



JU505

PRIME MINISTER

LOCAL TAXATION

I should like to comment briefly on the papers that are to be considered by E(LF) tomorrow.

2 To my mind the report by officials and Tom King's covering memorandum (E(LF)(83)7) bring out very starkly the serious problems and the undesirable consequences that would flow from direct and active central Government involvement in the control of local rates. The relationship between central and local government would be radically changed and for the worse in my view. Local accountability, which I regard as a cardinal principle, would be thoroughly undermined by the general schemes to freeze or limit rate increases examined by officials. A highly selective scheme of the kind preferred by Tom King would be less objectionable from this point of view, but it would not measure up to the size of the problem. A highly selective scheme would certainly not be regarded by industry as an adequate response to a situation which is causing widespread and serious concern. Like the Chief Secretary, therefore, I think a general measure bearing on all excessive rate increases is needed.

3 There is in my view an alternative approach which avoids the pitfalls of a control scheme operated by central Government and I am glad that Tom King has drawn attention to it in paragraph 13 of his memorandum. The essence of this approach would be to oblige local authorities which wish to exceed a predetermined limit of rate increase to seek the agreement of local electors, whether by means of a special election or a poll on the issue. There is no reason why this approach should be any less effective in deterring proposals for unacceptably high rate increases than the general scheme advocated by the Chief Secretary. The



predetermined limits could be as stringent. Local authorities would be no readier to seek a dispensation from their electorate than from central Government and probably no likelier to get it if they did.

4 Tom King is right to say that this approach is not free from difficulties either but I maintain they are a great deal less than with the control schemes. Moreover I am convinced that it would prove popular with ratepayers and that those of our supporters who were hostile in 1981 could be won over by public pressure and by being left in no doubt that the alternatives would be even less to their liking.

5 One of the difficulties referred to by Tom King is that this approach could not easily be reconciled with the final scheme. This would not arise of course if the final scheme is rejected, as in my view it should be.

6 I agree with George Younger and Leon Brittan that a new expenditure tax would be unpopular and difficult to implement and control. It would certainly not find favour with the business community. Both the LST and the RFD/VED options would impose new administrative burdens and significant compliance costs on businesses which would be particularly irksome for small firms. Colleagues will recall that the CBI, the Institute of Directors and most other industrial commentators on the 1981 Green Paper favoured reform of the existing rating system to the introduction of new local expenditure taxes.

7 Finally, I wish to signal my support for the other proposals listed in paragraph 30 of Tom King's memorandum amongst which I particularly welcome the proposal to remove entirely the burden of rates from empty industrial property. I am sorry we were not able to agree to make this change sooner so that the much-needed relief would have been available earlier in the recession.



Especially in view of the delay I am in no doubt that the half-way measure the Chief Secretary prefers would be regarded by industry as too little and too late.

8 I am copying this minute to other Members of E(LF) and to Sir Robert Armstrong.

PJ

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