

Local
Govt.

A05154

PRIME MINISTERLocal Government Finance

E(81)70 and 71

BACKGROUND

1. On 21 May the Committee approved measures to deal with prospective overspending by local authorities in 1981-82 and they invited the Secretary of State for the Environment to put forward proposals for further interim measures on Local Government finance to be implemented from April 1983, and on the options for longer term alternatives to the domestic rating system, which might form the basis of legislation in the 1982-83 Session of Parliament (E(81)18th Meeting, Item 2). The Secretary of State for the Environment was authorised to announce to Parliament the Government's intention to introduce these measures. He has now put forward his specific proposals in E(81) 71 and the Secretary of State for Scotland has commented in E(81) 70 on how they might apply in Scotland.

Medium Term Measures

2. The Secretary of State for the Environment has summarised his medium-term proposals in paragraphs 5, 11 and 12 of E(81) 71. They fall into four main groups -

i. A requirement that local authority expenditure over specified levels should be financed by a series of supplementary rates (paragraph 5 (i)-(iv) and (vii)).

- It might be argued that the limits should be related to levels of rate increases rather than of expenditure (viii). The disadvantage is that, unless this were accompanied



by controls on the financing of expenditure from balances, it would be less effective in controlling expenditure. It could, however, be reconsidered in the light of consultations on the proposals.

- ii. Provision for the Secretary of State to limit the impact of supplementary rates on the non-domestic rate payer (5(vi) and 8).
- iii. A requirement that a second supplementary rate could not be levied until the authority had first submitted itself for re-election. (5(v), (7) and Annex A).

- The Committee will wish to consider this recommendation, and the alternative of making supplementary rate increases subject to referendum, very carefully. The case for an election is that it should produce either a new council or a clear and specific mandate for high spending financed by high rates; and that the risk of re-election should be a deterrent to high spending. The Secretary of State for Scotland - paragraph 5 of E(81) 70 - strongly prefers a referendum, however, on the grounds that the results of a re-election would depend upon a wide range of issues quite apart from those arising on a supplementary rate. The Committee might also wish to consider what would happen, under either course, if a local authority deliberately sought confrontation by spending up to its limits and then, pending an election or a referendum, confronted the Government with the alternative of either letting it spend more or having its services collapse.

- iv. An Audit Commission (paragraph 11) and, before that is set up, the appointment of private accountants as additional district auditors (paragraph 12).

- In their earlier discussion the Committee were generally sympathetic to this proposal for re-organising the audit arrangements for local authorities. When the Secretary of State for the Environment announces this decision, he will need to explain briefly why, in taking this course, the Government has rejected the



Public Accounts Committee's recommendation for putting local authority audit under the Comptroller and Auditor General; and to indicate that Treasury Ministers will be publishing shortly in a White Paper the Government's comprehensive response to the PAC's recommendations on public sector audit arrangements.

3. These measures will require legislation and the Cabinet has agreed that the Bill should be included in the 1981-82 legislative programme (CC(81) 22nd Conclusions, Item 4).
4. If the measures are approved in principle, the Secretary of State for the Environment will publish a consultation document on the lines of that at Annex C of E(81) 71. He has not yet decided when he would do so but it would need to be fairly soon in July if the consultation period is to be completed in good time for the drafting of the legislation to get ahead. He would then report on the outcome in September when firm policy decisions would be taken as a basis for the Bill.
5. The Secretary of State for Scotland in E(81) 70 supports the general thrust of the proposals and is willing to apply them, tailored as necessary, in Scotland; his only disagreement is with the proposal to make rates subject to election rather than referendum. He does not need an Audit Commission there since suitable arrangements already exist.

Longer-Term Strategy

6. The Secretary of State for the Environment's proposals are set out in paragraphs 14-19 of E(81) 71.
7. He recommends that an interdepartmental group of officials, under his Department, should be instructed to prepare a draft consultation document on alternatives to domestic rates and to put forward a framework for the document for consideration in July, and a full draft in September with a view to publication before the Party Conference in October. The Secretary of State for



Scotland is content with this, provided that account is taken of the differences in the Scottish system and his officials are on the interdepartmental group. The scope of the consultation document and the programme of work leading up to it is summarised in Annex D of E(81) 71. The main options are local income tax, local sales tax, a poll tax and limiting local authorities' powers by making them dependent on Exchequer grant or assigned revenues; further work will be done on the possibility of restricting local authority borrowing (paragraph 14).

8. I understand that the Secretary of State for the Environment intends to pursue separately with the Secretary of State for Industry the question of the industrial rating system. The problem is that, if industrial rates are to continue into the longer term, there is a strong case for a revaluation exercise - the last revaluation was in 1973 and is now badly out of date - notwithstanding the additional staff in the Inland Revenue which this would require.

9. You have agreed that the problems of local government structure, which the Secretary of State for the Environment raised in his minute to you of 12 June, should be considered on the basis of a paper which he will circulate in the autumn. The Secretary of State for Wales, in his minute to you of 23 June, has given notice that he is entirely opposed to another major upheaval of local government, and has pointed out that any further work on this will have to be handled very carefully if political controversy is not to be stirred up.

HANDLING

10. After the Secretary of State for the Environment has introduced his paper, it might be best to work through his recommendations, under the headings in this brief, rather than to open up a general discussion: that in effect took place on 21 May. The medium-term proposals relate to England in particular and you will wish to establish to what extent the Secretary of State for Wales is satisfied that they should apply to his local authorities. The most



controversial proposal is that for making a second supplementary rate subject to re-election or referendum; this is a question on which the Home Secretary in particular will have views, and the Cabinet will also want to hear the advice of the Chancellor of the Duchy of Lancaster and of the Chief Whip. The Chancellor of the Exchequer and the Chief Secretary will, apart from their interest, wish to comment in particular on how they will handle the reply to the PAC's recommendations on public sector audit arrangements.

CONCLUSIONS

11. The Committee will no doubt take decisions on detailed proposals as the discussion proceeds. But you will wish to sum up in general terms with reference to the points listed in paragraph 21 of the Secretary of State for the Environment's paper E(81) 71, and of paragraph 8 of the Secretary of State for Scotland's paper E(81) 70.

Robert Armstrong

(Approved by Sir R. Armstrong & signed on his behalf.)

24 June 1981