PREM 19/1560

PART 26

MT

Confidential Filing

Relations between Central and Local Government
Local Authority Expenditure
Local Authority Elections
Abolition of GLC and MCC's

LOCAL GOVERNMENT
Pt 1: MAY 1979
Pt 26: APRIL 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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31.5.85							
ENDS							

PART 26 ends:-

AT 10 PM 31.5.85

PART 27 begins:-

AT 10 DOE 3.6.85

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 13th Conclusions, Items 1	18.04.85
CC(85) 15th Conclusions, Item 1	02.05.85
E(LA)(85) 5	07.05.85
CC(85) 16th Conclusions, Item 1	09.05.85
E(LF)(85) 1	14.05.85
E(LF)(85) 2	14.05.85
CC(85) 17th Conclusions, Item 1	16.05.85
E(LF)(85) 3	16.05.85
Most Confidential Record to E(LF)(85) 1st Meeting	20.05.85
CC(85) 18th Conclusions, Item 5	23.05.85

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 BWayland Date 20 February 2014

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.

Revising the Rating System by Douglas Mason
Published by The Adam Smith Institute, 1985
[ISBN 0-906517-70-2]

Signed PWayland Date 20 February 2014

PREM Records Team

E.R.

CR Please arrange

MR. ~~TURNBULL~~

I have spoken to Mr. Thomason (Leader of the Association of District Councils).

1. He has agreed to come in with the other leaders.

2. He will write to the Prime Minister privately either before or after that meeting.

Once you have agreed that this meeting should take place , I leave it to you to pass to Caroline to fix up.

SS.

STEPHEN SHERBOURNE
31.5.85

Mo

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File →

~~AT~~ ~~AO~~ 2

2 MARSHAM STREET
LONDON SWIP 3EB
01-212 3434

My ref:

Your ref:

28 May 1985

Prime Minister

Mr Jenkin's proposed strategy for the Report and Third Reading of the Abolition Bill is summarised at the foot of page 2.

Why do we need yet another advisory body?

Dear Lord President

LOCAL GOVERNMENT BILL

I have been considering our response to the reverses that we have suffered in Lords Committee. I accept entirely your view that we should not attempt to overturn any defeats until the Bill returns to the Commons - and that we must look at the overall position after Report before taking final decisions. Nonetheless our handling of the Bill at Report and Third Reading must take account of the action we intend to take.

We were defeated on four issues - countryside matters, highways and traffic management, waste disposal, and the review of ILEA - and reluctantly accepted an amendment on trading standards, subject to necessary tidying up. The attached note by my officials considers these five issues. I agree with the proposals which are summarised in para 10 of the note. There are three points that I would add.

The first concerns ILEA. Clearly the Opposition would like to remove altogether the power to break up ILEA by order - indeed, the logical course for them to take would have been to delete clause 21 altogether. However, I have spoken to the Bishop of London since the debate and I believe that the line suggested in Annex E to the officials' note would satisfy him. (We have, of course, undertaken to let the consequential amendments that were not included in Committee go through on the nod.)

Second, some of the amendments carried against us do not sit well with the remaining provisions of the Bill. In particular, the amended provisions on highways and road traffic are unsatisfactory. I recognise that it is not desirable to send the Bill back to the Commons in this condition. However, the provisions are not completely unworkable; and, since tidying up at Report would be a major task in terms of policy development and drafting (including the replacement of the whole of Schedules 4 and 5) and would be seen as an indication that we were leaning towards acceptance of the principle of retaining strategic highways authorities (which is anathema to our supporters in local government), I think we must leave any consequential tidying up until the Commons.

The third point concerns trading standards. Rodney Elton indicated when he accepted the amendment that some tidying up could be needed at Report. The proposals in Annex F to the note go beyond what is strictly necessary here. But I am sure that we should put limitations on the use of the reserve power and, in particular, give time for the new system to prove itself. We shall, of course, need to clear our lines with Niall Drumalbyn before tabling amendments for Report.

In addition to these issues, we have to consider our line on Planning. Here, the Opposition withdrew their amendments providing for statutory joint planning authorities, partly at least because Rodney Elton indicated a willingness to consider John Sandford's amendment requiring the London boroughs to set up an organisation - not a full-scale Authority - to deal with strategic planning issues. I believe that we must be prepared to amend the Bill on these lines if we are to persuade some of our supporters to oppose further amendments providing for strategic planning authorities..

If we amended the Bill in this sense at Report, there is a clear risk that extra functions would be added to it and that it would develop into a multi-purpose Voice for London. I therefore propose that, at Report, we should give a clear indication of our intention to amend the Bill, but should not bring forward the amendment until Third Reading. This should secure John Sandford's support and enable us either to persuade the Opposition not to press their amendment at Report, or to defeat it if it is moved.

Although John Sandford's amendment related to London, the same general arguments do, of course, run in the Met counties. The case for statutory arrangements is much weaker there, and I would far rather avoid them if at all possible. But it may be necessary to give an undertaking to consider, without commitment, at Report, if the Opposition amendments, which will deal with London <u>and</u> the Mets are to be successfully resisted.

I attach at Annex A a summary of the main points that would need to be recovered if the Bill was to provide for a statutory planning body. The suggested functions are deliberately restricted, so that the body would clearly have a purely consultative and advisory role. If such a body were conceded for London it would replace the proposed Planning Commission.

I am discussing the proposals affecting their functions with Keith Joseph and Norman Tebbit. I am also in touch with Nicholas Ridley both about the defeats and about the Government amendments to Schedule 5 which were not covered following those defeats. I thought however, that I should let you have my views on overall handling as soon as possible. If you agree with the line that I propose, the action needed at Report will be:

a. to accept without further debate the consequential amendments relating to the ILEA review which were not included in Committee.

b. to say nothing about our intentions in relation to the four defeats. If pressed, our line should be that the Government will consider the overall position when the Bill has completed its Lords stages;

c. to bring forward amendments to the trading standards reserve power; and

d. to indicate our intention to amend the Bill at Third Reading to provide for an advisory/consultative planning body in London; and, if pressed, to consider extending this to the Met counties also.

I shall be glad to know whether you agree with this approach. I should, of course, be happy to discuss my proposals with you if you think that a meeting would be useful.

I am copying this to the Prime Minister, to the Business Managers in both Houses, to Sir Robert Armstrong, and to First Parliamentary Counsel.

Yours sincerely
AH Davis
for
PATRICK JENKIN
(Approved by the Secretary
State and signed in his absence)

The Rt Hon Willie Whitelaw CH MC

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ANNEX A

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LONDON BOROUGHS' JOINT COMMITTEE ON PLANNING

1. The LBC's should be required to establish a joint committee of members.

2. The minimum functions of the committee might be:

a. to consider and advise the LBC's on any matters of common interest affecting the planning and development of Greater London;

b. to advise the Secretary of State of the views of the LBC's on any matters affecting the planning and development of Greater London on which they are consulted by him.

c. to inform the local planning authorities for areas contiguous or adjacent to Greater London, and any body representative of those authorities, of the views of LBC's on any matters of common interest relating to the planning and development of Greater London and those areas.

3. The Committee should not be a corporate body. The Bill should not give it a name.

4. Apportionment of costs among all LBC's would be determined by agreement, or in default by the Secretary of State (cf. cl 93(6)). There could be a limit, adjustable by order, on the total expenditure of the Committee.

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Local Government Bill

Responses to Changes Forced in Lords Committee

Paper by DOE Officials

Purpose

1. This paper analyses the changes forced upon the Government during Committee stage in the House of Lords and considers the options for responding to them. It does not cover minor changes which were agreed in principle in Committee and on which amendments will be made on Report.

Changes

2. The following changes have been made to the Bill against the Government's wishes:

a) The Secretary of State is to be required to report to Parliament before abolition day on steps to secure the protection of the countryside.

b) Highways and traffic management functions to be passed to the Residuary Body in London, and to the PTA joint authorities in the MCs.

c) Waste regulation and disposal functions to go to joint authorities in London and the MCs.

d) Removal of duty to review ILEA and to implement review by secondary legislation.

3. In addition, faced with the prospect of defeat, Lord Elton accepted an amendment providing a reserve power to set up statutory joint authorities for trading standards.

Assessment

4. The proposed transfer of highways functions to the London Residuary Body is totally unacceptable in abolition policy terms because the residuary bodies are only intended to be temporary bodies with a role limited to sorting out residuary matters after abolition. Even if the Opposition substituted a Joint Authority for the Residuary Body on Report (as they may seek to do) this would be very damaging. Taken together, the changes amount to a substantial and unacceptable shift in the policy away from giving functions to the lower tier and towards statutory joint arrangements.

5. The Lords have not yet voted on planning. An amendment providing for planning to continue on a county-wide basis was withdrawn following a commitment to Lord Sandford to consider his amendment providing for a borough-based body to coordinate planning policies in London. There is, however, a strong possibility that the Opposition will press an amendment on Report providing for statutory joint arrangements for planning in London and the MCs, in effect replicating the present two-tier planning system. This might be done either through freestanding joint planning authorities, or by merging planning, highways and transport into single joint authorities in the MCs and planning and highways in London. Either would be very damaging and totally unacceptable.

Handling

6. It will not be possible for Ministers to take a final view of their reaction to the changes imposed by the Lords until the end of Report stage. But handling at Report and Third Reading must take account of Ministers' intentions even if action has to wait until the Bill returns to the Commons.

7. There appear to be three options for handling the changes:

(a) Accept the change now and, if necessary, tidy up on Report. This is only feasible where it is clear that there will be no interaction with decisions taken on Report.

(b) Attempt to change the policy on Report, ie to revert to the original or substitute a fallback. This is probably only feasible for minor changes, or for changes where there is a new fallback to offer.

(c) Leave any changes to the Commons. This would mean accepting that the Bill which goes back to the Commons would be less than satisfactory in terms of drafting. There would then be three options:

(i) overturn the change and revert to the original policy;

(ii) offer an alternative; or

(iii) correct the drafting defects in the Commons.

8. There will also be a limited opportunity to make changes at Third Reading, but these will be confined to fulfilling any undertakings given on Report.

Proposals

9. Annexes A-F attached review each of the changes set out in paragraphs 2-3 and recommend the course of action which looks the most feasible at this stage.

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10. In summary, this is:

Countryside (Annex A) - reconsider in Commons only if other amendments requiring reports are imposed.

Highways in London (Annex B) - reverse in Commons.

Highways in MCs (Annex C) - reverse in Commons.

Waste disposal (Annex D) - reverse in Commons if possible, but be prepared to compromise on temporary statutory joint authorities.

Review of ILEA (Annex E) - reinstate clause 21 in the Commons, but be prepared to compromise by making only the first review subject to implementation by secondary legislation.

Trading standards (Annex F) - tidy up and modify trading standards reserve power at Lords Report.

Conclusion

11. Ministers are invited to endose the proposals set out in paragraph 10.

LGR Division
DOE
2 Marsham Street
23rd May 1985

COUNTRYSIDE

Policy

1. The GLC and MCC interests will be transferred to the boroughs and districts who already have concurrent powers on most recreation and countryside matters (Clause 6 and Schedule 3 provide for the transfer of the few uniquely upper tier functions). It will be for successor authorities to decide on the level and organisation of the provision of countryside facilities, including arrangements for cross boundary countryside management schemes in country and river valley parks in the metropolitan counties and for specialist terms such as the GLC's Ecology Unit.

Amendment

2. The amendment inserts into Clause 6 a requirement for the Secretary of State to lay a report before Parliament before 1 April 1986 on the steps he will take to ensure the full adoption by boroughs and districts of the facilities, services and responsibilities for the protection and enjoyment of the countryside which serve the continuing needs of the wider country areas and neighbouring populations.

Assessment

3. The amendment is clearly aimed at ensuring that the successor authorities are encouraged to give priority to countryside matters and pick up the GLC and MCCs activities more or less intact. The requirement for a report by the Secretary of State does not, however, in any way affect the transfer of functions under the Bill or place any additional requirements on successor authorities.

Handling

4. The options are:

a. to accept the amendment and the requirement for a report as it stands - this would entail some additional burden on the Department in preparing the report and the report itself might encourage the Countryside Commission to redouble their efforts for more funds to replace GLC/MCC input. However, provided acceptance did not provoke amendments for reports on other matters, it would not affect abolition strategy.

b. to attempt to overturn on Report in the Lords - this would probably require firm commitments on both the future of the GLC's Ecology Unit and funding for the Countryside Commission, and possibly the Nature Conservancy Council, to take on the GLC and MCCs' role. The residuary body might provide a temporary home for the GLC and other specialist teams, but the functions must go to the boroughs and districts and any additional pump-priming funding for the relevant quangos would not give the opposition all they want, namely a guarantee that all the GLC/MCCs' activities in this field will be continued in perpetuity.

c. to attempt to overturn in the Commons - if there was no attempt to overturn on Report in the Lords but further amendments were carried requiring reports on other matters, it might be necessary to consider overturning them all in the Commons. If an attempt to overturn this amendment on Report failed in the Lords it would probably be unnecessarily provocative to attempt to overturn in the Commons.

Recommendation

5. Accept amendment - but be prepared to reconsider in the Commons if other amendments on countryside matters or requiring reports are carried at Lords Report.

LONDON HIGHWAYS AND TRAFFIC

Policy

1. At present there are 3 tiers of highway authority in London; the Secretary of State for trunk roads, the GLC for "metropolitan roads" and the boroughs for local roads. There are, however only 2 tiers for traffic management; the Secretary of State, who is responsible for trunk roads and has reserve powers over all other roads, and the GLC. Clause 7 and Schedules 4 and 5 remove references to the class of metropolitan roads and provide for the boroughs to take over as highway authority for most of the GLC's roads with the remainder to be trunked by order and pass to the Secretary of State. On traffic management the Bill as drafted provides for GLC's responsibilitie on all non-trunk roads pass to the boroughs subject to:

   a. guidance from the Secretary of State backed up by new reserve powers to protect the interests of the wider area;

   b. the designation of a strategic network of trunk and non-trunk roads with the borough councils being required to seek the consent of the Secretary of State to their traffic management proposals on the latter or otherwise affecting the network;

   c. a new reserve power for the Secretary of State to take over the management of the computerised Urban Traffic Control System if the boroughs are unable to make satisfactory voluntary joint arrangements for it.

2. On support services it will be for the boroughs themselves to make arrangements for specialist terms (eg. bridge maintenance) and for traffic and travel data - probably by means of Clause 86 arrangements - with some increased input from the Department of Transport.

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Amendment

3. The amendment inserts a new clause before Clause 7 requiring the Secretary of State to make an order taking effect on 1 April 1986 providing for the London Residuary Body (LRB) to take on nearly all the GLC's highways and traffic functions except for traffic management on local roads over which the LRB is to have reserve powers only. The effect is:

a. to reinstate the class of metropolitan roads and the present 3 tier system of highway authorities

b. to devolve traffic management on local roads to the boroughs and subject to guidance from the LRB which will also have reserve powers on proposals affecting its metropolitan roads. This will create 3 tiers where only 2 exist at present;

c. to provide a strategic highway authority to assemble and disseminate road traffic and transport data and research and to control, manage and maintain the Urban Traffic Control System;

d. to provide a strategic body with powers to give road safety information and training, to establish concessionary fare schemes and to give grants to voluntary bodies providing transport services.

e. to give all these strategic and executive functions to a temporary appointed body - which the opposition presumably intend to turn into a joint board at a later date.

Assessment

4. Although after this amendment was carried Clause 7 and Schedules 4 and 5 were moved to stand part of the Bill, the order making power in the new clause is wholly incompatible with the overall policy of transferring functions to the boroughs and districts.

Handling

5. The options are:

a. to accept the amendment and make consequential

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changes to the Bill at Report in the Lords - this can be discarded, the reinstatement of 3 tiers of executive highway authorities and the creation of another tier of responsibility for traffic management runs completely counter to the proposals for streamlining and devolving these functions. Similarly the assumption of long term strategic and executive functions by the LRB is wholly outside policy for such bodies.

b. to attempt to reverse on Report in the Lords - The proposal for residuary bodies to take active steps to offer a temporary home for specialist teams and the revised Clause 86 will meet some of the concerns expressed by supporters of the amendment. There are however no concessions that can be offered on the basic principle of the reestablishment of 3 tiers of highway authorities. The creation of a third tier of traffic management responsibility could probably be more easily overturned on the grounds of unnecessary complexity. However, given the existence of a strategic highway authority, the obvious way round this would be to recombine all local authority traffic responsibilities at LRB rather than borough level which would run counter the policy of devolution of functions and is therefore to be avoided.

c. to reverse in the Commons.

Recommendation

6. Reverse amendment in Commons.

MCC HIGHWAYS AND TRAFFIC

Policy

1. Unlike in London, at present there are only 2 tiers of highway and traffic management authorities in the metropolitan counties; the Secretary of State, who is responsible for trunk roads, and the MCCs who are responsible for all other roads - subject only to the Secretary of State's existing reserve powers on traffic management. Clause 7 and Schedule 4 and 5 transfer the MCCs' highways and traffic responsibilities to the district councils subject only to;

   a. guidance from the Secretary of State backed up by reserve powers to protect the interests of the wider area; and

   b. a new reserve power for the Secretary of State to take over the management of any cross boundary Urban Traffic Control systems if the districts are unable to make satisfactory voluntary joint arrangements for them.

2. On support services it will be for the districts themselves to make arrangements for specialist teams (e.g. bridge/road maintenance) and for traffic and travel data - probably under Clause 86 arrangements - with some increased input from the Department of Transport.

Amendment

3. The amendment inserts a new clause before Clause 7 requiring the Secretary of State to make an order, taking effect in 1 April 1986, providing for the metropolitan county joint passenger transport authorities to take on the MCC's highway and traffic management responsibilities in relation to principal (ie main) roads only; responsibility for issuing guidance to the districts as to traffic management on other roads; bridge construction and maintenance; road safety and data collection and analysis. The effect is;

   a. to create 3 tiers of highway and traffic authorities where only two exist at present by devolving some but not all of the MCCs functions;

b. to create a multifunction joint authority;

c. to provide a strategic highway and traffic authority to take responsibility for specialist bridge maintenance teams, road safety, data collection. Unlike 58C, the amendment does not specifically refer to Urban Traffic Control systems, however many of the computerised traffic signals will be on principal roads.

Assessment

4. As with amendment 58C this amendment is wholly incompatible with the policy of transferring powers to the boroughs and districts set out in Clause 7 and Schedules 4 and 5.

Handling

5. The options are;

a. to accept the amendment and make consequential changes to the Bill at report in the Lords - as with 58C this can be discarded; the creation of a third tier of highway and traffic authority and a multifunction joint authority is wholly outside policy.

b. to attempt to reverse on Report in the Lords - the arguments against another tier combined with a role for residuary bodies in maintaining bridge maintenance and road safety teams and Clause 86 for data collection, offer better prospects for reversal than exist for 58C. It would, however, be difficult to separate the two.

c. to reverse in the Commons.

Recommendation

6. Reverse amendment in Commons.

Waste Disposal

Policy

1. The Bill as introduced provided for waste regulation and disposal functions to be devolved to the boroughs/districts, with a reserve power for the Secretary of State for the Environment to establish joint authorities for some or all of those functions in all or part of any metropolitan area if he was not satisfied that there was adequate voluntary joint arrangements for the discharge of those functions.

Amendment

2. Lord Cranbrook's amendment (No 73), which was carried, provides for joint authorities in London and each metropolitan county to discharge waste regulation and disposal functions from abolition. The amendment is technically defective.

Assessment

3. There are 4 options:

(a) totally to overturn the defeat and reinstate the provisions as they left the Commons;

(b) to concede joint authorities, although perhaps without precepting powers, for hazardous waste and regulatory functions whilst providing for devolution of other functions to boroughs/districts although with a reserve power;

(c) to concede joint authorities for all waste disposal functions but to require the Joint Authorities, after consulting the boroughs/districts, to submit plans for the winding up of the joint authorities;

(d) to accept the amendment and limit changes to necessary tidying up.

4. Ministers will not wish simply to concede (option (d)) on such an important function. Ideally, the amendment should be overturned (option (a)), although Ministers should be aware that they would be open to criticism if, subsequently, they had to make extensive use of the reserve power. If it becomes clear in the Commons that a compromise is going to be necessary, the choice would lie between option (b) and option (c).

5. The minimum functions which could sensibly be transferred to a joint authority for hazardous waste and regulatory functions (option (b)) are:

- site licensing;
- operation of special waste regulations; and
- operation of associated scientific/technical facilities although not a statutory function, the transfer of these facilities to joint authorities would increase their role and size).

These functions taken together amount to some 10% of the total waste regulation and disposal function in expenditure and manpower terms. Option (b) would be a significant concession, and by dealing with hazardous waste it would go to the heart of the principal concern expressed on the Bill. It would, however, probably still be necessary to exercise the reserve power to establish joint authorities for other operational functions at least in some areas, and there would be very little time in which to determine the most appropriate arrangements.

6. Option (c), temporary joint authorities on abolition,

may be the most effective form of damage limitation. The Bill would provide for joint authorities for all waste disposal functions from 1 April 1986 but would place a duty on the boroughs/districts by, say, 30 June 1986 to submit detailed proposals for taking over those functions individually or in groups. There would need to be provision for that subsequent transfer by order. This option would allow proper time for sensible planning for the boroughs/districts to assume responsibility on, say, 1 April 1987. It is the arrangement for which many Conservative authorities have been pressing since the White Paper. It could be presented as a response to the failure of Labour-controlled boroughs/districts to plan for takeover of the function and to the further uncertainty introduced by the Lords amendment.

Recommendation

7. Reverse amendment in Commons if possible. If a compromise is needed, amend to provide for temporary joint authorities.

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Review of ILEA

Policy

1. The Bill originally provided (clause 21) that the Secretary of State must review the way in which ILEA carried out its functions by end March 1991 and may review it at any time thereafter. The purpose of the review would be to determine whether the functions should be transferred to or divided between all or any of the boroughs. The results of the review could be put into effect by order subject to affirmative resolution procedure. The Secretary of State would therefore have power to break up ILEA without primary legislation.

Amendment

2. The amendment changed the duty to review to a power to review. Because of a misunderstanding the amendments to delete the Secretary of State's power to implement the review by order were not moved, but the Government have given an assurance that if moved they will be accepted on Report as a consequence of the amendment made in Committee.

Assessment

3. The ILEA review power accords with the general abolition policy of giving as many functions to the boroughs as possible. However, education has never been a borough function in inner London and break up of ILEA has never been seen as an essential part of abolition policy.

Handling

4. Although not central to abolition policy, to delete clause 21 would be a major concession. Ministers will wish to reinstate it in its entirety at CCLA. A possible compromise might be:

- to reinstate provision for a mandatory review by 1991 but provide that the power to implement any determination as a result of that review by affirmative order only applies up until 31st March 1991; and

- retain discretion for subsequent reviews, but make implementation of any determinations as a result of those reviews subject to primary legislation.

Recommendation

5. On Lords Report accept consequential amendments without commitment. Reinstate original clause 21 in the Commons, but be prepared to compromise by making only first review subject to implementation by secondary legislation.

ANNEX F

Trading Standards

Policy

1. The policy is that trading standards should be a district function (it is already a borough function in London) but that the districts in each county should be required to establish a joint committee to seek to coordinate enforcement.

Amendment

2. Ministers accepted amendments requiring the joint committees to be established by 1st September 1985, specifying that their duty should be to coordinate enforcement, rather than "to seek" to coordinate, and placing a duty on the committees to coordinate preparations for taking over trading standards functions. These amendments need some minor drafting changes but are otherwise acceptable.

3. Ministers also accepted reluctantly and subject to necessary tidying up - an amendment by Lord Drumalbyn providing a reserve power for the Secretary of State, if he considers it necessary or expedient, to transfer the trading standards functions to statutory joint authorities.

Assessment

4. Given that the reserve power was conceded, it has to be retained. But it does need substantial amendment to ensure that it serves its intended purpose. Moreover, some policy changes are desirable.

5. As the draft stands the Secretary of State could use his power to set up a joint authority at any time from Royal Assent. However, until the districts (working with the joint committees) have been running the service for a while the Secretary of State will be unable to judge whether the new arrangement is appropriate. There is, therefore, no question of using the power until some time after the abolition date. To prevent lobbying for the instant use of the power it would

be desirable to provide expressly that it would not be used until after the abolition date. In addition, it would be desirable for DTI Ministers to declare their intention not to use the power until the new arrangements have been in operation for a reasonable period of time. It would however be necessary to qualify such a declaration if it were not to be judged to be fettering the Secretary of State's discretion on whether it is "necessary or expedient" to use the power. To overcome these problems it should be provided expressly that the reserve power could not be used until, say, three years after the abolition date.

6. The amendment as drafted provides for the joint authorities to be established using negative resolution procedure. Clause 41, providing for secession from joint authorities, is subject to affirmative procedure. The reserve power (now deleted from the Bill) to establish waste disposal joint authorities was subject to negative procedure. This was chosen rather than affirmative because of the strong possibility that the power would need to be used in some form in the early autumn when Parliament might not be sitting. There is no such constraint on the trading standards power and it seems appropriate to subject its use to affirmative procedure.

Handling

7. There is a commitment to tidy up the reserve power on Report. It would be desirable to make any other changes to the trading standards provisions at the same time.

Recommendation

8. The trading standards reserve power should be tidied up on Lords Report and policy changes on the lines set out in paragraphs 5 and 6 should be incorporated.

18F

29 MAY 1985

010

cc NO 2

SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

Prime Minister

28/5

SITUATION REPORT ON SETTING OF RATES

Colleagues may like to have a short report on where we now stand regarding obstruction tactics by rate limited and other local authorities.

Since the last MISC 109 meeting there has been a steady trickle of rate setting by initially obstructive authorities. The position is now that only one non-rate limited authority, Liverpool, is still without a rate. Of the rate limited authorities, the most recent and most significant to set a rate were Sheffield, and last week Hackney. Five authorities, all in London, (Camden, Greenwich, Islington, Lambeth, Southwark) are still holding out. But most of these are having frequent meetings at which increasingly close votes are held on fixing of a rate. It is clear that the surcharge/disqualification pressures are having the substantial effect we expected.

So far, these authorities do not seem to have encountered severe financial difficulties, and the market has shown no sign of nervousness. However, the date of 31 May is a significant one, because a ratepayer obtained a Court order against Hackney requiring them to make a rate by that date, which they have now done and the London auditor has made clear to the London authorities that he will begin to take action if no rates are made by that time.

Complex manoeuvring is going on in all these authorities with a view to estaolishing some acceptable combination of a budget and legal rate. Our best judgement at the moment is that most could well have rated before 31 May. Some may find grounds for holding on longer; for example Greenwich may pray in aid litigation which they are bringing against their rate limit, even though the GLC/ILEA application for judicial review failed and Greenwich's grounds are largely similar.

SECRETARY OF STATE FOR THE ENVIRONMENT

Liverpool's case is of course different from that of the rate limited authorities. The 31 May date does not have the same legal significance for them. They face substantial technical difficulties in finding a budget which implies a rate at an acceptable level, and their cash-flow position is still reasonably healthy (because their late rating decision last year pushed back the schedule of rate receipts). For both these reasons we should expect them to be later than other authorities in making a rate. The evidence is very difficult to interpret; there are some signs that, contrary to earlier indications, the council would wish to make a rate if they can construct a tolerable budget; on the other hand certain elements within the council still want to provoke a financial crisis. It is being said that the key figure, Councillor Byrne (whom you met last year), has given instructions for preparations to be made for a progressive "wind-down" of the Council's activities when the money begins to run out. This could be bluff, or it could have more serious connotations. We can only continue with our policy of no negotiation, which I believe is putting pressure on Liverpool at on the other authorities. The auditor has now warned the councillors that if they do not fix a rate by the end of May he will take action against them.

Colleagues should note that, for any authority, if rates are not set by the end of this month, and the auditor begins to take action, that action cannot be reversed easily. If authorities do not rate very soon after action is begun the process could lead to surcharge/disqualification, and (if opposition hardens) ultimately to Commissioners. The next fortnight will be crucial.

I am copying this minute to MISC 109 colleagues and to Sir Robert Armstrong.

AH Davis
for
P J

28 MAY 1985

Approved by the SofS and signed in his absence

12 1
2
3

SS. Insist on a joint meeting. We don't have time to do three meetings. Mr Thomason can put his own views in writing.

AT 23/5

MR. ~~TURNBULL~~

Mr. Thomason - Leader of the Association of District Councils

Do you have any views on

1. Mr. Thomason's suggestion that he should see the Prime Minister alone.

2. Oliver Letwin's consequential thought that the others will have to come afterwards and separately.

I await the views of yourself and DOE.

Amanda

pp STEPHEN SHERBOURNE

23.5.85

Not with the grain

cc NO

NBPM
AT 21/5

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

20 May 1985

Dear Nick,

NEW BURDENS ON LOCAL GOVERNMENT

Thank you for your letter of 24 April about the recently circulated list of new burdens on local authorities.

Let me say immediately that the list is not intended as an authoritative and precise statement on burdens. It is very largely my Department's own record of items that have been brought to our attention and the details and accuracy are thus governed by the amount and frequency of information supplied to us. Moreover, the very format of the list, which requires entries to be brief but at the same time representative of the practical implications of new proposals, makes it impossible for all the ramifications of particular packages to be presented.

I think therefore that we should seek to use the list more as a means of providing Ministers, both individually and collectively, with a reasonably realistic overview of the burdens situation than as a detailed assessment of each item. The latter should more properly be carried out elsewhere. It serves as a reminder of the need to control the number of new burdens imposed on local authorities as well as an indication of what has evolved in the preceding six months. It was on this basis that I invited colleagues' comments which, as in the case of your letter and others which I have received, rightly provide a broader perspective on some of the detailed items covered. In the particular case of the Transport Bill it would be helpful if your officials could let mine know of the compensating savings which lead to the 'overall neutrality' position which you describe.

I am doubtful about your suggestion that new entries should be discussed, and by implication agreed, between officials before the list is produced. This would involve much extra work and change the whole purpose of the exercise. Once the new prior consultation arrangements which we have recently agreed are properly underway we shall automatically get better quantification of new burdens and this will be reflected in future lists. But if we seek specific agreement for every entry the system will get bogged down in detailed and largely unproductive discussion, and the six monthly updating exercise would become little more than a routine cosmetic exercise with each Minister acknowledging his own items. The present format provides sufficient information, subject of course to the need to correct mistakes, for Ministers individually to be aware of their Department's own contribution and for Ministers collectively to get a general overview.

As I said, the list is not perfect and there are certainly some items on which I suspect that we are not as up to date as we would like. You tell me that the entry for item 20 is factually incorrect and we have now amended it. That is indeed one of the reasons for distributing the list. We can only record information as it is passed to us and I certainly do not have the Departmental resources to chase up each individual entry. The better the information flows to us the better the list will be.

I mentioned in my earlier letter that we are preparing new guidelines on the new prior consultation arrangements for use within DOE. These are about to issue and will be sent to other departments; I hope they may prove a useful model.

I am copying this letter to the Prime Minister, members of E(LA) and to Sir Robert Armstrong.

Yours ever

Patrick

PATRICK JENKIN

The Rt Hon Nicholas Ridley MP

Local Gvt; Relations Pt 26

21 MAY 1985

NBPM AT 23/5 CG/NO

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

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CONFIDENTIAL

The Rt Hon The Earl of Gowrie
Minister for the Arts
Office of Arts and Libraries
Great George Street
LONDON SW1P 3AL

23 May 1985

Dear Grey,

EC ACQUIRED RIGHTS DIRECTIVE AND THE SOUTH BANK

Michael Havers has copied to me your letter of 1 May to Patrick Jenkins, and his own letter of 9 May to you, since the legal issues raised by the Acquired Rights Directive affect all parts of the United Kingdom in the same way.

I should like to put on record my agreement with what Michael says in his letter. As the Law Officers pointed out in the Opinion of 10 May 1983, "there is a significant risk that the European Court would take the view that "undertaking" is not limited to activities of an economic or commercial nature", although, as you point out, the contrary could certainly be argued. The risk of successful challenge would be even higher in a case clearly involving an "economic activity". Prima facie, I consider that it would be very much more difficult to maintain that the activities of the South Bank Concert Hall were not "economic" than that the activities of the fire services were not so.

I am copying this letter to the members of Misc 95 and to Sir Robert Armstrong.

Yours ever

Kenny

CAMERON OF LOCHBROOM

Relations : LOCAL GOV. Pt26.

P.01546

PRIME MINISTER

Local Government Finance Studies
(E(LF)(85)1, 2 and 3)

BACKGROUND

The review of local government finance was announced at the Party Conference last October. The Sub-Committee discussed the general approach and work programme in November, and commissioned DoE Ministers to set in hand the first phase, exposing the issues and presenting options for consideration. The preliminary results were discussed with the Ministers most closely involved at a meeting at Chequers on 31 March. That Group invited DoE Ministers to prepare proposals for this meeting, including an assessment of the impact of the changes on typical authorities, individuals and businesses.

2. The memorandum by the Secretary of State for the Environment
A (E(LF)(85)1) covers two reports. The first (the "Introductory Report") identifies the defects in the present system, sets out the objectives which should underlie reform, and suggests the elements of a new
B system, while the second (the "Specification Report") specifies in more detail how these elements might work and exemplifies the effects on a range of typical ratepayers. The memorandum by the Secretary of State
C for Education and Science (E(LF)(85)2), while agreeing with many of Mr Jenkin's objectives, sets out a rather different way of handling central Government support for the education service, and by implication other
D services also. In E(LF)(85)3 the Chancellor of the Exchequer proposes a more radical approach to the financing of education, opposes the proposal for a poll tax or residents' charge and argues instead for reform of the rating system.

MAIN OBJECTIVE

3. The meeting is the first opportunity for most Ministers to discuss the DoE proposals. You will not want to reach final decisions on a reform package: there is insufficient information to be sure of all the impacts, and further work will be needed, eg on ways to mitigate some of the effects. But you will wish to secure agreement to the underlying principles, and to give DoE clear guidance for further work.

4. DoE Ministers will open the meeting with a short slide presentation explaining the basic facts of local government finance, setting out objectives, and introducing the proposed reforms. Although the package must be seen as a whole, I suggest that you structure the subsequent discussion to cover:

i. general reactions to the objectives; and in particular whether the "local accountability" thrust of the DoE proposals is likely to be an effective control over local government expenditure;

ii. non-domestic rates, particularly:

- whether a national non-domestic rate is acceptable;
- whether the yield should be pooled nationally;

iii. the Central Government grant, particularly:

- whether it should be paid to authorities as a fixed (lump) sum;
- whether the education element should be under more central Government control as Sir Keith Joseph proposes;

iv. alternatives to domestic rates, particularly:

- whether the residents' charge is an acceptable alternative, with or without permanent or transitional cushioning arrangements;

v. subsidiary matters, incuding capital controls, fees and charges, annual elections and the budgeting framework;

vi. assessment of the package as a whole.

5. In addition it will be necessary to decide whether any form of public discussion should be entered upon now, and to give preliminary consideration to the timetable for a White Paper and for legislation.

i. General reactions to the objectives

6. The criticisms made of the current systems of controlling local government expenditure and of distributing Exchequer grant are both well known and well founded. These systems have produced only modest success in achieving the Government's expenditure objectives while embroiling the Government in widespread confict with local authorities.

7. The DoE paper suggests that there are two options for reform: more direct Government control over local authority spending, or a "self-regulating" system based on improved accountability. The second is regarded as being more consistent with Conservative Party tradition. The DoE proposals are therefore based on the premise that there should be no fundamental change in the relationship between central and local government (and no changes in responsibilities for services), but they are designed to ensure that more electors bear directly and more fully the financial consequences of councils' spending decisions while limiting councils' power to draw on the resources of non-domestic ratepayers and of the Exchequer.

8. It follows from the DoE proposals that there will be no significant change in responsibilities for the financing and management of individual services, and that the Government will surrender most of the existing mechanisms for controlling local government current expenditure. It will retain control only over the quantums of the non-domestic rate and the central government grant. These are very crude weapons and a key issue is whether the Government is prepared to accept the uncertainties

for total expenditure that this implies. Because the changes proposed are so comprehensive it is not possible to predict the likely outcome for total expenditure. The uncertainties will become greater the more steps are taken to mitigate the effect of the change in local taxation on particular types of area or individual.

9. In this context the Chancellor of the Exchequer has advocated (E(LF)(85)3, paragraph 5) that central Government might take over complete responsibility for financing and some aspects of the management of education. This would necessarily increase Government control over education policy and expenditure but it would not on its own account do anything to enhance the powers to control remaining local expenditure. DoE have argued against the approach suggested by the Chancellor because it would require a substantial increase in DES control over local authorities, with the need to set an education budget for each local education authority, and would be cumbersome, inefficient and expensive. The Secretary of State for Education and Science has made a more limited proposal for modifying the block grant regime to give him greater influence but without assuming full responsibility. This involves a modification to the proposed Exchequer grant arrangements, and might be considered in that context - paragraph 18 below.

ii. Non-domestic rates

10. DoE suggests that non-domestic rates should be retained but that they should be collected nationally, at a single nationwide rate set by the Government. The amount collected would be allocated to local authorities as a standard amount per head (ie in proportion to population and not in proportion to the non-domestic rateable values within each district).

11. This proposal will prevent profligate local authorities taxing business excessively. But it will also have major redistributional effects both for non-domestic and domestic ratepayers. If the national rate is set at the current average level, businesses in low spending areas will face 30 per cent rate increases. Businesses in high spending

areas will benefit from a corresponding decrease. Generally the effect on domestic ratepayers will be the opposite. The effect of pooling will be to transfer resources from areas with a relatively high proportion of non-domestic ratepayers (eg Inner London or Croydon) to other parts of the country.

12. The Sub-Committee will wish to consider whether an increase of almost a third in the rates paid by business in some areas can be contemplated, although this effect could be softened by transitional arrangements. Discontent would be accentuated by the fact that the level of service provided by the local authority would continue to vary: those paying increased rates would continue to receive the services provided by a low spending authority. Alternatives are:

i. to set a maximum rate, or increase in rate, nationally but, within that constraint, to leave the existing pattern of rates unaltered; and

ii. not to redistribute the proceeds of the rate between areas.

This would still ensure that marginal spending would be financed by the electors rather than by business, while reducing the scale of the domestic taxation needed in high spending areas. It would, however, perpetuate to some degree the existing, unfair pattern of non-domestic poundages.

13. You will wish to explore in discussion whether a uniform national non-domestic rate is acceptable in principle, and if so whether the yield should be pooled nationally. If this is endorsed, DoE will need to undertake further work on how a national rate should be set, on transitional arrangements, on special arrangements for London, and on the problem of different levels of service being provided.

iii. The central Government grant

14. Central Government provides currently about 46 per cent of a local authority's income on average. Some of it is distributed as specific grants but most as Rate Support Grant (RSG). This is allocated by a

formula which compensates for differences in authorities' rateable values and, through mechanisms such as target-holdback and grant slope, can be used as a lever to influence authorities' total current spending. Rate limitation had to be introduced to provide a more effective weapon. The system is unfair, inflexible, and often ineffective, and the political and practical pressures to abandon it are strong.

15. DoE propose that a simpler system should be introduced. They argue that the need to compensate for differences in the rateable values in different areas would disappear if non-domestic rates were replaced by an alternative tax not related to property. But the difference in "need" would still have to be taken into account. So they propose a "lump sum needs grant", consisting of an element to compensate for differences in assessed need and cost of provision and above that a standard sum per elector determined nationally. This would ensure that local taxpayers receiving a similar level of service would pay a similar amount for it.

16. Furthermore under this system the amount of grant received by an individual authority will not vary (as the present one does) according to the level of expenditure it decides upon. The whole of the cost of higher spending would fall on the local electors, and conversely they would receive all the benefit of any reduction. The system is also simple and easy to explain and justify. It does, however, remove almost all direct Government influence over levels of expenditure, relying primarily on increased accountability for pressure to contain spending. If local electors return a council bent on high spending the Government would have neither the responsibility nor the power to prevent that.

17. The effect of increased accountability might be dramatic: the new grant arrangement coupled with pooling of the non-domestic rate would result in much higher local taxes for households in high spending authorities. When combined with the results of the Social Security Review some low income households in a few of the highest spending authorities could find their rate bills doubed or tripled. This might

create an effective pressure for reducing spending. Conversely there are modest gains for all ratepayers in low spending authorities.

18. The Secretary of State for Education and Science proposes in E(LF)(85)2 that he should become responsible for the total of central Government grants for education, ie that the lump sum grant should be divided into at least two, and possibly more, separate elements. This would give him scope for exerting greater influence over local education authorities by switching within the education block between specific and block grant. This raises issues of principle and practicality. The division of the block grants into service sectors would represent a significant change in the relationship between central and local government, with the latter much closer to being agents of the former rather than having power to determine their own priorities between services. Much work would need to be done on how a scheme would work.

19. The Sub-Committee will need to consider whether a lump sum needs grant is acceptable in principle, and if so to invite DoE to do further work on methodology.

iv. Alternatives to domestic rates

20. The ideal local tax should be perceptible and widely based. Property taxes are perceptible but not widely based, and DoE therefore propose a resident's charge to replace domestic rates. This would be paid by all adults, thus increasing the tax base from 18 million to 35 million people. It would also produce substantial shifts in incidence between households, with single person households and those living in high rateable value houses gaining, and those with three or more adults or living in low rateable value households losing.

21. The average resident's charge would be £160 per adult. About 90 per cent of authorities would levy charges in the range £60-200 per adult, although a small number (all in London) would charge over £300 up to a maximum of £780. This form of tax is completely regressive. Domestic

rates are also regressive, but because there is at least some relationship between the rateable value of houses in which people live and their income they are not completely so. There would be some assistance for people on very low incomes, but otherwise the charge could represent, eg up to 20 per cent or more of the income of households on relatively low incomes in a high spending area in London, assuming their authority maintained spending at present levels. This would be the price of maintaining pressure for economies in local authorities' spending through accountability alone.

See Table 3(c)

22. It would be possible to mitigate the more extreme effects through a graduated resident's charge so that those on high incomes paid more, although this type of scheme akin to a local income tax poses administrative problems. Alternatively a hybrid scheme using both a resident's charge but with domestic rates at a reduced level might be contructed, permanently or for a transitional period. Any such relaxation would, of course, blunt to some extent the effect of the reform on accountability. The Chancellor (in E(LF)(85)3) argues that a more equitable property tax would be preferable to a resident's charge with all the complexities that he believes would be needed to make it acceptable.

23. There would also be administrative difficulties with a resident's charge. Other annual fixed rate taxes - the television licence and vehicle excise duty for example - suffer high degrees of evasion, and the resident's charge, being higher, will offer a greater temptation. Because it would be collected locally, it would be necessary not only to detect that somebody was not paying the tax, but also that they were resident in the area concerned. The scope for evasion would appear considerable.

24. The Sub-Committee will need to consider whether the resident's charge meets the Government's requirements better than the other alternatives to rates which have been considered - principally local income tax and local sales taxes. If so, is it likely to be too regressive to be used alone, and should any permanent or temporary means of relief be built into it?

v. Subsidiary matters

25. The DoE package contains a number of other elements: reform of the controls of capital expenditure to provide better delivery of the Government's spending plans, an increase in the use of fees and charges to finance local services, annual elections to reinforce accountability to the local taxpayer, and better rules to prevent "creative" budgeting to circumvent the consequences of high spending. While these are important - particularly capital controls and annual elections - none affect directly the structure of the main reform. It might therefore be appropriate to postpone detailed consideration and decision to a later meeting.

vi. Effect of the package as a whole

26. The package is designed to be self-regulating. The contribution to local government spending from non-domestic rate payers and the Exchequer will be determined by the Government, while councils will have the freedom to tax their adult electors as far as they will permit. The consequences for typical taxpayers will therefore depend on how councils and electors respond. DoE have exemplified in the Specification Report the changes in cost for a range of typical households, but necessarily based on existing patterns of spending. It follows that if these exemplifications were to materialise in full, the reforms would have failed in their objective of increasing the pressure on high spenders.

27. The exemplifications are on pages 25-29 of the Specification Report. They show for a range of typical households the effects which flow from (i) the changes already agreed in the social security system (ie to restrict rate rebates), (ii) the changes in non-domestic rates and block grant in addition, and (iii) the change in domestic rates on top of that, according to the spending pattern and rateable mix of a range of authorities. They show that:

i. for inner London the combined package results in local taxes taking a substantial proportion of income;

ii. single member households are generally better off and multiple member households worse off under the new regime;

iii. people in high spending authorities will pay more; those with low spending authorities will pay less.

Effects (ii) and (iii) are of course intended, though not necessarily on the scale shown. The figures on pages 20 and 21 of the Specification Report show the number of households gaining and losing by various amounts as a result of the changes to non-domestic rates and block grant (page 20), and by the change to domestic rates in addition (page 21). The Sub-Committee will need to consider the acceptability of changes of this order. If they are thought to be broadly acceptable though too extreme in some cases, the scope for a permanent or temporary degree of relief could be investigated. This is likely to be necessary for London in particular.

NEXT STEPS

28. There will be a strong public expectation that the Government should indicate how much progress has been made. For their part, DoE believe it would be helpful to be able to consult slightly more widely outside Government in the next phase - as had always been envisaged. The Sub-Committee might wish to consider releasing much of the preliminary analysis contained in the Introductory Report, but stopping short of detailing the detailed elements of the package.

29. Within Government, if the Sub-Committee is content with the basic principles behind the package, they might invite DoE to refine their exemplifications and to consider what transitional or permanent special arrangements might be needed to reduce the extreme effects. The Specification Report does not deal with the Public Expenditure, revenue and PSBR effects, and the Chancellor of the Exchequer has also called for a more wide-ranging consideration of macro and micro-economic

impacts. These would need to be considered between DoE and Treasury officials. DoE could perhaps produce a progress report by July, though September might give them more time to carry the work forward significantly, for further discussion in E(LF) or in a smaller group if appropriate, with final proposals in the later autumn. This would enable the original timetable of a White Paper in the autumn and legislation in 1986/87 to be adhered to if the Government wished. During the next phase it would also be appropriate for the Scottish and Welsh Offices to consider the implications for their parts of Great Britain.

HANDLING

30. You will wish to invite the Secretary of State for the Environment, the Minister for Local Government and Mr Waldegrave to introduce the subject using slides. You might then suggest that it will help to structure the discussion by dealing with broad philosophy, non-domestic rates, lump sum grant, alternatives to domestic rates, subsidiary issues, overall effects and next steps in that order. For each of the detailed areas DoE Ministers will wish to introduce the proposals. Treasury Ministers and those responsible for particular local authority services will wish to contribute to most topics and the Secretary of State for Education and Science will wish to introduce his alternative proposal for education grants during discussion of the lump sum grant.

CONCLUSIONS

31. You will wish to reach conclusions on:

i. whether the general principles set out in the Introductory Report are accepted, and if a self regulatory system offers the best prospect;

ii. whether non-domestic rates should be set nationally, whether the yield should be pooled and distributed on a per capita (rather than rateable value basis), and whether any special arrangements are needed to protect London local taxpayers;

iii. whether the Exchequer contribution should be on the basis of a lump sum needs grant, comprising a needs element and per capita allowance;

iv. whether a resident's charge is a suitable alternative to domestic rates, and whether it is too regressive to be used without modification;

v. whether the package as a whole is adequate in principle and whether the practical results seem likely to be acceptable;

vi. what further work DoE should put in hand, in particular on modifications or alternatives to the resident's charge to mitigate the effects either permanently or in a transition period;

vii. the arrangements for reviewing progress in July or September; and

viii. what information might be released at this stage.

PQ

P L GREGSON

17 May 1985

PRIME MINISTER 17 May 1985

LOCAL GOVERNMENT FINANCE REFORM

The DoE's 'Specification Report' explores the effects of the reforms that you discussed at Chequers.

Apart from the nationalisation of the non-domestic rate, the DoE package has always looked promising. The advantages were discussed at Chequers: Councils would be more accountable to their local electorate; they would not be able to overtax businesses; overspending would not be made easier by redistributive grants; and we could abandon the unpopular controls of the present system.

But it was clear that a proper judgment could not be made until the detailed numbers were available. In general, these are good news: the DoE's new studies show that, as we expected, richer areas and voters would benefit, as would prudent councils with high resources.

However, the study shows that the package, in its present form, would have a number of unpleasant effects: - See flag B1

1. 7.5 million households (44%) would lose out (1 million would lose more than £250 pa).

2. Some parts of London - including some which are politically sensitive - would be very badly hit: the local tax paid by each adult would in some cases almost double.

3. The inhabitants of some Northern industrial areas would also suffer large personal tax rises.

4. Some inhabitants of low-spending Shire districts would face personal local tax rises of about 20%.

5. People with gross incomes between £5,000 pa and £12,000 pa would be badly affected, if they lived in Inner London or the Northern industrial areas. This would accentuate the 'poverty trap'.

6. Business rate-payers would lose, both in thriving surburban areas and in rural Shire districts. Their (non-domestic) rates would rise by between 10 and 16%.

The DoE recognise all of these problems; but they have not yet developed means of dealing with them. Unless some of them can be sorted out this reform is unattractive.

More work will be needed on:

- The new, simplified, grant system. It will still require an assessment of need. How can this be done, to avoid repetition of the incomprehensible complexities of the present Grant Related Expenditure Assessment?

- The effect of the proposal on total LA spending.

Subsidiary Issues

- Capital Spending. (Annex E). The third option - control over all net external borrowing - is the best. This will ensure that Local Authority borrowing stays within planned limits, whilst removing the hated control on the spending of money raised from sales. But more work will need to be done on the method of setting limits and on the transitional arrangements.

- Fees and charges. (Annex F). We doubt whether DoE pessimism about scope for more charges is justified. The first step will be to find out how an authority like Colchester manages to raise 29% of its rate fund expenditure through charges, and then to devise an effective system of bringing other councils to do likewise. More work will be needed on this, too.

- <u>Administration of a "Residents' Charge"</u>. Annex C of the DoE report outlines some of the arrangements that would be required to collect a "Residents' Charge". DoE rightly conclude that a new register, separate from the electoral role, will be needed - to avoid the accusation that it is a "tax on votes". But more work needs to be done on methods of enforcement, particularly for people moving from one locality into another. The suggestion of a "graduated" charge should be resisted: this would be an administrative nightmare, <u>without</u> even having the advantages of a properly constructed local income tax, and it would make the tax more buoyant for high spenders.

- <u>Annual elections</u>. Annual elections deter Councils from engaging in massive pre-election manoeuvres. But:

  i. even fewer people will turn up to vote;

  ii. many local councils will regard this as a central imposition on their age-old traditions;

  iii. it is difficult to defend Westminster elections;

  iv. to implement the new system you either have to extend Councillors' terms (suspending elections) or sack Councillors early.

  We still think the idea should be dropped.

- <u>Education Spending</u>. Keith Joseph, in his minute, recommends that the DES should be able to withdraw money from Government grant, and use it to influence LEA behaviour in accordance with the Government's priorities. For some purposes, this could be very useful: as, for example, in the teachers' pay dispute. But - if it were made a general power - it would give a future left-wing government an enormously enhanced capacity for making trouble, and it would enrage our local government supporters. The Chancellor's proposals of complete centralisation would be even more unpopular with the shires, who are largely education authorities. We therefore suggest that such moves should <u>not</u> be included in the package (though a much modified form of the proposal might be introduced separately).

<u>Political Problems</u>

There is likely to be opposition to the proposals within E(LF). Some of this may be defused by a promise to conduct further work in order to minimise the unpleasant effects of the scheme. But there are problems that will not go away:

a. Some Ministers, such as Leon Brittan (and, we understand, Michael Heseltine) believe that there is in fact no problem about local authority finance. They cite the slow-down in local authority spending and they argue that any change will prove unpopular. They want the Government to abandon the Reviews.

   Although DoE exaggerate some of the problems, the present system <u>is</u> under great stress. The Government is widely criticised for its local authority policies. The Far Left is having a field day. Our Councils feel hard done by.

b. The Chancellor agrees that the present system is a mess, and accepts that a self-regulating system of local finance, (in which local authorities were genuinely accountable to their electorate), would be preferable. But he believes that a change from domestic rates to a "residents' charge" would be massively unpopular. He therefore advocates that the DoE package should be amended by reinstating domestic rates, with no rebates above 80% to ensure that every household pays something for local services.

This scheme is certainly a runner. It would have many of the advantages of the DoE proposals, with less political risk. Norman Fowler, Keith Joseph and Norman Tebbit may support variations on this theme. But there would have to be a new system of revaluing the rate base and of automatically protecting people from sudden rises.

Besides these internal doubts, there are a large number of people outside government who have already commented adversely on the clumsy versions of the proposals which have been leaked or openly mooted by Ministers. In particular, two items are likely to prove unpopular with the backbenchers and amongst our local authority supporters:

1. The nationalisation of the non-domestic rate will be regarded as a centralising measure, and will be opposed. Why not instead place a simple form of rate-capping on non-domestic rates? E.g. no council to increase its non-domestic rates by more than, say, 2% above inflation. This would prevent any of the sudden shifts in the non-domestic Rate Bill that the DoE proposals would cause and would still allow some difference between high and low spending councils.

2. The "poll tax" will be attacked as both a "tax on votes" and for its regressive nature. The leaks have made sensible change much more difficult to achieve,

with Poll Tax regarded as a tax on the vote and with CIPFA's unhelpful figures publicised on Weekend World. A modestly priced local Residents charge now has to overcome these stigma.

<u>Next Steps</u>

It will not be possible to reach agreement on any firm proposal at this meeting of E(LF). Nor would it be wise to do so.

However, it is important that the momentum should be kept up in Whitehall, and that there should be a reasonably open public discussion, in which the Government can explain its concerns and prepare the ground for radical changes without committing itself to any particular proposal.

<u>We therefore recommend</u> that:

1. DoE should be asked to do further work on their present package so as to:

   a. devise methods of minimising unpleasant effects;

   b. explain in detail how the new grant system would work and predict public expenditure consequences;

   c. show as an alternative to the nationalisation of the non-domestic rate a simple form of non-domestic rate-capping.

2. The DoE should also be asked to work up a second version of their proposals, in which domestic rates are retained, and with a system for crawling revaluation.

3. While this work is going on, DoE could revise their "introductory report" (the glossy green brochure) so that it exposes the present problems, but ~~is~~ ~~entirely neutral about~~ without canvassing any solutions at this stage, and invites comments from all interested parties. This could be issued within two or three weeks, inaugurating a public discussion, in which Ministers might take part through a series of public seminars and private discussions.

4. DoE should be asked to report back to E(LF) by September at the latest, with:

   a. a fully worked out version of their present proposals, revised as necessary;

   b. a similarly detailed study of the Chancellor's package, retaining the domestic rate (but without switching educational expenditure to the centre);

   c. a detailed analysis of the comments made during the public discussion;

   d. a firm proposal to help our low spending Councils subject to capital controls.

Armed with this material, Ministers would be in a good position to judge whether either the amended DoE package, or the Chancellor's variants were workable and saleable. Further work could then be undertaken to produce a White Paper by the end of the year if the public debate shows an appetite for change.

pp JR. O.L. Letwin.

JOHN REDWOOD OLIVER LETWIN

The Local Government Finance Studies

Introductory Report

An appraisal of current local government finance policies and the relationship between those who finance, use and vote for local services.

**Presented to
the Ministerial Steering Committee
on Economic Strategy
Sub-committee on Local Government Finance
by the Minister for Local Government
and the Parliamentary Under Secretary of State,
Department of the Environment**

May 1985

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Introduction

1 In October 1984 Cabinet agreed that a series of studies of the local government finance system should be set in hand as a matter of urgency. They did so because they considered that the existing system was under severe strain; and that present policies — notwithstanding some success in reining back local authority spending — could not hold the position far into the next Parliament.

2 The Secretary of State for the Environment announced the studies at the Conservative Party Conference later that month. They were to be conducted by the Minister for Local Government and Mr Waldegrave. They would be looking at the entire system of local government finance, focussing in particular on the distribution of rate support grant, the balance between exchequer and local funding of council spending, measures for improving local authority accountability to their electorates and how local revenues might best be raised, whether from domestic or business ratepayers.

3 In November, Ministers discussed at E(LF) the arrangements for conducting the studies. They agreed that the first phase should be conducted within the Department of the Environment, supported by a number of outside advisers, with informal consultation with other departments as necessary. The first phase was to be concluded with a report to E(LF) at Easter, exposing issues and presenting initial proposals for Ministerial consideration. The Committee would then give guidance on further work to develop detailed proposals with a view to their eventual publication for consultation. These detailed proposals were to be presented for consideration by E(LF) in November 1985, in order to keep open the possibility of legislation in the present Parliament.

4 Department of the Environment ministers gave an informal presentation to the Prime Minister on the studies' progress shortly before Easter. This report provides a formal presentation of the studies' initial findings and conclusions at the end of the first phase; and sets out the principal components of the proposals for reforming the local government finance system.

Chapter 1: The Background: Local Authorities and Government Policy Since 1979

1.1 Since its election in 1979 two of the Government's principal objectives have dominated its relations with local government. The first was the Government's desire to lift the burden of detailed central control off local government and to encourage where possible local government to lift unnecessary controls off the backs of citizens and business. As Michael Heseltine promised in 1978:

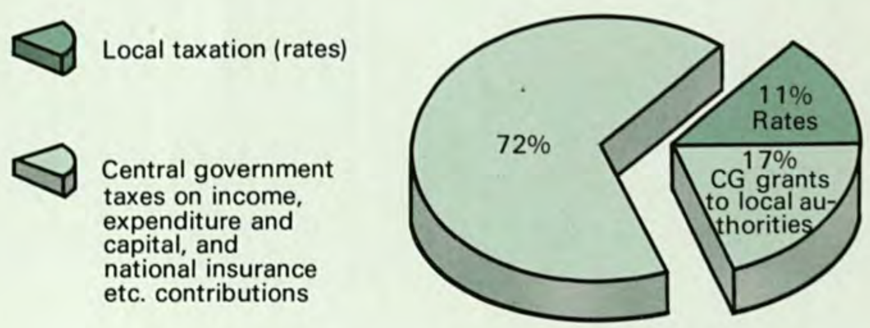
> "We are committed to a root and branch appraisal of the powers of Whitehall over local government. We shall . . . reduce and eliminate many of the controls that currently tie Britain's cities to the Whitehall departments. I believe that that will speed decisions, save money and restore a sense of competitive independence to local democracy"

The second, central to the Government's economic policy, has been the attempt to secure a sustained reduction in the size of the public sector and in the level of public expenditure. Both were seen as part of a co-ordinated policy of increasing national efficiency and of creating the financial and social background for sustained economic recovery.

1.2 The Government's initial legislative and administrative effort gave equal weight to the two aspects of the policy. A large number of unnecessary detailed controls over local government which sought to establish Whitehall's responsibility for matters which lay properly within the ambit of local decision were abolished. Unified block grant, introduced in the Local Government Planning and Land Act of 1980, sought to increase the costs for authorities spending far above average, while leaving them free to determine their spending levels on the basis that they would answer to their electorates for the costs involved.

1.3 Inevitably, however, central government's priorities have shifted to dealing with the problem of the level of local government spending. This was understandable. Local government in the United Kingdom is a major part of the public sector. It employs over one and a half million full-time and nearly a million part-time employees. Its current and capital expenditure account for a quarter of all public expenditure and 10½% of the Gross Domestic Product. It is therefore responsible for a significant proportion of the tax burden borne by individuals, industry, business and commerce, either nationally through government grants or locally through rates, as figure 1 shows.

Figure 1 : LOCAL AUTHORITIES' CLAIM ON THE TOTAL TAX BURDEN — UNITED KINGDOM



1.4 The Government had taken the view from the outset that its objective of reducing public expenditure and taxation should apply as much to local authorities as to central government. In doing so, however, it was seeking to reverse a trend of growth and expansion which had continued virtually uninterrupted since the end of the last war. In the 1960's and 1970's the volume of local government current expenditure and its manpower each grew by about 3½% a year in England. In the 1970's the growth was about 3% and 1¾% respectively, as figures 2 and 3 illustrate.

Figure 2 :
AVERAGE ANNUAL GROWTH IN LOCAL AUTHORITY CURRENT EXPENDITURE

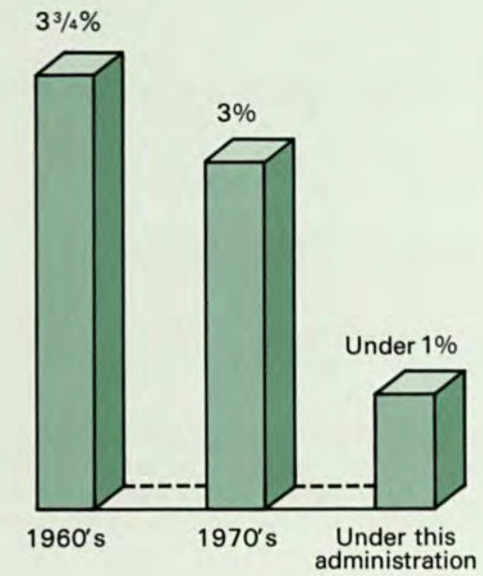
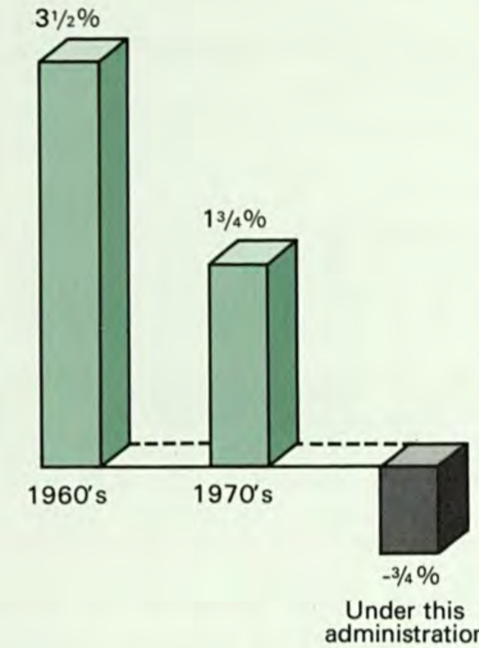


Figure 3 :
AVERAGE ANNUAL CHANGE IN LOCAL AUTHORITY MANPOWER — ENGLAND



1.5 It became increasingly clear that none of the mechanisms available in the past nor even the new block grant pressures would easily slow down this growth. The Government therefore found it necessary to impose a series of external pressures of ever-increasing toughness on local government. The measures adopted in England were:

(i) reductions in the total amount of grant distributed to local authorities; since 1978/79, the percentage of planned expenditure met by grant has been reduced from 61% to 49%;

(ii) the block grant system altered the basis of distributing rate support grant, so as to reduce the proportion of an authority's expenditure met by grant if it spent significantly above its grant-related expenditure (GRE) — the level of spending assessed by the Government to provide an average standard of service.

(iii) the block grant system was further supplemented by a system of expenditure targets designed to secure year-on-year reductions; authorities which spent above their targets suffered grant penalties;

(iv) The new Audit Commission was established to encourage a keener search for improved value for money by local government;

(v) from 1981/82 the Government for the first time sought to control the local authorities' net capital expenditure;

(vi) rate limitation.

1.6 The implicit assumption of the first three of these measures was that authorities, when faced with reductions in grant, would make corresponding reductions in their expenditure rather than risk courting electoral unpopularity by covering the grant losses with corresponding rate increases. This basic assumption has turned out to be flawed, however; and particularly so in a minority of councils, which have not only failed to reduce their expenditure but have increased it substantially in real terms, with correspondingly high rate increases.

1.7 In 1983/84 local government's budgeted expenditure exceeded the Government's targets by £770 million, 75% of which was accounted for by the expenditure of the top 16 overspending local authorities. A similar pattern occurred in 1984/85 when 75% of a planned overspend of £850 million was attributable to 12 authorities. Though some of the total overspend may derive from optimistic figures in the public expenditure White Papers, it is clear that at least for an important minority of authorities accountability was simply not operating in the way Government had hoped and so the grant pressures were proving ineffective.

1.8 The Government's response was to introduce statutory powers to enable it to limit directly the rates of selected local authorities, backed up by a reserve power to limit the rates of all authorities. The powers have been applied for the first time in 1985/86 and affect 18 local authorities.

1.9 The financial pressures have had some success over the period since 1979 in slowing down expenditure growth:

(i) the annual rate of growth in the volume of local authority current expenditure has fallen from 3% in the 1970's to under 1%, as figure 2 shows;

(ii) local authority manpower has fallen by ¾% a year, a cumulative reduction of 5% since 1979, as figure 3 shows;

(iii) average rate increases have fallen substantially from a peak of 22.7% in 1980/81 to 5.5% in 1984/85,(although this is principally a reflection of the fall in overall inflation, and the 1985/86 reduction in aggregate exchequer grant will reverse that trend).

(iv) gross capital expenditure has fallen by about 20% in cost terms between 1979/80 and 1984/85. In addition, some £10 billion of local authority assets have been sold.

1.10 Compared with the trends of the 1960's and 1970's these results represent an achievement. But it is a relatively modest achievement. The fact remains that local authority current expenditure is still growing, albeit at a slower rate than before, and as a proportion of GDP it is now higher than it was in 1979/80. The Government has had to revise its public expenditure plans upwards every year to take account of existing spending levels. Local government in England is in 1985/86 planning to spend about £1.8 billion more than was originally planned for that year in the Government's public expenditure plans published in 1983. The reductions in local authority manpower are very modest compared with what has been achieved elsewhere in the public sector (15% since 1979 in the Civil Service, for example) and the total has been more or less static over the past eighteen months. On capital expenditure, big underspends in 1981/82 and 1982/83 were followed by large overspends on the cash limit in 1983/84 and 1984/85, despite a request for restraint in July 1984.

1.11 Meanwhile, by imposing increasing external pressures on institutions jealous of their democratically-elected status (institutions with in many cases a natural propensity to expand) the Government has faced conflict with local authorities. That was inevitable. It has meant, however, the near abandonment of the other leg of the original policy — the restoration of independence to local government in its own proper sphere. That was perhaps a necessary price to pay in pursuit of the overriding aim of expenditure restraint. What is becoming clearer now is that the policy of expenditure restraint is itself in increasing danger as the financial weapons so far employed become increasingly blunted by use. In particular:

(i) the rate support grant distribution system with targets and holdback has become increasingly complex, both for central government to operate and for local authorities in terms of managing their finances effectively, while the grant paid to individual authorities has fluctuated considerably from year to year. Authorities have in response to targets and holdback adopted creative accounting techniques in order to maximise their eligibility for grant. At the same time the policy of cuts in the overall percentage in aggregate exchequer grant aimed at advancing both the original policies of expenditure restraint and restoration of local responsibility has shifted more of the burden of paying for local services from the national to the local tax payer. As a result of all these

factors the ratepayer has little idea of how his rate bill relates to the spending decisions of his council, and it is becoming ever easier for councils to persuade their voters that central government carries the blame for increased local rates.

(ii) the system of expenditure targets and grant holdback has alienated most of central government's lower-spending allies in local government, who accept neither the need for central government to set their targets nor the basis on which they are set — a basis which they believe treats them arbitrarily and unfairly in comparison with high spenders, since it is based on past spending patterns.

(iii) the measures taken to reduce overspending on capital have aroused strong opposition from the Government's own supporters in local government, which has not been offset by any marked success in controlling the overspending.

(iv) rate limitation has necessitated detailed central government involvement in the affairs of a number of individual authorities, which is administratively difficult and makes heavy demands on resources; it has also led to direct confrontation with certain authorities involving political and legal brinkmanship.

(v) both grant pressures and rate limitation may have helped foster political extremism in certain inner city local authorities; such authorities are using the present local government finance policies as a pretext for promoting the ideologies of class conflict.

These problems point to an increasingly heavy price in the future for relatively modest gains.

Chapter 2: The case for reform

2.1 In political terms, if we continue to try to apply existing policies within the present financial framework we will, in effect, be declaring the modern equivalent of a hundred years war on local government. But in any event, those policies have in practical terms only a limited life expectancy. Of the external pressure mechanisms, targets are proving so difficult to justify and to operate in any sensible or equitable way that their demise is only a matter of time. In the short term the pressure for restraint imposed by targets and holdback can be replaced by grant pressure using grant mechanisms under existing powers. But such mechanisms can only be used for a few years before they become ineffective or their effects become politically unacceptable. Rate limitation is working reasonably well in the first year of its operation. But it cannot be expected to serve as a permanent, long-term mechanism for constraining the generality of local authority expenditure.

2.2 The key point is that experience has shown that with the present rating system we cannot rely on the accountability of authorities to their ratepayers to secure expenditure restraint. And those parts of our present mechanisms (ie block grant reductions, targets and penalties) which rely for their effectiveness on voter reaction to increased rates have brought into even starker focus the inadequacies of rates as a source of local accountability.

2.3 On the capital side the present control system has fallen into disarray, largely because of the success of the policy of sales of local authority assets. Local authorities have accumulated £5 billion of capital receipts from those sales, which they would like to use to supplement capital spending allocations to meet what they see as urgent needs. But in the interests of macro-economic management we have had to ration the rate at which they can spend these receipts by reducing the "prescribed proportion" of receipts which they may spend in one year to 20% for housing receipts and 30% for other receipts. This has proved highly unpopular with authorities of all political persuasions, and avoidance devices are multiplying.

(i) The Grant System.

(a) Targets and holdback.

2.4 E(LA) have agreed that it would be highly desirable to abandon targets and holdback for 1986/87 for a number of reasons. In particular targets have caused considerable resentment and a sense of grievance among relatively low spending authorities which would otherwise be allies of the Government. These are authorities which have been set targets, related to their past spending, below the level of their GRE. Thirty eight of the thirty nine non-metropolitan counties are in this position. They cannot understand why they are being obliged, under pain of severe grant penalties, to spend below a level of expenditure assessed by Government as constituting a standard level of service, while other high-spending authorities are set targets well above their GRE. Figures 4 and 5 give an indication of the problem.

2.5 Other objections to targets are that they are inflexible, being based on general principles, which makes it increasingly difficult to devise equitable spending figures for over 400 individual authorities; that they override and undermine the basic block grant system; that they interact with rate limitation in a way which requires rate limits to be higher than they otherwise need be in order to finance grant penalties levied by the Exchequer; that they will become very difficult to operate in the wake of the abolition of GLC and the metropolitan counties, most of whose service responsibilities are to be divided up between the London boroughs and metropolitan districts; and that targets are only effective if holdback is made more severe each year, yet holdback cannot reasonably be made even harsher than the 1985/86 scheme, particularly given the inevitably rough justice underlying the targets.

2.6 The political and practical pressures to abandon such a system are strong indeed.

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Figure 4 :
TARGETS AS A PROPORTION OF GRE

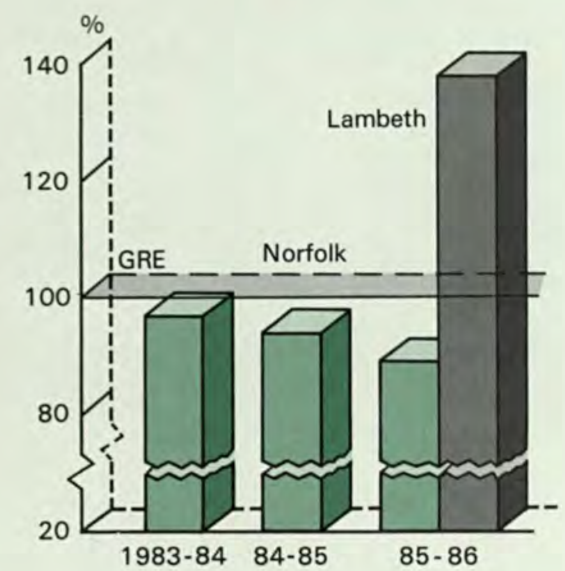
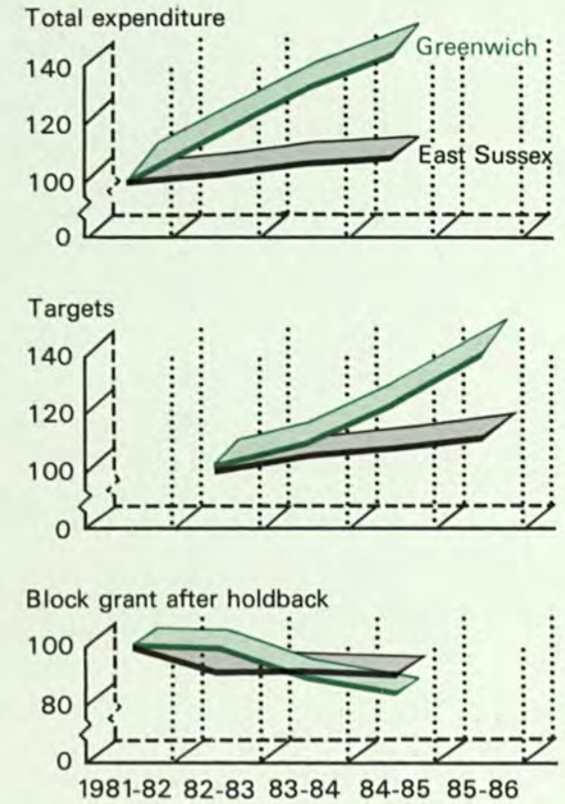


Figure 5 :



(b) Grant pressures

2.7 The abandonment of targets will require other measures to sustain pressure for spending restraint. Reductions in aggregate exchequer grant and a stiffening of the disincentives to increased spending incorporated in the block grant system are the main options. Grant pressure should be effective in the short term — perhaps the next two to three years — but thereafter becomes self-defeating. For both reductions in the level of aggregate exchequer grant and steepening of the block grant taper (to make the cost of marginal increases in spending higher to local ratepayers) have the effect of driving an increasing number of authorities out of grant altogether. They are then immune from the pressures of the grant system and the cost of marginal increases in expenditure actually diminishes for their rate payers. Figure 6 shows the number of authorities which are driven out of grant if the level of aggregate exchequer grant continues to be reduced on present trends from its 1984/85 level of 52% to 38% by 1990/91. If, in addition to reductions in aggregate exchequer grant, the slope of the block grant schedule is doubled, the group of authorities driven out of grant changes to include a number of high spending local authorities, such as Tower Hamlets, Newcastle, Lambeth, Basildon, Thamesdown and Southwark. It might be possible to rate limit all the high spenders pushed out of grant to maintain pressure on them; but it would not be possible to select the low spenders in the same position.

(ii) Rate limitation

2.8 Rate limitation has so far worked well in the first year of operation. But the Department of the Environment has been fully stretched in handling the 18 authorities selected. If further expenditure reductions are required more authorities would need to be selected; and for significant reductions to be achieved a very large number of authorities would need to be selected, as figure 7 indicates. These are much larger numbers than the Department could realistically cope with and would expand the selective scheme beyond what it was designed to achieve.

Figure 6 :
AUTHORITIES WHICH GO OUT OF GRANT AS THE AEG PERCENTAGE IS REDUCED

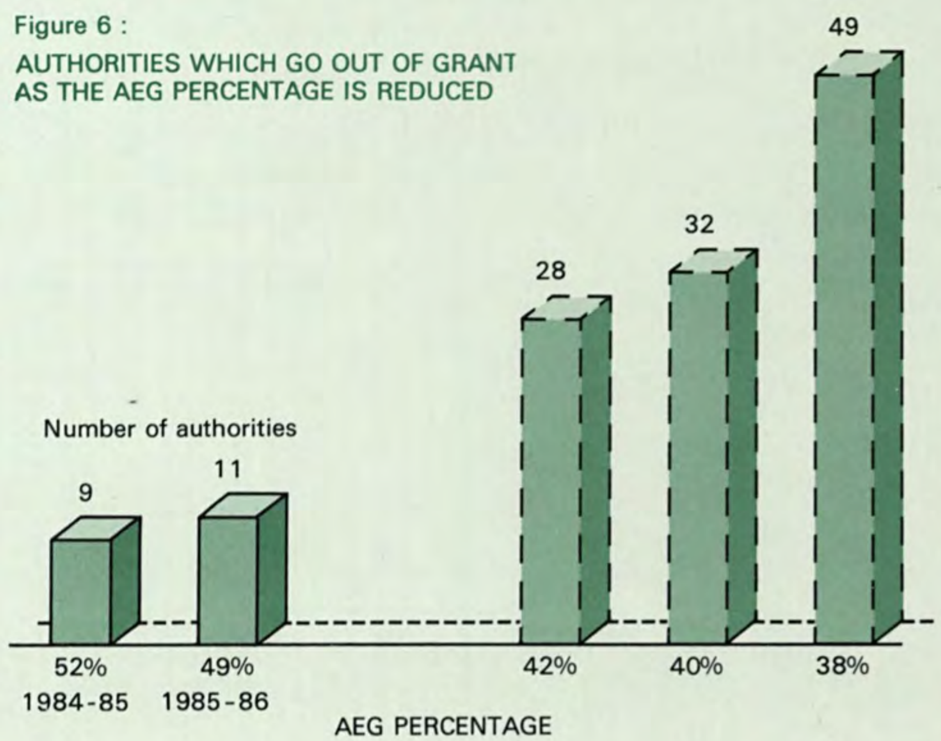
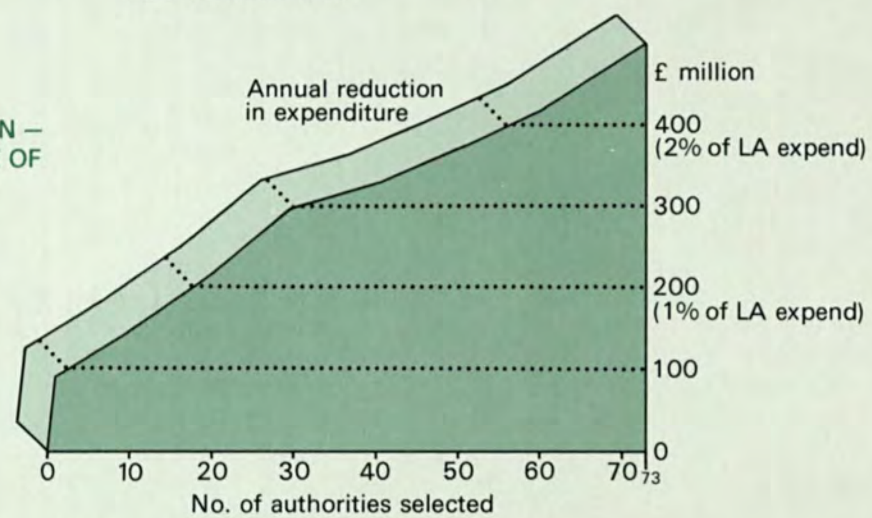


Figure 7:
RATE LIMITATION — THE HIGH PRICE OF SIGNIFICANT REDUCTIONS



The chart assumes that each authority selected reduces its expenditure by 5% per annum in real terms

(iii) Rates

(a) Not enough voters pay

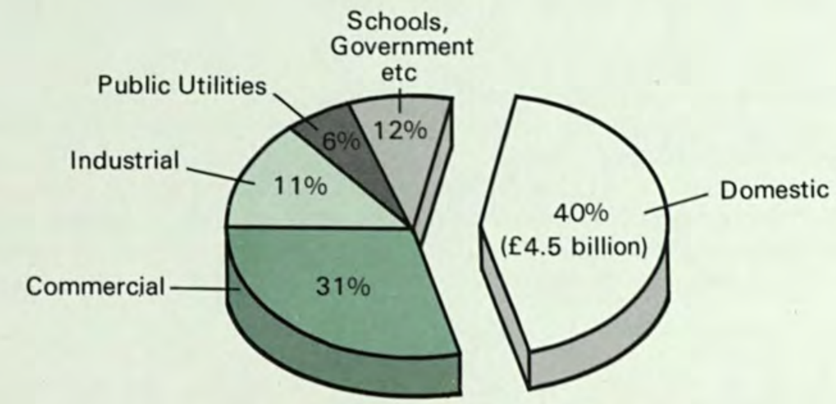
2.9 The attempt to rely on the accountability of councils to their ratepayers as a means of securing expenditure constraint has shown clearly the weak linkages between those who pay for, vote for and use local authority services. In particular it has highlighted two major flaws in rates as a tax on which to rely exclusively for the stimulation of voter reaction:

(i) local authorities derive more than half their rate income from the non-domestic sector which has no vote;

(ii) of those who do have the vote, only about a third directly pay full rates.

2.10 As figure 8 shows, 60% of the rate income of local authorities in England comes from the non-domestic sector, which includes commerce, industry, public utilities and other public buildings. In 1984/85 this sector yielded £6.5 billion in rate income. The remaining 40% — £4.5 billion (after rate rebates) — came from domestic ratepayers.

Figure 8 : RATE INCOME IN ENGLAND 1984 – 85



Rate income (net of domestic rate relief grant and rate rebates) £11 billion

2.11 Local Authorities are thus able to tap more or less at will the unrepresented non-domestic ratepayer, who has no effective sanction over the level of expenditure to which he is required to make a hefty contribution. And his contribution in turn substantially reduces the cost both of average levels of expenditure and marginal increases in expenditure to the *domestic* ratepayer.

2.12 The effects of such a situation can be seen at their most extreme in authorities such as Camden, where the non-domestic sector provides 75% of the authority's total rate income. Figure 9 shows how the Kodak company, which has premises in Camden, has suffered as a result: over the last five years its rate bill has gone up twice as fast as inflation.

Figure 9 :
RATE BILL OF KODAK PREMISES IN CAMDEN (RV £445,000)

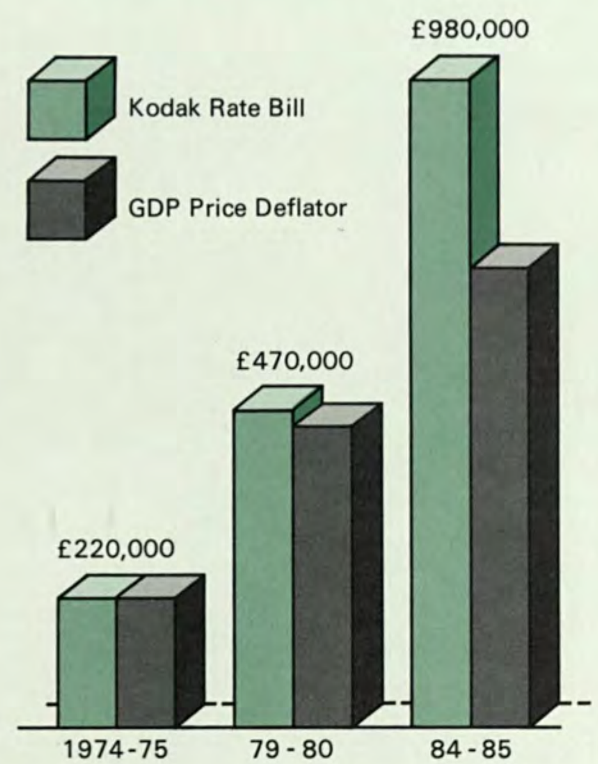
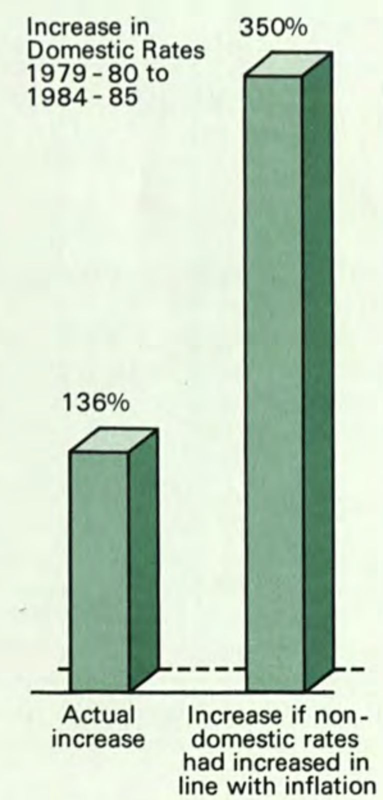


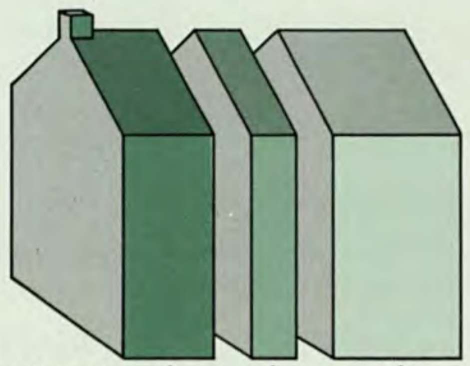
Figure 10 :
EFFECT OF INDEX LINKING NON – DOMESTIC POUNDAGE FROM 1979 – 80:CAMDEN



2.13 If, however, Camden's non-domestic rate poundage had been tied to the rate of inflation over the last five years, the domestic rate poundage would have had to increase by 350% to finance the authority's expenditure, as compared with the actual increase of 136%, as figure 10 shows.

2.14 The accountability of authorities for their expenditure and taxation decisions is further eroded by the weak links between the electorate and those who pay domestic rates. Of the total electorate in England of 35 million, some 18 million are liable to pay rates. A large proportion of the remaining 17 million will of course, be spouses or co-habitees of ratepayers. But of the 18 million liable to pay rates, only about two thirds — some 12 million — actually pay their rates in full; 3 million receive partial assistance with their rates through rate rebates and the remaining 3 million receive full relief from their rates bill.

Figure 11:
THE ELECTORATE AND THOSE WHO PAY DOMESTIC RATES



2.15 These figures are national averages. They disguise some significant variations between individual authorities. In Hackney, for example, the position is more marked: only about half of ratepayers — a quarter of the electorate — are paying full rates, as figures 12 and 13 show.

Figure 12 :
HACKNEY – PERCENTAGE OF DOMESTIC RATEPAYERS PAYING FULL RATES

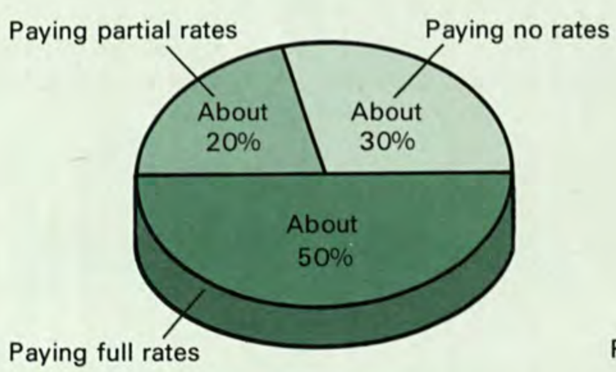
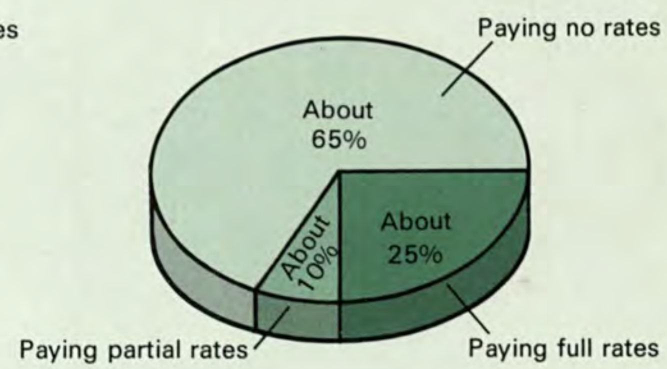
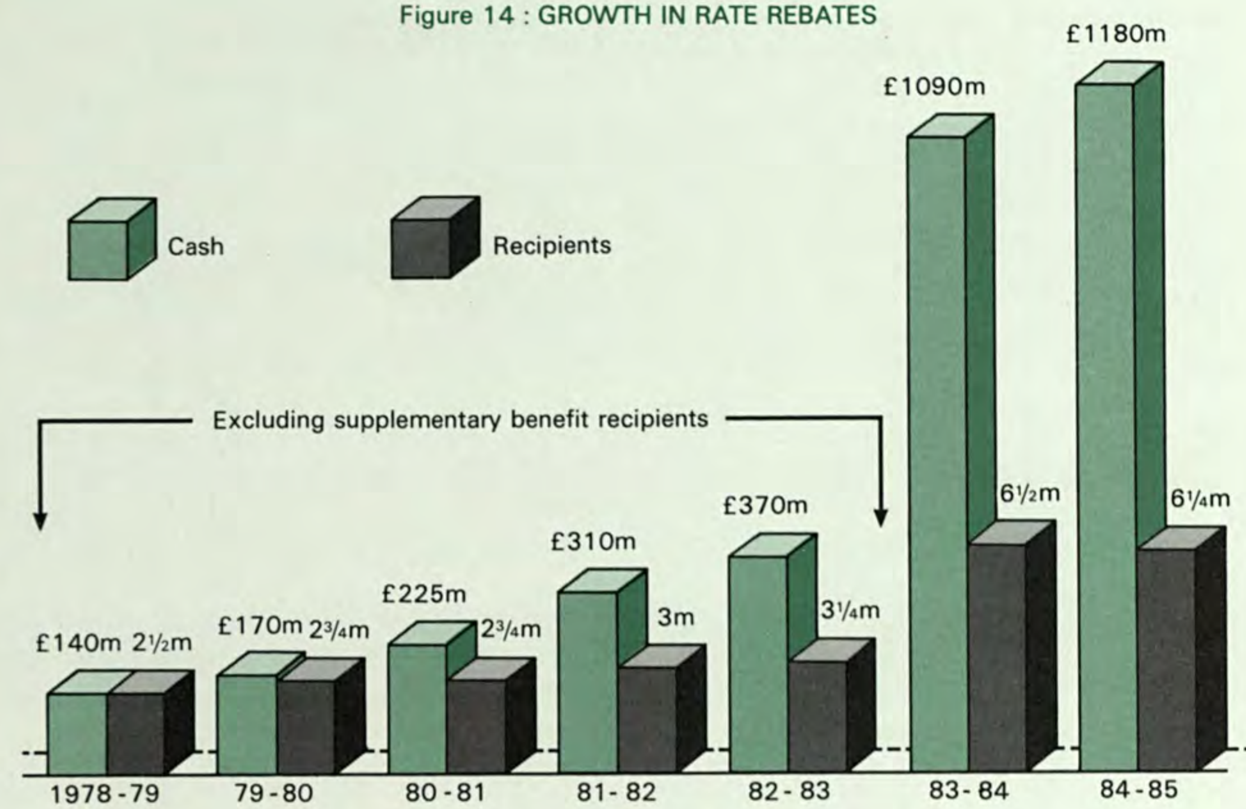


Figure 13 :
HACKNEY – PERCENTAGE OF ELECTORATE PAYING FULL RATES



2.16 The growth in rate rebates has therefore been a significant factor in weakening the link between voters and ratepayers. Figure 14 shows the pattern over the last five years. The dramatic leap in 1983/84 is explained by the introduction of the housing benefit scheme, which for the first time brought together those receiving assistance under the rate rebate scheme (the first five columns on the chart) and those receiving help with their rates through supplementary benefit, where separate data relating to assistance with rate bills had previously been unavailable.

Figure 14 : GROWTH IN RATE REBATES



(b) Confusing signals to those who do pay

2.17 There is nothing intrinsically wrong with taxing property, any more than any other commodity. And rates have many virtues and advantages which have long been recognised, a fact which was acknowledged by the Government in its 1983 White Paper "Rates"(Cmnd 9008). But if our main and overriding concern is with what a local tax tells those who pay it about the cost and level of the services they consume, then changes in rates are not a good guide for the taxpayer.

2.18 First, a tax on property cannot take account of the composition of households and thus of households' consumption of services. This may have been less of a problem in the past, when the bulk of local spending went on property-related services. Before the war a much larger proportion of municipal activity related, for example, to the provision of utilities, such as gas, electricity and water. But nowadays the bulk of local spending is on services to people, such as education and personal social services; see figures 15 and 16.

2.19 Second, rateable values for similar properties vary substantially from one part of the country to another, because they are based (in theory) on market rental values. As a quite explicit

Figure 15 : HOUSEHOLD COMPOSITION – SOME EXAMPLES

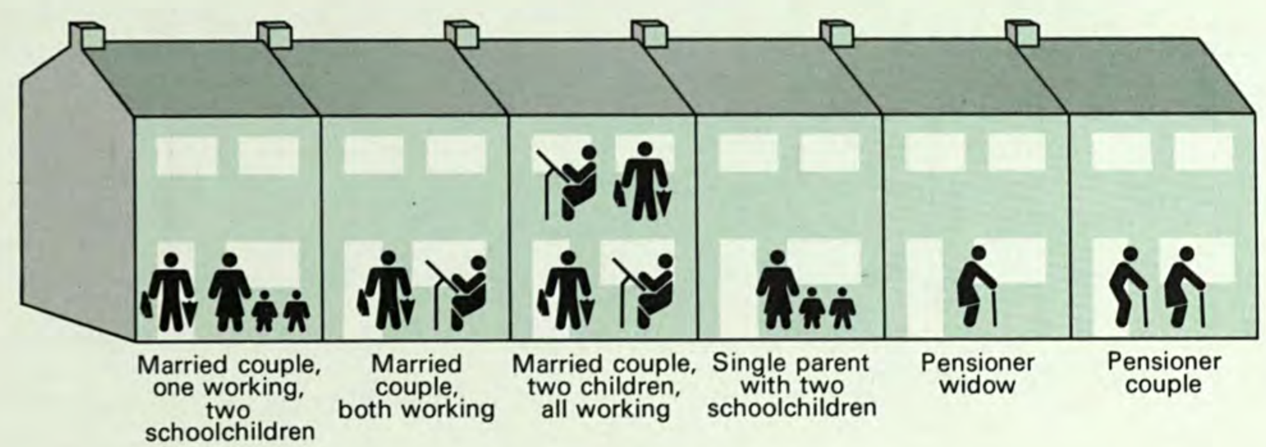
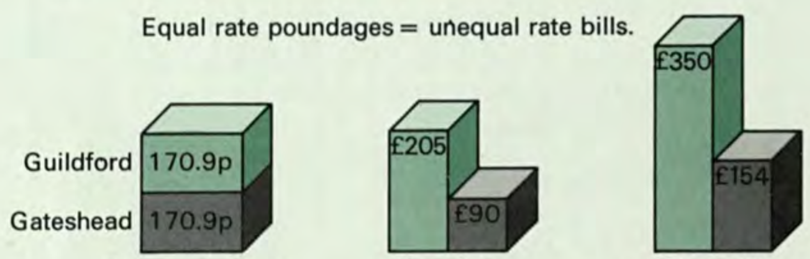


Figure 16: PROPERTY-RELATED AND PEOPLE-RELATED SERVICES AS A PERCENTAGE OF LOCAL AUTHORITY EXPENDITURE

political and social policy aimed at ensuring comparable levels of service nationwide, successive Governments have distributed grant between authorities to compensate them for variations in rateable value so that local authorities can finance comparable levels of spending with a common rate in the £. In effect, the Government subsidises local expenditure by standing in as an additional ratepayer in each area. The consequences for individual ratepayers, however, are extremely varied. Someone living in a 3-bed terraced house in the home counties where rateable values are high not only pays a greater proportion of his income in housing costs, but also pays a much higher rate bill for the same level of service than his colleague in a similar house in the North East, where prices for equivalent houses are cheaper and hence assessed rental values are likely to be lower; see figure 17.

Figure 17: ILLUSTRATIVE RATE BILLS FOR A THREE BEDROOM TERRACED HOUSE FOR AN EQUIVALENT LEVEL OF SERVICE

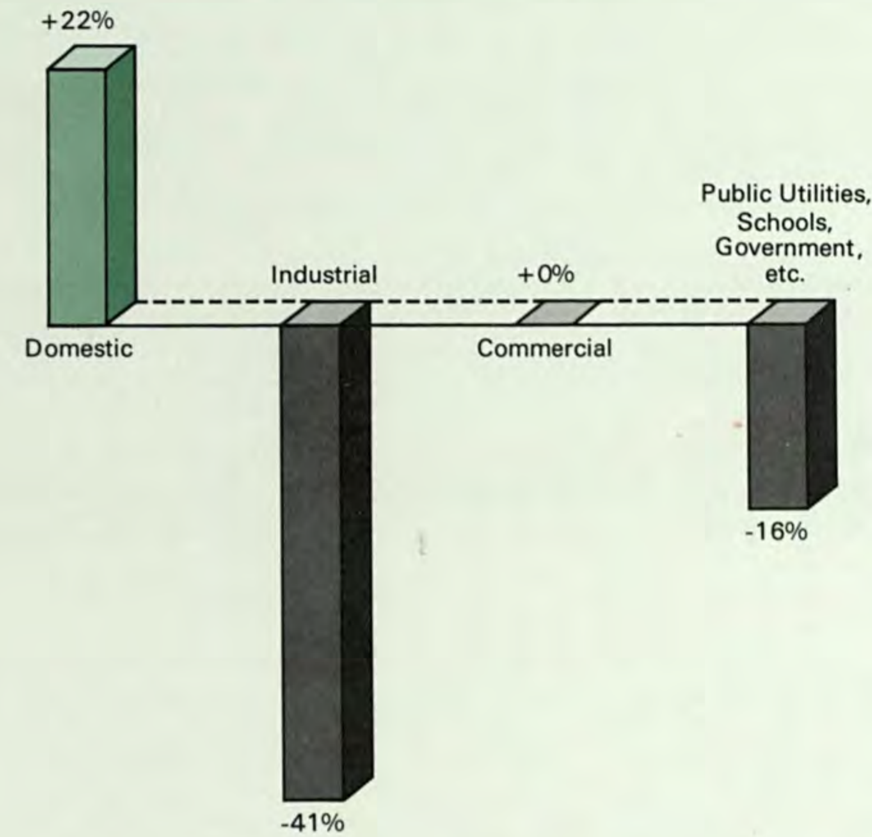


2.20 Third, a tax on property, if it is to be equitable within its own terms, must take account of relative changes in the value of different properties (however that might be measured). Yet revaluations taken at intervals can and do produce dramatic changes in the tax liability on individual properties, with consequential disruption to the finances of the individual taxpayer. Such effects are highly unpopular; and it is no surprise that the last two domestic revaluations in England were followed by enquiries into the Rating System, that the two after that have been postponed, or that the recent revaluation in Scotland has been so controversial; see figure 18.

2.21 These are not criticisms of the rating system for failing to do things it was never intended to do. The characteristics of the system described above have their own internal logic and consistency as a tax on property. As far as our studies are concerned, it is outside our remit to judge whether central government might want to keep domestic rates as one of its own capital taxes. But what we conclude is that rates, both domestic and non-domestic, are a bad tax as the sole basis for local authority income,since they do little to transmit explicable signals of sufficient strength to voters about the spending behaviour of local authorities.

Figure 18 :

CHANGES IN AVERAGE RATE BILLS IN GLASGOW CITY AS A RESULT OF THE 1985/86 REVALUATION (ALONE)



The effect of the revaluation (alone) on the average domestic property in Glasgow City is to increase the rate bill from £340 p.a. to £415 p.a. – over £1 per week

(iv) Capital control system

2.22 The present capital control system is intended to enable Government to control the total level of net capital expenditure each year by local authorities (ie their gross capital expenditure less their capital receipts from sales of assets in the year). The system is however flawed because the allocations to individual authorities together with various freedoms and tolerances built into the system enable authorities' total spending to diverge substantially from national planning totals without any individual authority breaking its own limits. In particular, local authorities have freedom to supplement their capital allocations in any year with a proportion of their accumulated receipts or reserves built up in earlier years.

2.23 The logical thing to do to correct this might be to restrict or remove the right of authorities to spend the proceeds of asset sales, particularly those accumulated from earlier years. But this would destroy the incentive for authorities to sell further assets, which is an important political objective; and the controversy over the restrictions that have already been imposed indicate that it would be politically very difficult to reduce any further the right of authorities to spend their "own money" at any rate within the context of the present control system and present levels of planned capital expenditure.

Chapter 3: Reforming The Local Government Finance System

(i) Macro-economic Considerations

3.1 Our pursuit of policies to restrain local authority expenditure and taxation has sharpened perceptions of latent but fundamental flaws in the local government financial framework, and the mechanisms of restraint themselves have a limited life expectancy. But that does not, in itself, suggest that the government should abandon its objective of seeking to constrain the level of local authority expenditure, in order to achieve its main objectives of reducing the overall burden of taxation and limiting the extent of local authority borrowing.

3.2 Government has to be concerned about the overall size of the public sector. High tax rates, necessitated by high public expenditure, impair the efficient working of the economy. They act as disincentives to activity in the private sector, as the rewards of enterprise are diminished. The levels of taxation required to finance a large public sector absorb resources which could be put to more efficient use by the private sector; and a large public sector is likely to be undertaking activities which could be undertaken more efficiently by the private sector, operating under market pressures.

3.3 These arguments apply to taxes raised to finance central and local expenditure alike. But only a limited proportion of local expenditure is financed by local people. Grants from central Government — ie the national taxpayer — finance about 50 per cent of local spending and for some authorities more spending attracts more grant. Almost another 30% is financed by non-domestic ratepayers. Local domestic rates bear on average, only about 20% of the tax-borne costs of local authority services and that burden is concentrated on the 1 in 3 voters who directly perceive that they pay rates.

3.4 In these circumstances the government has been unable to rely on local pressure to deliver restraint in local expenditure and taxation. The Government has sought the delivery of specific local authority expenditure levels derived from its own public expenditure plans. The wrangling between central and local government has therefore been over the delivery of those expenditure levels. Yet delivery of specific expenditure levels for local authorities is not, in itself, essential to the successful management of the economy; it is a means towards achieving the real end of reducing the burden local authorities impose on all taxpayers, which under the current system electoral pressures are failing to achieve.

3.5 On the capital side Government is concerned about the broad level and composition of gross expenditure since capital projects represent the growth point of the local authority sector in response to new needs and pressures. The size and balance of capital expenditure must therefore be brought into reasonable relationship with the Government's perception of overall service needs, and the extent to which local authorities should be meeting them. Government must also be concerned with the general level of local authority borrowing. Curbing the rate of monetary expansion is central to the Government's policies for reducing inflation and laying the basis for sustained economic growth. That in turn requires a downward trend in public sector borrowing if interest rates are to be held to acceptable levels. Higher local authority borrowing makes it harder for the Government to achieve these objectives.

3.6 Under the present system Government seeks, ineffectively, to control net capital expenditure. It exercises no direct control over local authority borrowing, except insofar as the control over net capital expenditure and the prohibition on anything other than temporary borrowing for revenue purposes exercise an indirect influence. As a result total local authority borrowing is higher than it need have been for the given level of expenditure because the interaction of RSG pressures and the capital control system discourage the financing of capital by revenue contributions, ie from the rates. It has also always fluctuated rapidly and unpredictably by up to several billion pounds from year to year.

3.7 For the future it would be desirable in principle to establish a system that enabled a more stable and predictable level of local authority borrowing to be delivered. If this could be established without a direct control over capital expenditure we might reasonably allow capital expenditure greater freedom to find its own level within the constraint implied by the control on borrowing.

(ii) What kind of local government system do we want?

3.8 If the present grant and rating systems cannot meet for much longer the Government's legitimate concern about the level of the local authority tax burden a new framework must be devised. But what that framework should be raises the fundamental question of what kind of local government system we should have in this country.

3.9 There are essentially two choices facing the Government:

either (i) new mechanisms to achieve direct central control over local authorities' spending and/or rate levels, so as to ensure that they conform with Government's policies and priorities;

or (ii) a new "self-regulating" grant and local tax regime in which authorities are made fully and properly accountable to local people , so that the electorate can understand and influence the spending and taxation decisions of their local authority.

3.10 The choice between the two is not influenced by considerations of practicality or efficacy alone. The fundamental issue at stake is whether or not government believes in a reasonably pluralist and decentralised society in which local political choice and self-determination has a part to play within a clearly defined statutory framework, alongside the decentralised economic decision-taking in which we so fundamentally believe as supporters of market choice. Traditionally, the Conservative Party has held to that belief : as we have stressed, that was the other leg of our policy towards local government in 1979. Mechanisms for increased central government control over local authority spending and rates might perhaps ensure delivery of lower spending and taxation levels than would otherwise apply with our present financial system but they run counter to that tradition. Measures to improve the accountability of authorities to their electorates do not; but while we might expect enhanced accountability to lead to local victories for those who wish to reduce expenditure and taxation in many authorities, we must be prepared to accept that in some it may not. What a proper local government financial system should do is to minimise the effect on national economic and fiscal management of the fact that allies of the central government's low spending policy will not hold power in every local authority at all times; and it should ensure that higher local expenditure and taxation are only accepted as local policy when they are chosen by the majority of local taxpayers.

3.11 Improved accountability in respect of current expenditure and its consequences for local taxation does not, however, preclude effective means of influencing local authority borrowing or capital expenditure; indeed we would argue that the two approaches must go hand in hand.

(iii) Increased Central Control

3.12 Leaving aside the issue of principle, mechanisms for increasing central control all have major practical drawbacks. We have considered three such mechanisms.

3.13 First, *a general limit on rates*. This would limit the local tax burden and, together with the control which central government has over grant, it would provide an effective brake on local authority spending. But it would be administratively extremely difficult to operate: central government would either get drawn into the detailed financial affairs of a large number of authorities if tough limits were applied; or it would have to set generous limits to take account of the different circumstances of local authorities which would achieve little in the way of restraint in expenditure or taxation. It would be overtly very centralist and as such would be deeply unpopular for very little gain. Moreover, we do not have such a power on the statute book; in order to secure the passage of the 1984 Rates Act, considerable categories of authority had to be exempted from its reserve 'general' powers.

3.14 Second, *100% central funding of the main local government services* (education, personal social services, police, fire and highway maintenance), with the remainder of services financed entirely locally. This would provide control, at least as effective as that of Whitehall in respect of other centralised services, over about three quarters of local authority expenditure; it would establish a clear division of responsibility between central and local government for services with national characteristics as against purely local services; and it would enable uniform standards to be applied to services financed by central government. However, it would involve a very substantial increase in central government bureaucracy in order to assess accurately the need for services in each local authority and to monitor and supervise their delivery by local authorities. Central government and Ministers would become answerable for every detail of service provision in every local authority and would face pressure to level up standards of service provision in areas where it was alleged to be below average. Local authorities would simply become agents of central government and would lose their incentive to manage services efficently and they would blame central government for all shortcomings. In short, the system would be cumbersome, inefficient and expensive to run and savings in expenditure would not be certain. Meanwhile, sharpened controls would still be needed for locally financed services to prevent an increase in spending on such services as the burden of local tax fell. The outcome would be unpredictable and the game would not be worth the candle.

3.15 Third, *central funding of teachers' salaries.* This would provide direct central control of over half of education spending and one fifth of all local authority spending. It would enable the Government to take over responsibility for the attempt to influence standards of provision in education through the number and grading of teachers. Like central funding of the whole education service, however, central funding of teachers' salaries would require a substantial increase in central government bureaucracy to determine the number and grading of teachers required in each authority (quite possibly in each school) for which central government would become answerable. Like 100% funding of main services, it would only be a means of reducing the levels of rates if mechanisms were put in place to stop other local spending increasing. It would add 4p to the standard rate of income tax or increase VAT by 5%. We believe this option has little to commend it; and if the overriding concern is to secure greater central government influence over the education service we believe this could be more effectively achieved through further development of educational specific grants.

(iv) A self-regulating system

3.16 Both practical and philosophical objections therefore appear to rule out centralist solutions. But we do not advocate a new self-regulating system of local authority finance by default. Given that Government will retain its concern with the burden of local taxation, such a regime is the best choice if it still believes in the principles of pluralism and local choice and accepts that central Government cannot always know best; and if it recognises that in the end spending can only be restrained locally or centrally if enough people are persuaded to vote for such a policy.

Chapter 4: The Elements of a Self-Regulating System

4.1 The key to a new self-regulating local government finance system is greatly improved accountability on the part of local authorities to their electorates and taxpayers. The above analysis suggests that under the present system four principal factors weaken accountability:

- the non-domestic ratepayer represents a non-voting revenue source which local authorities can tap at will
- domestic rates are too narrowly-based a tax: not enough voters pay
- for those who do pay, domestic rates give confusing signals about the level and consumption of local authority services
- the rate support grant system distorts accountability through a resource equalising grant.

These are the problems which have to be addressed if accountability is to be improved.

(i) The non-domestic ratepayer

4.2 In principle, one answer to the lack of representation for the non-domestic ratepayer would be to give him the vote. This was discussed in the 1981 Green Paper "Alternatives to Domestic Rates" (Cmnd 8449). However, it was concluded that the practical problems of trying to devise a workable scheme in a way which would produce a real degree of accountability were overwhelming.

4.3 The decision not to reintroduce the "business vote" was confirmed in the 1983 Rates White Paper. We see no reason to differ. But from that we conclude that it cannot be right for local government to continue to have uncontrolled access to such a large taxpayer to which it is unaccountable. The non-domestic rate is not an appropriate tax to be left to local determination. It does, however, raise a very large sum of money — £6.5 billion in the current financial year, substantially more than the £4.5 billion paid by domestic ratepayers. If non-domestic rates were abolished the income they yield would have to be found from other sources: either from national taxation via Government grants or from domestic ratepayers; or some combination of the two. But whatever alternatives were found, the consequences for individual taxpayers, whether locally or nationally, would be very severe.

4.4 We therefore suggest that non-domestic rates be retained, and the proceeds made available to local authorities, but that control of the level of the rate be transferred to central government. Central government would then be accountable to Parliament for the level of the non-domestic rate (which might be set after consultation with representatives of the non-domestic sector) in the same way as it is for other taxes which bear on businesses. (An essential preliminary would be to have a non-domestic revaluation to put rateable values on an up-to-date comparable basis). Local authorities would then have to finance the full cost of marginal increases in expenditure from those to whom they are accountable, namely local voting taxpayers.

4.5 The second report discusses how non-domestic rate levels might be determined under the new arrangements and how the yield might be assigned to local authorities.

(ii) Domestic rates: a confusing tax which not enough people pay

4.6 If we accept that a property tax no longer serves the interests of local accountability and that enhancing accountability is our prime objective, then we should be thinking in terms of equipping local government with a new tax altogether.

4.7 Our criteria for assessing a new local tax have been based on the need to improve the accountability of local authorities to their electors. On that basis, any new tax needs to satisfy the following criteria:

(i) it should be perceptible

(ii) it should be non-buoyant

(iii) it should be as widely-based as possible

(iv) it should be clearly related to the consumption of local services

(v) it should reflect in an accurate and predictable manner marginal changes in expenditure.

Any new tax should also be compatible with the government's overall taxation policy.

4.8 We have examined again the major alternatives considered in the "Alternatives to Domestic Rates" against these criteria. They are:

(a) reformed domestic rates

(b) local income tax

(c) local sales tax

(d) a charge on all residents (residents' charge).

4.9 Domestic rates meet some of the criteria of accountability, in that they are highly perceptible to those who pay them and non-buoyant. But as we have seen, they fail in other crucial respects. Domestic rates might be brought more closely into line with consumption of services by making some adjustments to reflect the composition of households. But this would create a confusing hybrid tax and continue to give misleading signals to ratepayers. It would be an unsatisfactory half-way house between a straight property tax and a community charge, and would create yet more anomalies.

4.10 A local income tax on the PAYE basis would widen the tax base from the 15 million who currently pay full or partial rates to 20 million income taxpayers. It *could* be made to be perceptible, although at greater administrative cost, if collected by local authorities rather than the Inland Revenue. But it would be administratively complex; it would still leave 15 million electors with no direct financial stake in local spending decisions. The better off would pay more, irrespective of their consumption of local services and it would add to the burden of taxation on incomes;and it would conflict with the steps the government has taken to reduce the burden of direct taxation. It would also, or course, be buoyant, which is why it is the popular choice of most local authority officers.

4.11 A local sales tax would be paid by all consumers in the locality. It would widen the tax base to all residents — and also to a substantial number of non-residents. But it fails the accountability criteria for a number of reasons:

(i) it would be hard to perceive

(ii) it would give local authorities a buoyant source of income, allowing them to fund increasing spending without increasing the rate of tax

(iii) there would be no direct link between paying for local services and voting in local elections, since many non-residents would pay the local sales tax and residents in one authority could shop elsewhere

(iv) the yield is lumpy and not susceptible to fine-tuning to reflect marginal changes in spending

There are further problems given the present structure of local government. The proceeds of a local sales tax would benefit disproportionately regional shopping centres. This effect is particularly stark in conurbations (eg Newcastle would benefit from attracting shoppers from the rest of Tyneside and from Northumberland). So a Local Sales Tax would necessitate equalisation *between* neighbouring authorities.

4.12 The final option is a simple flat-rate charge on all adult residents. This produces the closest fit with local electors. It would widen the tax base from 15 million people to 35 million. It would be clearly related to the level of local authority services, since there would be no need for complex equalisation mechanisms to distort the link between service and cost. It would be perceptible and its yield should both be predictable and easy to fine-tune, so should not distort incentives. For all these reasons, we believe that a form of residents' charge would be preferable to domestic rates as the principal source of locally-raised revenue for local authorities.

4.13 The objections to the residents' charge were well rehearsed in "Alternatives to Domestic Rates." They include concern about the implications of registration of voters; administrative complexity; and the fact that it takes no account of ability to pay. The last is arguably the most important. The level and impact of any community charge would have to be assessed in the context of its effect on the range of household incomes and colleagues will want to see the result of this before reaching a final view. But it would be unrealistic to expect people on low incomes to be able to bear the full cost of the residents' charge, even if benefits were raised to take account of the average level of the charge. The residents' charge would either have to operate with a rebate system or be reflected in supplementary benefit levels. But, unlike the present position with housing benefit, we believe every adult should have to meet some proportion of the residents' charge from their own pocket even if for the poorest the welfare system put the money there in the first place. Automatic 100% rebates for any member of the community undermines the accountability gains from the introduction of a residents' charge.

(iii) The rate support grant system distorts accountability

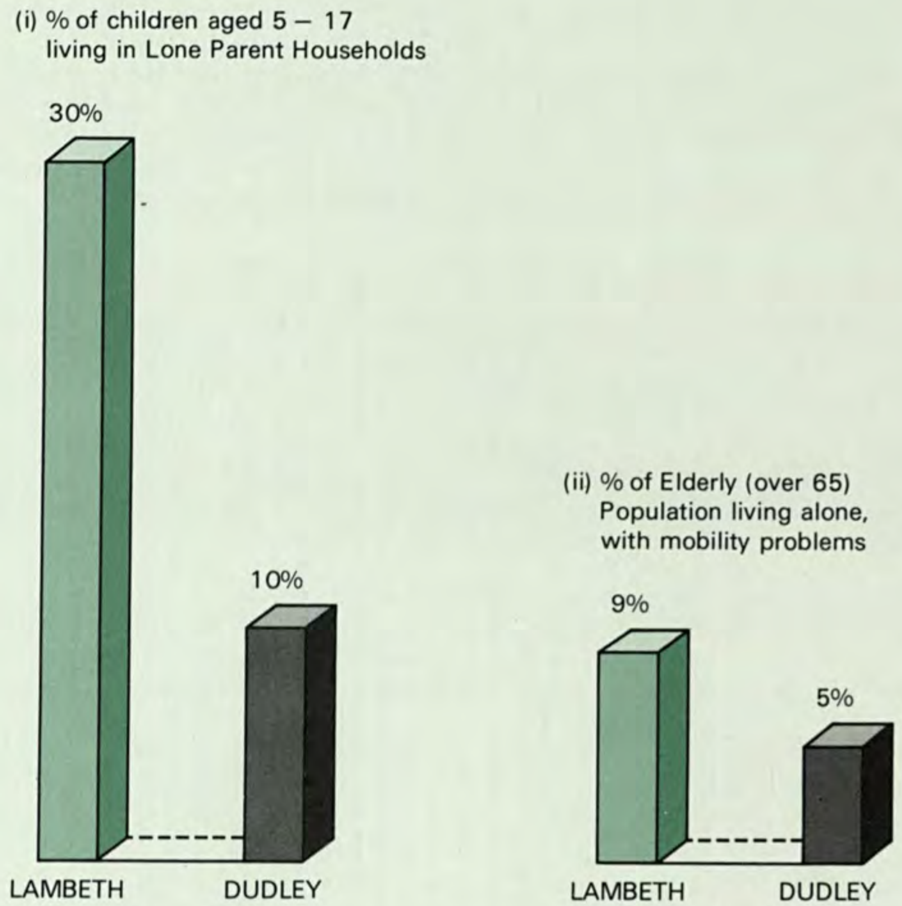
4.14 If the residents' charge is to reflect accurately the relative level of local services and to promote accountability, we need to ensure that differences in the needs and circumstances of local authorities which might otherwise distort those bills are properly compensated for.

4.15 The principle of compensating for such differences already underpins the existing rate support grant system. But as we saw in paragraph 2.19 the effect of also compensating for differences in authorities' rateable resources introduces major variations between different parts of the country in the rate bills levied on comparable properties for comparable standards of service. This is one of the confusing signals which the present grant and rating systems send to domestic ratepayers. However, the switch from domestic rates to a residents' charge deals with this problem, since the taxable capacity per adult does not vary from area to area. There is therefore no need for domestic resource equalisation, once it is accepted that all adults should be liable for the charge.

4.16 Non-domestic rates will be retained under our proposals and the amount of non-domestic rateable resources varies widely between authorities. However, we can compensate for these differences if we pool and redistribute the yield from non-domestic rates on a national basis (following a non-domestic revaluation) as a standard amount per adult. The need for non-domestic resource equalisation through the grant system therefore also disappears.

4.17 There is, however, still a need to compensate authorities for differences in their assessed spending needs, for the kind of reasons illustrated by figure 19. However, because inequalities in resources have already been taken care of, the complex machinery of the present block grant is not required: the only grant we need is a lump sum allocation to each authority calculated according to their needs as assessed by central government formula, and not related to how much they spend.

Figure 19 : WHY NEEDS FOR L.A. SERVICES VARY



4.18 The effect would be that, whatever their varying needs, authorities providing a standard level of service will be able to levy a similar level of residents' charge. If they spend more than this, the whole of the excess will have to be met from a higher residents' charge.

4.19 This makes it all the more important that the needs assessment formula should be perceived to reflect differences in spending needs fairly: there is in particular doubt as to whether the inner urban areas' special requirements are adequately dealt with at present. But we aim, too, to make the formula simpler and more intelligible.

4.20 We should beware, however, of assuming that this proposal should lead to a lower overall level of grant than at present; if we were to constrain the grant to the minimum amount needed to equalise differences in authorities' expenditure needs, the overall level of local taxation would have to increase very substantially indeed.

(iv) Other measures

4.21 We also see merit in pursuing certain other measures which should either promote local authority accountability or redefine the framework within which local government operates so as to strike a sensible balance between the legitimate interests of central government and allowing local government freedom of manoeuvre. These measures are as follows:

— A new framework for the control of capital expenditure or of borrowing which delivers total figures closer to national plans, and which gives individual authorities greater certainty about the available level of resources within which they can plan capital programmes over several years. Following the analysis in paragraphs 3.6 and 3.7 above, there would be attractions in principle in operating the new control on net external borrowing by local authorities, and giving them the freedom to spend in addition on capital in any year any amount which they choose to raise locally either by asset sales within the year or by contributions from revenue. There are, however, considerable practical problems in devising any such system and it would be premature to decide in favour of a borrowing control at this stage before these have been explored further. It may turn out that in the event some form of capital expenditure control (perhaps based on gross expenditure) remains more practicable and could indirectly give a better degree of influence over borrowing as well. A separate paper will be circulated on a range of options shortly.

— a new framework governing the budgetary procedures of local authorities, so that the possibility of deficit financing can be pre-empted and the relationship between local tax levels and local spending levels preserved;

— the possibility of annual elections for all authorities (as happens at present in metropolitan districts and some shire districts) in order to improve accountability and electoral influence over council affairs;

— measures to encourage an increase in the amount authorities raise through fees and charges for their services.

4.22 Finally, we must recognise that, other things being equal, the new financial framework we have recommended will increase the burden of local taxation on the residents of the worst areas of inner city dereliction. This is primarily because the authorities concerned are spending considerably more than their assessed needs now, and in future the entire burden of such excess expenditure will fall on the residents' charge. It may be that the current needs assessment formula fails to reflect the full intensity of the problems of these areas, and we shall be considering this in our revision of the needs assessment arrangements. In addition, extra resources could be allocated to specific activities in these areas by the authorities and central government acting in partnership: this should help to ensure that the resources are put to best effect.

Chapter 5: Conclusion

5.1 Our objective has been to find a new system of local government finance which strikes a balance between on the one hand central government's desire to encourage authorities to operate more economically and efficiently and to constrain the burden they impose on local taxpayers; and on the other hand the need to restore proper local accountability and avoid detailed central government involvement in the affairs of local authorities, which we do not believe to be in central government's best interests.

5.2 We have accordingly focussed on means to improve the accountability of local authorities to local people, so that their electorates may better understand the actions and affairs of their councils, and have both the incentive and the ability to influence effectively those actions and affairs. We believe that in general this will encourage local authorities to behave in a way which is more compatible with the policy objectives on which we fought and won the last two elections. We must accept that in some authorities the electorate may choose differently; but under our proposals such a choice would at least more genuinely reflect the wishes of the majority of local taxpayers than at present. Above all, we believe our proposals offer the best chance of providing a durable, self-regulating system of local government finance from which central government can stand back.

5.3 To local authorities we would be offering a new deal — the most fundamental since the 1830's — whereby we would scrap targets, penalties, block grant taper, the complexity of GRE's, rate capping and perhaps capital allocations, for freedom to set a painful local tax within tighter legal constraints on borrowing and the manipulation of accounts. To local voters we would be offering real power over their councils — with the risk that if they did not vote they might get sharply higher bills — and a shift in local payments towards those who use local services most. The upheaval of domestic revaluations would disappear once and for all. Business would be protected. Central government would be free of its increasing entanglement with local decisions and domestic rates would have been abolished.

5.4 This report has described how we arrived at our recommendations. Our second report provides a detailed specification of these recommendations and a preliminary analysis of their likely effects on the finances of authorities, households and individuals.

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The Local Government Finance Studies

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LOCAL GOVERNMENT FINANCE STUDIES

SPECIFICATION REPORT

Presented to
The Ministerial Steering Committee on Economic Strategy
Sub-Committee on Local Government Finance

by

The Minister for Local Government and the
Parliamentary Under Secretary of State,
Department of the Environment

May 1985

Copy No:

[redacted]

CONFIDENTIAL

LOCAL GOVERNMENT FINANCE STUDIES

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SPECIFICATION REPORT

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LOCAL GOVERNMENT FINANCE STUDIES

SPECIFICATION REPORT

CHAPTER 1: INTRODUCTION

A. BACKGROUND

(a) Our remit

1.1 At the seminar at Chequers on 31 March, Department of the Environment Ministers were asked to develop the proposals we had put forward in outline for reforming the present system of local government finance. In particular we were asked to examine the likely overall impact of the changes we had proposed on typical authorities, individuals and businesses; to consider the implications of those changes, including the need for transitional arrangements and for assisting people on low incomes; and to show how the new local tax which we proposed should replace domestic rates - the residents' charge - would work and be enforced.

(b) Structure

1.2 The aim of this report is to fulfil that remit. Chapter 2 shows and discusses the preliminary results of our proposals in terms of their broad effects on authorities, businesses and individuals. At this early stage these results are not put forward as an accurate prediction of the scale of the effects: but they do give a broad indication of the likely direction of change. Chapter 3 considers what modifications and transitional arrangements may be needed to secure an acceptable distributional pattern without compromising the principles of our proposals. Chapter 4 sets out conclusions and proposals for further work.

1.3 In addition, there are nine annexes to this report. Each provides a specification of the various component parts of our proposals and discusses the practical implications.

1.4 This report has been prepared in less than two months since the Chequers presentation and our development work is inevitably at an early stage; there is a great deal more work to be done in consultation with colleagues and their departments before we can be in a position to agree to a detailed package of reforms to serve as a basis for public consultation.

(c) Scotland and Wales

1.5 In the time available, we have been able to relate our analysis and exemplifications only to English authorities. But, as originally agreed by E(LF), the Secretaries of State for Scotland and Wales are associated with our work and our proposals have been developed with a view to their possible implementation in Scotland and Wales as well as in England. Some aspects of local government finance of course vary between the three countries at present and they will no doubt continue to do so under any new arrangements; but if our proposals for reform are agreed it seems inevitable that at least their main features - particularly in relation to local taxation - would have to be adopted in all three countries.

B. GENERAL PRINCIPLES OF A SELF-REGULATING LOCAL GOVERNMENT FINANCE SYSTEM

1.6 Our introductory report explained the rationale which led us to the proposals we have put forward. It identified the inadequate and blurred accountability of local authorities to their ratepayers as the principal reason why the Government's present policies to restrain local authority expenditure and rates had run into political and practical difficulties. It attributed this to fundamental flaws in both the grant and rating systems and argued that major reform of both was necessary.

1.7 As the introductory report fully acknowledged, the Government's objective of reining back the burden imposed by the public sector on taxpayers applied - and should continue to apply - to local government just as much as to central government. But trying to achieve this by pursuing our existing policies in the direction of greater central government control of local authorities is likely in the long run to be politically and practically counter-productive. It would also be incompatible with the commitment - to which we attached so much importance in 1979 - of less central government interference and regulation in local government and in the lives of individual citizens.

1.8 We have therefore argued that the pressures for restraint on local authorities should come not from central government but from greater and more effective accountability on the part of local authorities to local people. We want a self-regulating system which provides the restraints we believe are necessary but which enables central government to stay out of the affairs of individual authorities.

1.9 Our analysis of why local authority accountability is at present so ineffective identified the weak links between those who vote, use and pay for local government services as the major problem. On average, local authorities get more than half of their rate income from the non-voting, non-domestic sector; of those who do have the vote, only about a third directly pay full rates; while the rating system itself sends those who do pay confusing and conflicting signals about the expenditure decisions and behaviour of local authorities. In addition, the current rate support grant arrangements are complex and distorting in their effects.

1.10 Our proposals are primarily addressed to tackling these problems. They also include other measures to promote local authority accountability and to redefine aspects of the framework within which local government operates so as to strike a more sensible balance between the legitimate interests of central government, the need for local authorities to have reasonable freedom in the conduct of their affairs, and the effective capacity of local voters to call their authority to account.

C. A SUMMARY OF OUR PROPOSALS

1.11 Our proposals are described in detail annexes A to H to this report. In summary they are as follows.

(a) National non-domestic rate

1.12 Rates would be retained for non-domestic ratepayers. However, they would no longer be set at the discretion of local authorities but by central government as a national non-domestic poundage (based initially on the current national average poundage). The proceeds would be pooled and redistributed to all authorities as a uniform amount per adult. This is undoubtedly a centralist measure in that it removes one source of income for local authorities. But it is one which enhances local accountability because it requires local authorities to finance the full cost of spending not met by grant or payments from voting taxpayers.

1.13 For the majority of non-domestic ratepayers - over two thirds of whom are in industry and commerce - the proposal should in principle be attractive, since it offers the prospect of stability and protection from excessive rate increases. There will however inevitably be losses for businesses with low rate poundages at present. These will be offset by big gains for business ratepayers in higher rated areas. And from the point of view of central government, pooling and redistribution of the yield of non-domestic rates will go a considerable way to ironing out differences in authorities' taxable resources, thus reducing the need for a resource-equalising grant.

(b) A Lump Sum Needs Grant

1.14 Our proposals involve a new structure for grant to local authorities but need not entail any change in the overall balance between national and local taxation. As now, there would be specific grants for certain purposes. But block grant would be replaced by a lump sum needs grant designed to compensate local authorities for differences in their assessed expenditure needs. Any sum remaining from the desired total of exchequer grant would be paid as a standard flat rate amount per adult. There would be no resource equalisation. Authorities' grant entitlements would therefore be determined by a needs assessment formula and by their adult population and would not vary according to what they spent.

1.15 Grant distributed on this basis will be much easier to understand and will no longer distort the relationship between marginal increases in spending and what local taxpayers have to pay. If authorities want to spend more than their assessed needs they will have to finance the cost of any excess, £ for £, entirely from local taxpayers. That is good for accountability. Conversely if they choose to spend less, they do not lose grant and the benefit accrues, £ for £, to local taxpayers. That is a good incentive to economy. There will however be redstributional effects. Abolition of domestic resources equalisation will shift money from low domestic rateable value areas to high domestic rateable value areas.

1.16 What taxpayers pay will, however, be more dependent on our needs assessment than at present. We must review our assessment methods to ensure that they are as defensible and comprehensible as we can make them.

(c) Residents' Charge

1.17 Domestic rates would be replaced by a residents' charge. At its simplest, this would take the form of a flat rate levy on all adults resident in an authority. Each district and borough council would compile its own register, which would be separate from the electoral roll. We would aim for as few exemptions from registration as possible. We would at a minimum have to provide rebates for low income families, but in line with the decisions following the social security review, we have assumed that no individual would receive a full rebate of his or her residents' charge.

1.18 This would substantially broaden the present limited tax base of domestic rates to encompass virtually the entire electorate, thus giving all voters a direct stake in the decisions of their local authorities. It would be perceptible, easy to understand and, since it would be non-buoyant, the year on year increases in spending would result directly and explicitly in increases in the residents' charge. Even with a rebate system, the residents' charge would however be more regressive than domestic rates. We should have to accept this as a condition for securing greater accountability.

(d) Targeted aid to inner urban areas

1.19 Our proposals could mean a large cut in the resources of inner city authorities because their expenditure substantially exceeds their needs assessment at present. This is partly a matter of extravagance and inefficiency. But it may also be because it is hard for a generalised system of needs assessment to reflect fully the extremes of multiple deprivation. Changing our assess- ment of spending needs could help, but may well not be enough on its own. We must ensure that the authorities have the resources they need while squeezing out extravagance and inefficiency. Machinery to channel extra help, possibly through a new city grant, will need careful consideration. But a substantial initiative by central government will clearly be required.

(e) Tighter Capital Controls

1.20 While we believe a self-regulating system of local government finance is the only realistic way forward to achieve restraint in local authority current expenditure and taxation, central Government must for reasons of macro-economic policy retain the ability to influence local authority borrowing effectively. We are currently exploring five options for improving the present arrangements based on control of capital expenditure. We are not yet in a position to reach firm conclusions. In principle, there might be advantages in a control on <u>all</u> net external borrowing whether for capital purposes or temporarily in anticipation of revenue income. It would allow authorities greater flexibility to supplement capital spending by transfer from revenue or from sales of assets. But there are considerable practical difficulties in devising a workable system. We are also exploring the fallback option of controlling gross capital expenditure.

(f) Increases in Fees and Charges

1.21 Consistent with our objective of clarifying people's perception of the cost of local services, we propose that authorities should be encouraged to increase the amount of revenue they raise through direct fees and charges to consumers. At present local authorities in England recover about £2.2 billion through existing fees and charges - some 7% of their spending financed from their rate fund. We might be able to increase this figure by up to £500 million by putting pressure on authorities to conform with "best practice".

1.22 If we want to raise more than this - as ideally we would - we would need to contemplate introducing new charges for services such as fire protection, nursery education and libraries: we might also need to consider ways of devising charges for non-domestic ratepayers (and corresponding reductions in non domestic rates) to reflect in some way the benefits businesses derive from local authority services. Either approach would, however, be very controversial.

(g) Annual elections

1.23 Present electoral arrangements are not ideal from the point of view of local accountability. We would like to see a simpler and more uniform system which the voter could understand and which would call all authorities to account at frequent intervals. The choice is a finely balanced one. But our present inclination is to propose extension to all authorities of the system which already applies in all metropolitan and some non-metropolitan districts - annual election by thirds. In its 'pure' form, allowing every elector to vote every year, this would need a complete redrawing of the electoral map to create three-member divisions and wards in all the authorities concerned. In the interim, we would need to graft annual elections on to the present ward pattern. This would be workable (even perhaps in the longer term) in the counties but less so in the district and London boroughs.

(h) A new framework for local authority budgeting

1.24 Local authorities are at present subject to no explicit requirements on the form or content of their budgets, except that the rate set must be sufficient to provide for estimated expenditure. Yet the budget process is a highly important one which has major implications for local people. Accountability depends on a clear link between spending decisions and local taxes levied. The creative accounting practices which have emerged in recent years should largely disappear with the reform of the grant system we propose; and if we should adopt annual elections for all councils the manipulation of reserves to hold down rates in election years should also end. But there is still the possibility of "deficit financing" (i.e. levying a rate of tax which may prove to be insufficient to cover planned expenditure) in a few authorities. The risk of this might increase under our proposed reform.

1.25 To preserve the link between spending and local tax rates we therefore propose that we should explore the scope for establishing a legal requirement on authorities to produce "sincere" budgets, backed up by a procedure enabling the auditor to vet selected budgets where certain "triggers" are activated.

D. THE PROPOSALS AS A WHOLE

1.26 Together, our proposals add up to an approach which will spread the cost of financing local authority services to all voters; force local authorities to finance additional spending from local voting taxpayers; and clarify to voters the link between expenditure on services and the cost of financing it.

1.27 Under our proposals central government would control the non-domestic rate, grants to local authorities and borrowing. Central government would thus have direct control over the burden local authority spending places on the national and business taxpayer. But it would no longer purport to deliver a predetermined total of local authority expenditure. If local people wanted to vote for more local spending <u>and</u> were prepared to pay for all of it, we would let them.

1.28 That might appear a recipe for higher local authority expenditure. It should not be. We would be doing away with the complicated and unpopular apparatus of targets, tapers and holdback used now to place pressure on local authorities. But we would be replacing them with a system which imposed a severe price on <u>all</u> local authorities for <u>every</u> percentage increase in their spending. We would no longer be in the business of judging "allowable" spending increases for each authority based on its previous year's spending.

1.29 There is another feature of our proposals which suggests spending should be lower rather than higher. The present system gives authorities few incentives to budget down. The proposed new system would allow authorities to pass on the full benefit of reductions in their spending. There would be no sharing of cost savings and cost increases between local taxpayers and the government as happens at present. Every 1 per cent increase in spending will cost the local taxpayer 4 per cent on his residents' charge. Every 1 per cent reduction in spending will reduce his bill by 4 per cent. That should give across-the-board incentives to economy impossible under the present system of top-down containment of local authority spending.

1.30 At the same time, we must recognise that the introduction of our proposals - particularly those relating to non-domestic rates grants and the residents' charge - will as they stand have potentially major effects on the finances of authorities, businesses and households, some advantageous, some not. These are discussed in Chapter 2. Chapter 3 looks at possible modifications to moderate the more extreme effects and transitional arrangements to ease the introduction of the new system. Our conclusions, and suggestions for further work, are summarised in Chapter 4.

CHAPTER 2: RESULTS

A. INTRODUCTION

2.1 This chapter gives the results of the preliminary development work we have done in the six weeks since 31 March.

2.2 The package we are showing incorporates

- a national non-domestic rate;
- a lump sum needs grant;
- a residents' charge incorporating the social security review rate rebate proposals.

2.3 The results are purely illustrative. We are showing a very basic package with no refinements made at all. In particular

- we have not incorporated any special London arrangements, though such arrangements have been an important feature of the local government finance system for many years;

- we have not assumed any changes to the flow of grant to support higher spending needs in urban areas;

- we have not incorporated any transitional arrangements either for areas or households;

- we have not assumed any changes to local authority spending behaviour.

2.4. These early results therefore show only the broad direction of change. They do not show the likely scale of change or the detailed distributional effects. In the light of the committee's views, there are a number of modifications and transitional arrangements we can make to give a more realistic and acceptable outcome. The range of refinements available to us is set out in Chapter 3.

B. RESULTS

2.5 The results we have produced so far are shown in three sections

I The effects on areas
II The effects on particular household types
III Numbers of gainers and losers

SECTION I: EFFECTS ON AREAS

2.6 This section describes how the effects of our basic proposals (without refinements) would vary in different areas for domestic and non-domestic local taxpayers.

a. <u>The effects on domestic taxpayers</u>

2.7 The <u>average</u> local domestic taxpayer would be better off under the new arrangements in over two thirds of rating authorities. He will tend to be better off in two sorts of area:

<u>i. Low spending areas</u>

These gain from sharing the proceeds of the national non-domestic rate set at the national average level. On average the contribution from domestic taxpayers in non-metropolitan areas would fall by more than 20%.

<u>ii. Areas outside London with high domestic rateable values</u>

These benefit from the abandonment of attempts through the grant system to compensate areas with low domestic rateable resources. The Home Counties all fare particularly well.

2.8 Domestic taxpayers will tend to be worse off in the following type of area:

i. High spending areas

The whole burden of financing expenditure above assessed expenditure needs is shifted on to the domestic taxpayer. Kodak will no longer be subsidising Camden's excessive spending. Every £1 (per adult) spent by Lambeth over its assessed expenditure need will increase the residents' charge by £1. As a result, unless spending is cut, domestic taxpayers in a number of high spending metropolitan districts and London boroughs would be significantly worse off.

ii. Areas with low domestic rateable values

These areas - largely outside the South East and Midlands- no longer benefit from the extra government help to compensate for their low domestic rateable values (resources equalisation).

iii. London

Successive grant regimes have put London into an advantageous position compared with the rest of the country in order to moderate the higher rate bills resulting from its high rateable values. At present, 26% of London's rateable resources are left out of account when calculating its grant. In addition, the rich central London boroughs, GLC and ILEA who receive no grant nevertheless receive a bonus (running up to several hundred £ million) from their abnormally high non-domestic rateable resources.

2.9 The package shown in this report has not been modified to continue the special London arrangements. The effect, when taken together with some very high spending in Inner London is a massive and implausible (80% average) increase in the burden faced by domestic taxpayers in Inner London. Our view is that we shall almost certainly need special London arrangements (see Chapter 3). On that basis, the London results shown in this report must be regarded as subject to major modification in the final package.

b. <u>The effects on non-domestic local taxpayers</u>

2.10 If non-domestic rates are set at the national average businesses will pay lower rates in high spending areas where rates are correspondingly high, but higher rates in low spending areas where they are low. The effects are shown in Annex A. The biggest gains are for businesses in inner London and high spending northern cities (20-30% reductions). Against this, rate bills would increase for businesses in low spending rural areas, particularly in the south east. In general the gains for business taxpayers will occur in areas where domestic taxpayers lose and vice versa. The scale of the changes for many individual businesses would however be much less than the changes which will result from a non domestic revaluation which will needed in due course.

c. <u>How the residents' charge would vary</u>

2.11 Tables 1 and 2 (at the end of this chapter) summarise the key results.

2.12 To replace domestic rates with a residents' charge requires a national average charge of £160 per adult. Under our proposals, some 90% of authorities would have a charge wi thin the range £60-£200 per adult, although for a very small minority of authorities - all in London - the charge would exceed £300 per adult, up to a maximum of £780 per adult. Only part of this variation is attributable to our proposed reforms to grant and non domestic rates.

2.13 <u>Table 1</u> shows that even under the present financial regime, the wide variations which exist in domestic rate bills between areas produce a range of variation in the cost per adult across the country which is almost as large.

2.14 Nevertheless our proposals do produce some large shifts in the burden of domestic taxes between areas. These are brought out in <u>Table 2</u> for some illustrative groups of authorities. It shows that there are some big shifts in the burden of local domestic taxes, particularly in London. It is useful in suggesting the <u>direction</u> of change. The <u>scale</u> of change for gainers and losers will be affected by the arrangements discussed in chapter 3.

SECTION II: THE EFFECTS ON SAMPLE HOUSEHOLDS

2.15 What might the impact be of our proposals on household income? To show this, we have chosen a range of standard households in a sample of local authorities. We have then calculated weekly local tax bills after rebates, as percentages of household income (net of income tax and national insurance contributions.)

2.16. The results for a selection of these households in eight local authorities are given in Table 3 at the end of this chapter. While these serve to give an indication of some of the most marked distributional changes, the households shown are not necessarily the most typical. We should emphasise that our analysis is confined to owner-occupiers; this is because of the difficulties of attributing housing benefit, under the proposed new rebate scheme, to rents and rates respectively.

2.17 We have built up the results in three stages:

- First we have grafted the changes following the social security review onto the existing pattern of rate bills (to show these effects in isolation).

- Second, we have incorporated the new grant and non domestic arangements but retained domestic rates (to show the effects of the new grant/non-domestic rate arrangements in isolation).

- Third, we have replaced domestic rates with the residents' charge (to show the effects of the entire package.)

a. Effects of Housing Benefit changes in Social Security review

2.18 There are three main effects:

a. to make all ratepayers including those on Supplementary Benefit pay at least 20% of their rate bill;

b. to increase the proportion of income paid in rates by owner-occupied households with modest incomes above the Supplementary Benefit level (allowing for disregards);

c. to reduce by 40% the number of households not on Supplementary Benefit who receive rate rebates.

b. The impact of new grant and non-domestic rate arrangements

2.19 In high spending authorities, the effect of making domestic ratepayers pay the full cost of spending above GRE is to substantially increase the burden of local taxes for all households. When this is combined with the results of the Social Security review some low income households in a few of the highest spending authorities, could find their rate bills doubled or even trebled. The effects are most marked in London (since the figures do not reflect a continuation of special London arrangements).

2.20 Conversely, there are modest gains to all ratepayers in low spending authorities under the new grant system with rate bills falling as a percentage of income by 1-2 percentage points.

c. Replacing Domestic Rates with a Residents' Charge

2.21 This affects mainly the distribution of the local tax burden between households in an area - rather than the total size of the tax burden. It produces substantial shifts in tax incidence between households. The main gainers and losers are as follows:

Gainers	Losers
Single person households	3 or more adult households
High rateable value households	low rateable value households
Better off households	Poorer households

2.22 The biggest gains are for single person and 2-adult households in high rateable value property in high spending authorities, for whom the reduction in tax resulting from the move to a residents' charge more than outweighs the adverse effects of our grant proposals.

Two examples illustrate this:

A single non pensioner with gross income of £250 living in a high spending outer London borough could end up paying only 4% of net income in local taxes compared with 9% at present.

A couple with two dependent children with a gross income of £450 per week, living in a prosperous urban centre would pay only 2% of their net income in local taxes compared with 5% at present.

2.23 The biggest losses are for households with two or more adults in low rateable value property in high spending areas where the effects of a high residents' charge payable by each adult produce further large increases in the proportion of net income paid in local taxes.

Two examples illustrate this:

A pensioner couple living in a northern industrial centre (high spending) with a gross income of £75 per week could pay getting on for an extra four percentage points of net income in local taxes, and the combined effect of our proposals would raise the proportion from less than 3% at present to 10%.

A three adult household in a second northern industrial centre (high spending) with a gross income of £150 per week might have to pay almost an extra two percentage points of net income in local taxes as a result of the residents' charge. When combined with the results of the Social Security review proposals and the reform of grant and non domestic rates the effect would be nearly to treble the proportion of net income paid in local taxes - from 4% to 12%. For a comparable household in London, the increases could be even greater.

2.24 In sum, for poorer/low rateable value households in high spending areas, the effect of moving from rates to a residents' charge is to accentuate the losses already envisaged as a result of the Social Security review housing benefit proposals and our proposals for reforming grant and non domestic rates. But for better off/high rateable value households in such areas, the gains from the residents' charge tend to more than offset the adverse effects of our other proposals. The relationship between the proportion of net income paid in local taxes and income levels under different financial regimes is shown for some illustrative households in different types of authority in table 4 at the end of this chapter. This shows how, under the proposed residents' charge, the proportion of income paid in local taxes tends to decline as income rises for those households not in receipt of housing benefit.

SECTION III: NUMBERS OF GAINERS AND LOSERS

2.25 Finally, we have carried out some preliminary work with DHSS on modelling the effects of the basic package on almost 6,000 households in England, using the Family Expenditure Sample survey. The purpose is to give some broad national indication of the numbers of households who gain and lose under our proposals and the range of effects. The proposed new rate rebate benefit scheme has been assumed to apply throughout, so that the effects of introducing this scheme are excluded from the changes shown below.

2.26 The results have been calculated in two stages:

i. <u>The effects of implementing the new grant and non domestic rate arrangements without replacing domestic rates</u>

The number of gaining and losing <u>households</u> can be summarised as follows:

<u>Gains</u>

100,000	(0.6%)	of households gain	more than £5 per week
2,100,000	(12.4%)	" " "	between £2-5 per week
8,000,000	(48.2%)	" " "	less than £2 per week
Total: 10,200,000			

<u>Losses</u>

5,000,000	(29.8%)	" "	lose less than £2 per week
950,000	(5.7%)	" " "	between £2-5 per week
450,000	(2.7%)	" " "	between £5-10 per week
100,000	(0.6%)	" "	more than £10 per week
Total: 6,500,000			

2.27 These results show that more householders gain than lose from our basic grant package (without the residents' charge) but that there is a wider spread in the size of the losses. As we have made clear throughout this chapter, we shall need to try to mitigate the heaviest losses, which occur in Inner London, by special London arrangements. We shall also need to consider how best to alleviate some of the large losses being incurred in a number of the higher spending northern industrial areass. Under the present basic package, a total of 650,000 households would face losses of over 3% of their net income.

ii. <u>New grant and non domestic rate arrangements with residents' charge replacing domestic rates</u>

The replacement of domestic rates with the Residents' Charge, when combined with our other proposals provides the following patterns of gains and losers:

Gains

750,000 (4.4%)	of households	gain	more than £5 per week
3,000,000 (17.7%)	" "	"	between £2-5 per week
5,500,000 (33.8%)	" "	"	less than £2 per week

Total: 9,250,000

Losses

4,500,000 (26.2%)	" "	lose	less than £2 per week
1,900,000 (11.5%)	" "	"	between £2-5 per week
700,000 (4.2%)	" "	"	between £5-10 per week
350,000 (2.2%)	" "	"	more than £10 per week

Total: 7,450,000

2.28. The effect of the introduction of the residents' charge is to make a further one million households worse off and to increase the number of households who gain and lose more than £5 per week. For one and a quarter million households losses would amount to more than 3% of net income.

2.29 Finally, Table 5 shows the distribution of net local tax payments as a proportion of income, under the present system (but incorporating the new rebate scheme) and under our proposals, with the residents' charge. The broad distribution pattern is very similar, although the position of individual households may differ significantly.

2.30 It must be stressed that these results are highly sensitive to some of the assumptions we have used. And in the time available, it has only been possible to indicate the effects on <u>households</u> rather than <u>individuals</u> who would be liable for the residents' charge.

C. CONCLUSION

2.31 The results of our preliminary work show that for the great majority of households and areas the changes arising from our new system would be relatively modest. In a limited number of cases some of the results of the basic package as it stands will prove unacceptable. But we see scope for refining the basic package, without undermining its essential principles, in a way which will moderate the more extreme effects on areas and households. The possibilities are discussed in Chapter 3. Further work will be needed to assess the feasibility of these options and their redistributive effects.

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TABLE 1

Cost Per Adult : Current System And Proposed System

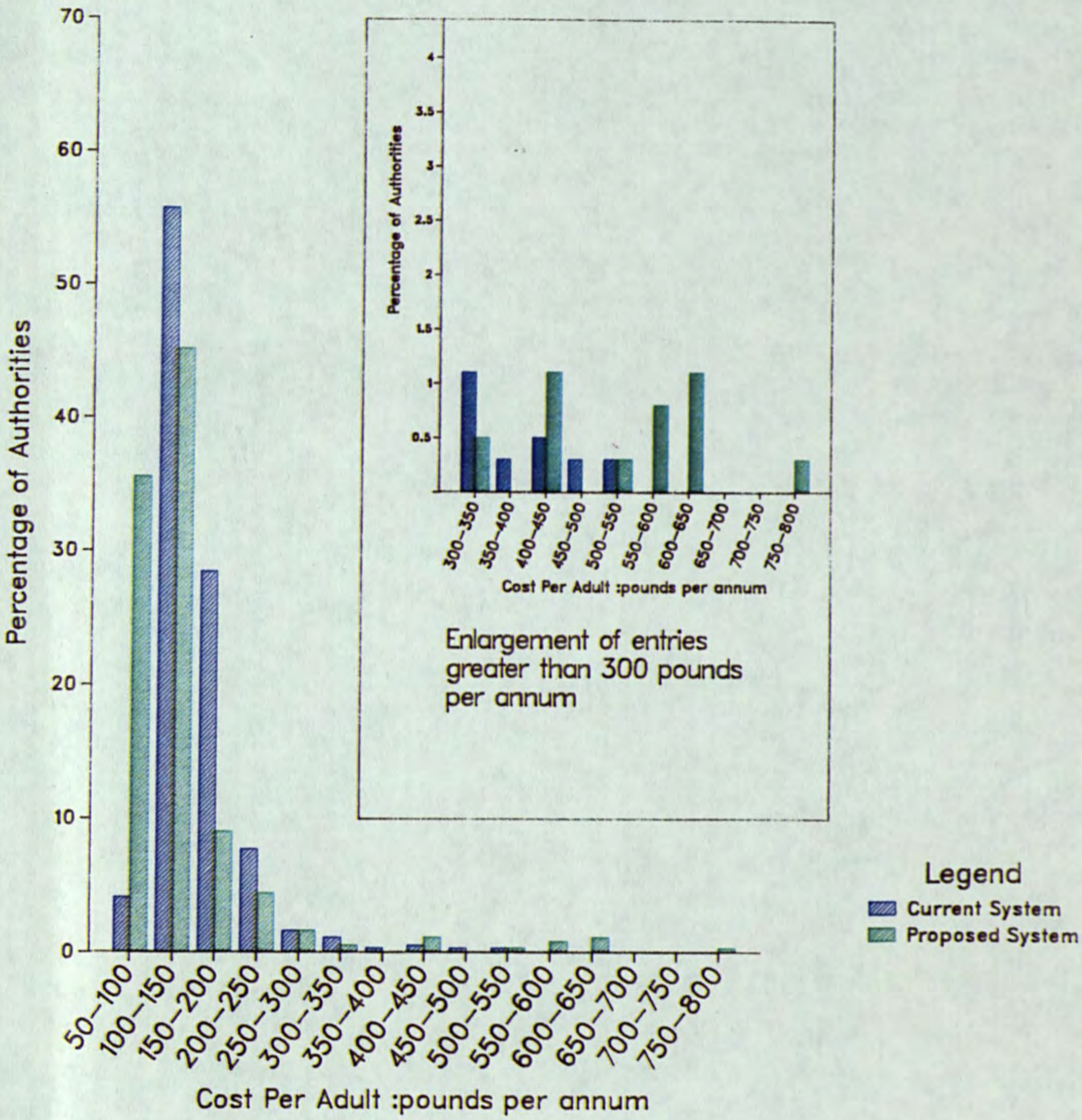

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TABLE 2

B1

Change In Local Domestic Tax Bills (based on 1984/85 data)

	Local tax paid per adult			
	Overspend on GRE	Now	New System	Percentage change
London High Spenders	£ 473.30ph	£ 303.28	£ 590.55	94.72%
	£ 291.28ph	£ 319.77	£ 408.53	27.76%
Thriving urban/ suburban	£-27.64ph	£ 140.14	£ 89.61	-36.06%
	£ 52.52ph	£ 206.23	£ 169.77	-17.68%
	£-9.06ph	£ 176.03	£ 108.19	-38.54%
	£-21.90ph	£ 160.41	£ 95.35	-40.56%
Older northern industrial	£ 87.00ph	£ 149.18	£ 204.25	36.92%
	£ 153.06ph	£ 190.11	£ 270.30	42.18%
	£ 95.96ph	£ 154.50	£ 213.21	38.00%
	£ 161.42ph	£ 161.46	£ 278.67	72.59%
Shire districts in rural areas	£-30.88ph	£ 114.37	£ 86.37	-24.48%
	£-25.28ph	£ 105.16	£ 91.97	-12.55%
	£-28.24ph	£ 114.44	£ 89.01	-22.23%
	£-17.82ph	£ 93.66	£ 99.42	6.16%
	£-4.69ph	£ 95.86	£ 112.56	17.41%

Table 3 (a)

Household type: SINGLE PENSIONER

Income level: £75 per week gross, £67.6 per week net

Accommodation Terraced house, owner occupied

WEEKLY LOCAL TAX BILL AS A PROPORTION OF NET INCOME

	Present Rebate Scheme	New Rebate Scheme		
	Present financial regime	Present financial regime	New financial regime with domestic rates	New financial regime with residents charge
	%	%	%	%
Northern industrial (1)	5.5	5.5	7.7	5.8
Northern industrial (2)	7.3	7.3	10.6	8.0
Prosperous urban (1)	3.5	3.5	3.1	2.8
Prosperous urban (2)	5.6	5.6	5.7	4.4
Prosperous suburban	5.4	5.4	3.1	2.7
Inner London	8.0	10.3	17.9	17.1
Outer London(1)	8.2	10.8	12.2	9.2
Outer London(2)	7.3	8.5	7.0	4.8

Table 3 (b)

Household type: SINGLE NON-PENSIONER (living alone)

Income level: £250 per week gross, £164.6 per week net

Accommodation: Purpose built first floor flat, owner occupied

WEEKLY LOCAL TAX BILL AS A PROPORTION OF NET INCOME

	Present Rebate Scheme	New Rebate Scheme		
	Present financial regime	Present financial regime	New financial regime with domestic rates	New financial regime with residents charge
	%	%	%	%
Northern industrial(1)	3.7	3.7	5.2	2.4
Northern industrial(2)	5.2	5.2	7.5	3.3
Prosperous urban(1)	3.2	3.2	2.9	1.2
Prosperous urban(2)	3.7	3.7	3.8	1.8
Prosperous suburban	4.5	4.5	2.5	1.1
Inner London	8.9	8.9	15.5	7.0
Outer London(1)	9.1	9.1	10.3	3.8
Outer London(2)	5.3	5.3	4.4	2.0

Table 3 (c)

Household type: PENSIONER COUPLE

Income level: £75 per week gross, £75 per week net

Accommodation: Terraced house, owner occupied

WEEKLY LOCAL TAX BILL AS A PROPORTION OF NET INCOME

	Present Rebate Scheme	New Rebate Scheme		
	Present financial regime	Present financial regime	New financial regime with domestic rates	New financial regime with residents charge
	%	%	%	%
Northern industrial(1)	2.9	5.0	6.9	10.5
Northern industrial(2)	3.6	6.6	9.5	14.3
Prosperous urban(1)	2.2	3.1	2.8	5.1
Prosperous urban(2)	3.0	5.1	5.2	7.9
Prosperous suburban	2.9	4.9	2.8	4.9
Inner London	4.6	9.3	16.2	21.9
Outer London(1)	4.8	9.8	11.0	16.6
Outer London(2)	4.0	7.6	6.3	8.7

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Table 3 (d)

Household type: COUPLE WITH 2 DEPENDANT CHILDREN

Income level: £450 per week gross, £307.2 per week net

Accommodation: 1960s Detached house, owner occupied

WEEKLY LOCAL TAX BILL AS A PROPORTION OF NET INCOME

	Present Rebate Scheme	New Rebate Scheme		
	Present financial regime	Present financial regime	New financial regime with domestic rates	New financial regime with residents charge
	%	%	%	%
Northern industrial(1)	4.2	4.2	5.8	2.6
Northern industrial(2)	5.5	5.5	7.9	3.5
Prosperous urban(1)	3.1	3.1	2.7	1.2
Prosperous urban(2)	4.9	4.9	5.0	1.9
Prosperous suburban	4.3	4.3	2.4	1.2
Inner London	7.5	7.5	13.0	7.5
Outer London(1)	6.8	6.8	7.7	4.0
Outer London(2)	5.2	5.2	4.3	2.1

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Table 3 (e)

Household type: NON-PENSIONER COUPLE WITH ONE CHILD AND ONE NON-DEPENDENT ADULT

Household income level: £150 per week gross, £136.0 per week net

Accommodation: 1960s Semi-detached house, owner occupied

WEEKLY LOCAL TAX BILL AS A PROPORTION OF NET INCOME

	Present Rebate Scheme	New Rebate Scheme		
	Present financial regime	Present financial regime	New financial regime with domestic rates	New financial regime with residents charge
	%	%	%	%
Northern industrial(1)	3.8	5.6	7.7	8.7
Northern industrial(2)	4.4	7.0	10.1	11.9
Prosperous urban(1)	3.1	3.7	3.3	4.2
Prosperous urban(2)	3.8	5.6	5.8	6.5
Prosperous suburban	3.8	5.5	3.1	4.1
Inner London	5.7	10.2	13.2	20.0
Outer London(1)	6.0	11.0	12.1	13.7
Outer London(2)	4.5	7.3	6.0	7.2

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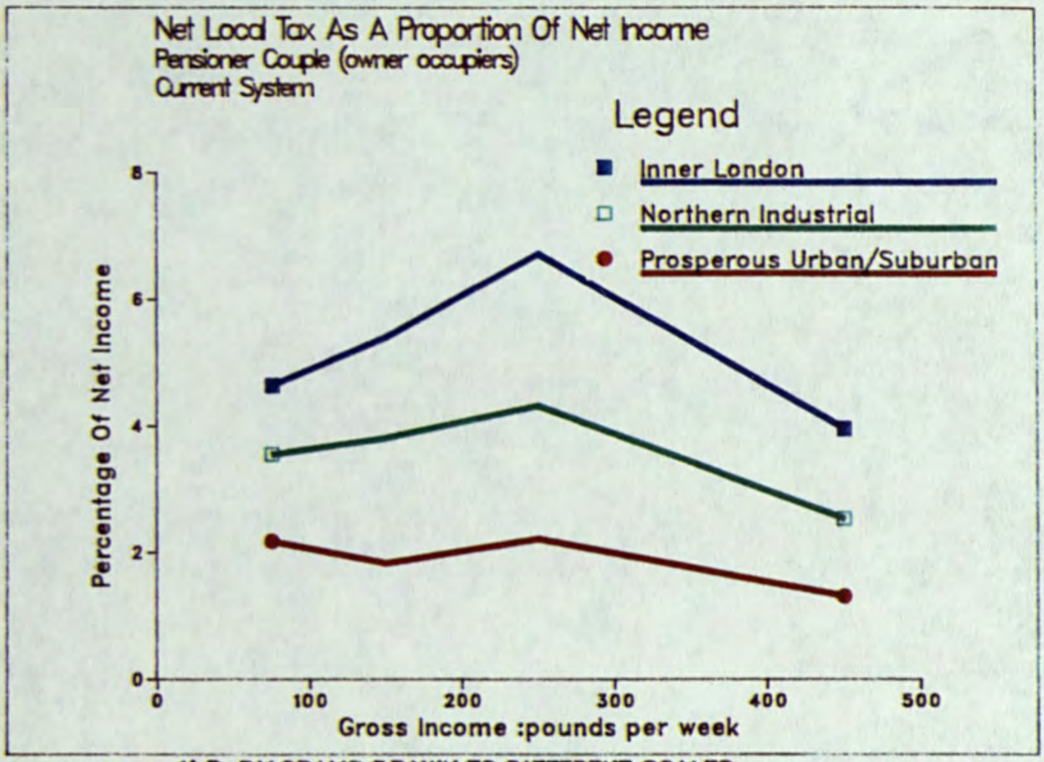
TABLE 4a



N.B. DIAGRAMS DRAWN TO DIFFERENT SCALES

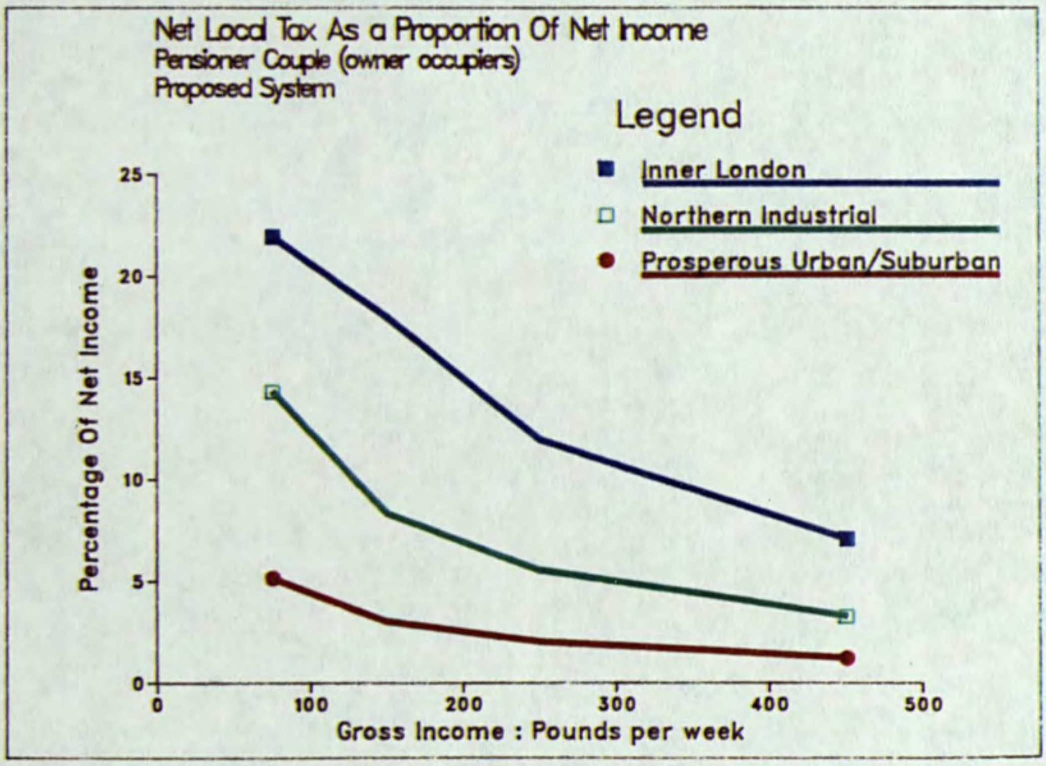


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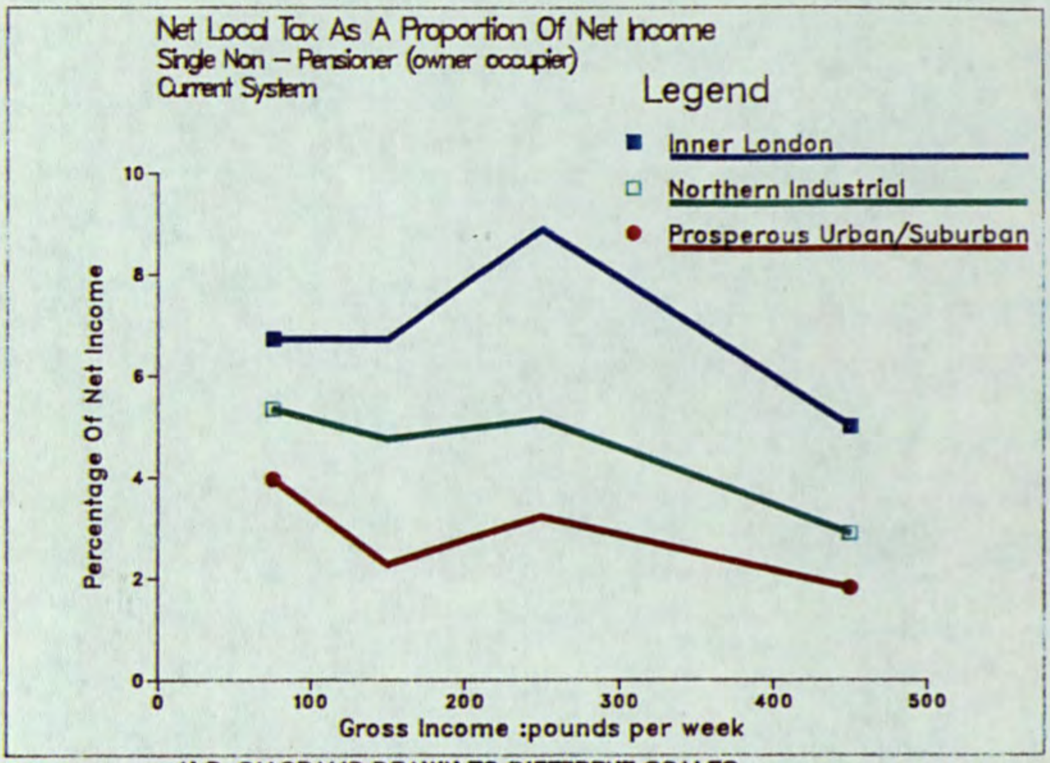
TABLE 4b



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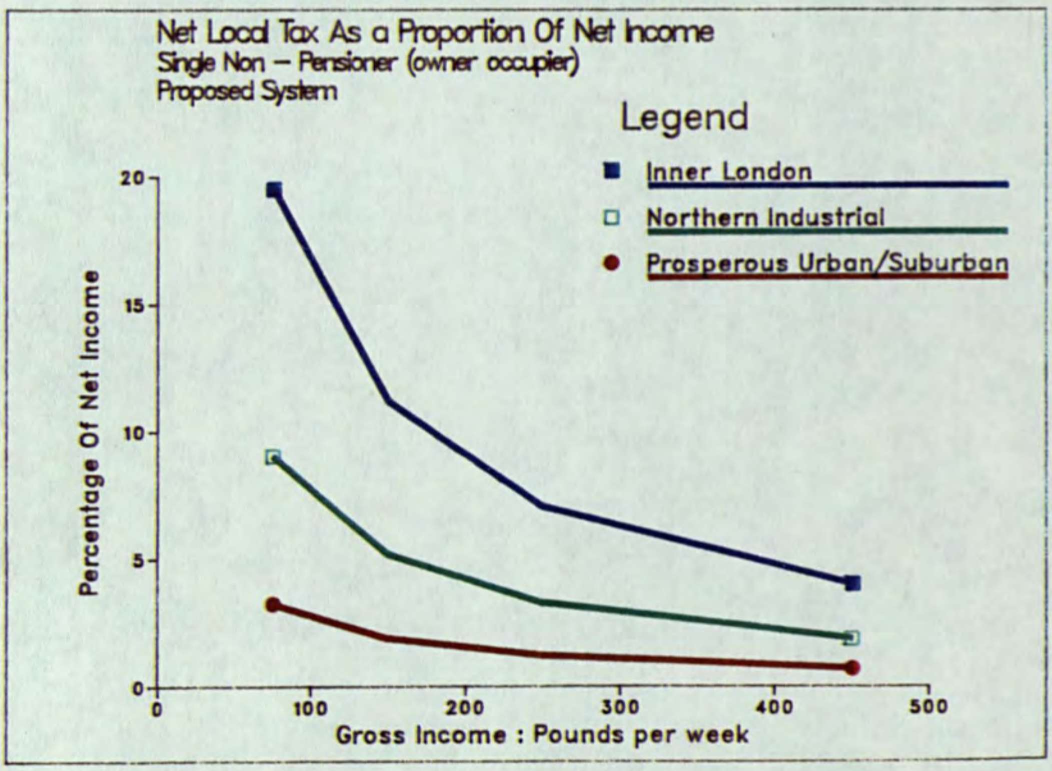

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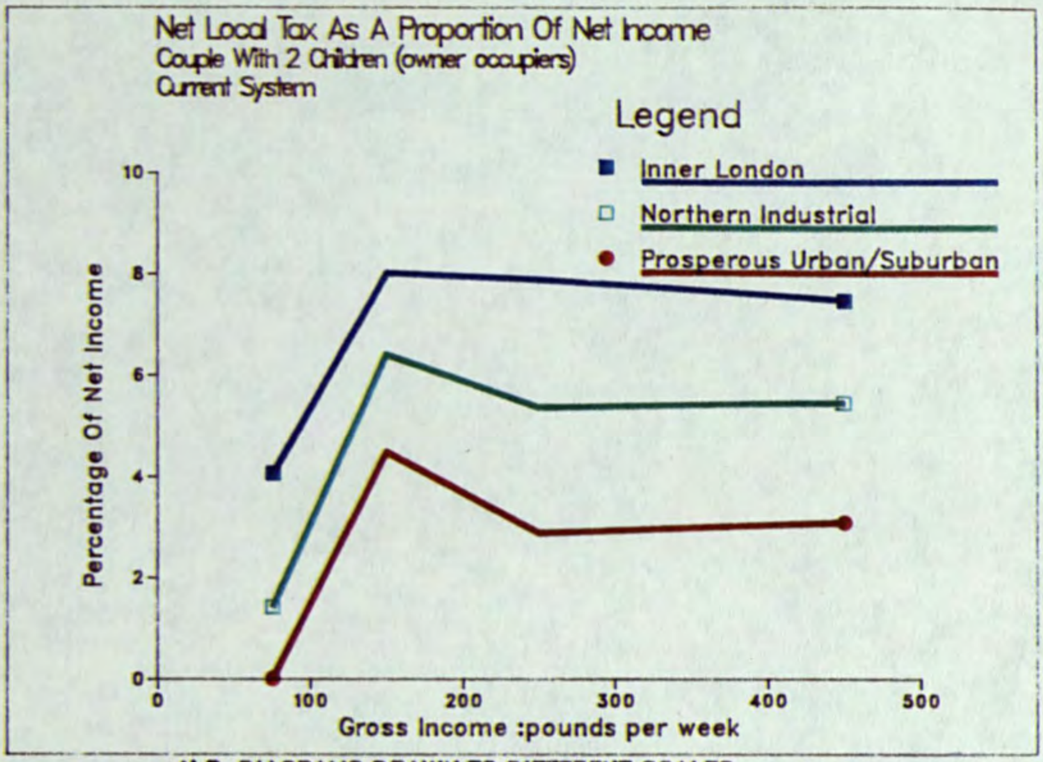
TABLE 4c



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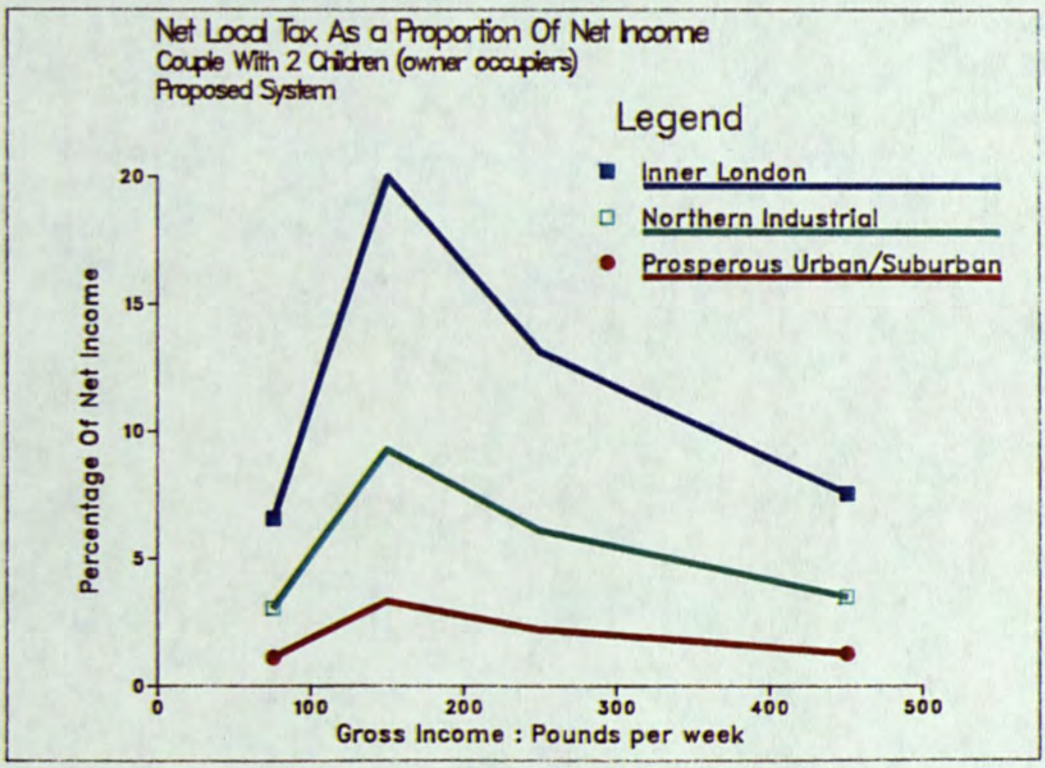

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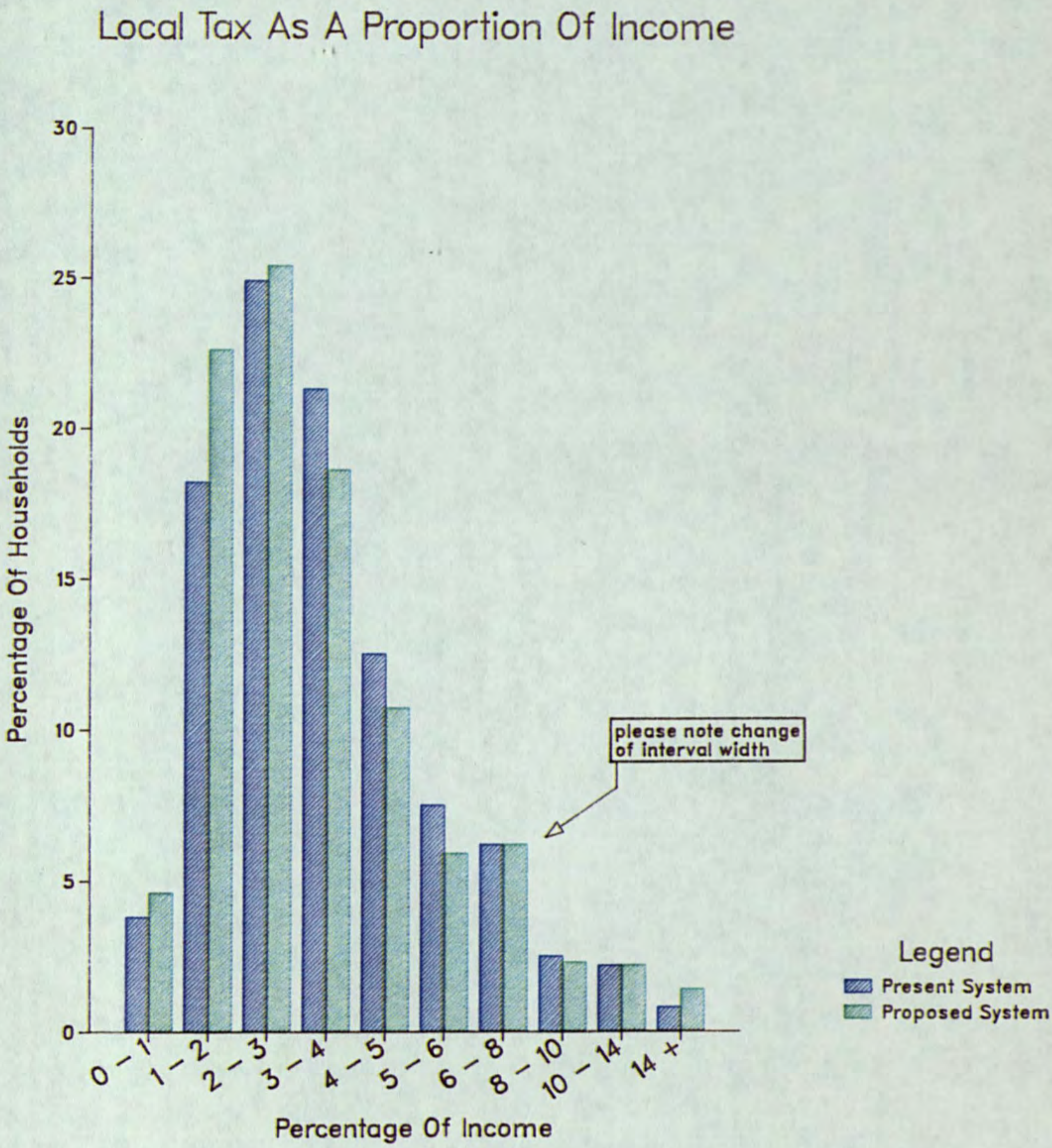
Table 5



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CHAPTER 3: REFINEMENTS TO BASIC PACKAGE

A. INTRODUCTION

3.1 The results we are showing must not be taken as predictions. But they suggest that:

- in a small minority of authorities, essentially the highest spenders in relation to assessed needs, the average domestic tax burden per adult would be unacceptably high;

- in combination with the switch from domestic rates to a flat-rate residents' charge, even with a rebate scheme, this would have an unacceptable impact on certain types of household, at least in authorities which continued to spend well above their assessed need, particularly in Inner London;

- we need to consider how we might modify the package to moderate these effects without compromising the principles of our reforms.

3.2 Even after modifications, our proposals would lead to large changes in tax burdens, both domestic and non-domestic. So we also need to consider transitional arrangements to phase the impact in over a period.

3.3 The chapter looks at

<u>First</u>, possible <u>modifications</u> to the package to ease the largest tax burdens on

(a) areas and

(b) individual households

Second, possible transitional arrangements to phase in changes in

(a) domestic tax burdens and

(b) non-domestic tax burdens

B. MODIFICATIONS TO BASIC PACKAGE

(a) Impact on areas

3.4 Domestic tax burdens would be highest

- where the authority spends more than its assessed need. Domestic taxpayers would pay the whole of the excess. Non-domestic ratepayers and the Government would no longer contribute.

- in Innner London, where, additionally, the special advantages in rateable resources which the authorities currently enjoy would be lost.

(i) Reform of needs assessment; targeted aid to inner areas.

3.5 It is crucial to our proposals that if authorities provide above average services local voters should meet the full cost of the excess. But need for services varies widely, and so does its unit cost. Block grant, through the Grant Related Expenditure (GRE) system, is supposed to compensate for these differences now. But, for all the complexity of the methodology we doubt whether it picks up successfully the full range of differences in authorities' spending needs. Many authorities spending in excess of their GRE do so partly because of expensive local policies, or inefficiency. But in some areas, notably in London, our view is that the GRE probably under-represents the cost of an average level of service. (In the personal social services, for instance, even very low spending London boroughs such as Wandsworth, Kensington and Chelsea, and Croydon are spending well over their GRE).

3.6 In Annex B below, we recommend that our existing methods of needs assessments should be reformed. We would aim to make them simpler, more sensitive, easier to understand and less volatile from year to year.

3.7 This is a substantial task. Our aims will prove difficult to reconcile. We cannot yet say what the distributional effects of a revised system would be. But while we would hope that an improved national formula would give them some help, it may well still fail to reflect adequately the severe needs of the inner city areas. Since the problems of these areas are so intractable, and since in some (though by no means all) cases the authorities concerned are failing to run their main services effectively and efficiently, we also think it right that the Government should take a hand in deciding how additional resources for these areas should be spent. Hence the proposal for <u>additional targeted grant aid to inner urban areas</u>, discussed in Annex D.

(ii) <u>Special London arrangements</u>.

3.8 <u>Removal of Inner London's privileged position in the present grant system</u> is a logical consequence of our proposals to 'nationalise' non-domestic rates and to replace the domestic rate with a residents' charge. But the impact on domestic tax bills, particularly in lower spending boroughs, would be extremely severe. Besides, we still see a case for allowing Inner London to keep a proportion of its additional non-domestic rateable resources, in recognition of the special role of the inner boroughs in providing services for a large commuting population, for tourists, and in support of London's role as the metropolis. <u>We recommend therefore that London's resource advantage should be reduced rather than wholly removed</u>. Mechanics will need more thought. It might even be possible to invent a new tax - perhaps a tourist tax - which would provide an additional source of income for London while reflecting some of the costs which fall on London as a metropolis.

(b) Impact on individual households

3.9 It is essential to our proposals that all adults, with the bare minimum of exceptions, should pay towards the cost of local services. The incidence of a flat rate residents' charge would inevitably be more regressive than that of domestic rates, even if a similar rebate system were to apply.

3.10 Central to our willingness to contemplate a flat rate residents' charge is our belief that the principal purpose of the local tax is the maintenance of local accountability, not the redistribution of income. A non-progressive tax does the former effectively; that is its strength. Income redistribution we would argue, should be the duty of central government. Therefore a strong case could be made for saying that it is wrong to criticise an effective local tax for having by itself unsatisfactory redistributional effects.

3.11 If such effects arise, they should arguably be corrected by central government's taxes and benefits, and not by damaging the simplicity and effectiveness of the proposed local tax. A whole range of benefit changes and income tax changes could be devised to manipulate the total tax burden (including the new local tax). We think it will be necessary to modify the impact of our proposed residents' charge by one means or another, and do not think that attention should focus only on modifications to that tax itself, or the local tax structure as a whole.

3.12 The acceptability of the redistributional effects will in any case depend on the amount of the residents' charge. The average, on our assumptions (1984/85 figures) would be around £160 per annum. The range between areas is very wide on our present exemplifications, but the action we propose in (a) above should reduce it; so, at least in the long term, should the response of currently high-spending authorities to the increased pressures of local accountability.

3.13 Reducing the range in this way, in combination with the proposed new rebate scheme, may be enough on its own to answer any worries about regressivity. But if not, and if (despite 3.11 above) it were thought necessary to seek a remedy within the local tax structure, a variety of approaches could, at least in theory, be considered:-

- <u>a more generous rebate scheme</u>. This would of course involve reversal of recent Cabinet decisions on the housing benefit system (though the change from rates to residents' charge would have radically altered the context.) It would tend to reduce the pressure of local accountability and would add to the benefit caseload. It would also be costly, though there could be an offsetting reduction in the amount of per capita standard grant to authorities. This in turn would lead to a higher level of residents' charge, so that not only would the poor pay less but the better off would pay more.

- <u>a graduated residents' charge</u> eg supplementary benefit recipients would pay 20 per cent of the standard charge; others on low income or with no independent incomes 50 per cent; the rest, the full standard charge. We would need an additional grant to help authorities which stood to lose large sums as a result of the discount for low income groups; again we could pay for this by a reduction in the standard grant. Such an arrangement might be less damaging to local accountability than a more generous rebate scheme; but it would considerably complicate the administration of the residents' charge and would have something of the appearance of a local income tax. (See further Annex C).

- <u>retaining the domestic rate, at a reduced level</u>. The Government would set a national standard rate, or perhaps a maximum rate, well below today's level; the residents' charge would operate as a locally variable supplement. Providing we retained equalisation of domestic rateable resources through the grant system this regime would be less disruptive of household finances (the existing pattern of rate bills would remain). It would be more progressive within areas (richer people tend to live in bigger houses). But the system would be more costly to run than either rates or residents' charge on their own. Arguably, too, the residents' charge would on average be too low to achieve its objective of promoting local accountability; though its sensitivity to local variations in expenditure relative to assessed need would be increased. We would, of course, be running two unpopular taxes at once.

- <u>an additional source of revenue</u>. This too would reduce the average level of the residents' charge, with a similar loss of accountability. Candidates include an assigned proportion of a central tax such as VAT or Road Fuel Duty; or handing over to local authorities a tax such as Vehicle Excise Duty which they could set locally. The first would be tantamount to an increase in central grant (see below); the second poses difficulties of equalisation and would be less perceptible and less predictable in its yield than residents' charge or rates. No quite new local tax looks promising. (See further Annex I).

- <u>increased central grant, financed by increased central taxation</u>. This, coming on top of the 'nationalisation' of the non-domestic rate, would damage the 'localist' credentials of our proposals.

3.14 <u>While we do not believe any of these options should be ruled out at this stage, it is clear that none of them provides a straightforward answer</u>.

C. TRANSITIONAL ARRANGEMENTS

3.15 Our first task is to modify our basic package, on the lines suggested above, in order to produce results which would be acceptable and defensible in the longer term. We cannot leave this job to transitional arrangements. Their role is rather to ease the introduction of changes which are accepted as necessary and desirable, but which will be disruptive in the short term.

3.16 We would undoubtedly need some such measures. But they have their dangers. They tend to be complex and would make it harder for people to understand what we were doing - and greater comprehensibility is of course one of our main aims. They might be taken to imply that we lacked faith in our own system.

3.17 That said, possibilities are as follows. Many variants on them could no doubt be devised.

(a) <u>Changes in domestic tax burdens</u>.

3.18 To smooth shifts between areas, we could have a safety net to limit to a specified percentage the inescapable combined effects of our proposals on the total domestic tax burden in the worst affected areas. These would generally be areas spending well above their assessed needs. The aim would be to give such authorities time to bring their expenditure more into line. We would pay them additional grant (paid for by a reduction in the level of standard grant) to offset the excess tax they would otherwise have to levy. The calculation would be based not on their <u>actual</u> budget but on their previous year's budget less a reasonable deduction. So the cost of demonstrably irresponsible spending behaviour would still fall on the residents' charge. The grant would be phased out over several years.

3.19 Additionally, we could phase in over, say, three years the reduction in Inner London's resource advantage. That would be at the expense of domestic taxpayers elsewhere.

3.20 To smooth shifts between households, the only workable arrangement we have so far identified is to phase out the domestic rate, and phase in the residents' charge, over several years. For example, authorities could be required to levy one-third of their domestic tax requirement through the residents' charge in the first year, two-thirds in the second year, and the entirety in the third year.

(b) Changes in non-domestic tax burdens.

3.21. Non-domestic rate bills would be affected, probably simultaneously, by two changes:-

- imposition of a national uniform rate and

- the proposed non-domestic revaluation.

The national rate will result in shifts between areas, in total non-domestic burdens. The revaluation will result in sizeable changes in the relative values of individual properties. Sometimes the two effects will offset each other. Sometimes they will reinforce each other.

3.22 We could if desired phase in the combined effects of these changes on the worst affected ratepayers over several years. We could pay for this by setting the national non-domestic rate a little higher than we otherwise would have done.

(D) CONCLUSION

3.23 The priority in our view is to modify our basic package in order to reduce the likelihood of unreasonably high average domestic tax burdens in authorities currently spending in excess of assessed need, particularly in Inner London.

3.24 Only when we see the effects of this work can we decide whether we can live with the regressive impact on households of the shift from domestic rates to residents' charge, as modified by the proposed new rebate scheme. If the answer is no, we should in the first instance look for remedies in the tax and benefit system as a whole, rather than risk blunting the impact on local accountability of our present proposals.

3.25. We have however identified a number of approaches which could be pursued within the local tax structure if desired - though none look straightforward.

3.26 Finally, once our package is in a form which is likely to give acceptable and defensible results for the longer term, we will need to devise ways of phasing in the more extreme changes. Again, we have suggested some possible approaches.

CHAPTER 4: CONCLUSIONS AND NEXT STEPS

A. CENTRAL RECOMMENDATIONS

4.1 Our central recommendations are for an integrated package of change consisting of:

(a) <u>a nationalised non-domestic rate and a lump sum needs grant</u>. This would end 'taxation without representation' for businesses and make the full impact of authorities' spending decisions bear on local residents;

(b) <u>abandonment of domestic rates</u> which are a highly unpopular tax, uneven in their incidence, and unsuited to the promotion of local accountability.

(c) <u>a residents' charge</u>. This would open up the way to the abandonment of domestic rates. It would widen the tax base to include almost all who lived in an area. It would stop domestic tax bills varying from area to area in line with the wide variations in house values. All adults would pay the same amount if their local authority was providing the same level of services.

4.2 We have looked at these recommendations from the point of view of:

- feasibility (see Annexes A-C)

- acceptability of effects, in both the long and the short term (see Chapters 2 and 3)

4.3 On <u>feasibility</u>, we conclude

- the changes in non-domestic rates and grant would be technically straightforward.

- the residents' charge would raise a number of new administrative and political issues. it would be harder and costlier to collect and enforce than domestic rates - particularly if it were graduated by income. But this is only a matter of degree. All taxes have their problems. Those of a residents' charge look to be surmountable.

4.4 On acceptability, the package will clearly need some modification. It is right that high spending areas should face high local taxes, but only to the extent that their excess spending is not justified by special local problems. We must therefore look again at our needs assessment methods generally. We must also develop the idea of channelling additional aid, with some Government control over its use, to the worst inner city areas. And we should leave Inner London with some of its existing resource advantage, in recognition of its special functions as the capital city. We shall also need transitional measures in the grant system to give high spending authorities time to adjust their expenditure. Such measures might also be necessary to ease the impact of a 'national' non-domestic rate and a non-domestic revaluation; and also - although this will be harder to achieve - the changeover from domestic rates to the residents' charge. The committee may also wish to modify the regressive impact of the residents' charge on households in some way. To avoid blunting the effect of the residents' charge on accountability we would prefer any such adjustment to take place outside the local tax structure altogether. But we have identified a number of possible approaches involving modification of our basic package, in case that route is preferred.

4.5 We clearly need to do much more work on, in particular, the technical details of the residents' charge; the modifications suggested in paragraph 4.4 above; and the effect these might have on the distribution of the tax burden between areas and households.

4.6 But we need to know first whether the Committee is content with our general approach, and in particular with our reliance on local accountability as the key to a healthier system of local government finance. Better accountability means making more of the electorate pay for local services. It requires a highly perceptible, and therefore unpopular, tax. It means a clearer relationship between local tax bills and the level of service the authority provides. It means making those bills more sensitive to local expenditure decisions.

4.7 If colleagues find this solution unacceptable, the only real alternative we see is for us to finance, in one way or another, a higher proportion of the cost of local services and to impose tighter direct controls over local spending in order to secure our macro- economic objectives. For the reasons set out in our introductory report, we consider such a course deeply unattractive both in principle and in its practical implications.

B. SUBSIDIARY RECOMMENDATIONS

4.8 A number of our recommendations, while related to our central proposals, are of second order importance. Decisions are not necessary at this stage, though we would be grateful for any preliminary views the Committee may have. These are:-

(i) Improved control on capital expenditure and borrowing (Annex E). We will circulate a further paper.

(ii) Increases in fees and charges (Annex F). We propose a Code of Practice on annual reviews of fees and charges, and liberalisation of as many as possible of those fees and charges currently set by the centre.

(iii) Annual elections (Annex G). On balance, we think it best for all authorities to be elected annually by thirds.

(iv) Local authorities' budgeting framework (Annex H). We are working up possible measures to promote 'sincere budgeting'.

C. CONCLUSIONS

4.9 The Committee are invited to agree

(i) that the central recommendations for change listed in paragraph 4.1 be taken as the basis for our further development work.

(ii) that we work up proposals to modify their potential impact on the types of authority and household likely to be most adversely affected; and the achievement of a smooth transition to the new system.

(iii) that we consider in further detail how the proposed residents' charge would best be administered, collected and enforced.

(iv) that we give further study to the subsidiary recommendations listed in paragraph 4.8.

4.10 We will report progress on all outstanding issues to the Committe in July, with a view to commissioning a White Paper for the Autumn. Meanwhile, we propose that we start informal consultations on our ideas forthwith. We need to start building up support for our approach as soon as possible.

ANNEX A

A NATIONAL NON DOMESTIC RATE

A: OBJECTIVE

1. Our main aim in recommending a national non-domestic rate is to remove the ability of local authorities to tap their non-domestic ratepayers for funds required to finance excessive spending. The cost of local authority spending increases would fall solely on local voters.

2. A national non-domestic rate could also help improve industrial location decisions by putting non-domestic ratepayers on the same footing in terms of rate poundages across the country. (Non-domestic rate poundages in Newcastle are nearly twice as high as in Croydon.) Greater certainty about future rate increases should create a better climate for forward planning by business.

B. SPECIFICATION

3. There are two quite separate operations.

a. <u>Setting a uniform national rate</u>

4. We could simply freeze non-domestic rates at their present levels. This would still limit the ability of local authorities to tap their non-domestic ratepayers. It would also avoid the need to increase non-domestic rates which lie below the national average. But the present inequitable pattern of non-domestic rate poundages and resulting distortions in industrial costs would remain in perpetuity.

5. We therefore recommend a uniform national rate (with transitional arrangements as necessary). In setting the rate each year, there would be clear advantages in involving both local authorities and business. We should consider the idea of setting up a consultative forum to make recommendations to the Government each year on the national rate. (Separate forums would exist for Scotland and Wales who could have different uniform rates.)

b. Pooling the yield of the national average rate

6. Inland Revenue would continue to keep a valuation list of all non domestic properties.

7. Each rating authority would pay the product of its non-domestic rateable values and the national average non-domestic rate poundage into a central pool. The proceeds of this pool would then be distributed as a fixed amount per adult across the country. There would therefore be 100% compensation for differences in non-domestic rateable values across the country. (Again, separate poools would exist for Scotland and Wales.)

8. It has been argued that if the yield of non domestic rates were pooled, there would be an insufficient incentive for authorities to maximise their collection. We do not agree. Three months before the start of the financial year, each authority would be informed of the amount it had to collect. (The product of the national non-domestic rate and its non-domestic rateable value as in the Inland Revenue valuation list.) If it failed to collect this amount, then the residents' charge would be correspondingly higher. We would, however, have to live with the fact that in the non-domestic sector we are turning local authorities from independent revenue raisers to tax farmers. As under the present arrangements there would be no incentive for authorities to maximise rateable values and many may correspondingly remain disinclined to grant planning permission. One way round the problem might be to allow authorities to keep say 5% of the yield of their non domestic rateable values. Alternatively, we could lag the effective date for rateable

values, allowing authorities to keep the benefit of increased rateable values for say 12 to 24 months. Both ideas, together with ideas for protecting authorities with declining rateable values, need further consideration.

9. Our aim in the first year would be to set the national rate poundage to yield an amount broadly equivalent to the present yield, effectively harmonising on the national average. It would be essential to have a non-domestic revaluation, to ensure equity as between non-domestic ratepayers. It is still possible to have one and implement it in 1989/90, the earliest year we can introduce our reforms. There is no undue problem in isolating its effects within the non domestic sector.

B. RESULTS

10. The effects of setting a uniform national non-domestic rate and of pooling the yield of that rate are best considered separately:

a. Setting a uniform national rate

11. Table 1 isolates the effects of moving to a uniform national rate (and making no other changes). The main points are:

- i. businesses in low spending areas will face higher rates by up to 30%;
- ii. businesses in high spending areas (which include many of the northern conurbations) will face lower rates (by up to 30%);
- iii. domestic ratepayers in low spending areas will gain, because of the higher rates being contributed by their business ratepayers;
- iv. domestic ratepayers in high spending areas will lose, because their authorities will forfeit the (often very large) subsidies being given by their non-domestic ratepayers for excess spending.

12. The effects on businesses of a national non-domestic rate are likely to be dwarfed by the effects of a non-domestic revaluation. It is essential to have one if we are to keep non domestic rates. We shall, of course, be able to isolate changes within the non domestic sector. But the fact remains that the rateable values of e.g. city centre shops whose rents have shot up since the last revaluation in 1973 could increase very significantly.

b. Pooling the yield of the national non-domestic rate

13. If there were full compensation for differences between the rateable resources of local authorities, pooling the yield of non-domestic rate poundages would make no difference at all to authorities' income.

14. Because we do not have negative block grant, the City, Westminster, Camden, ILEA and the GLC are allowed to keep some of the benefit of their high rateable resources. The effect of pooling the yield will be a transfer of several hundred £ million from Inner London to the rest of the country.

C. IMPLICATIONS

15. There are likely to be four main fronts on which the proposal will be criticised:

a. Too much turbulence

16. Local people and local non-domestic ratepayers whose local taxes go up will complain that they are being hard done by.

17. Some of the sting of the change can be drawn by transitional arrangements. There are a number of possibilities. The simplest would be a freeze on all non domestic rates at or above the national average, leaving authorities with below the national average to catch up over time.

18. Another possibility would be simply to "cap" permanently non-domestic rates. The existing pattern of non-domestic rate poundages would remain. But each year, the Secretary of State would set a maximum percentage limit to increases. This would have the support of the CBI. Capping would make an important contribution to increasing local accountability by restricting the ability of local authorities to tap their non-voting non-domestic ratepayers. But we recommend this only as a very last resort. It would freeze the existing (and often unfair) pattern of non domestic rate poundages in perpetuity. (The pattern of actual rate bills would, of course, change once there is a non domestic revaluation.)

b. Non domestic rates no longer a local tax

19. Local authorities will complain that they no longer have control of their biggest single source of local revenue.

20. If the national consultative forum of local authorities and non-domestic ratepayers suggested at Paragraph 5 above is not considered a runner, one further possibility would be to provide that a forum of the local authority associations could be empowered to set the national non-domestic rates themselves. If they failed to reach (unanimous) agreement by 15 November each year, then central government would set the rate for them. This possibility is fraught with difficulties. Local businessmen are unlikely to view kindly non-elected bodies setting the level of one of their major tax burdens. And it would look like a Government cop-out.

c. Heavy losses for inner London

21. Local people and local authorities in inner London will all complain that they lose heavily and that it is quite wrong for them to retain no benefit at all from their high non-domestic rateable values.

22. No matter what financial regime is devised for local authorities, Inner London will not fit into it. The combination of extensive inner city deprivation, the enormous concentration of rateable resources in central London and the number of non-residents being catered for by inner London authorities will always ensure that.

23. Special arrangements will certainly be needed for Inner London. They will probably be needed for Outer London as well. The most straightforward is some "ring fencing". There are a large number of possibilities which we shall develop. They will inevitably entail some increase in complexity.

24. The introduction of a tax whose proceeds would benefit metropolitan areas - the most obvious is a "tourist tax" - would also help a number of inner London boroughs, as would targetted inner urban aid. These recommendations are considered elsewhere.

d. <u>No relation between non domestic rate bill and standard of service</u>

25. The Croydon businessman will complain that he is paying the same rate of local tax as the Sheffield businessman even though he receives a much lower level of service.

26. We could take some of the sting out of his complaint by increasing the fees and charges paid by individual non-domestic ratepayers to their local authorities. (At the same time we would reduce the overall level of non domestic rates.)

27. For services received directly (e.g. refuse collection and disposal, planning applications, environmental health services) this would be relatively straightforward. For services received indirectly (e.g. Fire, Police, Youth Training) the task is more difficult. We shall work up possibilities. One would be to deem that a specified percentage of local spending on e.g. Fire Services should be paid by non domestic ratepayers as a direct charge.

D. CONCLUSIONS

28. Do the Committee agree to:

i. a uniform national non domestic rate;

ii. pooling of the yield of the uniform national rate.

29. If so, do they want:

i. further consideration of special arrangements for London;

ii. further consideration of a local authority forum to set the national non domestic rate;

iii. further consideration of "deemed" fees and charges for services which cannot be charged directly.

ANNEX A
TABLE 1

Effects Of A National Average Non - Domestic Rate *

	1984/85 poundage ** Col 1	----- Move to national average poundage ------ Change in: Non - Domestic poundage % Col 2	Non - Domestic income £m Col 3	Domestic rate % Col 4
London High Spenders	£ 241.41p	£-25.77%	£-10.82m	26.16%
	£ 264.33p	£-32.21%	£-12.21m	24.24%
Thriving urban/ suburban	£ 156.27p	£ 14.67%	£ 19.31m	-18.33%
	£ 157.06p	£ 14.09%	£ 6.92m	-13.80%
	£ 160.57p	£ 11.60%	£ 2.27m	-18.18%
	£ 158.62p	£ 12.97%	£ 2.42m	-18.99%
Older northern industrial	£ 203.25p	£-11.84%	£-1.95m	12.13%
	£ 244.85p	£-26.82%	£-29.66m	45.09%
	£ 208.30p	£-13.98%	£-10.63m	17.91%
	£ 253.31p	£-29.26%	£-27.42m	40.53%
Shire districts in rural areas	£ 154.29p	£ 16.14%	£ 1.97m	-22.36%
	£ 156.95p	£ 14.17%	£ .45m	-9.75%
	£ 155.21p	£ 15.45%	£ .57m	-11.82%
	£ 160.31p	£ 11.77%	£ 1.15m	-15.56%
	£ 162.55p	£ 10.24%	£ .37m	-11.70%

* Assuming no other changes in the local government finance system

** Assuming : no use of balances (which artificially depress rates)
: no grant penalties

ANNEX B

A LUMP SUM NEEDS GRANT

A. OBJECTIVE

1. First, we want a grant structure which discourages at least as much as the present arrangements excessive spending by local authorities and which gives local authorities incentives to run their services economically and efficiently.

2. Second, we want a grant structure which continues to ensure that local taxpayers everywhere receiving a similar level of service pay a similar amount for it , despite the difference between their authorities' spending needs.

3. Third, we want to make the machinery for securing these first two objectives simpler and more intelligible and create a direct link between what an authority spends and what the local taxpayer pays.

4. We propose the replacement of block grant with a fixed grant to local authorities which compensates only for differences in their spending needs and does not vary with changes in their actual expenditure. This will:

   i. increase pressure on higher spending (grant does not increase as an authority's spending goes up);

   ii. promote economy (grant does not decrease as spending goes down);

   iii. make the grant system significantly more comprehensible and accessible.

5. For the grant structure to achieve these aims, we will also need changes in the methods by which spending needs are assessed. We should aimfor both greater clarity, and stability from year to year, and greater sensitivity to extremes of local need. These aims may be difficult to reconcile.

B. SPECIFICATION

6. The table below shows how the 1984/85 Aggregate Exchequer Grant total would have been split under our proposals.

Present

Specific Grants	Block Grant: Needs Equalisation	Block Grant: Resources Equalisation and Per Capita	Domestic Rate Relief Grant
£2.6b	£4.6b	£3.5b	£0.7b

Proposed

Specific Grants	Needs Grant	City Grant	Standard Grant
£2.6b	£4.6b	?£0.7b ?	£3.5b

7. Under the proposed system local authorities would receive grant to compensate for differences in expenditure needs (the "needs grant"). On 1984/85 GREs we would calculate that might have taken up about £4.6 b of the £8.8 b rate support grant. It could well be higher under the revised system of needs assessment. We assume specific grants continuing at their 1984/85 level, and possibly an additional "city grant" to help inner city areas with special needs. We do not propose to alter the balance of funding betwen central and local government. So local authorities would receive the proceeds of the nationalised non domestic rate, distributed per adult, and a supplement to the needs grant, the "standard grant", again distributed per adult. The balance between the components of government grants - needs, specific and standard and the size of the city grant cannot be quantified at this stage.

(a) Needs grant

8. The needs grant would compensate authorities for differences in their assessed spending needs. The main causes of these differences are:

- demographic factors (e.g. numbers of school children);

- social and environmental conditions (e.g. elderly living alone);

- cost variations (e.g. higher London labour costs).

9. The needs grant would be paid as a lump sum to each authority, independent of its spending level. It would be calculated on the basis of authorities' assessed spending needs. The authority with the lowest spending needs per adult would receive no grant; all other areas would receive grant to compensate fully for differences in spending need per adult above the minumum. The result of paying needs grant in this way, when combined with our proposals for distributing a standard grant and the yield of non-domestic rates in proportion to adult population, is to enable a standard level of service (equivalent to spending need) to be provided in each area for the same rate of residents' charge.

10. We are not yet in a position to specify in detail how the method of needs assessment and its presentation might be changed. We shall face a sharp dilemma. On the one hand, we want greater simplicity and transparancy (as we did in 1980 when setting up the present GRE system). On the other hand since local tax rates will be far more sensitive than before to marginal differences between actual spending and assessed need the needs assessments will have to bear still more weight in the new structure than in the old. Much further work will be needed, and we are not in a position to say how successful we shall be in devising a system which is both simple <u>and</u> commands confidence.

11. Key areas we shall wish to address in the work we shall be doing include:

- The formidable <u>complexity</u> of the present needs assessment methods. This is the result of past efforts to reflect fully and fairly the factors necessitating local variations in spending to achieve common service levels. It would be a price worth paying if the results were generally accepted as fair. But they are not, and might never be, since "need" is and will remain a subjective concept.

- The apparent <u>insensitivity</u> of the formulae to extremes of local need. There is reason to think in particular that the special needs of inner cities, and the additional costs of services in London, are not adequately reflected in GREs.

- The <u>incomprehensibility</u> of the present formulae. Their apparent technical sophistication conceals many implicit value judgements about the weight to be assigned to special local factors. These need to be brought to the surface and made explicit. The way the formulae are presented, too, makes it hard to disentangle which parts relate to which services.

- The degree of <u>year to year volatility and uncertainty over grant entitlements</u>. This is because of detailed changes in the methodology from year to year, changes in the balance between the GREs for each service arising from decisions on the planned service totals in the Public Expenditure Survey, and revaluation of GREs after the grant settlement to take account of revised data.

(b) City grant and standard grant

12. Had our proposals been in force in 1984/85, there would have been £4.2b grant remaining on the assumption that we would have used £4.6 b of grant to compensate for differences in need. Annex D recommends additional aid to inner urban areas. If this recommendation is accepted, and we used say £0.7b (a notional figure at this stage) that would have left £3.5b as "standard grant" paid out as a flat rate per adult to all authorities. (Any grants that we might use to ease transitional problems would also come out of the amount remaining for "standard grant".) The distribution of standard grant (and also the yield of non-domestic rates) on a per adult basis would of course be particularly helpful to growing areas.

(c) Specific Grants

13. We assume that there will continue to be specific grants serving a variety of special functions e.g. to reimburse authorities for the bulk of their expenditure on services carried out as agents for central government and to promote new central policy initiatives. New specific grants might also be necessary to compensate authorities for any special needs which could not be adequately reflected in the national needs assessment formula. The range and form of specific grants required will need further study.

14. The scope and cash total of specific grants can be adjusted as necessary in the light of Departments' policy requirements. We would however resist an excessive expansion of such grants. Specific grants paid on anything other than a matching basis are costly to administer and too many grants would quickly undermine our basic objectives of maximising the accountability of local authorities for the services they provide.

C. RESULTS

15. The distributional effects of the needs grant will depend critically on the new system of need assessments. If judgemental factors have a greater role in needs assessment then <u>a wide range of outcomes is possible.</u> Depending on the judgements Ministers wish to make about the weighting given to social deprivation indicators (e.g. old people living alone, lone parent families) more/less needs grant can be allocated to urban areas.

D. IMPLICATIONS

16. There are likely to be four main fronts on which the proposal for a lump sum grant will be criticised.

a. <u>Unfair needs assessments</u>

17. If the judgemental content of needs assessment is increased, authorities who get less than they think they ought to receive will complain that their assessments are wrong/ arbitrary/capricious.

18. The volume (in both senses) of such complaints will inevitably increase, certainly when the new system is established, given the greater importance of needs assessments in the new regime.

19. A simpler system with fewer variables would in our view however probably be easier to defend even though it attempted less exactness than the present system. There will however be no choice but to face out criticisms on the basis of the analysis underlying our new assessments.

<u>b. Wastes money on low spenders</u>

20. It will be argued that we are throwing away national taxpayers' money by compensating authorities for spending up to their assessed expenditure need even though they are not spending up to it. But it is key feature of our system that there should be a direct relationship between more economical service levels and lower local taxes.

c. <u>Less effective pressure on high spenders</u>

21. It will be argued that because the level of needs grant remains fixed regardless of an authority's spending, there is less pressure on high spending authorities to rein back their spending. (One feature of block grant is "negative marginal rates of grant" - where a number of high spending authorities <u>lose</u> grant as their spending increases.)

22. There is force in this argument if one considers the needs grant in isolation. But a fixed needs grant <u>and</u> a national domestic rate will mean that all the funding of extra spending will have to come from the residents charge. For every 1% extra spending the residents charge will have to go up by 4%. This is <u>more</u> severe pressure than provided by block grant for all but a handful of authorities.

23. A more refined version of the argument is that the present block grant machinery gives the government great <u>flexibility</u> in determining the impact on local tax levels of marginal changes in expenditure relative to GRE. The slope of the poundage schedule and the taper can be adjusted to provide any desired degree of disincentive or support for marginal spending. Our fixed needs grant would have none of this flexibility. 100 per cent of any difference between the authority's budget and GRE would fall on, or benefit, the local taxpayer at all expenditure levels.

24. We believe however that the loss of flexibility is a price worth paying for the greater clarity and simplicity of our proposed system. It achieves the sharpest possible distinction between the amount of expenditure the <u>Government</u> considers reasonable, with national taxpayers' money and the <u>authority's</u> own budget decision; and should encourage the voter to concern himself more actively with the latter.

E. CONCLUSION

25. Does the committee agree with the objectives set out in paragraphs 1-3? If so, does the committee agree that a lump sum needs grant meets these objectives?

26. Do the committee agree that we should do further work on

- the range and form of specific grants required?

- the methodology of needs assessment?

Annex C

RESIDENTS'CHARGE

OBJECTIVES

1. The objective of a residents' charge is to improve local accountability by providing a more direct link between the use of and payment for local authority services than the present system of domestic rates. The basic proposal is for a flat rate charge, set by each authority, payable by every adult (over 18) resident in their area. The impact on low income households would be reduced by a system of rebates but (following the review of social security) every household would make some contribution towards the cost of the local residents' charge.

SPECIFICATION

2. The basic requirements for a residents' charge are:

- a system of identifying and registering all adults resident in rating authorities

- rules for determining and enforcing payment

- arrangements for rebating the charge to low income families.

The charge would have to replace at the maximum the total yield of domestic rates (£5.7bn gross of rate rebates, £4.5bn net in 1984-5). This is 40% of all revenue raised from rates, and 11% of local authority income.

REGISTRATION

3. Switching from an indirect tax on property to a tax on people (or their income) to finance local authority spending, necessitates the identification of people and their addresses.

No other tax levied in the UK requires this. The first requirement for a residents' charge would therefore be a register of all persons resident within each local authority area. No existing register of individuals offers a comprehensive and up-to-date listing of those residing in each authority.

4. National records such as those kept for social security and NHS registration do cover a high proportion of resident UK citizens across the country as a whole. But at present their information on addresses is often well out of date. Over 10 per cent of adults move house in the course of each year and the national systems do not require for operational purposes a full and accurate record of current addresses.

5. The Register of electors is the nearest to a comprehensive local list. It is compiled locally and up-dated each autumn. It uses a "qualifying date" - the 10th October - to confer the right to vote on individuals. The register using that date comes into force on 16 February of the next year. About 93% of individuals eligible to be included are correctly registered for the address where they resided on the qualifying date. However, that national aggregate conceals considerable variations between areas - the corresponding figure for inner London is only 86 per cent. There is also considerable variation between age groups (up to 17 per cent of under 30 years olds are not registered, at least for their qualifying address) and for ethnic groups (the corresponding figure is 30 per cent for New Commonwealth citizens). The Register is not amended to reflect movements after the qualifying date. So by the time it expires around 15 per cent of adults are no longer resident at the address for which they are registered. In addition, 7 per cent of individuals, included on the Electoral Register, are not eligible for inclusion, at least at their address shown.

6. An OPCS study concluded that it would be feasible to improve the existing canvass for the Electoral Register to provide a near comprehensive list of local residents, eventually getting close to the 99% coverage of the Census. This would demand a greater degree of personal canvassing than now and greater efforts to

follow up difficult cases. The current cost of keeping the Electoral Register is £23m. On OPCS estimatesthis could rise to over £30m. But this estimate was on the basis that few would wish deliberately to avoid registration since OPCS had found considerable public support for the idea of a general register. It would be prudent to assume a larger - and hence more costly - task to compile a register which was to form the basis of taxation, with corresponding incentives to avoid registration.

A NATIONAL OR LOCAL REGISTER?

7. The balance of advantage appears to lie with a local register. The main points are:

(a) the current rating authority (ie districts and boroughs in England and Regions in Scotland) would be responsible for establishing its own tax base - it would not be able to argue that the National Register was defective

(b) it would not raise the confidentiality and data protection problems of using a national register compiled for one purpose (eg access to a family doctor) for a different purpose entirely.

If the residents' charge is to be credible it will be important to minimise evasion. This suggests that non-registration should be made a criminal offence. A system of registration backed by the criminal sanctions will be bound to generate opposition on civil liberties grounds. This issue would have to be faced, however with any local tax on people rather than property or goods.

ONE REGISTER OR TWO?

8. The Electoral Register is an obvious model for the new register. But certain features of it make it unsuitable as the register for assessing liability to the residents' charge:

(a) it is based on a qualifying date and is not up-dated to take account of people who move between qualifying dates

(b) it excludes certain groups who should be registered for the residents' charge eg foreign nationals

(c) using the electoral register would act as a disincentive for people to register to vote.

For those reasons we have concluded that we need a separate register, with a separate duty on individuals to ensure thatthey are on the list of the authority in which they reside and to inform the authority when they move. This may well result in some individuals being less inclined to register for a vote because the Electoral Register will be used by the local authority in verifying registration for the residents' charge. But the greater resources devoted to compiling the register for the residents' charge should offer scope for improvement in the accuracy of the Electoral Register.

COLLECTION AND ENFORCEMENT

9. The responsibility for compiling the register and collecting the charge would lie with current rating authorities. Other authorities would, as now, precept for their income on the charging authority. We would need to establish a test of residence. This will not be simple. But we would expect to have regard to a person having an abode in an area, residing in some place in discharge of some duty or in compliance with some regulations. There would be a presumption that everyone was registered in at least one authority unless they could demonstrate that they were resident abroad. In order to ensure that some contribution was forthcoming from the 180,000 or so "second" homes in England, the authority would assume that every domestic property had at least one resident. Householders who owned more than one property in different local areas would be asked to register at least one resident in each property. It would be for the authority to try to establish that there were

additional residents. The head or manager of communal establishments would be asked to register all the adult residents. The aim would be to have very few exemptions from registration (liability to pay is discussed below) but there would be some exemptions eg diplomats, merchant seamen with no permanent shore base.

10. A duty would be laid on the authorities to take all reasonable steps to ensure that the register was accurate and up-to-date. This would be in their own interest. Local authorities would be able to use other local records to identify people who were not registered such as:

- applications for housing and sale of property
- housing benefit claims for rent
- existing valuation records
- registration of children for school

There would be no question of denying a service once a person was found not be registered. The local authority, having identified someone who ought to be registered would simply put their name on the register, or in case of someone who contested registration, take legal proceedings. The register for the residents' charge would be kept up-to-date as people moved into or out of a local authority area. If an individual moved during the year he or she would inform the local authority he was leaving (to claim a rebate of tax already paid, or to discontinue instalments) and inform the authority of his new address. He would be under a duty to register with the new authority and would become liable to pay the proportion of the residents' charge for the balance of the year. After the canvass to compile the initial register for the first year of operation it would be for the local authority to decide whether it wanted to undertake canvasses every year or whether it would rely on the updating procedures. The choice would ultimately depend on the mobility of the local population.

11. There would be a new legal duty on householders to declare all those who are resident at a given address and a separate duty on individuals to take reasonable steps to ensure that they were registered. This raises two issues which it might not be possible to resolve fully until the scheme has been running for a couple of years. They are:

(a) who should be regarded as "resident". There is little case law on this at the moment, since few prosecutions are undertaken over failure to comply with electoral registration. It would fall to the Courts to interpret "residence"

(b) the extent of the problem of transients who may not be picked up without considerable administrative effort in some authorities with high concentrations of privately rented flats and bedsitters. If a large number of these people are claiming help with their rents from the local authority this could prove to be a "non-problem".

Such complications are inevitable in any system of local personal taxation. They are easier to deal with if a clear distinction is drawn between the duty to register and liability to pay.

LIABILITY FOR PAYMENT

(i) Private households

12. Paragraphs 10-12 recommend that we place a duty on the householder to register all adults resident in the household, whether or not they are dependant or related to him. At present, the householder is personally liable for the full rates bill, and it is a matter for him to decide whether or not to recover any part of it from other residents in the rateable property.

13. The purpose of the resident's charge is to extend the perceptibility of the effects of local expenditure policies. It would not be consistent with this to make householders

liable for the charge payable by each resident in the household. It is reasonable however to treat the charge as a joint liability for couples, married or unmarried. This would fit with the rules that would apply for social security help. Separate bills or, if the administrative cost entailed were thought to be too high, itemised bills could still be issued to underline the basis of the charge.

14. A separate liability to pay would be placed on all other adults in the household with a separate source of income, including non-householders on supplementary benefit. This would have to be covered in the rules that would apply on assessing eligibility for rebates discussed below. Different arrangements would be required for adult members of a household (other than spouses or cohabitees) who are financially supported by the householder. Students are one obvious category. We need to consider further whether to exempt such categories from payment entirely or to deal with them through student grant/rebate arrangements.

(ii) Communal Establishments

15. The 1981 Census recorded 683,000 people as "resident" in communal establishments. Some of these are under 18 and hence would not be liable to pay the resident's charge. Table 1 illustrates the main types of such establishments and the numbers of residents, split between staff and "others".

Table 1 Residents in communal establishments *

(Thousands)

Type	Resident staff	Other residents
Hotels/boarding houses	49	35
Children's Homes	4	18
Old People's Homes	11	177
Psychiatric Hospitals	8	108
Other hospitals	27	63
Schools and colleages	9	17
Prison Dept. Establishments	0.1	17
Hostels/lodging houses	3	31
Other	6	99
Total	118	565

16. Under the present system some of these properties are rated as "non-domestic" (and may be eligible for relief if they are charitable foundations); there is no personal liability on any of the residents to meet the rates payment. Other properties, which belong to the Crown, will be assessd for a "contribution in lieu" of rates.

17. There are various approaches we can adopt to treating people resident in institutions for purposes of levying the residents' charge:

* 1981 Census definitions. These exclude short-stay prisoners.

(i) we can make all individuals liable, while continuing to tax the properties as "non-domestic", exempting certain categories of people (eg prisoners, mental patients etc)

(ii) we can exempt all individuals, other than staff, living in certain categories of institution eg psychiatric hospitals, prisons, old people's homes, and tax the institutions as non-domestic properties

(iii) we can convert the basis for taxing these institutions from rateable value to eg residential spaces and collect a "collective residents' charge" from the institution. We would not seek an individual contribution from residents.

18. The logic of the residents' charge is to exempt as few people as possible and to make as many people as possible individually responsible for paying the charge. So we should resist exemptions, as far as politically acceptable. But even if we decided to exempt all inmates other than staff of long-stay institutions we would only be exempting around ½m adults, out of a total adult population of 35m (about 1.4 per cent of the population).

Enforcement

19. Existing procedures for collecting rates would be applied to the collection of the residents' charge from individuals or heads of households, or managers of communal establishments who were liable for the charge. Non-payment (as opposed to non-registration) would not be a criminal offence. The local authority would continue to have discretion about enforcement of payment in cases of genuine hardship. Similar payment methods would be available for the residents' charge (i.e. half-yearly

payments or payments by 10 instalments) as are presently available to ease rate payments. People who move during the year would "deregister" for payment in the authority they are leaving and reduce their liability accordingly and would pay a proportion of the annual charge in their new authority.

20. Special consideration will need to be given to the procedures for dealing with highly mobile groups such as students and migrating workers and others who can claim residence in another area. But once an individual is registered the local authority can proceed against him for non-payment, unless he can show that he is wrongly registered in the authority and is paying the residents' charge elsewhere.

REBATES TO LOW INCOME HOUSEHOLDS

21. A flat-rate residents' charge on all adults will be a very regressive tax. If required to raise the income generated by domestic rates it would need to be set at about £160 per head. That is too large an amount to expect poor families to pay. So we have looked at the shape of a possible rebate scheme. The preliminary results of modelling the proposed new grant structure suggests that there will be large variations from this average particularly in Inner London. The implications of wide variations are discussed below. For clarity the initial discussions of what help might be available to households with low incomes assumes the average charge.

The Present Scheme

22. According to the latest local authority estimates over seven million households will be assisted with their rates bills

this year at a total cost of about £1.4 billion (Great Britain)*. About 3.5 million households qualify automatically for a rebate because they are on supplementary benefit. Rebates to this group account for £810 million i.e. an average rebate of about £4.50 per week - £230 per annum. Another 3.8 million low income households who do not qualify for supplementar y benefit receive 'standard' housing benefit;that is they receive some assistance with their rates on the basis of a means test administered by the local authority. Rebates to this group total £570 million, on average £3 per week - £150 per annum.

23. The amount of rebate to households on supplementary benefit is determined primarily by the size of their rates. DHSS estimate that the rates for more than four fifths of these households are between £2-8 per week. Only about 7 per cent have rates of more than £8 per week. The amount of assistance given to households not on supplementary benefit depends on both the size of their rates bill and their weekly income as entitlement to benefit tapers off as income rises. About 20 per cent of owner occupiers currently receiving assistance have rates above £8 per week.

The Reformed Scheme

24. The reforms presented in the review of social security will reduce the numbers of households not on supplementary benefit who receive assistance with their rates by about 40 per cent. As a result the range of rates payable by the households who continue to receive assistance will be very similar to rates payable by households on supplementary benefit, that is over four fifths will be within the range of £2-8 per week. The

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*All social security statistics are collected and presented for Great Britain as a whole. The figures used throughout the rest of the report are England only.

proposition that all households should pay 20% of their rates would mean that an average household on supplementary benefit would pay £0.85 a week - £44 per year.

The Effect of a Residents' charge with Rebates on Households in Supplementary Benefit

25. A charge which varies with the number of adults in the household will on average increase the losses caused by the proposals in the review of social security for all but single person households. As noted above the effect of the MISC III proposals on the household on supplementary benefit is to reduce their housing benefit rebate on average by 20 per cent - £44 per annum. The same proportion payable on a residents' charge of £160 is £32 per annum for the single person household and £64 per annum for a couple.

26. The position of the household with several adults on supplementary benefit is more complicated because non-householders who are not in work are eligible for supplementary benefit but not for housing benefit. At present however the supplementary benefit rates for a proportion of these non-householders (depending on their age) includes a contribution towards their housing costs. An extension of these provisions would help protect such households. Where a householder on supplementary benefit has living with them an adult earner, the earner would be liable quite separately for the full charge. This would bear heavily on low earners particularly young adults in low paid employment living with their parents.

27. We conclude that it would be possible to produce a workable rebates scheme following the review of social security for households on supplementary benefit if the range of the residents' charge was not much more than the £160 average.

The Effect on Other Low Income Households Receiving Assistance with Rates

28. The reformed structure of housing benefit would assess entitlement to benefit on the basis of the combined sum payable by a household for both rent and rates. The basic steps will be:

i. Assess the maximum benefit payable if net income is equivalent to the appropriate supplementary benefit scale rate for that household. This is 100% of rent and 80% of rates.

ii. Reduce the benefit payable by a fixed proportion (70 per cent) of the amount by which actual net income exceeds the appropriate supplementary scale rate.

29. This is a much simpler assessment than in the current housing benefit scheme. Moreover basing entitlement to benefit on net rather than gross income places an upper limit on the 'marginal tax rates' experienced by low income families paying both rent and rates. At present such families can lose the whole of a pay increase through paying more in tax and national insurance as gross income rises and at the same time have their entitlement to benefit reduced. The single rate of withdrawal of benefit, as net income rises, applied to both rent and rates obviously has a much sharper impact on those households who only pay rates. At present such households can receive help further up the income scale because a much shallower rate of withdrawal is applied to rates than to rents.

30. The logic of combining assessment of entitlement to benefit on rent and rates is less clear if rates are replaced by a residents' charge. It would have the effect also of obscuring

increases in the charge. But combined assessment allows a sharper rate of withdrawal of benefit from all households with net incomes above supplementary benefit. At the same time it puts an upper limit on the 'marginal rates of tax' for those households receiving assistance with both rent and rates. Reverting to separate assessment with a slower rate of withdrawal would mean forsaking some of the public expenditure and caseload savings in the social security review.

31. As with households on supplementary benefit all the issues are much more easily dealt with if a residents' charge can be set relatively low.

32. We conclude that if charges did not much exceed £160 per adult, the results could be made tolerable with a rebate scheme along the lines agreed in the review of social security. It might be possible to run the scheme with no specific rebates for residents' charge but some cash adjustment to social security rates if the charge was set quite low, for example a maximum of £50 per adult. A theoretical half-way house would be a scheme which provided a standard rebate of a proportion of the charge for households on supplementary benefit and other specified groups, for example, households currently receiving Family Income Supplement. Because of the effect this would have in deepening existing poverty traps this could only be considered if again the charge was set low, well below the £160 average.

<u>A GRADUATED RESIDENTS' CHARGE</u>

33. An alternative to providing a rebate scheme for benefit and low income households would be to take account of ability to pay in determining initial liability to the residents' charge. This could also take account of higher incomes, and family circumstances eg non-earning dependents. A possible scheme would

differentiate between incomes in deciding the proportion of the charge individuals in different circumstances should be asked to pay, with people on benefit paying the lowest rate and people on low or no independent incomes paying a reduced rate. By making better off people pay more, and hence reducing the amount low income households have to find, for any given total yield of the residents' charge, it could bear greater weight without the need for greater reliance on rebates than now.

34. With a lot of bands this could begin to look like a local income tax although the charge paid would not increase within the bands. If the scheme were based on previous year's income it should be possible to base tax liability on a declaration by the individual. It would be important for accountability to have the charge administered by the local authority, not integrated with the collection of national income tax or National Insurance contributions.

35. There are some obvious advantages - but such a scheme would be harder and more costly to administer than a flat-rate scheme; it would cause additional confidentiality problems as the local authority would need to check a sample of declarations made, and it would create poverty traps at each threshold. We would also need to compensate authorities with above average numbers of benefit recipients and people on low incomes, introducing a new complexity into the grant system.

ANNEX D

TARGETED AID FOR INNER URBAN AREAS

A. OBJECTIVES

1. Inner city authorities tend to spend much more than their assessed spending needs. To varying degrees, this is because of:

- expensive policies of which the Government disapproves;

- endemic inefficiency and waste;

- acute, increasing and intractable problems of multiple deprivations.

2. We want to squeeze out the extravagance and waste. But we are also seeking more effective targeting of help for the deprived. The problem is how to achieve both at the same time.

3. Our main proposals would provide a tighter discipline on overall local authority spending than the present system. Spending in excess of assessed need would be met in full by local residents. And all of them, including the poor, would make a contribution to local service costs.

4. The inner city authorities would not however be able to bring their spending down to assessed need overnight. Initially, then, the inner city poor would be much worse off. They would in addition suffer a more permanent loss in London, where we propose to remove some or all of the authorities' resource advantage.

5. In the longer term, we would expect the authorities to spend less; local tax bills would then come down. But unless they also spent more sensibly and efficiently, services to the deprived would get worse. The authorities' ability to tackle their problems of physical decay, and to work with the private sector in urban renewal, would also be reduced.

B. SPECIFICATION

6. The first step is to consider whether our proposed disciplines may not in their present form be too harsh on the inner cities. Had our tax and grant proposals been operative in 1984/85, the domestic tax burden in partnership and programme authorities needed to finance their budgets would have been approaching £600 million higher.

7. Elsewhere, we recommend review of our present methods of needs assessment, consideration of special arrangements for London, ands possible measures to reduce the impact of residents' charge on the poor. (Chapter 3, Annexes B, A and C). We suggest also a transitional grant (Chapter 3) to give high spending authorities time to bring their expenditure down to their assessed level of need. All these measures should help the inner areas.

8. There are arguments for leaving it at that. If the new needs assessment resulted in a smaller initial gap between inner urban authorities' actual and desired expenditure, then a correspondingly smaller burden would fall on the domestic taxpayer. Transitional grant would protect the taxpayer until the gap was closed. We would then leave it to local pressures and, in matters of major national policy interest, the operation of specific grants, to ensure that the authorities made more sensible and effective use of their reduced budgets.

9. But that would still leave us with three problems:

- while we hope to improve our needs assessment methods, it is doubtful whether any general formula would be able to reflect adequately the special problems of the deprived, and the difficulty and expense of delivering services to them, in the worst inner city areas;

- the worst inner areas are unpromising terrain for the revival of healthy local democracy we are seeking. Population is highly mobile, election turnouts low, authority is widely distrusted and disliked, and political partisanship extreme;

- whilst some of these authorities are doing a good job in very difficult circumstances, the performance of others is desperately poor: calibre and moral of members and officers is low, overmanning and restrictive practices are rife, political extremism is a growing threat.

10. So these authorities may need at least the help they get now and possibly more if their residents are not to face unreasonably high bills and their problems are adequately to be tackled. But we cannot trust all of them to spend even the grant available now wisely - let alone any extra resources. Their local democracies are, in any case, weak and further weakened by the transfer to them of large sums of other peoples' money without strings. No local voter can be expected to understand the extent to which central government is silently supporting his authority; his council is hardly likely to tell him. Central government needs to put its own democratic weight into the balance to show that it cares about the inner cities and is willing explicitly not only to help, but also to make it clear whose voters are responsible for which parts of the financing of local spending.

11. We therefore think we must consider some form of additional selective aid to the inner cities, possibly by means of a new "city grant" financed from the existing total of government grants to local authorities. Mechanics will need much more thought. A crucial question here is what scale of operation would be required and this we cannot tell until we know how far the potential effects of our main proposals on domestic rate bills in the inner areas are likely to be offset by refinements to the needs assessment. But in essence, we would ask the authority to propose a programme of additional spending, up to a speficied amount, aimed at improving the cost-effectiveness of its main services. This would be discussed with the Government and, to the extent that it was found acceptable, would attract an additional lump-sum grant.

12. The new scheme would seek directly to influence local authority main spending programmes. This would be very different ground from that covered by the urban programme, which supports specific projects outside the mainstream of local authority activity. Existing partnership arrangements might nonetheless provide a starting point for setting up the new machinery.

C. IMPLICATIONS

13. If colleagues agree that the effects of the rest of our package will necessitate additional selective aid to the inner city areas, they must recognise that a substantial increase in government effort will be required. This poses very considerable problems for the traditional relationship between local and central government. Care would be needed to ensure that extra help did not further undermine what strength is left in inner city democracy. Our aim must be to secure maximum leverage from our input of additional resources on authorities' delivery of services without becoming enmeshed in local politics or incurring the blame for authorities' shortcomings.

D. CONCLUSIONS

14. The exemplifications in Chapter 2 suggest that our main proposals will be unworkable unless their potential impact on the inner cities can be substantially reduced. This can be done to some extent - we do not yet know how far - by changes in the needs assessment, in the treatment of London, and by transitional grant to give the authorities time to scale down their spending.

15. But this may not be enough. Nor does it address our worries that the 'localist' approach we are advocating will not work in the special conditions of the inner cities; and that, for all the money the authorities are spending, many of the inner city deprived are still getting a raw deal.

16. We therefore see a strong case for some form of additional aid, aimed at securing improvements in the functioning and efficiency of main services. But the machinery needs to be thought about further, in consultation with other interested Departments.

ANNEX E

CONTROLS OVER CAPITAL EXPENDITURE AND/OR BORROWING

A. OBJECTIVE

1. A new and consistent framework is required for local authority capital expenditure which will:

   a. provide a more secure form of control over local authority borrowing whether directly or through controls over capital expenditure;

   b. give better incentives for local authorities to sell underused assets and generate operational savings;

   c. offer more predictability and stability in the level of capital spending by local authorities, both individually and in aggregate.

B. SPECIFICATION

2. Local authority borrowing can be controlled directly, thus influencing the level of capital expenditure, or indirectly, through controls on the capital expenditure to which the borrowing relates.

3. Five basic options have been drawn up in discussions between Government officials and officers of the local authority associations. Three relate to the direct control of local authority borrowing and two to control of capital expenditure:

   a. <u>New borrowing for capital purposes</u> This is the option preferred by the local authority associations. For each authority, a borrowing limit would be set, against which all "borrowing" for new capital expenditure in the year would count, whether raised externally (e.g. from the temporary investment of surplus revenue cash). The limit could be supplemented by whatever sources were available (e.g. capital funds or contributions from revenue) and this option offers less control than the remaining options.

b. <u>Net external borrowing for capital purposes</u> Under this option, borrowing limits would be set for each authority, against which all <u>external</u> borrowing for capital purposes would count. This would include external loans raised to refinance spending previously financed from the temporary investment of surplus revenue cash.

c. <u>All net external borrowing</u> Under this option, for each authority <u>all</u> external borrowing would be controlled, whether for capital purposes or temporarily in anticipation of revenue income.

d. <u>Net capital expenditure</u> This is a refinement of the present system which aims to control capital expenditure net of capital receipts from sales of assets during the year in question.

e. <u>Gross capital expenditure</u> Under this option, capital expenditure would be controlled against gross spending ceilings for each authority, ignoring variations in in-year capital receipts. To maintain an incentive for asset sales, local authority capital receipts could be taken into account in constructing future years' limits.

Variations around these basic options are possible.

4. We are not yet in a position to choose between these options, but we would prefer a framework which by giving central Government better control over the aggregates at which the system is directed, reduces the uncertainty caused at present, inter alia, by local authorities' ability to use the £5 billion "overhang" of accumulated capital receipts derived from recent asset sales, which unless restricted adds to the PSBR. By contrast use of in-year capital receipts and revenue contributions has no direct effect on PSBR.

C. RESULTS

5. A simplified "Which"-type assessment of the five basic options is included in the attached schedule. It assesses how each option performs against six basic objectives. None of the options satisfies all the objectives. Indeed there are inherent tensions between flexibility and stability which are unlikely to be resolved under any option. We cannot offer a "best buy" until there is agreement on the relative importance of the different objectives.

D. IMPLICATIONS

6. The options are very different in kind. Those which seek to control expenditure are, to different degrees, developments of the present system. Those which seek directly to control borrowing have much wider implications and, except in the case of the local authority associations' proposals, impinge on the revenue side. The option finally chosen will have to be consistent with the proposed current expenditure regime.

7. Local authorities will be sensitive about any reduction in spending power or felxibility through elimination of the "overhang" of capital receipts. Greater use of in-year capital receipts and revenue contributions, whilst protecting the PSBR, would go a long way towards offsetting this, particularly when combined with the proposed regime for current expenditure. Flexibility in the use of in-year capital receipts and revenue contributions would also answer the Audit Commission's criticism

that there is insufficient incentive to generate operational savings through efficiency drives. But such measures would affect control of aggregate capital expenditure.

8. The Audit Commission also criticised the absence of a firm three to five year planning horizon and excessively detailed central control over local programmes and projects. Some progress has been made in this direction, and any further relaxation would have to be reconciled with the Government's responsibility for managing the economy and the duties of Secretaries of State in relation to their own spending programmes.

E. CONCLUSION

9. A new framework is required for the control of capital expenditure or of borrowing which delivers total figures closer to national plans and which gives individual authorities greater certainty about the available level of resources within which they can plan capital programmes over several years. There would be attractions in principle in operating the new control on net external borrowing by local authorities and giving authorities the freedom to spend in addition on capital in any year any amounts they choose locally to raise by asset sales within the year or by revenue contributions. There are however practical problems in devising such a system. These are being explored further. In the event, some form of capital expenditure control, (perhaps based on gross expenditure) might provide the necessary degree of influence over borrowing and be more practicable for early legislation. A separate paper would be circulated on the range of options shortly.

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ASSESSMENT OF OPTIONS AGAINST BASIC OBJECTIVES

OPTIONS	Will the option restrict divergence from centrally planned levels of borrowing?	Will the option restrict divergence from centrally planned levels of expenditure?	Will the option provide an adequate incentive to generate capital receipts?	Will the option allow authorities to prepare sensible capital programmes?	Will the option prove workable, without undue transitional problems?	Will the option prove simple and equitable and promote efficiency?
Control over borrowing for capital purposes	Limited influence: Externalisation and revenue borrowing uninfluenced ●●	Very Limited influence: Free use of all receipts, RCCO, etc. ●	High incentive: Complete freedom to spend receipts as addition to loan finance at any time. ●●●●●	Uncertain: Sufficient additions to controlled element to smoothe over much fluctuation in provision - but attempts to improve control could make fluctuations severe ●●●	Good: Existing receipts would remain available so far as backed by cash ●●●●	Potentially good, but: attempt to tighten control could restrict allocations to level where it is difficult to deal equitably with spending need ●●●
Control over net external borrowing for capital purposes	Moderate influence: Revenue borrowing still not influenced; influence over borrowing for capital not in practise complete ●●●	Moderate influence: Free use of in-year receipts and RCCO, but overhang of accumulated receipts no longer a problem ●●●	Moderate incentive: Free use of in-year receipts; possibility of reflecting in-year receipts in allocations ●●●	Moderately good: System would offer more stability than above, while RCCO and receipts would still provide some flexibility. ●●●	Poor: May be unworkable; in any case expected resources from accumulated receipts completely cut off; introduces inefficiency into authorities financing ●	Moderately good: Likely to be less vulnerable to above objection ●●●
Control over all net external borrowing	High influence: Theoretically guaranteed to be within limit, though some tolerance would be needed in practice ●●●●	Moderate influence: As above, but with potential for undershoot if authorities give preference to current spending ●●●	Limited incentive: Free use of in-year receipts; but more difficult to reflect accumulated receipts in setting limits ●●	Moderate: As above, but potential cash-flow problem ●●●	Fairly poor: Similar to above, but more likely to prove workable without great inefficiency ●●	Fairly poor: Very complex to set limits and arrange suitable safety valve ●●
Control over net capital expenditure	Moderate influence: Similar to first option above, but revised system would probably limit use of accumulated receipts and so deter externalisation ●●●	Only moderate as operated, but: could be much better at price of internal cut off of receipts as in Scottish system ●●●	Moderate incentive: Some use of receipts for at least a period of years ●●●	Fair: Revised system could be more stable than present system, but at price of reduced flexibility e.g. on use of receipts ●●	Moderately good: No immediate cutting off of receipts ●●●●	Fair: Could be better than now under a revised system, but difficult to avoid some of the same pitfalls ●●●
Control over gross capital expenditure	Moderate influence: Slightly better than previous option ●●●	Good influence: better than previous option, because not affected by fluctuations in in-year receipts ●●●●	Limited incentive: No free use of receipts, but possibility of reflecting accumulated receipts in allocations ●●	Fair: Slightly better than previous option ●●	Fair: Accumulated receipts cut off but could be reflected in allocations ●●●	Fair: As above ●●●

Notes

RCCO = Revenue contribution to capital outley.

Externalisation = External borrowing to re-finance spending previously financed from the temporary investment of surplus revenue funds.

Annex F

INCREASED FEES AND CHARGES

A. OBJECTIVE

1. Charging for services, where possible, is desirable because
   (a) it promotes accountability
   (b) it provides a more efficient means of allocating resources between services, in line with consumer preferences
   (c) it reduces the amount of revenue required from local and/or central taxes

2. Additional income of between £200 million and £500 million could be raised, over a period of time, if authorities were more active in seeking to maximise income from existing fees and charges.

B. SPECIFICATION

3. The following measures would create a greater awareness of the potential for increasing income from fees and charges, and at the same time provide the necessary incentives:
   (a) a statutory requirement on local authorities to conduct an annual review of their fees and charges in accordance with a Code of Practice. The code would cover the principles to be adopted in pricing decisions and the accounting arrangements which would be necessary to identify true costs and subsidies. It would be drafted by CIPFA.
   (b) a clean sweep of all statutorily determined fees and charges, with a view to transferring as many as possible to local discretion. Almost 100 charges are determined by central government, either precisely or as maxima. Most relate to the granting of licences for matters as diverse as donkey driving and shotguns.
   (c) an overall grant system which ensures that increased income is not offset by grant reductions (as at present). The lump sum needs grant will achieve this.

	Fees and Charges as a % of 1983/84 Rate Fund Revenue Expenditure		
	Class Minimum	Class Maximum	Class Average
Metropolitan Counties	1% (S. Yorkshire)	3% (Tyne + Wear) (West Yorkshire)	2%
Metropolitan Districts	5% (Bury) (Rochdale) (Sefton) (Knowsley) (Calderdale)	16% (Wigan)	7.8%
Non-Metropolitan Counties	4% (Derbyshire)	8% (East Sussex)	5.8%
Non-Metropolitan Districts	4% (Hartlepool, Cleveland) (Wear Valley, Durham) (Leominster, Hereford and Worcester) (Cannock Chase, Staffordshire) (Babergh, Suffolk) (Epsom and Ewell, Surrey)	29% (Colchester)	11.4%
Inner London Boroughs (excl. City)	5% (Lambeth)	17% (Westminster)	9%
Outer London Boroughs	1% (Havering)	16% (Kingston)	8.4%
GLC (inc. ILEA)			6.2%

C. RESULTS

4. Local authorities finance just under 7% of their total rate fund revenue expenditure by way of income from fees and charges. In 1983/84 this amounted to around £2 billion.

5. This average of 7% conceals a wide range, within each class of authority, as the table above indicates.

6. If those authorities performing below average for their class moved up to average, an additional £200 million would be raised. It might be possible to increase this sum to £500 million, over time, if all authorities improved their performance so that the average recovery rate moved up to around 9%.

D. IMPLICATIONS

7. Securing an extra £200 million from the existing range of fees and charges cannot be guaranteed. Over half of the income from fees and charges is raised through charges controlled or strongly influenced by the Government (e.g. residential accommodation for the elderly) or agreed between local authorites collectively (e.g. further education tuition fees and payments for pupils educated in neighbouring authorities). In the latter case, increases in income for some authorities, from higher fees, would be matched by increases in expenditure for others.

8. To some extent the variations in recovery rates reflect the special circumstances of individual authorities and their political control. As a matter of policy, some authorities will choose to encourage use of facilities, often by disadvantaged members of the community, by holding down charges and, if necessary, allowing deficits to increase. Others will not wish to court public hostility by seeking to increase locally sensitive charges such as those for car parking or burial and cremation.

9. It would be possible to place more specific and detailed requirements on local authorities to overcome these difficulties. The following are examples:

(i) a requirement that a "reasonable" charge should be levied in each case. There are clear problems of definition here, which would probably lead to litigation. The results might not be in favour of increased income.

(ii) a financial regime requiring separate accounts and a specific return on capital or level of cost recovery. Given the administrative difficulties, it would only be worth doing this for a relatively small number of services. This would necessarily limit any extra yield.

It would also be insensitive to local circumstances (e.g. market conditions or mix of facilities). Our view is that these latter possibilities are better dealt with selectively in a Code of Practice than through separate all-embracing regulations.

The Scope for Income from new Charges.

10. There are two possibilities which would secure more than an extra £500 million from fees and charges. First, charges could be extended to cover services currently provided free. Such services might include:

- nursery education (cost £110 million in 1983/84)
- libraries (£365 million)
- museums and art galleries (£65 million)
- fire (£574 million)
- refuse collection and disposal (£671 million)
- free school meals (notional deficit of around £150 million p.a.)

Substantial income could be generated. The proposals would be highly sensitive. They might conflict with existing central policy objectives where it is in the interests of the community that the service should be consumed (eg. refuse disposal, fire protection). They might also require an extension of means testing and concessionary charges. The practical implications would require careful evaluation.

11. Second, it might be possible to devise a method by which non-domestic ratepayers could be charged directly, by authorities, an appropriate proportion of the costs of the services from which they directly benefit, such as highways, street lighting, youth training, police and fire. The national non-domestic rate could be reduced by an appropriate corresponding amount. In the case of the police and fire services, it might be possible to link this with a degree of freedom on the part of the non-domestic ratepayer to obtain the service elsewhere. This is on the face of it, an attractive option in that it could strengthen the local link between

what the non-domestic ratepayer receives and what he pays for, which will otherwise be absent under the proposed national non-domestic rate. It could, however prove very complex to devise such a scheme. There would be significant practical difficulties (e.g. the calculation of the attributable charge to a firm for police services). Again, the proposals would need to be checked for consistency with central policy objectives on community consumption.

E. CONCLUSIONS

12. We recommend:

(i) a Code of Practice on annual reviews of fees and charges by local authorities

(ii) a clean sweep of all statutorily determined fees, to transfer as many as possible to local discretion.

13. Extending fees and charges to services currently provided charge free and to non-domestic ratepayers requires major, and prior, policy decisions. We can assess the practicalities of each in the light of the Committee's views.

ANNEX G

ANNUAL ELECTIONS

A. OBJECTIVES

1. The objective is to build on our other recommendations which are designed to promote local accountability by creating a consistent and comprehensible local electoral pattern which will call all local athorities to account at frequent intervals.

B. SPECIFICATION

2. The proposal is that, in future, all authorities in England should be elected by thirds each year, and that members should each serve a three-year term. Local election policy in England is however the responsibility of the Home Secretary; his position is fully reserved.

3. At present, most local authorities are elected as a whole every four years. However, metropolitan districts and those non-metropolitan districts which have chosen to do so have annual elections (except in the year of the county elections) by thirds. All local authority members serve a four-year term (except where an authority is in the process of changing over from whole council elections to elections by thirds).

4. In metropolitan districts, all wards are represented by three members, retiring in rotation. Consequently, every elector has the opportunity to vote in each district election. But that is not so elsewhere. County councils have one-member electoral divisions. Non metropolitan districts and London boroughs mostly have a mixture of one, two and three-member wards.

5. On the present electoral map, election by thirds could therefore be introduced only in an "impure' form. In the counties, each elector would be able to exercise his vote only once every three years. In the non-metropolitan districts and boroughs, the frequency of the individuals' voting rights would depend on whether his ward was represented by one, two or three members. But in all cases, of course, the council's record would face an annual test at the polls.

6. Redrawing the electoral map to create three-member divisions and wards everywhere, and thus to allow introduction of "pure" election by thirds, would take five to six years (unless Boundary Commission resources were greatly increased). Arguably, this would be both unnecessary and undesirable in the <u>counties</u>. Here the "impure" system would at least be consistent and comprehensible in terms of voting rights. And amalgamating the existing single member divisions to form three-member ones would create unmanageably large areas in the rural counties.

7. Neither of these factors applies in the <u>non-metropolitan</u> <u>districts</u> and <u>London boroughs</u>. In the longer term, therefore, it would be preferable to create three-member wards throughout these authorities, since otherwise voting rights will vary from ward to ward in an anomalous and confusing way (this is already the case in most of the districts that have opted for elections by thirds). If limited to the lower-tier authorities, this operation need take only four to five years.

IMPLICATIONS

8. There are likely to be two main fronts on which the proposal will be criticised.

a. <u>No improvement to accountability</u>

9. It can be questioned whether <u>any</u> change in the local electoral pattern would significantly improve accountability, given the strong influence of national politics on local election results and the traditional domination of many authorities by a single political party. For these reasons, an inter-Departmental study in 1982 concluded that none of the possible changes considered would be worth the cost and disruption. 93.

10. Against this there is some reason to think that the importance of local factors in local elections has been underestimated in the past, and has been growing; and that traditional party allegiancies have been becoming less strong. Besides, our other recommendations for increasing the proportion of local electors that contribute towards the cost of local services, and for increasing the impact on local tax rates of variations in service levels, should encourage the voter to pay more attention to the spending behaviour of his authority. We believe that, in these changed circumstances, electoral reform has a contribution to make to the promotion of local accountability.

b. <u>Practical difficulties</u>

11. It can also be questioned whether, assuming the desirability of a more uniform electoral pattern, universal election by thirds is the best pattern to opt for. It can be argued for example that:

- authorities faced with an annual electoral test will be unwilling to pursue policies of long-term benefit involving short-term controversy, for example rationalising school provision as pupil numbers fall;

- in marginal areas, constant shifts in the balance of power make sensible planning and responsible decision-taking impossible;

- a council's record is easier for the voter to judge if it is elected as a whole and left in power long enough to carry through its policies - say, at least three years;

- if asked to vote too often, the voter will lose interest;

- annual elections by thirds would add significantly to the public expenditure involved: on 1982 estimates, about £50 million over a four-year cycle, and another once-for-all £5 million if the electoral map were re-drawn. Parties' and candidates' costs would also increase;

- the original intention of local government reorganisation was that <u>all</u> non-metropolitan districts should elect by thirds. But this proposal was dropped following Parliamentary pressure. We could expect fierce resistance if we were now to revive it, and to extend it to counties and London boroughs.

12. If these arguments were thought to be conclusive, it would be preferable to opt for whole-council elections for all authorities perhaps every three years.

13. A major factor in favour of universal elections by thirds, however, is that it would put a stop to the widespread practice in councils elected as a whole of setting an artificially low rate in their election year, and thus seeking to mislead the electorate about its spending behaviour. A comparative study of the rating decisions of county councils (then elected as a whole for a three year term) and districts and boroughs (then elected annually by thirds) in the period 1950/51 to 1973/74 showed that the counties rate-call increase in election years fell consistently below the long term trend by an average of 6%, rising more steeply in the following year so as to restore the trend.

14. Comparison of the rating behaviour of non-metroplitan districts elected as a whole and by thirds in the period 1981/82 to 1985/86 shows a similar pattern: the "whole" authorities increased their rates by significantly less than the "thirds" authorities in their election year, and by significantly more in the preceding and succeeding years. Manipulation of this kind can only serve to undermine our efforts to promote a healthier local democracy.

15. Additional arguments in favour of universal elections by thirds are :

- the need to account to the electorate every year would provide an important safeguard against the pursuit of extremist policies for which the council has no clear mandate;

- the combination of annual elections and three-year terms for individual councillors ensures that at all times there is a substantial pool for experienced members;

- where local political opinion is finely divided it is all the more important that it be tested annually, whatever the problems frequent changes of control may pose for council officers.

D. CONCLUSIONS

16. On balance, we consider that the arguments in favour of universal annual elections by thirds outweigh those in favour of the status quo and of universal whole council elections.

17. Again on balance, in "impure" system based on the present single-member electoral divisions would seem preferable in the counties. In the districts and London boroughs, the "impure" system should be introduced only as a short-term expedient, pending the creation of three-member wards throughout these areas.

18. These recommendations relate to England. But, _mutatis mutandis_, they seem equally applicable to Wales and to Scotland (which, however, has single-member divisions and wards in _all_ authorities).

ANNEX H

OVERHAUL LOCAL AUTHORITIES' BUDGETING FRAMEWORK

A. OBJECTIVE

1. The objective is to restrain deficit financing and "fudged" budgeting, so that the relationship between local tax levels and local spending levels is not obscured.

B. SPECIFICATION

2 The unprecise nature of local authorities' budgeting framework has cut across the Government's efforts to restrict local government expenditure since 1979. Three major problem areas have been identified:

a. the use of balances and reserves to obscure the relationship between local tax levels and local spending. Evidence suggests that local authorities with four year electoral cycles tend to have lower rate rises immediately before an election than those with annual elections;

b. creative accounting to avoid grant penalties for exceeding targets, and to avoid reducing real expenditure;

c. deficit budgeting, or the threat of it.

3. The proposal to hold annual elections and the abolition of targets will effectively eliminate the need to take action on (a) and (b). The threat of deficit budgeting, or "fudged" budgeting, is more likely to remain, however, particularly in the more extreme authorities. We therefore propose:

A legal requirement to preare a "sincere" budget The Audit Commission would selectively vet proposed budgets, in response to certain "triggers". An authority subject to vetting would require an audit certificate stating that, in the aduitor's opinion, the budget proposals (including the local tax levy) would provide sufficient income to cover the level of expenditure which the authority was likely to incur, given its intentions. Failure to obtain the necessary certificate would prevent the authority setting its local tax rates.

An authority which then refused to amend its budget could be compelled to do so through the Courts. Alternatively it could be allowed to continue to operate, but without income from local taxes, until the point where loss through wilful misconduct was apparent. Disqualification and surcharge would then follow.

C. IMPLICATIONS

4. Enforcement of a "sincere" budget will be particularly contentious to those authorities chosen for budget vetting. The main problem areas are:

a. identification of highly selective, justifiable "triggers" to set the process in motion. These could, perhaps, be based on past spending compared with plans or the presence of an accumulated deficit on revenue account;

b. identification of criteria by which the budget could be judged "sincere". Most medium to large authorities will produce budgets covering many thousands of individual votes. Except in the most blatant cases, an auditor will find it difficult objectively to judge the sincerity of the budget. He will probably have to rely on professional judgement. The problem will be compounded by the extremely limited timescale for budget preparation.

c. The tactics of confrontation. In cases where insincerity was identified, matters would be brought to a head quickly, either through a writ for mandamus or because the authority would be prevented from levying local taxes. For tactical reasons, this might not be desirable, as events have shown this year. It would be particularly unwise to create the opportunity for "martyrdom".

5. The vetting process would be a major development in the role of the external auditor, and perhaps not a welcome one given that it would set him against elected politicians. His job could be eased, if a duty was placed on the Treasurer to report proposed insincerity to him. But this would create difficult and uncertain relationships between Treasurers and their employers which would be resented in the vast majority of authorities. The views of the Audit Commission have not yet been canvassed.

6. It has been suggested that vetting could be carried out by a "higher" tier, rather than by the Audit Commission. For shire district councils, the higher tier would be the counties. For other authorities it would be Parliament. At present, however, there is no concept of hierarchy in local government. District councils would not accept that counties were competent to vet their budgets, particularly where political control differed. The practical problems would also be more acute than for the selective scheme.

7. Even though highly selective in operation, the requirement to prepare a "sincere" budget would be unpopular with local authorities, who would regard it as running contrary to the rest of the package. The counter-argument is that freedom for the many can only be achieved if there is a sufficiently robust framework to deal with the abuses of the few.

D. CONCLUSION

8. We recommend that appropriate measures be worked up in consultation with the Audit Commission to promote "sincere" budgets.

Annex I

INDIRECT TAXES

A OBJECTIVE:

1. If it were required to reduce the required yield of the residents' charge without increasing the proportion of local authority expenditure met by grants from central government then we would need an extra local tax (or taxes).

B SPECIFICATION:

2. We have looked at alternative sources of revenue for local authorities. We have divided these into 3 categories:

(a) an assigned revenue, with the national yield used to set the amount of grant which would then be distributed per capita

(b) an assigned tax, with the rate set nationally, but the proceeds left to fall locally

(c) a locally variable tax.

The main purpose of the supplementary tax is to provide local authorities with additional revenue independent of central government. But any source should not reduce unacceptably the link between expenditure and the level of the residents' charge. The options are discussed in turn.

(a) An Assigned Revenue

3. An assigned revenue would offer at best presentational gains: in practice it would give local authorities only a limited degree of independence from central government, and there would be no link between local spending and locally raised revenue.

4. We have looked at options for an assigned revenue which could displace the standard grant and reduce the required yield of the residents'

charge. Two indirect taxes offer sufficient scope: VAT and Road Fuel Duty (the excise duty on petrol and derv). The 1985-6 England yield of Road Fuel Duty was £5.2 bn, which would allow the required yield of the residents' charge to be reduced by just under £1 bn, one third of VAT proceeds yield an equivalent amount.

5. A "tax-sharing" arrangement between federal and state government is a feature of the financial arrangements of many federal countries. There is no precedent in the U.K. If it were to work in practice it would mean local government being given, as of right, the proceeds, or part of the proceeds, of a tax raised nationally.

6. Under some but not all models of such an arrangement, central government would lose control over one lever for influencing the level of local government expenditure. It would cede its right to determine both the aggregate amount of taxpayer support for local authorities and how it was raised. Its room for manoeuvre in national tax policy would be reduced - changing the rate or the coverage of a shared tax would have implications for the yield for local as well as central government.

7. The cost to local authorities would be greater uncertainty about the quantum of grant in any one year, as compared to cash-limited block grant. This could be overcome by linking the local authority share to the yield one or two years previously.

8. Of the two options set out in paragraph 4, local authorities could be assigned the entire yield of Road Fuel Duty. Since RFD is a specific not an ad valorem duty, the yield does not automatically increase with general inflation or the cost of petrol or derv. It is for the Chancellor to decide in every Budget by how much to increase the specific duty. If RFD were to become as assigned revenue there would have to be a commitment, for example, to maintain the real value of the duty. But this would reduce the scope for using RFD as an instrument of policy, for conservation or other reasons. That could be preserved if central government were allowed to surcharge the RFD rate.

9. The alternative of a share of VAT would also pose problems. If local authorities were given a share (say one third) of VAT proceeds, government would be loth to change the rate of VAT and give local authorities a windfall gain. So arrangements would have to be made to alter the calculation of the share to enable central government to change the rate.

10. Similar problems arise with changes to the coverage and collection arrangements for VAT. These can alter the yield. Only about one half of goods and services currently bear VAT, so there is substantial scope in theory for changing the coverage. This might be tolerable if changes in yield were in hundreds of millions as opposed to billions of pounds. The local authority share would have to be recalculated in the event of a major change to the coverage of VAT.

11. The advantage of a specified share of VAT is also the disadvantage. Since VAT, unlike Road Fuel Duty, is an ad valorem tax, it increases automatically with inflation. Broadly speaking the yield of VAT should increase in line with money incomes - keeping pace with the real growth of consumer expenditure as well as prices. Road Fuel Duty, even if index-linked, is likely to be less buoyant, as increased mileage is offset by greater fuel efficiency of engines. But if central government wants to retain pressure on local authorities to reduce their spending as a share of GDP, VAT as an assigned revenue would have to be combined with either (a) declining grant in real terms as and/or (b) declining non-domestic rate poundages in real terms.

(b) An assigned tax, with locally retained proceeds

12. In many ways this proposal has similar advantages and drawbacks to the pure assigned revenue approach. The added bonus would be that the shopper in Newcastle might feel he was contributing to Newcastle's spending, not to the Exchequer. But since the tax rate would be the same in Newcastle and Esher, the gain in accountability would be minimal.

13. There are however severe drawbacks in this proposal. The first is that present collection procedures for any of the major indirect taxes are not based on local authority areas. Road Fuel duty is collected at an early point in the distribution chain where "duty points" can be concentrated. VAT is collected nationally and one return comes from large chains of stores. So the only way in which the proceeds could be allocated would be by distributing according to some proxy based on consumer expenditure survey data. But to do that properly would require data not just on where people lived, but also where they did their shopping.

14. The other major drawback is the local variability of the yield. For VAT, major shopping centres would benefit disproprotionately to the disbenefit of their hinterlands. This effect is particularly acute in the conurbations. Similar problems apply to Road Fuel Duty - the 1985-6 yield per adult of Road Fuel Duty in Tyne and Wear is forecast to be £78, in Berkshire £165. So with either option a complex equalisation process would be needed, undermining the whole point of letting the yield fall locally. This approach seems to have nothing to commend it.

(c) <u>A locally variable tax</u>

15. We have examined three options:

- (i) a Local Sales Tax
- (ii) locally variable Road Fuel Duty
- (iii) locally variable Vehicle Excise Duty

16. A <u>local sales tax</u> would be a single stage tax, levied at the retail stage. It would not be levied, like VAT, at each point where value was added. It could, but need not necessarily, cover the same range of goods as VAT. In 1983 Customs and Excise estimated that collecting a local sales tax would require an additional 2,000 - 3,000 staff.

17. There are other objections to a local sales tax. A Local Sales Tax would blur accountability - it is hard to perceive; it blurs the link between voting for, paying for and using services, because of the problem of substantial degree of cross-border shopping; because of the problem of regional shopping centres (paragraph 14) there would have to be an

equalising grant. Moreover locally variable LST would give local authorities a very bouyant source of income: it would undermine the effectiveness of the residents' charge in restraining local expenditure.

18. Locally variable Road Fuel Duty has less intrinsic bouyancy. But its yield varies so much between authorities even when levied at a common rate, that allowing local authorities to have a locally variable RFD would destroy any link between the level of residents' charge and the level of services.

19. There is another possibility, which is locally variable Vehicle Exise Duty. This could be administered through the DVLC, but with the rate of tax being determined by the keeper of the car's address. There would be some cost in terms of the deterioration of the DVLC records as an accurate register of addresses insofar as there was an incentive to register at a false address.

20. Locally variable VED on cars and light vans could yield a useful <u>supplement</u> to the residents' charge. It would not replace the standard grant. The 1985-6 England yield is forecast at about £1.3 bn. The disadvantages of locally variable VED is that it would place yet a further burden on inner cities where car ownership is much lower than average. For the same level of services these authorities would have to levy a higher residents' charge and higher Vehicle Excise Duty than an authority with high car ownership. <u>Within</u> an authority, a locally variable VED would tend to reduce the regressiveness of the switch from domestic rates to a residents' charge, since higher income households tend to have more cars.

C CONCLUSIONS

21. The only runners which at present seem worth considering are:

(i) give local authorities a share of VAT or all of Road Fuel Duty as an assigned revenue to replace the standard grant and reduce the required yield of the residents' charge by about £1 bn; the yield would be distributed per capita

(ii) allow local authorities to use VED as a supplement to the residents' charge; the rate could be varied locally, but the tax would be collected by the DVLC.

22. Any reduction in the residents' charge would have to be made up by an increase in other taxes. Replacement of the standard grant would not need to be.

23. This paper has not looked at minor revenue-raisers which could help authorities with particular needs or demands on their services not picked up by the new needs assessment. One option is a tourist tax. This would need to be looked at in conjunction with proposals for taxing residents in hotels etc (Annex C). This could provide a useful source of income in a few city and resort authorities. We will consider further.

NBPM AT 17/5

CONFIDENTIAL

PRIME MINISTER

LOCAL GOVERNMENT FINANCE AND EDUCATION

Keith Joseph sent me a copy of his paper for the E(LF) discussions on 20 May. I realise that the issues here about local government reform go much wider than education or value for money. In particular, I am not in a position to comment on what form of link between central funding and local education would be most appropriate. But I agree with him that the present situation obstructs progress and puts inadequate pressure behind clear objectives and unit costs. The nature and timing of any move must be a political judgement but I believe that a move in this direction at some stage is important if you are to improve the effectiveness of the very large sums of public money involved.

with AT?

I am copying this to Keith Joseph and to Sir Robert Armstrong.

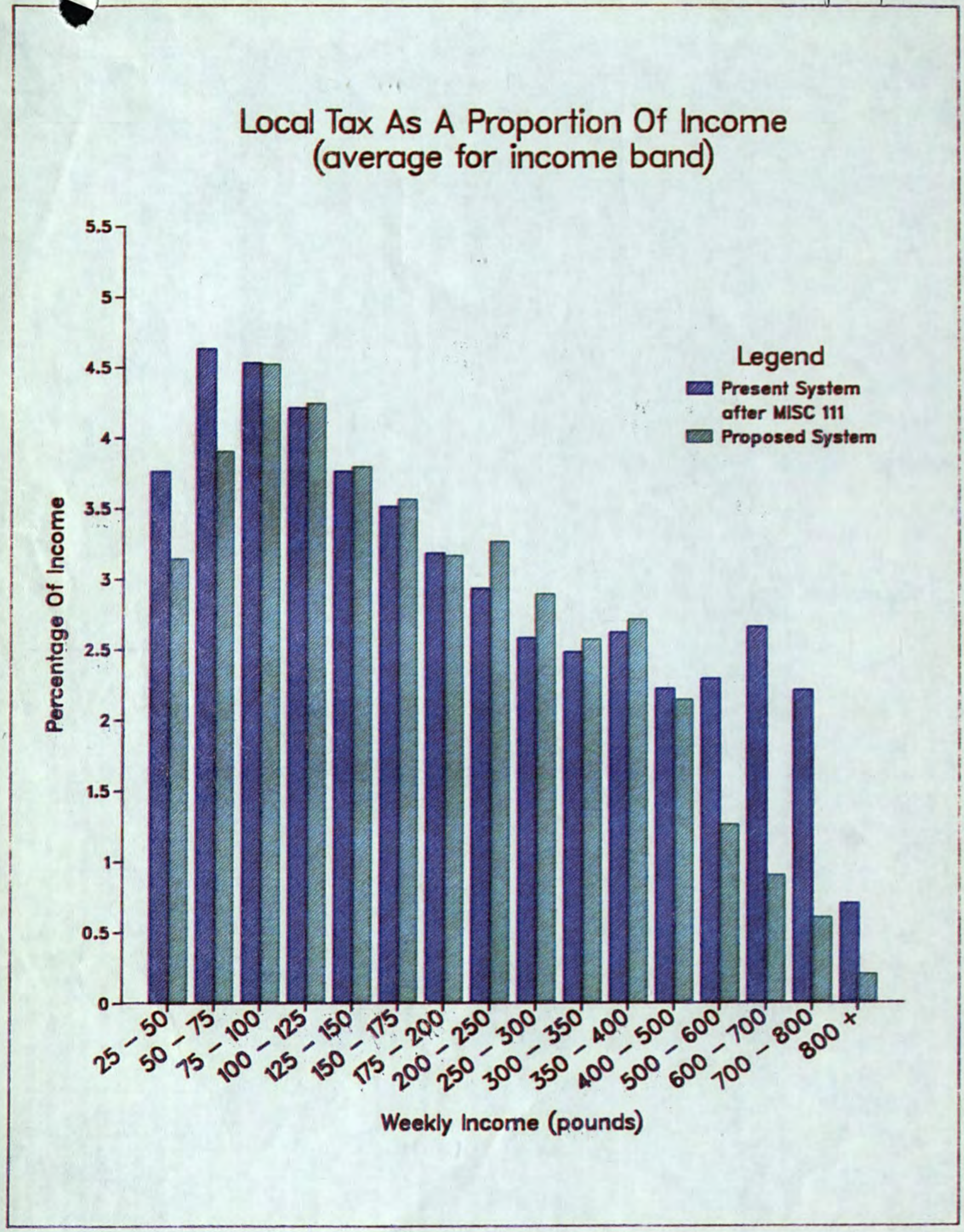
James Beesley

pp ROBIN IBBS
17 May 1985

(approved by Sir Robin Ibbs and signed in his absence)

CONFIDENTIAL

Mr. ~~Turnbull~~
for file



CONFIDENTIAL

NBPM
AT
18/5

cc ~~RO~~

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

16 May 1985

Dear Mike

LOCAL GOVERNMENT BILL: LORDS AMENDMENTS

Lord Whitelaw has seen your Minister's letter to Patrick Jenkin of 15 May and has commented as follows:

"I accept with considerable reluctance, but I hope that as little as possible will be said until the Bill has had its report stage. We cannot take a sensible view until we see the whole picture."

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for the Environment, Home Department, Education and Science, Social Services, Trade and Industry, Employment, Transport, the Lord Privy Seal, the Chief Secretary, the Chief Whips of both Houses and to Sir Robert Armstrong.

Yours Sincerely

Ron Lawrence

R D LAWRENCE
Asst Private Secretary

M Bailey Esq
Private Secretary to the
Minister for Local Government

CONFIDENTIAL

Local Govt Pt 26

Relations

16 MAY 1985

10 DOWNING STREET

<u>STEPHEN</u>

Oliver Letwin.

For your? views pl.

S
16/5

Mr. Thomason rang back to say that ideally he would prefer to see the Prime Minister alone for reasons he could explain to you on the telephone but if this was not acceptable he would of course see her with the other two leaders.

Can you give him a ring sometime.

His office number is 0202 24222.

He sounds very nice and quite understood that you might not be able to come back to him until next week.

AC

<u>Stephen</u>

If he prefers to come on his own, that's fine; but the others will have to come too, one after the other. Private Office & DoE will need to be consulted.

Oliver
19.v.'85

010

1. TF
2 NDPM
AS 16/5

cc DC

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

15 May 1985

Dear Elizabeth

LOCAL GOVERNMENT BILL

Clause 21 of the Local Government Bill ("Review of administration of education in Inner London") was taken in Committee of the whole House in the Lords last Monday, 13 May. The handling of amendments 101, 105 and 106 caused some difficulty, and it may be helpful if, for the record, I set out how things stand.

These three amendments had the effect of making the Secretary of State's review of the ILEA's exercise of its functions optional rather than compulsory, and of removing the provision for the Secretary of State to make a determination that those functions should, in whole or in part, be transferred to other bodies.

Amendment 101 was moved by the Bishop of London, who made clear that he was speaking also to amendments 105 and 106, which he described as being consequential to it. At the end of his speech he invited the Committee to support all three amendments. Amendment 101 was carried in a Division, and the Committee Stage was then adjourned for a Statement to be taken. After that Statement, when amendment 105 was called, the Bishop of London was no longer in the Chamber. At that point Lord Gowrie indicated that he did not regard amendments 105 and 106 as necessarily consequential on amendment 101 (which they clearly were not) and said that he would resist them. Amendment 105 was accordingly negatived (without a Division) and amendment 106 was not moved.

Miss C E Hodkinson
Private Secretary to the Secretary of State
for Education and Science

/......

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

Unfortunately Lord Gowrie had not, in his speech on amendment 101, challenged the Bishop's statement that amendments 105 and 106 were consequential. In Lord Denham's view, it is therefore clear that the Committee understood that, when voting on amendment 101, it was reaching a decision also on amendments 105 and 106. The convention is on such occasions that the result of the first division is treated as applying to all the amendments in the group. Thus it was wrong for the Government to resist the later amendments (and, had the Government won the first division, it would have been wrong for the proponents of amendments 105 and 106 to have pressed them). It is too late to put the matter right at Committee Stage, and Lord Denham has therefore agreed that if identical amendments are tabled at Report Stage they will be agreed to without challenge. The Government spokesman ought at that stage, however, to make clear to the House that in allowing the amendments through on the nod the Government cannot be taken to have accepted them, and that they reserve their position on the amendments when the Bill returns to the House of Commons. Incidentally, I should perhaps make clear for the sake of completeness that it will not be open to the Government to seek to reopen the matter on Third Reading in the Lords; any reversal or compromise proposal will have to wait until the Commons consider the Lords amendments.

I am sending copies of this letter to Tim Flesher (No. 10), John Ballard (Patrick Jenkin's office) and Sonia Phippard (Lord Gowrie's office).

Yours sincerely

David Beamish.

D R BEAMISH

C O N F I D E N T I A L

OIO

NIP 2CF

CC/OL

Minister for Local Government

Department of the Environment
2 Marsham Street London SW1P 3EB

Telephone 01-212 3434

Prime Minister (2)

To note the line Ministers are advised to take.

AT 15/5

15 May 1985

LOCAL GOVERNMENT BILL: LORDS AMENDMENTS

We shall need to take a view when the Committee stage is over on how to deal with amendments which have been carried against us in the Lords. I would propose to circulate proposals for consideration by colleagues in MISC 95 in the week beginning 2 June.

Meanwhile, it is important that Departments should press on with planning for implementation, and should continue their talks with those authorities that wish to discuss the arrangements for the transfer of services. Even when the Lords amendments affect the distribution of functions - as on highways and waste disposal - I think that discussions based on our original proposals can properly continue on a contingency basis. I understand that the Lord President has agreed this line in relation to waste disposal.

We are getting inquiries from some authorities about the Government's intentions with regard to "hostile" Lords amendments. We cannot make any general public statement until we have considered the overall picture with colleagues - and such a statement could, in any case, be counter-productive in terms of handling the remainder of the Lords Committee stage. However, we do need an agreed line to take in dealing with queries, and it is clearly important that all Departments should speak with the same voice.

I attach at Annex A a suggested line to take. This sets out the position at some length as this will be necessary in the further meetings which officials will be having with local authorities and others. The next such meeting, so far as DOE officials are concerned, is on Friday 17 May.

Subject to any point colleagues may wish to raise, I propose that officials should draw on Annex A as necessary in dealing with queries. Unless any comments are received by close of play on Thursday 16 May I shall assume that all are content with this approach.

I am copying this to the Prime Minister, Willie Whitelaw, the other members of MISC 95, Bertie Denham and to Sir Robert Armstrong.

KENNETH BAKER

The Rt Hon Patrick Jenkin MP

ANNEX A

LOCAL GOVERNMENT BILL: LORDS AMENDMENTS

LINE TO TAKE

1. A number of amendments have been carried against the Government's advice during the first part of the Lords Committee stage, when the clauses dealing with functions were being considered. These provide, in particular, for highways and waste disposal functions to be carried out by county-wide bodies.

2. However, the Bill has been approved by the House of Commons, and at Second Reading in the Lords, when a reasoned amendment was defeated by a majority of 2 to 1 and the Bill given an unopposed Second Reading. In addition amendments to create new directly-elected authorities in London and the Met Counties have been rejected. The Government have made it clear that they will not accept any attempt to re-create the abolition authorities by indirect means - for example by giving functions to the residuary bodies and then amending the Bill to make them directly-elected, or by combining joint authorities.

3. So far as the detailed amendments to the Bill are concerned, the Government will, of course, need to consider their position at later stages. They will do this against the background that the principle of the Bill, approved by both Houses of Parliament, is that functions should, so far as possible, be devolved to the boroughs and districts. While the final outcome remains unresolved the discussions already in progress on contingent planning for the transfer of functions will continue. The only exception is civil defence in the Met Counties, where the Government made it clear that they accepted the change provided for in Lord Renton's amendments.

4. The Government are confident that, despite the present difficulties, the successor bodies will be quick to make their plans for taking over their new functions as soon as the Bill becomes law, and that the new structure will come into operation on 1 April 1986.

Private Secretary to the
Minister for Local Government

Copies of the attached should be circulated by hand to:-

Lord President of the Council

Lord Chancellor

Secretary of State for the Home Department

Secretary of State for Education and Science

Secretary of State for the Environment

Lord Privy Seal

Secretary of State for Social Services

Secretary of State for Trade and Industry

Secretary of State for Employment

Minister of Agriculture, Fisheries and Food

Chief Secretary, Treasury

Secretary of State for Transport

Lord Gowrie

Attorney General

Sir Robert Armstrong

10 DOWNING STREET

10th May, 1985

You wrote to the Prime Minister on 15th April suggesting a meeting to discuss the reform of local government finance. Mrs. Thatcher would be pleased to see you though she feels it would be helpful if the Conservative Leaders of the A.C.C. and A.M.A., Mr. Lewis Moss and Mr. Peter Bowness ~~Barnes~~, could also be brought it.

If you are content with such an arrangement, I will be in touch to fix a time. This is likely to be early June when a little more progress has been made within Government in developing ideas.

STEPHEN SHERBOURNE
Political Secretary

K.R. Thomason, Esq

NPPM AT 13/5 CC NO

O/C R11

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG

10 May 1985

Dear Peter

CAPITAL EXPENDITURE BY LOCAL AUTHORITY BUS, AIRPORT AND PORT UNDERTAKINGS

- will request if required.

You wrote to me on 25 April underlining the reasons why the capital programmes of the local bus undertakings cannot be taken out of public expenditure and the local authority capital control system. As you indicated, the reasons have been fully discussed in the correspondence between David Mitchell and John Moore, and I accept them.

I am, as you know, very anxious to encourage a more business-like approach by all local authority transport undertakings in order to reduce their subsidies - both financial and in kind - and to facilitate the introduction of private capital. The Transport Bill will establish the PTE and municipal bus operators as "Companies Act" undertakings and the Airports White Paper will include similar proposals for local authority airports. Local authority ports have to produce Campanies Act-type accounts under existing legislation.

I would therefore like to take up your suggestion of ring-fencing. In fact, for airports, we already use the powers covering individual projects under Section 73 of the 1980 Local Government Planning and Land Act to ring-fence almost all their capital expenditure and we have used it occasionally for major public transport schemes. But as you comment, this involves detailed intervention which I would like to avoid except for very large important schemes. I want to be able to make block allocations for each undertaking, which would be ring-fenced. This would ensure that the parent authorities cannot starve the undertaking of capital investment by using that part of their total allocation for other services as they are quite entitled to do under the present capital controls system.

But this alone would not make their investment decisions subject to market forces. As you state, their borrowing is part of the PSBR and so must be controlled just like that of the nationalised industries. But there is no reason why, unlike the nationalised industries, their internally financed capital expenditure should also be controlled. To be able to attract private capital these undertakings must have the incentive to make profits and be able to plough them back into the business. I therefore propose that internally financed investment should no longer count against local authority capital expenditure for PES and capital control purposes. This would put them into a comparable public expenditure basis with the nationalised industries.

This need not mean an Investment and Financing Review for each local trading organisation. That is neither necessary nor practicable. In place of gross capital at present the local authority would bid for an amount of external finance required for the capital programme of each undertaking. The net block allocations made for each undertaking on this basis would be ring-fenced. I would control the allocations to reflect our PES plans, and transport policies. The PES provision would be net of expenditure financed by asset utilisation charges and profits instead of gross as at present. You will recall we discussed the existing "double counting" in our bilaterals last year and asked officials to consider it further. I understand your officials consider that the technical problems can be overcome. It would make a "paper" reduction in PES of about £50m.

The change would be limited to those local authority trading organisations which were required to conform with the Companies Act accounting requirements. We would monitor net spending against our PE plans by checking their audited accounts showing resources and applications of funds. If it encouraged local authorities to put other services onto this basis so much the better.

I appreciate that it has not been possible for our officials to consider these proposals in the review of the capital control system. I understand the review has been jointly with the Associations and has been concentrating on the major options for the whole system. But I hope Patrick Jenkin, to whom I am copying this letter, will agree that it would be appropriate to make the change as part of the changes in the control system he is bringing to Cabinet in due course.

I would be grateful for your agreement to make the PES change in this year's round.

I am copying this letter to other members of E(A) and E(LA), and to Sir Robert Armstrong.

Yours ever
Nicholas

NICHOLAS RIDLEY

CCNO

NBPM
AT 10/5

The Rt.Hon. the Earl of Gowrie
Minister for the Arts
Office of Arts and Libraries
Great George Street
London SW1P 3AL

9 May 1985

Dear Grey.

EC ACQUIRED RIGHTS DIRECTIVE AND THE SOUTH BANK

Thank you for sending to me a copy of your letter of 1 May to Patrick Jenkin concerning the transfer of employees of the South Bank Concert Halls to the Arts Council.

In deciding not to apply the regime laid down by the Directive, you derive comfort (a) from the fact that an argument has recently been aired in cases before the European Court of Justice that the Directive is not concerned with transfers which are not based on agreement and (b) from the reasoning that if the South Bank activities are to be classified as being economic, the same would be true of many other local government activities. As for (a), I think that you should bear in mind that the Court was concerned with cases which were not even remotely connected with the situation with which we are now faced and that, in any event - as you recognise - the Court was silent on the argument advanced that the Directive is concerned only with consensual transfers. As regards (b), I am not convinced that we would not be accepting a greater risk with South Bank staff than with various other groups. Whether any particular service or activity will be regarded by the European Court as amounting to economic activity for the purposes of the Directive - if the Court is prepared to introduce this limitation at all - may depend in my view on a number of factors, including the statutory or non-statutory basis of the activity, the way in which it is financed, the extent to which it is or can be provided only by local authorities, whether it is in the nature of a regulatory or governmental function and the motive and purpose of the local authority

ATTORNEY GENERAL

in carrying it out. On the basis of these factors, I would think that the Court, if it is prepared to accept the economic activity limitation, would be more likely to regard the South Bank Halls as "undertakings" for the purposes of the Directive than, for example, the fire service (the only one of the activities you mention on which I have received any instructions).

I am copying this letter to all members of MISC 95, to Kenneth Cameron and to Sir Robert Armstrong.

Yours Ever. Michael.

LOCAL GOVT: Relations: Pt 26

PERSONAL

10 DOWNING STREET

file f/o

cc Oliver Letwin

From the Principal Private Secretary

9 May 1985

Dear Tony,

The attached document, which is self-explanatory, has been sent to me by a personal friend who is the Senior Director of Herring Son & Daw. I am passing it on to you in case it may be of interest. I have also given a copy to Oliver Letwin in our Policy Unit here.

Please let me know if you feel that the Herring Son & Daw calculations of the effects on a property tax based on rental value of non-domestic property, with a single centrally set rate in the pound, would be of sufficient interest to ask them to set their computer to work to produce the figures.

Yours ever,

Robin Butler

R. A. J. Mayer, Esq.,
Local Government Finance Policy,
Department of the Environment.

File KB

cc DOE
Oliver Letwin

10 DOWNING STREET

From the Principal Private Secretary

9 May 1985

Dear Nick,

Thank you very much for your letter of 8 May and for sending me the report by Christopher Hedley on the effects of a revaluation of non-domestic property. I have passed these on to the people who will be interested in them here and in the Department of the Environment.

I have also noted what you say about the property tax based on rental value of non-domestic property, with a single centrally set rate in the pound. I do not think that I need trouble you to set your computer to work at present but, if people with greater expertise tell me that I should take up your offer, I will be in touch again.

Yours ever,

Robin

N. A. S. Owen, Esq.

Herring Son & Daw
ESTABLISHED 1773

Chartered Surveyors

Head Office:
26/28 Sackville Street, London W1X 2QL
Telephone 01-734 8155
Telex 265162. Telegrams Oldest London W1

Our Ref NASO/RAC Your Ref

cc Oliver Letwin

F.E.R. Butler, Esq.,
10 Downing Street,
LONDON. SW1.

8th May, 1985.

Dear Robin,

I asked you after our recent Harrow GPC Meeting about the continuing interest of the Prime Minister's Office in the problems of non-domestic rates. I understood from you then that you felt that there would be considerable interest in the results of research that we have done, in order to attempt to analyse the results on rates payable for commercial properties if there were to be a revaluation for rating purposes. I am, therefore, sending you a copy of the Report, drawn up by Christopher Hedley who heads our research capability, written on the assumption that a revaluation had just been announced.

I have added to this a brief summary of my own covering in note form the main effects of such a revaluation and some alternatives recently mooted in the press.

You did suggest that it would also be of interest for a copy of this to go to William Waldegrave at the Department of the Environment. Although he speaks for Grey Gowrie on arts matters in the Commons, I have not come across him wearing my ABSA hat, and I wonder if you would be kind enough to pass on the extra copy that I attach, either to him or to whoever you feel is the right person in that department.

You will see that I have mentioned in my notes the possibility of a property tax based on rental value of non-domestic property, but with a single centrally set rate in the pound. If you feel that it would be useful to you to re-do the calculations for that assumption, then I think we could do that given reasonable notice, and assuming that the computer model can in effect be made to work in reverse.

Yours sincerely,

Nick

N.A.S. OWEN

ENCL:

City Office: 74/75 Watling Street, London EC4M 9BJ Telephone: 01-248 9743
Reading Office: 13/15 Station Road, Reading, Berks. RG1 1LG Telephone: (0734) 509171

NON-DOMESTIC RATES

There are two distinct defects with the operation of the non-domestic rating system at the moment:-

A. The proportion of rental value paid in rates varies excessively between types of property.

B. Rates do not provide a sufficiently large tax base, without supporting grant, to fund high spending authorities without penalising business.

Herring Son and Daw's report of April 1985 seeks to show how a revaluation would alleviate the unfairness between types of property. We summarise the results below and comment on various suggested changes.

1. The Relationship between Rates and Value

- Rates paid now vary between 15% of rental value for some prime shops and over 100% of rental value for some office and many older factories.

- Rates now act as a harsh tax on factories, older properties and the less prosperous regions and a relative concession to town centre shops.

- Rates on non-domestic property will raise almost £9 billion pounds in 1985/6.

- Rates, after some time lag, act as a tax on landlords, discouraging investment and development of factories and in the regions.

2. The effects of a Revaluation

- The disparity in rates paid between regions would be reduced.

- Rates paid on factories would be reduced.

- Development of factories, and even offices, by the private sector would accelerate in the regions, reducing the need for public subsidy.

- The combined rent and rates bill of many multiple shops (and some offices in the South-East) would increase by about 10%. This would gradually work through to fall on landlords and ultimately reduce central area land values.

- The rate poundage charged by different authorities would cover a narrower band than at present.

- There would be no change in the total tax raised.

3. <u>A Standard Rate in the Pound</u>

- A national rate poundage would only be equitable if combined with regular revaluation.
- It would exagerate most of the changes shown for a standard revaluation, assuming the total tax to be raised remained at £9 billion.
- It would require a tax rate of under 50p. in each pound of rental value, to raise £9 billion, or less than one third of the annual value in rent and rates combined.
- It could be set at a lower rate if it was politically prudent to do so.
- It could be adjusted annually according to an accepted index or as a result of budget policy.
- It would be a tax on the annual value of property and thus ultimately paid by landlords.
- Rate support grant will still be needed.

4. <u>Rates as a Tax Base</u>

- The tax base for non-domestic rates varies between different taxing authorities by reason of the quantity and value of such property within the relevant area.
- It bears little relationship to the resident population of the area or the cost of local services.
- Non-domestic rates are a tax that fulfils the criteria of being visible and easy to collect, but vary unpredictably from year to year and carry no real vote, either in a corporate sense or because the employee necessarily lives in the voting area of the place of business.
- The tax base is large and important as a national source of income.
- Rates will never be a truly local tax because rate support grant or other adjustment will always be needed.

<u>Other Business Taxes</u>

In order to replace non-domestic rates with a non property-based business tax, it would be necessary to increase one of the existing taxes as follows or by some combination of these and other taxes:-

National Insurance	-	37%
VAT	-	49%
Corporation Tax	-	89%

Any of these taxes would be either difficult to determine locally and liable to create local distortions in competition. They would also run counter to recent changes in Government taxation policy.

In no case would the local tax base match accurately the revenue needs of the local authority.

A redistribution formula would still be needed.

Conclusions

Without a satisfactory re-distribution formula there can be no satisfactory local business tax.

Non-domestic property provides a large tax base which is difficult to replace.

Subject to a satisfactory re-distribution formula rates are a fair and sensible tax which might be improved with a standard rate poundage.

If property is to continue to be a tax base regular revaluation must be included in the reforms.

Nicholas Owen
Herring Son & Daw

May, 1985.

CONFIDENTIAL

SLO

NDPM

AT 13/5

CC PU

OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

The Rt Hon Kenneth Baker MP
Minister for Local Government
Department of the Environment
2 Marsham Street
London SW1P 3EB

8 May 1985

Dear Kenneth,

ABOLITION: PROVISIONS TO ENCOURAGE CO-OPERATION

will request if req.

I would just like to make one comment in relation to your letter of 3 May to Patrick Jenkin. It is that I wholly endorse your proposal to introduce a general duty on all the authorities and their staff to co-operate with each other and to facilitate the transfer of functions.

It has bothered me for some time that museum and art gallery staff in the GLC and Metropolitan authorities have been placed under enormous personal pressure. On the one hand they are forbidden to speak to officials in my department, and on the other hand, being responsible professional people, in charge of staff, and important collections, they wish to do everything to facilitate the transfer of functions. I shall be relieved on their behalf to know that it would be extremely difficult, after the introduction of your proposed provision, for them to be dismissed for having co-operated with my staff otherwise than instructed by their respective councils. It might also increase the provision of information if this fear of dismissal is thus minimised.

I am copying this to Willie Whitelaw and Bertie Denham; to the other members of MISC 95 and to Sir Robert Armstrong.

Yours,
Grey

GOWRIE

CONFIDENTIAL

E1SS50

NDPM
BT 7/5

CC/JO

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

7 May 1985

Dear Patrick.

NEW BURDENS ON LOCAL GOVERNMENT

Thank you for sending me a copy of your letter of 10 April to Peter Rees with a revised list of initiatives which may have manpower or financial implications for local authorities. I have also seen Nicholas Ridley's letter of ~~24~~ April in reply to yours and Peter Rees' letter of 2 April which covered rather similar ground.

will request if required.

will request if required

I welcome your suggestion that your Permanent Secretary should circulate a note on the internal guidelines being developed in your Department for operating the new burdens procedures. Peter Rees had proposed in his letter of 2 April a joint guidance note from Treasury and DOE for promulgation to other Departments with local government responsibilities. In view of the wide range of services in local government and the different relationships which have built up over time between Departments and local government in relation to those services, I doubt that a single centrally promulgated set of guidance would be appropriate. It would in any case certainly need to reflect the views of those Departments responsible for major services. I therefore think that your proposal should be our next step. We already have guidelines in this Department and would find it useful to review them in the light of those being put in place in DOE.

Turning now to your list, I have one addition to propose which has already been the subject of correspondence between us:

Unknown

Introduction of automatic inter-authority recoupment for non-advanced further education	DES	Likely to be increases for some authorities and decreases for others; effects probably transitional	Local authority associations being consulted; subsequent report back to 'H' with view to inclusion in Education Bill in 1985-86 session.

/Of the items

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

Of the items in the list which are attributed to my Department, I have already given 'H' Committee colleagues an estimate of the additional burden which might arise from the specific grant for in-service training (item 30). I set this at no more than £0.5m. Items 28 (AS levels) and 29 (further report by LEAs on their curricular policies) also formed part of the White Paper "Better Schools" which colleagues cleared for publication. I do not believe that our proposals for reshaping the education welfare service (item 31) should lead to any additional burden. I have undertaken to let you know if the local authority associations take a different view. Item 34 conflates action by DES and DHSS to counter drug abuse. The proposal for the education field which we have in mind to put before the Ministerial Group on the Misuse of Drugs would form part of our programme of Education Support Grants. As such, it will call for a modest redeployment of resources by local education authorities; it will not impose a new burden upon them.

For the future I agree with Nicholas Ridley that it would be helpful if, before further lists are circulated, new entries were discussed between our officials.

I am copying this letter to the Prime Minister, members of E(LA) and to Sir Robert Armstrong.

Yours ever,

Keith.

Local Govt Pt 26
Relations

Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

Director: ROBIN HARRIS

Prime Minister
Robin Harris has the attached speaking note. If you are content it can be issued to London Conservative MPs and Central Office ~~be asked~~ to produce similar notes when the GLC distort the record in other areas.

AT 3/5

2nd May 1985

Dear Andrew,

I attach a speaking note which we prepared today drawing on material provided by Mr. Alan Clark's office at the Department of Employment. I understand that the intention is to answer the GLC's advertisement (which should therefore be attached to the note): but I assume that it should also contain the main points about our overall policy towards the disabled. Perhaps you could let me know whether this fits the bill and whether the Prime Minister wishes it to be circulated to London Conservative MPs.

I am also sending a copy to Mr. Clark, who may himself wish to feed in some comments.

Yours ever,

Robin

ROBIN HARRIS

Andrew Turnbull, Esq.,
No. 10 Downing Street,
London, S.W. 1.

RH/JLS

SPEAKING NOTE

HELPING THE DISABLED

- AN ANSWER TO THE GLC

The GLC have recently been advertising a unit they have set up to help disabled people find work (see attached). The implication is that the Government is not acting vigorously to promote the employment of disabled people. This is totally contrary to the facts.

The Government has:

(i) Sought fair treatment for the disabled in the jobs market.

(ii) Backed training and other programmes for disabled people.

(iii) Substantially increased the financial help given to disabled people.

(i) The New Code of Practice.

A new code of practice for the employment of disabled people was formally launched by the Prime Minister on 14th November 1984. Help in gaining employment used to be given to disabled people through the Statutory Quota Scheme. The Government was concerned that the quota was no longer working satisfactorily. It therefore asked the Manpower Services Commission to look at ways suggested by the Select Committee on Employment and others for improving the effectiveness of the scheme within the framework of the existing legislation. To help in this task the commission set up a working group whose membership included representatives of the National Advisory Council on Employment of Disabled People, disabled peoples' organisations, the CBI and TUC. The result was the new code of practice for the employment of disabled people.

The Manpower Services Commission's disablement advisory service has been promoting the Code of Practice among employers throughout the country. 62 specialist teams advise employers on it and also give advice on financial assistance available. During 1984/5 these teams made 17,000 visits to employers. Initial indications are that it is being favourably received both by employers and by organisations representing disabled people. The code has been endorsed by the Select Committee on Employment, the National Advisory Council on the Employment of Disabled People, the Royal Association for Disability and Rehabilitation, the CBI and the TUC. The Manpower Services Commission will continue closely to monitor the response to the code.

(ii) Training and other programmes for the Disabled

The Manpower Services Commission also has major continuing programmes for disabled people:

1) - Employment rehabilitation: This is to assess the capabilities of disabled people and restore confidence and fitness for work. It

is provided through 27 MSC centres and a number of agencies throughout the country at a cost of about £21 million in 1984/5. In addition, an initial 3 new ASSET (Assistance towards employment) teams are shortly to be established in areas not currently served by employment rehabilitation centres.

2) - Sheltered employment: Work is provided in a sheltered environment for severely disabled people. Some £79 million was spent on this during 1984/5. There are around 15,600 people in sheltered employment at the end of 1984/5 compared with 14,900 at end of 1983/4.

3) - The MSC Disablement Resettlement Services and Blind Persons Resettlement Officers provide specialist job-finding help for disabled people. Through them 72,00 disabled people were placed in work or on the Community Programme during 1984/5 compared with 67,700 in 1983/4.

4) - The MSC also provides financial help. Some 4,500 disabled people received direct financial or practical assistance at a total cost of £2.6 million in 1984/85. Such help is given in a variety of ways. For example:

i. A grant of up to £6,000 to help towards the adaption of employers' premises or equipment to enable them to employ a disabled person, e.g. a switchboard can be adapted to accommodate a blind operator.

ii. Fares to Work Scheme which offers help with the fares incurred in getting to work. Help under the scheme is available to disabled people in receipt of the mobility allowance and it can be offered to anyone who is partially immobile - ¾ of the cost can be reclaimed.

iii. A Job Introduction Scheme whereby a grant of £45 per week is offered for a fixed interval - usually 6 weeks but sometimes 13 - after the placement of a disabled person in a new job.

iv. A Special Aid Scheme which aims to lend the equipment necessary for disabled people to take the opportunity of a job. Last year 1,226 aids to employment were loaned to disabled workers.

The Government's Fit for Work Award Scheme provides recognition to those employers who have demonstrated an outstanding record in employing disabled people. The importance the Government attach to this is shown by the fact that the Prime Minister herself attended last year's national reception for award winners.

(iii) Financial Help for Disabled People

The Government gave a commitment in the Conservative Manifesto 'to protect the most vulnerable members of our society'. This commitment has more than been honoured.

Total Expenditure on disabled people has increased by 30 per cent in real terms between 1978-9 and 1984-5. There has also been a substantial increase in the numbers of recipients of certain benefits as a result of Government measures to widen the entitlement and increase the take-up.

Invalidity Benefit. In November 1980 invalidity benefit was raised by 5 percentage points less than prices because, unlike the retirement pension it was tax free. In the autumn statement, the Chancellor announced that this abatement would be restored from November 1985.

The Severe Disablement Allowance. The Health and Social Security Act 1984 introduced a new Severe Disablement Allowance (SDA) to replace the non-contributory invalidity pension (NCIP) and the separate housewives' non-contributory invalidity pension (HNCIP).

It is expected that SDA will give over £20 a week to an additional 20,000 people at a cost of £20 million initially.

The Attendance Allowance has increased by more than the rise in prices between November 1978 and November 1984. This non-taxable benefit is payable to a person who is severely disabled physically or mentally and requires frequent attention or continual supervision.

The Invalid Care Allowance, which had previously been paid to relatives (other than married women) who are looking after disabled people in receipt of the attendance allowance, was in July 1981 extended to those carrying out this service who are not relatives. Some 2,000 people were expected to benefit. The amount a recipient of invalid care allowance can earn before affecting his or her allowance was increased, in November 1982, from £6 to £12.

The Mobility Allowance, is now £20.00 a week, double the amount of £10 a week when Labour left office; since April 1982 it has been tax free. The number of beneficiaries has doubled since 1978-9.

Conclusion

All Governments and parties care about disabled people. That undoubtedly includes the hard Left leaders of the GLC. But this Conservative Government is committed to policies which will provide the prosperity to create the jobs and pay for the benefits to help disabled people. Encouragement of fair but flexible employment practices; more help to train and provide opportunities for disabled people in work; and increased help for those who could not otherwise cope - these are the achievements of a Government which doesn't just say it cares but shows it.

They'd be a [illegible] higher if he didn't mention his disability.

Because he'll be lucky to get an interview once that's on his application form.

One man that we know of had 50 job applications rejected in a row.

Until he didn't mention his disability.

He then received 12 interviews out of the next 35 applications.

Yet even if the disabled get an interview, a lot of the time is taken asking how they'd cope.

They'll be asked in great detail how they'd get to work if they had a puncture. Or how they'd be able to reach a particular filing system. (No thought is given to locating the filing system in a different place.)

But with 3½ million able-bodied to choose from, why should you as an employer consider someone with a disability?

Firstly, many disabilities don't affect a person's ability to do the job.

An artificial leg is no barrier to being a draughtsman. Nor is deafness a handicap to programming a computer.

What's more, it's been found that people with disabilities actually take less time off through illness.

Simply because they're glad to be given a job.

And their disability often means that they're able to use their other senses more efficiently.

For example, the blind can have a more developed sense of touch or hearing. So for some jobs they might actually be better equipped.

Admittedly, it might cost you a small investment to accommodate them, but Government funding is available through the Manpower Services Commission.

And you could be breaking the law if you don't employ them.

Because if you have over 20 people in your company then 3% of your workforce should be disabled.

Not that the law alone is powerful enough to overcome prejudice.

Which is why the GLC has set up the Disability Resource Team.

To encourage employers to operate an equal opportunities policy.

To give advice to the disabled themselves. As well as to other members of the community in positions of power.

Because even if disabled people are able to get a job, their problems are far from over.

The simplest of journeys is a major expedition. They're labelled fire risks in theatres and cinemas. Seen as obstacles in pubs and restaurants. Or restricted to off-peak hours in swimming pools.

Virtually imprisoning them in their own homes.

If you're an employer do give some consideration to employing the disabled. Or if you'd like advice write for our leaflet to GLC Disability Resource Team, Room 92, The County Hall, London SE1 7PB. Or telephone the GLC Hotline on 01-633 4400.

We'd also welcome enquiries from people with disabilities. We're not able to solve individual cases but we can give guidance.

If you do consider a disabled person for a job you'll sleep well at nights.

Not because you've been charitable.

But because you've made a wise business decision.

GLC. A DISABILITY SHOULDN'T BE A HANDICAP.

Incorporating 'The Nation', 'The [illegible]' and 'The Week-end Review'. Registered as a newspaper. Typesetting by Sutton Typesetting [illegible]
Printed by Benham [illegible] Colchester [illegible]

cc No

OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

NBPM

AT 3/5

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
London SW1P 3EB

1 May 1985

Dear Patrick,

in P16.

EC ACQUIRED RIGHTS DIRECTIVE AND THE SOUTH BANK

I am writing further to our consideration in September 1983 of a paper (MISC 95(83)8) which dealt with the applicability of the EC Acquired Rights Directive (77/187/EEC) to staff transfers in the UK.

It will be recalled that the background to this was that in the course of agreeing policy issues posed by the abolition legislation, the question was raised as to whether the Directive would apply to groups of staff transferred as a consequence of abolition.

Previous UK experience of this Directive arose in the context of transfers of Civil or Crown servants to the private sector. In this case the Directive, which applies "to the transfer of an undertaking, business or part of a business to another employer as a result of a legal transfer or merger", was accepted as applying. "Undertaking" is not defined in the Directive although lawyers have advised that there are defensible grounds for maintaining that it applies to activities of an economic character only. In the Transfer of Undertakings (Protection of Employment) Regulations 1981, however, it is defined as including any trade or business, but not including any undertaking or part of an undertaking which is not in the nature of a commercial venture.

The Law Officers were asked to consider the precise point at issue in the abolition exercise since there was no clear limitation on the scope of the Directive, and it was uncertain how far limitation was intended. There was a general feeling that the Directive was conceived in the context of the takeover of businesses, and local government reorganisation is far from this, whatever might be the position as regards transfer to the private sector.

Following our discussions at MISC 95, it was agreed in correspondence that the Transfer of Undertakings Regulations did not apply to abolition as their scope is limited to "commercial" undertakings, that the Directive applied more widely to "economic" undertakings, that only the South Bank Concert Halls (which are my concern in this context) and municipal airports were likely to be affected and that Ministers would take their own legal advice case by case.

This I have now done. As regards the South Bank Michael Havers has indicated that, in the light of documentary material supplied by my Office, he has doubts whether a "commercial venture" is carried out by the GLC in providing these facilities and, therefore, whether the Regulations apply. He nevertheless felt that the GLC is engaged in an "economic" activity in relation to the South Bank Concert Halls. Recently, however, an argument has been aired in cases before the European Court (principally Abels' Case, No 135/83) that the Directive is not concerned with transfers which are not based on agreement, and although the Court preferred to base its decision on other grounds, the argument would still be available in the context of statutory transfers following abolition. Furthermore, it could be maintained that there are many other local government services which could equally well be described as economic activities, such as the provision of housing, recreation facilities or fire services, either because a contribution towards costs is made by the consumer or because the activity itself contributes to the economic life of the authority. If challenged, I do not see in consequence that we would be accepting any greater risk with South Bank staff than with various other groups.

The purpose of this letter is, therefore, to let colleagues know that I consider that there are respectable grounds for treating the South Bank employees like any other staff of the GLC. This is the approach that both I and the Arts Council of Great Britain, which will assume responsibility for the complex after abolition, wish to adopt. The Arts Council has been quite rightly concerned that the Concert Halls are regarded as being overstaffed at present by some 30% and the staff paid some 20% more than others in comparable positions. The Council would, in any event, want to be able to correct that situation, but in particular anticipate serious dissatisfaction among their existing staff if they are inhibited from doing so. The Council might decide also that work at present done by GLC employees, such as cleaning, should be contracted out.

As I understand it, this approach would have no effect on the existing provisions of the Local Government Bill. I shall assume colleagues are content with my decision, unless I hear to the contrary.

I am sending copies of this to all members of MISC 95 and to Sir Robert Armstrong.

Yours,

Grey

GOWRIE

1

Prime Minister:

Agree to this Question and Answer

Ref. A085/1246

MR FLESHER

FERB 1/5

Yes mb

Widdicombe Inquiry

Mr Turnbull's minute of 29 April recorded the Prime Minister's agreement that the paper on Central Government Conventions on Publicity and Advertising attached to Sir Robert Armstrong's minute of 25 April (A085/1179) should be submitted to the Widdicombe Committee of Inquiry into local government procedures and practices and that it should be published.

2. The publication of the evidence given to the Inquiry by the Department of the Environment was announced by a Written Parliamentary Answer and copies of the Memorandum were placed in the Libraries of the House of Commons and the House of Lords. It would be appropriate to follow a similar procedure in relation to this Memorandum and I attach a draft Parliamentary Question and Answer for the purpose.

R P HATFIELD

1 May 1985

Ordinary Written
3 May.

Harry Greenway

DRAFT ARRANGED PARLIAMENTARY QUESTION FOR WRITTEN ANSWER

To ask the Prime Minister whether she will publish the evidence given to the Widdicombe inquiry on the conventions governing the use of public funds for central government publicity.

DRAFT ANSWER

A note on the conventions which successive governments have applied to their publicity and advertising has been sent to the Committee, ~~today~~. A copy has been placed in the Library of the House

MS

file

cc: B1

10 DOWNING STREET (cc: CABINET + CW AG)

From the Private Secretary

CONFIDENTIAL

SIR ROBERT ARMSTRONG

CENTRAL GOVERNMENT CONVENTIONS ON PUBLICITY AND ADVERTISING

The Prime Minister has seen your minute of 25 April (A085/1179) and the paper attached to it. She is content that this should be submitted to the Committee of Inquiry into local government procedures and practices and that it should be published.

I am sending a copy of this minute to the Private Secretaries to members of Cabinet, Henry Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and to Alex Galloway (Paymaster General's Office).

(Andrew Turnbull)

29 April, 1985

020

File

cc NO

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

26 April 1985

Dear Andrew.

Thank you for your letter of 19 April about the local government finance studies.

My Secretary of State thinks it would be an excellent idea for the Prime Minister to discuss reform of the present local government finance system with Roy Thomason, Lewis Moss and Peter Bowness. He, William Waldegrave and Ken Baker would like to join in.

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

29 APR 1985

~~PRIN PS~~
PS ~~FCO~~
PS ~~TSY~~
PS PARLY
PS HOME
~~PS DIARY~~

BERNARD INGHAM

PRIVATE OFFICE

ROBIN BUTLER

DETECTIVES

I have heard privately that, according to some leaked GLC Minutes, they have planned for 2nd May "major media/publicity events: County Hall and Downing Street". This is, of course, the day of the Local Elections outside London.

I think you should be aware of this.

Stephen

STEPHEN SHERBOURNE
26.4.85

010

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

25th April 1985

Pl. file

Dear ~~Robin~~, Ever so many thanks for yor letter of April 24 arranging for me to meet Mr. Painter. However, at least in the interests of the Prime Minister, you may care to have your records adjusted so that Mr. Terry Painter's telephone number is given correctly. I will not worry you further with the details.

Yours
Victor

* irony

CONFIDENTIAL

NBPM
AT
30/4

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Parliamentary Under Secretary of State for Health

The Rt Hon Kenneth Baker MP
Minister for Local Government
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

25:4:85.

Dear Kenneth:

ABOLITION: VOLUNTARY BODIES A TRUST FOR LONDON

see Pt 25.

I am responding to your letter of 19 March to the Secretary of State for the Environment suggesting that a Trust be endowed with some of the proceeds of the GLC's assets to make grants to voluntary organisations in London.

I am sure that this proposal will contribute towards reducing the genuine fears of the voluntary sector that worthwhile voluntary activity will be seriously damaged by the elimination of the GLC's grant making. It should be possible to ensure by the selection of an existing suitable Trust or, failing that, of trustees for a new Trust and by setting the terms of reference that the excesses of the present GLC grant giving are not repeated. And using a non statutory Trust mechanism will be a further demonstration of our belief in the capacity of the voluntary sector to play an increasing part in dealing with social issues.

I am copying this to members of MISC 95.

as ever,

John.

JOHN PATTEN

CONFIDENTIAL

LOCAL : GOVT : Relations : Pt 26

30 APR 1985

10 DOWNING STREET

~~BI~~

Anything to add before I put it to PM.

AT
25/4

Mr Turnbull

No I am content.
It sets out the position as I have understood and practised it for 18 years clearly and simply. and makes the point that these conventions do work

[signature] 26/4

Prime Minister (1)
Agree this be circulated to Widdicombe and published? Bernard is content.
Yes pm
AT 26/4

Ref. A085/1179

PRIME MINISTER

The committee of inquiry into local government procedures and practices, under the chairmanship of Mr David Widdicombe, has, as you know, been asked to submit an early interim report on the use made of their discretionary powers by some local authorities for the purpose of engaging in overt political campaigning at public expense. It has asked for detailed evidence of the conventions governing the use of public funds in central government publicity.

2. The Minister of State, Department of the Environment (Mr Kenneth Baker) said in the House of Commons on 9 January that the conventions regarding the spending of money by government on advertising were well known and had been observed by successive governments. The conventions have never, however, been codified. Thus in preparing a memorandum of evidence for the Widdicombe Committee we are for the first time explicitly formulating and codifying the conventions governing the use of public funds by central government for publicity purposes. Although the Widdicombe Committee is concerned specifically with local government and there are significant differences between the duties and responsibilites of local and central government, the inquiry could well lead to discussion of central government conventions in this area, and there may be some "read-across" from any recommendations.

3. I attach a final draft of the memorandum of evidence which it is proposed to submit to the Committee, along with some recent examples of government publicity. The draft has been prepared in consultation with Government Departments and with Mr Ingham, and is agreed.

4. It is proposed that, as with the Department of the Environment's evidence, this memorandum should be published when it is submitted to the Committee.

5. I should be grateful for authority to submit this memorandum to the Widdicombe Committee, and to arrange for its publication.

6. I am sending copies of this minute and of the draft memorandum of evidence to all members of the Cabinet, the Attorney General, the Chief Whip and the Paymaster General.

RA

ROBERT ARMSTRONG

25 April 1985

CENTRAL GOVERNMENT CONVENTIONS ON PUBLICITY AND ADVERTISING

Note by the Cabinet Office

This note sets out the conventions which successive governments have applied to their publicity and advertising. There have been changes over the years in the type and quantity of what may be broadly described as publicity. Methods of communication change or develop, and Governments have increasingly put out more information about their policies and activites. But the basic conventions have remained. They are in general terms, but have in practice provided a satisfactory basis for the exercise of judgment in individual cases.

THE MAIN CONVENTIONS

2. It is right and proper for Governments to use public funds for publicity and advertising to

explain their policies and to inform the public of the Government services available to them and of their rights and liabilities. Public funds may not, however, be used to finance publicity for party political purposes; this rule governs not only decisions about what is or is not to be published but also to content, style and distribution of what is published. This basic rule covering all Government publicity and advertising has been accepted under successive Administrations.

3. The conventions apply to both "paid" and "unpaid" publicity. "Paid" publicity includes paid advertising in the press, on radio and on television, leaflet campaigns, exhibitions etc. "Unpaid" publicity includes papers presented to Parliament as White and Green Papers and other consultation documents (which are sold to the public at prices intended to defray the costs of printing, publication and distribution), press notices and other official briefing material (all of which may nevertheless involve some cost to public funds in Civil Service costs).

4. The conventions are:

i. <u>subject matter should be relevant to Government responsibilities</u>. The specific matters dealt with should be ones in which Government has direct and substantial responsibilities;

ii. <u>content, tone and presentation should not be"party political"</u>. The treatment should be as objective as possible, should not be personalised, should avoid political slogans and should not directly attack (though it may implicitly respond to) the policies and opinions of opposition parties or groups;

iii. <u>distribution of unsolicited material should be carefully controlled</u>. As a general rule, publicity touching on politically controversial issues should not reach members of the public unsolicited, except where the information clearly and directly affects their interests. The level of intrusion is highest for television, newspapers and poster advertising and material delivered to people's homes, and lowest for material available only on request. The general rule is that leaflets etc may be issued:

a. in response to individual requests, or enclosed with replies to related correspondence;

b. to organisations or those with a known interest or, with the organisation's agreement, in bulk for distribution at their own expense to their membership only.

iv. <u>costs should be justifiable</u>. The Government are accountable to Parliament for the use they make of public funds for publicity, as for any other purpose. The Accounting Officer for the Vote concerned has a particular responsibility to the Public Accounts Committee.

DETAILED APPLICATION

5. The following paragraphs set out how these conventions are applied to the main kinds of

Government publicity. Some specific examples of publicity in potentially politically controversial areas are given at Annex A.

NEW POLICY PROPOSALS

6. The main forum for the presentation and discussion of Government policies is Parliament. Major policy proposals are usually presented to Parliament as Command Papers which are sold to the public at a price designed to cover the costs of printing and distribution. Thus the cost to public funds usually consists only of the costs of preparing the text. Other proposals on which comments are invited may be set out in less formal documents in printed or typescript form. These are sometimes priced and sometimes provided free of charge. They are deposited in the Libraries of the House of Lords and the House of Commons at the time of publication and may be sent unsolicited to those with a known interest (not as a rule to the general public, although copies may be provided on request). The public will also get information

free of charge through the official information machinery (Departmental Press Offices and the Central Office of Information) by means of press notices or other briefing.

7. Command Papers, consultative documents, official press notices and briefing material may well cover matters which are the subject of party political controversy. Such material will set out what the Government is doing and what they want to achieve. But content, tone and presentation follow the conventions set out in paragraph 4. The emphasis is on exposition and the arguments.

8. Public funds have been used in recent years to supplement this kind of "unpaid" publicity in two ways:

i. Popular versions of Command Papers. These are simplified versions of White Papers etc which are supplied free of charge and intended to reach and answer the questions of those who are unlikely to buy or read the on-sale document. Examples are Britain's application to join the EC (1971), devolution (1976), counter-inflation (1975), buses (1984).

ii. Leaflets dealing with typical questions. These are handed out in place of, or enclosed with, replies to letters from MPs or the public and may be given wider distribution if appropriate and cover the main questions which may be raised about a particular policy proposal. Examples are leaflets explaining and answering points on the Government's proposals on live animal experiments (1983-84), the privatisation of British Telecom (1983) and on the abolition of the GLC and the Metropolitan County Councils (1985).

9. Both kinds of publicity may be criticised, and presentation and handling are therefore looked at particularly carefully. They are usually written in a more popular style that the traditional Government papers which they supplement. But, like them, they follow the conventions on content and presentation. The emphasis is on facts and explanation rather than on the political merits of the proposals. And titles are carefully chosen to

be as neutral as possible. For example the recent leaflets on abolition of certain local authorities are simply headed 'After the GLC' and 'After the Metropolitan County Councils'.

10. The justification for such publicity is that it enables the Government to explain its policies and the reasons for them to the general public in a cost-effective way, in circumstances where the traditional means of exposition - statements in Parliament and press notices - may not be sufficient for the purpose. There should be a reasonable relation between the cost of the publication and the likely cost of public funds in terms of enquiries from the public etc if it were not produced. The extra cost of printing the material (as distinct from simply photocopying it) must also be justifiable.

EXPLANATION AND DISCUSSION OF EXISTING POLICIES

11. The same general conventions apply to publicity for existing policies. Paid publicity may be used where the Government believes that a direct approach to the public is needed to give more information about particular issues and

policies or to clear up misconceptions. Examples include advertising campaigns on counter-inflation policies (1975), and leaflets and films on defence and disarmament issues (since 1979) and a variety of departmental reports.

12. In such cases subject matter, presentation and handling are again critical, particularly when publicity deals with issues on which there is no consensus. The presentation of arguments and counter-arguments takes account of the need to avoid criticism that public funds are being used to disseminate party political propaganda. The emphasis is on the factual basis and exposition of Government policies rather than on partisan argument.

INFORMATION ABOUT RIGHTS, OBLIGATIONS, LIABILITIES AND GOVERNMENT SERVICES

13. This kind of publicity covers a wide range. It may follow legislation which has given the public new entitlements or obligations. It may remind the public of entitlements which the Government would like to see taken up more widely. Or it may be used to encourage the public to adopt

certain kinds of social behaviour. It has been accepted under successive Administrations that the Government has a clear duty to inform the public in this way. There is no question about the public's need to be informed of their legal entitlements and obligations, and the services available to them. The Government also has a clear right to use publicity to encourage behaviour which is generally regarded as being in the public interest (eg road safety advertising). Most publicity of this kind consists of leaflets, posters and newspaper advertisements. Some of these simply provide factual information and practical advice but others need to be more persuasive in content and presentation. Similar publicity is used to explain changes in the law which affect individuals or businesses, or the work of their professional advisers, Citizens' Advice Bureaux etc.

14. There may be some sensitivity where the matters publicised are the product of controversial legislation or potentially controversial policies. Examples include "Fair Rents" (1972-73), "Right to Buy" council houses (1980-82), "Right to Buy" (1984), "Right to Buy" in Scotland (1984), and the "Switch Off Something" campaign in 1974. Care has

been taken in the "Fair Rents" and "Right to Buy" cases to present the information in a way that concentrates on informing the public about the content of legislation and how it affects them. Material of this kind is justified in principle by the need of members of the public to be informed of what entitlements are available to them under legislation. In the second case, the "Switch Off Something" campaign was generally accepted as necessary because it bore directly on maintaining the life of the community in a national emergency. Its continuation during the February 1974 Election campaign was specifically agreed with the Opposition Chief Whip.

RECRUITMENT

15. Paid publicity is used extensively by the Government to recruit people in various public services. This is generally non-controversial, but the cost must still be justified.

LEGAL POSITION

16. Departments of central Government, unlike local authorities, do not rely on any specific

statutory authority to spend money on advertising and publicity. Their use of publicity is covered by the principle that the Crown - and Ministers of the Crown as its agents - can do anything an ordinary person can do provided that there is no statute to the contrary and Parliament has voted the money. The safeguard is of course the Government's accountability to Parliament for all that they do and spend.

CRITICISM OF GOVERNMENT PUBLICITY

17. Government practice on the basis of the convention has occasionally been criticised in Parliament and in the press, but seems to have been subject to only rare formal challenge in recent years. Three instances are:

a. In August 1971 an injunction was sought in the High Court against the distribution of a shortened White Paper on Britain's application to join the EC. The injunction was not granted, and Mr Justice Griffiths (Jenkins v Attorney General and another, 1971; 115 Solicitors Journal, Part II p 674) "could not accept the submission that the prerogative power of the Crown to issue free information was limited ... to information about Government executive action pursuant to law and excluded the power to inform the public of Government proposals ...".

b. In 1973 the IBA objected to the term "fair rents" in the Government's advertising following the Housing Finance Act 1972 (even though it had been used in the legislation, and the wording had to be changed.

c. In 1982 advertisements in the press of current pay offers to the NHS, though entirely factual, were ruled by the Advertising Standards Authority to be political and therefore outside the scope of its code.

Cabinet Office

25 April 1985

APPENDIX TO
ANNEX A

EXAMPLES

I POLICY PROPOSALS

1. Britain's application to join the European Community (1971)
Leaflets, posters, shortened version of White Paper.

2. Devolution (1976)
Popular version of 1975 White Paper published as booklet. Available free at Post Offices in Scotland and Wales.

3. Police and Criminal Evidence Bill (1983/4)
Booklet on Government proposals, giving replies to main criticisms. Supplied free of charge on request and distributed to various interested groups. Copies enclosed with replies to letters from MPs and public about the bill.

4. Bus Policy (1984)
Leaflet summarising White Paper and answering main questions about the policy. Supplied free of charge on request and sent to various interested groups. Copies enclosed with replies to letters from MPs and public about the bill. No bulk distribution, but extra copies available to MPs.

5. Privatisation of British Telecome (1983)
Pamphlet explaining Government's aims and proposals in recently introduced Bill. Produced to deal with questions most commonly raised. Issued to organisations which had expressed interest in the Bill and in reply to MPs and public correspondence.

6. <u>Abolition of Greater London Council and Metropolitan County Councils (1985)</u>
Two pamphlets explaining Government's proposals in Local Government Bill produced after Second Reading in response to requests for information about the proposed arrangements. Sent to all MPs, the press, and the relevant local authority associations. Enclosed with replies to letters about the Bill, and supplied free of charge on request.

II. <u>EXPLANATION AND DISCUSSION OF EXISTING POLICIES</u>

7. <u>Counter-inflation campaign (1975)</u>
Pamphlet (based on earlier White Paper) distributed to all households. Other briefing material supplied on request. Newspaper advertising beforehand.

8. <u>Environmental protection (1984)</u>
Booklet for London Economic Summit on achievements and environmental fields.

9. <u>Defence Policy Generally, Nuclear Defence, Arms Control and Disarmament (Continuing)</u>
Several information booklets, pamphlets and films. Available free of charge on request. Some distributions by non-government agencies on basis that there should be no unsolicited distribution.

10. <u>NHS Pay Offers (1982)</u>
Advertisements in nursing journals (offer to nurses) and national press (offers to all NHS groups).

NB: Advertising Standards Authority ruled that the advertisements were political and therefore not within scope of its Code.

11. <u>Control of Experiments on Living Animals (1983/84)</u>
Leaflets distributed on request and in reply to correspondence. Set out policies developed by successive Governments and answered points about the 1984 White Paper proposals.

12. <u>Civil Defence (1974, 1980/83)</u>
Priced and free publications. Free publications distributed on request and also to local authorities for issue by them on same basis.

III. <u>INFORMATION ABOUT RIGHTS, LIABILITIES, GOVERNMENT SERVICES ETC</u>

13. <u>Switch-off Something Campaign (1974)</u>
Advertising on TV, press and radio to persuade domestic users to save electricity during the miners' dispute.

14. <u>Fair Rents Campaign (1972/3)</u>
Leaflets and booklets for private sector tenants explaining Housing Finance Act 1972.
TV and press publicity for both private and public sector tenants.

15. <u>Right to Buy (1980/2)</u>
Booklet explaining council tenants' new rights under the Housing Act 1980. Supplied free of charge on request. Some ordered by Conservative Central Office for distribution door to door.

16. <u>Right to Buy (1984)</u>
Explaining extension of rights under the Housing and Building Control Act 1984.
Booklet and letter from the Minister distributed to most council tenants by a commercial organisation.
TV and newspaper advertisements.

17. <u>Rates Act (1984)</u>

Explanatory leaflet about the purpose of rate limitation and how it would work, in question and answer format, delivered to 5 million households in the areas subject to rate limitation in 1985/86 under the Rates Act.

Advertisements placed in national and local newspapers.

LO2 Acx

File

RATE SUPPORT GRANT

CLOSE ENDING OF GRANT UNDER BLOCK GRANT AND THE PREVIOUS RSG SYSTEM

Line to take:

The House of Commons approves each year the amount of block grant to be paid in aggregate to the local authorities. The amount paid to any individual authority therefore depends on its own budgeted spending level and the budget decisions of all other local authorities. This means that the amount of grant to each authority has to be set provisionally and then revised, a process known as "close ending", when the budgets of the other authorities are known. There is nothing new about these adjustments. They were a feature of the previous RSG system with its separate needs and resources elements of grants. In 1978/79, for example, the adjustment to resources element made by the last Labour Government was significantly higher than the 1½ per cent made in 1985/86.

Background

When the initial calculations of Rate Support Grant are made and announced in the December preceding the start of the financial year, authorities have not set their budgets or made their rates. The grant distribution depends on authorities' spending individually and collectively so in setting its initial distribution an assumption has to be made. Once the budgets are known, each authority's entitlement has to be scaled up or down to keep within the cash limited total of grant voted by Parliament. In each of the last two years entitlements have been scaled up by a small amount. But in 1985/86 authorities' claims exceeded the amount of grant and they have to be scaled down by about 1½ per cent in total.

Close ending takes place in two stages. At the start of the year each authority's grant claim is scaled up or down by the percentage by which the total national claim is below or above the total amount of grant. This is percentage close-ending. Further adjustments are made in a supplementary report in July, to convert the adjustments to a rate poundage basis. This brings the payments of grant back into line with a basic principle of block grant, which is to equalise differences in authorities' rateable resources. As this requires new statutory decisions, it requires approval by the House of Commons.

Under the old system which had separate needs and resources elements, the resources element also had to be close-ended each year when authorities' rates were known. This was on a percentage basis, i.e. the same as the first stage in the present process.

Close-ending of the resources element under the old system was as follows:-

1975/76	- 0.2 per cent
1976/77	- 4.0 per cent
1977-78	+ 2.6 per cent
1978/79	- 6.5 per cent
1979/80	- 3.1 per cent
1980/81	- 5.0 per cent

Since the resources element was about one-third of the needs and resources total, the adjustment in 1978/79 under the Labour Government was effectively higher than the 1½ per cent for 1985/86.

In December 1984 it was assumed that authorities were spending at their targets. The GLC was assumed to set a budget of £785 million. This gave it a provisional grant entitlement of £2 million. In the event, the G.L.C. budgeted at £745 million, giving it a grant entitlement of £41 million. The GLC is an authority which gets more grant for spending less because it has a "negative marginal rate of grant". This is explained below and has nothing to do with hold back.

In total, the adjustment in March this year was £123 million nationally (i.e. England, as Scotland and Wales operate their own systems). Of this, the shire counties lost initially £56 million.

What are negative marginal rates of grant?

As Mr. Waldegrave and Mr. Heiser explained to you at the first meeting at Chequers, the block grant system is based on rate poundage equalisation. Each authority's grant is calculated to be sufficient for it to provide a similar level of service to that of other authorities while at the same time charging a similar rate in the pound.

For levels of service above or below the average level there is a specified tariff of rate poundages. At present, for each £1 per head of additional expenditure above the average an authority is assumed to levy an extra 0.69 pence rate. The cash difference between the product of this rate and the extra spending is met by block grant. So, normally, extra spending attracts extra grant. (There are separate mechanisms for tapering the extra grant, and for applying penalties for spending above targets).

Some authorities, including the GLC, have particularly large rateable values per head of population. They can actually raise more rate income from an 0.69 p rate than they need to finance a £1 per head increase in expenditure.

Rate poundage equalisation requires the same poundage increases for equivalent increases in expenditure. The only way in which this can be achieved is to reduce block grant for those authorities as their spending increases. Such authorities are said to have negative marginal rates of grant.

The converse is that as expenditure per head falls, such authorities become entitled to more grant. This is what has happened to the GLC. For each £1 per head less of expenditure the GLC is assumed to levy 0.69p less in its rate. Because of its high resources this reduces its rate income by more than the reduction in expenditure. It therefore needs additional block grant to make up the difference.

If authorities with high resources were not subject to negative marginal grant rates, they would be able to finance an increase in their spending with a much lower rate increase than other authorities.

<u>The Supplementary Report</u>

In July of each year a supplementary report is made. This makes further adjustments in particular on two counts:-

(i) to convert the initial percentage close-ending adjustments to final rate poundage adjustments. For 1985/86 this will remove a further slice of overclaimed grant from the authorities with relatively high rateable resources, but will return some of the grant initially removed from relatively low-resource authorities.

(ii) More importantly some councils may have exceeded their targets and incurred hold back. The proceeds of this accrue to the Treasury and do not affect other local authorities. This, of course, had no parallel under Labour's system.

CONFIDENTIAL

CCNO

NAPM AT 25/4

INLAND REVENUE

THE BOARD ROOM, SOMERSET HOUSE, LONDON WC2R 1LB

TELEPHONE 01-438 7711

FROM THE CHAIRMAN, SIR LAWRENCE AIREY KCB

25 April 1985

T M Heiser Esq CB
Department of the Environment
2 Marsham Street
London SW1

will request if required

LOCAL GOVERNMENT FINANCE STUDIES

I am responding to your letter of 3 April to Robert Armstrong, copied to others on 17 April.

Your point of contact here, on the incidence analysis of gainers and losers, should be Julian Calder, of our Statistics Division.

I am copying this to the recipients of your letter.

Lawrence Airey

CONFIDENTIAL

Local Govt Pt 2
Relations

26 APR 1985

"THE GUARDIAN" 24·4·85.

2

'Clawback' will take £1 million from each

Tory shires face grant cuts after council polls

By John Carvel, Local Government Correspondent

Most of the Tory-controlled shire counties face extra cuts in their government grants shortly after the county council elections next month.

Berkshire, East Sussex, Essex, Hampshire, Hertfordshire, Surrey, and West Sussex will each lose more than £1 million as a result of further efforts by the Department of the Environment to keep the grant total to within the Treasury's cash limit. Other prosperous counties will lose by smaller amounts.

The reductions will be announced in a supplementary report to the rate support grant settlement to be published in June or July.

Earlier this month the Government told all English councils that they will lose 1.5 per cent of the grant they expected when they fixed their budgets. It proposes to replace this crude ruling with a more sophisticated adjustment, the result of which will be that councils in areas with high rateable values will lose more and poorer areas will lose less.

The exercise, known as "close-ending" or "clawback." was reported in the Guardian on April 4.

Ministers have explained that clawback is an established feature of the grant system, and that the last Labour government also acted at this time of year to prevent councils claiming more grant than was available.

They have not pointed out, however, that the system changed in 1981, and that the result of the present exercise is that the Government will end up paying out substantially less than the grant cash limit.

Under the new arrangements the Government deducts penalties for "overspending" councils from the grant pool after deciding how much is available for distribution. This year's penalties are expected to be worth about £400 million.

The result is that the Government will pay out about £3.2 billion instead of the £3.6 billion for which the Treasury budgeted.

With the Compliments

of

Sir Lawrence Airey K.C.B.

Chairman

Board of Inland Revenue

Somerset House, London WC2R 1LB

FILE

Rn)

10 DOWNING STREET

From the Private Secretary

24 April, 1985

RATE SUPPORT GRANT: CLOSE ENDING

I attach a copy of a note I have produced for the Prime Minister. Although this was based on the briefing provided by your Department, I would be grateful if you could look through it to ensure that in the process of translating it into simpler language I have not introduced any errors.

(Andrew Turnbull)

J Ballard Esq.,
Department of the Environment

NDPM AJ AJ 25/4

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

24 April 1985

Dear Patrick

NEW BURDENS ON LOCAL GOVERNMENT

I am concerned that the transport entries in the list attached to your letter of 10 April are misleading. For example they do not refer to the effect of deregulation in enabling some services currently subsidised to be provided commercially; nor the key change of channelling all revenue support through tendering reducing the costs of some subsidised services.

It is impossible to estimate precisely the impact of the different parts of the Transport Bill package which, as you know, will alter the whole structure and processes of the bus industry. But, as I said in my letter of 4 October 1984 on New Burdens for Local Government, we need to project the policy as a whole.

Overall, I see the whole package as neutral in terms of local authority expenditure. That is the position I am taking with the local authority associations and during the Bill's passage through the House. I shall not be proposing a specific extra allocation for local transport expenditure to cover the impact of the Bill when we discuss local current expenditure in the next round.

The seven Transport items in your list are concerned entirely with the costs of the new administrative arrangements. In some respects these will supersede more costly general public transport planning arrangements that exist at present - especially in Metropolitan areas. In others they should be more than offset by the other effects referred to above.

I think it would be helpful in future if new entries on your list were discussed between our officials first. One of the entries (No. 20) is also factually incorrect. We do not intend that counties should be the registration authority - we have placed this responsibility on the Traffic Commissioners.

I am copying this to the Prime Minister, members of E(LA) and Sir Robert Armstrong.

Yours,
Nicholas

NICHOLAS RIDLEY

LOCAL GOVT: Rels. Pt 26.

ecl

10 DOWNING STREET

From the Principal Private Secretary 24 April 1985

Thank you for your letter of 23 April about which we spoke on the telephone.

Terry Painter at Somerset House told me that he would be glad to make the arrangements for you to speak to the proper person in Cambridge. Because Cambridge may not in all respects be typical Terry Painter may also suggest that he has a word with you himself. In that case, I have said that the meeting should consist of no more than Terry Painter and one other person plus yourself.

Terry Painter is expecting to hear from you: his telephone number is 438-7856.

Please let me know if this does not lead to the help which you need.

The Lord Rothschild, GBE, GM, FRS.

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

23rd April 1985

Dear Robin,

Please refer to the attachment to my letter to you of April 2nd. In it, in 2.3, I refer to a study I am making of a Community Charge instead of the domestic rate, in Cambridgeshire.

The time is shortly coming when it would be very useful for me to have a talk with someone in the Inland Revenue about records, by which I mean the names and addresses the Inland Revenue has of people of interest to them in the area in question; and the sources of the information.

I do not think that such a discussion would involve information confidential to the Inland Revenue.

As my study is restricted to Cambridgeshire, I believe it would be sensible to have this discussion with someone from the Inland Revenue in Cambridge; but, of course, I cannot do this without help from the centre. Can you directly or indirectly help so that I can ring the person up and he or she will know it is in order to have the discussion with me? The last time I raised a policy matter with the Inland Revenue, the Chairman of the Board overwhelmed me with some ten people in his Boardroom. So apart from it seeming logical in this case to talk to someone at Cambridge, I feel overpowered by, and therefore somewhat allergic to, a further meeting at Somerset House.

Yours

Victor

LOCAL GOVT: Relations
Pt 26

008/106

4

Treasury Chambers, Parliament Street, SW1P 3AG

John Ballard Esq
Private Secretary to
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

Prime Minister:

Some good ammunition in this.

22 April 1985

23/4

Dear John

LOCAL AUTHORITY EXPENDITURE: NEWSPAPER ARTICLE

An opportunity arose recently for the Chief Secretary to contribute an article to the Sunday Express on local authority expenditure in advance of the forthcoming local elections. The substance of the article was cleared with officials in your Department but the Chief Secretary asked me to let you have the final version before it is published which reflects his own comments.

I am copying this letter to Mark Addison (No. 10), Hugh Taylor (Home Office), Elizabeth Hopkinson (Education) and Dina Nicholls (Tansport).

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

COUNCIL SPENDING: THE FACTS

Most of you will have received your rate bills recently. On average each household has to pay about £350: some have to pay much more. This has a large impact on your budget and your spending plans.

2. Council spending has a large impact on the Government's budget and its spending plans too. As Chief Secretary to the Treasury I have to deal with public expenditure: local authorities spend over 30 thousand million pounds, a quarter of all the cash raised in rates and taxes. Are you - and I - getting value for money?

3. You hear a lot about council spending in the news. Sometimes you hear about extravagant and silly spending. Other times you hear about the supposedly savage cuts forced on councils by the Government: yet since 1979 their current spending has nearly doubled, well ahead of the rise in prices generally. What is the true position?

4. The Government's objectives are the same as those of most taxpayers and ratepayers. We want to see councils running their services well and efficiently, providing a good service while keeping their rate bills as low as possible and not relying on a share of national taxes. Many councils feel the same way: it is the few extravagant ones who give local government a bad name.

5. Councils do not have an easy job. If we are to sustain the recovery which has been achieved over the last four years we must hold down the growth in public spending (by both central and local government). Yet there are of course more cars and lorries needing good roads, more policemen to pay, more college students to educate and more old people to look after.

6. The best run councils have managed to cope with these pressures and still keep expenditure and rate rises well under control. Some substantial savings have been possible in education where the number of children in our schools has fallen by a million, one in eight - and education is the main service local authorities provide. Many councils provide a good secondary education for around £1,000 per child each year. But some spend much more: Inner London spends well over half as much again but gets worse exam results: only 1 in 7 of its children get 5 or more good GCE 'O' levels or Grade 1 CSE's compared with 1 in 4 in the rest of the country. Inner London does have difficult problems to cope with, but so do other areas which achieve better results at lower cost.

7. The same pattern is repeated for most other services run by local councils: the best provide a good service reasonably cheaply, but a few spend far

more and have made little apparent attempt to cut costs. In South Yorkshire, for example the cost of running buses has increased by 40% and subsidies from ratepayers have more than doubled since 1979. And although councils generally have cut spending on school meals by 30 per cent since 1979 while still providing free meals for the poorest families, a few like Kirklees (Huddersfield) have made almost no savings at all.

8. Central government has made important savings by cutting civil service numbers by 1 in 7 since 1979. But on average councils have cut their manpower by only 1 in 25. Some have actually increased their numbers. On the same day a few weeks ago the GLC and the City of Manchester were advertising for extra staff for their police committees - though neither runs a police force - Lambeth wanted a town twinning officer to promote "peace initiatives" with towns in Russia and Nicaragua.

9. What can we all do to continue the search for better value for money from council spending? The Government has a role to play and so do you as voter and ratepayer. In the Government we are aiming to encourage all councils to find the most efficient and cost-effective ways of running their services. We already require councils with sizeable building and repair workforces to allow private contractors to compete for work. This can cut costs. We plan to extend this competition to other services like rubbish collection, school meals and cleaning.

10. Where councils are not prepared to co-operate in the search for savings we are taking more direct action. We are, as promised, curbing the 18 highest spenders - the GLC, South Yorkshire and Lambeth among them. They accounted for three quarters of excessive spending last year. From this month we are capping their rates. Some of them claimed they could not meet their rate limits. But most have now set a legal rate - in some cases below the limits set by Parliament. If you live or have a business anywhere in those areas you will be paying much less than you would have done without those curbs.

11. But another important pressure for curbing extravagance lies in the hands of all of you who use the services, pay for them through your rates and your taxes and elect the councillors. If you live in Cleveland rather than in Kent, for example, you pay 45% more in rates to the County Council; if you live in Avon, Derbyshire or Nottinghamshie you pay around 30% more. These counties hae exactly the same services to run as Kent has. But in Cleveland 24 people in every 1,000 are on the county's payroll whereas in Kent the figure is only 16.

12. In most counties you have a chance to vote for your Councillors on 2 May. I shall use my vote, and hope you will yours.

Roy THOMASON

SRW

26/4

D3914

19 April 1985

Local Government Finance Reform

The Prime Minister has received the attached letter from Mr Roy Thomason. Our inclination is to offer Mr Thomason a meeting together with the Conservative leaders of the ACC and the AMA (Mr Lewis Moss and Mr Peter Bowness) shortly after the E(LF) meeting on 20 May. Such a meeting would be treated as a political one rather than formal consultations with the associations they represent.

Before replying to Mr Thomason, the Prime Miister would be grateful for the views of your Secretary of State. Could this reach me by close of play on Friday, 26 April.

(Andrew Turnbull)

John Ballard Esq
Department of the Environment

Fly

10 DOWNING STREET

Dreadful on very much

Prime Minister (2)

I have prepared the attached note dealing with Mr Hattersley's fixation about the adjustment of RSG. Although RSG was operated differently under Labour, there were usually "close-ending" adjustments ~~which were often similar in size to that seen this year.~~

The note shows that GLC's extra grant does not, as I had previously thought, arise because it is avoiding holdback (these adjustments are made later in the year) but because GLC has a high rate base and a given change in rate poundage affects its ability to finance expenditure more than with a poorer council.

AT 17/4

E.R.

RATE SUPPORT GRANT

CLOSE ENDING OF GRANT UNDER BLOCK GRANT AND THE PREVIOUS RSG SYSTEM

Line to take:

The Government decides each year how much block grant will be paid in aggregate to the local authorities. The amount paid to any individual authority therefore depends on its own budgeted spending level and the budget decisions of all other local authorities. This means that the amount of grant to each authority has to be set provisionally and then revised, a process known as "close ending", when the budgets of the other authorities are known. There is nothing new about these adjustments. This was a feature of the previous RSG system with its separate needs and resources elements of grants. In 1978/79, for example, the adjustment made by the last Labour Government was significantly higher than the 1½ per cent made in 1985/86.

Background

When the initial calculations of Rate Support Grant are made and announced in the December preceding the start of the financial year, authorities have not set their budgets or made their rates. The grant distribution depends on authorities' spending individually and collectively so in setting its initial distribution an assumption has to be made. Once the budgets are known, each authority's entitlement has to be scaled up or down by a common factor to keep within the cash limited total of grant voted by Parliament. In each of the last two years entitlements have been scaled up by a small amount. But in 1985/86 authorities' claims exceeded the amount of grant and they all had to be scaled down by about 1½ per cent.

Under the old system which had separate needs and resources elements, the resources element had to be close ended each year in a similar way when authorities' rates were known.

Close ending of the resources element under the old system was as follows:-

1975/76	- 0.2 per cent
1976/77	- 4.0 per cent
1977/78	+ 2.6 per cent
1978/79	- 6.5 per cent
1979/80	- 3.1 per cent
1980/81	- 5.0 per cent.

Since the resources element was about one-third of the needs and resources total, the adjustment in 1978/79 under the Labour Government was effectively higher than the 1½ per cent for 1985/86.

In December 1984 it was assumed that authorities were spending at their targets. The GLC was assumed to set a budget of £785 million. This gave it a provisional grant element of £2 million. In the event, the GLC budgeted at £745 million. The associated budget gives it a grant entitlement of £41 million. The GLC is an authority which gets more grant for spending less because it has a "negative marginal rate of grant". This is explained below and has nothing to do with hold back.

In total, the adjustment in March this year was £123 million nationally (i.e. England, as Scotland and Wales operate their own systems). Of this, the shire counties lost £56 million.

What are negative marginal rates of grant?

As Mr. Waldegrave and Mr. Heiser explained to you at the first meeting at Chequers, the block grant system is based on rate poundage equalisation. Each authority's grant is calculated to be sufficient for it to provide a similar level of service to that of other authorities while at the same time charging a similar rate in the pound.

For levels of service above or below the average level there is a specified tariff of rate poundages. At present, for each £1 per head of additional expenditure above the average an authority is assumed to levy an extra 0.69 pence rate. The cash difference between the product of this rate and the extra spending is met by block grant. So, normally, extra spending attracts extra grant. (There are separate mechanisms for tapering the extra grant, and for applying penalties for spending above targets).

Some authorities, including the GLC, have particularly large rateable values per head of population. They can actually raise more rate income from an 0.69p rate than they need to finance a £1 per head increase in expenditure.

Rate poundage equalisation requires the same poundage increases for equivalent increases in expenditure. The only way in which this can be achieved is to reduce block grant for those authorities as their spending increases. Such authorities are said to have negative marginal rates of grant.

The converse is that as expenditure per head falls, such authorities become entitled to more grant. This is what has happened to the GLC. For each £1 per head less of expenditure the GLC is assumed to levy 0.69p less in its rate. Because of its high resources this reduced its rate income by more than the reduction in expenditure. It therefore needs additional block grant to make up the difference.

If authorities with high resources were not subject to negative marginal grant rates, they would be able to finance an increase in their spending with a much lower rate increase than other authorities.

The Supplementary Report

In July of each year a supplementary report is made. This may make further adjustments on two counts:

(i) There may be still further adjustment to budgets which require still further close ending. Normally these are small.

(ii) More importantly some councils may have exceeded their targets and incurred hold back. The proceeds of this accrue to the Treasury and do not affect other local authorities. This, of course, had no parallel under Labour's system.

AT

Prime Minister (1)
Agree Oliver's suggestion which has DoE's blessing?
AT 3/5

19 April 1985

Yes

MR ADDISON

c Mr Redwood
Mr Sherbourne

LEADER OF THE ASSOCIATION OF DISTRICT COUNCILS

Roy Thomason's letter asks for a meeting with the Prime Minister about Local Authority financial reform.

Since it is essential to carry Conservative opinion along with any reforms that may be proposed, and since Mr Thomason is a sensible, articulate and highly influential person, I strongly recommend that the Prime Minister should see him. However, it would be both more courteous and more useful to invite, at the same time, the Conservative leaders of the ACC and the AMA (Lewis Moss and Peter Bowness), so that the Prime Minister receives a balanced impression of the views of Conservatives in all three associations. (It would not be sensible to invite the Chairmen of the associations, who are somewhat senescent).

As a matter of diplomacy, it would be sensible to hold the meeting as soon as possible after proposals for consultation have been settled at the E(LF) discussion on 20 May: this would give the three leaders a sense of being consulted apprpriately early in the process.

Oliver Letwin

OLIVER LETWIN

CONFIDENTIAL

NBPM

AT 22/4

c NO

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 5654

Mr T M Heiser CB
Permanent Secretary
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

19th April 1985

Dear Terry

w. Marquest if req.

LOCAL GOVERNMENT FINANCE STUDIES

In Alan Bailey's absence I am responding to your letter of 3rd April (copied on 17th April) to Robert Armstrong.

2. Your point of contact here is Alex Allan. In fact our interests in your (i), (iii) and (iv) extend also to (ii), since Ian Byatt here is engaged in work on the distributive effects of various possible changes both in taxes and in benefits. Indeed, we shall welcome the opportunity of a very early exchange of views with your people over the whole field.

3. I am copying this to the recipients of your letter.

Yours sincerely

Richard Jameson

J R JAMESON

22 APR 1985

11 12 1
10 2
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7 6 5

File

(2)

PRIME MINISTER 19 April 1985

LOCAL AUTHORITY CAPITAL SPENDING: AUDIT COMMISSION REPORT

The Audit Commission have identified serious decay in the housing stock and roads maintained by local authorities. They prophecy that maintenance bills will increase dramatically in the near future, as minor faults develop into major collapses. (Apparently the maintenance backlog on housing alone has been increasing at over £900 million p.a.).

The Commission attribute the problem largely to the defects of the government's system of capital expenditure controls. They say that the unpredictable, stop-go effects of the system have prevented local authorities from making cost-effective plans, and have given Councils too little incentive to raise money from increased efficiency, higher charges and further asset disposals.

The Commission recommend a simpler system that gives local authorities more flexibility, and encourages them to raise more capital funds from sources other than borrowing. This is precisely what William Waldegrave's proposals will achieve if they are implemented: there will be one, simple control on net borrowing, with absolute freedom for local authorities to raise and spend money on capital projects as they see fit.

Oliver Letwin

OLIVER LETWIN

File

RATE SUPPORT GRANT

CLOSE-ENDING OF GRANT UNDER BLOCK GRANT AND THE PREVIOUS RSG SYSTEM

Line to take

The Government decides each year how much block grant will be paid in aggregate to local authorities. The amount paid to any individual authority therefore

~~Block grant has to be "close-ended" because each authority's entitlement~~ depends on its own budgeted spending level, and the budget decisions of all other local authorities. There is nothing new about these adjustments ~~close-ending~~. This ~~It~~ was a feature of the previous RSG system, with its separate needs and resources elements of grant.

This means that the amount of grant for each authority has to be set provisionally and then revised when the budgets of all authorities are known.

a process known as "close-ending"

If pressed

In 1978/79, under the last Labour Government, the adjustment ~~close-ending~~ was significantly higher than the 1½% for 1985/86 - a reduction of about 6½% in each authority's entitlement to resources element.

Background

Once budgets are known each authority's entitlement needs to be scaled up or down by a common factor to keep to the cash-limited total of grant voted by Parliament. In each of the last two years entitlements have been scaled up by a small amount. But in 1985/86 authorities' claims exceeded the amount of grant, and they all had to be scaled down by about 1½%. Under the old system, with separate needs and resources elements, the resources element had to be close-ended each year when authorities' rates were known. In 1980/81, the last year of the old system, all authorities' resources element entitlements had to be scaled down by nearly 5%. Since resources element was about ⅓ of the needs and resources total, this was very similar to the scale of close-ending in 1985/86.

The close-[illegible]

PS/SECRETARY OF STATE

cc PS/Mr Baker
PS/Mr Waldegrave
Mr Ennals
Mr Owen
Mr Hobson
Mr Roberts
Ms Maclean/Mr Stevens INF
Mr Wells

CLOSE ENDING OF BLOCK GRANT

BRIEFING FOR THE PRIME MINISTER

1. I attach as requested:

(i) a briefing note on why the GLC gets more grant for spending less;

(ii) a copy of Mr Roberts' submission of 29 March.

2. You will see from the print out attached to the submission that the shire counties get about £56m less (out of £123m nationally) than would have applied if the original RSG settlement grant schedule had applied to the overall budgeted level of spending. This is the correct measure of the amount of close-ending being applied, as mentioned in the original Carvel article.

3. The briefing apparently being put about by the Opposition talks of a £70m "reduction" for the shire counties. This is a bogus figure. It compares their original grant entitlements if all authorities had spent at target with the entitlements at each authority's budgets, after we apply close ending. It is universally known that this is only a neutral assumption for illustration ~~only~~. It is an inherent feature of the present grant system, as of the old one that:

(i) grant varies with budgeted expenditure;

(ii) grant claims based on budgets are scaled to the amount of grant available.

To represent this as a £70m grant cut is completely wrong.

4. Close-ending of resources element under the last Labour Government's RSG settlements was as follows:

1975/76	-0.2%
1976/77	-4.0%
1977/78	+2.6%
1978/79	-6.5%
1979/80	-3.1%

5. Finally, close-ending is completely separate from grant penalties which will be applied after the first Supplementary Report next July.

L B HICKS
FLG

Lester Hicks

19 April 1985

WHY THE GLC IS GETTING MORE GRANT FOR SPENDING LESS IN 1985/86

Background

1. When the initial calculations of rate support grant were made and announced in December 1984 authorities had not set their budgets or made their rates.

2. The grant distribution depends on authorities' spending, individually and collectively, so in setting initial distribution an assumption about this ~~had~~ has to be made. (As usual this was that authorities were spending at their targets.)

3. The GLC was assumed to set a budget of £785m. This gave it a provisional grant entitlement of £2m.

4. In the event, the GLC budgeted at £745m. The associated budget gives it a grant entitlement of £41m.

5. The GLC gets more grant for spending less because it has a "negative marginal rate of grant". as explained below. This is [illegible]

What are negative marginal rates of grant?

As [illegible] Waldegrave [illegible] explained [illegible]

6. The block grant system is based on rate poundage equalisation. Each authority's grant is calculated to be sufficient for it to provide a similar level of service to that of other authorities while at the same time charging a similar rate in the £.

7. For levels of service above or below the average level there is a specified tariff of rate poundages. At present, for each £1 per head of additional expenditure above the average an authority is assumed to levy an extra 0.69 pence rate. The cash difference between the product of this rate and the extra spending is met by block grant. So, normally, extra spending attracts extra grant. (There are separate mechanisms for tapering the extra grant, and for applying penalties for spending above targets).

8. Some authorities, including the GLC, have particularly large rateable values per head of population. They can actually

raise more rate income from an 0.69p rate than they need to finance a £1 per head increase in expenditure.

9. Rate poundage equlisation requires the same poundage increases for equivalent increases in expenditure. The only way in wich this can be achieved is to <u>reduce</u> block grant for those authorities as their spending increases. Such authorities are said to have <u>negative marginal rates of grant.</u>

10. The converse is that as expenditure per head falls, such authorities become entitled to <u>more</u> grant. This is what has happened to the GLC. For each £1 per head less of expenditure the GLC is assumed to levy 0.69p less in its rate. Because of its high resources this reduces its rate income by <u>more</u> than the reduction in expenditure. It therefore needs additional block grant to make up the difference.

11. If authorities with high resources were <u>not</u> subject to negative marginal grant rates, they would be able to finance an increase in their spending with a much lower rate increase than other authorities.

<u>The Supplementary Report</u>

In July of each year a supplementary report is made. This may make further adjustments on two counts:

(i) there may be still further adjustments to budgets which require still further close-endings. Normally these are small

(ii) More importantly some councils may have exceeded their targets and incurred holdback. The proceeds of this accrue to the Treasury and do not affect other local authorities. This, of course, had no parallel under Labour's system.

P G Wells NS/02
F
M. copy a action
BJ 29/3.

1. Mr Owen | cc at 1 Mr Hicks
Mr Hobson
Mr Kidgell
Mr Young
Mr Sondheimer

2. PS/Mr Baker | cc at 2 PS/Secretary of State
PS/Mr Waldergrave
PS/Mr Heiser
Mr Ennals

RSG: GRANT CLOSE-ENDING AND HOLDBACK 1985/86

1. The attached tables set out the results of our analysis of BG10 1985/86 grant claim forms for local authorities. 21 authorities have still to send in returns including 6 rate capped authorities.

2. Mr Owen's minute of 22 March set out the position on grant payments to authorities that have not sent in BG forms. The same assumptions have been used in this analysis for calculating close-ending and holdback: i.e, BG information has been used where available even when this shows budget higher than expenditure limits; for authorities that have not submitted forms we have used expenditure limits for rate capped authorities and targets for other authorities.

3. The first three columns of table 1 show target, budget and overspend against target. Overall 284 authorities have budgetted to spend at or below target, with a further 38 within 1% of target (some of the latter may be at target after disregards). More authorities have budgetted within target this year than in the last two years. Total overspend is shown as £156m but this may increase when returns from other authorities are included (Mr Martin in his minute to PS/Mr Baker of 27 March predicts an overspend of between £175m and £230m).

4. The largest percentage overspends are Harlow Kingston-upon-Hull, Brent, Blackpool, Newcastle, Hounslow, Sunderland, Merseyside and Greater Manchester which are all more than 5% above target. Only Harlow Kingston-upon-Hull are more than 10% above target. GLC is the only major authority underspending by more than 5%.

Grant Close-Ending

5. This year there will be a negative close-ending adjustment to grant claims mainly as a result of the underspend by GLC (GLC gains £40m grant for spending 5% below target). This means that most authorities will receive less grant for spending at target than has been previously announced. This contrasts with recent years when large overspends by a few authorities (particularly GLC) resulted in large grant losses to those authorities and consequent gains elsewhere.

26/29.3

authorities will be reduced by a factor of about 0.985 73.

DLH Roberts

D.L.H. Roberts
FLGR

29 March 1985

6. Columns 4 to 6 of Table 1 show the effect of percentage close-ending, which will form the basis for initial payment of grant, (percentage close-ending simply scales all BG grant claims so that they sum to total grant entitlement in the Settlement). The effect of schedule close ending, which will be implemented at 1st Supplementary Report stage together with holdback of grant, is shown in columns 7 and 8 of table 1. The table shows that under the switch from percentage to schedule close-ending, Essex, Hertfordshire and Surrey are each estimated to lose over £2m grant.

Holdback

7. The estimated amount of holdback in 1985/86 on the basis of these budget estimates is around £450m: this will rise if any authorities that have yet to submit returns budget above target. Of the authorities that have submitted BG returns those subject to the largest amounts of holdback in cash terms include Avon (£23m), Cleveland (£25m), Derbyshire (£23m), Nottinghamshire (£38m), Brent (£18m), Hounslow (£15m), Newcastle (19m), Greater Manchester (£31m), Merseyside (£18m) and West Midlands (£30m).

Grant Distribution

8. The implications of the 1985/86 budgets on grant shares before and after holdback are shown below: London and metropolitan areas shares will fall if authorities that have yet to submit returns are subject to holdback.

	Grant Shares 1985/86		
	Settlement	Budgets	
		Before Holdback	After Holdbac
Non-met areas	52.5	52.4	52.9
Met areas	32.2	32.3	31.7
London	15.3	15.3	15.4
England	100.0	100.0	100.0

Authorities Out Of Grant

9. Mr Baker has also asked how many authorities we expect to be out of grant in 1985/86 and how many we expect to receive less than £500,000. On the BG returns so far available to us 14 authorities are out of grant and 21 authorities receive grant of less than £500,000. Details are given in Table 2.

Conclusion

10. The close-ending adjustments to the poundage schedule and holdback will be implemented in the 1st Supplementary Report in the summer. In the interim period for payment purposes BG claims by

TABLE 1

1985/6 BUDGETS

Analysis of overspend against target, holdback and close-ending

[Budgets from block grant claim form BG10. Figures unchecked. *: form missing. Target/EL used for grant calculation]

	Target (£m)	Budget (£m)	Over-spend (%)	Grant entitle-ment under Report (£m)	Grant after percentage close-ending (£m)	Diff-erence (£m)	Grant after schedule close-ending (bef hback) (£m	Diff-erence (£m)	Grant after schedule close-ending (aft hback) (£m
?TAL England	21,815.355	21,971.366	.72%	8,599.666	8,476.979	-122.687	8,476.982	.002	8,032.777
?n-met districts	1,519.752	1,503.080	-1.10%	566.106	558.030	-8.076	557.148	-.882	540.785
?n-met counties	9,918.346	9,994.275	.77%	3,949.880	3,893.529	-56.351	3,881.803	-11.726	3,706.527
?tropolitan districts	4,242.462	4,298.947	1.33%	2,142.732	2,112.162	-30.569	2,121.126	8.963	2,020.779
?tropolitan counties	1,270.287	1,314.986	3.52%	624.284	615.378	-8.906	618.177	2.799	525.093
?n-met total	11,438.098	11,497.354	.52%	4,515.986	4,451.559	-64.427	4,438.950	-12.608	4,247.312
?tropolitan total	5,512.749	5,613.933	1.84%	2,767.016	2,727.540	-39.476	2,739.302	11.763	2,545.872
?ty and Westminster	125.465	122.716	-2.19%	-	-	-	-	-	-
?st of Inner London	871.944	884.592	1.45%	346.191	341.252	-4.939	344.081	2.829	333.390
?ner London inc ILEA	1,897.775	1,907.675	.52%	346.191	341.252	-4.939	344.081	2.829	333.390
?ter London	1,795.299	1,818.643	1.30%	781.844	770.690	-11.154	772.274	1.584	723.853
?C and Met Police	1,170.181	1,132.495	-3.22%	187.859	185.178	-2.680	181.609	-3.570	181.609
?ndon total	4,863.255	4,858.812	-.09%	1,315.894	1,297.121	-18.773	1,297.964	.843	1,238.852

1985/6 BUDGETS

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HIRE COUNTIES									
von	316.788	327.071	3.25%	121.856	120.118	-1.738	119.725	-.393	91.749
edfordshire	195.641	195.641	-.00%	55.736	54.941	-.795	54.264	-.677	54.264
erkshire	239.496	239.496	-.00%	47.277	46.603	-.674	45.053	-1.550	45.053
uckinghamshire	209.030	209.030	-	57.219	56.403	-.816	55.444	-.959	55.444
ambridgeshire	205.994	205.994	-.00%	76.164	75.077	-1.087	74.636	-.441	74.636
heshire	346.129	346.129	-	122.623	120.874	-1.749	120.223	-.651	120.223
leveland	237.044	247.347	4.35%	112.132	110.533	-1.600	110.753	.220	85.805
ornwall	145.674	145.801	.09%	78.573	77.452	-1.121	77.743	.291	77.490
umbria	171.551	175.591	2.35%	95.516	94.153	-1.363	94.662	.509	86.887
erbyshire	314.688	326.455	3.74%	155.437	153.219	-2.218	153.580	.361	125.084
evon	320.558	320.558	-	151.669	149.505	-2.164	149.656	.151	149.656
orset	189.133	189.133	-	59.884	59.030	-.854	58.368	-.662	58.368
urham	214.086	217.075	1.40%	121.798	120.060	-1.738	120.786	.726	115.633
ast Sussex	206.765	206.765	-	57.507	56.687	-.820	55.745	-.942	55.745
ssex	499.939	499.939*	-.00%	134.633	132.712	-1.921	130.509	-2.203	130.509
loucestershire	167.975	167.975	-.00%	67.556	66.592	-.964	66.402	-.190	66.402
ampshire	499.593	499.796	.04%	173.539	171.064	-2.476	169.801	-1.263	169.269
ereford and Worcester	219.052	219.129	.04%	88.933	87.665	-1.269	87.403	-.261	87.215
ertfordshire	334.087	334.087	.00%	61.566	60.688	-.878	58.618	-2.069	58.618
umberside	331.862	338.000	1.85%	176.158	173.644	-2.513	174.438	.794	162.562
sle of Wight	43.005	43.502	1.16%	21.269	20.965	-.303	21.030	.065	20.044
ent	494.726	495.103	.08%	219.199	216.072	-3.127	215.890	-.182	215.006
ancashire	509.799	515.445	1.11%	289.357	285.229	-4.128	286.850	1.621	276.984
eicestershire	306.792	306.792	-	136.589	134.640	-1.949	134.576	-.064	134.576
incolnshire	195.450	195.450	-.00%	100.253	98.823	-1.430	99.141	.319	99.141
orfolk	225.319	225.416	.04%	94.595	93.245	-1.350	92.967	-.278	92.720
orthamptonshire	196.757	198.939	1.11%	85.216	84.001	-1.216	83.904	-.097	78.731
orthumberland	108.319	109.962	1.52%	54.517	53.739	-.778	53.928	.189	50.647
orth Yorkshire	232.780	232.980	.09%	111.121	109.535	-1.585	109.759	.224	109.349
ottinghamshire	362.390	377.540	4.18%	171.174	168.732	-2.442	168.980	.248	130.940
xfordshire	174.465	174.465	-	40.326	39.751	-.575	38.863	-.888	38.863
hropshire	133.798	133.798	-	69.595	68.602	-.993	68.806	.204	68.806
omerset	147.685	147.685	-	68.487	67.510	-.977	67.573	.063	67.573
taffordshire	366.929	370.590	1.00%	165.183	162.826	-2.357	162.977	.151	155.264
uffolk	197.494	197.787	.15%	75.287	74.213	-1.074	73.882	-.332	73.150
urrey	311.049	311.049	-.00%	36.825	36.299	-.525	33.829	-2.470	33.829
arwickshire	165.366	165.441	.05%	54.910	54.126	-.783	53.705	-.422	53.513
est Sussex	202.276	202.456	.09%	54.683	53.903	-.780	52.905	-.998	52.351
iltshire	178.862	178.862	-	85.519	84.299	-1.220	84.428	.129	84.428

1985/6 BUDGETS

Analysis of overspend against target, holdback and close-ending

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REATER LONDON									
City of London	58.154	58.154	-	-	-	-	-	-	-
Camden	115.667	117.429 *	1.52%	-	-	-	-	-	-
Greenwich	66.584	66.584	-	31.852	31.397	-.454	31.701	.304	31.701
Hackney	81.399	82.315 *	1.13%	49.455	48.749	-.706	49.288	.539	48.620
Hammersmith and Fulham	58.915	58.915	-	35.038	34.538	-.500	34.874	.335	34.874
Islington	84.280	85.564 *	1.52%	22.973	22.646	-.328	22.731	.085	21.374
Kensington and Chelsea	39.749	38.880	-2.19%	8.410	8.290	-.120	8.075	-.215	8.075
Lambeth	111.854	116.212	3.90%	45.151	44.507	-.644	44.896	.388	40.786
Lewisham	78.111	81.682	4.57%	47.092	46.420	-.672	46.932	.512	43.871
Southwark	106.811	108.437 *	1.52%	39.312	38.751	-.561	39.044	.294	37.549
Tower Hamlets	64.562	64.562 *	-	18.202	17.943	-.260	18.036	.094	18.036
Wandsworth	64.012	64.012	-	48.706	48.011	-.695	48.505	.494	48.505
Westminster	67.311	64.562	-4.08%	-	-	-	-	-	-
Barking and Dagenham	61.722	61.978	.41%	25.766	25.399	-.368	25.458	.059	25.011
Barnet	101.276	101.376	.10%	32.585	32.120	-.465	31.877	-.243	31.632
Bexley	80.402	80.402	-	44.861	44.221	-.640	44.501	.280	44.501
Brent	138.208	148.315	7.31%	64.325	63.407	-.918	63.746	.339	45.552
Bromley	96.652	96.660	.01%	41.552	40.960	-.593	40.966	.007	40.949
Croydon	110.200	110.200	-	43.736	43.112	-.624	42.942	-.170	42.942
Ealing	117.506	117.506 *	-	55.424	54.634	-.791	54.779	.146	54.779
Enfield	95.808	96.766	1.00%	42.622	42.014	-.608	42.066	.052	40.117
Haringey	126.722	130.833	3.24%	58.180	57.350	-.830	57.774	.424	52.442
Harrow	73.335	74.801	2.00%	32.621	32.156	-.465	32.217	.061	29.182
Havering	87.356	87.356	-	42.251	41.648	-.603	41.812	.163	41.812
Hillingdon	89.936	90.628	.77%	16.552	16.316	-.236	15.879	-.436	14.066
Hounslow	87.173	92.625	6.25%	21.531	21.224	-.307	20.985	-.239	6.406
Kingston-upon-Thames	46.915	46.915	-	14.329	14.124	-.204	14.000	-.124	14.000
Merton	59.669	59.669	-.00%	28.112	27.711	-.401	27.756	.045	27.756
Newham	124.154	124.154 *	-	75.417	74.341	-1.076	75.007	.666	75.007
Redbridge	77.909	77.960	.07%	38.975	38.419	-.556	38.552	.133	38.455
Richmond-upon-Thames	51.724	52.758	2.00%	15.717	15.493	-.224	15.355	-.137	12.642
Sutton	56.930	56.930	-	25.691	25.325	-.367	25.355	.031	25.355
Waltham Forest	111.702	110.811	-.80%	61.596	60.717	-.879	61.245	.528	61.245
LC	785.233	744.660	-5.17%	41.985	41.387	-.599	38.244	-3.143	38.244
LEA	900.366	900.366 *	-	-	-	-	-	-	-
et. Police	384.948	387.835	.75%	145.873	143.792	-2.081	143.365	-.427	143.365

1985/6 BUDGETS

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Analysis of overspend against target, holdback and close-ending

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REATER MANCHESTER									
Bolton	94.532	95.318	.83%	56.426	55.621	-.805	55.990	.369	54.721
Bury	59.651	59.688	.06%	30.287	29.855	-.432	29.990	.135	29.926
Manchester	250.654	250.654 *	-	93.981	92.640	-1.341	92.824	.184	92.824
Oldham	85.393	86.420	1.20%	54.683	53.903	-.780	54.331	.428	52.811
Rochdale	85.370	87.924	2.99%	51,821	51.082	-.739	51.496	.415	47.607
Salford	96.219	98.381	2.25%	52.616	51.865	-.751	52.160	.295	48.227
Stockport	93.118	93.118	-	37.269	36.737	-.532	36.670	-.067	36.670
Tameside	79.660	82.620	3.72%	47.639	46.959	-.680	47.305	.345	42.211
Trafford	74.242	74.232	-.01%	19.160	18.886	-.273	18.567	-.319	18.567
Wigan	108.946	111.613	2.45%	62.089	61.203	-.886	61.606	.403	57.002
ERSEYSIDE									
Knowsley	70.807	73.113	3.26%	39.067	38.509	-.557	38.748	.239	34.554
Liverpool	222.063	222.063 *	-	119.909	118.198	-1.711	118.880	.682	118.880
St Helens	69.747	69.861	.16%	35.635	35.126	-.508	35.288	.162	35.090
Sefton	93.989	93.989	-	44.385	43.751	-.633	43.828	.077	43.828
Wirral	115.993	119.300	2.85%	57.792	56.968	-.824	57.144	.176	49.787
UTH YORKSHIRE									
Barnsley	78.636	78.890	.32%	47.640	46.960	-.680	47.339	.379	46.998
Doncaster	106.219	109.046	2.66%	59.993	59.137	-.856	59.533	.397	54.715
Rotherham	88.115	89.877	2.00%	54.536	53.758	-.778	54.176	.418	51.471
Sheffield	214.644	218.631	1.86%	93.346	92.014	-1.332	92.328	.315	85.271
NE AND WEAR									
Gateshead	77.237	77.237	-	42.695	42.086	-.609	42.372	.286	42.372
Newcastle upon Tyne	125.725	134.331	6.85%	35.501	34.994	-.506	34.856	-.138	15.945
North Tyneside	75.866	75.866 *	-	38.001	37.459	-.542	37.678	.220	37.678
South Tyneside	63.724	64.360	1.00%	37.305	36.773	-.532	37.066	.293	36.231
Sunderland	105.589	111.615	5.71%	67.000	66.044	-.956	66.571	.527	56.182
ST MIDLANDS									
Birmingham	387.123	387.123	-.00%	187.739	185.060	-2.678	185.257	.196	185.257
Coventry	122.548	122.548	-	53.852	53.083	-.768	53.175	.091	53.175
Dudley	90.653	90.653	.00%	35.028	34.528	-.500	34.363	-.166	34.363
Sandwell	116.263	116.434	.15%	49.844	49.133	-.711	49.109	-.024	48.730
Solihull	64.958	64.985	.04%	25.158	24.799	-.359	24.701	-.098	24.635
Walsall	100.117	100.732	.61%	43.765	43.141	-.624	43.171	.030	41.892
Wolverhampton	102.991	102.991	-	44.801	44.162	-.639	44.159	-.003	44.159
ST YORKSHIRE									
Bradford	174.477	182.495	4.60%	119.948	118.236	-1.711	119.268	1.032	106.220
Calderdale	67.038	68.841	2.69%	44.692	44.054	-.638	44.436	.381	41.713
Kirklees	135.477	139.321	2.84%	91.609	90.302	-1.307	91.106	.804	85.435
Leeds	242.610	242.610 *	-	113.538	111.918	-1.620	112.162	.244	112.162
Wakefield	102.068	102.068	-.00%	53.987	53.217	-.770	53.472	.255	53.472

1985/6 BUDGETS

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ETROPOLITAN COUNTIES									
reater Manchester	267.826	281.583	5.14%	141.556	139.536	-2.020	140.125	.589	109.170
erseyside	202.501	213.000	5.18%	99.146	97.732	-1.414	98.335	.603	80.599
outh Yorkshire	175.728	178.674	1.68%	72.163	71.133	-1.030	71.557	.424	67.796
yne and Wear	152.972	157.029	2.65%	91.026	89.728	-1.299	90.469	.742	84.653
est Midlands	254.024	264.459	4.11%	102.650	101.186	-1.464	100.880	-.306	70.766
est Yorkshire	217.236	220.241	1.38%	117.743	116.063	-1.680	116.810	.747	112.109

1985/6 BUDGETS
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Analysis of overspend against target, holdback and close-ending

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VON									
Bath	3.843	3.511	-8.64%	2.411	2.377	-.034	2.384	.007	2.384
Bristol	28.939	28.939	-	10.785	10.631	-.154	10.643	.012	10.643
Kingswood	3.229	3.229	-	1.771	1.745	-.025	1.751	.005	1.751
Northavon	4.291	4.290	-.03%	1.120	1.104	-.016	1.081	-.023	1.081
Wansdyke	3.011	1.736	-42.35%	.752	.742	-.011	.732	-.010	.732
Woodspring	8.036	7.459	-7.18%	3.061	3.018	-.044	3.014	-.004	3.014
EDFORDSHIRE									
North Bedfordshire	6.025	6.025	-	1.438	1.418	-.021	1.389	-.028	1.389
Luton	9.229	9.229	-	2.504	2.468	-.036	2.428	-.040	2.428
Mid Bedfordshire	3.098	3.098	-	.504	.496	-.007	.474	-.023	.474
South Bedfordshire	5.006	4.654	-7.03%	-	-	-	-	-	-
ERKSHIRE									
Bracknell	3.448	3.290	-4.58%	.899	.886	-.013	.863	-.023	.863
Newbury	5.394	5.130	-4.90%	1.041	1.026	-.015	.995	-.031	.995
Reading	10.611	9.722	-8.38%	2.397	2.363	-.034	2.331	-.032	2.331
Slough	5.016	5.201	3.68%	1.598	1.575	-.023	1.542	-.033	.700
Windsor and Maidenhead	6.608	5.896	-10.78%	.711	.701	-.010	.648	-.052	.648
Wokingham	4.709	4.709	-.00%	.706	.696	-.010	.662	-.035	.662
UCKINGHAMSHIRE									
Aylesbury Vale	4.077	4.077	-	.890	.878	-.013	.843	-.035	.843
South Bucks	2.362	2.362	.00%	-	-	-	-	-	-
Chiltern	3.303	3.303	-	-	-	-	-	-	-
Milton Keynes	7.468	7.468	-	1.426	1.405	-.020	1.368	-.037	1.368
Wycombe	5.562	5.136	-7.67%	.450	.444	-.006	.382	-.062	.382
AMBRIDGESHIRE									
Cambridge	5.470	5.470	-	1.646	1.623	-.023	1.594	-.028	1.594
East Cambridgeshire	1.916	1.344	-29.86%	.530	.522	-.008	.516	-.006	.516
Fenland	3.051	2.629	-13.82%	1.175	1.158	-.017	1.156	-.002	1.156
Huntingdon	4.594	4.594	-	1.166	1.150	-.017	1.128	-.021	1.128
Peterborough	9.039	9.039	-	1.594	1.572	-.023	1.543	-.028	1.543
South Cambridgeshire	2.759	2.759	.00%	.369	.364	-.005	.331	-.033	.330
HESHIRE									
Chester	6.492	6.522	.46%	1.634	1.611	-.023	1.589	-.021	1.517
Congleton	3.776	3.299	-12.63%	.849	.837	-.012	.823	-.014	.823
Crewe and Nantwich	6.029	5.648	-6.31%	2.269	2.236	-.032	2.238	.001	2.238
Ellesmere Port and Nes	4.626	4.626	-	.275	.271	-.004	.234	-.037	.234
Halton	6.753	6.753	-	2.384	2.350	-.034	2.342	-.008	2.342
Macclesfield	6.494	6.494	-.00%	1.739	1.714	-.025	1.684	-.030	1.684
Vale Royal	5.149	5.116	-.64%	1.318	1.299	-.019	1.281	-.018	1.281
Warrington	9.322	9.322	-	2.686	2.648	-.038	2.625	-.023	2.625

1985/6 BUDGETS

Analysis of overspend against target, holdback and close-ending

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LEVELAND									
Hartlepool	6.389	6.602	3.33%	3.911	3.856	-.056	3.887	.031	3.558
Langbaurgh	11.796	11.796	-.00%	2.572	2.535	-.037	2.512	-.023	2.512
Middlesbrough	15.730	16.250	3.31%	8.899	8.772	-.127	8.857	.085	8.296
Stockton-on-Tees	11.423	10.756	-5.84%	2.285	2.252	-.033	2.218	-.034	2.218
ORNWALL									
Caradon	2.820	2.820	-	1.472	1.451	-.021	1.456	.004	1.456
Carrick	3.924	3.923	-.02%	1.815	1.789	-.026	1.793	.004	1.793
Kerrier	3.352	3.402	1.51%	1.758	1.733	-.025	1.738	.005	1.625
North Cornwall	2.951	2.951	-	1.543	1.521	-.022	1.526	.004	1.526
Penwith	2.909	2.908	-.03%	1.571	1.548	-.022	1.556	.008	1.556
Restormel	3.469	3.464	-.14%	1.398	1.378	-.020	1.373	-.005	1.373
UMBRIA									
Allerdale	5.224	5.224	-	3.250	3.204	-.046	3.228	.024	3.228
Barrow in Furness	4.293	4.296	.07%	2.653	2.616	-.038	2.638	.022	2.634
Carlisle	6.302	6.393	1.45%	2.762	2.723	-.039	2.736	.013	2.596
Copeland	4.374	4.374	-	2.083	2.053	-.030	2.065	.012	2.065
Eden	1.697	1.697	-	.916	.903	-.013	.905	.003	.905
South Lakeland	5.277	4.814	-8.77%	2.388	2.354	-.034	2.363	.009	2.363
ERBYSHIRE									
Amber Valley	5.031	5.031	-	2.154	2.123	-.031	2.127	.003	2.127
Bolsover	3.588	3.578	-.28%	1.791	1.766	-.026	1.776	.011	1.776
Chesterfield	6.384	6.384	-	2.926	2.884	-.042	2.897	.013	2.897
Derby	12.770	12.770	-	5.491	5.412	-.078	5.417	.005	5.417
Erewash	5.358	5.358	-	2.373	2.339	-.034	2.345	.006	2.345
High Peak	4.090	4.090	-	1.578	1.555	-.023	1.556	.001	1.556
North East Derbyshire	4.715	4.715	-	2.029	2.000	-.029	2.008	.007	2.008
South Derbyshire	2.364	2.364 *	-	.472	.465	-.007	.449	-.016	.449
West Derbyshire	3.250	3.250	-	1.422	1.402	-.020	1.405	.004	1.405
EVON									
East Devon	4.743	4.743	-	2.236	2.204	-.032	2.204	-.000	2.204
Exeter	5.005	5.005	-.01%	2.659	2.622	-.038	2.624	.003	2.624
North Devon	3.739	3.739	-	1.852	1.825	-.026	1.832	.006	1.832
Plymouth	12.640	12.640	-	7.074	6.973	-.101	7.000	.027	7.000
South Hams	3.380	3.321	-1.76%	1.670	1.646	-.024	1.653	.007	1.653
Teignbridge	4.774	4.774	-	2.261	2.228	-.032	2.234	.005	2.234
Mid Devon	2.588	2.255	-12.87%	1.158	1.141	-.017	1.145	.003	1.145
Torbay	6.751	6.751	-	3.082	3.038	-.044	3.041	.003	3.041
Torridge	2.498	2.498	-	1.535	1.513	-.022	1.525	.012	1.525
West Devon	1.576	1.576	.00%	.877	.864	-.013	.867	.003	.867

1985/6 BUDGETS
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ORSET									
Bournemouth	10.111	10.111	-	4.867	4.797	-.069	4.808	.011	4.808
Christchurch	1.966	1.966	-	.687	.678	-.010	.672	-.005	.672
North Dorset	1.444	1.444	-	.773	.761	-.011	.761	-.001	.761
Poole	6.636	6.221	-6.25%	1.976	1.948	-.028	1.928	-.020	1.928
Purbeck	1.449	1.449	-	.578	.570	-.008	.565	-.005	.565
West Dorset	2.955	2.955	-	1.680	1.656	-.024	1.658	.002	1.658
Weymouth and Portland	3.226	3.226	-	1.796	1.770	-.026	1.780	.010	1.780
Wimborne	2.814	2.814	-	.849	.837	-.012	.827	-.009	.827
URHAM									
Chester-le-Street	3.234	3.234	-	1.589	1.566	-.023	1.578	.012	1.578
Darlington	8.284	8.657	4.50%	3.335	3.288	-.048	3.304	.016	2.717
Derwentside	6.529	6.529	-	3.558	3.507	-.051	3.540	.033	3.540
Durham	5.636	5.636	-	2.150	2.120	-.031	2.128	.008	2.128
Easington	6.423	6.423	-	3.983	3.926	-.057	3.965	.039	3.965
Sedgefield	8.251	8.251	-	3.419	3.370	-.049	3.398	.028	3.398
Teesdale	1.042	1.041	-.07%	.602	.593	-.009	.596	.003	.596
Wear Valley	5.187	5.187	-	2.451	2.416	-.035	2.437	.021	2.437
AST SUSSEX									
Brighton	13.831	14.406	4.16%	6.732	6.636	-.096	6.671	.036	5.631
Eastbourne	5.781	5.805	.42%	3.041	2.997	-.043	3.007	.010	2.958
Hastings	5.079	5.079	-	2.829	2.788	-.040	2.805	.017	2.805
Hove	5.479	5.479	-	3.333	3.285	-.048	3.296	.011	3.296
Lewes	4.216	4.030	-4.42%	1.394	1.374	-.020	1.365	-.010	1.365
Rother	4.223	4.223	-	1.787	1.761	-.025	1.761	-.001	1.761
Wealden	4.628	4.628	-	1.858	1.832	-.027	1.825	-.006	1.825
SSEX									
Basildon	13.457	13.662	1.52%	1.317	1.298	-.019	1.259	-.039	.936
Braintree	4.377	4.377	-	1.273	1.254	-.018	1.235	-.019	1.235
Brentwood	2.929	2.929	-	.126	.124	-.002	.094	-.030	.094
Castle Point	3.936	3.936 *	-	1.233	1.215	-.018	1.204	-.011	1.204
Chelmsford	4.996	4.996	-.00%	1.227	1.209	-.018	1.170	-.040	1.170
Colchester	5.912	4.920	-16.78%	2.180	2.149	-.031	2.134	-.016	2.134
Epping Forest	5.703	4.954	-13.13%	.707	.697	-.010	.660	-.037	.660
Harlow	8.652	9.992	15.49%	-	-	-	-	-	-
Maldon	1.833	1.670	-8.88%	.338	.333	-.005	.320	-.013	.320
Rochford	3.430	3.073	-10.40%	.832	.820	-.012	.806	-.013	.806
Southend-on-Sea	10.682	10.507	-1.63%	4.357	4.294	-.062	4.290	-.004	4.290
Tendring	6.475	6.475	-	2.835	2.795	-.040	2.797	.002	2.797
Thurrock	8.349	8.349 *	-	-	-	-	-	-	-
Uttlesford	2.217	2.217	-	.582	.573	-.008	.562	-.011	.562

1985/6 BUDGETS

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LOUCESTERSHIRE									
Cheltenham	4.926	4.698	-4.63%	1.923	1.895	-.027	1.888	-.008	1.888
Cotswold	2.794	2.794	-	1.080	1.064	-.015	1.057	-.007	1.057
Forest of Dean	2.776	2.776	-	1.481	1.460	-.021	1.465	.005	1.465
Gloucester	3.916	3.916	-	2.143	2.113	-.031	2.112	-.001	2.112
Stroud	3.619	3.619	-	1.445	1.424	-.021	1.417	-.007	1.417
Tewkesbury	2.628	2.628	-	.563	.555	-.008	.536	-.019	.536
AMPSHIRE									
Basingstoke and Deane	5.958	5.658	-5.04%	1.327	1.308	-.019	1.277	-.030	1.277
East Hampshire	4.141	4.141	-	1.367	1.348	-.020	1.341	-.006	1.341
Eastleigh	3.765	3.766	.02%	.861	.849	-.012	.829	-.020	.826
Fareham	4.294	4.294	-	1.104	1.088	-.016	1.074	-.014	1.074
Gosport	3.911	3.922	.29%	1.967	1.939	-.028	1.944	.005	1.920
Hart	2.995	2.995	-	.582	.574	-.008	.558	-.016	.558
Havant	5.561	5.110	-8.11%	2.357	2.323	-.034	2.321	-.003	2.321
New Forest	6.570	6.570	-	2.007	1.978	-.029	1.955	-.024	1.955
Portsmouth	16.511	16.511	-	8.645	8.522	-.123	8.589	.067	8.589
Rushmoor	5.025	4.800	-4.48%	1.801	1.776	-.026	1.772	-.004	1.772
Southampton	13.617	13.617	-	6.486	6.393	-.093	6.410	.016	6.410
Test Valley	3.730	3.721	-.24%	.843	.831	-.012	.811	-.020	.811
Winchester	3.980	3.980	-	1.029	1.015	-.015	.998	-.017	.998
EREFORD AND WORCESTER									
Bromsgrove	2.708	2.659	-1.82%	.565	.557	-.008	.537	-.020	.537
Hereford	2.499	2.499	-	.922	.909	-.013	.906	-.003	.906
Leominster	1.505	1.505	-	.743	.733	-.011	.735	.002	.735
Malvern Hills	3.640	3.814	4.79%	1.268	1.250	-.018	1.244	-.007	.750
Redditch	3.728	3.728	-	.933	.920	-.013	.907	-.013	.907
South Herefordshire	1.646	1.553	-5.67%	.717	.706	-.010	.704	-.002	.704
Worcester	4.163	4.163	-	1.220	1.202	-.017	1.189	-.014	1.189
Wychavon	4.654	4.654	-	.726	.715	-.010	.692	-.024	.692
Wyre Forest	6.490	5.865	-9.64%	1.152	1.135	-.016	1.120	-.015	1.120
ERTFORDSHIRE									
Broxbourne	5.164	3.842	-25.59%	1.059	1.043	-.015	1.030	-.013	1.030
Dacorum	6.876	6.875	-.02%	1.227	1.210	-.018	1.171	-.038	1.171
East Hertfordshire	5.469	5.343	-2.31%	1.035	1.020	-.015	.994	-.026	.994
Hertsmere	5.439	5.439	-	.290	.286	-.004	.251	-.035	.251
North Hertfordshire	5.254	5.175	-1.50%	.813	.802	-.012	.768	-.034	.768
St Albans	5.392	5.392	-	.855	.843	-.012	.801	-.043	.801
Stevenage	6.110	6.110 ⅄	-	-	-	-	-	-	-
Three Rivers	4.226	3.989	-5.62%	.570	.562	-.008	.539	-.023	.539
Watford	5.446	5.446	-	1.043	1.028	-.015	1.004	-.024	1.004
Welwyn Hatfield	5.599	5.629	.54%	-	-	-	-	-	-

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UMBERSIDE									
Beverley	4.165	4.165	-.01%	1.864	1.838	-.027	1.837	-.001	1.837
Boothferry	3.719	3.521	-5.32%	2.048	2.019	-.029	2.035	.016	2.035
Cleethorpes	4.583	4.583	-	2.364	2.330	-.034	2.342	.012	2.342
Glanford	3.696	3.696	-	1.597	1.574	-.023	1.577	.003	1.577
Great Grimsby	5.979	6.111	2.21%	3.834	3.779	-.055	3.806	.027	3.569
Holderness	1.902	1.902	-.00%	1.042	1.027	-.015	1.031	.004	1.031
Kingston upon Hull	21.040	23.962	13.89%	17.467	17.217	-.249	17.398	.181	13.219
East Yorkshire	4.244	4.244	-	2.328	2.295	-.033	2.311	.016	2.311
Scunthorpe	6.200	6.200	-	1.686	1.662	-.024	1.663	.001	1.663
SLE OF WIGHT									
Medina	3.326	3.326	-	1.480	1.459	-.021	1.461	.001	1.461
South Wight	2.768	2.768	-	1.163	1.146	-.017	1.148	.002	1.148
ENT									
Ashford	4.296	4.293	-.07%	1.969	1.941	-.028	1.941	-.000	1.941
Canterbury	6.827	6.827	-.00%	3.174	3.129	-.045	3.138	.009	3.138
Dartford	5.507	5.507 *	-	1.696	1.672	-.024	1.672	-.000	1.672
Dover	5.253	4.793	-8.75%	2.595	2.558	-.037	2.568	.010	2.568
Gillingham	2.648	2.648	-	1.960	1.932	-.028	1.934	.002	1.934
Gravesham	5.047	4.885	-3.21%	2.026	1.997	-.029	1.996	-.001	1.996
Maidstone	5.703	5.703	-	2.190	2.158	-.031	2.148	-.010	2.148
Rochester upon Medway	7.250	7.250	-.01%	3.159	3.114	-.045	3.104	-.010	3.104
Sevenoaks	5.261	5.261	-	1.685	1.660	-.024	1.652	-.009	1.652
Shepway	5.300	5.300	-	2.196	2.165	-.031	2.167	.002	2.167
Swale	5.541	5.541	-.01%	2.431	2.396	-.035	2.400	.004	2.400
Thanet	8.922	8.920	-.02%	4.602	4.536	-.066	4.565	.029	4.565
Tonbridge and Malling	5.813	4.913	-15.48%	1.381	1.361	-.020	1.349	-.012	1.349
Tunbridge Wells	4.532	4.532	-	1.910	1.883	-.027	1.881	-.002	1.881
ANCASHIRE									
Blackburn	14.073	14.724	4.62%	9.324	9.191	-.133	9.291	.100	8.657
Blackpool	10.827	11.568	6.85%	6.753	6.657	-.096	6.708	.051	5.377
Burnley	8.481	8.487	.07%	4.253	4.193	-.061	4.233	.040	4.228
Chorley	4.251	4.251	-	2.095	2.066	-.030	2.074	.008	2.074
Fylde	3.758	3.758	-	1.521	1.499	-.022	1.500	.001	1.500
Hyndburn	5.370	5.550	3.35%	3.377	3.328	-.048	3.361	.032	3.142
Lancaster	7.583	7.583	-	3.835	3.780	-.055	3.802	.021	3.802
Pendle	5.702	5.767	1.13%	3.554	3.503	-.051	3.539	.035	3.477
Preston	8.797	8.797	-	4.736	4.669	-.068	4.699	.031	4.699
Ribble Valley	2.533	2.533	-	1.093	1.077	-.016	1.081	.004	1.081
Rossendale	4.765	4.765	-	2.466	2.431	-.035	2.454	.023	2.454
South Ribble	3.869	3.981	2.89%	1.769	1.743	-.025	1.745	.002	1.476
West Lancashire	5.257	5.255	-.03%	1.953	1.925	-.028	1.923	-.002	1.923
Wyre	5.475	5.415	-1.10%	3.037	2.993	-.043	3.012	.018	3.012

1985/6 BUDGETS

Analysis of overspend against target, holdback and close-ending

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.EICESTERSHIRE									
Blaby	2.496	2.496	-	.849	.836	-.012	.827	-.009	.827
Charnwood	4.766	4.444	-6.75%	1.315	1.296	-.019	1.269	-.028	1.269
Harborough	2.439	2.444	.20%	.611	.603	-.009	.593	-.009	.581
Hinckley and Bosworth	2.921	2.802	-4.09%	.766	.755	-.011	.738	-.016	.738
Leicester	24.116	24.392 *	1.14%	13.182	12.008	-.174	12.081	.073	11.670
Melton	1.749	1.749	-.01%	.504	.497	-.007	.491	-.006	.491
North West Leicestersh	3.598	3.598	-	.958	.944	-.014	.933	-.011	.933
Oadby and Wigston	1.718	1.718	-	.613	.605	-.009	.597	-.007	.597
Rutland	1.078	1.078	-.03%	.350	.345	-.005	.341	-.004	.341
INCOLNSHIRE									
Boston	2.637	2.637	-	1.365	1.346	-.019	1.350	.004	1.350
East Lindsey	4.562	4.469	-2.04%	2.052	2.023	-.029	2.021	-.002	2.021
Lincoln	4.766	4.863	2.02%	2.570	2.533	-.037	2.545	.012	2.354
North Kesteven	3.008	3.008	-	1.244	1.226	-.018	1.225	-.001	1.225
South Holland	3.318	3.135	-5.53%	1.547	1.525	-.022	1.531	.006	1.531
South Kesteven	4.154	3.717	-10.52%	1.673	1.649	-.024	1.644	-.005	1.644
West Lindsey	3.423	3.423	-.01%	1.369	1.349	-.020	1.350	.000	1.350
ORFOLK									
Breckland	3.523	3.338	-5.26%	1.315	1.296	-.019	1.288	-.009	1.288
Broadland	3.076	3.075	-.04%	1.248	1.230	-.018	1.224	-.007	1.224
Great Yarmouth	5.453	5.581	2.36%	2.673	2.635	-.038	2.645	.010	2.387
North Norfolk	3.796	3.795	-.02%	2.027	1.998	-.029	2.001	.003	2.001
Norwich	10.253	10.253	-	2.085	2.055	-.030	2.030	-.026	2.030
South Norfolk	3.033	3.033	-	1.257	1.239	-.018	1.233	-.006	1.233
King's Lynn and West N	5.991	5.673	-5.30%	2.181	2.150	-.031	2.142	-.008	2.142
RTHAMPTONSHIRE									
Corby	3.446	3.446	-	1.100	1.085	-.016	1.081	-.004	1.081
Daventry	2.121	2.128	.33%	.299	.295	-.004	.278	-.017	.253
East Northamptonshire	1.732	1.732	-	.906	.893	-.013	.890	-.003	.890
Kettering	3.678	3.563	-3.14%	1.717	1.692	-.024	1.697	.004	1.697
Northampton	10.587	10.692	1.00%	4.757	4.689	-.068	4.690	.001	4.457
South Northamptonshire	1.852	1.794	-3.14%	.680	.670	-.010	.662	-.008	.662
Wellingborough	3.148	3.073	-2.38%	1.127	1.111	-.016	1.106	-.004	1.106
RTHUMBERLAND									
Alnwick	1.519	1.519	-	.964	.950	-.014	.956	.006	.956
Berwick-upon-Tweed	1.197	1.201	.33%	.638	.629	-.009	.631	.001	.622
Blyth Valley	5.169	5.409	4.64%	2.867	2.826	-.041	2.851	.025	2.546
Castle Morpeth	2.095	2.152	2.72%	.669	.660	-.010	.654	-.006	.486
Tynedale	2.580	2.580	-	1.122	1.106	-.016	1.107	.001	1.107
Wansbeck	4.955	4.976	.43%	1.443	1.422	-.021	1.423	.002	1.395

1985/6 BUDGETS

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ORTH YORKSHIRE									
Craven	2.317	2.062	-11.02%	1.031	1.016	-.015	1.019	.003	1.019
Hambleton	2.703	2.698	-.20%	1.059	1.044	-.015	1.039	-.005	1.039
Harrogate	8.771	8.513	-2.94%	2.746	2.707	-.039	2.706	-.001	2.706
Richmondshire	2.143	2.143	-	1.031	1.016	-.015	1.020	.004	1.020
Ryedale	3.000	3.000	-	1.480	1.459	-.021	1.461	.002	1.461
Scarborough	5.946	5.946	-	3.220	3.174	-.046	3.192	.018	3.192
Selby	3.337	3.337	-	.289	.285	-.004	.257	-.028	.257
York	5.119	5.119	-	3.374	3.326	-.048	3.346	.020	3.346
OTTINGHAMSHIRE									
Ashfield	5.398	5.139	-4.81%	2.364	2.330	-.034	2.339	.009	2.339
Bassetlaw	5.996	5.985	-.19%	.127	.125	-.002	.087	-.038	.087
Broxtowe	4.779	4.779	-.00%	2.122	2.092	-.030	2.093	.002	2.093
Gedling	4.857	4.854	-.07%	2.177	2.146	-.031	2.150	.004	2.150
Mansfield	6.089	6.399	5.10%	3.727	3.674	-.053	3.709	.035	3.325
Newark	4.642	4.455	-4.03%	1.820	1.794	-.026	1.793	-.001	1.793
Nottingham	19.504	19.956	2.32%	12.149	11.975	-.173	12.048	.072	11.142
Rushcliffe	4.177	4.026	-3.62%	.765	.754	-.011	.734	-.020	.734
XFORDSHIRE									
Cherwell	3.899	3.099	-20.53%	1.102	1.087	-.016	1.062	-.025	1.062
Oxford	6.862	6.862	-	3.405	3.356	-.049	3.354	-.002	3.354
South Oxfordshire	5.263	3.979	-24.40%	1.154	1.138	-.016	1.110	-.027	1.110
Vale of White Horse	2.874	2.444	-14.96%	.396	.390	-.006	.354	-.037	.354
West Oxfordshire	3.082	3.082	-	1.086	1.071	-.015	1.062	-.009	1.062
HROPSHIRE									
Bridgnorth	1.656	1.656	-	.620	.611	-.009	.606	-.005	.606
North Shropshire	2.104	1.848	-12.18%	.990	.976	-.014	.978	.002	.978
Oswestry	1.252	1.252	-	.664	.655	-.009	.657	.002	.657
Shrewsbury and Atcham	3.841	3.845	.11%	1.208	1.191	-.017	1.178	-.013	1.167
South Shropshire	1.537	1.537	-	.822	.811	-.012	.814	.004	.814
The Wrekin	7.579	7.579	-	2.812	2.772	-.040	2.775	.003	2.775
OMERSET									
Mendip	2.907	2.907	-	1.303	1.284	-.019	1.278	-.006	1.278
Sedgemoor	3.931	3.931	-	1.601	1.578	-.023	1.575	-.003	1.575
Taunton Deane	3.777	3.777	-.00%	1.747	1.722	-.025	1.721	-.001	1.721
West Somerset	1.237	1.237	-	.479	.472	-.007	.464	-.008	.464
Yeovil	4.304	4.368	1.49%	2.075	2.045	-.030	2.038	-.007	1.839

1985/6 BUDGETS
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TAFFORDSHIRE									
Cannock Chase	4.126	4.126	-	1.441	1.421	-.021	1.415	-.006	1.415
East Staffordshire	4.203	4.203	-	1.766	1.741	-.025	1.736	-.006	1.736
Lichfield	3.092	3.083	-.28%	.664	.655	-.009	.635	-.020	.635
Newcastle-under-Lyme	5.784	5.784	-	2.351	2.318	-.034	2.319	.001	2.319
South Staffordshire	3.097	3.097	-	.720	.709	-.010	.690	-.019	.690
Stafford	4.730	4.473	-5.44%	1.367	1.347	-.019	1.327	-.020	1.327
Staffordshire Moorland	3.943	3.328	-15.58%	1.357	1.337	-.019	1.333	-.004	1.333
Stoke-on-Trent	13.882	13.885	.02%	6.410	6.318	-.091	6.333	.014	6.327
Tamworth	3.235	3.206	-.89%	1.531	1.509	-.022	1.512	.003	1.512
UFFOLK									
Babergh	3.062	3.064	.07%	1.203	1.186	-.017	1.181	-.005	1.175
Forest Heath	2.535	2.450	-3.35%	1.094	1.078	-.016	1.080	.002	1.080
Ipswich	7.934	8.300	4.61%	3.215	3.169	-.046	3.169	-.000	2.282
Mid Suffolk	3.007	3.007	-.00%	1.174	1.157	-.017	1.155	-.002	1.155
St Edmundsbury	3.185	3.185	-	1.220	1.203	-.017	1.192	-.011	1.192
Suffolk Coastal	4.099	4.099	-	1.314	1.295	-.019	1.281	-.014	1.281
Waveney	5.242	5.242	-	2.845	2.805	-.041	2.817	.012	2.817
URREY									
Elmbridge	5.818	5.818	-	-	-	-	-	-	-
Epsom and Ewell	3.540	3.540	-	.497	.490	-.007	.471	-.019	.471
Guildford	5.521	4.875	-11.70%	.364	.359	-.005	.310	-.049	.310
Mole Valley	3.099	2.903	-6.31%	.259	.255	-.004	.229	-.026	.229
Reigate and Banstead	4.970	5.037	1.35%	.346	.341	-.005	.300	-.041	.074
Runnymede	3.130	2.732	-12.71%	.360	.355	-.005	.332	-.023	.332
Spelthorne	4.301	4.301	-	-	-	-	-	-	-
Surrey Heath	3.335	3.061	-8.23%	.092	.091	-.001	.061	-.031	.061
Tandridge	2.994	2.346	-21.64%	.524	.517	-.007	.500	-.017	.500
Waverley	4.875	4.406	-9.62%	.527	.520	-.008	.486	-.033	.486
Woking	4.409	4.424	.34%	1.121	1.105	-.016	1.087	-.018	1.047
ARWICKSHIRE									
North Warwickshire	2.807	2.807 *	-	.711	.701	-.010	.693	-.009	.693
Nuneaton and Bedworth	7.429	7.373	-.76%	2.366	2.332	-.034	2.334	.002	2.334
Rugby	4.125	4.125	-	1.142	1.125	-.016	1.111	-.014	1.111
Stratford on Avon	4.561	4.269	-6.41%	.683	.673	-.010	.645	-.028	.645
Warwick	5.355	5.355	-.01%	1.219	1.201	-.017	1.172	-.029	1.172

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WEST SUSSEX									
Adur	3.719	3.420	-8.03%	.682	.672	-.010	.661	-.011	.661
Arun	6.569	6.568	-.02%	2.843	2.803	-.041	2.802	-.000	2.802
Chichester	4.721	4.180	-11.45%	1.717	1.692	-.024	1.685	-.007	1.685
Crawley	6.770	6.770 *	-	-	-	-	-	-	-
Horsham	4.416	4.415	-.02%	1.257	1.239	-.018	1.224	-.016	1.224
Mid Sussex	4.809	4.809	-	.997	.982	-.014	.957	-.026	.957
Worthing	6.425	6.297	-1.99%	2.724	2.685	-.039	2.689	.004	2.689
WILTSHIRE									
Kennet	2.505	2.426	-3.15%	1.121	1.105	-.016	1.105	-.000	1.105
North Wiltshire	4.106	4.230	3.02%	1.909	1.882	-.027	1.884	.002	1.576
Salisbury	3.725	3.725 *	-	1.306	1.287	-.019	1.274	-.013	1.274
Thamesdown	14.023	14.199	1.26%	2.223	2.191	-.032	2.171	-.020	1.937
West Wiltshire	3.434	3.419	-.44%	1.408	1.388	-.020	1.381	-.007	1.381
Isles of Scilly	1.253	1.266	1.04%	.771	.760	-.011	.764	.005	.742

FERB

CABINET OFFICE

Central Statistical Office

With the compliments of

Sir John Boreham K.C.B.

Great George Street, London SW1P 3AQ

Telephone 01-233 6117

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19/4

CABINET OFFICE

Central Statistical Office

Great George Street, London SW1P 3AQ Telephone 01-233 6117

From the Director: Sir John Boreham, K.C.B.

19 April 1985

Dear Terry

LOCAL GOVERNMENT FINANCE STUDIES

we have this

will request if required

You sent me a copy of your letter of 3 April 1985 to Sir Robert Armstrong about further work needed for local government finance studies.

You have put the CSO down for work relating to FES data in respect of the analysis of gainers and losers household level, and asked for a contact point to liaise with the studies team in the coming weeks.

My nomination for this is Mr Deo Ramprakash (room 73/1st, telephone no. GTN 233- 8523).

He will be waiting for your people to contact him.

I am copying to the recipients of yours and to John Erritt and Deo Ramprakash here.

Yours

John

JOHN BOREHAM

Mr Terry Heiser CB
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

File

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

19 April 1985

Dear Andrew

LOCAL GOVERNMENT FINANCE

My Secretary of State said at Cabinet on 18 April that he would circulate to colleagues a copy of the speech he had made the previous week on Local Government Finance Studies. This is enclosed.

Copies of this letter go to Private Secretaries of Cabinet Ministers, Alex Galloway (Paymaster General's Office) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

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SPEECH FOR

SECRETARY OF STATE

AT

BLADES LUNCHEON CLUB

FRIDAY 12 APRIL

LISKEARD, CORNWALL

/

I HOPE IT WON'T BE ENTIRELY MISREAD BY THE MEDIA THAT I HAVE COME TO CORNWALL - AS FAR AS POSSIBLE AWAY FROM SCOTLAND - TO DISCUSS REFORM OF LOCAL GOVERNMENT FINANCE. THE MEDIA HAVE, OF COURSE, CHOSEN TO PRESENT OUR LATEST LOOK AT REFORM AS A CRISIS REACTION TO RATE RISES NORTH OF THE BORDER. NOTHING COULD BE FURTHER FROM THE TRUTH. IT WAS LAST OCTOBER THAT I ANNOUNCED A REVIEW OF THE WHOLE SYSTEM OF LOCAL GOVERNMENT FINANCE. TODAY, I WOULD LIKE TO GIVE YOU A BROAD INDICATION OF THE WAY OUR MINDS ARE WORKING.

LOCAL AUTHORITY EXPENDITURE HAS BEEN A SOURCE OF CONFLICT AND ACRIMONY EVER SINCE WE CAME TO OFFICE IN 1979. IN ORDER TO BRING COUNCILS' SPENDING CLOSER INTO LINE WITH OUR PLANS, WE HAVE DEVELOPED ELABORATE MECHANISMS - INDIRECT AT FIRST, NOW DIRECT THROUGH RATECAPPING. THE RESULT IS A SYSTEM, WHICH, WHILE SUCCEEDING IN SLOWING DOWN THE RATE OF GROWTH OF SPENDING, HAS DONE SO ONLY AT A COST OF INCREASING COMPLEXITY, AND RISING CONFLICT WITH MANY IN LOCAL GOVERNMENT.

OUR EFFORTS HAVE BEEN FOUNDED ON THE BASIC PREMISE THAT LOCAL AUTHORITIES ARE ACCOUNTABLE TO THEIR RATEPAYERS, AND TO THEIR VOTERS. "PUT UP THE COST TO RATEPAYERS AND DOWN SPENDING WILL COME", WAS THE THEORY. BUT ACCOUNTABILITY HAS PROVED A MOST UNRELIABLE HANDMAIDEN! IN SOME PLACES THE LOCAL DEMOCRATIC PROCESS, SO FAR FROM PUTTING A BRAKE ON LOCAL SPENDING, HAS RESULTED IN HUGE EXTRA DEMANDS ON THOSE WHO ACTUALLY PAY RATES - HENCE THE NEED FOR RATECAPPING.

THIS IS THE CENTRAL QUESTION WE HAVE BEEN ADDRESSING IN OUR STUDIES. WHY HAS ACCOUNTABILITY FAILED? CAN WE CHANGE THE SYSTEM TO ENSURE THAT LOCAL PEOPLE HAVE A REAL INTEREST IN THE RESPONSIBLE BEHAVIOUR OF THEIR AUTHORITIES? IF WE CAN THERE IS A TREMENDOUS PRIZE FOR LOCAL GOVERNMENT - CENTRAL GOVERNMENT CAN STEP BACK FROM DETAILED INTERVENTION IN THE SPENDING PLANS OF LOCAL AUTHORITIES. LOCAL ACCOUNTABILITY COULD BRING A RETURN TO LOCAL RESPONSIBILITY.

SO WHY HAS ACCOUNTABILITY FAILED? LET ME TRY TO IDENTIFY TWO FACTORS:

<u>FIRST</u>, THERE HAS BEEN A SEVERE ATTENUATION OF THE LINK BETWEEN PAYING FOR LOCAL SERVICES, USING LOCAL SERVICES AND VOTING IN LOCAL ELECTIONS. TOO MUCH OF THE MONEY COMES FROM NON-VOTING RATEPAYERS - THE SO-CALLED "NON-DOMESTIC" RATEPAYER. THE HUGE MULTINATIONAL AND THE CORNER-SHOP TOGETHER PROVIDE MORE IN RATE INCOME THAN ALL DOMESTIC RATEPAYERS. ADD TO THIS THE GRANTS FROM NATIONAL TAXPAYERS, AND YOU FIND THAT ABOUT THREE-QUARTERS OF LOCAL AUTHORITY REVENUE COMES FROM PEOPLE WITH NO LOCAL VOTE.

BUT THE PROBLEM GOES FURTHER THAN THAT. THERE ARE 35M ADULTS IN ENGLAND WHO HAVE A VOTE IN LOCAL ELECTIONS. BUT OF THOSE 35M, ONLY 18M ARE HEADS OF HOUSEHOLDS DIRECTLY LIABLE FOR LOCAL TAXES. AND OF THOSE 18M, 3M HAVE SOME OF THEIR RATES PAID BY THE STATE AND ANOTHER 3M HAVE ALL OF THEIR RATES PAID BY THE STATE. SO ONLY 1 IN 3 PEOPLE ACTUALLY PAY FULL RATES.

SO WE HAVE A SYSTEM WHERE OVER HALF OF RATE INCOME COMES FROM PEOPLE WITH NO VOTE, AND OVER HALF THE PEOPLE WITH A VOTE HAVE NO DIRECT FINANCIAL INTEREST IN SECURING RESPONSIBLE BEHAVIOUR FROM THEIR LOCAL AUTHORITIES.

IT IS HARDLY SURPRISING THAT <u>DESPITE</u> TARGETS, PENALTIES, REDUCTIONS IN GRANT AND ALL THE REST, , SPENDING HAS CONTINUED TO RISE. FOR MANY VOTERS LOCAL AUTHORITY SERVICES REPRESENT A VERY GOOD BARGAIN INDEED.

THE SECOND FLAW IS THE SYSTEM'S INCOMPREHENSIBILITY - THE IMPOSSIBILITY OF UNDERSTANDING THE SIGNALS GIVEN BY THE SYSTEM. SOME OF YOU MAY HAVE HAD DIRECT EXPERIENCE OF THIS IN THE COURSE OF THE CONSULTATIONS WITH BUSINESSMEN WHICH AUTHORITIES HAVE HAD TO CONDUCT THIS YEAR.

"BLOCK GRANT" - £8BN PLUS OF TAXPAYER'S MONEY IS USED TO EQUALISE "NEEDS" AND "RESOURCES".

DIFFERENCES IN NEED ARE EASY TO UNDERSTAND. A CITY WITH LARGE NUMBERS OF CHILDREN FROM DEPRIVED BACKGROUNDS, OR LARGE NUMBERS OF ELDERLY PEOPLE LIVING ON THEIR OWN, WILL NEED TO SPEND MORE ON EDUCATION OR ON PERSONAL SOCIAL SERVICES. 30 PER CENT OF CHILDREN IN LAMBETH LIVE IN ONE PARENT FAMILIES-ONLY 10 PER CENT IN DUDLEY.

BUT DIFFERENCES IN RESOURCES ARE LESS OBVIOUS. THROUGH BLOCK GRANT WE ATTEMPT TO ENSURE THAT EVERY AUTHORITY COULD SET THE SAME RATE POUNDAGE FOR THE SAME LEVEL OF SERVICE. BUT BECAUSE THE OTHER ELEMENT IN THE SYSTEM - THE RATEABLE VALUE - VARIES SO MUCH FOR THE SAME SORT OF HOUSE BETWEEN AREAS, EQUAL TAX RATES MEAN VERY UNEQUAL TAX BILLS FOR THE SAME LEVEL OF SERVICES.

A RATEPAYER IN A 3 BEDROOMED TERRACED HOUSE IN GUIDLFORD WOULD PAY £350 A YEAR FOR THE LEVEL OF SERVICE THAT COSTS £154 FOR SOMEONE IN A SIMILAR HOUSE IN GATESHEAD.

SO RATEPAYERS IN RESPONSIBLE AUTHORITIES CAN FACE LARGER <u>RATE BILLS</u> FOR WELL-RUN EFFICIENT SERVICES THAN RATEPAYERS IN PROFLIGATE AUTHORITIES.

THAT'S WHY JACK STRAW CAN CLAIM THAT LABOUR COUNCILS PROVIDE "MORE SERVICES FOR LOWER TAX BILLS." THEIR RATE RISES HAVE BEEN HIGHER, AND THEY CHARGE A HIGHER TAX RATE. BUT BECAUSE RATEABLE VALUES ARE LOW, THEY GET MORE GRANT, SO PEOPLE ACTUALLY PAY LESS. THAT'S A PRETTY CONFUSING SIGNAL FOR LOCAL ELECTORS!

BUT EVEN THAT MIGHT BE JUSTIFIABLE IF RATEABLE VALUES WERE A GOOD INDICATOR OF "ABILITY TO PAY." BUT THEY ARE NOT. THE RANGE OF RATEABLE VALUES IS ENORMOUS - AVERAGE RATEABLE VALUES IN LONDON ARE TWICE AS HIGH AS IN THE NORTH - WHILE THE INCOMES ARE ONLY SOME 30 PER CENT HIGHER (AND THAT'S BEFORE YOU TAKE ACCOUNT OF OTHER HIGHER HOUSING COSTS IN LONDON!)

SO WHERE DOES ALL THAT LEAD US? I THINK THE DIAGNOSIS POINTS IN THE BROAD DIRECTION OF THE CURE. OUR PRIORITIES MUST BE TO TRY TO RESTORE A SENSIBLE, COMPREHENSIBLE AND FAIR LINK BETWEEN PAYING FOR AND RECEIVING LOCAL SERVICES. THERE IS NO UNIQUE SOLUTION. BUT PERHAPS I COULD PUT SOME QUESTIONS IN YOUR MIND.

FIRST, WE HAVE TO TAKE A HARD LOOK AT THE SUBSIDIES TO LOCAL VOTERS PROVIDED BY THE NATIONAL TAXPAYER AND THE NON-VOTING, NON-DOMESTIC RATEPAYER. I THINK THAT THERE IS STILL ROOM IN ANY SYSTEM FOR GRANTS AND FOR A CONTRIBUTION FROM NON-DOMESTIC RATEPAYERS TO THE PROVISION OF A STANDARD LEVEL OF SERVICE. BUT I AM FAR LESS SURE THAT THE TAXPAYER AND NON-DOMESTIC RATEPAYER SHOULD SEE LOCAL COUNCILS DIP INTO THEIR POCKETS TO FUND THE OPTIONAL EXTRAS. IT IS ONE THING FOR LOCAL VOTERS TO VOTE FOR HIGHER LOCAL TAXES THEY THEMSELVES PAY - IT IS QUITE ANOTHER FOR THEM TO VOTE TO IMPOSE HIGHER LOCAL TAXES ON LOCAL BUSINESSES. THEY ONLY HAVE THREE OPTIONS - TO PAY UP, CLOSE DOWN OR GET OUT.

NEXT WE MUST LOOK AT THE GRANT SYSTEM. [WHILE TARGETS AND HOLDBACK TAKE GRANT AWAY FOR INCREASING SPENDING, MANY AUTHORITIES ACTUALLY GET MORE "BLOCK GRANT" THE MORE THEY SPEND - AND LESS IF THEY SPEND LESS. ADDED TO THAT, GRANT ENTITLEMENT CAN CHANGE IN ANY YEAR FOR REASONS QUITE OUTSIDE AN AUTHORITY'S CONTROL - PERHAPS BECAUSE GOVERNMENT HAS DECIDED, FOR GOOD AND LOGICAL REASONS - TO CALCULATE ENTITLEMENT DIFFERENTLY, OR BECAUSE WE HAVE REDUCED THE TOTAL AMOUNT OF THE GRANT, OR, MORE PERVERSELY, BECAUSE OTHER AUTHORITIES HAVE DECIDED TO SPEND MORE - OR LESS. WHATEVER THE REASON, THE END RESULT IS THAT ANY LINK THERE MIGHT HAVE BEEN BETWEEN RATE INCREASES AND SPENDING INCREASES IS LOST IN A WELTER OF OTHER APPARENTLY HAPHAZARD CHANGES.]

<u>IF</u> WE ARE TO BRING HOME TO RATEPAYERS THE LINK BETWEEN SPENDING AND RATE INCREASES, WE NEED A MORE STABLE AND A SIMPLER GRANT SYSTEM. THAT IS MUCH EASIER SAID THAN DONE. BUT IT HAS TO BE DONE!

BUT ANY CLEARER LINK BETWEEN <u>RATES</u> AND SPENDING WOULD ONLY BE PERCEPTIBLE TO THOSE WHO ACTUALLY PAY RATES. SO, THIRD, WE NEED TO LOOK AGAIN AT A SYSTEM WHICH PLACES THE BURDEN OF FINANCING SO MUCH ON THE SHOULDERS OF SO FEW.

I DO NOT BELIEVE THAT WE CAN RELY ON RATES TO DELIVER THE GAINS IN ACCOUNTABILITY WE NEED. FOR TOO MANY PEOPLE, THE TAX BILL FOR LOCAL SERVICES IS TOO FAR DIVORCED FROM THE COST OF THOSE SERVICES. AND THE SCOTTISH REVALUATION HAS BROUGHT TO THE SURFACE AGAIN THE DEEP RESENTMENT FELT BY MANY RATEPAYERS WHOSE TAX LIABILITY CAN CHANGE BY SO MUCH BETWEEN YEARS, SIMPLY BECAUSE OF A NEW ASSESSMENT.

YET IF RATES ARE TO BE LEVIED ON AS FAIR AS BASIS AS POSSIBLE WE NEED FREQUENT REVALUATIONS. I DO NOT BELIEVE WE CAN HAVE REVALUATION WITHOUT REFORM. SO WE ARE LOOKING AGAIN AT THE OPTIONS FOR ALTERNATIVE LOCAL TAXES, BECAUSE WE ARE DETERMINED TO REFORM THE PRESENT INEQUITABLE SYSTEM.

I HAVE SKETCHED OUT A WAY FORWARD. THERE IS OF COURSE AN ALTERNATIVE - WE COULD SIMPLY REMOVE THE "PROBLEM" OF LOCAL AUTHORITY FINANCE AND ABOLISH RATES BY ALLOWING CENTRAL GOVERNMENT TO TAKE OVER THE FUNDING OF MOST LOCAL SERVICES. THAT CENTRALIST SOLUTION CAN BE MADE TO LOOK SUPERFICIALLY VERY ATTRACTIVE - BUT OF COURSE IT WOULD MEAN AN EXTRA DOLLOP ON INCOME TAX OR VAT OR ON OTHER TAXES.

BUT I DO NOT BELIEVE THAT MORE CENTRALISATION IS POLITICALLY ACCEPTABLE. I DO NOT THINK THE BRITISH PEOPLE WANT WHITEHALL DICTATING LEVELS OF SERVICE, IN EACH LOCAL AUTHORITY IN THE LAND. THERE IS VALUE IN RETAINING A PLURALIST SYSTEM.

BUT IF WE WANT PLURALISM WE NEED IT TO WORK. WE NEED PEOPLE TO FEEL THEY HAVE A DIRECT INTEREST IN THE AFFAIRS OF THEIR LOCAL AUTHORITY. WE NEED PEOPLE TO BE ABLE TO UNDERSTAND WHAT IS GOING ON, AND TO FEEL THAT THEY CAN INFLUENCE EVENTS THROUGH THEIR VOTE.

THE PRESENT SYSTEM FAILS THAT TEXT - AND BECAUSE OF THAT FAILURE CENTRAL GOVERNMENT HAS HAD TO MOVE IN TO PROTECT THE WORST HIT VICTIMS - RATEPAYERS IN THE ROTTEN BOROUGHS OF MANY OF OUR BIG CITIES.

18F

WHAT I HAVE TRIED TO DO TODAY IS TO SKETCH OUT THE CONSIDERATIONS WHICH HAVE WEIGHED MOST HEAVILY WITH US AS WE PROCEED WITH OUR STUDIES. THERE IS A LOT MORE WORK TO BE DONE TO ESTABLISH IN DETAIL HOW ACCOUNTABILITY SHOULD BE IMPROVED. AND WE SHALL ENGAGE ON FULL PUBLIC CONSULTATIONS ONCE WE HAVE TAKEN OUR THINKING FURTHER. BUT I HOPE THAT MY REMARKS TODAY WILL HAVE CONVINCED YOU THAT WE ARE FIRMLY COMMITTED TO REFORM. THERE ARE DIFFICULT DECISIONS TO BE TAKEN; WE SHALL NOT SHY AWAY FROM THEM.

Duty clerk. File

Ref. A085/1123

MRS GOODCHILD

E(LF) 20 May: Meeting and Buffet Lunch

Caroline Rider asked me to give you a list of names of those who will be attending the E(LF) meeting on 20 May and who should be invited to the buffet lunch afterwards. The list is as follows;

Lord President of the Council
Home Secretary
+ Chancellor
Secretary of State for Education and Science
Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for the Environment
Secretary of State for Social Services
Secretary of State for Trade and Industry
Chief Secretary, Treasury
Secretary of State for Transport
Chancellor of the Duchy of Lancaster
Minister without Portfolio
Paymaster General
Minister of State, Department of the Environment, Mr Baker
Parliamentary Under Secretary of State Department of the Environment, Mr Waldegrave.

2. I understand that Mr Tebbit and Lord Young are unable to stay to lunch but you may wish to check this with their Private Offices. In addition, Sir Robert Armstrong, Mr Peter Gregson and Mr Chris Brearley from the Cabinet Office should also be invited. You may also wish to check with Mr Butler who should be invited from No 10 (possibly Mr Turnbull, Mr Redwood and Mr Letwynd).

3. Please let me know of there is any further information you require.

ROSALIND MULLIGAN
Assistant Private Secretary

18 April 1985

F.le

Permanent Secretary
Terry Heiser CB

Department of the Environment
2 Marsham Street London SW1P 3EB
01-212 8051

COVERING CONFIDENTIAL

Richard Hatfield Esq
PS/Sir Robert Armstrong GCB CVO
Cabinet Office
Whitehall
London SW1

17 April 1985

Dear Richard

LOCAL GOVERNMENT FINANCE STUDIES

On 3 April Mr Heiser wrote to Sir Robert Armstrong setting out the key areas for development work following the Chequers seminar.

Unfortunately, although the letter was sent to Sir Robert, the copies for other Departments were not distributed. We are very sorry for the uncertainty caused by the non-arrival of the letter around Whitehall. I can assure you that it was not our intention to institute a new security regime of no copies in place of the single "uncopyable" letter enclosed.

Yours,

Richard

R G WAKEFORD

CONFIDENTIAL — NO COPIES TO BE TAKEN

Permanent Secretary
Terry Heiser CB

Department of the Environment
2 Marsham Street London SW1P 3EB
01-212 8051

3rd April 1985

Sir Robert Armstrong GCB CVO
Cabinet Office
WHITEHALL
London SW1

CONFIDENTIAL

Dear Sir Robert

LOCAL GOVERNMENT FINANCE STUDIES

At the end of last Sunday's seminar at Chequers, The Prime Minister asked Mr Waldegrave to work up his recommendations in-house, in time to be reconsidered by Ministers in mid-May.

10

The Prime Minister stressed that the key aspect of this development work would be the pattern of gainers and losers - local authorities, individuals and business.

Time is very short and we are going to have to move very fast indeed. To be able to produce more fully worked up pictures of gainers and losers by mid-May we shall need to draw on expertise in other Government Departments.

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The key areas are as follows:

(i) Community charge
Registration/enforcement (Home Office, Lord Chancellor's Department)
Rebates (DHSS)
Taxation and Rebate aspects (Treasury)

(ii) incidence analysis of gainers and losers at household level
FES data (CSO, Department of Employment)
Income data (Inland Revenue)

CONFIDENTIAL

(iii) Consumption Taxes as Supplement to community Charge (Customs and Excise, Treasury)

(iv) Public Expenditure aspects (Treasury)

(v) Annual Elections (Home Office)

We will need to work very closely indeed with the Departments listed at (i) to (v) above. I would be grateful if colleagues in these Departments could nominate someone in their Department who will be able to liaise with the studies team in the coming weeks.

We are pursuing separately the best way of involving Scottish and Welsh Office colleagues in this exercise.

I am copying this letter to Robin Butler, Kerr Fraser, Trevor Hughes, Alan Bailey, Brian Cubbon, Derek Oulton, Ken Stowe, John Boreham, Michael Quinlan, Lawrence Airey, and Angus Fraser.

Yours sincerely

Richard Gransford

pp. T M HEISER

(approved by Mr Heiser and signed on his behalf)

10

18 APR 1985

CE/10

MBPM

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/1090 17 April 1985

Dear Terry,

Local Government Finance Studies

Thank you for your letter of 3 April about the work to be done following the Prime Minister's seminar at Chequers.

will urgently req'd.

As you say, time is very short, and I hope that colleagues will do all they can to assist the studies team with the further information needed so that papers can be circulated to E(LF) in good time for the meeting now arranged for 20 May.

Copies of this letter go to Kerr Fraser, Trevor Hughes, John Bailey, Brian Cubbon, Derek Oulton, Ken Stowe, John Boreham, Michael Quinlan, Lawrence Airey, Angus Fraser and Robin Butler.

Yours ever

Robert

T M Heiser Esq

828 4931
0202 24222

R 17/4.

"Leavenhalls"
7 Berwick Road
Bournemouth
BH3 7BB

15th April 1985.

Dear Prime Minister,

Local Government Financial Reforms

As the Conservative Leader of the Association of District Councils I have noted with great interest the current discussions and proposals to reform the rating system and amend arrangements for local government finance. You will know that this Association has prepared a background paper on the subject and taken a leading role in formulating proposals.

I was very pleased to have the opportunity of meeting Dr.Oliver Letwin recently and introducing him to the Chairmen of the Association's Committees. I believe there was an extremely useful exchange of views and I am sending him a copy of this letter.

I believe that it is particularly important that a radical review of local government finance takes place, but also one which will find broad acceptance within the Conservative Party. After the traumas of recent reforms and the strains which they have imposed, I believe it is particularly important that new proposals are introduced which will draw on the political and fiscal experience of Senior Conservative

Councillors as well as achieving the objectives which we all seek. No proposal, particularly one which is radical, can expect univeral acceptance, but I know that there is a great deal of goodwill amongs Conservative District Councillors who wish to help in achieving a correct solution and would like to be able to publicly proclaim their support at the appropriate time. The views of those Conservatives who are in control of Councils may be more important and experienced than those who lead opposition groups.

If it would be of any help to you in considering possible action and the options which may be open, I would be delighted to discuss these with you. Should you wish to widen the meeting, I can arrange for the Chairman of the Association to join us if you feel it appropriate, perhaps with two or three other senior colleagues.

The last time that I met you for a similar meeting was on the question of"rate capping" in a climate and against a background which I hope we will be able to avoid on this occasion by finding solutions which can unite rather than divide.

Yours Sincerely

Roy Thomason

The Rt. Hon. Mrs. M. Thatcher, M.P.
10 Downing Street,
LONDON S.W.1.

K.R. Thomason

1. Mr Turnbull
2 File

10 DOWNING STREET

15th April 1985

Dear John

I am replying to your letter of 2nd April, addressed to Andrew Turnbull, which the Prime Minister has only just seen because of her tour in the Far East.

You should be aware of what she has minuted in relation to the resolution on rates which has been chosen for the Scottish Conference:-

"We can't take immediate action - that will have to be explained."

Yours

Stephen

STEPHEN SHERBOURNE
Political Secretary

J S Graham Esq
P/S Secretary of State for Scotland

cc. Robin Butler

MESSAGE FROM COUNCILLOR NICHOLAS FREEMAN, OBE, LEADER OF THE COUNCIL AND CHAIRMAN OF THE POLICY AND RESOURCES COMMITTEE

Dear Fellow Ratepayer,

When I wrote last year I indicated that there would be a small increase in your rates of just over 2%. The year before that there was no increase at all and this year there is another small rise of 2.75% for domestic ratepayers.

We were very pleased that the GLC at the eleventh hour were able to make a precept which was less than the rate-capped limit as prescribed by the Secretary of State. At first sight it looks as though there is a reduction in the precept for 1985/86 over the current year. That is not so, however, because the costs of London Transport have been excluded from the GLC precept and the newly formed London Regional Transport has levied its own. In real terms there has been yet another increase by the GLC, this time by 17%, and had the GLC precepted at the rate-capped level, it would have been 25%.

ILEA, which is responsible for by far the larger part of your rate bill, has been forced to reduce its demands slightly this year and that is of course very welcome.

By reducing our own expenditure slightly and drawing down our balances, which have risen because of substantial underspending in previous years, the Royal Borough reduces <u>its own</u> rate by over 9%.

Once again, therefore, we have been able to cushion the ratepayers from the excesses of the GLC. Permanent relief from the depredations of that authority will, however, be ensured only by its abolition and that is now only a year away.

The Royal Borough has been urging the dismantling of the GLC for some years and there have been two reasons for that. First, because it is an unnecessary tier of government and secondly because its power of precept has had such a devastating effect on the financial security of the residents and businesspeople of Kensington and Chelsea.

Deliverance is at hand! I am sure that the overwhelming majority of us will be delighted and relieved when the GLC finally goes at midnight on 31st March 1986. It will be a happy day indeed for this borough and also for the great metropolis of London.

Yours sincerely,

Nicholas Freeman.

2

Prime Minister

To be aware of this proposal

15 April 1985

13/4

PRIME MINISTER

ABOLITION OF GLC: TRUST FOR VOLUNTARY BODIES

Ken Baker proposes to hand over some of the GLC's capital assets to a charitable trust, as an endowment for voluntary bodies in London. He believes that this will help the Abolition Bill through the Lords.

The proposal seems to be a sensible method of defusing what could otherwise turn into a nasty revolt. The amount of money transferred to the trust will be controlled by the Secretary of State, and will not increase public spending since it will be funded by the sale of GLC property.

We recommend that you should accept the proposal.

Oliver Letwin.

OLIVER LETWIN

Prime Minister

④

CC ~~10~~

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

10 April 1985

MS

Dear Willie,

NEW BURDENS ON LOCAL GOVERNMENT

-PT22 of flag

I wrote to you on 12 September last with proposals for handling new central government initiatives which are likely to have resource implications for local authorities and attached a list of new burdens which we had compiled. In the ensuing correspondence, colleagues agreed on procedures for dealing with new budens, including the circulation of an up-dated list of new budens on a 6-monthly basis. Accordingly, I now enclose a list of initiatives that have been brought to my attention since last September. I should be grateful if colleagues could comment on their items and suggest any additions or deletions.

You will note that my Department leads the rest in the number of new proposals implying some increase in local authority manpower. This to some extent, I hope, is because we already have a fairly rigorous system drawing Ministers' attention to such proposals even when the effects are de minimis. Nevertheless, this return has prompted me to issue new guidelines within DOE on the application of the new arrangements we agreed in December. Colleagues might find similar guidance within their own Departments useful, and I shall ask my Permanent Secretary to write soon to his counterparts describing the kind of arrangements we propose. I shall also be looking again at the 14 proposals where either minor manpower increases are forecast or where the resource effects are uncertain to see if the work is really essential or whether it might be handled in ways that are neutral in manpower.

Altogether 38 new items have been recorded, making a total of 74 items since the beginning of 1984. Certainly the implications of such a large number of proposals for our aggregate plans for 1985/86 are disturbing.

Finally, I appreciate that the new monitoring procedures were agreed only recently, but I hope that, in the next 6 months, the new prior consultation arrangements with my Department and Treasury will help to identify and assess more clearly new initiatives with possible implications for local authorities.

I am copying this to the Prime Minister, members of E(LA) and to Sir Robert Armstrong.

Yours ever

Patrick

PATRICK JENKIN

NEW BURDENS ON LOCAL GOVERNMENT SINCE 1ST SEPTEMBR 1984
POSSIBLE EXPENDITURE AND MANPOWER IMPLICATIONS

	PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
1.	Collection and publication of homeless statistics - increased information requirement from LAs	DOE	Increase Not quantified	Discussion at official level; Local Authority Associations to be consulted on resource implications.
2.	Implementation of S.12-14 of Control of Pollution Act 1974 - new powers & duties for LAs	DOE	Increase Current expenditure: +£17.5M pa capital expenditure: +£4.3M for the first year, £1.5M pa thereafter manpower cost: +£10M pa	Discussion at official level; on options for implementation and approach to Local Authority Associatons.
3.	Control of noise from helicoptors operating from private sites - possible extension of LAs' powers	DOE	Increase Not quantified; early stage.	Pressure for stricter control from LAs; discussion at official level.
4.	Control of use of marine anti-fouling paints - new enforcement duty for LAs	DOE	Increase Not quantified; CDEP to estimate	Draft regulations; discussion at official level.
5.	Mineral workings bill - new power for LAs in remedial work and compensation	DOE	Increase Insignificant; small no of LAs likely to be affected	Bill went through Committee Stage in House of Lords.
6.	Circular on asbestos in electric storage heaters - guidance to LAs	DOE	Increase No significant effect	Issued on 17/12/84.
7.	Proposed legislation on payment of interest on land compensation in advance of settlement - small new task for LAs	DOE	Increase Insignificant	LAAs' reactions to the proposals were mild, ministerial approval to be
8.	Exemption of empty warehouses and industrial property from rates - new legislation to suspend LA rate-levying power	DOE	Increase Possible loss of rate income	New regulations to be laid shortly; effective date 1/4/85/.

	PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
9.	Circular on Housing Defects Act 1984 - housing authorities to provide financial assistance to owners of designated buildings	DOE	<u>Increase</u> £170 - 250M over 10 years; first full year of payment £25-45M. Large proportion reimbursed through S of S's contributions; manpower implications for some LAs.	Issued on 7/11/84.
10.	Proposed Minerals Compensation Regulations - new powers and duties for mineral planning authorities to renew sites and to secure environmental improvements.	DOE	<u>Increase</u> Some financial and manpower implications but partly offset by savings in compensation	Local Authority Associations to be consulted; draft circular promulgating regulations in preparation.
11.	Code of practice for planning control of contaminated land - improved guidance to local planning authorities.	DOE CDEP	<u>Increase</u> not quantified; early stage.	Draft Code of Practice circulated within DOE.
12.	Competition in provision of local government services.	DOE	<u>Decrease</u> Initially some increase in expenditure and administrative work but overall should lead to reduction in manpower and expenditure.	Consultation paper issued; responses required by 30/4/85. Legislation in 1985/86.
13.	Proposed extension of Landscape Special Development Orders (LASDO) - more control for LAs.	DOE	<u>Unknown</u> Present estimate no additional administrative work; National Park Authorities and LAAs to be consulted on costs.	Ministerial undertaking to issue consultation document; extension subject to costs implications for LAs.
14.	Amendment to S.43 of Wildlife and Countryside Act - extend duty on National Park Authorities to prepare maps under this section.	DOE	<u>Unknown</u> Countryside Commission advises no resource implications; NPAS to be consulted.	Part of Wildlife & Countryside (Amendments) Bill. S of S approved paper for 'H' committee.

15. Possible proposals for improving hazardous waste management following publication of Hazardous Waste Inspectorate Report.	DOE	<u>Unknown</u> early stage	Report due out April 1985
16. Minibuses Unifying Legislation - widening scope of permits issued by LAs	DTp	<u>Increase</u> Will mostly affect central government; unlikely significant effect for LAs	Transport Bill; committee stage in House of Commons.
17. Proposed Restructuring of District Council Bus Operations - formation of municipal bus companies	DTp	<u>Increase</u> Possible knock on effect on the spread of costs for LA services; staff will be transferred to companies.	" "
18. Proposed changes in provision of concessionary fare schemes for the elderly and disabled-new administrative and legal requirements on LAs	DTp	<u>Increase</u> Effects on LAs depend on existing practices	" "
19. Tendering for LA subsidised bus services - new arrangement	DTp	<u>Increase</u> Additional staff may be required to administer new arrangements	" "
20. Registration and Control of Bus Operations - County Councils as new authorities	DTp	<u>Increase</u> Costs of operation could be recouped from fees	" "
21. Relaxation of control and extension of licensing of taxis and private hire cars	DTp	<u>Neutral</u> Only district councils affected; additional work offset by fee; should be some savings	" "
22. Proposed changes in structure of public transport services in the metropolitan areas following abolition of the MCCs.	DTp	<u>Unknown</u> Depends on whether MDCs take over responsibilities for public transport services	" "

	PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
23.	Charities Bill - extension of LA (County Councils) existing functions	HO	Increase Not quantified; ACC agreed financial consequences minimal	Private Bill by Lord Colville; Committee stage in House of Lords; Local Authority Associations consulted.
24.	Voting by proxy or by post in parliamentary and local elections - largely technical changes	HO	Increase Increase in expenses for returning officers estimated at £100,000 pa	Representation of the People Bill; royal assent probably in October 1985.
25.	Proposed deregulation of shop opening hours	HO	Neutral Likely to be increases and decreases in expenditure	Auld Report published; H Committee agreed on introduction of a government bill.
26.	Proposed time limits on bringing of criminal proceedings - field trials	HO	Neutral Readjustment within existing resources; cost of field trials £100,000 paid out of HO programme provision	Ministeral correspondence; possibility of trials developing into national programme.
27.	Consultation paper on Review of Fire Precautions Act 1971 - proposals to replace existing certification system with new control system.	HO	Unknown To be accommodated within existing resources	Discussion at official level; Local Authority Associations to be consulted.
28.	Introduction of the Advanced Supplementary level examination	DES	Increase LEAs expressed concern about resource implications; DES asked to quantify	White Paper on Schools; agreed at Cabinet that LEAs would not be tied to a strict implementation timetable; claims for additional resources would be resisted.
29.	Further report by LEAs on development of curricular policy	DES	Increase DES asked to quantify	" "
30.	In-service teacher training grant - replacement of existing pooling arrangements by specific grants	DES	Increase Pressure on LAs to increase spending; DES asked to quantify	" "

	PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
31.	Proposed Circular on re-shaping of education welfare services - local educational authorities to review existing practices	DES	Unknown DES asked to quantify	White Paper on Schools; S of S for ES to advise S of S for E of Local Authority Associations' reactions to resource implications.
32.	LA charges for residential accommodation - revised guidance on assessment of charges	DHSS	Increase Depends on existing practices; could be substantial additional work for some LAs	Draft circular; discussion at official level.
33.	Proposed changes in supplementary board and lodging payments - effect on LAs' statutory duty to provide accommodation for the homeless	DHSS	Increase Substantial	Consultation document circulated; DOE Ministers to be consulted before final decisions are taken
34.	Publicity programme to discourage misuse of drugs - each LEA to appoint an initiative co-ordinator	DHSS DES	Increase Not quantified	Circular to LEAs expected in March 1985; to be discussed at H Committee
35.	Dangerous substance in harbour area - new enforcement duty for LAs	HSE	Increase HSE asked to estimate	Discussion at official level.
36.	Proposal to revise allocation of enforcement duties to LAs under Health and Safety at Work Act 1974	HSE	Increase More manpower than financial; LAAs willing to take on extra duties within existing resources	Consultation paper to be issued; discussion at official level.
37.	EC 'Special Sale' Butter scheme - small enforcement work for LAs	MAFF	Increase insignificant	Implemented
38.	Composite Rate interest scheme for LAs - new tax deducation system for local bonds	IR	Increase Loss of investment and more administrative work but overall not significant	Partly implemented; transitional period.

Local Govt Pt 20 Relations

JD

cc Mr. Waldegrave (DOE)

10 DOWNING STREET

THE PRIME MINISTER

4 April 1985

Dear Victor

Thank you for letting me have your report on the local authority finance system following our meeting at Chequers.

I really am most grateful to you for the help which you have given us on this problem. Your contribution, and that of Mr. Hoffmann who wrote the marvellously lucid and concise paper which we discussed at Chequers, has had precisely the effect which I hoped for. Your fresh eye, combined with the incisive approach which you bring to all matters, has caused those concerned to go back to fundamentals and think their way clearly through the issues. As a result I think that we have the best opportunity for a long time to find a lasting solution to this perennial but increasingly acute problem. I hope that you will keep a fatherly eye on the infant's development at least until after the next meeting which we envisaged in mid May.

Robin has told me that you are ready to help with another problem. It is a marvellous offer, and I shall certainly consider whether an original and independent examination of the sort which you bring to bear can have a place in the approach which we adopt.

Yours ever

Margaret

The Lord Rothschild, GBE, GM, FRS.

PRIME MINISTER

of 2.4.85

In the attached letter Lord Rothschild is "signing off" his contribution to the local government finance problem. I have agreed the line of the reply with William Waldegrave. Lord Rothschild told me that he would love to make a similar contribution to another problem; and thought that he might be able to help on drugs. That is the reference in the last paragraph of the letter for your signature below.

F.E.R.B.

3 April, 1985.

CC

OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

NBPM

From the Minister for the Arts

please request pp
– attached

The Rt Hon Kenneth Baker MP
Minister for Local Government
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

3 April 1985

Dear Kenneth,

X Ref.

PE.25 – will request if required

ABOLITION: VOLUNTARY BODIES. A TRUST FOR LONDON

PE 25 will request if required

Thank you for sending me a copy of your letter of 19 March to Patrick Jenkin, enclosing a paper with proposals for the setting up of a Trust to be endowed from some of the GLC's assets. I have also now seen Leon Brittan's letter of 27 March, and take this opportunity to make one or two observations on both.

I agree with your proposal. My only concern is that discussions with interested parties, and subsequent decisions on the points outlined in your paper, should take account of those "arts" bodies which, as I have mentioned before, are in fact more aptly described as "voluntary bodies" because their functions are not wholly or primarily artistic. This applies particularly to those bodies whose activities cross borough boundaries. Their interests should particularly be borne in mind if we decide to choose an existing 'umbrella' organisation as the Trustee body. Many of these bodies have made representations to me and will no doubt cause a disproportionate fuss if a new arrangement appears to exclude them.

I agree also with the reservations expressed in Leon's fourth paragraph. We must present the new Trust in a positive way, as an issue of principle and not as a finger in the dyke because abolition is revealing cracks and weaknesses in future arrangements. As I well know from my own vociferous parish, this can all too easily happen, despite our initial intentions. If we have to strengthen the immediate grant mechanisms in order to score a clear win on the establishment of a Trust in, say, 1987-88, it would be well worth it in political terms.

On the question of challenge sponsorships and the generation of new money, I have been very gratified by the success of my Business Sponsorships Incentive Scheme. In the first six months of its operation all the money allocated has been taken up. Fifty seven arts organisations have benefited and £2.5m new sponsorships have been raised. The first full year starting 1 April promises to be equally successful. If some such similar arrangement could be devised it might well prove the trigger for the release of new money, but it would have to be carefully presented so as not to detract from the virtues of establishing the Trust in the first place. I am sure I need not remind you of the delicate territory occupied by Government in relation to the voluntary sector as a whole. With the arts we can expect a modest pay off for companies who invest in sponsorships (publicity, seats at concerts etc); it is not so clear how this would operate for many of Leon's bodies, and how the bodies themselves might react.

I am copying this letter to other members of MISC 95.

Yours,

Grey

GOWRIE

9 APR 1985

Rhi

ECL

bc SG.

10 DOWNING STREET

From the Private Secretary

3 April 1985

This is just to confirm that the ELF that we discussed yesterday will now take place on Monday 20 May starting at 1000 and will be followed by a buffet lunch. Could you please let Sue Goodchild in this office have a full list of participants so that she can invite them to the lunch.

(Mrs Caroline Ryder)

Miss R Mulligan
Cabinet Office

ECL

hie

ECL

10 DOWNING STREET

From the Private Secretary

3 April 1985

The meeting followed by lunch for colleagues is cancelled on Monday 20 May.

I am copying this note to Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office) and Shirley Oxenbury (Conservative Central Office).

(Mrs Caroline Ryder)

Miss Alison Ward MBE
Chief Whip's Office

ECL

CMO

Foreign and Commonwealth Office

London SW1A 2AH

3 April, 1985

NBPM

Dear Robin,

Committee of Enquiry into the Conduct of Local Government Business

The Foreign Secretary has seen a copy of Mr Jenkins' minute of 29 March to the Prime Minister, about the suggestion of a possible fifth member for this Committee. He has asked me to let you know that he has a very high regard for Mrs Elizabeth Christie, and would warmly support her nomination.

Yours Sincerely,

Colin Budd

(C R Budd)
Private Secretary

F E R Butler Esq
10 Downing Street

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

2nd April 1985

Dear Robin,

I think I have done about as much as I can with one exception, referred to later,* and I should therefore be obliged if you would give my report, of which two copies are enclosed, to the Prime Minister.

Should it be thought that my intervention has been useful, it would interest me to have a "sharp look" at the problem you mentioned to me on Monday evening. Needless to say, and as in this case, there is a committee studying the problem - I heard a Home Office Minister say this on the telly the other evening. But like the Department of the Environment Ministers, he doubtless has many other things on his plate.

Should this idea appeal to the Prime Minister there are, I think, three points to be clarified: first, in spite of your jokes about my interest in security, a high level of secrecy would be necessary, if only because I don't want to be murdered; secondly, I think a young man would have to be seconded to me for the duration of the operation. I have in mind a Mr. Quentin Thomas of the Home Office. (He was the Secretary of the Royal Commission on Gambling.); thirdly, because of the delicacy of the subject, the Prime Minister or you on her behalf, would have to give rather firm instructions, orally I hope, to those concerned.

Should this be a starter, you and I might have a talk about it before things go too far.

Yours
Victor

*see 4. in the attached memorandum.

Confidential for No. 10

LOCAL AUTHORITY FINANCE

A "sharp look", requested on 30.10.1984

1. The Prime Minister and her Ministers gave cautious endorsement, subject to more detailed examination and wide discussion, of the following courses of action (among others):

SCRAP

Domestic rates
Local non-domestic rates
Targets
Block grant
Rate-capping
Capital allocations

INSTEAD

Annual elections
Community charge*
Centrally determined non-domestic rates
Centrally measured Needs grant**
Pre-audit
Targetted help to inner urban areas
Borrowing control

2.1 The Community charge is, I believe, a winner. But I am nervous lest it is accidentally or deliberately misinterpreted, for example: "Tories hit the poor again", "No compassion for the have-nots" etc. At the Chequers meeting on 31.3.1985, the Prime Minister referred twice to the use of Supplementary Benefits to counterbalance the impact of the Community charge on the poor. While it is agreed that everyone should pay for the services they get from their local authorities, someone with an income of £37.80 per week (including Supplementary Benefits) cannot afford to have that reduced to £35.95 (which follows, perhaps, from the MISC. 111 proposals). I do not believe this problem is insurmountable, either in practice or in public utterances and I have in mind that the Community charge can always be described as non-regressive.

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*Community is an "in word" which may be a good or a bad thing.

**Equalisation of needs, but not of resources.

2.2 Of course, if it is non-regressive, those who get no "rebate" will pay more; but because of its wider base in comparison with that of the Domestic rate, it may well be possible to avoid hardships and still collect what is necessary.

2.3 Only the figures can provide the answers to the questions posed above: and as, for some reason beyond my comprehension, they do not exist, they will have to be got. As a stimulus for the D.o.E. I have made a start in Cambridgeshire.

3. Inadequate emphasis was laid at the Chequers meeting on the pre-Audit principle, to be carried out by the Audit Commission. It is to be hoped that this lack of emphasis was not due to the bickering between the D.o.E. and the Audit Commission which Heiser should forcibly stop, without recriminations by either side.

4. There is one piece of unfinished business. I conceived the idea that the building of Council houses should be privatised. Whether this is practical or useful is not yet known but it is done in other countries. A report on this subject will, it is hoped, be available in about four weeks' time.

R.

2nd April 1985

CMO

Prime Minister

Are you happy with X?

1. Stephen Sherbourne 2/4

2. Prime Minister - to see

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRETARY OF STATE FOR SCOTLAND

g 2/4

We can't take immediate action - that will have to be explained

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

2 April 1985

Dear Andrew,

RATES AND REVALUATION IN SCOTLAND

Following the discussion at Chequers last Sunday the Secretary of State has asked me to let you have the text of the resolution on the subject of rates which has been selected for debate at the Scottish Conservative Party Conference in Perth in May. The words of the resolution chosen (out of 48 submitted) are as follows:-

> "This Conference, considering that the credibility of Her Majesty's Government is seriously damaged by the failure to replace rates with a fairer system of local government financing, demands that immediate action be taken to fulfil the Conservative Party's commitment to introduce a more equitable system."

X The Secretary of State's intention, which I believe he has discussed with the Prime Minister, would be to reply himself to the debate on this motion and to accept it on behalf of the Government.

I am copying this letter to Steven Sherbourne and to John Ballard.

Yours sincerely,

John Graham

J S GRAHAM
Private Secretary

50

With the compliments of
the Attorney-General

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand, W.C.2A 2LL

01 405 7641 Extn. 3201

CC/ND

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

The Rt. Hon. Patrick Jenkin, MP,
Secretary of State for the Environment,
Department of the Environment,
2, Marsham Street,
LONDON, SW1P 3EB.

2 April 1985

NBPM

Dear Patrick.

ABOLITION: VOLUNTARY BODIES
A TRUST FOR LONDON

will request if required

I have seen Kenneth Baker's letter to you of 19th March and the paper outlining the main elements of the proposed Trust for London.

I agree that in order to attract money from the private sector any trust would need to have, or acquire, charitable status. It would be better, in my view, to find an existing organisation willing to take on additional responsibilities rather than attempt to establish an entirely new trust, the trustees of which would all be appointed by the Government and whose independence of Government is bound to be questioned.

It will clearly be important to ensure that the objects of the trust are wide enough to permit payments to voluntary organisations whose objects may be only partly charitable but not so wide as to allow grants to more bizarre groups currently favoured by the GLC and some Labour-controlled Councils. Much will depend upon the good sense of the trustees. I am sure that the trustees of the Charities Aid Foundation or the City Parochial Foundation would be eminently sensible; but I think we would have to look more carefully at the proposed trustees of any consortium of generalist voluntary organisations.

/Cont'd.......2

I am, of course, interested in any charitable trust which may be set up because of my role as protector of charity.

I am copying this letter to all members of MISC 95.

Yours ever, Michael.

RAMAJO.

Line to Take

RATES

Chequers Seminar

I and my colleagues welcome the progress made with the work of the Review of Local Government Finance and the rating system announced last October by My Rt Hon Friend the Secretary of State for the Environment. There is a great deal of further work to be done over the next few months and there will be opportunities for wider public discussion before final decisions are made.

1974 Commitment to Abolish the Rates?

This commitment was made before an election which was lost. Neither of the manifestos on which this Government was elected contained a commitment to abolish the rates. Do the Opposition regard themselves as being bound by all the commitments in their 1983 manifesto?

Rates: Bull Points

i. Growth in council spending dramatically slowed; over the last five years it has increased by no more than it did in an average single year in the 'seventies'.

ii. If council spending had continued at its previous rate of increase it would be £4 billion higher now.

iii. The effect of Government policy is that the burden on the national taxpayer is cut by £2 billion a year, equivalent to 2p off income tax.

iv. Manpower cut by 4% after increasing for over 20 years at 3% a year.

v. The average precept for 1985/86 is 30p higher under Labour county councils than under Conservative county councils (178p - Labour/148p - Conservative).

vi. The same applies in the cities. In Lambeth rates are 122p; in Wandsworth they are 26p. Lambeth employs nearly twice as many people as Wandsworth.

Ratecapping

i. I remind the House that the 18 ratecapped authorities are responsible for 75% of this year's overspend by local authorities. Ratecapping these 18 councils will save more than £550 million of public expenditure during the coming year.

ii. The real saving for ratepayers is to compare what their rates will be next year with what they would otherwise have been in the absence of ratecapping. For example, in Greenwich ratepayers would be facing a 40% increase instead of a 19% cut; in Lambeth a 49% increase instead of a 12% cut.

FOREIGN VISITS RATHER THAN SEEING THIS COUNTRY?

Points to make

i. Last year I spent 30 days out of the country on official business. The equivalent figure for 1978, the last full year of the Labour Government, was 37 days.

ii. If the Party opposite do not think that maintaining close links with friendly foreign governments is not important, why do they not say so.

iii. It is an important part of my visit to help British firms win contracts. More contracts mean more jobs for Britain.

iv. Perhaps the Right Honourable Gentleman might explain how his visit to Nicaragua helped the cause of more jobs for Britain.

DSG 2 (5K)

. FILE

10 DOWNING STREET

From the Principal Private Secretary

2 April 1985

I enclose a summary note of the discussion on local government finance at Chequers on Sunday. As you know, the Prime Minister wished this note to be treated in a very restricted way. I am therefore sending one copy to you, one copy to the Chief Secretary's Office, one to Sir Robert Armstrong's Office and one to the Policy Unit here. I should be grateful if no further copies could be made without reference to me.

F E R BUTLER

John Ballard, Esq.,
Department of the Environment.

LST

LOCAL GOVERNMENT FINANCE

The meeting began with a presentation by Mr. Baker and Mr. Waldegrave.

Mr. Baker said the present system of local government finance had a large number of highly unsatisfactory features: a high, though reducing, level of central government grant with a very complex system of grant assessment; a system of expenditure and rate control which was also complex and often perverse in its effects; local funding from rates 60% of which came from the non-domestic sector who had no direct say in local government elections; the remaining 40% drawn from the domestic ratepayer although full rates were only paid by 12 million of the 35 million local government electors. There had been some success in controlling local government expenditure in recent years, but it had not been complete, and many local authorities and ratepayers were extremely discontented with present arrangements. The lack of local accountability, that is the lack of any strong connection between local expenditure levels and their cost to local voters, was a major cause of the difficulties and any solution must act on this issue.

One set of proposed solutions, broadly "centralist" in character, sought to deal with the problems by having central government take over or pay for major services or cost centres, e.g. education or teachers' salaries. Though these proposals had various advantages and disadvantages, in the end they would fail because they did not change the position so far as the problem of local accountability was concerned. A further possibility was general rate limitation but this too failed to deal with the problem of local accountability: it was also immensely resented by local government and be a huge administrative burden on central government.

Mr. Waldegrave, continuing the presentation, said that Whitehall must be disentangled from detailed control of local affairs. The alternative was great complexity and a system which could be neither explained nor understood. To achieve disentanglement it was necessary to provide a system with adequate and simple disciplines. The key was to establish local accountability by making local voters responsible for local spending while bringing the real costs of services home to local people. This could be achieved by:

- retaining non-domestic rates but charging them at a single nationally set rate, and redistributing the revenue to all authorities on a per capita basis, which would be a proxy for resource equalisation;

- central government grant would still be necessary but would not need to seek to equalise resources; it could concentrate on dealing with differences in need between one authority and another. It should be paid, as in Scotland, as a lump sum;

- abolishing domestic rates and replacing them with a local residents' or community charge, falling equally on all adults in each local area. This would achieve the objective of accountability better than any alternative tax;

- there would need to be rebates for those on low incomes but not such as to insulate them from increases in the community charge by high-spending councils;

- tighter borrowing controls to replace the present insufficiently effective system of capital controls;

- pressure to increase fees and charges where this was reasonable;

- a return to the system of annual elections for local authorities, perhaps one third of the council retiring annually;

- overhaul of the quite inadequate local authority budgeting framework;

- targetted aid to urban areas which would receive insufficient support through the simpler grant system;

- possibly in the longer term a further move to single-tier authorities.

Mr. Ancram explained that while the existing Scottish system was not identical with that in England and Wales, the problems were similar if not yet so severe and had been aggravated by the recent revaluation. Similar solutions were also likely to be appropriate.

In discussion, the following main points were made:

(a) There was general agreement on the strong case for bringing forward proposals which would deal with the inequities of present arrangements and greatly strengthen local accountability. It was highly desirable to legislate within the lifetime of the present Parliament but it was also most important that proposals should be carefully worked through and that they could be demonstrated convincingly to be a clear improvement on the existing system. Controversy was inevitable and it would be essential to have regard to the forthcoming changes in discussing local authority expenditure in the intervening years.

(b) Central government also had an unavoidable responsibility for public expenditure as a whole and for taxation and final proposals must take account of this.

(c) Some of the centralist approaches, especially the proposal to transfer teacher salaries to the Exchequer, would have their exponents and more thought needed to be given to the case against them. The possibility of combining some elements of them with changes on the lines proposed in grant structure and local taxation should not yet be ruled out. But there were real dangers that they would generate further bureaucracies and they did not adequately address the central problems of containing public expenditure and enhancing local accountability.

(d) The proposal to levy non-domestic or commercial and industrial rates at a single national rate and to redistribute the proceeds on a per capita basis, as a proxy for a resources grant, had many attractions. The existence of a strong rental market made the continuation of a charge on rateable value defensible and logical in this area. The arrangements for keeping valuations up to date would need careful consideration as would the arrangements for setting the rate each year. It was particularly important that there should be considerable stability in the level of the rate from year to year and responsibility for setting the level should lie with central government even though there were some dangers in this course.

(e) Needs grant would have to continue but the aim should be a very much simpler system, with many fewer factors, than had been developed for the existing grant-related expenditure assessments. The move to a lump sum payment, as was already done in Scotland, would in itself provide a significant incentive to spend at or below the needs level. However, with the much simpler arrangements envisaged for taking account of differences in resources and needs, the problems of low population and high need areas, such as the Northern Isles or the inner cities, would be likely to need some special treatment.

(f) The case for abolishing domestic rates was a strong one from both a practical and a political viewpoint. The community charge, with which it was proposed to replace them, had the great advantages of simplicity and of significantly strengthening local accountability, although it would also be more difficult and costly to collect. Because of the way in which the local government finance system as a whole would work, marginal changes in expenditure would fall wholly on the community charge and be perceived directly and strongly by electors.

(g) In England domestic rates raised £4½ billion per annum, equivalent to an average community charge of £140 per head. There would be a substantial number of gainers from the change, but also losers and it would be necessary to consider the impact of change carefully. Transitional arrangements would need to be developed to limit the additional burden on those concerned in the early years. There would also need to be rebate provision for those on low incomes, but everyone should have to find some proportion of the charge for themselves.

(h) It might be worth considering providing a supplementary source of revenue as well. If so, it was desirable that this should be a tax set locally rather than a revenue assigned by central government. There were in fact considerable difficulties with alternative sources of revenue, in particular many of them would not strengthen local accountability or act as the required discipline on total expenditure.

(i) Arrangements for compiling the register of those liable to pay the charge, and for enforcement, would be difficult areas which required much further work.

(j) It was highly desirable to overhaul the local authority budgeting framework and to strengthen arrangements for the control of borrowing. At the same time the arrangements for ensuring that local authorities acted within their powers should be reviewed.

The Prime Minister, summing up the discussion, said that the group were extremely grateful to Mr. Waldegrave, Lord Rothschild and the team of DOE officials for the work that had been done in the studies so far, and for the clear presentation they had had of what were very complex issues. It was increasingly difficult to justify the retention of domestic rates and the group welcomed the proposals which recognised the need to strengthen local accountability and introduce fairer arrangements. With the exception of the proposal on single-tier authorities on which no further work should be done, the proposals should now be developed further by Mr. Waldegrave and his team in the light of the points made in discussion with a view to a further Ministerial discussion in the second half of May. In particular they would then wish to see more detailed proposals on how the community charge would work and be enforced, and on the need for transitional arrangements and rebates for those on low incomes. They would also wish to have more information on the likely overall impact of the changes on typical authorities, individuals and businesses of different kinds. If it was decided to go ahead with proposals for change, the aim should be to publish a predominantly White Paper with some green edges in the early autumn of 1985 with a view to legislation in the 1986/87 session. In the meantime Ministers should say publicly only that progress was being made and that much further work remained to be done. The Secretary of State for the Environment should let the Secretary of State for Scotland have some material for use at the Scottish Conference of the Conservative Party to be held in Perth in early May.

2 April 1985

CCNO

CONFIDENTIAL

NBM

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/1029 2 April 1985

Dear Lloyd

E(LF)

You wrote to me on 20 March saying that Lord Young would find it helpful to receive (E(LF) papers and to attend meetings of the Committee when requested or when he would like to do so. The Prime Minister has agreed to this request and I will be making arrangements for Lord Young to receive papers and information about meetings of this Committee.

Copies of this letter go to Robin Butler and John Ballard.

Yours

(R P Hatfield)
Private Secretary

L W Lewis Esq

CONFIDENTIAL

Local Govt Pt 26

Relations

-3 APR 1985

1

Caroline

Could you please ~~see~~ consult Mr. Brearley. I think the next meeting will be a meeting of E(A) with a nice buffet lunch afterwards in place of the lunch for colleagues.

Prime Minister

Since Sunday 19 May looks difficult since Chancellor Kohl will be coming, and ... Wednesday or Friday in May, should we arrange this for Monday 13 May and arrange a buffet lunch afterwards instead of the lunch for colleagues?

ERB 1.4.

MR BUTLER

... Meeting

I have had a careful look at the diary and I am afraid there are no free Wednesdays when you could have a three hour discussion followed by lunch.

But what about taking Monday 13 May starting at 1000 and cancelling the meeting of colleagues at 1200. Lunch-time is already blocked out for colleagues.

Content for me to offer this date?

Yes

CR.

+ Paymaster General

MWP

1 April 1985

(1) CR Tell SG

(2) Cancel colleagues

E.R.

1

Prime Minister

Since Sunday 19 May looks difficult since Chancellor Kohl will be coming, and there is no other Wednesday or Friday in May, shall we arrange this for Monday 13 May and arrange a buffet lunch afterwards instead of the lunch for colleagues?

FERB 1.4.

MR BUTLER

Rates Meeting

I have had a careful look at the diary and I am afraid there are no free Wednesdays when you could have a three hour discussion followed by lunch.

But what about taking Monday 13 May starting at 1000 and cancelling the meeting of colleagues at 1200. Lunch-time is already blocked out for colleagues.

Content for me to offer this date?

Yes

CR.

+ Paymaster General

M.W.P.

1 April 1985

(1) CR Tell S.G.

(2) Cancel Colleagues

File

10 DOWNING STREET

From the Private Secretary 1 April 1985

The Prime Minister has seen your Secretary of State's minute of 29 March about the membership of the Committee of Inquiry into the conduct of Local Government Business. She has agreed that your Secretary of State may approach Mrs Elizabeth Christie for membership of the Committee and, failing that, Mrs Diana Eccles.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

TIM FLESHER

John Ballard Esq
Department of the Environment

file

MR BUTLER

Rates Meeting

I have had a careful look at the diary and I am afraid there are no free Wednesdays when you could have a three hour discussion followed by lunch.

But what about taking Monday 13 May starting at 1000 and cancelling the meeting of colleagues at 1200. Lunchtime is already blocked out for colleagues.

Content for me to offer this date?

CR.

1 April 1985

PART 25 ends:-

Draft background briefing by Press Officers

PART 26 begins:-

CR to FCNB 1.4.85

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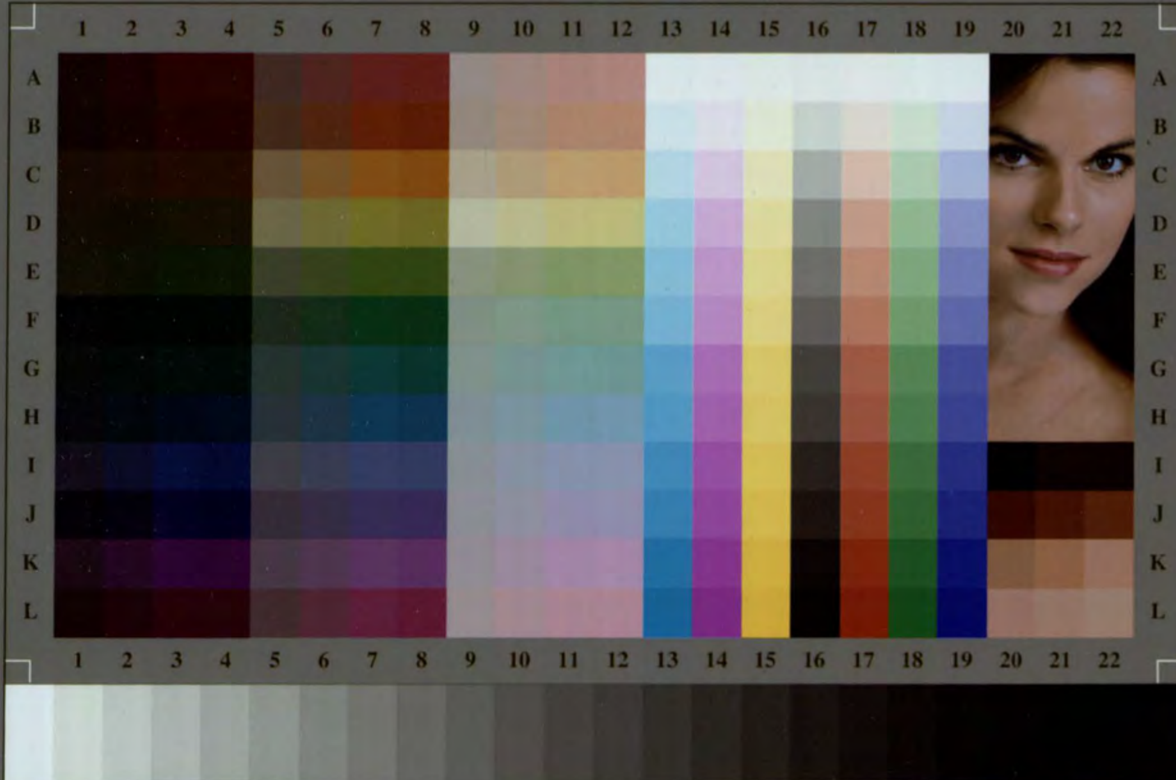
C M Y



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