

CONFIDENTIAL

Local Govt

cc Master Set

RECORD OF A MEETING TO DISCUSS THE REFORM OF THE RATE SYSTEM HELD
ON WEDNESDAY, 25 JULY, 1980 at 1700 HRS AT 10 DOWNING STREET

Present:-

Prime Minister

Secretary of State for Environment

Minister for Housing and Construction

Mr M A Pattison

The Prime Minister said that there would be renewed pressure for changes in the rating system, and she wanted to know whether there were prospects of legislation, perhaps the year after next. To date, work had focussed on domestic rates, but the rating problem was now a central issue in industrial problems. Mr Heseltine commented that industrial rates were also a major issue in local authority spending. He and Mr King had prepared a paper which should be available to colleagues in the autumn. Mr King commented that there had been representations from the CBI and others about industrial rates. In present conditions, if companies made no profit they faced no corporation tax, but they could still find their rates bill rising by 25%. If industrial rates were to be included in the work in hand, £7 billion would be in question.

Mr Heseltine said that he would be circulating to colleagues in September a paper on over-spending. This would include some politically sensitive proposals on how to control over-spenders. The over-spending authorities could not be let off the hook at a time when the Government's own supporters were facing difficulty with their loyal supporters for cutting back on expenditure to meet central government requirements. The Government's requirement for cut backs was actually making progress, even with most Labour councils, but the regular over-spenders continued in their usual way. This could not be allowed to continue.

Mr King said that the study of rating had raised one fairly new factor, the issue of the central government target for local authority expenditure. Many alternatives to rates would provide a buoyant income, which might undermine ^{central control} with a sales tax, for instance, one could increase in units of 1% or perhaps ½%, but it would be very difficult to shade increases. The Prime Minister asked about the RPI effect of possible alternatives. Mr King said that this should be neutral, although the

CONFIDENTIAL

/distribution

CONFIDENTIAL

- 2 -

distribution would be changed. One option which had been reviewed was that of a poll tax on top of a lower level of rates.

Mr Heseltine said that all these issues would come to Cabinet in two stages. The over-spending paper would come forward in September, with the rating options paper in October/November. The Prime Minister said that there were a limited number of options. These had now been considered and studied over a long period of time. Significant new options were now likely to emerge in the future. Ministers would need to recognise that the problem now was to take a decision. But the position of industry would need to be carefully considered.

Mr King said that one suggestion was a pay roll tax - although the paper already prepared was essentially on the domestic rating issue. He commented that there were signs of a drastic change in local authority perceptions. Whilst the authorities had seen themselves as facing a common problem, their leaders were now privately saying that their position would be intolerable if the punishment for over-spending affected all authorities equally. The Prime Minister asked whether the spotlight could be put on the numbers and pay of local authority senior officials. There could be problems where borrowing was secured on rate income. She wondered whether it would be possible to take the education policy out of local authority hands, leaving the authorities as agents not policy makers. Mr Heseltine pointed out that this would add a million to the central government pay roll.

The Prime Minister said that the option finally selected must not expand the bureaucracy. A way must be found^{of} grafting the revenue rise on to the existing tax system, saving as far as possible on the rating structure and the rebate system. Mr King pointed out that rate rebates were much more prevalent in heavy retirement areas like Eastbourne, than in high spending authorities like Lambeth. Whatever solution was adopted, charges for water would be a problem. The Prime Minister did not wish to contemplate retaining a rateable value system simply for water. She had been pleased to learn that there were

/encouraging

CONFIDENTIAL

CONFIDENTIAL

-3-

encouraging developments in meter technology. Mr Heseltine said that there were improvements in the pipeline on the finance of the water industry. It was capital intensive, so that declining interest rates would help its position. It was now working, for the first time, with man-power budgets. He hoped shortly to abolish the National Water Council, which employed 400 people.

In conclusion, the Prime Minister noted that the cancellation of the last domestic rating revaluation made it essential for the Government to face up to the future of the rating system within a couple of years. Mr King reminded the Prime Minister that any change would involve some political pain. It would certainly alter the incidence of charges for raising local authority income, which would lead to some kind of row. Mr Heseltine added that the need to adjust the distribution of funds from the cities to the shires would also be painful.

MA

25 July, 1980

CONFIDENTIAL

Local
Govt

(F)

23 July

cf. 22/7



10 DOWNING STREET

CLIVE

I have arranged the rate reform meeting for next Wednesday, 23 July at 1700. Is any briefing required?

ES.

Clive

NO : The purpose of the meeting is to let the Home Minister know how the work we getting on with his name.

18 July 1980

MW
21/7