


CONFIDENTIALPRIME MINISTERLocal Government Finance
(E(81) 85 and 86)

BACKGROUND

In E(81) 85 the Secretary of State for the Environment proposes interim measures, for introduction as soon as possible, to discourage high rates, and the publication of a Green Paper on alternatives to domestic rates in the longer term. On present plans, his interim measures are in the 1981-82 Legislative Programme but will not receive Royal Assent in time for implementation before the financial year 1983-84. In his minute to you of 8th September, the Secretary of State recommended that the legislation should be accelerated, with Second Reading on 18th November and Royal Assent on 5th February, to allow for implementation in 1982-83. The Leaders of the House of Commons and the House of Lords, and the Chief Whip strongly advise that this is impracticable (see in particular Mr. Pym's letter to you of 14th September).

2. The memorandum circulated by Mr. Fowler as Secretary of State for Transport (E(81) 86) proposes legislation to control the subsidies paid by the Greater London Council (GLC) and the Metropolitan Counties to London Transport (LT) and the Passenger Transport Executives (PTE). He would drop this proposal if the Secretary of State for the Environment's measures were introduced in time for implementation in 1982-83. Otherwise he would want to go ahead as planned and to add the provisions to existing transport legislation in the programme.

Interim Measures on Rates

3. The main features of the Secretary of State for the Environment's proposals are:-

- (i) Limits for each authority on both the initial main rate and the first supplementary rate which they may levy.
- (ii) Any second supplementary rate to be subject not to a limit but either to referendum or to re-election of the Council.

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- (iii) All supplementary rates to be levied at a reduced poundage on non-domestic rate payers.

There would be swift consultation with the local authorities on these proposals on the basis of the draft consultation paper at Annex A to E(81) 85.

4. The Chief Secretary, Treasury supports these proposals but he wants the consultative document to canvas the possibility of the introduction, in the longer term, of the three possible systems for controlling the rates summarised at Annex C of the paper. Under these options, ceilings would be put on rates or expenditure with escape-routes via borrowing blocked off.

5. The main immediate issue is whether to make a second supplementary rate subject to re-election or to referendum; the pros and cons are set out in the note immediately following the draft consultation paper at Annex A. The Secretary of State for the Environment recommends re-election with the following main features:-

- (i) They should take place before the second supplementary rate was levied (around October).
- (ii) All members should be subject to re-election.
- (iii) The system could not apply to the Inner London Education Authority or other non-elected preceptors, and no special arrangements would be made for them.
- (iv) The franchise would be as now and the costs would fall on the local authorities.

The hope would be that the risk of an election would be a strong deterrent to the majority group on a council; though, if the risk were taken, members in favour of increased expenditure could come back with a new mandate and moderates could lose their seats, on this or on 'wider' issues. The main disadvantage of referenda seems to be that the members of the majority group would still be in office and, even assuming the result was binding on them, they might be slow in cutting back expenditure as necessary or otherwise try to frustrate business.


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6. There is a good case for giving effect to these measures as quickly as possible; this points to rushing the legislation through in time to give effect to it in 1982-83. It also has the advantage, if the Secretary of State for Transport then drops his proposals, of having one measure rather than two consecutive measures in the same legislative programme and of avoiding two different approaches - the Secretary of State for Transport's measures imposing Central Government decisions on local authorities, and the Secretary of State for the Environment's measures discouraging, but not denying, higher expenditure and rates if that is what the local electorate want. On the other hand the business managers see overwhelming objections to changing the timetable in this way.

Transport Subsidies

7. If the Secretary of State for the Environment's measures cannot come into force before 1983-84, or if there is uncertainty, the Secretary of State for Transport will want his proposals to be discussed with a view to their introduction in 1982-83. They would provide for him to set each local transport undertaking an External Finance Limit covering all income other than fares and receipts so that, even if an authority increased the rates for the purpose, they could not pass the yield on to the transport undertaking to finance expenditure over the EFL. The Secretary of State would also have powers to require information and to override local authorities' powers if necessary and to dismiss and appoint members of transport undertakings.

8. The case for these measures, and their introduction as soon as possible, is the need to curb the very large rate increases, and public expenditure increases, in prospect at the moment, and to save something in the order of £250 million to £300 million of the likely excess of £400 million next year. The disadvantages are that the Department of Transport could find itself enmeshed in the details of particular transport undertakings, and the local authorities could claim that Central Government were ignoring the mandate they won at the local elections.

Longer Term alternatives to the Domestic Rates

9. Following discussions by the Committee in the summer, the Secretary of State for the Environment announced on 2nd June that the Government intended to issue in the autumn a consultation document on the alternatives to

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domestic rates. You said at the time that you would wish this to be done before the Party Conference. The outlines of the present draft, at Annex B to E(81)85, were agreed in Ministerial correspondence before the Recess.

10. The draft paper discusses, without commitment, the alternatives of local sales tax, local income tax, poll tax, the assigning by Central Government of a share of the revenue from national taxes, and combinations of these approaches; and indicates willingness to consider proposals for the retention of a reformed system of domestic rating. The distributional effects of these changes - as between types of household and as between geographical areas - is discussed in chapter 12 and in more detail in Appendix C of the draft. There are no proposals yet for the period to be allowed for consultation.

HANDLING

11. Because the proposals for interim measures on the rates and for dealing with transport subsidies are so closely linked, you might ask the Secretaries of State for the Environment and for Transport each to introduce their papers before the discussion is opened up. You might then break down the discussion by dealing first with the substance of the interim measures on the rates and then with the question of the timing of their implementation. In the light of decisions on timing, either the transport measures can be dropped or the Committee will need to discuss them. Finally, you can deal with the largely separate question of the Green Paper on longer term alternatives to the domestic rates.

12. You will wish to hear in particular the views of the Chancellor of the Exchequer, the Home Secretary and the Secretaries of State for Wales, for Education and Science and for Social Services. Apart from the alternatives to the domestic rates the Secretary of State for Scotland is not directly concerned, but he will wish to give his views in the light of Scottish experience and he may want to put in a paper for discussion next week. The Lord President of the Council and the Chief Whip are unable to be present but their views on the legislative implications are on the record. The Chancellor of the Duchy of Lancaster has minuted on the implications for business in the Lords. If it were not possible to resolve the question of timing this week, the Committee might wish to return to it next.

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13. The main questions you will wish to cover are:-

Interim Measures

- (i) Elections or referenda, and the details of the preferred option?;
- (ii) Are the proposals for reducing the burden on non-domestic rate payers acceptable?
- (iii) Should the consultative document on the interim measures also discuss the possibility of introducing in the longer term the controls on the rates summarised in Annex C, as the Chief Secretary wishes?
- (iv) In spite of the business managers' objections, is there any possibility of accelerating the legislation in time for implementation of the measures in 1982-83?

Transport

- (v) If the interim measures on the rates are to be implemented in 1982-83, is it agreed that the transport measures should be dropped?

or:

- (vi) If the interim measures cannot be implemented until 1983-84, are the transport measures in E(81) 86 acceptable?

Green Paper on Alternatives to the Domestic Rates

- (vii) Is it agreed that the Secretary of State for the Environment should publish this paper before the Party Conference subject to any drafting points which other Ministers might put to him as soon as possible? (In particular, the Secretary of State wants views on whether the annex on the distributional effects of the alternative is necessary).

CONCLUSIONS

14. In the light of the discussion you will wish to record conclusions on the questions listed above. If it is not possible to settle all of them, you could return to any outstanding points next week.



Robert Armstrong

15th September 1981