

**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(83) 15

COPY NO

**35**

9 May 1983

CABINET

---

LOCAL GOVERNMENT FINANCE AND TAXATION

Memorandum by the Secretary of State for the Environment

---

Following Cabinet discussion of a report by MISC 79 on 20 January (CC(83) 1st Conclusions, Minute 7) there have been further discussions by the Sub-Committee on Local Government Finance (E(LF)) on the reform of rates. I now submit to colleagues further proposals that have emerged from those discussions.

2. When we took office in 1979, local government expenditure and manpower had risen relentlessly for many years. We took steps to reverse this trend, and we have had a certain degree of success. In England, manpower (excluding police) has fallen by about 6 per cent. Numbers employed are now lower than at any time since 1974. Moreover despite substantial cuts in rate support grant the average level of rate increases has fallen steadily as inflation has come under control - 6½ per cent in 1983-84 as compared with 23 per cent in 1980-81.

3. But we have a good way to go. There is still a totally unacceptable degree of waste and inefficiency in most local authorities of all political complexions. Domestic rates form a heavy burden on many households. Jobs in industry are being destroyed by extravagant and irresponsible spending policies, especially by Labour authorities in the urban areas.

LIMITS ON RATE INCREASES

4. Our experience has shown the major difficulties that can arise from direct intervention in the affairs of individual authorities. Nonetheless the Sub-Committee believe that there is a political imperative to take action. We have therefore concluded that we must now commit ourselves to introduce legislation in 1983-84 which will enable us to protect ratepayers - domestic and non-domestic - from the quite unreasonable demands of the highest spending authorities. This would take effect from 1 April 1985. At the same time, I believe that we should be ready to introduce a general scheme of control to protect all ratepayers subsequently in place of the selective scheme if the latter does not have the desired effect. These proposals would be put in the context of a general commitment by the Government to do its utmost to limit local authority rates and expenditure. We might need to introduce further legislation in 1984-85 to enable us to take over - perhaps through commissioners - the functions of authorities which through determined challenge to the scheme defaulted on their statutory obligations.



**CONFIDENTIAL**

SELECTIVE SCHEME OF CONTROL

5. A scheme of selective control would be aimed at the authorities with the highest levels of spending. We would examine all authorities against published criteria. Those whose levels of expenditure exceeded the limits set by the criteria would be required to submit their budgets for my detailed scrutiny not later than the autumn preceding the next financial year. I would be empowered to limit, forbid, or reduce prospective rate increases for these authorities after discussion with them. My decisions, in cases where I overruled the authority, would have to be subject to Parliamentary approval; and it would be desirable to provide for the rates set in this way to be incorporated in a single Order.

6. If a selective scheme had been applied to only the "top 15" authorities in 1983-84 chosen by reference to spending levels and rate increases it would have protected 4 million out of 17½ million domestic ratepayers in England, as well as the non-domestic ratepayers in these areas (see Annex A). It is worth noting that despite a 3 per cent reduction in the Exchequer grant in Great Britain between 1982-83 and 1983-84, if these authorities had met their spending targets this year, the average rate increase over the whole of the country would have been about 1 per cent rather than about 6 per cent.

7. I believe that other authorities would have a strong desire to stay well clear of the risk of such intervention as our powers would permit.

GENERAL SCHEME OF CONTROL

8. The presentational attractions of a general scheme, in which we would impose a strict limit on the rate increase of all authorities each year, are clear. To be attractive, the limit would certainly need to be at or below the rate of inflation, and apply to every local authority, whether a high spender or low spender. There would need to be a system of derogations to meet special circumstances, and statutory specification of criteria and eligible items designed to help reduce significantly the number of applications for derogations; to enable me to reject applications more readily; and to give a better chance of success in resisting legal challenges.

9. The Attorney General has advised that the risk of successful legal challenge in individual cases is marginally less in the general than the selective scheme, because the onus of proof would rest on the local authority. But there could be no guarantee that the general scheme criteria would provide a sufficient deterrent to keep the number of applications and legal challenges down to manageable proportions in terms of avoiding error and successful legal challenge. I must also advise colleagues that in our discussions the Minister for Local Government has stated his strong belief that a general scheme, applicable to authorities of all persuasions, would alienate the majority of our supporters in local government. There is the further question whether a scheme implying control of all local authorities would be easy to legislate - not least in the House of Lords.

10. In view of these reservations, I believe that it would be unwise to try to introduce a general scheme of control straightaway. However I see the advantage in being ready to take powers in the legislation to introduce a general scheme of control, in due course, if the selective scheme does not promote effective self-discipline and restraint by local government as a



**CONFIDENTIAL**

whole. I believe that a Bill on these lines would be likely to have an easier passage than one which provided only for a general scheme.

11. Any legislation on the control of rates will certainly shift the boundaries between central and local government in favour of the former. But the argument to justify this approach is that the traditional relationship between central and local government, in which local government accepted a responsibility to achieve the central government's expenditure plans, is being consciously challenged by a number of local authorities. Moreover the accountability of authorities to their electorates has been seriously eroded by the development of supplementary benefit and rate rebates.

12. The legislation providing for a general scheme of control should apply to Great Britain as a whole. Since a selective scheme of control already operates in Scotland, that part of the Bill should apply to England and Wales only.

**RATING REFORMS**

13. MISC 79 made a number of proposals for rating reform, which I have now reviewed in the light of our more recent discussions in E(LF). My immediate proposals are as follows: others can be considered later.

14. MISC 79 proposed that we should provide a discount for those domestic ratepayers who make relatively little use of local authority services; and that it should be available to households consisting of a single adult living alone. There are 4.3 million of these, and the proposed discount of 50 per cent of the rate bill, up to a maximum of £1.50 a week, would cost about £150 million a year. Annex B shows other possible categories of beneficiaries, with the numbers in each and the costs of applying a discount scheme to them. It has been suggested that a possible addition would be all pensioner households. This would provide help to 6.7 million households in all at a total net cost of £240 million a year. However this scheme clearly raises problems of unfairness between categories. It was originally proposed as a way to meet one of the obvious criticisms of those facing heavy burdens under the rating system. If the decision is to move to mitigate these burdens by a rate control scheme, I accept that this proposal need not be pursued.

15. Each of the main tiers of local government should provide a separate statement for each ratepayer (with a unified single bill). Council tenants should receive annual rate statements.

16. Local authorities should be put under a statutory obligation to consult local representatives of industry and commerce before setting rates.

17. We should give more businesses the right to pay rates by instalments.

18. In addition to these proposals from MISC 79, I propose that we should stop the rating of empty industrial property as soon as possible.

**ABOLITION OF THE GREATER LONDON COUNCIL (GLC) AND THE METROPOLITAN COUNTY COUNCILS (MCCs)**

19. In addition to this package I believe that we should commit ourselves to the abolition of the GLC and the MCCs. They are widely recognised as a superfluous tier of local government, whose very existence tends to



**CONFIDENTIAL**

generate extravagant spending proposals. Their abolition will be extremely popular. I am submitting a separate paper to Cabinet on this subject.

FUTURE OF RATES

20. Such is the present dissatisfaction with rates that we may still need in the longer term to seek a new supplementary tax or taxes which would enable us to place a ceiling on rates, and which could lead to their eventual extinction. The most satisfactory supplementary taxes would be taxes on expenditure rather than income in order to deal with the beneficiaries of the "black economy". A very detailed examination has suggested that the front-runners are a Local Sales Tax (LST) or a combination of Road Fuel Duty (RFD) and transfer of Vehicle Excise Duty (VED) on cars, motor-cycles and light vans.

21. Neither alternative could be introduced before 1988. But both would be open to powerful objections from our own supporters. The many hundreds of thousands of traders who would be affected by LST would fiercely oppose the additional administrative and cost burdens and fear the consequences of cross-border shopping; car owners and residents in rural constituencies would perceive RFD/VED as an onerous burden.

22. I therefore suggest that at this stage we do not more than indicate that we will still give further consideration to the longer-term future of rates in the light of the measures now proposed for local government finance and structure. Colleagues will note the way in which this is referred to obliquely in paragraph 24 below. I would particularly ask them to look carefully at this aspect of the announcement.

CONCLUSIONS

23. I invite colleagues to agree that we should:

- a. announce legislation for next Session for a selective scheme of control to protect ratepayers from the demands of the highest spending authorities with effect from 1 April 1985, together with reserve powers to bring in a general scheme if necessary; and
- b. introduce legislation next Session to reform the rating system as described at paragraphs 14-18.

24. I suggest that we announce these decisions, if agreed, in the following terms:

"We have checked the relentless growth of local government. Manpower is down to the levels of 1974. But there are a number of grossly extravagant Labour authorities, indifferent to the problems and needs of domestic and non-domestic ratepayers. Since no suitable alternative tax could be introduced quickly, we shall introduce legislation to curb excessive and irresponsible rate increases by high spending councils, and we shall be ready to implement a general scheme of rate control of all local authorities should this prove necessary. We shall also legislate to make a number of changes to the rating system designed to make local authorities more accountable to all ratepayers".

T K

Department of the Environment  
9 May 1983



AUTHORITIES SELECTED BY A TWO-PART SIEVE

GLC

ILEA

Greenwich

Tower Hamlets  
Lewisham

Lambeth

Hackney  
Southwark

Islington

Haringey

S. Yorkshire

Merseyside

Newcastle upon Tyne

Sheffield

Manchester

These authorities show both

- (i) budgets for 1983/84 25% or more above grant-related expenditure (GRE)
- (ii) rates increases from 1982/83 to 1983/84 of 8% or more.



ASSISTANCE WITH RATES FOR DOMESTIC RATEPAYERS

1. Of 21m. households in Great Britain, nearly 9m. are already eligible for assistance with rates through either supplementary benefit or rate rebates, although a substantial proportion do not claim. There are 4.3m. single person households (that is people including pensioners living alone without children or other dependents) and another 2.4m. households comprising 2 or more pensioners/<sup>those</sup> eligible for assistance are shown at Table A.

	All households		Single Person households		Single person and pensioner households	
	m	%	m	%	m	%
On Supplementary Benefit (rates paid for them)	3.0	14	1.3	6½	1.7	8½
Entitled to rate rebates (in Housing Benefit)	5.8	28	2.0	9½	3.9	18½
[Claiming rate rebate	3.7	18	1.3	6½	2.5	12]
Not entitled	12.3	58	1.0	5	1.1	5
All Households	21.1	100	4.3	21	6.7	32

2. MISC 79 recommended (C(83)1) a discount of £1.50 a week on gross rate bills (or 50% for those whose rate bill was less than £3 a week) for single person households as defined above. It would be possible to extend the categories of household eligible for such a discount, for example to single adults (i.e. including those with dependent children). Alternatively the discount could be restricted to pensioner households (of whatever size), thus excluding younger single householders.



**CONFIDENTIAL**

Table B

Discount of 50% of Rates up to £1.50 per week

Household Type	Households GB		Unrebated cost net of SB	Cost net of rate rebates & SB
	m	%	£m	£m
Single Pensioner	2.8	13	120	80
Single Adult living alone	4.3	21	205	150
All Single Adult including one-parent families	4.7	22	220	160
All Pensioner	4.7	22	240	170
All Pensioner plus Other Single living alone	6.7	32	325	240
Single Pensioner plus "Widow"*	3.1	15	150	100
All Pensioner plus "Widow"*	5.0	24	270	190
All "Widow"*	0.3	2	30	20

\*"Widow" households include only those widows in receipt of a state widows pension, and below retirement pension age.

3. A further possibility would be to set a ceiling on the proportion of income that domestic ratepayers could pay in rates on their main residence. Even if there were no discount on the lines proposed above, the proportion of households helped by ceilings on rate bills at different levels is very low. Approximate numbers are:

Table C

<u>Households helped</u>	<u>Ceiling % of income</u>			
	<u>m and %</u>	<u>10%</u>	<u>7 1/2%</u>	<u>5%</u>
a) already entitled to rebate	*		1%	9% (0.5m)
b) not entitled to rebate		0%	0%	1% (0.1m)



CONFIDENTIAL

4. It would therefore be necessary to set the ceiling at 5% to offer any significant help. If there were also a single person discount, the number of those benefitting from this rule would fall by about a third.

5. The direct cost of a ceiling of 5% of income would be minimal (probably less than £2m a year) but if large numbers of those not currently claiming their rate rebate entitlement were encouraged to claim by the 5% limit, the cost would increase very considerably.

3F.

CONFIDENTIAL