

Ref. A05869

PRIME MINISTER

Local Government Finance Bill: Interim Rating Measures
(Secretary of State for the Environment's minute to you of 29 October)

BACKGROUND

You agreed that the Ministerial Committee on Economic Strategy should discuss as an additional item the Secretary of State for the Environment's minute to you of 29 October on interim rating measures. This is because the proposals made in that minute represent an important change in the policy agreed by the E Committee on 23 September. Legislation Committee cannot properly consider the Local Government Finance Bill on 3 November unless there is policy approval of the proposals contained in it.

2. The main features of the interim rating measures for England and Wales approved by the E Committee on 23 September were set out in E(81) 93, read in conjunction with E(81) 85. In summary they were as follows -

- a. There should be limits for each local authority on both the initial main rate and the first supplementary rate which it may levy.
- b. Any second supplementary rate should be subject to a referendum.
- c. If the answer is No, there would be temporary borrowing approval for the rest of the financial year sufficient only to meet committed expenditure, and prior approval by the Secretary of State of the budget for the following year.



3. The new proposals are -

a. There would be a limit on the main rate which an authority could levy at the start of the year. ✓

b. The authority could levy only one supplementary rate in excess of that limit and this would have to be approved by referendum in June. ✓

c. If the answer is No, there would be temporary borrowing approval for the rest of the financial year sufficient only to meet committed expenditure and the rate would be subject to a ceiling for the following year.

d. The Secretary of State would have powers to give directions (subject to affirmative resolution) to an authority which fails a referendum, in respect of the extent of its service provision and of its fees and charges, including rents and fares; these powers would extend to Passenger Transport Executives and London Transport.

e. There would be powers to exempt classes of authorities or authorities meeting certain specified conditions from the scheme.

4. The Secretary of State for Scotland, in a letter to the Home Secretary of 28 October, has proposed a different approach to excessive rates in Scotland from that set out in his paper E(81) 90 approved at E Committee on 23 September. His proposals were always different in detail from those affecting England and Wales, but they included the use of a referendum in certain circumstances. He now proposes instead a minor amendment to the 1981 Local Government (Miscellaneous Provisions)(Scotland) Act which would enable the Secretary of State to insist on a high spending local authority reducing its rates poundage as an alternative to losing grant. He thinks that this approach will be just as effective in the Scottish context, will avoid expensive local referenda, and will be much easier to get through Parliament.



MAIN ISSUES

5. The Secretary of State for the Environment's new proposals for England and Wales are designed to reflect points raised in consultations and to be more workable than the earlier ones. Ministers are likely to welcome this. They may however be concerned whether the new proposals will achieve the same objectives as the earlier ones, and will be defensible. Ministers approved the referendum proposal before on the understanding that only a few local authorities would have to use the procedure; for the vast majority the legislation would serve as a deterrent to high spending. But, now that the referendum is to bite on the first supplementary rate, more local authorities may be caught. There is therefore a new provision to exclude classes of authority and particular authorities from the scheme - such as, for example, all local authorities in Wales. Will this seem indefensibly arbitrary? Finally the new provision to determine, in the case of a local authority which has failed a referendum, the extent of service provision and the levels of rents and fares, raises difficult issues. It may draw the Government into the kind of detailed intervention which seemed unattractive when the earlier proposals for dealing with London Transport and the Passenger Transport Executives were under consideration.

6. The Secretary of State for Scotland's proposed change is less difficult. Since however a referendum is no longer envisaged in Scotland, it may be more difficult to justify referendum provisions in England and Wales - especially if the eventual intention to exclude all Welsh authorities.

7. More generally we understand that the Home Secretary and several other Ministers are becoming increasingly worried about the prospects for the Local Government Finance Bill in Parliament, in the light of evidence about the reactions of the Government's own supporters.



HANDLING

8. Since time will be short, your main concern will be to establish quickly whether the policy changes outlined in the Secretary of State for the Environment's minute of 29 October command fairly general support. If they do, there will be no difficulty and discussion of the Local Government Finance Bill can proceed in Legislation Committee on Tuesday 3 November as planned. If however several Ministers have serious reservations about the changes or want to reopen the question of whether a Bill of this kind should be introduced, time will have to be found for a substantive discussion by the E Committee. This will further complicate the timetable for the Bill which has to be introduced very early in the Session if it is to take effect in 1982/83.

9. It is less important for the Committee to reach conclusions on the Secretary of State for Scotland's proposals in his letter of 28 October (which appeared too late to be referred to in the revised agenda for E) since the timetable for that Bill is less critical and it might be cleared in correspondence. But the Committee will need to be aware of the proposed new approach in Scotland when considering the revised proposals for England and Wales.

CONCLUSIONS

10. You will wish to reach conclusions, in the light of the discussion on -

i. whether the Committee approves the revised proposals for interim rating measures in England and Wales set out in the Secretary of State for the Environment's minute of 29 October, for inclusion in the Local Government Finance Bill;

ii. whether the Committee approves the revised proposals for interim rating measures in Scotland set out in the Secretary of State for Scotland's letter to the Home Secretary of 28 October.

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30 October 1981