  
CONFIDENTIALPRIME MINISTERAlternatives to Domestic Rates: Next Steps

In C(82) 2 the Secretary of State for the Environment invites views on further work leading to the introduction of an alternative to the present system of domestic rating; in particular, he is concerned with whether planning should proceed on the assumption of legislation before the next General Election or whether there should be a White Paper in 1983 with legislation at a later stage. The Cabinet's conclusions on these questions will affect both the pace of further work and the nature of the expectations which Ministers will wish to arouse in the course of further consultations.


2. The Green Paper (Cmnd 8449) on "Alternatives to Domestic Rates" published in December 1981 called for comments by 31st March this year. In the meantime, the Department of the Environment and the Treasury are preparing a further report, which will be available in April, on "gainers and losers" under the alternative taxes discussed; the preliminary analysis suggested that the better off would pay more under these alternatives.

3. You have also agreed that, if the Central Policy Review Staff have resources available, they should study the relationship of central and local government and look at the allocation of functions, the methods of raising revenue, and the problem of local accountability versus central control. It is recognised that the extent and timing of this study will depend a good deal on Cabinet's decisions on Thursday about the timing of legislation on rates. In his minute of 2nd February to your Private Secretary, Mr. Ibbs suggests that, if the three closely related issues of functions, revenue and central funding are to be given adequate attention, this would point to a White Paper in 1983 for which the CPRS study could be an input.

MAIN ISSUES

4. The Secretary of State for the Environment advises that the Government's supporters will expect, preferably, legislation before the next election or, at the very least, a White Paper in 1983 followed, if possible, by the introduction

CONFIDENTIAL



CONFIDENTIAL

of a Bill before the election. The Cabinet will need to consider the practical constraints on legislation before the election which are discussed in C(82) 2.

These are analysed in relation to the main options i. e. :

Local income tax (LIT) and local sales tax (LST).

Poll tax.

Reformed rates.

Local Income Tax (LIT) and Local Sales Tax (LST)

5. The arguments against legislation in 1982-83 or even in 1983-84 to provide for either LIT or LST are as follows:-

- (i) LIT cannot be introduced before 1991 and LST not before 1987 because of the need to link with computerisation of, respectively, Pay as you Earn and Value Added Tax.
- (ii) The legislation would be wide-ranging and highly complex and would open up the possibility of detailed and difficult questions for Government Ministers in the 1983-84 Session with the possibility of amending legislation in the next Parliament.
- (iii) Given the gap of several years between enactment and implementation the Government could be criticised for taking up time in the legislative programme when a statement of intentions in a White Paper would have served equally well. (I am not aware of any precedents for such a gap).

If, however, legislation in 1983-84 were ruled out for these reasons it would still be possible to have a White Paper which gave a firm and comprehensive statement of the Government's intentions without necessarily getting tied down on the details which would be in the subsequent legislation.

Poll Tax

6. According to the Annex to C(82) 2, it is doubtful whether there could be legislation as early as 1983-84 to introduce a Poll Tax and implementation could not be before 1986. The timing would turn on further work, in consultation with the local authorities, on the method of collection; on how to deal with the problems arising from the fact that it would be a very regressive tax; and on

CONFIDENTIAL

consideration of whether it should operate in conjunction with other forms of local tax or with domestic rates retained at a lower level of yield.

7. Cabinet may well conclude that they must suspend judgment on these questions, and on the timing of any legislation, until they are able to consider the outcome of the consultations and the further analytical work now in hand.

Reformed Domestic Rates

8. Apart from modest changes to distribute the burden more fairly, the main option for a reformed system of domestic rates would be to put it on a basis of capital valuation. The Secretary of State for the Environment advises that if work was put in hand now, in advance of the outcome of consultations on the Green Paper, legislation could be introduced in 1982-83. There would however need to be a major valuation exercise involving 1600 additional staff and the new system could not be introduced before 1988.

9. The Secretary of State for the Environment considers this option to be 'politically unacceptable to our Party', although the Green Paper states that 'the well tried practicability of the system and its qualities from the point of view of accountability and financial control nevertheless give a reformed domestic rating system a claim to consideration along with the other alternatives'. The Green Paper notes that some changes in the present system could be considered as transitional measures and that a reformed and probably simplified system of domestic rates, at a lower level of yield, could have a continuing role in conjunction with one or other of the alternative sources of local revenue under discussion.

General Assessment

10. The Cabinet may judge that it is not possible to decide in advance of the conclusion of the consultations on the Green Paper, of the further work on 'gainers and losers', and of consideration of the CPRS study, whether there is a case for going ahead with a reform of the domestic rating system and, if so, on what basis. Instead they may prefer to defer a decision until later this year when the outcome of this further work will be known. If so, the possibility of legislation in 1982-83 (which in any event would be feasible only for reformed domestic rates) would be ruled out.

CONFIDENTIAL

Education

11. In paragraph 6 of C(82) 2, the Secretary of State for the Environment raises the question whether there should be an urgent examination of the possibility of central government taking over all or part of financial responsibility for education from local government; this was discussed in Annex B of the Green Paper. This idea raises fundamental questions about the relative roles of central and local government. Major options would need to be considered - for example, central government could take over entire responsibility for the education services; or the services could continue to be run by local authorities with central government providing all, or most, of the finance; central government could take over responsibility for teachers' pay. If the Cabinet agrees that this question should be studied further, this could be done either by the Department of Education and Science in consultation with other Departments concerned, or by the CPRS as part of their study.

Non-Domestic Rates

12. The Green Paper does not discuss alternatives to non-domestic rates but it suggests that, under a new system for the domestic sector, non-domestic rates might be turned into a centrally determined tax collected locally. This again is something which the CPRS could consider further in their study.

HANDLING

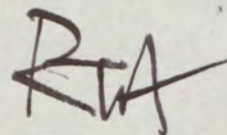
13. After the Secretary of State for the Environment has introduced his paper you will wish to invite the Chancellor of the Exchequer to speak: in addition to his general concern with the fiscal and economic effects of the alternatives he will have a direct concern with either LST or LIT. The Cabinet will then wish to hear the views of the Secretaries of State for Scotland and for Wales. The Home Secretary may wish to comment on the possibilities of a Poll Tax; his Department would be directly concerned if it were based on the electoral register. The Secretary of State for Education and Science will wish to comment on the case for a study of financial responsibility for education. The Lord President of the Council will want to comment on the case for legislation in this Parliament; and the Chief Whip and the Paymaster General will have views on the likely attitudes of Government backbenchers and of the Conservative Party generally.

CONFIDENTIAL

14. The main questions for decision are:
- (i) whether work should be commissioned now with a view to legislation in 1982-83 on reformed domestic rates or whether decisions on whether to reform or replace rates should be deferred until later this year, when account can be taken of the outcome of consultations on the Green Paper, of the further work on gainers and losers, and of the CPRS study, in the knowledge that any legislation would then be in 1983-84 or later;
  - (ii) whether consideration should be given to the possibility of central government taking over all or part of financial responsibility for education from local government and, if so, whether this should be done by the Department of Education and Science and the other Departments concerned, or should be included in the CPRS local government study;
  - (iii) whether, on the assumption that legislation is unlikely to be feasible before a General Election, the objective should be to issue a White Paper in 1983 setting out the Government's intentions for legislation in the next Parliament.

CONCLUSIONS

15. In the light of the discussion you will wish:
- (i) to record decisions on the three questions listed in paragraph 14 above;
  - (ii) to ask the Departments directly concerned and/or the CPRS to consider any further ideas which are raised in discussion;
  - (iii) to note that there will be collective discussion before the summer Recess of the CPRS Report (which might be either a final report or an interim report leading to further recommendations after the Recess) and consideration of advice from the Secretary of State for the Environment and the Chancellor of the Exchequer on the outcome of the consultations on the Green Paper and of the analysis of gainers and losers from the various alternatives.





CONFIDENTIAL

cc AD

Local Govt.

Prime Minister

Qa 05806

2 February 1982

To: MR SCHOLAR

From: J R IBBS

Local Government and Rates (C(82)2)

1. The paper by the Secretary of State for the Environment invites views on the timing of legislation on alternatives to rates. It shows that the only option on which it would be possible to legislate in 1982/83 would be a reformed rating system. Legislation in 1983/84 on any of the other options would be possible. But because of the highly complex situation that has to be explored, and the time required for full consultation on the details of any major tax changes, there would be a serious risk that proposals would be based on inadequate thought leading to unsatisfactory patching and compromise. Yet it would not advance the date for implementation, which is determined by the speed of computerisation of PAYE and VAT.

2. It is possible that the option of a reformed rating system may turn out to be the best. But in the CPRS view it would be unwise to go for this option simply because it is the only one which could be enacted before a General Election - particularly when it could not be implemented before 1988 even with legislation in 1982/83.

3. There is more at stake here than just the reform of the method of raising revenue for local authorities. In part the present confusion stems from having considered financial arrangements separately from functions. It would be logical to consider first which services are better delivered by a locally elected authority, and what degree of discretion and local funding this entails. The possibility of a greater degree of central funding for education is raised by the Green Paper, and according to the Secretary of State is gaining some support (paragraph 6), but there are various models for its organisation which need to be considered.

4. If these three closely related issues of functions, revenue and central funding are to be given adequate attention, this would point to a White



CONFIDENTIAL

Paper in 1983. If Ministers so decide, the study which the Prime Minister has asked the CPRS to undertake would be an input leading to the White Paper.

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

JR / -  
✓

conqueror

CONFIDENTIAL



Local Govt.

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon William Whitelaw CH MC MP  
Home Secretary  
Home Office  
50 Queen Anne's Gate  
LONDON SW1H 9AT

Prime Minister

MS

MM 12/2.

11 February 1982

Dear Willie.

On 4 February the Cabinet invited me, in consultation with you and others, to examine the case for changes in local government's present financial responsibility for education services, the options for changes and the implications of any such changes for other local government services, and to report in May. The purpose of this letter is to let you and other colleagues know how I propose to proceed.

I am asking Mr E H Simpson, a deputy secretary, to be in charge of the work here. With the help of a small group of officials in this Department he will aim to circulate by the beginning of March a paper setting out our views on the remit. This will take account of what was said in Annex B to the Green Paper and in Chapter 11. He will then invite comments from the other Departments concerned on the implications for local government finance generally and for other services (including libraries and museums, for which Paul Channon is the Minister directly responsible) of any changes in the financing of education.

On the basis of this work at official level I would then hope to discuss with you and the other Ministers concerned, immediately after Easter, a draft of my report to Cabinet. My objective would be to circulate the final version of this report in time for a Cabinet discussion before the end of May.

If you and other colleagues responsible for local authority services in Great Britain are content with this procedure, I shall be grateful if you will arrange for Mr Simpson to be given the name of an official whom he can regard as his point of contact.

CONFIDENTIAL



CONFIDENTIAL

The Prime Minister has agreed with your proposal of 4 February concerning the role of the Metropolitan authorities. We will have to bear that in mind in the present study.

I am copying this letter to the Prime Minister; to Geoffrey Howe, Peter Walker, Michael Heseltine, George Younger, Nick Edwards, John Biffen, David Howell, Norman Fowler, Norman Tebbit, Cecil Parkinson and Paul Channon; and to Sir Robert Armstrong and Mr Robin Ibbs.

*[Handwritten signature]*

*[Handwritten signature]*

14 FEB 1982

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

CONFIDENTIAL