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E (LE) (O) (85) 5th Meeting

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CABINET

STEERING COMMITTEE ON LOCAL GOVERNMENT FINANCE STUDIES

MINUTES of a Meeting held in  
Conference Room C, Cabinet Office on  
TUESDAY 10 DECEMBER 1985 at 10.30 am

PRESENT

Mr P F Owen  
Department of the Environment  
(In the Chair)

Mr J R Jameson  
Treasury

Mr N W Stuart  
Department of Education and Science

Mr M G Jeremiah  
Welsh Office

Mr B Houghton  
Inland Revenue

Mr A J Langdon  
Cabinet Office

THE FOLLOWING WERE ALSO PRESENT

Mr A C S Allan  
Treasury

Mr S M Healey  
Department of Trade and Industry

Mr J V Dance  
Home Office

Mr B Philip  
Scottish Office

Mr D Brereton  
Department of Health and Social Security

Mr W N Smyth  
Northern Ireland Office

Mr P Smethurst  
Department of Transport

Mr P Ward  
Department of the Environment

SECRETARIAT

Mr J E Roberts  
Ms J Rutter

SUBJECT

DRAFT GREEN PAPER ON LOCAL GOVERNMENT FINANCE

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DRAFT GREEN PAPER ON LOCAL GOVERNMENT FINANCE

The Committee considered a Note by the Secretaries attached to which were drafts of Chapters 1-5, Chapters on Wales and Scotland, and Annexes C and G of the Green Paper on Local Government Finance (E(LF)(0)(85) 9).

THE CHAIRMAN said that the drafts which had been circulated were still tentative and would require further revision, but it would be helpful to have comments from Departments. The Secretary of State for the Environment would be circulating later that day material showing the impact on households and tax units of the proposals for replacing domestic rates with a community charge. In addition, it was likely that the Secretary of State for Social Services would be writing about the relationship between the local government finance proposals and the Housing Benefit Scheme.

In discussion the following points were made -

Chapter 2: Non Domestic Rates

- a. some of the arguments deployed applied to non-domestic rates as a tax per se rather than a locally determined tax. Since non-domestic rates were to be retained, although in a modified form it was important not to over state these arguments;
- b. the initial level of the national non-domestic poundage would have to be set so as to disallow any excessive increase in rates between now and 1990;
- c. in Scotland, where it was hoped to legislate in advance of England and Wales, it would be necessary to cap non-domestic rates in order to protect industry and commerce in the period between the breaking of the link between domestic and non-domestic poundages



and the coming into force of the scheme for levying non-domestic rates nationally. Such an approach would not be acceptable in England in advance of the general reform, however, because protecting business in this way would put too heavy a burden on domestic rate payers;

d. if the non-domestic rate were set at a uniform level for the whole of Great Britain (and there was no defensible reason for doing otherwise), the yield raised from non-domestic rates in Scotland would be lower than at present, by perhaps £500 million. If the yields were pooled territorially, this shortfall in Scotland would have to be made up, either by domestic rate payers, by the Exchequer, or by a transfer from England. Alternatively, if the yield were pooled for Great Britain, there would be an effective transfer from England to Scotland unless the Exchequer grants were adjusted accordingly. The imbalance between England and Wales was very much smaller. This issue would need to be considered by Ministers;

e. the draft Scottish chapter referred to the possibility of modifying commercial rateable values to take account of turnover. It was unlikely to be acceptable, however, to have different bases of valuations in different parts of Great Britain;

f. the proposal that the new non-domestic arrangements might be phased in over 3-5 years might be too long, and 2-3 years might be preferable. The Confederation of British Industry had, however, sought a 5 year transition;

g. the further consultation document on the possibility of rolling non-domestic revaluations need not be issued for some time, and indeed could follow the consultation on the main proposals;

Chapter 3: Local Domestic Taxes

h. the key issue for Ministers was whether the central message of the Green Paper was that rates were to be abolished, or that rates were to continue but in some much reduced form;

i. the draft did not yet reflect the decision to retain some form of expenditure limitation to safeguard domestic rate payers against high spending authorities;

j. the Green Paper would need to be consistent with the forthcoming White Paper on Social Security in referring to the way in which Housing Benefit (HB) would apply to the new regime. There was concern that the introduction of the community charge would increase the cost and caseload of the HB scheme (running counter to the proposals in the Social Security Review), and furthermore that demand for HB would be effectively determined by local authorities in setting the levels of the local domestic tax rather than by the Government. This problem could be overcome by setting a national limit on the extent of rebates, but given that the safety net grant would cause the existing disparities between rate bills to continue this was unlikely to be acceptable;

k. the exemplifications would be on the basis of 1984/85 spending levels (with holdback removed), in order to avoid having to make assumptions about future budgets. The exemplifications would also assume that the safety net grant was in full operation, and that the social security review changes had been implemented;

l. the Scottish transitional scheme was different, and exemplifications would be necessary;

General Points

m. the balance between the chapters on England, Scotland, and Wales needed to be reviewed;



n. the text would need to make clear that water authorities would be able to operate charging systems which did not require rateable values as their basis;

of the section on specific grants would need to reflect the conclusion of the Treasury working group.

THE CHAIRMAN, summing up the discussion, said that Departments should send any detailed drafting comments to Ms Rutter (Department of the Environment). The text would be re-drafted to reflect comments made in discussion, and also the outcome of the Ministerial meeting on 12 December. The aim was to circulate a new text to Ministers before Christmas.

The Committee -

Took note, with approval, of the Chairman's summing up of their discussion.

Cabinet Office

11 December 1985