[handwritten, top right:] Prime Minister.
Would you like to proceed as proposed in paragraph 4 below?

AW
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Ref. A04196

MR WHITMORE

[handwritten:] Will do it myself as in para 4

Local Government Finance

I understand that there have been informal discussions among certain Ministers (among them the Chancellor of the Exchequer, the Secretary of State for the Environment and the Secretaries of State for Scotland and Wales) about the finance of local government; but that in these discussions it is being accepted as an assumption that the property rating system continues to be the method of raising local revenue for local government, and that the issue is therefore how that system can be modified to mitigate its acknowledged defects, and not whether it should be replaced (in whole or in part) by some other form of revenue (eg a local rates tax, or diverting to local government some part of the yield of a national tax like the petrol duty or the excise duty on tobacco).

[handwritten left margin:] Yes — very much so not.

2.   My information is that the Prime Minister - and perhaps other colleagues - would not wish the consideration of the future of local government finance to be restricted by such an assumption, but would want to review possible alternatives (or supplements) to the rates.

3.   There might be something to be said for calling this exercise into a Ministerial Sub-Committee of the Ministerial Committee on Economic Strategy (or possibly, but perhaps less appropriately, of the Home Affairs Committee), under the chairmanship of the Home Secretary or the Chancellor of the Exchequer; this would enable us to keep an eye on the way it was going, and intervene if need be.

[handwritten left margin:] I do not think we can give this task to the Chancellor if it is something that is going to require action between now and the Budget.

4.   If the Prime Minister wanted to do this, it might be best if she were first to invite the Secretary of State for the Environment to let her have a progress report on the review of local government finance; having received that, she could say that she thought that the time had come to bring discussion of this subject formally under the aegis of the appropriate Cabinet Committee, in view of the number of departments affected and the importance of the political issues involved.

RCA

ROBERT ARMSTRONG

5 February 1981