

PRIME MINISTER

24 January 1986

RATES GREEN PAPER

Kenneth Baker's statement is fine. It shows that you have been absolutely right to select him and William Waldegrave as the reform team: they understand the policy and are determined to sell it properly.

We have one minor comment. Paragraph 7 needs to be amended slightly to make clear from the start that the non-domestic rate will be automatically frozen in real terms, rather than left to the discretion of the Secretaries of State. The second sentence of the paragraph could read:

"We propose, therefore, that non-domestic rate poundages should be uniform in each county, and that they should be constrained by an automatic formula, so that businesses can predict their future burden with confidence".

We recommend that you agree to Kenneth Baker's draft, subject to:

- David Norgrove's point on the consultation period.
- Our redraft of paragraph 7.

David Willetts

DAVID WILLETTS

Oliver Letwin

OLIVER LETWIN

CONFIDENTIAL

PRIME MINISTER

GREEN PAPER: PAYING FOR LOCAL GOVERNMENT

Mr. Baker invited comments on his draft statement on the Green Paper.

I think it is admirably clear. Note the emphasis on the inner cities in paragraph 10. Paragraph 28, on the timing of consultations, seems to go outside the agreement which was reached with the Lord President. I am pursuing that separately.

Agree the draft statement subject to colleagues' comments?

Yes not

PP
R.A. [unclear] (Duty Clerk)

DN

24 January 1986

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CONFIDENTIAL

Local Government (Financing)

3.41 pm

The Secretary of State for the Environment (Mr. Kenneth Baker): With permission, I should like to make a statement. Together with my right hon. Friends the Secretaries of State for Wales and Scotland, I have today presented to Parliament a Green Paper entitled "Paying for Local Government". It makes major proposals for the future financing of local government in Great Britain.

The central theme is the need to bolster local democratic accountability. To do so, we need a way of paying for local government which narrows the gap which exists between those who use, those who vote for and those who pay for local government services.

The three fundamental weaknesses in our present arrangements are: the complex and uncertain effect of Government grants to local authorities; the way in which businesses can be heavily taxed to pay for excessive local spending; the unfair burden on householders of domestic rates.

May I deal with non-domestic rates? Business and commercial ratepayers foot 60 per cent. of the local tax bill but have no vote to influence local elections. For businesses, rates are uncontrollable overhead costs which can and do vary from year to year very significantly. Increased business rates lead to higher costs; to lower pay or job prospects; or to reduced investment. Those who are ultimately affected are quite unaware of how these extra burdens arise.

For all those reasons, non-domestic rates should not be a local tax. We propose therefore that a uniform non-domestic rate poundage should be set centrally. Businesses will be protected by indexing the poundages to inflation so that they can predict their liability with confidence. All of the yield of non-domestic rates would continue to support local government expenditure but it would be pooled and redistributed as an equal amount per adult in all authorities. Transitional arrangements would be required in each of the three countries to allow for an orderly move to the new system. We are setting in hand a revaluation of all non-domestic properties so that new rateable values will be available from April 1990.

I turn to the question of Government grants. The present grant arrangements are unstable and complex. They obscure the link between what people pay for local services and what they get for their money. But the clarity of that link is essential to local accountability.

We therefore propose a new two-part grant structure. First, a needs grant to compensate authorities for their different needs. Secondly, a standard grant—to reduce local tax bills by a standard amount per adult. Both grants would be fixed in cash, in advance, for the year in question. Local authorities would then know where they stood. We would remove the whole paraphernalia of schedules, tapers, multipliers and close ending.

Taken together with our proposals on the non-domestic rate, these grant arrangements would produce the clearest possible relationship between changes in spending and changes in tax bills. Every extra pound spent will be met in full by local domestic taxpayers. Every pound saved would benefit them in full. And that would be true in every authority in the country.

On the subject of domestic taxes, at present in England around 35 million adults are eligible to vote in local

elections. Only 18 million are directly liable as ratepayers. Of these, 3 million have their bill met in full by housing benefit. In many authorities well over 50 per cent. of the voters pay no local rates and therefore have little interest in restraining spending by the local authority; indeed, they have a clear interest that it should spend more.

Under the new social security proposals, every ratepayer will have to pay part of their rate bill. That still leaves 17 million adults with no liability to pay for the local services they use. It still means that the single pensioner or the single parent will face the same bill for local services as the house next door with four earners.

Rates are a tax on property. They are unpopular because the rates burden is carried on too few shoulders and needs to be spread more widely and fairly. There are broadly three alternatives—a sales tax, local income tax, or a flat-rate community charge. The Green Paper sets out the many difficulties we see both in sales tax and in local income tax, and the reasons why we prefer a community charge. It would be more closely linked to the use of local services and would give all adults a stake in local spending decisions. As with rates, there would have to be assistance for those on low incomes. Each local authority would set its own charge and there would have to be registers of all adults. The registers would be entirely separate from the electoral register.

This proposal would lead to the same local tax bill for the same standard of service in all areas. That would lead to significant changes in the distribution of local tax burdens between authorities. There would have to be transitional and safety net arrangements.

In England and Wales the community charge would start at a low level, with a corresponding cut in rates. The whole burden of any increased spending would fall on the community charge from the start, so that a clear link would exist between higher spending and higher community charges. In subsequent years there would be further transfers from rates to the community charge. In some areas rates would disappear within three years, and they would be eliminated in all areas within 10 years.

Under the proposals some people would be paying local taxes who presently pay nothing. But those living on their own who presently pay more than their fair share, including many of the poorest households, would be better off.

The Green Paper illustrates the effects of the proposals, had they been in force in 1984-85. The illustrations show that the changes would be modest for most people, and that the shift to the new tax would be both gradual and manageable in terms of household incomes.

There are also proposals in the Green Paper to reform the capital control system on which I am inviting comments.

Those proposals amount to the most thorough reform of local government finance this century. It is right that there should be a substantial period of consultation. My right hon. Friend the Secretary of State for Wales and I have asked for comments by 31 July. My right hon. Friend the Secretary of State for Scotland will make a statement tomorrow. The pace of further developments in England and Wales will depend on the outcome of the consultation process.

The message from our studies is clear; the way we now pay for local government undermines local accountability. That is no basis on which to run democratic local government. It has drawn central Government deeper into

[Mr. Kenneth Baker]

conflict with local government. The alternatives are clear. We can continue down the present path—that is the road to closer central involvement in local affairs and increased central control—or we can face up to the weaknesses in our present arrangements and provide local government with a financial system to bolster local democracy. The Government prefer that course, and I commend it to the House.

Dr. John Cunningham (Copeland): The Secretary of State has made a major statement on what is by any test a very important Green Paper. Will he accept that the Opposition are prepared to support any genuine attempt to increase local accountability and to return to local government the freedoms and local democratic control that have been consistently eroded during the seven years of the Prime Minister's Administration?

Is the right hon. Gentleman aware that the Opposition welcome the Government's recognition that after seven years of Conservative Government local authority finance is in a bigger mess than ever before? Does he realise that we agree with his message last week in a letter to Tory councillors nationwide that the system that his Government have created is unfair and stifles local accountability?

Does the Secretary of State recognise that, after seven years of successive failure in local government finance, the Green Paper announces yet again the abandonment of the Prime Minister's oft-repeated promise to abolish domestic rates altogether in this Parliament? Is it not clear that the Prime Minister has comprehensively ratted on that promise to the ratepayers? Is not the general proposition at the heart of the Green Paper a proposal to introduce a poll tax to be imposed on every adult regardless of income or ability to pay? Will that not also be a tax on the right to vote, as the Green Paper makes abundantly clear? Is the right hon. Gentleman aware that no other Western industrial democracy employs such a grotesquely unfair system as the basis of the major source of local government income?

What has changed since the Government rejected these very proposals in their 1983 White Paper on rate reform? The Government rejected the proposals then on the basis that they were expensive and bureaucratic to administer, bearing harshly on low-income families and a tax on the right to vote. That was revealed in the Government's White Paper two years ago.

Is it not the case that every ratepayer, regardless of means, will have to pay a minimum flat-rate charge under the Government's proposals? Why has the Secretary of State, in his statement and in the Green Paper, been so obscure about the proposals to help low-income families get over the major impact of the new impositions?

Will the Secretary of State confirm that his proposals for a uniform business rate are a further huge centralisation of power which will undermine local democracy and accountability and not enhance it? It will leave in the hands of Ministers massive additional controls over local authorities regardless of their political persuasion. Will not this mean higher business rates in many Tory local authority areas? I ask Conservative Members to study the proposals carefully, because that is the implication. That is what is at stake, especially if the yield is to remain the same as at present.

Why do not the right hon. Gentleman and his right hon. Friends address themselves to the far higher costs to industry and commerce of interest rate charges which result from the Government's policies? What are the distributional effects of changes on people in different circumstances in different local authority areas? The figures that he has given relate to regions and national situations, not to specific local authority areas. In that sense, the figures quoted are nothing short of misleading.

Is not the right hon. Gentleman asking his right hon. and hon. Friends to accept a time bomb ticking away under them in their constituencies and local authorities? These proposals will bring shock waves of horror to many Conservative Members who believe in some craven way that they and their constituents will benefit from them. Will the right hon. Gentleman publish the data and studies that he and his right hon. Friends have used and made to give the examples in the Green Paper?

Is not this exercise a vain attempt to redeem the pledges of the Prime Minister and to cast a cloak of obscurity over the failure of the Prime Minister in seven years in government to deliver that simple, if not cynical, promise to abolish domestic rates? Is not the reality right through the Green Paper simply that rates will be here long after the Government have gone?

Mr. Baker: The hon. Gentleman asks my hon. Friends to study the Green Paper carefully. I hope that he takes such advice himself, because rarely has the House heard such a thin and empty comment. I have tried in the Green Paper to set forward the central issue of what I hope will be a great debate upon the future of local accountability in local government. During the course of that great debate the Labour party will have to say what system of local government finance it will support. From the hon. Gentleman's concluding comments, and from those of his hon. Friend the Member for Blackburn (Mr. Straw) recently, I assume that he will favour the retention of the rating system.

Dr. Cunningham: Answer my questions.

Mr. Baker: I shall answer the hon. Gentleman's questions. The hon. Gentleman argued that the community charge is unfair and regressive and will hit the poor, but I remind him that rates are also regressive and unfair and bear little relationship either to ability to pay or to the use of local government services. If rates are to be kept, there will have to be a major revaluation and that will create a turbulence in family incomes much greater than what I am proposing to the House.

The hon. Gentleman asked me about those who will benefit. Let me consider those who will face lower bills under my proposals. Eighty-six per cent. of all single pensioners will receive lower bills. Eighty per cent. of single adult householders will face lower bills. Businesses in the north, the midlands and the north-west will face lower bills. Areas of high unemployment will face lower bills.

The hon. Gentleman asked me whether the proposal was a tax on the right to vote. It most certainly is not. The registers will be separate. There will be people on the community charge register who will be liable to the community charge who do not have the right to vote—for example, foreigners resident in our country. What I

have made clear and what I do not disguise is that we are widening the tax base. We are spreading the burden more widely and more fairly to increase local accountability.

Most of us here subscribe to the notion of no taxation without representation. The hon. Gentleman believes in representation with no liability to taxation. He wants a right for those who contribute nothing to impose the full cost of their demands on those who contribute everything. I should be careful about going out to dinner *a la carte* with the hon. Gentleman because, under his system, I would be left with the bill.

Sir Hugh Rossi (Hornsey and Wood Green): Does my right hon. Friend accept that the return, after many decades and not just the last seven years, of the nexus between taxation and representation will be widely accepted and welcomed in the country both by those who have to pay and those who are conscious of their democratic rights? A far greater control over local authority spending will be achieved by the payer through the ballot box if taxation and representation are equated than by a cumbersome central Government apparatus.

Mr. Baker: I endorse what my hon. Friend has said; it goes to the nub of the question. The choice before the country in financing local government is whether one depends upon the constraints operated through the ballot box with a wider base of taxpayers or whether one goes for more central control. I reject the move towards more central control.

Mr. Barry Jones (Alyn and Deeside): Why are there no plans for the Secretary of State for Wales to make a statement on a matter of great importance for the Principality? Why is the Secretary of State for Wales hiding behind the Secretary of State for the Environment? I happen to know that the Secretary of State for Wales is at least part author of this iniquitous proposal of a poll tax.

Mr. Baker: There are important differences between the proposals as regards England and Wales and Scotland. However, the proposals for England and Wales are substantially the same and we thought it appropriate for one statement to be made. The hon. Gentleman's comments have been noted, and he may wish to pursue the matter through the usual channels.

Mr. John Heddle (Mid-Staffordshire): My right hon. Friend's announcement of the introduction of a national business tax will be welcomed widely by industry and commerce which has no voice, no sanction, no vote and no say in the way that profligate councils spend their money. Will my right hon. Friend accept that the introduction of a community charge may create some losers as well as some winners? To avoid any possibility of retrogression, will he extend the consultation period beyond 31 July so that the consultation may be as wide as possible?

Mr. Baker: I entirely agree that the proposal for a national business tax will be widely welcomed. The proposals are well founded.

As regards the consultation period, the local authority associations have already represented to me their wish for a longer time than 31 July. I am prepared to consider the matter, but I would not want to extend the period beyond October.

Mr. Eric S. Heffer (Liverpool, Walton): If the right hon. Gentleman is serious in what he said about no

taxation without representation, why have the Government not brought in a concept of local income tax? This has been argued for a long time and is extremely successful in Sweden. Is it not clear that the right hon. Gentleman and the Government are proposing to put further burdens on the shoulders of ordinary working people and not on those who can afford to pay? Is it not clear that the Government's proposals for registration are leading to a situation where criminal sanctions—I should like to know what the criminal sanctions are—will be against people who, for various reasons, may decide not to register.

Mr. Baker: We have looked at the various proposals for a local income tax. There are several variations and varieties, but all are administratively complex and would require a register, as the local community charge requires a register. If one moved to a form of local income tax, it would on average put an extra 4½p on the basic rate. The rate depends on the spending of various authorities and would range from an extra 2p to an extra 11p on the standard rate. I do not believe that many people would welcome the prospect of an uncontrolled capacity to raise local income tax which would be left in the hands of Mr. Bernie Grant or Mr. Hatton. In their hands it would be confiscatory.

Mr. Charles Morrison (Devizes): Is my right hon. Friend prepared to say whether there are any interim, short-term proposals in the Green Paper which will help to ensure that shire counties are not faced with the same difficulties next year and ensuing years as they face this year? May we assume that the business tax will ensure that there are virtually no businesses which will be worse off under that tax than they are at present?

Mr. Baker: I announced today that there would be a revaluation of business properties starting at once and coming into effect in April 1990. That will lead to an adjustment between the older properties, probably in the north, and the newer properties, probably in the south. That will have to be phased in over five years.

As for striking the average at national poundage, we put forward the idea in the Green Paper that, taking the mathematical average, the poundage could be reduced by 5 per cent. or indeed by a lower figure. The discretionary 5 per cent. will be left to the local authorities if they wish to charge it.

My hon. Friend asked whether there would be any special transitional arrangements, for the three years from 1987 to 1990 before the new operation comes in. Clearly there will have to be transitional arrangements even before this operation starts to avoid the type of debate that we had last week which I do not want to have again.

Mr. John Cartwright (Woolwich): The great debate is not starting today—it began in 1974 with the setting up of the Layfield committee whose recommendations were rather better based than those before the House today. Does the Secretary of State recall his own Government's White Paper of August 1983 which, after extensive consultation, totally rejected the idea of a flat rate community charge because it would be unfair, complicated and expensive to administer? Why is the right hon. Gentleman now recommending something which his Government rubbished two and a half years ago?

Mr. Baker: The reasons set out in the 1983 White Paper for rejecting a community charge were largely

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operational. The hon. Gentleman will see that if he studies the White Paper. The new grant system introduced in 1981 did not check the high spenders because there was insufficient local accountability under the rating system. That led to the introduction of rate capping and greater central control. A path has to be chosen by all parties in the country: do they want further central control, more control from Whitehall, or do they want to increase local accountability for the domestic taxpayer? That is the central issue.

Mr. Ian Gow (Eastbourne): Is my right hon. Friend aware that few, if any, local authorities which are profligate in the use of taxpayers' money would have been elected, let alone re-elected, if there had been a closer relationship between those who vote and those who pay? The broadening of the tax base will be widely welcomed not only by Conservative Members but in the country as a whole. My right hon. Friend's proposals constitute a great advance in equity of taxation.

Mr. Baker: I thank my hon. Friend, and agree with him. When the local elector goes to the ballot box and tries to make up his mind whether he should support the council, it is very difficult for him to determine whether the rates have gone up as a result of the high spending of the local authority or as a result of what has happened to the grant. There is no clear link. The new grant system which I have announced today will allow that link to be established. The local elector will be able to make his own judgment. In future, as a result of the new grant system and the standard national business rate, all the spending decisions will depend upon the council and upon it saying to its electorate, "This is what you want, so vote for us".

Mr. Frank Field (Birkenhead): As a sizeable number of poor people will be made worse off under these proposals, what measures does the Secretary of State propose to introduce to compensate them?

Mr. Baker: The Green Paper says that there will have to be a system of support for people on low incomes. One of the features of a community charge is that it will reduce average bills for the lowest income households with net incomes below £75 a week. There will be a rebate system that applies to the community charge as it applies to rates. For people on the lowest incomes, the community charge would be 2.4 per cent. of net income whereas rates would be 3 per cent. of net income.

Mr. David Howell (Guildford): Does my right hon. Friend agree that our objective is genuine independence and genuine accountability in local government? Does he agree that his plans take considerable strides in that direction? Will he reassure us that his plans for new grants and for the community charge, which I warmly welcome, will not be put at risk or overthrown by short-sighted Treasury intervention in the name of vague and hazy macroeconomic goals?

Mr. Baker: I think so. I welcome my right hon. Friend's support for increasing local accountability. I hope that the system will produce the checks and balances which I believe are necessary. We say that some form of selective rate capping may be needed for the transitional period, but I hope that it will be possible to phase that out.

Mr. Terry Davis (Birmingham, Hodge Hill): How will the cost of preparing a community charge register and collecting this new tax compare with the present system?

Mr. Baker: We estimate that it will cost about £30 million a year to prepare the register. The cost to the valuation office of domestic properties alone is about £30 million a year. If we were to keep the rating system and had a domestic revaluation, it would cost about £65 million.

Mr. Robert Rhodes James (Cambridge): Is my right hon. Friend aware that the proposal to include higher education students in the new community charge would be acceptable if it were not for the fact that they are already suffering from loss of grant and benefits, as proposed by the Secretaries of State for Education and Science and for Social Services? Are they covered by the low-income provisions?

Has my right hon. Friend discussed this with my right hon. Friend the Secretary of State for Education and Science?

Mr. Baker: The answer to my hon. Friend's latter question is yes, of course.

It is proposed in the Green Paper that students should also be liable to the community charge. I should like to say something about this as the circumstances regarding students and rates are complicated. There is an allowance in students' grants for housing costs. In addition, universities pay local authorities something for rates for students who live in halls of residence. In addition, students in digs who pay rent contribute towards the rates in their rent. Students who live at home may or may not pay their parents. We shall have to explore such factors much more fully during the consultation period.

Mr. Allen McKay (Barnsley, West and Penistone): Is the right hon. Gentleman saying that registration will be done on the basis of the electoral register? If so, how will he calculate for people who do not register? His answers have implied that industry will be better off, that pensioners will be better off and that the poor will be better off. In areas such as mine, where there is 20 per cent. unemployment, who will pay?

Mr. Baker: I have made it clear that we are broadening the tax base and that more people are to be brought into tax. The Green Paper sets that out fully. There will be a separate community charge register, which will not be the same as the electoral register.

Mr. James Couchman (Gillingham): Is my right hon. Friend aware that there are many small business men, including me, who will be profoundly grateful for his announcement about the business rates? That is especially true for those of us who were forced to stop trading in areas where rates had risen so much as to make our businesses unviable. What are the implications for the precepting authorities such as the Inner London education authority and the police?

Mr. Baker: The arrangements for precepting will remain the same. District councils will levy and collect the community charge. I strongly agree with what my hon. Friend said about the national business rate. Businesses pay £1.50 for every £1 paid by domestic ratepayers. In some areas, local authorities have milked businesses. For example, in Camden, businesses pay £4 for every £1 paid

by domestic ratepayers. Moreover, we shall link any increases in the national business rate to the rate of inflation.

Mr. Simon Hughes (Southwark and Bermondsey): Is the Secretary of State aware that the alliance parties accept his two premises — that the rating system and rate support grant system are indefensible, and that there must be more accountability? Is he further aware that the policy conclusions that he reaches show that the Government are unsound in policy, just as yesterday's announcements showed that they are unsound in their practices, as the poll tax is the most reactionary proposal since 1601?

Does the right hon. Gentleman agree that the majority of ratepayers will be worse off? Does he agree that Government control will be increased? Will he confirm that local income tax would provide better accountability, reduce local government's dependence on the Government, and reduce Government-imposed income tax?

Mr. Baker: I do not know which brand of local income tax the Liberal party will eventually settle on, but it does little for extra accountability. Before the hon. Gentleman gets too enmeshed in supporting local income tax, perhaps I might tell him what it would do to tax rates in his constituency. I have taken the rate for Southwark and calculated what it would represent in extra income tax. The standard rate for taxpayers in Southwark would increase from 30p to 41p.

Sir David Price (Eastleigh): Is my right hon. Friend aware that, for those of us who have called for rate reform for at least 20 years, my right hon. Friend's statement is most welcome? In view of the long history of Green Papers and the failure of Lord Wilson, when Prime Minister, to allow the Redcliffe-Maud commission even to consider local finance or local taxation, why do we have to waste a year on a Green Paper rather than proceed immediately to a White Paper and to a Bill?

Mr. Baker: I entirely appreciate my hon. Friend's impatience, and I thank him for what he has said about the proposals. This is the most fundamental change in local government finance this century. It changes the grant system, the business rates system and—

Dr. Cunningham: Has the right hon. Gentleman already decided, then?

Mr. Baker: No. These are the proposals which the Government are putting before the country. All interests should have adequate time to comment on our proposals.

Mr. Hugh Brown (Glasgow, Provan): Many of us are aware that the financing of local government is too complex and far from perfect, but does the right hon. Gentleman agree that if some people, groups, or categories pay less, others will have to pay more? Why is it right for the 3 million poorest families in the country to pay more?

Mr. Baker: I made it clear that there will be assistance for those on low incomes. There is a high level of poverty in single-person households and those people will benefit from a community charge. For those on low incomes the community charge is less regressive.

Mr. Gwilym Jones (Cardiff, North): I join the welcome for my right hon. Friend's statement, as I welcome any movement towards the abolition of that dreadful anachronism, rates, especially with the excessive

increase of 25 per cent. that is facing my constituency. Does my right hon. Friend accept that we in Wales view with concern the suggestions in the press that the Principality is to be used as a proving ground for rate reform? Does he accept that we would need to scrutinise closely any such idea?

Mr. Baker: I assure my hon. Friend that, from the point of view of timing, the changes in England and Wales will run in harmony. There is no proposal in the Green Paper that changes should be made in Wales prior to being made in England. My right hon. and learned Friend the Secretary of State for Scotland will be making a statement tomorrow about rates in Scotland.

Mr. Chris Smith (Islington, South and Finsbury): Is it not the central philosophy of the Green Paper that only the votes of those who pay will have any real validity? Is that not an outdated concept? Is it not better to embrace the concept of one-person, one-vote, which is a much more democratic principle?

Mr. Baker: One reason for the breakdown between voting and paying for local services is evident in the borough of Islington. In that borough, as a result of excessive spending, the average rate bill is now almost £700. I do not believe that it would have reached that figure if more people—

Mr. Heffer: Is that all?

Mr. Baker: I am sure that the hon. Member for Liverpool, Walton (MR. Heffer) has even higher ambitions to increase the rate bills in Liverpool.

I do not believe that that high figure would have been reached if there had been a better connection between those who vote and those who pay for local services.

Mr. Patrick McNair-Wilson (New Forest): Is my right hon. Friend aware that his proposal to spread the cost of local government services more widely will be welcomed by the hard-pressed ratepayers in my constituency and more widely still? However, as the teachers' dispute has shown that local authorities alone cannot pay for the cost of teachers' salaries, has he given any consideration to taking that biggest single item of expenditure out of local finance and putting the responsibility on the central Exchequer?

Mr. Baker: We have considered that possibility, as have previous Governments. It would appear to be a simple and seductive answer to take a large part of expenditure off local government rates and meet it through the central Exchequer, which would involve higher income tax or higher VAT. However, there is a great disadvantage. If the annual financing of education is removed from the local authorities, ultimately the power will end up with a central education service. I know that some hon. Members have favoured that solution, but if the financing of education is moved to the Department of Education and Science or to a central agency, it is taken away from local government. It is not only a matter of allocating money. A central agency would have to decide how many teachers there should be in a primary or secondary school and it would have to decide on all sorts of expenditure. I ask my hon. Friend and those who feel that that is an easy answer, to consider and reflect what that would mean to local government. The powers and responsibilities of local government would be considerably diminished.

Mr. John Evans (St. Helens, North): Does the Secretary of State expect that the standard business rate will lead to the introduction of rate equalisation under which money would be transferred from the prosperous local authorities in the south of England which have much industry to those local authorities in the north, which have lost most of their industry?

Mr. Baker: Two matters will affect the distribution of the business rate. The first is the revaluation of industrial property. Much property in the midlands, Manchester and the north of England was valued in 1973, when those areas were relatively more prosperous. For that reason adjustments must be made. They will run alongside the second factor, which is the movement towards a national business rate, to be phased in over five years.

Sir William Clark (Croydon, South): Rate reform will be widely welcomed in the country and I urge my right hon. Friend to reject the party political points made by the Opposition. Does he agree that the present rating system is a poll tax in that a single occupant of premises pays a similar amount in rates as the person next door in similar accommodation, who shares with four or five adults? Does he agree that it is essential to have a different register from the electoral roll? Many foreigners should be paying rates but they are not on the electoral roll. It is essential that we do not use only the electoral roll.

Mr. Baker: I agree completely with my hon. Friend's point about the position of foreigners. There is also a proposal in the Green Paper for a collective community charge, for example, for boarding houses, which have a rapid turnover of occupation. The landlord or the owner would be responsible for registering the occupants. That is an important point.

On the matter of basic unfairness I agree entirely with my hon. Friend. In two houses, side by side, one occupant could be paying the full rates while four are paying them in the next house. They are all using local government services, but the four occupants, who could be earners, are getting an excessively good deal compared with a single person living alone.

Mr. James Lamond (Oldham, Central and Royton): If the Secretary of State believes that rates are a harsh tax on the one-parent family and old-age pensioners, why have the Government spent their last seven years transferring as much of the burden as possible from central Government to local government, thus worsening the position? If the Secretary of State believes that those who vote at local government elections consist of a mixture of those who have no need to pay rates, but expect to get a bonanza from the local council, and those who are worried because the rates are so excessive that they cannot pay them, why is the turnout only 35 per cent. to 40 per cent.?

Mr. Baker: We have tried to improve local accountability by reducing the support that flows from central Government. The system can only operate with an effective, wider tax base, which is what we are proposing.

Mr. Nicholas Winterton (Macclesfield): Does my right hon. Friend accept that while all of us will study carefully the radical proposals, the likely result of his announcement is that rural counties, such as Cheshire, will suffer from the standard business rate levy? The majority of middle-income earners in the rural county of Cheshire will pay considerably more. Is that a correct assessment?

Mr. Baker: I urge hon. Members to reflect upon the consequences of the proposals on the business rate and the figure at which the national average is struck. On that depends whether there will be more gainers or losers in the business world. The Green Paper proposes to strike the rate at the national average—180p, in 1984-85. It further proposes that that should be reduced by 5 per cent. which would bring in many of those who are close to the national average who would have to pay more if it were struck at a higher level—[HON. MEMBERS: "Answer".] The answer depends upon the level at which the national average business rate is set. That is a matter upon which we shall take advice and consult.

Regarding the incidence of the tax burden upon people in different areas, the broad result of the proposals will be a transfer of the tax burden from householders to non-householders.

On the question of resource equalisation, the answer to my hon. Friend's question lies in chapter 4 and annex J.

Several Hon. Members *rose*—

Mr. Speaker: Order. I have to protect the business for today, because there is the introduction of Members, a Ten-minute Bill and an important debate. I shall allow questions to continue for a further 10 minutes, but then we shall have to move on.

Mr. William O'Brien (Normanton): Is the Secretary of State aware that the Government's proposals mean that people who are now granted concessions because of their low incomes will have to pay rates in the future? Will that not be seen by the elderly, especially elderly widows, as a further tax upon their incomes, and almost as a standing charge? Would not the aged and widows be better served by allowing them the existing concession of complete or partial rate rebates according to their incomes?

Mr. Baker: The hon. Gentleman's comment is more appropriate to the Social Security Bill, which we shall discuss later today, since that proposal is enshrined in the Bill.

Mr. Fred Silvester (Manchester, Withington): Does my right hon. Friend realise that many of us share his objective of reducing the conflict between central Government and local government? Two areas of chief conflict have been the Government's desire to control aggregate local authority expenditure and the method of distribution of the rate support grant. Does the Green Paper mean that the Government have abandoned their objective of controlling the aggregate of local government expenditure? How will the needs element be distributed?

Mr. Baker: The answer to my hon. Friend's penultimate question is, not entirely. The distribution of grant will be much simpler and clearer under the new system. It will consist of two elements: a standard grant which all authorities will receive on a per capita basis as of right, and a needs grant. The present grant amounts to about £8 billion. About £4 billion will be available for the standard grant, and about £4 billion will be available for the needs grant. On the needs grant, we shall have to devise a system that is simpler and clearer than the present GREAs.

Ms. Clare Short (Birmingham, Ladywood): Will the Secretary of State answer the important question asked by my hon. Friend the Member for Islington, South and Finsbury (Mr. Smith)? When the right hon. Gentleman

talked about no taxation without representation, he meant no representation without taxation. That principle goes to the heart of democracy. The logic of the right hon. Gentleman's position is that the unemployed and non-taxpayers will have removed from them the right to vote in elections.

Mr. Baker: No right to vote will be removed, but it cannot be right that, in some authorities, 50 or 60 per cent. of those who vote make no contribution to the payment for local services.

Mr. Richard Holt (Langbaugh): Does my right hon. Friend accept that throughout Langbaugh, Middlesbrough and the whole of Cleveland and the north of England his proposals will be welcomed, especially if they mean the elimination of the current practice in Cleveland of appointing political assistants to the leader and other members of the council?

Mr. Baker: Such incidents happen because there is no effective ballot box control on excessive expenditure. We must move to a better system. I thank my hon. Friend for his support.

Mr. Dave Nellist (Coventry, South-East): How will those who are involved in properties or land that is currently derated be affected by the proposals? Will the proposal for a local income tax be extended to those who currently pay no rates? Does he accept that the echo that he senses among many working people for reform of rates is not caused by the present method of paying rates but by the fact that, in seven years, the Government have taken £10,000 million from local councils and could halve all rates if they returned grant to the 1979 level?

Mr. Baker: The hon. Gentleman accused me of introducing a local income tax—

Mr. Nellist: A community fine, then.

Mr. Baker: No, it is a community charge, and it is not based upon the ownership and possession of property. It is based upon a people's tax.

Mr. Michael Cockeram (Ludlow): Does my right hon. Friend realise that he has opened a Pandora's box that will affect every household in the land and that we are now launched upon a long-running period of protest beside which the Westland affair will be but a brief interlude?

Mr. Baker: I simply do not believe that the present system of local government finance can continue. That is why we introduced the proposals. The present system contains basic unfairnesses and inequalities. I have published a Green Paper because I want the proposals to be examined and debated throughout the country so that each party can put forward its proposals and be able to justify them.

Mr. Nicholas Brown (Newcastle upon Tyne, East): Why is the Secretary of State inviting us to discuss the matters in the Green Paper after the passage of the Rates Act 1985 and the abolition of the metropolitan authorities rather than before then?

Mr. Baker: As I said in reply to an earlier question, in 1981 we introduced a system which we hoped would act as a brake upon excessive local spending. That did not work, so the further controls were introduced. I have said clearly that that should not be the path forward for local government and that there must be a more equitable base

for true local accountability. I favour local accountability, because local democracy will not survive without it. When I am asked about gainers and losers, I always reply that the biggest gainer will be local democracy.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Does my right hon. Friend accept that to many of us it is pleasing that a promise made many years ago by a former Secretary of State for Education and Science, who has now become Prime Minister, that we should consider what changes are to be made has been fulfilled? But does he agree that, as there is no such thing as a free dinner, there is no such thing as a free rating system? Will we have a system whereby the Government not only decide what is spent but are willing to pay for what they impose on local authorities? If not, does he agree that, whatever system we devise, local ratepayers or taxpayers will be unable to afford it?

Mr. Baker: My hon. Friend is right to mention that important point in local government, which is always complaining that central Government impose duties upon it and do not provide it with the cash to carry out those duties. The proposals for standard grant recognise that some national services are required. That should meet my hon. Friend's point. As he comes from the west midlands, I should say that the area does badly under the present system, because its average incomes are about 5 per cent. below the national average, but its average rateable values are about 5 per cent. above the national average.

Ms. Harriet Harman (Peckham): Does the Minister realise that the thrust of his arguments will be deeply offensive to hundreds of thousands of people, many living in Conservative-controlled areas, who cannot pay their full rates? Is he not betraying an insidious attitude to democracy and individual rights when he relates the democratic right to vote to the ability to pay?

Mr. Baker: I have answered those points several times. The hon. Lady, who represents a constituency in a high-spending inner-city authority, should be fully aware of the inequity of the present rating system and what it means to many of her constituents.

Mrs. Edwina Currie (Derbyshire, South): Is my right hon. Friend aware that, in April, the Comptroller and Auditor-General commented that the existing RSG system failed to prevent overspending, failed to protect the priorities of local government spending, and showed a poor distribution of the financial burden among ratepayers in different areas. Does he agree that the system that he is now proposing is clear, will work and is comprehensive? It will be extremely welcome in local authorities and should be introduced as soon as possible.

Mr. Baker: I could not have said it better myself.

Mr. David Winnick (Walsall, North): Is it not true that the proposed poll tax—there is no need for fancy names, because that is what it is—is the most regressive system of revenue-raising that the Minister could have found? Did not all his predecessors as Secretary of State in the Conservative Government reject the proposal for the obvious reason that it is unfair, unjust and will especially penalise those on low incomes?

Mr. Baker: The basic fairness of what I am suggesting is that those who benefit from local government services should be involved in paying for them. The country will not perceive that as an unfair principle.

Mr. Roger Gale (Thanet, North): My right hon. Friend will understand that the many elderly, single, owner-occupiers in my constituency will welcome what they regard as the death knell of an unfair rating system. They will also appreciate the re-establishment of the link between taxation and representation. Will my right hon. Friend assure the House that this will not mean that those who are taxed without representation—small businesses in the south east—will ever again be asked to subsidise profligate inner city councils?

Mr. Baker: My hon. Friend touches upon the national business rate. There will be consultations about that with the representatives of local government. The CBI conference voted against the national business rate. Since then, the CBI tax committee has come out in favour of it, and I believe that the chambers of commerce are on record as favouring a national business rate.

Mr. Frank Dobson (Holborn and St. Pancras): The Secretary of State talked about winners and losers. Can he confirm that one of the winners under this proposition will be the occupants of the Thatcher retirement home in Dulwich?

Mr. Baker: In widening the tax base, which should be widened in this way, one has to ask whether the local government system should be financially redistributive. More than half of local government money comes from the national taxpayer. That is, of course, principally a redistributive source.

Mr. John Powley (Norwich, South): While welcoming the Secretary of State's proposals, may I draw his attention to the tremendous number of abortive man hours, particularly in local government, that were expended on discussion of previous White Papers and Green Papers and the Layfield report? Will he give an assurance that the Government will have the determination to implement the proposals before the House so that the discussions will bear fruit? Does he agree that the proposed reorganisation is not a message for any local authority to increase its spending?

Mr. Baker: I agree with my hon. Friend's last point. I have already said that during the transitional period some control will be necessary to ensure that certain local authorities do not take the opportunity substantially to increase their spending. I also note the point that was made by him and by several of my hon. Friends, that they want the Government to get on with this.

Mr. D. N. Campbell-Savours (Workington): May I congratulate the Secretary of State on his admission that industrial rates in the north will go up? I am sure that that will bring a lot of joy to many industrialists in Cumbria. Will the right hon. Gentleman come clean? He has told us who gains. What about telling us who loses? It is all here in the Green Paper. Will he tell us the key statistics about those who lose? Are the losers not several million people?

Mr. Baker: I have admitted quite openly that if the tax base is broadened more people will pay tax. Slightly more households gain than lose. The figures are clearly set out in the Green Paper.

Dr. Keith Hampson (Leeds, North-West): Will my right hon. Friend accept that businesses in the north will look upon what he says as long overdue, because there is a great need to have a uniform business rate and

evaluations? Surely it is also long overdue that we get rid of the holdback, the clawback and targets and all the other panoply of the existing system. However, none of those things needs a poll tax. A poll tax is only tolerable if it is small. Will he therefore look again at education expenditure, and particularly teachers' salaries?

Mr. Baker: I was asked about this earlier. I appreciate that many hon. Members feel it would be an easy solution to take a large part of education expenditure off the rates. That would have profound constitutional implications, because one cannot remove the responsibility for financing a large part of expenditure without moving power to the centre. It is almost impossible to devise a scheme. That is a centrist approach and the way the French system works, but it has enormous implications for local government and I would not want it.

Mr. Dennis Skinner (Bolsover): The Secretary of State will not pull the wool over the eyes of the people, however much he might succeed in doing that to some Tory MPs. Successive Secretaries of State have come to the Dispatch Box year after year for the last seven years, and they have all declared that they have a new system of rate support grant that will be wonderful for everybody. The net result is that £16,000 million has been removed by central Government and ratepayers have had to foot the bill. From our point of view this proposal is a little more helpful, because during the course of the Green Paper consultation and up to the next general election we shall be able to tell every constituent in every target seat how much the rates will go up as a result of this latest blunder by the Tory Government.

Mr. Baker: I do not know what has impinged upon the consciousness of the hon. Gentleman. I am not proposing an increase in rates, I am proposing a replacement of rates.

Mr. Eric Forth (Mid-Worcestershire): Does my right hon. Friend not agree that any system in which 100 voters may vote for increased local expenditure but only 30 of those voters are called to pay for it is utterly iniquitous? What he seeks to introduce is direct accountability between the wish to vote and have a voice in local government, and the willingness to pick up the bill for that vote.

Mr. Baker: My hon. Friend goes to the heart of the matter and I am sure that the country generally agrees with that proposition.

Mr. Jack Straw (Blackburn): If the Secretary of State is aiming to increase local accountability, why is he proposing in the Green Paper to take complete authoritarian control over the capital expenditure of councils? Why is the consultation period so short? The poorest households pay no rates at present, but is it not true that all poor households will be worse off as a result of these proposals? If the Secretary of State can give illustrations by local authority of the impact of a local income tax, why can he not do the same for the impact of a universal business rate and this poll tax by local authority? Is the reason that he is ducking such illustrations the one spotted by the hon. Member for Ludlow (Mr. Cockeram), that business rates and overall burdens in many Conservative heartlands will rise? When Conservative Members read the small print of the proposals they will understand that this is yet another own goal by an incompetent Government.

Mr. Baker: When the hon. Gentleman has had time to read the proposals on capital expenditure, he will realise we are putting forward two proposals and consulting on them. He asked about further information. I cannot think of many Green Papers that have contained as much information as this one. If after studying it the hon. Gentleman or local authorities want more information, I will consider their requests and that information can cover the levels of community charges and the effect of the national business rate.

Several Hon. Members: *rose*—

Mr. Speaker: Order. I will give priority to those hon. Members whom I have not been able to call today when this matter is subsequently discussed.

Standing Order No. 10

Mr. Tony Marlow (Northampton, North): On a point of order, Mr. Speaker. Yesterday we had an important and vital debate. It was so important that it was broadcast in its entirety. I noticed yesterday that before it commenced, a member of the Liberal party made an application under Standing Order No. 10. On previous occasions when we have had important and vital debates that were broadcast it is my recollection that precisely the same thing was done. It is not for me to say that the Liberal party is more interesting in publicity than in politics. Others may say that. May I suggest, however, that in future, when debates are broadcast, Standing Order No. 10 applications, important though they may be, should come after the debate, particularly as in this case it was a Standing Order No. 10 debate?

Mr. Speaker: I have to take a decision about whether an application under Standing Order No. 10 is in order. It was in order to make that application. It would be the same for any hon. Member who happened to choose that day.

Mr. Skinner: May I help, Mr. Speaker.

Mr. Speaker: I do not think I need the hon. Gentleman's help.

Mr. Skinner: It is helpful.

Mr. Speaker: Order. If it is helpful I will hear it.

Mr. Skinner: The secret lay in the moving of Standing Order No. 10. When we had the debate on teachers last week, the Liberal party spokesman was so full of the emergency debated yesterday that he said "I support both sides and wish them well". He was trying to put right the mess that he made only a few days before.

Mr. Speaker: Not all that helpful but I am grateful to the hon. Gentleman.

NEW MEMBERS

The following Members took and subscribed the Oath:

- Right hon. John Enoch Powell, for South Down.
 Right hon. James Henry Molyneaux, for Lagan Valley.
 Rev. Ian Richard Kyle Paisley, for Antrim, North.
 James Alexander Kilfedder Esq., for North Down.
 Roy Beggs Esq., for Antrim, East.
 Peter David Robinson Esq., for Belfast, East
 Clifford Forsythe Esq., for Antrim, South.
 James Harold McCusker Esq., for Upper Bann.
 Rev. Robert Thomas William McCrea, for Mid-Ulster.
 Ken Maginnis Esq., for Fermanagh and South Tyrone.
 William Ross Esq., for Londonderry, East
 Rev. William Martin Smyth, for Belfast, South.
 Right hon. John David Taylor, for Strangford.
 Alfred Cecil Walker Esq., for Belfast, North.

STATUTORY INSTRUMENTS, &c.

Ordered,

That the draft Importation of Live Fish of the Salmon Family Order 1986 be referred to a Standing Committee on Statutory

Wages Council Orders Enforcement

5.5 pm

Mr. Peter Pike (Burnley): I beg to move,

That leave be given to bring in a Bill to provide for the automatic prosecution of and the publication of the identity of employers who pay their employees wages below wages councils' statutory minimum rates.

I should like to express my thanks to my union, the General, Municipal, Boilermakers and Allied Trade Union, for its help in preparing this Bill and the case for it, and also to my hon. Friend the Member for Jarrow (Mr. Dixon) who has a considerable interest in the Bill. I recognise that the Bill proposes to strengthen the role of wages councils when, regrettably, the Government have chosen at this time to move in the opposite direction.

Most workers in the United Kingdom have a direct influence on their pay levels by means of negotiation and voluntary agreement between their employers and their trade unions. Even in such cases, unfortunately, some unscrupulous employers, such as Silentnight, break agreements and treat their employees in an appalling way. This Bill deals with those who work in industries where it is difficult to establish collective bargaining agreements, and where workers depend on minimum wages and conditions as laid down by wages councils. At present some 2.75 million workers in over 325,000 establishments are protected by wages council provisions.

My union has always fought hard for lower-paid workers, and will continue to do so. Wages councils have existed in one form or another since 1910. There are now some 25, the largest being in the hairdressing, hotel and catering and retail trades, but there are others which are also very important. It is important to acknowledge that those workers are in low-paid industries, which makes it all the more appalling that some employers fail to pay the minimum wage rates. I must stress that those workers are very often in very low-paid jobs.

To put it in perspective, at 7 October 1985 wages in the hairdressing industry were £50.25 a week, in the makeup and textile industry £60.64, and in the hat, cap and millinery industry £60.84. All the other figures show a similar, appallingly low wage level. They are extremely low wages, to put it mildly—and one could be tempted to put it much more strongly than that.

Many workers in industries covered by wages councils are women whose income is essential to the family. It is crucial that the system works on their behalf and that they get at least the minimum wage fixed by the wages council. It is true to say that many are afraid to complain to the wages council inspectorate as they fear unfair dismissal. Working in small units, they feel isolated and are fearful of pressing for their legal entitlement and just right.

At present, it is easy for the unscrupulous employer to get away with cheating his employees of the wages to which they are entitled. The number of wages council inspectors at December 1984, when the inspectorate had been reduced by one-third since 1979, was 222. It stands to reason that the inspectorate cannot control and check 325,000 establishments with only 222 staff. In 1982, only 6 per cent. of those establishments were inspected, but that figure is misleading as only 40 per cent. of that 6 per cent. actually received a visit. Other employers were asked to confirm by questionnaire that they were not guilty of illegal underpayment. What nonsense to ask the employer to make the return himself.

5/3/86

HOUSE OF COMMONS

Mr David Sumberg (Con - Bury South):

161 To ask the Secretary of State for the Environment, whether he is yet in a position to give further guidance to local authorities about the recycling of rate support grant 1986-87 as a result of the latest information on local authority budgets.

MR KENNETH BAKER

In the debate on the RSG Settlement in January I provided the House with purely illustrative tables showing the additional grant each authority in England could receive if £400 million of grant was available to be recycled in 1986/87.

On the evidence now available to me about local authority budgets in 1986/87, I am satisfied that there will be a grant underclaim of at least £500 million. I am willing to guarantee that authorities in receipt of grant at budgeted expenditure will receive at least the sums of grant shown in the following table, in addition to their entitlement under the rate support grant settlement, as a result of grant recycling. All prudent authorities will wish to take this into account in reaching their decisions on budgets and rates for 1986/87. I have written to the local authority associations giving them this information.

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GRANT RECYCLING

With permission Mr Speaker I shall make a statement.

The House will be pleased to know that my Rt Hon Friend the Secretary of State for the Environment was yesterday able to tell the Local Authority Associations he could guarantee that £500 million of grant would be available to be recycled in 1986/87 and that authorities would be able to take this into account in fixing lower precepts and rates.

As the House will recall in the RSG debate on 20 January My Rt Hon Friend explained that if local authorities budget to spend more next year than we allowed for in the RSG Settlement, the grant forfeited by overspenders would go into a pool which would then be recycled to all authorities. He illustrated the grant gains to authorities if the pool were to be £400 million. Those figures could only be illustrative at that stage, because they depend on authorities' budget decisions.

This week, in the light of the latest figures available, we are now in a position to go much firmer than that. It is clear that the pool of grant to be recycled is going to some £500 million. That means the grant gains will be bigger than those illustrated in January and that authorities will get more grant than they have assumed. Moreover, to avoid all doubts, the Government is prepared formally to guarantee that £500 million of grant will be recycled. My Department has written to all authorities telling them the amount of extra grant they will receive from that amount of recycling, in addition to their grant entitlement under the RSG Settlement announced in December. I am placing a copy of the table in the Library.

Councils will now know the size of their grant entitlement more clearly and this will allow them to make a lower call on their ratepayers. Where the rate making has not been completed, I hope that hon Members will urge their local authorities to revise their rating plans in the light of these figures.

My Rt Hon Friend wrote to the Local Authorities Associations as soon as he was in a position to confirm the level of recycled grant that would be available. Local authorities are now making their rating and precepting decisions and it was essential to provide them with this information immediately. I am sure that all Hon Members will agree that rate increases should be no higher than absolutely necessary.