



10 DOWNING STREET

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From the Private Secretary

8 July, 1985.

LOCAL GOVERNMENT FINANCE

On Friday, 5 July, the Prime Minister met Mr. Roy Thomason, Conservative Leader of the Association of District Councils; Mr. Lewis Moss, Leader of the Conservative Group on the Association of County Councils, and Mr. Peter Bowness, Leader of the Conservative Group on the Association of Metropolitan Authorities. Also present were Mr. Waldegrave, Mr. Redwood and Mr. Letwin.

The Prime Minister welcomed the opportunity for an exchange of views with the Leaders of the Conservative groups on the different Local Authority Associations. She started from the view that changes were needed both to the system of rates and the system whereby central government paid grant to the local authorities. The debate should be conducted against the background of the Government's responsibility to retain control of total public expenditure.

Mr. Thomason agreed that the system of local government finance could not be sustained much longer. There should be less detailed control by central government of local government finance though he accepted the Government's responsibility for control over the total of public expenditure. Any new system must give greater accountability so that councils were forced to justify to their electorates the resources they raised from them. One consequence of this greater freedom might be that Labour authorities would abuse their position, but to some degree this should be accepted if they were genuinely accountable. He believed that the solution for local government finance should start from the non-metropolitan areas and then be applied in the metropolitan areas. He suggested separate taxes for the shire councils and shire districts. There should be an end to precepting. To put the whole of the burden currently borne by rates to a residents' charge would create very specific gainers and losers. He therefore supported a mixture of taxes in which the shire districts levied rates, using an approved rate base, and the counties levied a residents' charge.

Mr. Moss agreed that the present system could not continue. The new system could be based either on more centralisation or on more local discretion and

accountability. He believed the former was inconsistent with Conservative philosophy. Greater accountability had to satisfy two conditions; first, money raised locally should be spent locally, and second, those receiving services should contribute to them.

He, too, supported separate taxes for the counties and districts. He had originally been a supporter of local income tax, but now recognised that the (entirely correct) policy of raising the income tax threshold would erode the accountability which local income tax would produce. He therefore saw a role for a residents' charge though believed it would have to be graduated. This should be done by rebates from central government whose responsibility it was to relieve poverty.

Domestic rates levied at 70p could cover all the expenditure of the shire districts (others suggested a 50p rate plus a 25 per cent grant). Commercial and industrial rates should remain, being collected locally but with capping by central government. The counties would receive non-domestic rates and the capitation charge. He also saw considerable scope for raising more from charges. Government could divide services into different categories, and specify the proportion, say 100, 75 or 50 per cent which should be covered by charges. (Mr. Thomason was less sanguine about the scope for raising finance in this way.) Finally, he made a plea for full exemplification of any options. He suggested that all the details should be worked out before the election for implementation.

Mr. Bowness made a plea for more certainty in the grant arrangements. It was very difficult to run local government budgets professionally if, as happened at present, the amount of grant could change substantially shortly before the start of the financial year simply on account of changes in budgets of other authorities. He also made a plea for full exemplification.

From the point of view of one-tier metropolitan authorities, the continuation of rates and residents' charge looked unattractive. He believed there should be protection for commercial and industrial ratepayers but warned against a national system in which rates were averaged out. This would deny those authorities which had run their affairs responsibly any benefit from past initiative. If there were significant changes in the pattern of rates there should be a long period of transition.

He was less enthusiastic than his colleagues about a residents' charge which he believed would be expensive to administer. There would be strong pressure for release which would weaken the accountability it was intended to deliver.

The Prime Minister said that Britain was a unitary

State with a strong tradition of national standards for the different services set by Government. There was authority to raise tax other than that devolved by Parliament; local government could not be seen as a separate sphere of Government, but as a means of delivering statutory services combined with some degree of local discretion. At present the latitude enjoyed by local authorities was too great. The Government had no control over what local authorities were spending on delivering the statutory services. While many local authorities were efficient, a good many were not, and were abusing their local autonomy. The Government supporters were rightly saying that the Government was the taxing authority but was allowing inequitable tax to be imposed.

The Prime Minister said the present system of rates could not continue. It was hopelessly unfair. There was no market by which to determine rental values. A system based on capital values would be just as bad; people improving their property would attract more rates. A system based on square footage might be better. She believed, therefore, that domestic rates should be abolished and replaced by a residents' charge. Business rates should continue as there was a better basis for valuation.

The system of central government grant should also be substantially overhauled. Despite over 60 criteria for assessing need, the system was still arbitrary. The local authority representatives agreed that as good a result could be achieved with many fewer indicators. Population and its age distribution were by far the dominant influences.

The Prime Minister gave an assurance that any changes would have an extended transitional period, perhaps over a full Parliament.

Concluding the discussion, the Prime Minister said she welcomed the opportunity for an exchange of views, and hoped the local authority representatives would keep in touch with Department of the Environment Ministers. It was agreed that both sides were free to acknowledge that an informal meeting had taken place, with either side free to state what points it had made.

I am sending copies of this letter to Mike Bailey (Office of the Minister for Local Government, Department of the Environment), and to Barbara Jones (Mr. Waldegrave's Office, Department of the Environment).

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.