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PRIME MINISTER

LOCAL GOVERNMENT FINANCE

I have seen Michael Heseltine's minute to you of 27 May and the enclosure, and discussed it with Leon Brittan. We strongly endorse the general strategy outlined in his minute. We must give local authorities the maximum incentive to make savings, and this is best achieved by making it crystal clear now how each authority's grant would be affected if it did not reduce its spending plans. We agree that there can be no question at this stage of even hinting at an exemption for authorities spending below GRE. Even if this were acceptable on legal grounds, it would very seriously weaken the impact of our message and the chances of getting the necessary spending cuts.

2. We also support the general thrust of Michael's draft statement, subject to some crucial points of substance on the final section and a couple of presentational points.

3. Our major difficulties concern the commitment in the final para-raph to legislation in 1982-83, and the way in which the link is made between expenditure and rating.

4. I recognise that Michael's observations on the timing of legislation largely reflect the conclusions which E Committee reached when I was in Gabon attending the IMF. But, even at this late stage, I would like to urge caution in what is said publicly about the timetable in relation to more fundamental changes - which, as the Minutes say, we "might or might not introduce". Whatever Michael says next week, my fear is that

/when we





when we publish the consultative document, it will quickly become apparent that no solution which depends to any significant extent upon a local sales tax or a local income tax can be operational for a fair number of years. In view of the immense amount of work that remains to be done, and in advance of the consultative process, I find it very difficult to envisage our being ready with meaningful legislation by 1982-83. Yet if we arouse public expectations of early action, we may find ourselves having to choose between disappointing our supporters or settling for an obviously insufficient or unsatisfactory alternative to local rates.

5. I am sure it would be wiser to avoid any public reference to legislation, at least in relation to longer-term changes, at least until we have had an opportunity to consider what is to go into the consultative document. We should then be in a much better position to judge what to say about timing. We could then link an announcement on timing with the publication of our proposals when they are ready.

6. The penultimate sentence of Michael's draft seems to me to have potential dangers of another kind. I would prefer a more neutral formulation, as follows: "But in any consideration of local government finance, we cannot ignore the problems of the rating system and their consequences. I therefore intend to issue a consultation document on the alternatives to domestic rates in the autumn." This would have the advantage of forestalling the otherwise inevitable comeback from the CBI that we are totally ignoring the problem of non-domestic rates (which is, indeed, another dimension of this whole issue). It would also avoid begging questions about the real defects of rates - which are likely to be shared, as I believe, by almost any alternative form of unrestricted and locally determined taxation, at least in the hands of some of today's councillors.





7. Other presentational points have, I think, already been negotiated between officials. These are the need to present our expectations as to the level of overspending in such a way as to appear consistent with a £450 million grant penalty, and the need to make sure that "targets" are understood to be volume targets.

8. I am copying this minute to those colleagues who attended the last meeting of E Committee, to the Chief Whip and to Sir Robert Armstrong.

*R. S. Tozier,*  
for,

(G.H.)

28 May 1981

[Approved by the  
Chancellor and  
signed on his  
behalf.]