

Ref. A05894

PRIME MINISTER

Local Government Finance Bill: Interim Rating Legislation

(E(81) 110)

BACKGROUND

At its meeting on 2nd November (E(81) 31st Meeting, Item 1) the Committee discussed revised proposals for interim rating legislation for England and Wales set out in a minute from the Secretary of State for the Environment to you of 29th October. Anxiety was expressed as to whether the proposals were workable, defensible and had a reasonable chance of acceptance by Parliament. The Secretary of State was asked to report back to the Committee and to consider the following specific points:

- (a) Whether the legislation should contain a referendum provision or be based on a different approach such as that adopted in Scotland.
- (b) Whether there was a need to include a power of specific direction over service provision, rents, fares, etc.
- (c) Whether the power of specific direction could be exercised separately and differently in Wales.
- (d) Whether the power of specific direction was adequate in respect of transport authorities, police authorities and similar bodies.

The Secretary of State's paper (E(81) 110) discharges this remit.

MAIN ISSUES

Is some new legislation required?

2. The first issue is whether the Committee confirms the decision reached earlier, and reflected in announcements already made and in The Queen's Speech, that some new measures are required to restrain increases in rates. The Secretary of State considers briefly in paragraph 9 the option of continuing to rely on the block grant mechanisms and hold back. His conclusion is that this option is unacceptable in view of the statements which have been made. Some of

the opposition from Conservative-controlled councils, referred to in the Committee's earlier discussion, would probably remain whatever precise method was eventually adopted in the legislation for curtailing the rating powers of local authorities. The degree of opposition might, as the Secretary of State indicates in paragraph 8ii. of his paper, be affected by the decisions which the Government eventually takes (starting next week) on public expenditure affecting local authorities; but it does not seem likely that the public expenditure decisions will do much to soften local authority opposition.

Referendum/Election/Scottish approach

3. If the Committee agrees that some new measures to limit rates should be introduced in the current Session, the next issue is to decide whether the means of control should be by referendum, election, or direct central Government intervention on the Scottish model.

4. The Secretary of State for the Environment has always preferred the election route, but was overruled by an overwhelming majority of the Committee at meetings on 16th September (E(81) 27th Meeting, Item 1) and on 23rd September (E(81) 29th Meeting, Item 1). The main arguments in favour of elections as against referenda are that there is less likelihood of conflict with a council (it either wins and can go on spending or is defeated and replaced by a council which does not want to spend) and there is no danger of setting awkward precedents for referenda on other issues. The arguments in favour of referenda, which have hitherto been thought compelling, are that they would be cheaper and simpler than elections, could be confined to the narrow issue of the supplementary rate, and would be less open to manipulation by the Government's political opponents.

5. The Scottish option, which involves neither elections nor referenda, has not previously been considered in detail by the Committee. This is dealt with in the Annex to the Secretary of State's paper and in paragraphs 9-11. The main advantage of the Scottish approach is that it avoids the disadvantages of both elections and referenda and enables central Government to intervene directly. The Annex outlines a variant of the Scottish system which might be

adopted in England and Wales. Under this scheme the Secretary of State would consider applications for supplementary rate from local authorities and, where he chose to approve extra rate poundages, he would have to put an order before the House of Commons.

6. The main disadvantage of this approach is that it goes much further in imposing central Government control on local government finance. Although it has so far appeared to be workable and acceptable in Scotland, there are doubts whether it would be so in England. There is the problem over distributing expenditure among different services for which different Secretaries of State are responsible; there are many more local authorities (413); and there is a greater risk that some of the large and powerful English authorities would challenge the Secretary of State's discretion in the courts. The Secretary of State argues strongly against this option, as likely to be even more controversial and to carry even greater risk of confrontation with particular local authorities.

7. If the Committee decided to abandon the referendum route and go for either elections or direct intervention on the Scottish model, the introduction of the Bill would be delayed by some two weeks. This might put at risk the objective of affecting the level of rates in 1982-83.

Power of specific direction

8. If the Committee confirms the earlier decision to adopt the referendum option, the next issue is whether this should be combined with a power of specific direction. The Secretary of State is prepared to go ahead with a Bill without such a power (and an alternative draft on these lines has now been prepared. He recognises the difficulties, but he nevertheless maintains his view that these powers are needed.

9. This leaves the points of detail on specific directions:

- (a) On Wales it has been confirmed that the power could be exercised differently and separately in Wales.
- (b) On transport authorities the Secretary of State for the Environment concedes that the powers need to be improved; he argues that this could be done in Committee but we understand that the Secretary of State for Transport will be writing to urge that a new clause should be incorporated in the Bill now.


- (c) On police authorities and similar bodies, it will be for the Home Secretary to consider whether they would need to be covered and, if so, whether amendments should be made at the Committee Stage. (If at all possible, the Bill should surely be amended before introduction.)

HANDLING

10. When the Secretary of State for the Environment has introduced his paper you will probably want to invite comments particularly from the Secretaries of State for Scotland and for Wales, the Home Secretary, the Lord President, the Paymaster General and the Chief Whip. The Secretary of State for Transport will wish to comment on the position of transport authorities.

CONCLUSIONS

11. You will wish to reach conclusions, in the light of the discussion, on the following issues:
- (i) Whether the Government should proceed with its intention, already announced, to introduce in this Session new measures to restrict rate increases in England and Wales.
 - (ii) Whether the control should be by referendum, by elections, or by direct central Government intervention on the Scottish model.
 - (iii) Whether, if the referendum option is not adopted, it is accepted that it may not be possible to introduce the legislation in time to affect rate levels in 1982-83.
 - (iv) Whether, if the referendum option is adopted, this should be combined with a power of specific direction, subject to the detailed points related to transport authorities, police authorities and similar bodies.
 - (v) Whether, assuming that all these points have been resolved, the Committee is satisfied that the proposals are in general sufficiently worked out and thought through to enable the Bill to go before Legislation Committee and be introduced as quickly as possible thereafter.


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4th November, 1981