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19 April 1985

Dees Andrews

LOCAL GOVERNMENT FINANCE

My Secretary of State said at Cabinet on 18 April that he would circulate to colleagues a copy of the speech he had made the previous week on Local Government Finance Studies. This is enclosed.

Copies of this letter go to Private Secretaries of Cabinet Ministers, Alex Galloway (Paymaster General's Office) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours sincerely

John Ballard
JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

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SPEECH FOR
SECRETARY OF STATE
AT
BLADES LUNCHEON CLUB
FRIDAY 12 APRIL
LISKEARD, CORNWALL

I

I HOPE IT WON'T BE ENTIRELY MISREAD BY THE MEDIA THAT I HAVE COME TO CORNWALL - AS FAR AS POSSIBLE AWAY FROM SCOTLAND - TO DISCUSS REFORM OF LOCAL GOVERNMENT FINANCE. THE MEDIA HAVE, OF COURSE, CHOSEN TO PRESENT OUR LATEST LOOK AT REFORM AS A CRISIS REACTION TO RATE RISES NORTH OF THE BORDER. NOTHING COULD BE FURTHER FROM THE TRUTH. IT WAS LAST OCTOBER THAT I ANNOUNCED A REVIEW OF THE WHOLE SYSTEM OF LOCAL GOVERNMENT FINANCE. TODAY, I WOULD LIKE TO GIVE YOU A BROAD INDICATION OF THE WAY OUR MINDS ARE WORKING.

LOCAL AUTHORITY EXPENDITURE HAS BEEN A SOURCE OF CONFLICT AND ACRIMONY EVER SINCE WE CAME TO OFFICE IN 1979. IN ORDER TO BRING COUNCILS' SPENDING CLOSER INTO LINE WITH OUR PLANS, WE HAVE DEVELOPED ELABORATE MECHANISMS - INDIRECT AT FIRST, NOW DIRECT THROUGH RATECAPPING. THE RESULT IS A SYSTEM, WHICH, WHILE SUCCEEDING IN SLOWING DOWN THE RATE OF GROWTH OF SPENDING, HAS DONE SO ONLY AT A COST OF INCREASING COMPLEXITY, AND RISING CONFLICT WITH MANY IN LOCAL GOVERNMENT.

OUR EFFORTS HAVE BEEN FOUNDED ON THE BASIC PREMISE THAT LOCAL AUTHORITIES ARE ACCOUNTABLE TO THEIR RATEPAYERS, AND TO THEIR VOTERS. "PUT UP THE COST TO RATEPAYERS AND DOWN SPENDING WILL COME", WAS THE THEORY. BUT ACCOUNTABILITY HAS PROVED A MOST UNRELIABLE HANDMAIDEN! IN SOME PLACES THE LOCAL DEMOCRATIC PROCESS, SO FAR FROM PUTTING A BRAKE ON LOCAL SPENDING, HAS RESULTED IN HUGE EXTRA DEMANDS ON THOSE WHO ACTUALLY PAY RATES - HENCE THE NEED FOR RATECAPPING.

THIS IS THE CENTRAL QUESTION WE HAVE BEEN ADDRESSING IN OUR STUDIES, WHY HAS ACCOUNTABILITY FAILED? CAN WE CHANGE THE SYSTEM TO ENSURE THAT LOCAL PEOPLE HAVE A REAL INTEREST IN THE RESPONSIBLE BEHAVIOUR OF THEIR AUTHORITIES? IF WE CAN THERE IS A TREMENDOUS PRIZE FOR LOCAL GOVERNMENT - CENTRAL GOVERNMENT CAN STEP BACK FROM DETAILED INTERVENTION IN THE SPENDING PLANS OF LOCAL AUTHORITIES. LOCAL ACCOUNTABILITY COULD BRING A RETURN TO LOCAL RESPONSIBILITY.

SO WHY HAS ACCOUNTABILITY FAILED? LET ME TRY TO IDENTIFY TWO FACTORS:

FIRST, THERE HAS BEEN A SEVERE ATTENUATION OF THE LINK BETWEEN PAYING FOR LOCAL SERVICES, USING LOCAL SERVICES AND VOTING IN LOCAL ELECTIONS. TOO MUCH OF THE MONEY COMES FROM NON-VOTING RATEPAYERS - THE SO-CALLED "NON-DOMESTIC" RATEPAYER. THE HUGE MULTINATIONAL AND THE CORNER-SHOP TOGETHER PROVIDE MORE IN RATE INCOME THAN ALL DOMESTIC RATEPAYERS. ADD TO THIS THE GRANTS FROM NATIONAL TAXPAYERS, AND YOU FIND THAT ABOUT THREE-QUARTERS OF LOCAL AUTHORITY REVENUE COMES FROM PEOPLE WITH NO LOCAL VOTE.

BUT THE PROBLEM GOES FURTHER THAN THAT,
THERE ARE 35M ADULTS IN ENGLAND WHO HAVE A
VOTE IN LOCAL ELECTIONS. BUT OF THOSE 35M,
ONLY 18M ARE HEADS OF HOUSEHOLDS DIRECTLY
LIABLE FOR LOCAL TAXES. AND OF THOSE 18M,
3M HAVE SOME OF THEIR RATES PAID BY THE
STATE AND ANOTHER 3M HAVE ALL OF THEIR
RATES PAID BY THE STATE. SO ONLY 1 IN 3
PEOPLE ACTUALLY PAY FULL RATES.

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SO WE HAVE A SYSTEM WHERE OVER HALF OF RATE INCOME COMES FROM PEOPLE WITH NO VOTE, AND OVER HALF THE PEOPLE WITH A VOTE HAVE NO DIRECT FINANCIAL INTEREST IN SECURING RESPONSIBLE BEHAVIOUR FROM THEIR LOCAL AUTHORITIES.

IT IS HARDLY SURPRISING THAT DESPITE TARGETS, PENALTIES, REDUCTIONS IN GRANT AND ALL THE REST, , SPENDING HAS CONTINUED TO RISE. FOR MANY VOTERS LOCAL AUTHORITY SERVICES REPRESENT A VERY GOOD BARGAIN INDEED.

THE SECOND FLAW IS THE SYSTEM'S INCOMPREHENSIBILITY - THE IMPOSSIBILITY OF UNDERSTANDING THE SIGNALS GIVEN BY THE SYSTEM. SOME OF YOU MAY HAVE HAD DIRECT EXPERIENCE OF THIS IN THE COURSE OF THE CONSULTATIONS WITH BUSINESSMEN WHICH AUTHORITIES HAVE HAD TO CONDUCT THIS YEAR.

"BLOCK GRANT" - £8BN PLUS OF TAXPAYER'S MONEY IS USED TO EQUALISE "NEEDS" AND "RESOURCES".

DIFFERENCES IN NEED ARE EASY TO UNDERSTAND. A CITY WITH LARGE NUMBERS OF CHILDREN FROM DEPRIVED BACKGROUNDS, OR LARGE NUMBERS OF ELDERLY PEOPLE LIVING ON THEIR OWN, WILL NEED TO SPEND MORE ON EDUCATION OR ON PERSONAL SOCIAL SERVICES. 30 PER CENT OF CHILDREN IN LAMBETH LIVE IN ONE PARENT FAMILIES-ONLY 10 PER CENT IN DUDLEY.

BUT DIFFERENCES IN RESOURCES ARE LESS OBVIOUS. THROUGH BLOCK GRANT WE ATTEMPT TO ENSURE THAT EVERY AUTHORITY COULD SET THE SAME RATE POUNDAGE FOR THE SAME LEVEL OF SERVICE, BUT BECAUSE THE OTHER ELEMENT IN THE SYSTEM - THE RATEABLE VALUE - VARIES SO MUCH FOR THE SAME SORT OF HOUSE BETWEEN AREAS, EQUAL TAX RATES MEAN VERY UNEQUAL TAX BILLS FOR THE SAME LEVEL OF SERVICES.

A RATEPAYER IN A 3 BEDROOMED TERRACED HOUSE IN GUIDLFORD WOULD PAY £350 A YEAR FOR THE LEVEL OF SERVICE THAT COSTS £154 FOR SOMEONE IN A SIMILAR HOUSE IN GATESHEAD.

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SO RATEPAYERS IN RESPONSIBLE AUTHORITIES CAN
FACE LARGER RATE BILLS FOR WELL-RUN EFFICIENT
SERVICES THAN RATEPAYERS IN PROFLIGATE
AUTHORITIES.

THAT'S WHY JACK STRAW CAN CLAIM THAT LABOUR
COUNCILS PROVIDE "MORE SERVICES FOR LOWER TAX
BILLS." THEIR RATE RISES HAVE BEEN HIGHER, AND
THEY CHARGE A HIGHER TAX RATE, BUT BECAUSE
RATEABLE VALUES ARE LOW, THEY GET MORE GRANT, SO
PEOPLE ACTUALLY PAY LESS. THAT'S A PRETTY
CONFUSING SIGNAL FOR LOCAL ELECTORS!

BUT EVEN THAT MIGHT BE JUSTIFIABLE IF RATEABLE VALUES WERE A GOOD INDICATOR OF "ABILITY TO PAY." BUT THEY ARE NOT. THE RANGE OF RATEABLE VALUES IS ENORMOUS - AVERAGE RATEABLE VALUES IN LONDON ARE TWICE AS HIGH AS IN THE NORTH - WHILE THE INCOMES ARE ONLY SOME 30 PER CENT HIGHER (AND THAT'S BEFORE YOU TAKE ACCOUNT OF OTHER HIGHER HOUSING COSTS IN LONDON!)

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SO WHERE DOES ALL THAT LEAD US? I THINK THE
DIAGNOSIS POINTS IN THE BROAD DIRECTION OF THE
CURE. OUR PRIORITIES MUST BE TO TRY TO RESTORE A
SENSIBLE, COMPREHENSIBLE AND FAIR LINK BETWEEN
PAYING FOR AND RECEIVING LOCAL SERVICES. THERE
IS NO UNIQUE SOLUTION, BUT PERHAPS I COULD PUT
SOME QUESTIONS IN YOUR MIND.

FIRST, WE HAVE TO TAKE A HARD LOOK AT THE SUBSIDIES TO LOCAL VOTERS PROVIDED BY THE NATIONAL TAXPAYER AND THE NON-VOTING, NON-DOMESTIC RATEPAYER. I THINK THAT THERE IS STILL ROOM IN ANY SYSTEM FOR GRANTS AND FOR A CONTRIBUTION FROM NON-DOMESTIC RATEPAYERS TO THE PROVISION OF A STANDARD LEVEL OF SERVICE. BUT I AM FAR LESS SURE THAT THE TAXPAYER AND NON-DOMESTIC RATEPAYER SHOULD SEE LOCAL COUNCILS DIP INTO THEIR POCKETS TO FUND THE OPTIONAL EXTRAS. IT IS ONE THING FOR LOCAL VOTERS TO VOTE FOR HIGHER LOCAL TAXES THEY THEMSELVES PAY - IT IS QUITE ANOTHER FOR THEM TO VOTE TO IMPOSE HIGHER LOCAL TAXES ON LOCAL BUSINESSES. THEY ONLY HAVE THREE OPTIONS - TO PAY UP, CLOSE DOWN OR GET OUT.

NEXT WE MUST LOOK AT THE GRANT SYSTEM, [WHILE TARGETS AND HOLDBACK TAKE GRANT AWAY FOR INCREASING SPENDING, MANY AUTHORITIES ACTUALLY GET MORE "BLOCK GRANT" THE MORE THEY SPEND - AND LESS IF THEY SPEND LESS. ADDED TO THAT, GRANT ENTITLEMENT CAN CHANGE IN ANY YEAR FOR REASONS QUITE OUTSIDE AN AUTHORITY'S CONTROL - PERHAPS BECAUSE GOVERNMENT HAS DECIDED, FOR GOOD AND LOGICAL REASONS - TO CALCULATE ENTITLEMENT DIFFERENTLY, OR BECAUSE WE HAVE REDUCED THE TOTAL AMOUNT OF THE GRANT, OR, MORE PERVERSELY, BECAUSE OTHER AUTHORITIES HAVE DECIDED TO SPEND MORE - OR LESS. WHATEVER THE REASON, THE END RESULT IS THAT ANY LINK THERE MIGHT HAVE BEEN BETWEEN RATE INCREASES AND SPENDING INCREASES IS LOST IN A WELTER OF OTHER APPARENTLY HAPHAZARD CHANGES.]

IF WE ARE TO BRING HOME TO RATEPAYERS THE LINK BETWEEN SPENDING AND RATE INCREASES, WE NEED A MORE STABLE AND A SIMPLER GRANT SYSTEM, THAT IS MUCH EASIER SAID THAN DONE, BUT IT HAS TO BE DONE!

BUT ANY CLEARER LINK BETWEEN RATES AND SPENDING WOULD ONLY BE PERCEPTIBLE TO THOSE WHO ACTUALLY PAY RATES. SO, THIRD, WE NEED TO LOOK AGAIN AT A SYSTEM WHICH PLACES THE BURDEN OF FINANCING SO MUCH ON THE SHOULDERS OF SO FEW.

I DO NOT BELIEVE THAT WE CAN RELY ON RATES TO DELIVER THE GAINS IN ACCOUNTABILITY WE NEED. FOR TOO MANY PEOPLE, THE TAX BILL FOR LOCAL SERVICES IS TOO FAR DIVORCED FROM THE COST OF THOSE SERVICES, AND THE SCOTTISH REVALUATION HAS BROUGHT TO THE SURFACE AGAIN THE DEEP RESENTMENT FELT BY MANY RATEPAYERS WHOSE TAX LIABILITY CAN CHANGE BY SO MUCH BETWEEN YEARS, SIMPLY BECAUSE OF A NEW ASSESSMENT.

YET IF RATES ARE TO BE LEVIED ON AS FAIR AS BASIS AS POSSIBLE WE NEED FREQUENT REVALUATIONS. I DO NOT BELIEVE WE CAN HAVE REVALUATION WITHOUT REFORM. SO WE ARE LOOKING AGAIN AT THE OPTIONS FOR ALTERNATIVE LOCAL TAXES, BECAUSE WE ARE DETERMINED TO REFORM THE PRESENT INEQUITABLE SYSTEM.

I HAVE SKETCHED OUT A WAY FORWARD. THERE IS OF COURSE AN ALTERNATIVE - WE COULD SIMPLY REMOVE THE "PROBLEM" OF LOCAL AUTHORITY FINANCE AND ABOLISH RATES BY ALLOWING CENTRAL GOVERNMENT TO TAKE OVER THE FUNDING OF MOST LOCAL SERVICES. THAT CENTRALIST SOLUTION CAN BE MADE TO LOOK SUPERFICIALLY VERY ATTRACTIVE - BUT OF COURSE IT WOULD MEAN AN EXTRA DOLLOP ON INCOME TAX OR VAT OR ON OTHER TAXES.

BUT I DO NOT BELIEVE THAT MORE CENTRALISATION IS POLITICALLY ACCEPTABLE. I DO NOT THINK THE BRITISH PEOPLE WANT WHITEHALL DICTATING LEVELS OF SERVICE, IN EACH LOCAL AUTHORITY IN THE LAND. THERE IS VALUE IN RETAINING A PLURALIST SYSTEM.

BUT IF WE WANT PLURALISM WE NEED IT TO WORK. WE NEED PEOPLE TO FEEL THEY HAVE A DIRECT INTEREST IN THE AFFAIRS OF THEIR LOCAL AUTHORITY, WE NEED PEOPLE TO BE ABLE TO UNDERSTAND WHAT IS GOING ON, AND TO FEEL THAT THEY CAN INFLUENCE EVENTS THROUGH THEIR VOTE.

THE PRESENT SYSTEM FAILS THAT TEXT - AND BECAUSE OF THAT FAILURE CENTRAL GOVERNMENT HAS HAD TO MOVE IN TO PROTECT THE WORST HIT VICTIMS - RATEPAYERS IN THE ROTTEN BOROUGHES OF MANY OF OUR BIG CITIES.

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WHAT I HAVE TRIED TO DO TODAY IS TO SKETCH OUT THE CONSIDERATIONS WHICH HAVE WEIGHED MOST HEAVILY WITH US AS WE PROCEED WITH OUR STUDIES. THERE IS A LOT MORE WORK TO BE DONE TO ESTABLISH IN DETAIL HOW ACCOUNTABILITY SHOULD BE IMPROVED. AND WE SHALL ENGAGE ON FULL PUBLIC CONSULTATIONS ONCE WE HAVE TAKEN OUR THINKING FURTHER. BUT I HOPE THAT MY REMARKS TODAY WILL HAVE CONVINCED YOU THAT WE ARE FIRMLY COMMITTED TO REFORM. THERE ARE DIFFICULT DECISIONS TO BE TAKEN; WE SHALL NOT SHY AWAY FROM THEM.