CONFIDENTIAL

A Duguid
A Walters

29 October 1981

Prime Minister

LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING MEASURES

The Local Government Finance Bill, including the proposals on interim rating measures, is to be taken by L Committee on 3 November. Since the policy was approved by E last month (E(81)29th on 23 September) and endorsed by Cabinet there have been certain developments which I should draw to your attention and that of colleagues.

You will recall that in our discussion at E, several colleagues raised the question of whether the scheme might prove to be too cumbersome to be workable; at the time, we took the view that if the scheme were cumbersome and inconvenient for authorities, it would help to deter them from maintaining excessively high levels of expenditure.

Following my announcement of the proposals at the local government conference at Torquay on 24 September, I issued a technical memorandum setting out details of the scheme on which the views of local government were sought. In the last week or so there has been a very heavy response to the document, not only from local authorities and their associations but from independent professional bodies in the field. In addition I have privately consulted a recently retired London Borough Treasurer who is still actively engaged in local government finance as a consultant in the City.

Although in theory it might be desirable to make the scheme very unattractive to authorities so as to provide them with an incentive to reduce expenditure, the plain fact is that the rate limits we eventually set are bound to catch some authorities. We therefore do need to be concerned about the workability of the scheme; it would be entirely counter-productive to our objectives if the financial machinery of local authorities caught by the scheme simply collapsed under its weight.

In the light of the reaction to my consultations I have therefore concluded that the scheme as proposed, involving two supplementary rates, needs to be modified if it is to operate effectively and if we are to avoid the risk of seriously adding to local authorities' costs and manpower.

I therefore propose a simplification of the scheme which I think will help make it more effective. My proposal is simply to cut out the first supplementary rate from the process. Since the first supplementary rate stage would then be removed, I also propose to bring forward the date of the referendum. There would be a limit on the main rate which an authority could levy at the start of the year. If its expenditure plans required a rate in excess of that limit the authority would have to proceed straight to a referendum in June. If it succeeded in the referendum it could levy its supplementary rate (the amount of which it would have had to announce before the referendum), which would have to be applied at a higher rate to domestic ratepayers than to non-domestic ratepayers. If the authority failed in the referendum it would, as envisaged under the original scheme, have to come to me for borrowing approval for the remainder of the year, and its rate would be subject to a ceiling for the following year.

limit

There are two other points I should draw to colleagues' attention:

(i) it has become clear to me that in order to make effective the controls I will have to take over an authority which fails a referendum, I will need to have a power to give directions to such an authority in respect of the extent of its service provision and of its fees and charges, including rents and fares. This power would extend to Passenger Transport Executives and London Transport. Such powers of direction would obviously be highly controversial and I propose that any directions I might give to an individual authority under these powers should be subject to ratification by the House of Commons by means of an Order subject to affirmative resolution;

(ii) Colleagues will recall from a discussion in E that I considered that it would probably be necessary to provide a means for modifying the application of the scheme in respect of historically high-spending authorities who could not get down to the threshold limits under the scheme, but who nevertheless had made exceptional efforts to reduce their expenditure. My intention has been to relate such modifications to the RSG expenditure targets. However, there are questions about the feasibility of these targets which we are to discuss at MISC 21 this Friday. Without prejudging the outcome of that discussion I think it would be better to provide in the Bill for a more widely-drawn power to enable me to exempt classes of authorities or authorities meeting certain specified conditions from the scheme. I am advised that this power could also be used by Nick Edwards to exempt all Welsh authorities from the provisions if he wished to do so in the light of the circumstances in Wales.

In view of the very tight timetable for introduction of the Bill, Parliamentary Counsel has already been instructed to provide for the provisions I have described in this minute in the draft which will go to L on 3 November. These changes are designed to facilitate the achievement of the agreed policy and do not represent a change in our objectives; however, since they do involve modifications of certain aspects of the agreed scheme I thought it only right to warn you and colleagues before L and introduction of the Bill.

Copies of this minute go to other members of the Cabinet, to Sir Robert Armstrong and to First Parliamentary Counsel.

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