

From

THE CHAIRMAN OF THE PARTY

The Rt. Hon. The Lord Thorneycroft C.H.

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PT/CAW

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Dear Margaret

I attach a paper which I have written on the options available in the field of Local Government Finance. I am aware that these problems are being considered within the relevant Departments. I am, however, concerned at the constitutional issues involved and troubled by the likelihood of political reaction, including reaction from our own Party, if we allow the recent Local Election result to push us into actions which we might subsequently very much regret.

Yours  
JH

The Prime Minister

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POLICY OPTIONS FOR LOCAL GOVERNMENT FINANCE

1. Local Government Finance and the future of Local Government itself are inextricably connected with each other. It is therefore important that the Conservative Party should understand and evaluate the various options that may be open to it in these fields and appreciate to the full the financial and constitutional consequences that flow from them.
2. The problem is sharply illustrated by the local elections that have just been held in England and Wales. In broad terms the Labour Party put forward policies to the electorate which implied the expenditure of a great deal of money. They put these policies forward against the background of knowing that the most recent government legislation on the subject gave powers to the Secretary of State to limit the subvention from Central funds to many of the objectives which they had in mind. They said, and can claim to have made the matter tolerably plain, that such funds would nevertheless be raised through extra, and in some cases, special rate demands. The electorate voted in many areas, including London, in favour of these programmes and a number of Labour controlled authorities, including the G.L.C., are now installed and poised to carry out the policies upon which they were elected.
3. What options are open to the Government in these circumstances? Broadly they can either operate within the law as it exists and allow the Labour councils to carry out their policies, including the raising of extra rate revenue, or they can change the law and limit in some way the amount of money that councils can raise through these means.
4. The first course is plainly damaging to ratepayers and, we would claim, tends to be destructive of jobs. It allows things to happen which run contrary to the main thrust of the Government economic policy, though it probably does not increase the total money supply. The second course is however also open to grave objection; it ignores democratically made decisions only recently arrived at, it challenges directly the existing democratic arrangements for making decisions of this category, it tends to place the total responsibility for such matters upon the shoulders of Central Government. It is a course which, though possible, would need to be pondered over carefully before it is embarked upon.
5. I have chosen this illustration because it is topical and sharpens up the political issues which are involved. My own political judgement would

be to allow the local government changes to take effect along the lines of policies democratically arrived at without legislative interference. The spectacle of some of our great cities, and some shire counties, being run by what are already plainly left-wing dominated Labour councils would do more than any words can do to sharpen up the case for the Conservatives before the next election.

6. Nevertheless, this case is, I recognise, only illustrative of the more general problem of local government finance and we need to turn our minds to this if we are to make sensible decisions about the various options which in the medium or longer term present themselves in this area of policy.
7. The basic facts underlying policy decision in local government finance appear to be as follows:
  - 1) The domestic rate in some form has existed for around 500 years and raises £3 billion. The commercial rate raises £4 billion. The business vote was always limited in effect and is now abolished. In effect there is taxation without representation. A return of the business vote which was never very widely exercised would make only a most imperfect contribution to the solution of this problem.
  - 2) Not quite half the voters actually pay the domestic rate.
  - 3) 61% of local government expenditure is financed by block grant. Steps recently taken are designed to limit the expansion of this grant to profligate authorities, but no check exists to prevent them seeking to make up the sum by raising rates.
  - 4) The rating system depends in some degree on re-evaluation of property and this has for the moment been abandoned.
8. There are a number of options open to us in dealing with this situation which has been much examined and debated. They fall however into two main categories:
  - (A) Those measures designed to preserve and possibly extend the range of devices open to local authorities to collect revenue and thus maintain or even extend local accountability.
  - (B) Those measures designed to restrict or remove the means open to local authorities to raise revenue either by limiting or by removing the right to raise rates. This category also includes suggestions for the removal of areas of local government and centralising decisions on them.
9. Broadly speaking the Conservative Party needs to consider which of these directions it would like to move in. It may decide to eliminate or markedly reduce the areas of local democracy and local accountability, but it should

not do so by accident or without thinking carefully what its main objective is.

10. There are indeed powerful arguments against moving in this direction. The existing centre of democratic control and authority in this country is in the House of Commons. It is balanced on the one side by a second chamber already under threat of abolition and on the other by a network of democratically elected local authorities; these too are under threat. Their abolition would leave a dangerously isolated single-chamber system of authority operating without check in every aspect of our affairs. It would face no possibility even of delay from a second chamber above and would be operating below through a network which would in effect be composed of its own agents.

11. I, therefore, suggest that before we make any important new move in local government we should examine all courses open to us to finance local services through local resources raised by local authorities themselves. These include:

- a. Reforms of the rating system.
- b. A re-inforcement of the rating system and extension of local funding through such means as:
  - (1) a local poll tax
  - (2) a local sales tax
  - (3) a local incomes tax
- c. Charging for local services.
- d. The farming out of local services to private enterprise and financing them through economic charges.

7 EJ → The objective would be the raising of substantial revenue from as wide a range of the local electorate as possible and the development of full local accountability.

12. This examination should at least precede any decision to abolish or limit the collection of local revenue or pass financial responsibility still further to Central funding by the Treasury through increases in direct or indirect taxation. The decision which we eventually take in this matter is certainly as important in the constitutional as it is in the financial field.