

CC MASTER



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cc Mount 2
Gregson's
C.O.

10 DOWNING STREET

From the Private Secretary

13 April 1983

Dear David,

LOCAL GOVERNMENT FINANCE

The Prime Minister held an informal meeting this afternoon to discuss reform of the rates. Apart from your Secretary of State, the Chief Secretary, the Chancellor of the Duchy of Lancaster, the Minister of State for Local Government and Environmental Services, Mr. Wolfson and Mr. Mount were also present.

The Prime Minister recalled her commitment at the Institute of Directors Conference in the Albert Hall in February to bring forward a package on reform of the rates before the General Election. She knew that your Secretary of State and his team of officials were working hard to produce a paper for the next meeting of E(LF) on this subject, but she thought it useful to take stock of the position, in particular given the imminence of the local elections and the likely pressure which they would generate for some further statement of the Government's policy. Your Secretary of State mentioned that in the work which was going on he was envisaging either a freeze on rate increases (and perhaps a freeze of varying severity for domestic and non-domestic rate increases), or alternatively, a limitation on such increases; he was also contemplating some version of the referendum scheme which had earlier been put forward but not proceeded with and a number of alternative taxes which might form a safety valve in a rates freeze or limitation. But there were a number of complex problems on which they were working - for example, possible European objections, and the difficulties which the Treasury had seen in alternative taxes. He recalled that the Prime Minister and he had been told that it would not be possible to secure Parliamentary support for a local sales tax.

There followed some discussion of the possibility of limiting rate increases to an appropriate measure of the rate of inflation (probably not the RPI), or to a somewhat lower level, with a poll tax for high spending authorities. If the permitted rate increases were set too low, there would be an unmanageable number of applications for derogation, and the Secretary of State might find himself in an impossibly large number of legal actions opened by hostile local authorities. Another possibility for a safety valve would be to require high spending local authorities to sell their assets (many had excess land holdings, for example) or to run down their reserves. Alternatively,

/the Government

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the Government might be prepared to allow a somewhat higher rate increase than the norm on certain conditions; for example, a value for money audit might be insisted upon. The aim of all this would be to mobilise public opinion against the high spenders.

Summing up the discussion, the Prime Minister said the Secretary of State should go ahead with the preparation of his E(LF) papers, taking account of the points raised in this discussion. There would be merit in considering again the recommendation of MISC 79 for a rates concession for single occupancy properties. She recognised, however, that there were arguments for and against this proposal.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office). I would be grateful if you and he could ensure that it is not photocopied or distributed outside your Private Office.

Yours sincerely,

Michael Scholar

D.A. Edmonds, Esq.,
Department of the Environment.