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PRIME MINISTER

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Local Authority Expenditure: Reform of Rates:  
Accounts Commission  
 (E(81) 53 and 54)

## BACKGROUND

In E(81) 53 the Secretary of State for the Environment proposes a number of measures, for implementation in 1983-84, to back up his proposals for controlling local authority expenditure and to modify perceived unfairness in the rating system pending more fundamental changes. He rejects the alternatives of transferring responsibility for some parts of local expenditure to central Government and of imposing statutory controls on local authority income or expenditure. He may be right in doing so, but the effect is to leave the Committee with a host of complex alternatives. Some members of the Committee may feel that the more dramatic options should at least be studied further: they could well have greater political appeal.

2. In paragraph 6 of E(81) 53 the Secretary of State for the Environment recommends eight measures for further study by his Department, and the other Departments concerned, followed by a report to the Ministerial Committee and decisions in July on which of them are to be adopted. If the Committee agrees with this approach, he would give a tentative trailer of what is in mind in his statement on 2nd June. In summary the eight proposals are:-

I. For the non-domestic ratepayer

- (a) A limit on the level of non-domestic rates for authorities spending over a specified level.

Implies a greater burden on the domestic ratepayer.

- (b) Revaluation of the non-domestic sector.

Due anyway, might help some older industries, but incidence uncertain, and no implementation until 1985.

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II. For the Domestic ratepayer

- (c) Flat rate domestic rate relief.
- (d) Discounts to single (possibly two adult) households.  
A loss of rate income.
- (e) All expenditure above a certain level to be financed by supplementary rate demands.
- (f) All such supplementary rate demands to be subject to approval by local referendum or re-election.
- (g) Rate demands separated from rent demands for Council tenants.  
Administrative cost £10 million a year.
- (h) Establishment of an Accounts Commission.  
See E(81) 54 and paragraphs 5 to 8 below.

These measures would be aimed at different audiences and would be complementary.

3. All but (b) (revaluation) would require legislation. This gives rise to a major difficulty. The proposals for the 1981-82 legislative programme, which the Cabinet will be discussing on Thursday, provide for a Housing Bill but not for the Public Bodies (Management) Bill which the Secretary of State for the Environment wanted, and in which he would like to include his Local Government Finance provisions. If room were to be found for some, or all, of such provisions the Cabinet would need to decide what the Bill should replace. There would be a further problem over when the Bill would be ready for introduction. It would be complicated and controversial and, if policy decisions were not taken until July, the Secretary of State would be hard pushed to have it ready for introduction before the end of the calendar year. On the other hand, if legislation on these measures is ruled out, the Secretary of State will not of course wish to refer to them on 2nd June. In that case he may wish to modify his proposals for threatening grant hold-back of as much as £900 million in 1981-82.

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4. The Secretary of State further proposes (in his paragraph 8) that he should announce in June the launching of a study of the impact of alternative taxes on households and authorities for completion by the Summer of 1982. This would look in particular at the impact of local income tax, sales tax and poll tax. The study would be conducted by his Department and the Treasury in consultation with the other Departments with local authority interests. It would have to be published.

An Accounts Commission for Local Government

5. The Secretary of State for the Environment has set out his proposals for an Accounts Commission in more detail in E(81) 54. He wishes to announce a decision in principle on 2nd June subject to consultations immediately thereafter on the detailed arrangements.

6. In proposing an Accounts Commission, the Secretary of State rejects (in his paragraph 4) either continuing to use the District Audit Service or, as the Public Accounts Committee have proposed, putting local Government audit under the Comptroller and Auditor General. The fundamental objection he sees to the latter is that it would bring local authorities into a relationship with Parliament which would be inconsistent with their constitutional status as separately elected bodies not responsible to it. The discussion will show whether your colleagues accept this view. It would be easier to maintain if local authorities were self-financing. But, given that Parliament provides 60 per cent of local authority funds and is constitutionally the superior body, with power to change its relationship with local authorities in any way it pleases, the contrary case can be argued.

7. The aim would be for the Accounts Commission to provide more value-for-money auditing and better comparative information between authorities. Its responsibilities are listed in paragraph 3 of E(81) 54. It would be appointed by the Secretaries of State for the Environment and for Wales (assuming it is to cover Wales also). Its members would include some local authority representatives and some outsiders with relevant financial and management expertise. It would take over a number of the

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Secretary of State's responsibilities including that for the District Audit Service. The present Advisory Committee on Local Government Audit would be abolished. The additional costs would be relatively small - about £1 million a year. Legislation would be necessary.

8. If the Committee were to endorse this proposal in principle, and if it were to be announced on 2nd June, Treasury Ministers would need to give further thought to what should be said to the PAC. In particular they would need to explain to the PAC not only why this particular route has been taken but why the Government had taken it now, in advance of more general consideration of the PAC's report, including their proposals for the nationalised industries.

HANDLING

9. It would in any case probably be sensible to defer some of the discussion of these papers to the meeting on 19th May, because the present meeting may well not have time to do justice to them. Subject to that, you might ask the Secretary of State for the Environment to introduce his two papers and then the Secretary of State for Wales to say to what extent he wishes them to apply to Wales. The Chancellor of the Exchequer might then comment generally, and in particular on what needs to be said to the PAC if the proposed Accounts Commission were to go ahead. Each of the Ministers with local authority responsibilities will wish to comment - the Secretary of State for Education and Science, the Home Secretary (who will also have views on the implications for the legislative programme), the Secretary of State for Transport and Sir George Young. The Secretary of State for Scotland will wish to say what changes, if any, he would wish to make.

10. On the medium term measures listed in paragraph 6 of E(81) 53 and on the Accounts Commission (E(81) 54) the main question for the Committee is whether they are sufficiently attractive for the Cabinet to be asked to consider the possibilities for making room for them in the 1981-82 legislative programme. To answer this question the Committee may wish to run through the summary proposals (a) - (g) in paragraph 6 of E(81) 53 and then turn to that for the Accounts Commission in E(81) 54. Although the Committee will undoubtedly have views on the merits of each of 6(a) - (g) it is not essential to rule out any at this stage since the proposal is that

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decisions on them should be taken in July after further work by officials. On the other hand you will wish to bear in mind that the proposal is to indicate on 2nd June that they are to be studied and so the Committee will wish to rule out any complete non-starters.

11. If some, or all of the proposals were to be ruled out, the Secretary of State for the Environment may wish to reopen whatever decision the Committee will have taken on hold-back of grant in 1981-82.

12. If, on the other hand, the Committee is attracted to the idea of further work on the proposals, it may be necessary to resume discussion of them on 19th May in the light of the Cabinet's discussion on 14th May of the legislative programme.

13. The Committee will also wish to consider whether they endorse the proposal in paragraph 8 of E(81) 53 for a study of the longer term alternatives to the rating system. You will note that the Secretary of State for the Environment would wish to announce the setting up of this study in June; it would probably have to be published when it was completed in 1982.

CONCLUSIONS

14. The first conclusion will relate to whether the Committee accept the broad thrust of Mr. Heseltine's suggestions or whether they wish to consider the radical alternatives of (i) moving substantial parts of local authority expenditure e.g. on education, from local to central Government or (ii) legislating to restrain local authority freedom to set their rates at will. If the Committee accept Mr. Heseltine's approach, you will wish to sum up the discussion with reference to the recommendations on the future of the rating system listed in paragraph 13 of E(81) 53 and on the proposed Accounts Commission listed in paragraph 13 of E(81) 54.

15. Any decisions taken, apart from the proposed revaluation of non-domestic properties, would have to be contingent on Cabinet's discussion of the legislative programme for 1981-82. In any case, it seems unlikely that the Committee can complete their consideration of this complicated set of papers on 13th May, and they will almost certainly need to resume discussion at their meeting on 19th May.

RIA

(Robert Armstrong)

12th May 1981

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Chancellor of the Duchy of Lancaster

12 May 1981

Dear Prime Minister,

I shall not be able to attend tomorrow afternoon's meeting of the Ministerial Committee on Economic Strategy, but I want to voice my disquiet about the way in which it is proposed we should handle the two items on local government finance. In both cases, it is being suggested that we should commit ourselves publicly to courses of action which will inevitably arouse expectations of early implementation before all the implications of what is proposed have been fully explored. The Secretary of State for the Environment in E(81)53 and E(81)54 seems to envisage that both the reform of the rating system and the creation of an Accounts Commission for local government will be dealt with in a Bill next Session, but QL have not included such a Bill in their recommendations to the Cabinet. I am very dubious whether properly thought out legislation on this subject can be ready in time for the 1981-82 Session. Statements on either of these issues in early June, as suggested by the Secretary of State, would in my view be premature, but if E Committee conclude that some kind of statement is essential, there can be no commitment at this stage to legislation next Session. This is, of course, something we can consider further in the context of the legislative programme as a whole at Cabinet next Thursday.

I am copying this minute to the other members of E Committee, to the Chief Whip, and to Sir Robert Armstrong.

*Francis Pym*  
*Francis Pym*

FRANCIS PYM

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