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REPORT OF THE MINISTERIAL GROUP ON LOCAL GOVERNMENT  
ORGANISATION AND FINANCE

Memorandum by the Secretary of State for the Home Department

1. The Ministerial Group on Local Government Organisation and Finance (MISC 79) has been considering under my chairmanship a range of matters affecting the financial arrangements for local government in Great Britain and possible changes in its structure and functions. This memorandum summarises our recommendations, which are set out in more detail in the attached note.

DECISIONS ALREADY TAKEN

2. Following my minute of 18 June to the Prime Minister, it was agreed that the Group should not explore any of the sources of revenue which have been put forward as possible alternatives to reformed domestic rates (assigned revenues; local income tax; local sales tax; poll tax). The Group's recommendations on legislation to regulate subsidies from local authorities to public transport, as reported in my minute of 8 July, were accepted and are contained in the Transport Bill. Finally, my minute of 20 July reported, among other things, that we did not favour the creation of a separate Exchequer grant to help finance local authority education.

DECISIONS TO BE TAKEN

3. MISC 79 now makes the following recommendations:
- a. The Greater London Council (GLC) and the Metropolitan County Councils should be abolished.
  - b. Public Transport in the London area should be reorganised by making the London Transport Executive responsible to the Secretary of State for Transport (instead of the GLC) and by converting it, in two stages, into a Metropolitan Transport Authority. It would co-ordinate, and distribute Government financial assistance between, the London Underground and buses and the South Eastern commuter services of British Rail.
  - c. A scheme of discounts on domestic rates should be introduced for households consisting of a single person. This would provide flat-rate discounts of the order of £1.50 a week on rate bills of over £3 a week; or 50 per cent of smaller rate bills. The cost would be about £140 to £170 million a year. In presenting the scheme we should say that provision for it will be made in the Rate Support Grant settlement each year.
  - d. County Councils should provide separate rate bills; but the existing collection system should not be changed.
  - e. Council tenants should receive annual rate statements.

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- f. The maximum rateable value below which non-domestic rates may be paid by instalments should be increased.
- g. Local authorities should be put under a statutory obligation to consult local representatives of industry and commerce before fixing rates or precepts.
- h. Non-domestic property should be revalued; but we do not recommend a revaluation of domestic property in the near future in England and Wales.
- i. We should consult interested parties on streamlining valuation procedures as recommended in a recent 'Rayner' scrutiny.
- j. There should be no change in local authority electoral arrangements.

The measures in d, e and f above are already in force in Scotland.

4. There are two matters on which the Group were unable to reach agreement.

k. The Inner London Education Authority. This is a special committee of the GLC. If the GLC is abolished new arrangements will therefore need to be found for organising education in inner London. Most members of the Group think that a single body should be retained but reconstituted as a joint board of the inner London boroughs. A minority of the Group consider that education should become the responsibility of the inner London boroughs.

l. Measures to restrain local authority current expenditure. Most members of the Group think that we should not introduce new measures to control local authority current expenditure or rates. There is minority support in the Group for -

- i. canvassing, in a consultative document or elsewhere, a system of selective central controls on the current expenditure or rates of English and Welsh local authorities;
- ii. 'capping' increases in non-domestic rates.

Either measure might be associated with a requirement that local authorities which wished to spend or rate highly should hold a 'town poll' or offer themselves for re-election.

### LEGISLATION

5. All the matters discussed in paragraphs 3 and 4 above (except those at paragraph 3 f and h. require primary legislation. There is no prospect of legislating in the present Parliament. We should, however, be ready to legislate as quickly as possible after a General Election. Legislation to set up a Metropolitan Transport Authority and on rating reform could probably be ready for introduction in November 1983; legislation to abolish the GLC and the Metropolitan Counties early in 1984 provided that preparations begin and announcements are made soon.

### ANNOUNCEMENTS

6. The exact means and timing of announcements will depend on our decisions of substance. But MISC 79 considers it important that the decisions should be presented as a package, not piecemeal. Some of our supporters may think that they do not go far enough, particularly in the field of domestic rates. But they can be defended as a reasonable compromise between local freedom and the legitimate needs

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of central government. A good deal of support for them can be found in the recent reports of the Select Committees on the Environment and Transport. We shall need to be able to indicate in some detail how we might organise the relevant local authority services if we decide to abolish the GLC and the Metropolitan Counties. The Secretary of State for the Environment favours an announcement or co-ordinated set of announcements in March. This would permit a timely reply to the report of the Environment Select Committee on alternatives to domestic rates, and would facilitate the early implementation of MISC 79's recommendations.

**CONCLUSION**

7. I invite my colleagues to endorse the recommendations in paragraphs 3 and 5, and to decide the issues in paragraph 4 above, and how our conclusions should be publicly presented.

W W

Home Office

13 January 1983

LOCAL GOVERNMENT ORGANISATION AND FINANCE

Report by the Ministerial Group on Local Government  
Organisation and Finance (MISC 79)

INTRODUCTION

1. This report sets out MISC 79's recommendations, including those already reported in the Home Secretary's minutes of 18 June, 8 July and 20 July to the Prime Minister. Paragraphs 2 to 6 recommend changes in the structure and functions of local government; paragraphs 7 to 31 discuss, and recommend certain changes in, the financial arrangements for local government; paragraphs 32 to 34 suggest how and when the Group's proposals might be presented and put into effect.

LOCAL GOVERNMENT STRUCTURE AND FUNCTIONS

The Greater London Council (GLC) and the Metropolitan County Councils

2. The GLC and the six Metropolitan County Councils (West Midlands, Greater Manchester, Merseyside, Tyne and Wear, South Yorkshire and West Yorkshire) account for a disproportionately large part of current local authority overspending. Their minor functions duplicate those of the London boroughs and metropolitan districts; their 'strategic role' is too readily inflated to the point of conflict with central Government over national policies. They are unpopular, not only among our own supporters, but also in the country at large. We consider that there is an overwhelming political case for their abolition, which we accordingly recommend.

3. There are a number of problems with which we shall have to deal if we decide to abolish the GLC and the Metropolitan County Councils. We do not regard any of them as insuperable.

a. We shall need to keep to a minimum the costs of transition, which cannot be satisfactorily estimated as yet. It will probably be best for Ministers to supervise the transitional arrangements themselves and not leave decisions exclusively to the local authorities and their staff.

b. We shall need to explain and defend the implications of abolishing the GLC and Metropolitan County Councils for the services they provide. Paragraph 4 below recommends that the GLC's main function, the control of London Transport, should be entrusted to a Metropolitan Transport Authority; paragraphs 5 and 6 discuss the future of the Inner London Education Authority (ILEA). Some London-wide arrangements, probably a joint board of London boroughs, will probably be necessary for the GLC's responsibilities for highways, traffic management and strategic land use planning. Abolishing the Metropolitan County Councils will have administrative disadvantages for the organisation of the police service; but these can be satisfactorily resolved by setting up joint boards of the metropolitan districts to act as police authorities. Similar joint boards of metropolitan districts will probably be necessary for fire, transport and land use planning. Most of the GLC's and Metropolitan County Councils' minor functions can be carried out satisfactorily by individual London boroughs or metropolitan districts. Annex A sets out in more detail the Group's provisional recommendations about how these authorities' functions might be reallocated.

c. Our political opponents, especially the present leadership of the GLC, will try to portray abolition as a vindictive reaction to the fact that the GLC and most of the Metropolitan Counties are under Labour control. We, for our part, shall need to emphasise the likely benefits to ratepayers.

d. Once the intention to abolish the councils is announced they may begin to act irresponsibly or mischievously, and they may not cooperate in the preparation of the legislation. We shall need to be ready to counter or restrain any such action.

e. A decision to abolish the GLC may be criticised on the grounds that there should be an elected body which can represent London as a whole. The Group thought it important to have some kind of representative body, but felt that it would probably be possible to create one by developing the role of the London Boroughs Association.

#### Public Transport in the London Area

4. If the GLC is abolished, new arrangements for the control of transport in London and the surrounding area will be inevitable. Even if the GLC is retained, there is a strong independent case for organisational change to make transport

policy in London more coherent, notably by rationalising and co-ordinating the London Underground and the London commuter services of British Rail (BR). In the Group's view this would best be done by converting the existing London Transport Executive (LTE) in two stages into a new Metropolitan Transport Authority (MTA), appointed by the Secretary of State for Transport and responsible for allocating grant (which it would receive from the Government) among BR's London commuter services, the Underground and London bus operators. It would approve investment in these services and would have a general obligation to ensure that public transport was provided efficiently and cost-effectively throughout Greater London and for commuters into it. Annex B describes this proposal in more detail: there will be consequential changes in local government financial arrangements in London.

Inner London Education Authority

5. IIEA is formally a special committee of the GLC. If the GLC is abolished some new arrangements must therefore be found for organising education in inner London (the old London County Council area). The Group has been unable to reach agreement on whether a single body with this responsibility should be retained. Some members take the view that any authority whose sole responsibility is the provision of education (and the careers service) throughout London will, like IIEA, be congenitally profligate. They conclude that education should become the responsibility of the inner London boroughs, acting either alone or in groups, as it is of the outer London boroughs and the districts in the metropolitan counties. Most members of MISC 79, however, take the view that a single body should be retained but reconstituted as a joint board, consisting of persons nominated by the inner London boroughs and the City of London, who would themselves be councillors of those authorities. They argue that a single education authority for inner London is better able than individual boroughs or groups of them to deal with the problem of falling school rolls while trying to improve educational standards; and that fragmentation would create serious management problems, both at school level, given the existing distribution of schools and population, and for further and higher education. It would also cause upheaval in the finances of local government in London: it would probably be necessary to devise a new, overt and contentious mechanism to distribute some of the benefit of Westminster's and the City's high rateable resources among other inner London boroughs to replace the covert redistributive effects of the IIEA precept. There are also political considerations: when we considered the future of IIEA in 1980 and 1981, there was strong evidence of opposition to breaking it up and we concluded that the Authority should be retained (CC(81) 1st Conclusions, Minute 4; CC(81) 3rd Conclusions, Minute 5).

An announcement now that we intended to break up the ILEA would lead to a vigorous campaign by the education lobby to retain it. This might overshadow the political benefits we can expect from announcing a decision to abolish the GLC.

6. The Group has considered whether individual inner London boroughs should be able to 'secede' from whatever arrangement generally replaces ILEA; but concludes that it would be best not to proceed in this way. A right of secession would tend to disrupt the organisation and financing of education (particularly as, after changes of political control, individual London boroughs might reverse previous decisions about whether to secede); it would also set an unfortunate precedent in allowing individual local authorities to decide for what services they would make themselves responsible.

#### FINANCIAL ARRANGEMENTS

7. At an early stage the Group reached the view that none of the alternatives to domestic rates canvassed in the Green Paper on that subject (local sales tax, local income tax, poll tax, assigned central Government revenues) should be adopted; and that the Government should not attempt to introduce a new Exchequer grant in support of local authority education. The Home Secretary's minutes of 18 June and 20 July reported those conclusions.

8. The Group has therefore considered how the rating system might be reformed, to remove or mitigate some of its perceived unfairness and disadvantages; and has examined possible measures to discourage or prevent local authorities from imposing excessive burdens on their ratepayers to support unreasonable levels of expenditure.

#### Rating reform: discount scheme

9. It is a widespread criticism of domestic rates that single occupiers pay as much as large households. MISC 79 recommends that, to meet this criticism, a rate discount scheme should be introduced for households consisting of only one adult occupier. The scheme would provide for a flat-rate discount of the order of £1.50 on rate bills of over £3 per week: for lower rate bills there would be a 50 per cent discount. It would assist about 5 million ratepayers. The discount would be on gross rates, ie before rate rebates. The annual cost would be in the range of £140 to £170 million. Annex C sets out the Group's reasons for preferring this method of altering the incidence of domestic rates to other possible discount schemes or surcharges.

10. If we announce that we intend to introduce a discount scheme on these lines, we shall need to indicate whom we intend to pay for it. The Chief Secretary, Treasury considers that a discount scheme should be seen as a structural change within the rating system, and that there is no reason why it should be linked with an increase in the proportion of local authority expenditure paid for from central Government funds; and that any increase in central Government support would undesirably reduce local authorities' accountability and financial responsibility to their electorate. Most members of the Group, however, consider that the political advantage of introducing a discount scheme will be lost unless we can say that it will be paid for by central Government. It would be very awkward to suggest that other domestic ratepayers, some of them worse off than the scheme's beneficiaries, should bear the cost; and the Green Paper on Alternatives to Domestic Rates said that "any new measures should not increase the relative burden on industry and commerce", as would be the case if non-domestic ratepayers paid part of the scheme's costs. The Group therefore recommends that in presenting the scheme we should say that the Government will make provision for it in the Rate Support Grant (RSG) settlements each year, and will take into account the effective reduction in rateable value at the level of individual authorities in calculating each authority's entitlement to grant. In reality, it will be impossible to say who has paid for the scheme if its cost is taken into account in fixing the overall amount of central Government support for local authorities through the Rate Support Grant.

Rating reform: other measures

11. The Group recommends the following reforms of the rating system.
- a. County councils, which precept on the rates of the districts or London boroughs, should provide, through them, separate rate bills to ratepayers, together with details of the rate or precept they levied in the previous year; so should any other major precepting authority, for example the Receiver of the Metropolitan Police or any new joint boards created in Greater London or the metropolitan counties. This should increase ratepayers' awareness of how much they pay in rates to each authority. Payment would continue to be made to the district or London borough, as at present.



b. Council tenants should receive annual rate statements, to increase their awareness of how much of their inclusive rent consists of rates.

c. The maximum rateable value below which non-domestic rates may be paid by instalments should be increased, with the new limit decided after consultations with the local authority associations.

d. Local authorities should be put under a statutory obligation to consult local representatives of industry and commerce before fixing their rates or precepts.

Arrangements similar to the first two of these measures are already in force in Scotland. All Scottish ratepayers already have the right to pay rates by instalments.

12. The Group recommends that there should be a revaluation of non-domestic property in England and Wales. The Secretary of State for the Environment and the Chief Secretary, Treasury propose that the revaluation should take effect from 1 April 1987.

13. There is a considerable weight of professional opinion in favour of a revaluation of domestic property as well, on the basis of capital values rather than the present basis of hypothetical rental values. Unless the private rental sector is revived, a move to capital valuation of domestic property may well be inevitable in the long term, and would be more comprehensible to ratepayers than is the present system. But such a change would establish the principle of a tax based on the capital value of personal assets. Nor is a revaluation on the present basis desirable in the near future. It would cause resentment among many ratepayers; and local authorities might not feel obliged to make fully offsetting reductions in their rate poundages, so that the pressure on them to hold down their expenditure would be reduced. The Group therefore does not recommend that there should be a domestic revaluation in the near future in England and Wales.

14. The Group also recommends that interested parties should be consulted on the changes in valuation procedures recommended in a recent 'Rayner' scrutiny of the Valuation Office.

15. Separately from MISC 79's work, the Secretary of State for Scotland will be seeking colleagues' agreement to legislation early in the next Parliament to rectify some of the anomalies created by the existence of separate valuation systems North and South of the Border. He also proposes that there should be a full rating revaluation in Scotland, covering domestic and non-domestic property, using the existing methods of valuation, in 1985. He will seek other colleagues' views on this proposal in the light of the Cabinet's discussion of MISC 79's report.

Measures to Restrain Local Authority Expenditure and Rates

16. The level of domestic and non-domestic rates, and the speed with which they have increased in recent years, remain a matter of great political concern in many parts of the country. Indeed, much of the criticism of rates as a system of local taxation is due not to their structure but to their level.

17. The abolition of the GLC and the Metropolitan County Councils, recommended in paragraph 2 above, and the establishment of new arrangements for education in inner London should help to restrain local authority expenditure; the GLC, ILEA and the Metropolitan Counties account for about two-thirds of the amount by which local authority current expenditure exceeds the Government's targets. The powers to control transport subsidies contained in the Transport Bill, (which are based on the recommendations by MISC 79 reported in the Home Secretary's minute of 8 July to the Prime Minister) should lead to greater economy in an area of local authority spending which has in recent years been marked by outstanding irresponsibility and extravagance. Some of the minor changes to the rating system which the Group recommends can also be expected to increase the pressure for economy in local government.

18. It would be wrong, however, to exaggerate the effects of the changes described above on local authorities' behaviour. Abolishing the GLC and the Metropolitan Counties will bring no relief to aggrieved ratepayers elsewhere. Some of the lower-tier authorities in the conurbations which will be involved in carrying out new functions if the GLC and Metropolitan Counties are abolished are themselves just as profligate.

19. The Group has therefore considered proposals to control individual local authorities' current expenditure or rates; or to 'cap' non-domestic rates.

Selective Controls on Local Authority Current Expenditure or Rates

20. It would in principle be possible to establish a new system of selective central controls on the current expenditure or rates of English and Welsh local authorities (their capital expenditure is already cash-limited). The most suitable arrangement (because the least susceptible to successful legal challenge) would probably be for the Government to set a limit or limits on rate increases. The limits would vary for different groups of authorities to recognise their different circumstances. Authorities which wanted to raise rates further would have to apply to the Secretary of State for the Environment for permission to do so. The limits would be set so that only a few authorities would be caught. The rest would be free to determine their expenditure and rates provided they kept rate increases within the specified limits.

21. An alternative arrangement would be for the Secretary of State for the Environment to select a few authorities for scrutiny and to set individual limits on their rate increases, subject to Parliamentary approval.

22. A selective control scheme would have a number of attractions. Excessive local authority current expenditure remains a major structural problem in controlling public expenditure; an announcement that the Government intended to take steps to curb excessive rates would be supported by many members of the public.

23. On the other hand, any scheme to control individual authorities' current expenditure or rates would raise major difficulties.

a. It would involve an important shift in the balance between central and local government. Ministers would for the first time be setting a limit on the amount which English and Welsh local authorities could spend. Efforts so far to restrain local authority spending by setting targets backed by holdback of RSG have left intact the principle that in the last resort local authorities should have the freedom to raise rates to

pay for local services: that would not be the case if expenditure or rate controls were introduced. Moreover, if any local authority sought to justify expenditure higher than that permitted by rate limits which the government had prescribed, Ministers would have to form a detailed judgement of what that authority could justifiably spend. Many voters may attach little importance to the constitutional relationship between central and local government; but many of our own active supporters hold strongly to the view that local matters must remain for local decision and doubt central government's ability to reach better decisions than those on the spot. It was in this spirit that our manifesto for the 1979 General Election said that local government independence should be increased.

b. The limits set would be susceptible to challenge in the courts, where Ministers' decisions could be subject to detailed scrutiny.

c. Any scheme would involve a significant shift in power and responsibility to the Secretary of State for the Environment from other Ministers who are responsible for local authority services. The Attorney General has advised that the legislation providing for a scheme would need to confer authority upon the Secretary of State for the Environment to decide whether a given level of expenditure should be permitted. In reaching that decision he would of course be entitled to discuss the matter with his colleagues; but the final decision would be his alone and could not be taken collectively. He cannot delegate the exercise of his discretion. It would be difficult to reconcile such an overriding authority for the Secretary of State for the Environment with, for example, the Home Secretary's statutory responsibilities for the police and fire services and the Secretary of State for Education and Science's statutory responsibilities for the education service.

d. There are political arguments against as well as for controls. First, there is a danger that an announcement that we intended to legislate to control local authority expenditure or rates would arouse expectations of a much wider-ranging system of controls than would be possible in practice. The control could in practice bite on no more than twenty to

thirty authorities. Secondly, and in consequence, the Government would be blamed for those rate increases which the system did not prevent: we should indeed be regarded as approving rate increases right up to the limit. Thirdly, there would be a more general tendency for the blame for the shortcomings of individual local authorities to be put on to the Government.

24. A system of selective controls over local authority current expenditure already operates in Scotland, although it differs from the arrangements which some members of the Group think would be appropriate in England and Wales. Annex D describes the Scottish system of controls and discusses its relevance to the question whether there should be selective controls over the current expenditure of English and Welsh local authorities.

25. A minority of the members of the Group take the view that the balance of argument favours further action to restrain local authority expenditure, and that the establishment of a new system of selective controls could bring valuable benefits, both substantial and presentational. They argue that over a period of years the existence of such a system would reduce the expenditure of the highest spending authorities and encourage the rest to be more economical. They believe that many members of the public would regard it as the least that could be offered if we do not abolish the rating system itself, and that we shall be strongly and rightly criticised if our package of proposals includes no measures directly aimed at limiting the burden of the rates. They suggest that we should, in a consultative document or otherwise, publicly canvass the idea that there should be new powers for selective central control of local authority expenditure or rates.

26. Most members of MISC 79, however, take the view we should not seek powers to control local authority current expenditure or rates in England and Wales; but should continue to rely on the rate support grant system and on grant holdback to restrain local authority current expenditure. They believe that, far from reducing expenditure, a system of central controls could even increase it, since it would appear to endorse rate increases up to the limit set

by the Government, and that limit would have to be set high in order to avoid catching more than a manageable number of authorities. They further take the view that it would be unwise even to go so far as to suggest in public that a system of controls is a possibility for the future if local authorities do not show more moderation in their expenditure than in the past. They consider that it would be unwise to suggest a policy which we would have great difficulty in carrying out.

"Capping" increases in non-domestic rates

27. Ministers have been under intense pressure from industrial and commercial ratepayers for some protection against profligate local authorities. In some areas of the country over 70 per cent of local government rate revenue comes from industry and commerce, yet industrial and commercial ratepayers have no vote and little influence over local government decisions. Some members of the Group take the view that the measures recommended in paragraphs 11 and 12 above are an inadequate response to the pressure for effective controls on non-domestic rates and will not satisfy the expectations raised by the statement in the Green Paper on Alternatives to Domestic Rates that "the Government will keep under review the contribution that industry and commerce make through rates to the cost of local services and does not rule out the possibility of measures to reduce that contribution if it should become essential to do so." They believe that, if we do not put forward the idea that there should be new measures to control local authority expenditure and rates, we should make clear that we intend to take powers to 'cap' increases in non-domestic rates. Authorities could then not raise their non-domestic rates by more than a prescribed amount; any further money would have to be raised solely from the domestic ratepayers to whom they are accountable at the ballot box; and this would increase the pressure to reduce spending.

28. Most members of the Group take the view, on the other hand, that on balance we should not take powers to 'cap' increases in non-domestic rates. They consider it the inevitable result of any such scheme that domestic ratepayers would be faced with large rate increases, especially in areas of the

country where authorities raise a large part of their revenue from industrial and commercial rates. Many of these authorities would choose to make domestic rate increases rather than to cut spending and would seek to put the blame on the Government. These members take the view therefore that we should rest on and promote the measures to help industrial and commercial ratepayers proposed in paragraphs 11 and 12 above, perhaps together with a measure of relief for empty commercial and industrial property, a proposal which the Secretaries of State for Industry and the Environment and the Chief Secretary, Treasury are considering separately.

Another Approach: the 'Town Poll'

29. Either selective controls on local authority current expenditure or rates, or 'capping' increases in non-domestic rates, could be combined with measures to strengthen local accountability. Authorities wishing to spend, or increase rates or non-domestic rates, above a prescribed limit would have to seek the agreement of local electors, either by calling an election or by a 'town poll' (broadly similar to a 'local referendum', though the latter phrase is one to be avoided). Although there are good precedents for such a procedure in local government, we had, of course, to withdraw a similar proposal in 1981 when it became clear that many of our own supporters in Parliament, under pressure from Conservative local councillors, would not support it. But if the idea were put forward again in a consultative document, it might command sufficient popular support to make legislation possible.

Measures to Restrain Local Authority Expenditure and Rates: Conclusions

30. To sum up -

- a. Most members of the Group think that we should not mention publicly the possibility of new measures to control local authority expenditure or rates in England and Wales, and that we should continue to rely on the rate support grant system and grant holdback to restrain local authority current expenditure.

- b. There is minority support in MISC 79 for:
  - i. canvassing, in a consultative document or otherwise, selective central control over local government current expenditure or rates;
  - ii. 'capping' increases in non-domestic rates.
- c. Either selective controls on current expenditure or 'capping' could be combined with a 'town poll'.

Local Authority Elections

31. The Group considered the case for changing local government electoral arrangements in a way which would make local authorities more accountable to their electorates. They concluded however that increasing the frequency of local elections - the only course which stood any chance of having this effect - would bring insufficient benefits to outweigh the political and other difficulties of making such a change.

ANNOUNCEMENTS AND IMPLEMENTATION

Legislation

32. All of the Group's recommendations except for a non-domestic revaluation (paragraph 12 above) and an extension of the right to pay non-domestic rates by instalments (paragraph 11c) require primary legislation. There is no prospect of putting through the necessary Bills in the present Parliament, no matter how long it lasts. The Group recommends that legislation should be introduced as early as possible after the General Election, so that the benefits of changes in local government finance or structure will be seen during the next Parliament: abolition would take some two years to complete after the enactment of legislation. It is also relevant that elections to the Metropolitan County Councils are scheduled for May 1985. The Secretary of State for the Environment's advice is that legislation on rating reform could be ready for introduction in November 1983; and that legislation to abolish the GLC and Metropolitan Counties could be ready early in 1984, provided that preparations begin soon and that announcements are made in March. In the Secretary of State for Transport's view, legislation to convert LTE into an MTA could be ready for introduction in November 1983.



Announcements

33. MISC 79 recommends that Ministers should announce as one package whatever reforms of local government finance and organisation the Cabinet agrees upon, so as to achieve the maximum impact. The timing, manner and content of announcements will clearly depend on the outcome of the Cabinet's discussion.

Presentation

34. The precise presentation of the changes which MISC 79 recommends will clearly need further consideration, in the light of discussion in the Cabinet, by the Ministers primarily concerned. But there are three general points which could be made in presenting the measures recommended in this report.

a. The package should not be seen in isolation, but as a stage in a series of measures to bring more discipline into local authority activity and expenditure which are now beginning to have some success.

b. Central Government has a legitimate interest in the level and structure of local taxation; but it is also of importance to retain a healthy local democracy. Unless we are prepared to take the major constitutional step of controlling local authorities in detail the level of local taxation must be a matter for local decision; within that framework, and taken together with the Group's recommendation that rates should remain the main source of local revenue, the Group's proposals should help to ensure that local authorities take appropriate account of the Government's views.

c. The reports of the Environment and Transport Select Committees provide support for the Group's recommendations that rates should remain the main source of local government income; and that a Metropolitan Transport Authority should be set up for the London area.

REDISTRIBUTION OF THE GLC'S AND METROPOLITAN COUNTY COUNCILS'  
RESPONSIBILITIES

Introduction

This annex sets out MISC 79's provisional recommendations on how the functions of the GLC and the Metropolitan County Councils might be carried out if those authorities are abolished, as the Group proposes.

GLC

2. The GLC's present functions are as follows -

- i. Policy responsibility for London Transport.
- ii. For the whole GLC area, acting alone
  - a. Fire
  - b. Waste Disposal
  - c. Flood Protection
  - d. Coroners
  - e. Licensing of entertainment
  - f. Smallholdings
- iii. For the inner area only
  - a. Education (though the ILEA)
  - b. Building control
- iv. for the whole GLC area, sharing responsibility with the boroughs
  - a. Planning
  - b. Transport (Highways)
  - c. Historic Buildings
  - d. Civil Defence

v. For the whole GLC area, concurrent with the boroughs

- a. Housing
- b. Assistance to Industry
- c. Arts and Recreation
- d. Tourism
- e. Parks

vi. Local funding and support, in outer London, for -

- a. Magistrates courts
- b. Probation and aftercare service

3. Arrangements for public transport in London and education in inner London if the GLC is abolished are discussed elsewhere in the Group's report. The GLC's other functions might be reallocated on the following lines -

i. Boroughs acting independently in their areas

- a. Building control (inner boroughs changing to national system)
- b. Historic Buildings (to be subject to same central control as elsewhere)
- c. Housing
- d. Assistance to Industry
- e. Tourism
- f. Licensing of entertainment
- g. Parks
- h. Smallholdings

ii. Voluntary joint committees of boroughs

Civil Defence (in five groups)

iii. Mandatory joint committees of Boroughs

Waste Disposal

- iv. Joint boards of boroughs
  - a. Fire (perhaps several separate brigades)
  - b. Highways, Traffic, Planning

- v. Groups of outer London boroughs

Local financial support for

- a. Magistrates courts
- b. Probation and aftercare service

- vi. Thames Water Authority

Flood Protection

- vii. A new London Committee of the Arts Council

Arts in London (including the South Bank)

Metropolitan County Councils

- 4. The Metropolitan Counties' present functions are as follows -

- i. Responsibility for public transport policy, acting through the passenger transport executives.
- ii. Financial and policy responsibility for the police through the police authorities.

- iii. Acting alone
  - a. Transport (Highways)
  - b. Fire
  - c. Waste Disposal
  - d. Trading Standards
  - e. Animal Health
  - f. Food and drugs
  - g. Smallholdings
  - h. Coroners
  
- iv. Shared with districts
  - a. Planning
  - b. Civil Defence
  
- v. Concurrent with districts
  - a. Housing (reserve)
  - b. Tourism
  - c. Parks
  - d. Arts
  - e. Assistance to Industry
  
- vi. Local funding and support for the probation service
  
- vii. Part or full ownership of airports

5. These functions could be redistributed as follows -

i. Districts acting independently

- a. Housing
- b. Assistance to Industry
- c. Tourism
- d. Trading Standards
- e. Food and drugs
- f. Parks
- g. Arts
- h. Small holdings

ii. Voluntary joint committees of districts

- a. Waste Disposal
- b. Civil Defence

iii. Joint boards of districts

- a. Police
- b. Fire
- c. Transport ) perhaps a
- d. Land use planning ) single body

iv. Groups of districts

Local funding and support for the probation and aftercare service

v. Districts acting through agencies

Animal health (with the adjacent shire counties as agencies)

vi. New regional airport authorities

6. Arrangements for the coroner service are under separate review.

PUBLIC TRANSPORT IN LONDON

Introduction

1. The present arrangements for the provision of public transport in the London area are unsatisfactory. The Greater London Council (GLC) has exercised its powers over the London Transport Executive (LTE) in a capricious and irresponsible way. London Transport is an overcentralised and inefficient public sector industry. There is insufficient co-ordination and rationalisation between the Underground and bus services which LTE provides and British Rail's (BR) South Eastern commuter services.

2. MISC 79 therefore took the view that it would be appropriate to set up a Metropolitan Transport Authority (MTA), appointed by the Secretary of State for Transport, whose central duty would be to ensure that public transport in the London area was provided efficiently and economically. The Group also concluded that it would be better to convert the present LTE into a MTA than to set up a completely new MTA with powers over LTE and BR's London commuter services. This approach should avoid the need to create a wholly new organisation and should make it possible to improve the organisation of public transport in the London area with maximum economy and minimum disruption. There would be two stages in converting LTE into a MTA.

Stage One

3. The GLC's responsibilities for LTE, including the power to appoint the LTE Board and to pay grant in support of London Transport's operation would be transferred to the Secretary of State. He would also be given the powers necessary to convert LTE into a MTA.

4. The Secretary of State would direct LTE to establish the London Underground and London buses as separate subsidiary undertakings, each with its own management board and financial structure. LTE's staff, property and other assets would be divided between them except to the extent necessary to service the Executive's continuing functions.

5. LTE would consult BR about measures to co-ordinate and rationalise their operations.

6. The Secretary of State for Transport would assume all the GLC's powers of direction over LTE.

7. LTE would for financing and control purposes be treated as a nationalised industry, with borrowing controlled through an External Financing Limit (EFL).

Stage Two

8. LTE would be converted into an MTA. It would be responsible for putting forward to the Secretary of State a plan to provide efficient and cost-effective public transport services throughout the Greater London area and for commuters into it.

9. The MTA would assume responsibilities for BR's London commuter services. Their precise nature needs to be settled in the light of policy decisions on BR following the Serpell report, but the main features would be as follows -

i. The MTA would allocate operating subsidy and other grants among BR, the London Underground and the London buses. The total level of grant would be fixed and paid to the MTA by the Secretary of State for Transport; the MTA would not have precepting powers or other sources of income.

ii. The MTA would have the power to transfer service obligations and property between operators.

iii. In formulating its plan, the MTA would review with the British Railways Board (BRB) how a consistent level of fares, a coherent fare structure and desired level of services could be achieved.

iv. The MTA would review the BRB's investment plans for its commuter services and would be able to pay grants towards such investment.



Financial Implications

10. Under these proposals the financing of public transport would no longer be a local government responsibility. This would by itself unjustifiably improve the financial position of London ratepayers relative to ratepayers elsewhere in the country; the Group therefore proposes that there should be an offsetting reduction in the financial support given to local government in London. Officials are considering how this should be done: the solution is likely to involve -

- i. reducing London's share of rate support grant (RSG);
- ii. changing the London rates equalisation scheme to transfer resources from those London authorities which do not receive RSG.

11. Officials are also considering how precisely the financial arrangements for the MTA would mesh in with those for BR. The Secretary of State for Transport would need to decide how much grant the MTA could pay taking into account both the needs of BR's business as a whole and plans for local public transport expenditure in other areas.

Report by the House of Commons Select Committee on Transport

12. The Select Committee's report on transport in London recommended the establishment of an MTA with function and responsibilities broadly similar to those proposed above. The main differences between the Select Committee's proposals and MISC 79's recommendations are as follows -

- i. The Select Committee proposed that the MTA should be a completely new body, with powers over LTE, which would be retained in broadly its present form.
- ii. The Select Committee proposed that the MTA would take over the GLC's responsibilities for traffic and highways; MISC 79 considers that these functions would be better assigned to the London boroughs, acting through a joint board.

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iii. The Select Committee proposed that the MTA should be a fully representative body with a majority of local authority members; MISC 79 recommends that it should be a small body, with no more than 15 members, most of them not members of local authorities.

iv. The Select Committee proposed that the MTA should have precepting powers; MISC 79 recommends that it should be wholly financed by central Government, with an offsetting reduction in the financial support given to local government in London.

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DISCOUNTS ON DOMESTIC RATES

Introduction

The most common complaint about domestic rates is that single occupiers pay as much as large households. This annex explains why, in MISC 79's view, it would be best to meet this complaint by introducing a discount scheme for households consisting only of a single person (giving a reduction in gross rates - ie before rebates - of the order of £1.50 a week on weekly rate bills of £3.00 or more; and 50 per cent for lower rate bills) rather than by some other sort of discount scheme or by domestic rate surcharges.

Surcharge or discount?

2. The burden of local taxation would correspond more closely than at present to the benefits derived from local services if we introduced either discounts for small households or domestic rate surcharges in respect of household members who, though earning, are not personally liable to pay rates. In principle a surcharge is preferable in that it extends personal liability to pay rates to a wider range of local authority voters and thus should strengthen local accountability.

3. A surcharge, however, suffers from two major disadvantages.

a. Its administration would be burdensome and costly; with a discount scheme, by contrast, it would be for households to demonstrate their entitlement.

b. A surcharge would be very difficult to present as an attractive change in the rating system.

MISC 79 therefore recommends a discount scheme.

A new scheme or an improvement in rate rebates?

4. It would be possible to improve the existing rate rebate scheme, for example by raising the income limits. But the Group takes the view that discounts for small households are desirable as a structural change in the rating system, not as a social policy measure; and that it would be politically unacceptable if the Government's main response to criticism of domestic rates were to amend the terms of the rate rebate scheme. MISC 79 therefore recommends that a new discount scheme, separate from rate rebates, should be introduced.

5. Rate rebates or supplementary benefit should continue to be available to households which require them even if they qualify for discounts; discounts should therefore be on gross rates, ie before rebates.

Who should qualify?

6. In the Group's view a discount scheme for single adult households, which would benefit about five million ratepayers, best meets the need to devise arrangements which can be defended as fair, are administratively feasible and are not unreasonably expensive. It would meet directly the criticism that rates fall unfairly on households which consist of only one adult and thus make few demands on local authority services.

7. Other possible bases for eligibility, though superficially attractive, suffer from severe disadvantages -

i. A discount for households with only one earner would bring in more than two thirds of all households.

ii. Eligibility for discounts could be limited to households consisting of a single retirement pensioner or of pensioner couples. But it would be difficult to defend singling out retirement pensioners for better treatment than recipients of other social security benefits or other small households.

A flat rate or percentage discount?

8. A flat-rate discount has some disadvantages compared with a percentage discount: it would have to be uprated periodically if it were to be a lasting reform rather than a short-term relief; this would involve the Government directly in determining the size of households' domestic rate bills and thus shift some of the odium of increasing expenditure and rate bills on to the Government and away from local authorities. MISC 79 takes the view that the advantages of a flat-rate scheme, however, outweigh these drawbacks. The costs would not rise automatically and would thus be easier to control than with a percentage scheme; and, among those ratepayers who qualified, a flat-rate scheme would concentrate resources where they were most needed by providing the greatest proportional benefit to those with low incomes.

9. A simple flat-rate discount has the drawback that it would add substantially to the large number of households which already paid no rates, thus undermining our policy of increasing the accountability of local authorities to their electorate. For this reason the Group recommends that the flat rate discount should apply only to rate bills of more than £3.00 per week, with rate bills below that level reduced by half.

ANNEX D

CONTROL OF LOCAL AUTHORITY EXPENDITURE AND RATES IN SCOTLAND

Apart from the level and distribution of aggregate Exchequer Grant, the main instrument of influence over local authority expenditure and rates in England and Wales is a system of automatic penalties for overspending against targets. In Scotland there are no such automatic penalties; but the Secretary of State has discretionary power -

- a. to reduce grant to individual authorities;
- b. to impose reductions in the rates levied by individual authorities; and
- c. to impose across-the-board reductions in grant.

Powers a. and b. are subject to approval by the House of Commons. Over the last three years, the Secretary of State has used a. and c.; b. is effective from 1983-84.

2. In taking selective action a. or b. against individual authorities, the Secretary of State must have regard to criteria which are laid down in legislation. He may, at his discretion, allow a local authority to reduce its initial rates demand as an alternative to his imposing a loss of grant or a reduction in rates.

3. The power to take selective action enables the Secretary of State to intervene directly, and flexibly, in the expenditure and rating decisions of a few authorities whose behaviour is out of line with others' and is judged excessive and unreasonable. It is not designed to cope with widespread overspending by a large number of authorities, to which the Secretary of State has responded by imposing across-the-board cuts in grant (c. above).

4. There is no doubt that the power to take selective action in Scotland has been made to work. The Secretary of State has used it, and has been able to secure substantial cuts in the expenditure and, in some cases, the rates at least of those authorities subject to selective action.

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5. Equally, it is clear that the power is not a direct precedent for the discretionary action which would be associated with any general limit or limits on rate rises, of the kind discussed in paragraphs 20 to 26 of the report.

6. Some members of MISC 79 think that the Scottish experience tells against the introduction of any such limit or limits. Discretionary powers should be easier to exercise in Scotland than in England, because only one Secretary of State is involved, and he has only 65 local authorities to deal with, as against 413 in England and 45 in Wales. Yet over the last three years, the use of discretionary power in Scotland has not stopped local authority current expenditure from rising as fast as in England and Wales.

7. Other members of the Group think these objections illfounded. Expenditure in Scotland is significantly lower than it would have been without selective action; and the cuts imposed on individual authorities which sought to challenge government policy have had a salutary effect. The Scottish system relies exclusively on discretionary action, whereas any limit on rate rises in England would be additional to the existing system of automatic penalties for overspending. The combination of automatic penalties and selective controls would be more extensive than anything which yet exists in Scotland, England or Wales.

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