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E(LF)(85) 6th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 12 DECEMBER 1985 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

The Hon William Waldegrave MP
Minister of State, Department of the Environment (Minister for the Environment, Countryside and Local Government)

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John Wakeham MP
Parliamentary Secretary
Treasury

Mr Michael Ancram MP
Parliamentary Under-Secretary of
State, Scottish Office

SECRETARIAT

Sir Robert Armstrong
Mr J B Unwin
Mr A J Langdon
Mr J E Roberts

SUBJECT

DRAFT GREEN PAPER ON LOCAL GOVERNMENT FINANCE

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DRAFT GREEN PAPER ON LOCAL GOVERNMENT FINANCE

The Sub-Committee considered a Memorandum by the Secreaty of State for the Environment attached to which was a draft of the Green Paper on Local Government Finance (E(LF)(85) 20), together with a Note by the Secretaries attached to which was a draft of the chapter on Wales (E(LF)(85) 23). They also considered a Memoranda by the Secretary of State for the Environment about the transitional arrangements for replacing rates by a community charge, and exemplifying the number of gainers and losers (E(LF)(85) 21 and 24). They also had before them a Minute of 10 December from the Secretary of State for Social Services to the Prime Minister about the interaction with the Housing Benefit (HB) scheme.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the draft set out the proposals for the reform of local Government Finance which the Sub-Committee had agreed. The foreword was still to be drafted; this would be shorter and punchier, and would focus on the political points.

The key issue was the speed with which the community charge should be phased in. It was clear that with a suitable transitional scheme, rates could be abolished in many areas within a relatively short period, but that they were likely to remain in South England for a considerable time. The exemplifications attached to E(LF)(85) 21 were on the basis that the community charge would be increased annually by £20 (in addition to any increase due to changes in a local authority's expenditure), and showed that rates could be eliminated in 92 per cent of authorities within about 8 years. The annual transfer of £20, or any equivalent arrangement, would need to be specified in the primary legislation, but there was a risk that the Government would be blamed for the whole of the annual increase in the community charge, including that part due to the authority's own increases in expenditure. Accountability would therefore be blurred during the transfer period.

If rates were eliminated entirely in the first year, 11.6 million tax units in England and Wales would lose, and 11.1 million would gain. For the vast majority of people, however, gains or losses would be small. On the basis that the community charge should be set at only £50 in the first year, with rates continuing, the size of the gains and losses would be very much reduced. There was a particular problem, however, that almost twice as many pensioner couples would lose from the proposals as would gain, mainly those living in homes with low rateable values but also some living with relatives. It might be necessary to take special measures to deal with this problem, although this would have a cost.

In discussion the following points were made -

a. The community charge would be particularly high in a number of London boroughs, because the effect of their present high rateable values would be carried over into the new system by the safety net grant. London electors would still be subsidising those in the North of England, in accordance with the previous decisions of the Sub-Committee, and there would be no direct relationship between the level of the community charge and a local authority's spending. There would, however, be a direct link between marginal changes in expenditure and the level of the community charge so that there would be pressure from electors to moderate expenditure.

b. It might be desirable to make special arrangements in London to remove the effect of present high rateable values; this would enable the transition to the community charge to be accomplished within a reasonable period. There might be difficulties in defining the boundaries of the scheme, but London was exceptional, and this was widely recognised in many arrangements, including, for example, the addition of London weighting to national pay scales.

c. The latest estimates suggested that introducing the community charge would result in an extra 1.8 million HB cases. This was contrary to the thrust of the Social Security Review, which would remove about 1 million cases. It would be possible to avoid this by excluding the community charge from the scope of the HB scheme, as proposed in the minute of 10 December from the Secretary of State for Social Services. A flat rate addition could be made to income

support and family credit to assist low income households with more than one adult. The ultimate wide variation in the community charge between authorities would pose a problem, but it might be possible to introduce some local variation into the level of beneift paid. However, the Financial and other implications of this proposal needed further careful study.

d. It would be possible to make the full transition to the community charge faster in Scotland and Wales, perhaps in 4 years and 6 years respectively.

e. If there were a single non-domestic rate poundage and if the yield were pooled across the whole of Great Britain, there would be an effective transfer of perhaps £250 million from England and Wales to Scotland. This would not be acceptable. While there were gounds for arguing for a single Great Britain rate (since otherwise different companies would face different costs according to their location), there were differences in the basis of rateable values between Scotland and England and Wales, and therefore different poundages could be justified. This problem would need further examination.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee were grateful to the Secretary of State for the Environment for producing the draft Green Paper. The Sub-Committee agreed that it was necessary to set out a fully argued case for the reform in the Green Paper, but presentation was most important and it would also be necessary to produce a clear summary document to convey the main message effectively.

The draft should be revised to make it clear that the aim was to eliminate rates entirely. A transitional period of 21 years in England was too long, and the aim should be to find a means of eliminating rates within a decade at the most. A particular concern, and a problem in achieving a swift transition, was the particularly high level of the community charge which would apply in some London boroughs. This was a consequence of the present high rateable values in London and the South East being locked into the new system by the safety net grant, and it might be appropriate to introduce some special arrangement in order to mitigate this effect. The Secretary of State for the Environment should consider this urgently.

The Secretary of State for Social Services, in conjunction with the Secretaries of State for Scotland, Wales and the Environment and the Chief Secretary, Treasury, should also consider further the implications and practicality of the suggestion made in his minute of 10 December that the community charge might not be eligible for rebates within the HB scheme.

The Sub-Committee accepted that it might well be appropriate to legislate in Scotland in advance of England and Wales, but no final decisions should be taken in advance of publication of the Green Paper in case insurmountable problems emerged during consultation. The particular problem of the level of the national non-domestic rate poundage in Scotland would be discussed at the meeting of the Sub-Committee the following week, but there was no reason in principle why different poundages should not apply in Scotland and in England and Wales.

The text of the draft Green Paper should be amended to reflect the Sub-Committee's earlier decision that powers should be taken to cap the community charge, and also to make it clearer in a number of places which option the Government preferred; in particular there should be a clear preference for a centralised non-domestic rate rather than the alternative of freezing existing poundages. Also, the proposal on the taxation of second homes should be presented as a decision rather than as for consultation, and the possibility of making greater use of specific grants to fund education and policing should be canvassed more positively.

The Lord President of the Council would chair a meeting of the Sub-Committee the following week to finalise remaining issues, including the control of capital expenditure. Following that, the Secretary of State for the Environment should circulate a final draft text for discussion

by the Cabinet on 9 January, with a view to publication before the end of that month. In the meantime, it would be helpful if Ministers could take every opportunity to stress to the public the defects of the present local government finance system, and the importance of the principle that all electors should contribute to the cost of local services.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Social Services, in conjunction with the Secretaries of State for Scotland, Wales and the Environment, and the Chief Secretary, Treasury to consider the application of the Housing Benefit scheme to the community charge.

3. Invited the Secretary of State for the Environment in conjunction with the Secretary of State for Scotland and Wales and the Chief Secretary, Treasury, to prepare a Note on the implications of establishing a single non-domestic rate for Great Britain.

4. Took note that the Lord President of the Council would chair a meeting of the Sub-Committee the following week to finalise the remaining issues, including the control of capital expenditure.

5. In the light of 4. invited the Secretary of State for the Environment to circulate a final draft of the Green Paper for consideration by the Cabinet on 9 January.

Cabinet Office

12 December 1985