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Prime Minister

Agree to commissioning work by
the CPRS as proposed at X?

MCS 20/11

Qa 05725

19 November 1981

To: MR SCHOLAR

From: MR IBBS

Local Government - Alternatives to Domestic Rates

1. The CPRS welcomes the Green Paper on the Alternative to Domestic Rates by the Secretary of State for the Environment. It is clear from the draft that none of the alternatives is wholly satisfactory. While the document focusses on alternatives to domestic rates, it also raises questions about the functions of local government (eg the place of the education service) and about ways of encouraging more financially responsible behaviour from local authorities. The CPRS thinks that a satisfactory solution may well require changes in these other two areas.

2. It is of vital importance for the Government's economic strategy that the total amount of local government spending should come as close as possible to the targets which Ministers set. The most effective way to ensure that the targets are met would be some form of central government direction; but this would upset the constitutional balance between central and local government, and would conflict with the Government's desire to have a healthy independent local government. On the other hand, the Government might seek to increase the degree of local authority accountability, in the hope that they would be led to behave in a more responsible manner.

To achieve this, more than the current 16% or so of their expenditure would have to be raised from local people - at least at the margin. But there are severe doubts about whether the domestic rating system in its present form is robust enough to support this. The interim legislation currently before Parliament is of course an attempt to grapple with this dilemma.

3. The three main issues - the allocation of functions, the methods of raising revenue and the problem of local accountability vs. central control - are thus closely linked. Methods of financing might vary with the different

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functions for which central and local government are responsible; for example education, as a national service managed locally, might be treated differently from purely local services. If there is to be an element of local discretion, the major aim of revising the rating system should be to ensure that financial irresponsibility by a local authority rebounds, and is seen to rebound, on to its own electorate; this could mean closing off the easy option, for authorities like Camden, of raising the bulk of their revenue from non-domestic (and non-voting) ratepayers.

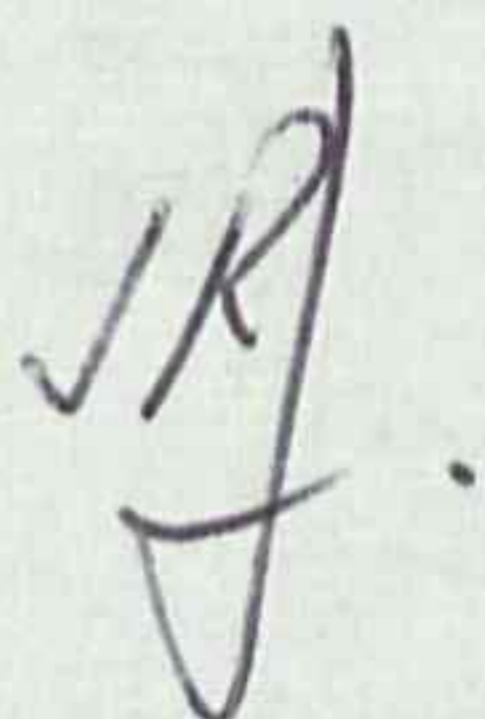
4. Many of the present problems stem from the fact that, up to now, the three issues have been considered separately: Redcliffe-Maud examined structure and functions but not finance; Layfield covered finance but not functions; and the recent efforts to curb local government spending have taken as given the existing functions and methods of finance.

5. The need to take decisions on the reform of the domestic rating system offers the Government an opportunity to consider all these issues together. Indeed, the CPRS believes that it is only by considering the different facets of local government finance together that a coherent set of mutual reinforcing proposals can be developed. We therefore suggest that as background for Ministerial decisions on the domestic rating system, work should be done to identify the options, from among this wider range of issues, which would best meet the Government's objectives. If from this work a fairly radical option were to emerge as attractive, the necessary legislation might be for the next Parliament rather than this.

6. The issues span several Departments, centrally the DoE but also the other Departments which sponsor local authority services, and the Treasury. The CPRS would be well placed to undertake the work, not only because of its cross-Departmental nature, but also because it would be easier for the CPRS than for Departments to tap outside expertise and opinion without any implied Government commitment. In this sense the work would form part of the consultative process.

7. I attach a draft passage which, if the Prime Minister agrees, could be incorporated in her reply to the Secretary of State for the Environment.

8. I am sending a copy of this minute to Sir Robert Armstrong.





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Draft Paragraphs for reply to DOE

To: Private Secretary to the
Secretary of State for the Environment.

From: Mr Scholar

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1. The Prime Minister is particularly keen that any system which replaces, or supplements, domestic rates should help reduce the problems currently being encountered in local government spending. She is content that the document should discuss possible variations both in local government functions and in central/local relations. She accepts that there are no simple alternatives to the domestic rating system, and recognises that, in order to find a satisfactory solution, changes to functions or to central/local relations may be needed.
 2. Accordingly, and as part of the consultative process, the Prime Minister has asked the CPRS to examine how changes in each of these dimensions might best be combined to meet the Government's objectives. This should provide a background against which to make decisions at the end of the formal consultation process. The CPRS has been asked to work closely with your Department, and the other Departments mainly involved.

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