIAL

/distribution

distribution would be changed. One option which had been reviewed was that of a poll tax on top of a lower level of rates.

Mr Heseltine said that all these issues would come to Cabinet in two stages. The over-spending paper would come forward in September, with the rating options paper in October/November. The Prime Minister said that there were a limited number of options. These had now been considered and studied over a long period of time. Significant new options were now likely to emerge in the future. Ministers would need to recognise that the problem now was to take a decision. But the position of industry would need to be carefully considered.

Mr King said that one suggestion was a pay roll tax - although the paper already prepared was essentially on the domestic rating issue. He commented that there were signs of a drastic change in local authority perceptions. Whilst the authorities had seen themselves as facing a common problem, their leaders were now privately saying that their position would be intolerable if the punishment for over-spending affected all authorities equally. The Prime Minister asked whether the spotlight could be put on the numbers and pay of local authority senior officials. There could be problems where borrowing was secured on rate income. She wondered whether it would be possible to take the education policy out of local authority hands, leaving the authorities as agents not policy makers. Mr Heseltine pointed out that this would add a million to the central government pay roll.

The Prime Minister said that the option finally selected must not expand the bureaucracy. A way must be found of grafting the revenue rise on to the existing tax system, saving as far as possible on the rating structure and the rebate system. Mr King pointed out that rate rebates were much more prevalent in heavy retirement areas like Eastbourne, than in high spending authorities like Lambeth. Whatever solution was adopted, charges for water would be a problem. The Prime Minister did not wish to contemplate retaining a rateable value system simply for water. She had been pleased to learn that there were

/encouraging

encouraging developments in meter technology. Mr Heseltine said that there were improvements in the pipeline on the finance of the water industry. It was capital intensive, so that declining interest rates would help its position. It was now working, for the first time, with man-power budgets. He hoped shortly to abolish the National Water Council, which employed 400 people.

In conclusion, the Prime Minister noted that the cancellation of the last domestic rating revaluation made it essential for the Government to face up to the future of the rating system within a couple of years. Mr King reminded the Prime Minister that any change would involve some political pain. It would certainly alter the incidence of charges for raising local authority income, which would lead to some kind of row. Mr Heseltine added that the need to adjust the distribution of funds from the cities to the shires would also be painful.

MAP

25 July,1980

Local Govt

(F) 23 July

Cf. 22/7

10 DOWNING STREET

CLIVE

I have arranged the rate reform meeting for next Wednesday, 23 July at 1700. Is any briefing required?

CS.

Caroline:

No: the purpose of the meeting is to let the Prime Minister know how the DoE are getting on with this work.

18 July 1980

ATW

21.vii

Local Govt.

BK

Original = CAR

CF to note

c. DOE

Const.

2.6.80.

Dear Robin,

Thank you for your letter of 29 April and the one attached from your constituent, Mr. W.J. Snell of 5 Strete Ralegh, Whimple, Exeter about the rating system.

In our manifesto we made clear that cutting income tax would have to take priority over the abolition of domestic rating, and the major reductions the Chancellor made on coming into office were an important start in reducing direct taxation. It does however remain our longer-term objective to abolish domestic rating and we are currently looking at all the possible future alternatives.

In the short term, our objective is to do what we can to lessenthe problems that rates cause. The most important thing here is the cut-back on the growth of local government expenditure, which will help in due course to restrain the increases in average rate levels. On the rating front itself, we have cancelled the revaluation which was due to take effect in 1982, which will spare ratepayers the disruption and inconvenience that revaluations always cause.

We do take the whole rating matter very seriously, and are actively seeking ways to improve the position. I appreciate your concern at the apparent unfairness to the individual consumer of water charges based on the rateable value of the premises served.

/ This method of

This method of charging does, however, have the advantage of being comparatively easy and cheap to administer and so keeps down administrative costs which would otherwise have to be passed on to the consumer. The alternative is to meter all domestic supplies but this would be expensive: the capital costs alone were estimated in 1975 to be between £650 million and £950 million, depending on the method of installation. These figures would of course be much higher now. With these high installation costs, plus the administrative costs of meter reading and billing, there could be no guarantee that domestic consumers in general would benefit by way of reduced bills.

However, all water authorities now provide an option of metering "domestic" water supplies to non-domestic premises, the consumer paying for the cost of installing the meter. The Welsh Water Authority have this year extended the metering option to include ordinary domestic premises and other water authorities could well follow suit.

Yours ever,

MT

Robin Maxwell-Hyslop, Esq., M.P.

Local Govmt.

/MAP

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/17456/79

Your ref:

3 January 1980

Dear Geoffrey

Thank you for your letter of 4 December agreeing to my proposal for a preliminary internal review of alternatives to domestic rates. I see that the Prime Minister is also content.

My officials are now going ahead with detailed arrangements. I fully appreciate the warning note you sound about the difficulties of some of the alternatives in terms of the general objectives of taxation policy.

I am copying this letter as before.

Yours ever

Michael

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

NBPM

MAP.

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Local Govt

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

10 December 1979

FUTURE OF RATING

Thank you for sending me a copy of your letter of 20 November to Geoffrey Howe. I have since seen the letter of 26 November from the Prime Minister's Private Secretary, and Geoffrey Howe's letter of 4 December.

I share your view that we shall have to define our position with regard to domestic rates as soon as possible by careful consideration of alternatives and I am content for my officials to participate in the study which you propose.

For the present I will answer Scottish enquiries about the future of rating along the lines indicated in your last paragraph.

I have noted with interest the points made by Geoffrey Howe. In particular, I would agree with him that the Treasury should take the lead in any subsequent detailed consideration which we may commission, since the fiscal aspects of the question are bound to be of key importance and the Treasury responsibilities for these extend over Great Britain.

I am copying this letter to the Prime Minister, Geoffrey Howe and Nicholas Edwards.

GEORGE YOUNGER

12 DEC 1979

File

Local Govt DS5

10 DOWNING STREET

From the Private Secretary

10 December 1979

The Prime Minister has seen your Secretary of State's letter of 20 November and the Chancellor of the Exchequer's letter of 4 December about the review of alternatives to domestic rates.

She is content that the matter should be handled as proposed in the third paragraph of the Chancellor of the Exchequer's letter.

I am sending copies of this letter to Martin Hall (HM Treasury), George Craig (Welsh Office), Godfrey Robson (Scottish Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

D. A. Edmonds, Esq.,
Department of the Environment.

10/12

Type ~~flagged~~ draft ~~at flag~~ for my signature

MAP 10/xii

PRIME MINISTER

You agreed that Mr. Heseltine should set in hand an inter-Departmental study of options on the rating system and alternatives. The Chancellor of the Exchequer (Flag A) has now written to put down a clear marker that the Treasury should eventually be in the driving seat on this exercise. Mr. Heseltine's original proposal is at Flag B.

Sir Robert Armstrong advises that you should support the Chancellor's view that the Treasury should take the lead in any further work which may come out of the initial review.

If you agree with this, I will confirm that you agree with paragraph 3 of the Chancellor's letter.

MAP

Yes - especially as we decided definitely on Public Sector note

7 December 1979

Ref. A0871

MR. LANKESTER

You will have seen the exchange of correspondence between the Secretary of State for the Environment and the Chancellor of the Exchequer about the review of alternatives to domestic rates.

2. As the Chancellor of the Exchequer has said that he is content that the preliminary review should be conducted by Department of the Environment officials, in consultation with other Departments, I do not think that the Prime Minister need object or intervene (though previous reviews have been done under Treasury leadership). I am sure that the Chancellor is right, however, that at a later stage it would be more appropriate for the Treasury to take the lead.

3. If the Prime Minister agrees, I suggest that you should write to the Private Secretary to the Secretary of State for the Environment, with copies to the Private Secretaries to the Chancellor and other Ministers concerned, on the lines of the draft attached.

RA

ROBERT ARMSTRONG

6th December, 1979

DRAFT LETTER FROM MR. T.P. LANKESTER TO PRIVATE SECRETARY TO SECRETARY OF STATE FOR THE ENVIRONMENT

cc Private Secretary to Chancellor of the Exchequer and other Ministers concerned

The Prime Minister has seen your Secretary of State's letter of 20th November and the Chancellor of the Exchequer's letter of 4th December about the review of alternatives to domestic rates.

She is content that the matter should be handled as proposed in the third paragraph of the Chancellor of the Exchequer's letter.

I am sending copies of this letter to ~~the Private Secretaries of those who received copies of the earlier letters.~~ (copies as for my letter of 26 Nov.)

MAP

- 7 DEC 1979

10 DOWNING STREET

BF
7-12-79

Await Cabinet Office advice on Tsy letter of 4/xii

MAP

PERSONAL

file   Local Govt   BK

Original on Local Govt. Pt2 Local/Central Govt. Relations

10 DOWNING STREET

From the Private Secretary

SIR KENNETH BERRILL, K.C.B.
CABINET OFFICE

CF 2/1/80.

The Prime Minister was grateful for your minute of 23 November, about relations between central and local government.

As I mentioned to you today, the Prime Minister has now decided to discuss the subject with a group of Ministers on 8 January. The decision to go ahead with the discussion now was provoked by a paper from the Chairman of the Conservative Party, and a rejoinder from the Secretary of State for the Environment. I attach copies of both these papers. The Prime Minister would be most interested in your reaction to them but, given the political genesis of this discussion, she would prefer that they were not circulated elsewhere within CPRS. The Prime Minister has invited the other Ministers who have seen the papers to submit written comments ahead of the 8 January meeting.

These papers bear on the major question of the central/local financial relationship identified in your minute.

The issue of the future of the rating system, to which you also refer, is now to come to Ministers next spring, on the basis of the options study commissioned by Mr. Heseltine. The Prime Minister believes that an effective programme to improve efficiency and reduce waste at local level would be of considerable political value. As you will know, there was some discussion of this earlier in the year, and the Prime Minister was disappointed with the initial thoughts offered by several Ministers. She had intended to have a meeting with Sir Derek Rayner and Sir John Hunt in the autumn to consider how to approach this. In the event, that meeting did not take place, and it is unlikely that there will be an opportunity to reinstate it before this discussion with Ministers. I know that the Prime Minister would, however, be grateful if you, in consultation with Sir Derek Rayner and the Cabinet Office Secretariat, would care to offer a note on the practicalities of effective and feasible action in this field. The discussion on 8 January could then be used to take account of the several strands of thinking about these issues to which you refer in your minute.

M. A. PATTISON

5 December 1979

CB

PERSONAL

2PPS

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

4 December 1979

Dear Michael

You sent me a copy of your letter of 20 November to Geoffrey Howe proposing that an inter-departmental group of officials should prepare for our consideration an analysis of the alternatives to domestic rates.

I fully agree that this is a necessary step towards achieving our eventual aim of abolishing this form of rating and I should want my officials to be closely involved in the deliberations you propose. Meanwhile I agree with the line which you intend to take publicly.

/ I am copying this letter to the Prime Minister, Geoffrey Howe and George Younger.

Yours ever

Nick

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

A

B/f 7-12-79

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4 December, 1979

Dear Michael

FUTURE OF RATING

Thank you for your letter of 20th November proposing an interdepartmental review at official level on the alternatives to domestic rates. I see that the Prime Minister would be content with this plan, aiming at collective discussion by spring next year.

I too would be content for the study to be carried forward, and will ask my officials to get in touch with yours. However, I feel bound to add that I cannot see any prospect of shifting the burden on to existing tax instruments in the foreseeable future. In so far as room emerges for further general tax cuts, our first priorities must remain reductions in income tax, and the restructuring of capital taxes. These are bound to pre-empt any available resources for some time to come. As to possible new sources of revenue, we should certainly need to consider very carefully indeed the political as well as the economic implications of putting new powers to raise taxes in the hands of the local authorities.

While I am content that this preliminary review should be conducted by your officials, in consultation with mine and others, I am sure you will agree that, if we should decide that any of the alternatives merit further and more detailed consideration, it would be more appropriate for the Treasury to take the lead at that stage.

Copies of this letter are being sent to the recipients of yours and to Sir Robert Armstrong.

Yours —
Geoffrey

(GEOFFREY HOWE)

The Rt. Hon. Michael Heseltine, MP

1.

Original on
Local Govt Pt 2
Local/Central Govt Relations

PRIME MINISTER

Here is a helpful paper from Sir Kenneth Berrill about relations between local and central government. Sir Kenneth Berrill has taken a look at this following our intervention to prevent Mr. Heseltine going ahead in isolation with his proposed Accounts Commission for Local Government.

Sir Kenneth lists a number of pieces of work now in progress, and suggests that there are three major questions to be considered by Ministers. His second question, on the future of rating, will be handled through the options review which Mr. Heseltine has now initiated. This will come to Ministers in the spring. His first and third questions will be relevant to your meeting with Lord Thorneycroft and certain Ministers in January.

It would be helpful if I could show Sir Kenneth the paper from Lord Thorneycroft and any responses to that from Ministers. We could then invite Sir Kenneth, with ~~Sir Derek Rayner and Sir Robert Armstrong~~, to bring together any advice they wish to offer on the three issues identified in Sir Kenneth's note.

MAP

Yes - but not the whole of CPRS.

30 November 1979

10 DOWNING STREET

From the Private Secretary

26 November 1979

The Prime Minister has seen a copy of your Secretary of State's letter of 20 November to the Chancellor of the Exchequer about the future of rating.

She is content that Mr. Heseltine should set in hand an inter-departmental analysis, with a view to producing an option report for Ministers to consider next spring.

I am sending copies of this letter to Martin Hall (Treasury), George Craig (Welsh Office), Godfrey Robson (Scottish Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

D.A. Edmonds, Esq.,
Department of the Environment.

Original
Local Govt Pt 2
Local/Central ~~Pt 2~~
Relations

CONFIDENTIAL

Qa 04354

To: MR LANKESTER

From: SIR KENNETH BERRILL

Relations between Central and Local Government

1. The Secretary of State for the Environment has made a proposal for an Accounts Commission for Local Government. The Prime Minister has said that she would like to have this proposal considered in the wider context of improving the management of resources by local government, and I believe she had in mind a discussion with the Ministers concerned and with Sir Derek Rayner.

2. There is indeed a lot going on in the area of the management of resources by local government. I attach a list of ideas which we in the CPRS know to be running and there may indeed be others.

3. On this list, items (a) to (h) taken together would amount to substantial changes in the central/local government relationship. The first four items point largely in the direction of greater autonomy while the next four (and Mr Heseltine's latest proposal) aim to impose tighter financial disciplines.

4. But none of them tackles the basic central/local financial problem emphasised by Sir Derek Rayner (local government is responsible to a local electorate but central government provides the bulk of its funds).

5. It is, in a way, strange to find that the central issue is absent from the list (e.g. when the Inland Revenue is computerised, would local income tax provide the answer?). No

6. So we in the CPRS would welcome the discussion the Prime Minister has in mind as something which might pull together the threads of the work listed in the annex and give it all focus. If this meeting did take place, the basic questions which we think might be considered by Ministers are -

(i) Does the Government contemplate in the medium/longer term any radical change in the central/local financial relationship (Sir Derek Rayner's fundamental question)?

CONFIDENTIAL

(ii) Whatever the answer to (i), what is the future of the rating system, and what are the practical possibilities for alternative sources of local government finance (if any)?

(iii) Do Ministers wish to bring the various proposals in hand together as part of a broader strategy? There seem to be three general themes behind the proposals - first, to give much greater discretion to local authorities to allocate their own expenditure and decide their own priorities; second, to impose tighter central government controls on total expenditure (while 'interfering' much less on detail); and third, to impose more effective and public financial accountability.

7. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

23 November 1979

Att.

CONFIDENTIAL

(a) Central government controls over local government: White Paper published in September proposing abolition of some 300 controls (comments asked for by mid-October).

(b) Control over volume of circulars, etc. sent to local authorities.

(c) Proposals to relax central Government control on the allocation of capital expenditure by local authorities (while tightening controls on total capital expenditure).

(d) Proposals for reform of RSG from 1981/82 - unitary grant, and disciplines on high spenders.

(e) Review of statutory duties imposed on local authorities (are they necessary? Should they be discretionary?), and scope for more charging (increase of existing charges or new charges).

(f) Review of scope for contracting out/privatisation of local authorities' functions in whole or part. (This is linked to our review of scope for contracting out other public sector functions.)

(g) Proposals to require local authorities to publish more statistics relevant to their cost effectiveness.

(h) Expenditure Committee's recommendation for amalgamation of Exchequer and Audit and District Audit.

(i) Sir Derek Rayner's note to the Prime Minister on efficiency and waste in local government (on which discussion was postponed to December some time). This raises the fundamental issue of local government finance and the unsatisfactory nature of the current arrangements. Short of this, it raised issues of inspection (especially the education inspectorate), more effective district audit (relevant to Mr Heseltine's proposal), and better dissemination of good and bad practice.

Original filed
Local Gov. (Relations w Central Govt)
May '79

PRIME MINISTER

cc Mr Wolfson

Local Government

You have agreed to see Lord Thorneycroft and Sir Frank Marshall early next year, with the Ministers to whom Lord Thorneycroft circulated his letter at 'A'. There is a reply for you to sign in the signature folder.

You should be aware of two further papers relevant to this. Flag B is a commentary by Mr. Heseltine on several of the points raised in Lord Thorneycroft's paper. He challenges Lord Thorneycroft's central argument, that the long term effect of the Government's policy is to switch responsibility from local to national hands.

Flag C is a letter from Mr. Heseltine to the Chancellor proposing a study on the future of rating, to be considered by Ministers next spring.

The meeting with Lord Thorneycroft and others could be a good opportunity to return to the waste and efficiency questions in local government. An effective and publicised Government campaign in this direction should be politically welcome.

Have signed letter in other folder

Content that Mr. Heseltine should set in hand his study on the future of rating, in order to present a range of options to Ministers next spring?

— Yes - go ahead.

MAP

MT.

23 November 1979

B

LOCAL GOVT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

20 November 1979

Dear Geoffrey

FUTURE OF RATING

We are coming under increasing pressure to say what we are doing about the future of rating. Our manifesto strongly implied that it was still our aim to abolish domestic rating, but made it clear that for the time being reductions in income tax must take priority. We have been repeating this in office. However, we are receiving a steady stream of letters and Parliamentary Questions challenging us to say whether we stand by our commitment and when we will act, and I expect interest to increase with publication shortly of Richard Shepherd's private members' Bill to abolish rating, and my own Local Government Bill, and after Christmas when local authorities start making their rates.

We need to consider how we are going to handle this. Clearly we should not allow ourselves to be rushed into premature decisions or statements, and to avoid that we should start taking steps now to clarify the options. In the first instance I suggest it will be helpful to ask officials to prepare for our consideration an analysis of the main alternatives to domestic rates and the costs and problems associated with each.

The main alternatives to domestic rating discussed in the Layfield Report were a local income tax, a local sales tax and Exchequer grant or assigned revenues and we should no doubt want these in particular to be considered. An interdepartmental assessment was made of these and other ideas immediately following Layfield. However, figures may now be out of date for a variety of reasons, and the assumptions in the analysis should be looked at afresh to see if they are consistent with our new policies, and with changed circumstances.

If you agree I should like to ask my officials in consultation with officials in from Treasury, Inland Revenue, Customs and Excise, Scotland and Wales to prepare this preliminary analysis over the next few months with a view to producing an option report which we could consider in the appropriate Ministerial forum next spring.

Meanwhile, I shall continue to hold our present position publicly, indicating that we remain committed to eventual abolition of domestic rates but that reduction of income tax is a higher priority for the time being; and that we are reviewing the alternatives but without disclosing the form or timetable of our review.

I am copying this letter to the Prime Minister, Nicholas Edwards, and George Younger.

Yours ever
Michael

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe

NBPM

NAP

Local Govt

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Minister for Local Government
and Environmental Services
Department of Environment
2 Marsham Street
LONDON
SW1

Dear Tom

16 August, 1979

LOCAL GOVERNMENT FINANCE BILL: RATING ITEMS

Thank you for your letter of 3 August. I have also seen Willie Whitelaw's letter of 8 August.

I am grateful to you for taking on the points I made about the valuation of commercial property and limiting the right to pay rates by instalments to the smaller non-domestic ratepayer. The only point now outstanding is the question of extending domestic rate relief to free-standing garages.

In expressing the hope that you intended to resist this, I had in mind particularly the desirability of limiting the revenue cost to local authorities (and to the PSBR) of this legislation. I also felt that, while the other rating measures you proposed would bring the present imbalance of rating concessions a little back in favour of businesses (and small businesses in particular), this would have no such effect and, if anything, would work in the opposite direction.

I quite take the point that you may be pressed to accept an amendment on these lines, since it was in the Bill published by the Labour government. Obviously if they were prepared to widen the existing concession of domestic rate relief in this way, they will want to highlight the omission of it by us.

On the other hand I think we should be prepared generally to resist the piecemeal extension of rating concessions, even under the guise of correcting anomalies in the system.

I would still much prefer therefore to wait and see what the pressures are, and where they come from, before considering whether this change is irresistible. Could we leave the matter on that basis, at least for the time being?

I am sending copies of this letter to the Prime Minister, the Chairman of H Committee, other members and to Sir John Hunt.

Yrs ever
Nigel

NIGEL LAWSON

MAP

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SW1H 9AT

8 August, 1979

Dear Michael

Local Government Bill: Minor Rating Items

Thank you for your letter of 6th July, in which you sought H. Committee's approval to the inclusion in your Local Government Bill of a number of items concerned with rating. I have also seen the letter to you of 20th July from Nigel Lawson, and Tom King's reply to him of 3rd August.

In the absence of any objections from other members, you may take it that you have the Committee's agreement to the majority of your proposals. On the question of extending domestic rate relief to free-standing garages, you will still need to reach agreement with Treasury Ministers. On the postponement of statutory revaluations, you will need to bear in mind the possibility of including suitable common provision for Great Britain which George Younger was asked by H. Committee to consider (H(79) 8th Meeting, Item 5).

I am copying this letter to the Prime Minister, Keith Joseph, other members of H. Committee and to Sir John Hunt.

Yours

Willie

The Rt. Hon. Michael Heseltine, M.P.

✓ MAP Local Govt.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

3 August 1979

Dear Financial Secretary,

Thank you for your letter of 20 July about the rating items for the Local Government Finance Bill. I have now considered these points, bearing in mind also our discussion of the separate Scottish proposals at H Committee on 25 July.

On your first point about payment by instalments I agree that we should limit this right to small businesses. I envisage taking a power to prescribe a rateable value ceiling for this purpose. There will no doubt be pressure from big business and the CBI to set the limit as high as possible, but I agree that we should aim to resist this. There is no need to settle the precise figure till later.

Your point about not extending domestic rate relief to separately assessed domestic garages is more difficult. There is an obvious anomaly in the present system in that garages which are assessed as part of a domestic hereditament get relief, while separately assessed ones do not. This gives rise to a good deal of complaint, and amendments will certainly be put down on this point if we do not cover it ourselves. I think this will be a difficult one to resist and I should be grateful if you could reconsider this.

On the points about the valuation of commercial property to net annual value, and the establishment of a reference date for valuation purposes, I accept that in principle these would be worthwhile changes and would be useful for a revaluation in the non-domestic sector alone if and when we come to that. And in view of the arguments which you and George Younger have advanced I am now prepared to go along with the inclusion of these two Clauses in the Bill, the first of which will then need to be made a GB provision.

On your query about LAMSAC we have no plans for seeking to get this abolished in the review of quangos; so I do not think your caveat arises.

I am copying this to the Prime Minister, members of H Committee, Keith Joseph (who may be interested in the point about instalments) and Sir John Hunt. We need to get on with drafting so I hope that on the basis of the above agreement Willie Whitelaw will be able to give early clearance on behalf of H Committee to the various proposals (though noting that there may possibly need to be further consideration by Committee of the point about domestic garages if you dissent from my line on that).

Richard Gwakeford

pp TOM KING (approved by the Minister and signed in his absence)

Nigel Lawson Esq MP

NBPM

MAP

Local Govt

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

24 July 1979

VALUATION AND RATING (SCOTLAND) BILL

Thank you for your letter of 16 July on my Paper H(79)29, now for discussion on 25 July. I am content with your own proposals for legislation on rating matters described in the attachment to your letter of 6 July to Willie Whitelaw.

I would also endorse the statement of the position set out in that letter, namely that since we cannot abolish domestic rating probably for several years (perhaps until the mid-1980s), it is appropriate to keep the present system running with such minor improvements as may be necessary. At the same time (as you say in your letter to me of 16 July) we want to avoid any long term commitment to domestic rating. On principles, we are therefore in agreement. I hope you will appreciate the different circumstances in Scotland.

The dividing line between a technical change which lets a system continue smoothly and one which seems to perpetuate it is fine, and I do not accept that my own proposals have crossed it. The proposal to value commercial property direct to net annual value is a technical one, justified by the kind of rental evidence now available and mainly of interest to our assessors: it cannot reflect on our proposals to abolish domestic rating. Because a change like this can only be effective on a revaluation, it may appear to look forward to one, but it is a necessary preliminary required well in advance of any revaluation and is no commitment to revalue in a particular year. The proposed Bill offers a very convenient legislative opportunity.

You commented on my proposal (paragraph 3 of the Annex to H(79)29) to seek powers to defer a revaluation for a particular class or for all classes, indefinitely or to a particular year. A power to determine is hardly different in effect from a power to defer, where the latter is as wide as I propose and will offer much more latitude than the powers which you have to postpone revaluation for a year at a time. So there is really no difference in kind between our proposals although, as my Paper explains, the considerations affecting the next revaluation in Scotland are different and I have promised to consult the Convention of Scottish Local Authorities on the use of the power to postpone. This is probably the only item which may be at all contentious (in the eyes of the Convention at least); the others have the Convention's approval and are likely, in several cases, to be welcomed by the public.

I have looked at the possibility of including these minor valuation and rating proposals in a larger Local Government (Scotland) Bill, but no suitable Bill is available. I see no alternative to continuing with the Valuation and Rating (Scotland) Bill approved by Cabinet on 14 June (CC(79)6, Item 6) as part of the Scottish legislative programme. It should not be difficult to explain how the introduction of a Bill like this squares with our proposal to review the domestic rating system.

Finally, while agreeing in principle that our proposals on similar matters should not diverge unnecessarily, I see little opportunity for approximation. None of the minor proposals is shared and the only proposal which we have in common is the power to fix a date for revaluation, for which the statutory backgrounds are quite different at present. I should however be grateful if your clause providing a specific grant for rate relief for the disabled could be applied to Scotland; the Rating (Disabled Persons) Act is, of course, common to both sides of the Border and we share the considerations which you mention in support.

I hope this letter makes the Scottish position clearer and will shorten discussion on Wednesday. Copies go to the Prime Minister, colleagues on H Committee and Sir John Hunt.

GEORGE YOUNGER

24 JUL 1979

Treasury Chambers, Parliament Street, SW1P 3AG

20 July 1979

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

Dear Michael

Your letter of 6 July to the Home Secretary which was copied to other members of H Committee has been passed to me.

While the measures you propose to retain from the Labour Local Government Finance Bill do not have a public expenditure cost, I understand that some of them will impose a small revenue costs on local authorities of the order of perhaps £20-30 million a year when taken together.

The two proposals most likely to have this effect are that to extend payments of rates by instalments to businesses (subject to a ceiling) and that to widen the scope of domestic rate relief in relation to mixed domestic/business premises. Since these are welcome to the CBI, are acceptable to the local authorities, and were recommended by Layfield, I would not wish to object to them. However I hope that you will be able to minimise any extra burden on local authority finances by for example setting as restrictive as possible a limit on the entitlement to pay by instalments. I take it also that the proposal to extend domestic rate relief to free-standing domestic garages, which you do not mention but which was part of the relevant clause on domestic relief in the Labour Bill, will not be resurrected. That, I understand would have had a possible revenue cost of £5 million and is of little or no benefit to small businesses.

I think however that there might be something to be said for taking over two other items from the Labour Government's abortive Bill. The first would be the provision in Clause 1 of that Bill which would have enabled certain properties (all in the non-domestic sector) to be assessed direct to net annual value. I notice that in H(79)29

George Younger is proposing a similar change in Scottish Rating law. The second is the provision in Clause 2 of the Labour Government's Bill which would have enabled property to be valued by reference to a time earlier than the coming into force of a new Valuation List.

I realise that the previous administration included both these in anticipation of the revaluation which has now been cancelled and that you believe that for us to take them over could lead people to think that another revaluation is not very far off after all. I can see your point. But I do not myself believe this is a very serious danger. Whatever rating provisions we decide to include will be buried in a large Bill. We have after all no commitment to find an alternative to rating in the non-domestic sector and assessing to net annual value in particular will affect that sector only; I think it wil be a pity to lose an opportunity which may not recur to make a couple of useful, if minor, reforms.

You propose that the annual grant to LAMSAC should be regularised. I would favour this on the assumption that this grant is to be continued. We think this body probably has a role to play in helping to improve local authority efficiency and value for money. But I take it the provision would not be pre-empting any decision yet to be taken in the review of quangos.

I am content with the proposal to reimburse local authorities for rate rebates to the disabled, which I agree simply represents a transfer within the public sector because the expenditure is already being incurred.

I am also generally content with your proposals on rating revaluation.

I am sending copies of this letter to the Prime Minister member of H Committee and Sir John Hunt.

Yours ever
Nigel

NIGEL LAWSON

1. MAP to see
2. NBPM
MJ

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Tel. 01-233 3000 (Switsfwrdd)
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Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

Dear Willie

19 July 1979

Michael Heseltine wrote to you on 6 July 1979 about his proposals to include some minor improvements to the present rating system in the proposed Local Government Bill.

I believe that these measures will make the rating system fairer and more sensible and therefore support them.

I am copying this letter to Michael and to the recipients of his.

Yours ever
Nick

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

NBPM yet

Local Govt

MAP

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

16 July 1979

Dear George,

I have seen your paper H(79)29 making proposals for legislation on Valuation and Rating in Scotland in the next session. As you know I have also proposed to include some rating items for England and Wales in my own Local Government Bill this autumn in my letter to H Committee colleagues on 9 July. So it seems to me that we must try to ensure that our proposals are reasonably compatible in their basic objectives, though of course we can live with minor differences of detail, having regard to the different legislative background.

From this point of view I am rather concerned that the implication of the package you propose may seem to Parliament and the public to imply a longer-term commitment to continuation of domestic rating in Scotland than our own shorter list of items for legislation in England. For example we decided not to include the Layfield proposal for valuation of commercial property to net annual value at the next revaluation because that would tend to imply a commitment to another revaluation in the not-too-distant future. Again your proposal to take powers equivalent to my present powers to postpone revaluation by one year at a time sits rather oddly with my proposal to change my own powers so as to give me complete freedom as to when to have a revaluation, or to revalue some sectors while leaving others alone. On some of your minor proposals I would think it might also be sensible for us to aim for a common approach where possible.

In view of the above considerations I would urge you and colleagues at H Committee to agree that your proposal to change the basis of valuation for commercial property should be discarded for the time being; we could always come back to this if and when we decide on another revaluation for that sector on either side of the border.

On the timing of a revaluation I would suggest that you might like to consider taking broader powers on the lines I have suggested, which would give us greater flexibility about the timing, and which would also, I suggest, imply less commitment on your part to going ahead with a Scottish revaluation at some stage. On the minor items I do not suppose we shall want to go into detail at H Committee, but I would suggest that we might ask officials to have another look at these to see whether there is any room for closer consideration.

Finally, I wonder whether you have considered the possibility of merging these legislative proposals with any of your other Bills. It does seem to me that the very fact of having a separate Bill entirely devoted to rating and valuation matters in Scotland will itself be seen to imply a stronger commitment to continuance of the system than we intend in England. My own rating proposals will be lost in the decent obscurity of a corner of my major Local Government Bill, and will therefore I think be easier to present as essentially interim measures. Would it be possible for you to do something similiar?

I am copying this letter to the Prime Minister and colleagues in H Committee.

Yours ever

MICHAEL HESELTINE

The Rt Hon George Younger

JR

Local Govt

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

1. MR LANKESTER to see
2. PA

My ref:

Your ref:

NYM

6 July 1979

Dear Willie

I am writing to you to seek the agreement of colleagues in H Committee for some minor rating items which I propose to include in the Local Government Bill this autumn.

Following the cancellation of the rating revaluation I shall in due course be bringing to colleagues suggestions on how we should conduct our search for alternative to domestic rating. As we have all recognised however it will not be possible to abolish domestic rating immediately; and of course non-domestic rating will in any case continue indefinitely. I consider therefore that it will be useful as an interim measure to include in our local Government Bill some minor improvements to the present rating system, mainly deriving from the Layfield Report, and most of which were included in the Labour Government's uncompleted Local Government Finance Bill last session.

I attach a note setting out these items briefly. If you and H Committee colleagues are content I should be grateful for your formal policy clearance on behalf of the Committee so that we can proceed to instruct Counsel as necessary.

I am copying to (the Prime Minister), colleagues on H Committee, and to Sir John Hunt.

Yours ever

MICHAEL HESELTINE

The Rt Hon William Whitelaw CH MC MP

Rating Items for Inclusion in the Local Government Bill

1. Rating revaluation. Repeal the present statutory requirement for regular revaluations of domestic property. Repeal the present statutory requirement for regular revaluation of domestic property. Take powers to have revaluations (whether for all properties or for prescribed sectors only) at dates to be prescribed by the Secretary of State subject to affirmative resolution.

2. Payment of Rates by Instalments. Extend to businesses the right to pay rates by instalments (up to a prescribed rateable value). (Included in the Labour Bill; supported by CBI & Department of Industry Ministers).

3. Extension of Domestic Rate Relief to a wider range of "mixed hereditaments", e.g. shops or small businesses with shops over.(Recommended by Layfield; included in the Labour Bill; supported by CBI and Department of Industry Ministers)

4. Grant to reimburse local authorities for rate relief to the disabled. Advocated by Conservative members when they were in opposition and the Rating(Disabled Persons) Act 1978 was going through; included in the Labour Bill; likely to be popular with local authorities and the disablement lobby. Cost: £5 - £10 m per annum, but being a transfer within the public sector this does not count as public expenditure, and is insignificant beside the total of rate support grant.

5. Miscellaneous minor amendments to rating law to improve the administration of the rating system. (Clause 11-14 of the former Bill) Requested by the local authority associations; included in the Labour Bill; completely non-controversial.

6. A minor extension of the rate rebate system to cover the position of deserted spouses. Included in the Labour Bill; fair and likely to be popular.

7. Power to pay grant to the Local Authorities Management Service and

Computer Committee (LAMSAC). A formal provision to regularise the basis of a grant already paid under the Appropriations Act.

Local Govt

am glad to say that they are working well but they are being kept under review.

Planning Procedures (Leeds)

Sir Donald Kaberry asked the Secretary of State for the Environment what supervisory powers he exercises over the planning decisions of the Leeds city metropolitan council to ensure they comply with all requirements of Public Health Acts and Town Planning Acts.

Mr. King: The Secretary of State has default powers which he rarely exercises. He also has the power to decide appeals against the authorities' planning decisions, and the power to call in planning applications for his own decision. In addition he has a number of powers to confirm orders and directions made by the authority, including orders to revoke, modify or discontinue planning permissions.

Rating Revaluation

Mr. John Patten asked the Secretary of State for the Environment if he will make a statement on the Government's intentions with regard to the general rating revaluation for England and Wales for 1982.

Mr. Heseltine: The Government have decided to cancel the rating revaluation currently in progress. The necessary legislation will be introduced in the autumn. Meanwhile no further evidence will be sought from the public by the Valuation Office, and my advice to people who have received questionnaires about their property for the revaluation is to tear them up.

Cancellation of the revaluation will provide the opportunity for the Government to sort out the longer-term future of the rating system. It will also lead to significant manpower economies in the Valuation Office of the Inland Revenue and will save about £5 million of public expenditure over the next three years.

HOME DEPARTMENT

Citizens' Band Radio

Mr. Brotherton asked the Secretary of State for the Home Department (1) what is his estimate of the number of users of citizens' band radios in the United Kingdom;

(2) how many officials are employed in tracing and investigating users of citizens' band radios;

(3) on how many occasions to date in the current year there have been authorised raids on the homes of users of citizens' band radios; and how many prosecutions have followed.

Mr. Raison We have no information on which to base a reliable estimate of the number of people using citizens' band radios. The investigation of all forms of illicit use of radio is undertaken by the Post Office radio interference service, whose main task is the investigation of complaints of interference. No members of the service are employed primarily on investigating illicit use of citizens' band equipment. If illegal importation of equipment is suspected, officers of HM Customs and Excise may also be involved. The investigating staff do not require prior authority from the Home Office before interviewing suspected offenders. Since the beginning of this year, prosecution proceedings have been initiated against 37 persons suspected of installing or using citizens' band radios.

Mr. Brotherton asked the Secretary of State for the Home Department if he will seek to amend the Wireless Telegraphy Act 1949 so as to legalise the use of citizens' band radios.

Mr. Raison: No amendment would be necessary.

Taxi Fares (Value Added Tax)

Mr. Ron Lewis asked the Secretary of State for the Home Department if, from 18 June, taxi drivers and owners in the Carlisle area are able to charge the new VAT increases to their customers without having to apply to the local authority.

Mr. Raison: No. Fares and charges for the hire of taxis in the Carlisle area are controlled by bye laws made by the district council and it would be an offence for a driver to demand or take any additional sum by way of a charge.

Borstal

Mr. Thomas Cox asked the Secretary of State for the Home Department (1) if he will give the number of boys and girls sentenced to borstal training in each of the last three years;

(2) what is the average length of time served by a boy or girl serving a borstal sentence.

Mr. Brittan: The number of males and females aged 14 and under 17 sentenced to borstal training is published annually in "Criminal Statistics, England and Wales" (Table 5(*c*) of the volume for 1977, Cmnd. 7289). The figures for individual ages within this age group could be obtained only at disproportionate cost. Information on the number of males and females of each age received into custody under sentence of borstal training is published annually in "Prison Statistics, England and Wales" (Table 3.1 of the volume for 1977, Cmnd. 7286), but these figures are on a different counting basis.

Mr. Thomas Cox asked the Secretary of State for the Home Department if he will give the number of boys and girls in the age groups 14 years old, 15 years old and 16 years old, sentenced to borstal training in each of the last three years.

Mr. Brittan: The average length of time spent in custody after sentence by those discharged from borstals in England and Wales during 1977 was about $9\frac{1}{4}$ months for male trainees and about $7\frac{1}{2}$ months for female trainees.

Prisoners

Mr. Thomas Cox asked the Secretary of State for the Home Department if he will list the number of employment projects in each of Her Majesty's prisons in England and Wales and the total number of prisoners who are employed in such projects.

Mr. Brittan: Employment for prisoners takes many forms and I am not clear which of them the hon. Member has in mind. If he will let me know I shall consider what information is readily available.

Mr. Thomas Cox asked the Secretary of State for the Home Department what is the total number of men and women at present serving prison sentences who are classed as category "A" prisoners.

Mr. Brittan: On 31 March 1979, 252 males and 5 females classed as category "A" prisoners were serving sentences in prison department esabtlishments in England and Wales.

Mr. Thomas Cox asked the Secretary of State for the Home Department if he will give the number of men and women serving prison sentences under the category of young person for each of the last three years.

Mr. Brittan: The average daily population of males and females classified as young prisoners, serving sentences of imprisonment in prison department establishments is published annually in "Prison Statistics, England and Wales" (Table 1.2 of the volume for 1977, Cmnd. 7286).

Prison Service

Mr. Thomas Cox asked the Secretary of State for the Home Department by what date he expects to receive Mr. Justice May's report into the prison service.

Mr. Whitelaw: I refer the hon. Member to the reply I gave on 18 May to a Question by my hon. Friend the Member for Bedford (Mr. Skeet).—[Vol. 967, c. *10*.]

Harmondsworth Detention Centre

Mr. Thomas Cox asked the Secretary of State for the Home Department what plans he has to review the existing immigration detention arrangement at London Heathrow and Harmondsworth; and if he will make a statement.

Mr. Whitelaw: I am considering the recommendations on immigration detention arrangements made last Session by the Education, Arts and Home Office Sub-Committee of the Expenditure Committee. I am not yet ready to make a statement.

Mr. Thomas Cox asked the Secretary of State for the Home Department what is the present number of people who can be held in detention at the Harmondsworth detention centre.

Mr. Raison: The present aim is that the number of persons detained should not exceed 70 at any one time.

Mr. Cox asked the Secretary of State for the Home Department how much has been spent in each of the last three years in improving the existing buildings at the Harmondsworth detention centre.

RESTRICTED

DS

Press office

Local Govt

10 DOWNING STREET

From the Private Secretary

B/F 25/6/79

for Hansard

20 June 1979

Thank you for telephoning through the text of the answer which your Secretary of State proposes to give to a written Parliamentary Question, as a means of announcing today's Cabinet decision on rating revaluation.

The Prime Minister is entirely content with the terms of the answer. She has commented that the Government should ensure that maximum advantage is taken of the opportunity to present this positive decision. As I told you, we consider that tomorrow would be an unfortunate day to make the announcement as at least two other stories seem likely to have major claims on the headlines. I would be grateful if you could keep in touch with the Paymaster General's office in settling the timing of the announcement.

I am sending copies of this letter to Richard Prescott (Paymaster General's Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

Mrs. E.J. Meek,
Department of the Environment.

RESTRICTED

Rating Revaluation

Following today's Cabinet decision Mr. Heseltine proposes to make the following announcement by means of a written PQ which would be answered tomorrow.

Question: Will the Secretary of State make clear the Government's intention with regard to the general rating revaluation for England and Wales for 1982?

Answer: The Government has decided to cancel the rating revaluation currently in progress. The necessary legislation will be introduced in the autumn. Meanwhile no further evidence will be sought from the public by the Valuation Office and people who have received questionnaires about their property for the revaluation need not return them. Cancellation of the revaluation will spare the 22 million ratepayers of the country the disruption and inconvenience caused by the effects of a revaluation in 1982 while we sort out the longer term future of the rating system. It will also lead to significant manpower economies in the Valuation Office of the Inland Revenue and has saved about £5 million of public expenditure over the next three years.

We need to put the question down very shortly. Are you content?

Liz Meek
Department of the Environment

20 June 1979

10 DOWNING STREET

PRIME MINISTER

Mr. Heseltine will now announce in Parliament by Written Answer, and publicise, the decision to cancel the rating revaluation on Friday. He is in touch with Mr. Maud about handling of publicity.

MAP

20 June 1979

Ref: A09811

CONFIDENTIAL

PRIME MINISTER

Rating Revaluation
(C(79) 21)

BACKGROUND

You are familiar with this subject which you discussed recently with the Secretary of State for the Environment (your Private Secretary's minute of 25th May). Abandonment of revaluation was discussed in H Committee (H(79) 2nd Meeting) where views were strongly divided. The Secretary of State, as requested, has submitted a memorandum to Cabinet, (C(79) 21) after consultation with the Chancellor of the Exchequer. It sets out the arguments for and against the cancellation of the revaluation, and seeks agreement of the Cabinet to cancellation.

2. The main underlying issue is the future of domestic rating. The Secretary of State brings this out in paragraph 4 of his paper. His recommendation for the cancellation of the revaluation is consistent with option 4(i).

3. The differences between Ministers turn on the possibility of alternative sources of finance. Some take the view that the Government ought not to cancel the revaluation, or firmly espouse the objective of abolishing domestic rates, until they are satisfied that alternative sources of at least £2.3 billion annually are available. Others take the opposite view that the revaluation should be abandoned in the light of a long-term objective to be rid of domestic rating, with the prospect of a review of alternatives at some future date, perhaps not until the next Parliament. There is also room for a third school of thought that revaluation should be cancelled and that a review of substitute financial arrangements should be set in hand at once.

4. Apart from the question of domestic rating in England and Wales, there are two other relevant matters: (a) non-domestic rating: and (b) Scotland. The Government are committed to retaining non-domestic rating (paragraph 5 of the paper) where there are also anomalies and

and injustices between different ratepayers. There may well be criticism from commerce and industry if the present faults go uncorrected for a long period. You will therefore want to establish whether it would be practicable to continue revaluation for non-domestic properties. Sir Kenneth Berrill has minuted you separately (18th June) suggesting ways in which this might be feasible.

5. In Scotland, valuations for rating are undertaken by local authorities, not the Inland Revenue. They have been frequent and not unduly troublesome, i.e. 1961, 1966, 1971 and 1978. The next one is due in 1983 and it would require legislation to postpone or cancel it. The Secretary of State for Scotland has a Valuation and Rating (Scotland) Bill in this year's legislative programme to make minor improvements consistent with the Manifesto commitment. If the Cabinet decides to cancel the revaluation in England and Wales, the future position in Scotland will need to be considered.

HANDLING

6. After calling on the Secretary of State for the Environment to introduce his paper, you will wish to ask the Chancellor of the Exchequer for his views.

7. In the course of general discussion the arguments in 6(ii) and 6(iii) favouring abolition and 7(i) and 7(ii) in support of the status quo are likely to be the important ones. You will want the Cabinet to consider both substance and presentation. The Secretary of State for Wales could be invited to point to any specifically Welsh aspects of cancellation.

8. If there is strong opposition to the Secretary of State's paper, you might aim to see whether there is any middle ground, e.g. linked with an early review of alternative finance.

9. You will want to give the Secretary of State for Scotland an opportunity to state the distinctive Scottish position, and to consider its implications.

CONCLUSIONS

10. In the light of the discussion, you will wish the Cabinet to reach conclusions on -

(a) The Government's long-term objectives on domestic rating.

(b) The cancellation or continuation of revaluation in England and Wales.

(c) Whether, and when, a review of alternative sources of local finance should be undertaken.

(d) Whether or not the revaluation should continue in the non-domestic sector.

(e) Any implications for Scottish rating.

Jerc

(John Hunt)

19th June, 1979

CONFIDENTIAL

Qa 04157

To: MR WHITMORE

From: SIR KENNETH BERRILL

Rating Revaluation

1. The paper from the Secretary of State for the Environment to the Cabinet on Rating Revaluation (C(79)21) omits one point to which we in the CPRS think attention might be drawn.

2. An intermediate option (which was discussed at H(79) 2nd Meeting) would be to cancel domestic revaluation but to go ahead with non-domestic (industrial/commercial) revaluation. The case for different treatment of the two sectors is:

(a) the future of non-domestic rating is not open to the same doubts as domestic rating:

(b) it is the sector where the anomalies which arise are probably more serious:

(c) unlike the domestic sector, there is plenty of market evidence of current rental values for non-domestic property on which a revaluation can adequately be based.

3. This option was criticised in H Committee on the grounds that it would result in disproportionately high rate burdens for industry and commerce. Revaluation would indeed lead to valuations for the non-domestic sector which on average would be between twice and three times as large as the present list. But it would be possible to correct for this (e.g. by an adjusted poundage for the non-domestic sector or by a reduction of domestic rate relief) so that the revaluation corrected maldistribution of the burden within the non-domestic sector without increasing its total burden relative to the domestic sector.

CONFIDENTIAL

4. The net savings of this 'intermediate option' would be only slightly less than full cancellation - about £4m. instead of £5m. (About two-thirds of the permanent staff, and all the casuals are needed for the domestic rather than the non-domestic revaluation.)

5. If the Cabinet generally favour cancellation, they might wish to consider whether this option of limiting cancellation to the domestic sector only should be given urgent consideration before any announcement of total cancellation is made.

6. I am sending a copy of this minute to Sir John Hunt.

KB.

18 June 1979

Local Govt.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 8 June 1979

The Prime Minister has seen your Secretary of State's paper on rating revaluation (H(79)12) which is to be considered by H Committee.

She has commented that this is an excellent paper.

I am sending copies of this letter only to John Chilcot (Home Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

D.A. Edmonds Esq
Department of the Environment

CONFIDENTIAL

2.

10 DOWNING STREET

Prime Minister

In your meeting with Mr. Heseltine a couple of weeks ago, you asked him to cancel the rating revaluation which has recently been set in motion. You invited him to submit a paper on this subject to Cabinet quickly if this were necessary.

H(79)12

He has now submitted the attached paper to H Committee. In it, he examines the arguments for and against: he concludes with a recommendation for cancellation, and proposes that this should be presented as a suspension of the revaluation work whilst the future of the rating system is considered more deeply.

MAP.

8 June 1979

Excellent paper
MT

CONFIDENTIAL

Mr Chipperfield

RATING REVALUATION

At a meeting earlier today with the Secretary of State and Mr John Stanley, the Prime Minister said that she did not want the current rating revaluation to proceed. We suggested that legislation (possibly secondary) would be needed to stop the revaluation; the Secretary of State said that if need be a provision would be put in the Local Government Bill; otherwise we could proceed by making another Order. The Prime Minister had in mind that an early announcement should be made, so that people were not required to fill up the forms currently being distributed.

Obviously the colleagues generally must be told. But perhaps the first thing is to let the Treasury and Inland Revenue (and Scots and Welsh?) know. Thereafter a letter from the Secretary of State to colleagues generally will be needed.

This has implications for the future of the rating system generally, on which I will be separately in touch with you. Can you take this suspension of revaluation forward; the Secretary of State has asked that Mr King should consider this and put forward proposals as necessary.

CE

pp J Garlick

25 May 1979

cc. PS/Secretary of State
PS/Mr Tom King
PS/Mr John Stanley
Mr Heiser
Mr M Pattison (No 10)

126 15

Original filed Housing (Bill) May 79

10 DOWNING STREET

From the Private Secretary

25 May 1979

Your Secretary of State called on the Prime Minister today to discuss housing policy.

For the most part, the discussion was wide ranging and exploratory. I do not propose to circulate any detailed note. Your Secretary of State outlined some of the measures he intends to include in legislation this autumn, and explained the way in which he had been exploring the various prospects and possibilities in the housing field. The Prime Minister made it clear that she was most encouraged by the start that he had made in these responsibilities, and that she was aware of the complex problems yet to be faced. She strongly supported his intentions to minimise controls at local level which cause expensive delay in building, and also his proposals to switch the emphasis from spending on new building to spending on rehabilitation. The Prime Minister also expressed her enthusiasm for a considerable expansion of home-steading schemes.

In discussion of proposals for short leasehold arrangements, the Prime Minister emphasised that in her view these arrangements would only work if ways could be found to expedite court procedures. Mr. Stanley said that this was now under discussion with the Lord Chancellor's Office.

Discussion later turned to local authority finance. The Prime Minister instructed the Secretary of State to cancel the rating revaluation exercise currently in progress. She said that, if there were problems in doing this, she would be ready to have it discussed in Cabinet at an early stage. The Secretary of State agreed to report to her on this shortly. The Secretary of State drew attention to the problems that could arise over rates in 1980, and proposed that this should be tackled by setting up separate cash limits for each authority. The Prime Minister agreed with this approach.

I am sending copies of this letter to Martin Hall (HM Treasury) and Martin Vile (Cabinet Office).

M. A. PATTISON

David Edmonds, Esq.,
Department of the Environment.

cf Master Set

NOTE FOR THE RECORD ON THE PRIME MINISTER'S DISCUSSION WITH THE SECRETARY OF STATE FOR THE ENVIRONMENT AT 10 DOWNING STREET AT 11.30 A.M. ON 25 MAY 1979

Present

The Prime Minister
Secretary of State for the Environment
Minister of State for Housing (Mr. John Stanley)
Sir John Garlick
Mr. T. Heiser
Mr. M.A. Pattison

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There was a wide ranging discussion of problems and prospects in the housing sector. The main themes of discussion only are noted below.

In response to the Prime Minister's invitation to state how the Government could begin to tackle the many problems in housing, the Secretary of State said the first legislation would come in the Housing Bill in the Autumn. This would deal primarily with council house sales, but also with a recasting of local authority housing subsidies. There should be a massive switch of resources into rehabilitation: the Government would use the project control mechanism for achieving this in the context of the public expenditure cuts.

The Secretary of State explained that, in preparing its strategy on housing, his Department had called in all major house building pressure groups and invited them to list the steps which they considered would help to increase the supply of housing. As a result of this, all conceivable Government initiatives were being examined. Over a period of a few weeks, a programme would be developed in each case. He then proposed to make a major speech showing that the requested steps had been set in hand, and

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requiring an equivalent response from the housing industry and housing groups.

The Prime Minister welcomed the promosing start achieved by the Secretary of State in his Department. She drew attention to many individual problems. Should the older unsaleable blocks be demolished - and even some more recent ones. It seemed wise to sell empty houses, thus offering these as an alternative to those at present accommodated in unacceptable tower blocks etc. In recent years, an unhealthy environment had been created in many large scale public housing estates. Smaller units had much more chance of success. Local authorities must be persuaded to yield houses which had been bought and boarded up over a period of many years. Homesteading schemes should be encouraged more widely. Whilst the short leasehold scheme now being developed in the Department was a step in the right direction, this would not succeed on a large scale unless the court procedures for removing bad tenants could be expedited.

The Secretary of State drew attention to the limitation of current powers in some of these areas. He had the power to direct local authorities to release vacant land, but not to release vacant property at present. In respect of the request to speed the judicial procedure for tenancy violations, the responsibility would lie with the judiciary not his Department. He acknowledged the Prime Minister's idea that this should be built on to the small claims court principle.

In further discussion the Secretary of State drew the Prime Minister's attention to the steps proposed on the housing revenue account, the need to improve the information on housing waiting lists to produce real figures on housing need, and to consider the question whether private tenants should have first refusal on blocks of flats when the landlord chose to sell.

There was some discussion of the long term view of the private rented sector. The Secretary of State pointed to the

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long term political uncertainty for the private landlords regardless of the measures taken by this Administration. He wondered whether some political guarantees could be offered by both parties. The Prime Minister saw no future in this approach.

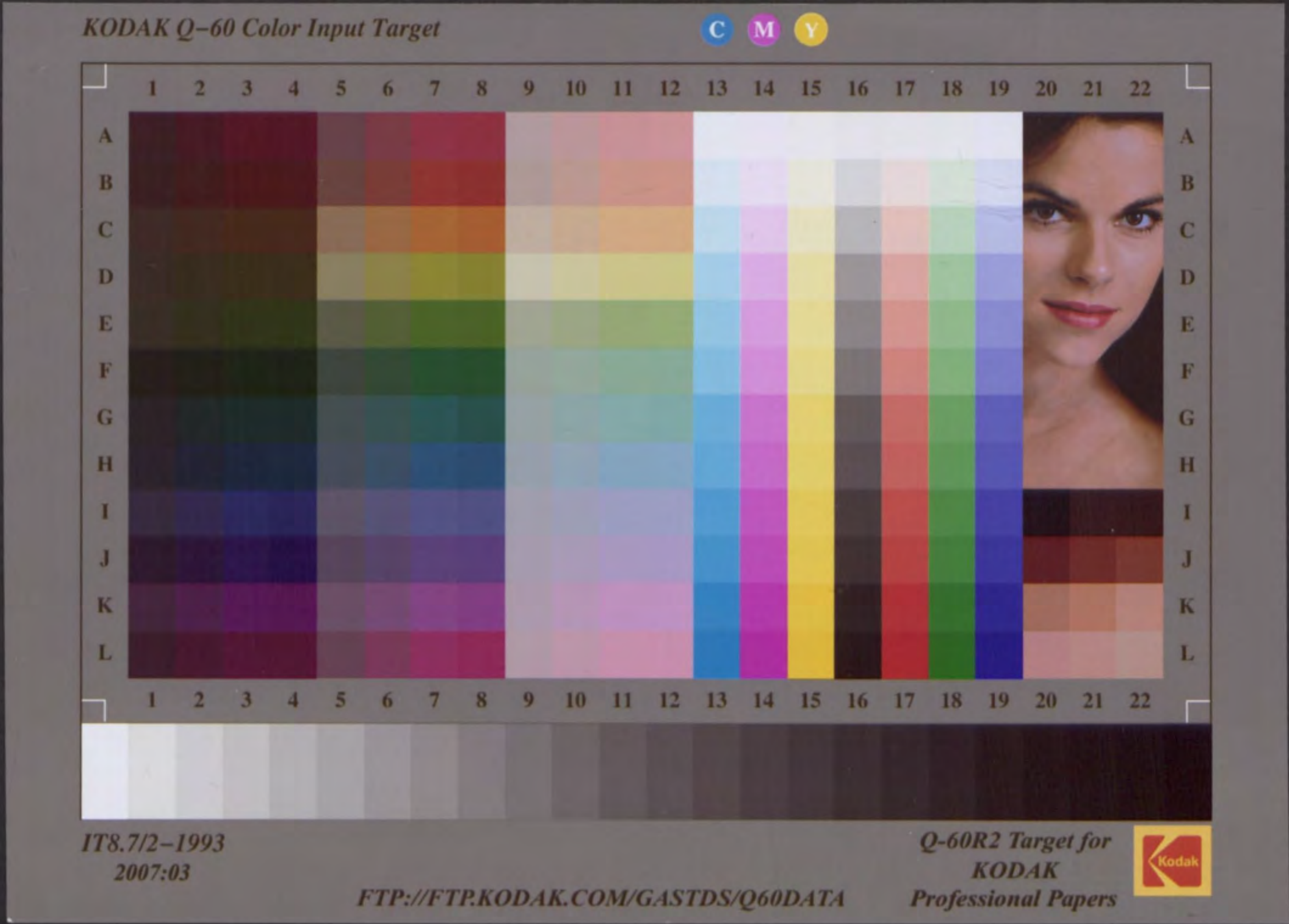
The Prime Minister emphasised the long term objective of eliminating subsidies in housing for the great majority of people. At the same time, the rate of house price increases made it impossible for most young people to enter the market. The release of publicly owned housing must be sufficiently rapid to bring the lower end of the market back within the range of the majority of people.

Discussion turned to local authority finance, and local authority spending controls, in the context of the time taken to complete dwellings and the cost implications of this. The Secretary of State drew attention to the prospects on rates for next year, given the likelihood that local authorities would not cut current expenditure, but would load the rates. The Prime Minister agreed that it would be necessary to apply cash limits, and accepted the Secretary of State's advice that these would have to be set authority by authority to avoid strengthening the position of those who already controlled relatively large proportions of expenditure in their areas.

The Secretary of State drew attention to the rating revaluation exercise recently launched. The Prime Minister instructed that this should be suspended forthwith with legislation to be introduced if necessary. The Secretary of State said that this could be done in the forthcoming Miscellaneous Provisions Bill and that he would put it back to the Prime Minister. There followed a discussion of the principle of raising local finance through rates. The Prime Minister considered this to be a thoroughly unfair and unequitable system of taxation which she did not wish to perpetuate. The main burden of financing local authority expenditure should eventually be transferred to/ taxes on spending.

The meeting concluded with some discussion of the future use to be made of Somerset House, but no decision was reached.

25 May 1979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