

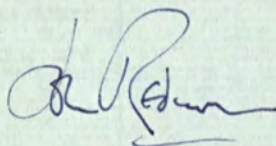
M. R.

19 July 1985

MR TURNBULL

PLS

This is the view of Lewis Moss following his meeting with the Prime Minister on rates.



JOHN REDWOOD

THE PHILOSOPHY AND THE PRACTICALITIES.

On the philosophy I take the view that INACTION IS NOT NOW AN OPTION.

The options are clearly a centralist solution or accountability.

I feel very strongly that A CENTRALIST SOLUTION WOULD NOT BE A CONSERVATIVE ANSWER since Conservatism is surely about reduction of the power of the state and dispersal of that power, so that as many services as possible are provided at local level, including education which is of course a principal interest of practitioners of local government.

In any event the transfer of services from local to central government does not of itself provide solutions to the financial problems, nor meet the government's financial objectives.

THERE ARE OF COURSE TWO ASPECTS OF ACCOUNTABILITY. What I call the Layfield concept which is that the money should be raised where it is spent, and the capitation approach which seeks to equate to the greatest degree possible the spread of local taxation and electoral responsibility. I support both these.

I feel it is essential to recognise that there should be no quick fix on a matter as complicated as this, which must be a vote winner rather than a vote loser and therefore in my view requires the most careful exemplification and presentation in order to be ready before the next General Election, but not implemented until after it.

I suggest that the basic philosophy should be that LOCAL GOVERNMENT IS THE PROVIDER OF SERVICES which the private sector cannot or will not make available, but that CENTRAL GOVERNMENT IS RESPONSIBLE FOR THE RELIEF OF POVERTY.

This brings me to THE PRACTICALITIES. I feel strongly that THE SOLUTION NEEDS TO BE A PACKAGE and possibly an evolutionary package. The Association of County Council's view previously expressed was for local income tax to supplement property tax in the long term, also favouring a limited capitation tax as an augmentation of property taxation rather than its replacement in the meantime.

My current view is that the Conservative objective of progressively raising the thresholds for payment of income tax militates against its introduction locally if we are to achieve accountability, and there is the added factor of the implementation date being quite a way ahead because of technical difficulties of computerisation.

THE PACKAGE I see therefore is a COMMERCIAL/INDUSTRIAL RATE COLLECTED LOCALLY BUT APPROVED NATIONALLY to give protection to commerce and industry. Some RESOURCE EQUALISATION mechanism may be necessary in this connection otherwise commerce and industry in low resource areas will get a large increase in its bill, whilst others would get large reductions.

I feel there is a case for SHIRE DISTRICTS whose expenditure at £1.5 billion is much lower than Shire Counties expenditure of £10 billion should have DOMESTIC RATE as a separate source of income. It would be about 70p with no government grant. If greater accountability is also required for Shire Districts as well as Shire Counties, then there might need to be a mix with a capitation charge.

So far as SHIRE COUNTIES are concerned and the METROPOLITAN AREAS, I feel the mix should be non-domestic rates plus a capitation charge, plus considerably increased reliance on charging, with the balance being government grant in the form of a simple system of resource equalisation, and some specific grants.

For the Shire Counties if they receive non-domestic rates at the current national average and rate support grant at the current figure, a capitation charge of £80 could replace domestic rates.

To reduce government grant from 41% to 25% would increase the capitation charge to £163. The average domestic rate payment at the present time is £316 and would be £450 if grant were reduced to 25%. To compare with these capitation charges the multiplier is roughly two to reflect average house occupancy.

But all this is without CHARGING FOR SERVICES. People value the things they have to pay for, and charging automatically exposes a local authority to the discipline of the market place. I feel that SERVICES SHOULD BE CATEGORISED, TO REQUIRE CERTAIN LEVELS OF INCOME IN RELATION TO COSTS. For some the income should be not less than 100% of costs, others say 75%, others perhaps 50% and yet others with no such control.

For relief of poverty government should contribute income to local government for such services as the government considers appropriate to be provided free or at a lower charge to certain categories of people. The greater the charging the lower should be the additional capitation charge and overall government grant.

The philosophy of charging ties in with the philosophy of DE-LEGISLATION AND DISCRETION which I was able to touch upon here January a year ago when we were discussing rate capping.

In relation to CAPITATION CHARGE there is clearly a need for a system which requires PHYSICAL PAYMENT by the largest possible number of electors, but makes available the cash for such payments up to a certain level, where there is a clear lack of resources. This does add to administration costs but would seem to be a pre-requisite of real accountability which would surely be much WEAKENED BY WHOLESALE EXEMPTIONS.

RATE SUPPORT GRANT produced, and continues to produce, extraordinary anomalies. It is that danger which I think highlights the need for a package which can be adjusted flexibly in the light of experience. Total abolition of the rating system at the outset would remove this possibility.

Finally the new system does of course need to be measured against two yardsticks, one its fairness and the other its political success.

Addenda

There should not be any changeover to capital values in the domestic rating system as in my view this would be politically unacceptable.

To increase accountability there needs to be a particularly close look at domestic rate relief, domestic rate rebate and direct payment of rates by Council tenants.

The point made in the fourth paragraph on this page does, however, need to be taken into account.

There is in my view a strong case for rating of agricultural buildings but not of land as a means of further reducing the impost on commerce and industry.

The Association of County Councils is continuing its "Way Ahead" study on Local Government Finance parallel with the Government study.

In the aftermath of the May elections these notes should be regarded as my personal views in the absence of a new definition of ACC policy or indeed of the formal policy of the ACC Conservative Group.