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From
THE CHAIRMAN OF THE PARTY

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

The Rt. Hon. Cecil Parkinson M.P.

Telephone: 01-222 9000

CEP/SO

13 May 1982

From: Cecil Parkinson

To: Mr Ian Gow

You may recall we circulated widely a Questionnaire on the subject of Rates in February (copies attached). I now attach a copy of a report on the answers which you may, at some convenient moment, wish to show the Prime Minister. We are restricting circulation of this report, and Joan Varley will be copying it only to those Ministers involved at the Department of the Environment.

C.P.

Conservative and Unionist Central Office

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9000

Memorandum from: Miss Joan Varley

To: The Party Chairman

5th May, 1982

Date:

STRICTLY CONFIDENTIAL

ALTERNATIVES TO DOMESTIC RATES

We have now analysed the answers to the questionnaires and attached you will find my report of the results plus an analysis of the questionnaire in full.

As you will see the interesting information is that Members of the Party are overwhelmingly in support of the Reform of the Rating System as an alternative, particularly as a partial alternative. The inference that can be drawn from this is that they do not particularly want a total abolition of the Rate. There is also support for changing the basis of the Property Valuation for rating purposes from hypothetical market rents to Capital Market values.

None of the alternative Local Taxes suggested met with majority favour. The fact that Poll Tax was less unpopular than the others, was largely due to the County Councils' support which is part of the official response of the ACC to the Government.

Assigned Revenues was decisively rejected, but apart from the County Councils, there was considerable support for the Specific Grants.

The County Councils naturally fear that if part or the whole of Education expenditure is funded from the Centre, their autonomy will be greatly weakened. It may be that their fears are exaggerated but I think I should make the political point that weakening the position of the County Councils (already under threat of abolition by a future Labour Government) would be damaging to the Party's position in Local Government. Politically our stronghold is in the Counties.


SCOTLAND

Graham Macmillan has sent me the results of a similar survey done at the same time in Scotland. Here the result was rather different. There was a majority vote, about 60%, for the abolition of the Rating System with a positive choice for the Poll Tax (55%).

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However the concept of Assigned Revenues was as unpopular as it is down here. Again the majority supported changing to the Capital Valuation basis for rating property.

The Ministers in the Department of Environment have asked me if and when they can see a copy of this report. Would you like me to send them one? No doubt we shall be asked for this information by other people. I think perhaps we should limit the circulation only to those whom we think ought to see it because the Government's decision of course may take a different direction from some of the views expressed. The only person to have a copy at present, is Lord Marshall.



ALTERNATIVES TO DOMESTIC RATES

Report on answers of questionnaire sent to Party Members, Constituency Executives, CPC Political Committees and Conservative Groups of County Councils, District Councils and London Boroughs.

1. Response

The response overall of 31% was quite good for a survey sent out to Party Members. It was noticeable that the response from the CPC Discussion Groups was higher. This was probably due to the fact that they meet more frequently than Executive Councils. The latter normally meet quarterly and the timing of the questionnaire may not have fallen within their meeting period. However, it suggests that where there is a good machinery for seeking views of groups, as in the case of the CPC, a better response is obtained.

From the Local Government groups, County Councils and London Boroughs noticeably responded better. This probably reflected the fact that many rural districts do not identify politically with the Party to the same extent as the others. Conservative Local Authorities responded better than opposition held councils. Districts with no overall control gave a higher response indicating greater consciousness of political factors.

2. Local Government Associations Response

Since the questionnaire was sent out, the Local Government Associations have responded directly to the Secretary of State on behalf of their authorities. These responses are reflected in the answers from the Conservative Groups, each of which reflects their Associations' specialist views. To that extent they perhaps distorted the total figures particularly, for example, the answers on Poll Tax. The Local Government Associations official views are as follows:-

a) AMA - supports the Reformed Rating System supplemented by Rate Support Grant and Local Income Tax.

b) ACC - in favour of the Property Tax (i.e. a reformed rating system) with a Poll Tax to supplement and Local Income Tax as a long term option. They are opposed to a specific grant for Education.

c) ADC - support a Reformed Rating System. They propose taxes for two levels; Districts to receive the whole of the rate resources and receive no Government grants, apart from the present specific grants; Counties to receive some form of Block Grant to supplement a new source of local revenue.

3. Constituency Party & Local Government Conservative Groups Response.

a) Reform of Rating System

There was overwhelming support of this as a partial alternative. Members were less clear on how it should be reformed. Of the various ways suggested in the Green Paper, the only one to receive a positive response was the reform of the Property Valuation from hypothetical

market rents to Capital Market values. This was advocated particularly by the Districts and London Boroughs although opposed by the Counties. Overall 50% supported this.

Conclusion

Reforming the Rating System as a partial solution would be popular with the Party, 70% were in favour of this. There was no real positive guidance on how this was to be done. This would suggest that Party Members do not insist on total abolition of the Rating System.

b) Alternative Taxes

Of the alternatives, Sales Tax, Local Income Tax and Poll Tax were negatived, particularly Sales Tax and Local Income Tax where disapproval ranged between 73% and 93% for the various alternatives. The disapproval figure for the Poll Tax at 58% was considerably lower, reflecting the view of the County Council Groups' response which ran in direct conflict to other groups participating, reflecting support of the ACC proposals. But 58% against is a decisive figure.

The question testing reaction to the possibility of some form of Local Tax as an alternative to rates, was supported by 46% but negatived by 50%. Here again County Council Members' support for the Poll Tax affected the figure. Of the Local Taxes suggested, only Poll Tax was seen as a real runner although faced with the choice of the combinations mentioned, it was Local Income Tax plus Reformed Rates which was preferred.

Conclusion

Answers to these questions clearly illustrated that Members took a general view but were out of their depth when practical alternatives were put in front of them. However much they might dislike rates, they rejected any of the alternatives.

4. Assigned Revenues

This suggestion in the Green Paper was overwhelmingly rejected. Only 18% approved while 68% disapproved and this disapproval was clearly reflected across all the groups though significantly higher in the Local Government ones.

Conclusion

This probably reflected a dislike of centralisation and possible loss of democratic freedom at Local Government level.

5. Specific Grants

This suggestion was approved as a replacement or partial replacement by 52% though probing revealed that partial replacement was considered as more suitable. This approval figure was undoubtedly lower than it would otherwise have been because of strong opposition, 76%, from the County Council Groups. This reflected their undoubted fear that this would cause Education to be financed from the Centre which they believed would lead to greater central control. This had serious long term consequences for counties in that Education was now their highest spending function. Control from the Centre would leave the counties with very diminished responsibilities which could

weaken them considerably. The last Labour Government had long term plans for the abolition of the counties which they saw as desirable as this was where Conservative strength in Local Government lay. However those in favour of transferring Education expenditure to Central Government argue that this would not necessarily diminish the counties' role.

6. Final Conclusion

As expected, the response of the questionnaire showed that Party Members had a generalised view on the subject to Rating Reform and were clearly at a loss when faced with the practical alternatives. However, some interesting points did emerge, the most significant being that the Reform of the Domestic Rate System was strongly supported. There was not support for any one of the Green Paper suggestions as a complete replacement for Domestic Rates, which indicated that the abolition of the rates was not demanded by any except a small minority within the Party.

The most approved course would seem to be the Reformed Rating System based on Capital Valuations of property with Rate Support Grant from the Government plus specific grants for individual functions (counties dissenting from the latter). The only Local Tax that was seen as a possibility was a Poll Tax but this did not have a majority in its favour.

JV/VWJ
4th May, 1982

SCOTTISH CONSERVATIVE AND UNIONIST CENTRAL OFFICE

11 Atholl Crescent, Edinburgh, EH3 8HG Telephone 031-229 1342

Memorandum

From: Evelyn McDermott Esq. To: Graham Macmillan Esq.

Date: 23th April 1982

ATTITUDES TO THE REFORM OF THE RATING SYSTEM

You asked me to analyse the results of the returned questionnaires and comments.

1) Data

23 constituencies or districts replied with a questionnaire each condensing the replies of 245 individuals. In addition, 7 questionnaires came back representing some 50 people with substantial comments included. There were also 8 straight submissions without a questionnaire attached and a paper from the Young Conservatives.

2) The 23 group questionnaires

Of the 245 individuals represented, all were in favour of substantial reform of the present system. Unfortunately, that was as far as unanimity went. I have not had time to analyse all the permutations and combinations recorded but a rough analysis yields:

- a) About 60% want to replace the rating system entirely
- b) Of those who want to see rates replaced, about 55% want a poll tax
- c) Of those who want rates replaced a very much smaller proportion (about 25%) want some form of income tax with two-thirds of these wanting a locally based income tax. There was a fair smattering of those who want to retain a local element in the tax collection and conversely some who were worried of the dangers of giving that power to councils.
- d) Only about 15% wanting replacement also wanted a system of assigned revenues from the Exchequer. This system would effectively involve almost total central grant funding for local services. Although this idea was not popular, some argued that certain services, e.g. Education, are better sourced centrally.
- e) /...

- e) Of those who only want the rating system supplemented (i.e. partially replaced) about one third want a poll tax supplement.
- f) About 45% of those wanting a supplement want an income tax addition and the majority favour a local basis.
- g) About 20% wanting a supplement want an Exchequer borne supplement.

OTHER CONCLUSIONS FROM THE QUESTIONNAIRES

- a) Most people felt that a capital valuation basis for the rates would be fairer and hence desirable, regardless of long-term alternatives.
- b) Some people felt the questionnaires rather cumbersome and complex. I got the feeling that some of the questions were not understood or were not susceptible to a tick in the box answer.
- c) As can be seen from the above, there was no clear cut alternative proposed and people obviously enjoyed playing around with combinations (e.g. Exchequer grant for services such as Education plus a poll tax) but the single largest group representing about a third of the total sample want the rating system scrapped and replaced by a poll tax. On the other hand, of those wanting to retain part of the rating system, the biggest group favoured some sort of income tax supplement, but a poll tax, either with or without a rating system is still the most popular option and favoured by about 50% of the sample.

3) The 7 questionnaires and comments

These represented some 50+ people. Since they had summarising comments attached I have concentrated on these.

- a) Moray and Nairn Conservative and Unionist Association were split between those in favour of rates being replaced by assigned revenues and those in favour of a personal tax on earners (not on all voters). The Chairman suggested a deduction from personal allowances to pay for local services.
- b) Councillor N. Jamieson submitted a copy of Tayside Regional Council's Finance Committee's Sub-Committee proposing that:
 - i) the rates burden on commercial premises be investigated and
 - ii) that the Government (and not the Civil Service) determine Local Authority manning levels and pay 100% of the salaries.
- c) /...

- c) Mr. J.M.G. Davies of the Lasswade Midlothian Branch argued that abolition of the rates system is more important than deciding on an alternative and could in itself be a great vote catcher. This group favoured a combination of a local sales tax and poll tax. A local income tax would be subject to abuse by Socialist Councils.
- d) Murray Tosh from the Central Ayrshire Association suggested rates being made offsettable against income tax.
- e) South Ayrshire Association argued that the Government should not consider domestic rates in isolation i.e. commercial system must be considered simultaneously. Also argued for increased Exchequer grants plus a form of local income tax plus a system of increased fees charged by Local Authorities.
- f) Councillor Phil Gallie of the Cunninghame District Council suggested that a figure for the annual expenditure by each Local Authority be 'set' in conjunction with Central Government. 90% would be raised centrally and locally up to 20% could be raised by a poll tax. The point of the 20% (not 10%) is that it gives Local Authorities some discretion and leeway which, Mr. Gallie argues, has been all but removed by recent legislation in Scotland.
- g) Mr. McDowall, Chairman of the Caithness and Sutherland Association, made some interesting comments on the questions, e.g.
 - i) offsetting rates against income tax would give rise to great complications as was the case in Denmark and Sweden
 - ii) The Institute of Public Administration in Edinburgh in the 1960s investigated a local income tax but concluded it would not be practicable in the UK because of individuals residing in more than one municipality etc.
 - iii) the system of assigned revenues worked satisfactorily in the Netherlands without, he claimed, prejudicing the democratic control of Local Authorities.

4) The eight submissions

- a) Mr. B. Lawson suggested polling a locality on what level of rates be charged.
 - b) South Edinburgh Association suggested abolition of rates and its replacement by:
 - i) an Exchequer Grant to cover Education, Police and Fire
 - ii) property tax to meet direct services e.g. sewerage and
 - iii) a small poll tax (less than TV licence) to finance other local services.
 - c) Councillor David Williamson suggested abolition of rates and national tax replacement.
 - d) /...

- d) Kilmarnock and Loudon Conservative Group argued for a poll tax combined with Central Government financing of Education, Housing and Social Work.
- e) Pentlands Conservative Association argued for some of the burden to be borne by registered electors and that the burden on non-domestic ratepayers be eased.
- f) Edinburgh West Association argued for a poll tax and that reform be carried out before the next General Election.
- g) North Berwick Branch argued for the abolition of rates and replacement by assigned revenues funded by a number of central taxes, not just one. In the meantime the 'amenity loading' should be abandoned.
- h) Mrs. Organ's group in Stirling felt that rates should be reduced as an interim measure - she also felt the questionnaire was insufficiently geared to the Scottish position.

5) Scottish Young Conservatives' Submission

They argued for replacement of the rating system with a poll tax. Additional points of interest:

- a) They conducted a Scottish-wide survey showing 72% dissatisfaction with the rating system.
- b) In Lothian in 1981, less than half the electorate were eligible to pay rates and a quarter of this group receive a rebate. The cost of the benefits are not borne by those receiving them (representation without taxation!)
- c) Criteria for reaching a decision on an alternative to rates are:
 - i) fairness
 - ii) ability to pay
 - iii) accountability
 - iv) implementation
 - v) administration.
- d) Poll tax would have similar running costs as rates. Cost of income tax unpredictable and there would be a problem of evasion. In their poll 55% of respondents favouring replacement argued for a poll tax while 41.5% argued for a local income tax
- 6) /...

6) General Conclusions

- a) There is considerable diversity as to whether the domestic rating system should be replaced or merely replaced in part i.e. supplemented, but all agree some reform is needed.
 - b) Only the YC paper set out any reasonable specific criteria for deciding how to reform the present system. It is difficult to escape the conclusion that many people object to the basis used for calculating rates rather than rates per se. (Hence the strong support for capital valuation rather than the present nominal rental basis). Such a reform would presumably be much easier to achieve than a wholesale revision of the system. Does the response to the questionnaires in any case give a realistic indication of public opinion of rates? Is it likely that those people replying to them would have stronger opinions than the average man in the street?
 - c) Many people felt that the domestic rating system must be considered together with the commercial rating system and that the latter suffered inordinately.
 - d) See Conclusion 2(c) to the questionnaire responses above: people are more concerned to see the system reformed (pay less?) than sure about how it should be reformed. The poll tax is the most favoured single option.
 - e) Nevertheless, some interesting ideas come up from the submissions. For example, there are many combinations that could be considered e.g. some sort of rate and a poll tax (the poll tax is the most favoured option) or some, but not all, services financed from the centre.
 - f) There is a need, in my view, to bear in mind general Conservative principles. For example: a proposal involving additional income tax runs counter to our aim of cutting direct taxes; we are pledged to maintain a degree of local autonomy.
 - g) The various alternatives need to be costed. Will more bureaucracy result from some of them?
- Mr. McDowall made the interesting point that experience of other countries is a good indicator of what has worked well, and, more importantly, what to avoid.

Evelyn McDermott

28th April 1982.