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Prime Minister

Tom King asked to come in  
for a private word with you on

Monday about 4 February 1983

all this (at 4 p.m.) M/S 4/2

Prime Minister



I understand we are to meet on Monday to discuss the rating problem in advance of E(LF). I think it might be helpful if I set out key issues that I believe are relevant to our further work.

There are 3 main considerations:

- i. the political need to meet the expectations of the Party and the country on rating reform;  
(This obviously includes issues of fairness and avoidance of undue burden of a property based tax as regards both domestic and non-domestic sectors)
- ii. degree of local accountability to preserve public perception of councillors responsible for expenditure decisions;
- iii. whether it tends to increase or decrease overall expenditure levels.

The main work that we have done in Misc 79 was to see whether we could agree on an available source of revenue as alternative to rates. This was not possible and the alternative suggestion was then made of a discount for the single person.

Your approach opens a different avenue with the proposal of a freeze on rates supplemented by an additional source of revenue only to meet cash increases in expenditure over the years. This obviously changes all the figures and will have the effect of progressively diminishing the significance of the property based rates.

If we take this course, we should obviously seek to freeze rates at the existing level, to give authorities a supplementary tax as quickly as possible, and to seek to ensure that the supplementary tax maintains the disincentive to high spending. On the crucial question of timing it seems inevitable that there will be an interim period before the supplementary tax can be introduced during which some interim measure will have to operate. I refer to that later in this minute.

First, the freeze. The most difficult question is that some people would be frozen at higher levels than others. This is unfortunate and it would be possible to adjust in some way. However, this would raise other problems, and my own view is that the right political imperative must be a straight cash freeze at levels operating when announced.

The second question is which supplementary tax. I believe we must reject local income tax, local pay-roll tax, local corporation tax, local duties on cars, fuel, tobacco etc. That leaves 2 other possibilities, albeit extremely difficult, local sales tax or poll tax.

Poll tax is very perceptible, reasonably predictable, direct tax, relatively quick to introduce, suitable for all tiers (precepting and rating tiers). Problems are the register from which it operates with the reluctance of colleagues to see the electoral register used for this, and the difficulty of enforcement. Timetable - legislation summer 1984 for earliest introduction April 1986. Poll tax was, incidentally, the one that attracted considerable interest among back bench colleagues during our consultations, very much

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on the basis as envisaged here, as a propping up tax and not as a full replacement. Poll tax would however only affect the domestic sector. This raises the question of whether you have a supplementary tax for non-domestic as well or accept a different balance between the contributions of the domestic and industrial/commercial sectors in the future.

Local Sales Tax (LST) is an indirect tax; has a high yield. Could fall on the non-domestic as well as the domestic sector. The disadvantages are that it is unpredictable; lumpy, unpopular with traders. The Green Paper said that it was unsuitable for the lower tier because of administrative costs, cross-border shopping etc; and the problem could be worse if the GLC and metropolitan counties were abolished.

LST coverage should be same as VAT coverage. Introduction depends on VAT computerisation. Introduction April 1987 may be possible - implies enactment by summer 1986.

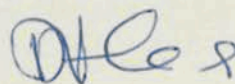
This suggests a freeze plus supplementary tax might be feasible from 1 April 1986 with poll tax alone; from 1 April 1987 with poll tax and/or LST.

With the dates of 1 April 1986 or 1 April 1987 as possible starting dates for the introduction of a supplementary tax, there is clearly a need for some interim measure if a freeze is to be operated from an earlier date. One way to operate freeze without supplementary tax might be by increased Exchequer support. There are two possible ways to increase Exchequer support a) increase RSG; b) take over teachers pay.

RSG could be increased with effect from April 1984. Take over of teachers pay would involve DES approving teachers numbers; this could not be introduced before 1 April 1985 at the earliest. Both these routes could allow a reduction in rates but would leave a clear risk of higher spending unless authorities were made subject to control. Control is very vexed issue but even if we could find a practical and legally defensible method it is unlikely to be available until 1 April 1985.

Selective control of higher spending has already been discussed in Misc 79. All the problems rehearsed would be magnified if all authorities were controlled ie a) legal and local political confrontations; b) the need for more civil servants; c) the time needed for introduction. Control could not be brought into force before 1 April 1985 because legislation introduced by autumn 1983 would be too late to affect 1984/5 because of the inter-action with the RSG settlement; d) the Secretary of State for Environment would need to have an 'override' over other spending Ministers to fix spending levels.

I have dealt, in this minute, only with the bare bones of possible routes of action which I hope will be helpful for our meeting. I do not need to dwell on the many difficulties that lie within them since they will argue for themselves!



for

TOM KING

(Dictated by the Secretary of State and signed in his absence)

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