

CONFIDENTIAL



Prime Minister

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fc JV

\*  
Agree these

preliminary conclusions, in particular  
to drop consideration of all alternatives  
except Reformed Domestic Rating System?

\* please also see now  
Ferdie Mount's  
advice (attached)

PRIME MINISTER

MINISTERIAL GROUP ON LOCAL GOVERNMENT  
ORGANISATION AND FINANCE: ALTERNATIVES  
TO DOMESTIC RATES

MIS 21/6

minutes  
attached.

The first meeting of the Ministerial Group on Local Government Organisation and Finance (MISC 79) took place on 16 June. One of the items which we discussed, on the basis of very full papers by the Secretary of State for the Environment, was alternatives to the present system of domestic rates.

As you know, the main possibilities are as follows:

- Assigned Revenues
- Local Income Tax
- Local Sales Tax
- Poll Tax
- Reformed Domestic Rating System  
(perhaps associated with changes  
in the system of non-domestic  
rates).

Technical arguments aside, it is clear that replacing the rates by an alternative tax would mean that large numbers of people lost, even if large numbers also gained. Resentment among the losers would be certain to be stronger than gratitude among the gainers. This argument is reinforced by the fact that if inflation continues, even at the substantially lower rates that it is our firm intention to achieve, any change of system would be blamed for increases in the level of local taxation between one year and another due to inflation.

We must also take account of the results of the extensive soundings of opinion that have been conducted in the Parliamentary Party. There is no real support for assigned revenues or local sales tax; there is some limited support for the introduction of local income tax in the longer term, but just as much opposition; there is considerable support for some form of poll tax, but again just as much opposition. It is very doubtful whether any of the courses I have mentioned would command enthusiastic support in the Party.

Finally, we cannot overlook the use, or misuse, of a new form of local taxation that might be made by irresponsible local authorities.

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The upshot of our discussion was that, with the exception of a reformed rating system, none of the possibilities commanded any general support within the Group. Although individual members saw merit in one or other of the alternatives (and I should in fairness mention that the Secretary of State for Scotland, who favours some form of local income tax, had to leave the meeting early) the balance of opinion was strongly against all of them.

I regard it as an important part of the work of MISC 79 to eliminate possibilities that have little or no chance of proving politically acceptable. For the reasons that I have given, we believe that we should eliminate all the alternatives, other than reform of the rating system, from our future work.

There is one other aspect that we intend to study further. The problem of overspending by local authorities is so serious that it is essential to study the possibility of controlling total current expenditure by individual authorities, for example by setting individual cash limits or by 'capping' rate increases. The difficulties, of course, are formidable; but we feel obliged to make sure that all the possibilities are studied.

These preliminary conclusions are fundamental to the future work of MISC 79. I should, therefore, be grateful to know whether you, or any of our Cabinet colleagues, consider that any of the alternatives which we have decided to drop from further consideration ought to be studied further. It would be helpful if replies could reach me by close of business on Wednesday, 23 June and could set out the arguments behind them reasonably fully.

I am copying this minute to members of MISC 79, to other members of the Cabinet, and to Sir Robert Armstrong.

hwb.  
18 June 1982

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27 JUN 1982



10 DOWNING STREET

*From the Private Secretary*

Mr. Sparrow

Misc 79: Alternatives to Domestic Rates

Thank you for your minute of 25 June.

I put to the Prime Minister over the weekend the suggestion that the Government could say that it would not rule out local income tax as a longer term option, and that this might be a way of reconciling divergent views within Misc 79. As you will have seen from my letter today to John Halliday, the Prime Minister prefers to proceed in the way proposed by the Home Secretary, by squarely ruling out all alternatives other than reform of the rating system.

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

ms

28 June, 1982.

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*File*



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CPRS

10 DOWNING STREET

PUSS, WO CO + remainder of  
28 June, 1982. Cabinet

*From the Private Secretary*

Misc 79: Alternatives to Domestic Rates

The Prime Minister was grateful for the Home Secretary's minute of 18 June about the future work of the Ministerial Group on Local Government Organisation and Finance (Misc 79).

The Prime Minister concurs with the Home Secretary's conclusion that the Group should eliminate all the alternatives other than reform of the rating system from its future work. On one of these alternatives - a local income tax - the Prime Minister has commented that she is wholly opposed to this option, which would not catch the black economy in any way. She agrees, therefore, subject to the views of colleagues, that the Group should drop further consideration of all the alternatives set out in the Home Secretary's minute other than reform of the rating system. She has commented that if there is not general agreement on this proposition, the matter will need to be discussed in E Committee.

I am sending copies of this letter to the Private Secretaries to the other members of Misc 79, to the other members of Cabinet and to David Wright (Cabinet Office).

*MS*

John Halliday, Esq.,  
Home Office.

*RM*

PRIME MINISTER

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE:  
ALTERNATIVES TO DOMESTIC RATES

The Home Secretary's minute (Flag A) suggests that his Ministerial Group on Local Government Organisation and Finance should now drop consideration of all alternatives to the present system of domestic rates except a Reformed Domestic Rating System.

Mr. Younger's minute (Flag B) argues for a local income tax.

Ferdie Mount's note (Flag C) puts in a plug for reform on the expenditure side; he is again canvassing his view that education expenditure might be shifted to central government (the problem is that local authorities would probably reduce their rates by too small an amount and <sup>keep</sup> increase their spending <sup>at</sup> ~~up to~~ traditional levels, on e.g. social services, so we would get a net increase in public spending).

John Sparrow (Flag D) suggests a way of reconciling the views of Mr. Younger and the Home Secretary.

Agree with the Home Secretary's conclusion that he should now drop consideration of all alternatives except a Reformed Domestic Rating System? Do you wish X in John Sparrow's note pursued?

MCS

I am totally opposed

to a local income tax. It would not catch the black economy in any way.

25 June 1982

I am prepared to give Home Sec's suggestion if other colleagues are satisfied. If not, we will discuss in 'L' mtg



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D

Qa 05963

25 June 1982

To: MR SCHOLAR

From: JOHN SPARROW

MISC 79 - Alternatives to Domestic Rates

1. The Home Secretary's minute of 18 June asks the Prime Minister (and other Cabinet colleagues) to agree that other forms of local taxation should not be examined further as alternatives to rates. The Secretary of State for Scotland is against ruling out local income tax (LIT) - his minute of 22 June.

2. I believe MISC 79 has been mainly concerned with measures that can be taken soon, and has not yet given much attention to the longer term. Given this, the two positions are not irreconcilable. None of the versions of LIT favoured by the Secretary of State for Scotland could be introduced in less than a decade. Hence the need to reform rates (even though capital valuation, the largest option, would take 5 years or so). But the Government could still say, in stating its general position (perhaps in a White Paper), that it would not rule out LIT as a longer-term option when the computerisation of national income tax makes this possible in the 1990s. MISC 79 could be asked to examine this on its own merits, and it might also be a way of reconciling the divergent views in the Committee.

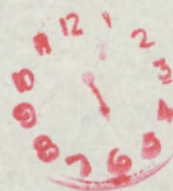
3. I am sending a copy of this minute to Sir Robert Armstrong.

JS.

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15 JUN 1982



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cc 50 4 pps



Management and Personnel Office

Whitehall London SW1A 2AZ

Telephone 01-273 { 4400  
GTN 273 }

23 June 1982

The Rt Hon William Whitelaw, CH, MC, MP  
Secretary of State for the Home  
Department  
50 Queen Anne's Gate  
LONDON SW1H 9AT

*Dear Willie,*

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE:  
ALTERNATIVES TO DOMESTIC RATES

Thank you for sending me a copy of your minute of 18 June to  
the Prime Minister. *in PM's Box*

My own view on the feasibility of alternatives to reform of  
the rating system is entirely in agreement with MISC 79. The  
political reality, as you rightly say, is that if substantial  
numbers of people find themselves paying a new tax the hostility  
generated will outweigh the public perception of any benefits.

I therefore support the proposals in your minute that MISC 79  
should concentrate its attention exclusively on reform of the  
rating system, including changes in the system of non-domestic  
rates; and on arrangements to deal with overspending.

I am copying this letter to the Prime Minister and to the other  
recipients of your minute.

*Yours ever*

*Baroness*

BARONESS YOUNG

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Home Secretary

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE:  
ALTERNATIVES TO DOMESTIC RATES

I have seen a copy of your minute of 18 June to the Prime Minister, as well as the minutes of the first meeting of MISC 79.

As your minute recognises, I had to leave the meeting early (because of a by-election commitment at Coatbridge). I was therefore unable to develop my arguments in support of Local Income Tax as I would have wished and I am extremely concerned at the possibility that a decision might be taken to rule it out without a proper discussion.

The inescapable fact is that our supporters regard us as having given a commitment to abolish domestic rates and I am sure that to go for a long-term solution which is based on the rating system, however much we tinker with it, will be seen as a breach of faith for which many of our supporters will never forgive us and which would be extremely damaging in electoral terms.

Local income tax is the only alternative to domestic rates which seems to me to be worth pursuing. Above all, it is fair, reflecting as it does ability to pay. It is also a concept which can be readily understood and administered in a practicable way.

As I indicated in paragraph 45 of MISC 79(82)3 part of my contribution to Michael Heseltine's memorandum, my immediate proposal is for LIT 1 to be based on a computerised PAYE scheme. I recognise that this solution raises problems, mainly that a supporting tax would be required for the lower tier authorities and to offset the lumpiness of LIT. For that reason in paragraph 46 I suggested reformed domestic rates. This need only be an interim measure, a step towards a more developed form of LIT based on universal end-year assessment (LIT 3) which I understand the computerised tax system would be able to accommodate. With LIT 3, according to paragraph 6.22 of the Green Paper, lower-tier authorities would be able to set their own rates of tax.

This advantage of LIT 3 would make it possible to end the domestic rating system. Until that happens, however, domestic rates would play a very subordinate role and the bulk of local authority income on the domestic side would be derived from a broad-based LIT. Recognising that we shall have to ask the ratepayers to be patient while we find a suitable solution, implement it and develop it to a point at which they can begin to benefit, I have suggested offering them an early advantage in the form of income-tax relief. I know the administrative price for such a benefit is likely to be a high one and that only taxpayers would benefit from it; nevertheless I believe that our supporters would see immense advantage in it.

Although these proposals are set out briefly in my section of MISC 79(82)3, I am grateful for the opportunity to develop them. I believe that they constitute a coherent scheme for the replacement of domestic rates with an equitable broadly-based and productive tax over a period of time that is not too protracted for a proposal intended to resolve a problem as long-standing as that of domestic rates.

I therefore cannot accept the proposal in your minute that we should rule out LIT without further discussion and I hope we can return to the matter at tomorrow's meeting of MISC 79 or at some other early opportunity. I am copying this minute to the Prime Minister, members of MISC 79, other members of the Cabinet and to Sir Robert Armstrong.

C.Y.

22 June 1982  
Scottish Office

cf JV



Prime to

NBPM

Mus 22/6

Treasury Chambers, Parliament Street, SW1P 3AG

John Halliday Esq  
 Private Secretary to the  
 Secretary of State  
 Home Office  
 50 Queen Anne's Gate  
 London SW1H 9AT

22 June 1982

Dear John,

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE:  
 ALTERNATIVES TO DOMESTIC RATES

*with PM*  
 The Chief Secretary has seen your Secretary of State's minute of 18 June to the Prime Minister. He agrees with the conclusions of MISC 79 recorded there, and has asked me to say that he would not wish any further work to be done on any of the alternatives which MISC 79 decided to drop from further consideration.

I am copying this letter to Michael Scholar at No.10, to the Private Secretaries to Members of MISC 79, to the Private Secretaries to other Members of the Cabinet, and to David Wright.

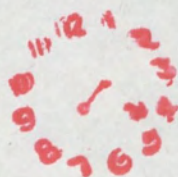
Yours sincerely  
 Terry Matthews

T F MATHEWS

Private Secretary

A-0004

2-22 JUN 1982



MR SCHOLAR

RATING REFORM - MR WHITELAW'S REPORT ON MISC 79

The MISC 79 Group has come up against the perennial truth that people don't like their tax bills going up, even if they only go up in line with inflation. The particular unpopularity of the rates is due to the fact that they go up with such painful visibility.

The emerging view in the Group is that a reformed rates system is the least bad method of raising local revenue. That is a matter of opinion, but MISC 79 has still to address itself to the matter of fact - which is that the rating system has, for years now, raised less than half the revenue necessary to finance those services which are locally controlled.

The Policy Unit has already argued that it is this disparity between locally raised revenue and local expenditure which both makes councils so imperfectly accountable, and makes it so difficult for central government to control local government expenditure.

Central government has attempted, throughout this century, to conceal this disparity by a series of acts - notably the 1958 Local Government Act, but not excluding the 1980 Act - which weakened Whitehall's detailed control over local government expenditure. Each reinforcement of the block-grant system inevitably added to the freedom of local government while diminishing its responsibility to be thrifty and cautious in drawing up its plans.

If MISC 79 does not wish to pursue fundamental alternatives to the rating system, then it is implicitly accepting that even with a reformed rating system, local authorities will continue to raise roughly the same amount of money through the rates as they do at present. For rating reform is unlikely to be a practical possibility if it means huge increases in the rates bill.

The questions which MISC 79 need to ask therefore concern local government expenditure. If 50-60% of local government expenditure is to be planned by the local authorities but paid for by central government grant, how is it possible to make local government more accountable? And if it is not possible, is there any other way to balance the equation but to begin to shift to central government the detailed control of the largest single item of expenditure, namely education?

I suggest that we might reply to the Home Secretary's note saying that, if MISC 79 prefer the status quo on the revenue-raising side, then it would be reasonable to hope that they will find a way of coming up with far-reaching reform on the expenditure side.

But the Home Secretary's minute

does indicate

further work in prospect

on the expenditure side (ante penultimate para)

FM

MCS.

FERDINAND MOUNT