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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL GOVERNMENT FINANCE

Memorandum by the Secretary of State for the Environment

1. At our meeting on 21 May (E(81)18th, Item 2) I was invited to circulate a further memorandum setting out proposals on local authority expenditure and the rating system which might take effect in April 1983, subject to legislation next session, and on the options and consultation procedures for the introduction in the longer-term of alternatives to domestic rates.

2. Our present public expenditure plans require local authorities to reduce the volume of their current expenditure by about 5% between 1981-82 and 1983-84 (on their present budgets after allowing for some shortfall). This is equivalent to a reduction of about £800m at November 1980 prices, and probably implies a reduction of about 120,000 "full time equivalent" employees, out of a total of about 2 million, between April 1981 and March 1984.

3. The percentage and distribution of rate support grant remain our main weapon for influencing the overall level of local authority expenditure. But it is already clear that even if the overall expenditure target for local government is achieved this year, an important minority of authorities - largely politically motivated - are likely to maintain or increase their expenditure levels in spite of the Government's requests for economy, and in spite of the pressures exercised through the grant system.

4. I have with colleagues' agreement announced to Parliament a two-fold strategy:

(i) medium term measures, to come into force in April 1983, which will bring home to local authorities and their electorates the consequences of high spending policies. Cabinet has now agreed that there should be legislation next session (CC(81) 22nd Meeting).

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(ii) further development of the longer term strategy for the replacement of domestic rates, and publication of a consultation document this autumn.

Medium term measures

5. In E(81)60 I outlined possible medium term measures. In the light of further work I now propose that they should take the following form. (The proposals at (i) and (viii) below relate to England; colleagues will wish to consider whether similar measures should apply to Wales and Scotland).

(i) The measures should apply only to local authorities spending at a high level in relation to their needs. The legislation would allow me to define high spending for this purpose; I envisage a threshold defined at a level above the grant related expenditure assessments (GRES) which are already calculated for individual local authorities for the purpose of distributing block grant.

(ii) An authority proposing to spend above its threshold level would be obliged to finance the excess expenditure by means of a supplementary rate to be levied not earlier than July.

(iii) There would be a limit on the amount of expenditure that could be financed by means of a first supplementary rate.

(iv) If this amount were insufficient to finance the whole of the excess expenditure, the authority would be obliged to levy a second supplementary rate.

(v) The second supplementary rate could not be levied until the authority had first submitted itself for re-election. (It might be desirable to require such an election to take place before 31 December in any year so as to keep it distinct from the normal electoral cycle.)

(vi) The legislation would enable me to prescribe ways in which supplementary rates would be limited for the non-domestic ratepayer, so that their incidence would fall more heavily on the domestic ratepayer.

(vii) The obligation to levy a supplementary rate would apply even if an authority had sufficient balances to finance the excess expenditure without a supplementary call on the ratepayer. Members of an authority which deliberately flouted this requirement would be liable to surcharge. (It may be desirable to have a procedure for dispensing authorities in particular cases from the requirement to levy a supplementary rate.)

(viii) It might be desirable to reinforce these provisions by setting a limit on the main rate levied by a high spending authority. This would raise technical problems.

6. These measures would be aimed at high spending areas. They would strengthen electoral accountability by making high rate levels more visible than now (and much more visible for council tenants, for whom rate increases are often obscured in changes in rent). The differential incidence of supplementary rates would bring home to domestic ratepayers the cost of high spending policies, and would give some protection to the unrepresented non-domestic ratepayer, who has no vote.

7. The requirement on an authority to submit itself for re-election after levying a second supplementary rate (para 6(v)) would be controversial. Annex A sets out some of the practical issues that will need to be decided. An alternative, also mentioned in Annex A, would be a mandatory referendum before a second supplementary rate. But if the verdict of the referendum were No, the same Council, with high spending policies, would still remain in office, with serious risks of continuing confrontation both with its electorate and with central government and the possibility of doubts in the market about its credit-worthiness. An election is less open to these objections since it would produce either a new Council or a clear and specific mandate for high spending financed by high rates.

8. The differential incidence of the supplementary rate as between the domestic and the non-domestic sectors could be determined in a variety of ways. For any authority the consequences would depend on (a) the amount of its spending above the threshold (b) the relative proportions of domestic and non-domestic rateable value, and (c) any "safety net" arrangements incorporated in the scheme to cushion especially severe consequences for the domestic ratepayer. It would be possible to provide that above a certain level the whole burden of additional spending should fall on the domestic ratepayer.

9. To illustrate the possibilities, the table at Annex B shows the consequences for some 40 high spending authorities, on 1981-82 data, of possible schemes which

- a. begin to operate at spending levels 40% above the national average GRE;
- b. apportion the rate burden of higher levels of expenditure in different ways between the domestic and non-domestic sectors (but in each case in favour of the non-domestic);
- c. provide no special safeguards against disproportionate increases in the burden for domestic ratepayers in particular cases. (It would however be possible to include such safeguards if required.)

The table shows a range of possible increases in domestic rate bills under the various options. In percentage terms the increases range from 0% to 27%. The scheme would allow greater or smaller increases than those exemplified.

10. The final shape of the scheme would be settled after consultation. At Annex C is a provisional draft consultation document, to which a technical Appendix remain to be added which summarises the possibilities outlined in paragraph 5 above. Details of the electoral arrangements could either be included in a revised draft, or, as suggested at paragraph 8 of the present draft, made the subject of a further consultation document.

11. The other medium-term measure which I envisage is the Accounts Commission (E(81)54) for which there was general support at E(81)177a and for which the Cabinet have allowed space in the legislative programme for 1981-82. I was asked to consider alternative names for this body, and I now propose that it should be called the "Audit Commission".

12. Pending legislation I propose, under my existing powers, to appoint as additional District Auditors members of leading firms of accountants, to undertake audits of the 1981-82 accounts of a selected range of authorities and to produce reports that will identify and publicise areas of waste, extravagance and poor value for money. I would announce this at the same time as the Audit Commission, but without at that stage naming the authorities. I shall ensure that in the authorities I select, there will be those with both high and low expenditure and under both Labour and Conservative control. If I am to avoid challenge it is essential that my actions are seen to be fair. If we are to learn about value for money we need access to low spending authorities as well as high.

13. I also suggest that we should make it clear in any announcement on medium term measures that in the rate support grant settlement for 1982-83 we shall continue to exert pressure on high spending authorities. This will publicly underline our determination to ensure that the national tax payers should not support a consistent pattern of overspending by local government, and might powerfully influence the attitude of London Boroughs who face election next year.

The Longer Term

14. In the longer term the option of setting absolute limits on either rates or expenditure needs to be considered. For schemes of this kind it would be necessary to restrict local authority borrowing and to provide for the possibility of default by taking powers to appoint Commissioners. Such schemes would improve the chance of delivering our public expenditure plans. But there would be a greater risk of bringing local authorities into direct conflict with central government, because local authorities' freedom to make their own decisions would be more constrained than under the measures proposed in this paper.

15. It would not be possible to work out schemes of this more far-reaching kind in time for the legislation which we envisage for the autumn. Nor would it be appropriate to expose them for consultation at the same time as our proposals for interim measures. But officials should work further on developing detailed options, possibly for inclusion in the further consultation document on Alternatives to Domestic Rates which I discuss in the immediately following paragraphs.

16. We have committed ourselves to the publication of a consultation document on Alternatives to Domestic Rates in the autumn and I announced this to Parliament on 2 June. I now propose that an interdepartmental group of officials should be asked to produce a framework for this document for us to consider in July, and a full draft in September. We might aim to publish the document before the Party Conference in October.

17. The scope of the consultation document and the programme of work leading up to it are set out briefly in Annex D.

18. When we consider the consultation document in September we shall need to take a firm decision as to whether we are going to invite a short period of consultation up to the end of the year with a view to legislation in the 1982-83 Session, or whether to proceed more deliberately with consultation up to next Spring and a White Paper later in 1982, which effectively means deferring legislation until the next Parliament.

19. We must bear in mind that publication of a document on alternative taxes is likely to raise questions about the structure of local government, and we shall need to consider our attitude to this.

Conclusion

20. In conclusion I believe that it would be right to make an announcement about the proposals for an Audit Commission and the use of members of private firms of accountants as additional District Auditors as soon as practicable. But the timing of an announcement about the proposed "interim" legislative measures needs further consideration. Whilst there is much to be said for an early announcement in order to focus public attention on the consequences of continuing opposition by any substantial part of local government to central government's public expenditure plans, it is of course important not to jeopardize a positive response of local government to the call for revised budgets by what might be regarded as a

premature threat. I propose to consult colleagues further about the timing of an announcement or announcements on the proposals in this paper as soon as I have completed the current round of discussion with the local authority associations about their views on any alternative means of securing compliance with the Government's public expenditure plans.

21. I accordingly invite colleagues to agree:

- i. that we should publish a consultation document on improving accountability for the levying of rates in high spending authorities, on the lines of the provisional draft at Annex C;
- ii. that we should announce as soon as possible our proposals for an Audit Commission and the appointment of private accountants as additional District Auditors;
- iii. that I should consider further, with the Ministers principally concerned, the timing and manner of the publication and announcement referred to at (i) and (ii);
- iv. that officials should be instructed to consider further the options for limiting local authority rates or expenditure, and to report to us in September;
- v. that officials should be instructed to prepare a draft Consultation Document on Alternatives to Domestic Rates, reporting to us with a framework for the document in July, and a full draft in September.

M H

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ELECTORAL ACCOUNTABILITY

1. There are two ways of putting the matter of higher spending and higher rates before the electorate: a special election to the authority responsible or a referendum.

Present Position

Elections

2. Ordinary local authority elections in England and Wales are held on the first Thursday in May, according to a cycle established after local government re-organisation. The cycle varies according to tiers of Authority. Non-Metropolitan district councils, and most metropolitan districts, elect by thirds; some metropolitan districts and all county authorities, the Greater London Council and the London Boroughs elect en bloc. Casual vacancies which arise are filled by elections of which '25 Working days' (approximately a calendar month's) notice has to be given.

Referendums

3. Under the provisions of schedule 12 to the Local Government Act 1972 local polls may be held in parishes and communities (Wales) on any question arising at a parish or community meeting; but there is no provision for local referendums elsewhere.

Special Elections

4. If it were decided to introduce a requirement for special elections triggered by a majority vote for a supplementary rate the following questions arise:

(a) which authority is to be re-elected?

Presumably this would normally be the authority responsible for voting the increase, rather than the levying council. There could be no election, however, if the rate was increased as the result of a precept by a non-elected authority. A special problem arises in the case of ILEA (whose members are nominated by virtue of their being elected to other authorities).

(b) which members should be required to resign and face re-election?

It may be hard on members who have opposed spending to put their seats at risk. But the size of majority on some councils is such that limiting the election only to those members who vote in favour of a rate rise could enable a ruling group to ensure that only a sufficient number, with safe seats, vote and are liable for re-election.

(c) how should special elections be timed?

To avoid a re-jigging of the whole cycle the special elections might best be treated as filling casual vacancies - ie the members elected would serve out the terms of office of the former councillors. In authorities elected by thirds this would mean that some newly-elected councillors would have very short terms of office.

The political parties would need to have time to select candidates to make administrative arrangements for special elections. But elections are customarily not held between mid-June and September (because of holidays) nor between November and the publication of the new electoral register in mid February (because of the weather and the unreliability of the register).

Referendums

5. To an extent the difficulties of timing at 4(c) above apply equally to local referendums. In addition the following questions arise:

(a) what question would be asked at the referendum?

At parish and community council polls the question to be asked is identical to that put to the parish meeting prior to the poll. At the EEC referendum in 1975 and the devolution referendums in 1979 the questions were prescribed in legislation. It might be unwise to allow each local authority to set its own question without some form of approval by or appeal to the Secretary of State, and/or the form of the ballot being confined to a vote on a numbered resolution of the Council, with explanatory notes on the paper's face or in each polling booth.

(b) under what rules would the referendum be conducted?

Standard rules adapting existing electoral law could be prescribed. In addition it may be necessary to ensure that electors receive some information about the issues involved by providing support for 'yes'/'no' publications. This could be expensive.

Franchise

6. It is arguable that, as ratepayers will be directly affected by the issue in question at either a special election or a local referendum, the franchise should be specially restructured. This would seem to be more acceptable at a referendum on a specific financial matter than at an election to an authority with wide

responsibilities. A 'ratepayers only' franchise would, of course, exclude disproportionately women, young people living in rented accommodation, the ethnic minorities, the institutional population (such as old people in local authority homes) and should, presumably, include aliens and other people, such as absentee landlords, who are not presently entitled to vote.

Cost

7. An ordinary local election in a district council area of 60,000 electors costs at least £10,000. The administrative costs of a local referendum would be about the same, although this could be doubled if special information was provided to electors.

1. The table attached illustrates the effects on rate poundages, and on average domestic rate bills, of three different levels of protection for the non-domestic ratepayer. Within each option the effect on domestic rate poundage is the same for every authority with the same degree of overspending. The first option ($1\frac{1}{2}$ x cost at GRE) implies a general cost to the domestic ratepayer for extra expenditure at these levels of 9.4p in the £ for each £10 per head additional spending, the second (2 x cost at GRE) 11.2p, and the third ($2\frac{1}{2}$ x cost at GRE) 13.0p. For authorities protected by block grant multipliers, or which receive no block grant, (eg Camden) the cost of extra expenditure is lower.

| Amount above 40X threshold | 1 1/2 x cost at GRE | | | 2 x cost at GRE | | | 2 1/2 x cost at GRE | | |
|----------------------------|----------------------|--------------------------|---------------------------|----------------------|--------------------------|---------------------------|----------------------|--------------------------|---------------------------|
| | Change domestic rate | Change non-domestic rate | Domestic rate bill effect | Change domestic rate | Change non-domestic rate | Domestic rate bill effect | Change domestic rate | Change non-domestic rate | Domestic rate bill effect |
| Shire Districts | | | | | | | | | |
| Eristol | £4.6ph | -9p | 1.1p | £2 | -1.5p | 1.9p | £3 | -2.2p | 2.5p |
| Reading | £2.7ph | -6p | .9p | £2 | -1.1p | 1.5p | £3 | -1.6p | 2.3p |
| Millon Keynes | £2.8ph | -7p | .7p | £1 | -1.1p | 1.2p | £3 | -1.6p | 1.7p |
| Peterborough | £4.0ph | -8p | .9p | £2 | -1.5p | 1.7p | £2 | -2.1p | 2.4p |
| Lamboursh | £17.7ph | -2.9p | 4.2p | £7 | -5.1p | 7.4p | £3 | -7.2p | 10.5p |
| Middlesbrough | £13.8ph | -3.4p | 3.3p | £5 | -6.0p | 5.8p | £12 | -8.6p | 6.5p |
| Carlisle | £2.1ph | -5p | .5p | £1 | -8p | .9p | £9 | -1.2p | 1.3p |
| Cleveland | £4.4ph | -8p | 1.0p | £1 | -1.3p | .7p | £1 | -1.9p | 2.4p |
| Chesterfield | £1.2ph | -3p | .3p | - | -3p | 1.7p | £2 | -1.7p | 2.4p |
| Derby | £2.2ph | - | - | - | -1p | .1p | £1 | - | .7p |
| Derlington | £14.5ph | -2.7p | 3.4p | £5 | -4.7p | 6.0p | £9 | -6.7p | 8.6p |
| Derwentside | £13.0ph | -2.9p | 3.0p | £4 | -5.1p | 5.3p | £5 | -7.2p | 7.6p |
| Durham | £10.7ph | -2.3p | 2.1p | £3 | -4.0p | 3.7p | £6 | -5.7p | 5.5p |
| Sedgely | £5.3ph | -1.2p | 1.3p | £2 | -2.1p | 2.2p | £5 | -3.0p | 3.2p |
| Wear Valley | £7.8ph | -1.7p | 1.9p | £2 | -3.0p | 3.3p | £4 | -4.3p | 4.7p |
| Basildon | £3.6ph | -1.1p | .8p | £2 | -2.0p | 1.5p | £4 | -2.8p | 2.1p |
| Harlow | £22.4ph | -4.8p | 5.3p | £12 | -8.4p | 9.3p | £21 | -12.1p | 13.4p |
| Here Forest | £3.3ph | -1.0p | .8p | £2 | -1.7p | 1.4p | £3 | -2.4p | 2.0p |
| Stevenage | £18.5ph | -3.8p | 4.4p | £11 | -6.7p | 7.7p | £19 | -9.5p | 11.1p |
| Walsen Hatfield | £6.3ph | -2.1p | 2.2p | £6 | -3.1p | 3.2p | £8 | -4.0p | 4.2p |
| Elmford | £2.2ph | -4p | .5p | £1 | -7p | .8p | £1 | -1.0p | 1.2p |
| Kinston upon Hull | £.1ph | - | - | - | - | - | - | - | - |
| Scunthorpe | £6.1ph | -8p | 1.5p | £2 | -1.4p | 2.6p | £4 | -2.1p | 3.7p |
| Blackburn | £6.6ph | -1.4p | 1.6p | £2 | -2.5p | 2.8p | £3 | -3.6p | 3.9p |
| Burnley | £11.4ph | -2.2p | 2.7p | £3 | -3.8p | 4.8p | £5 | -5.5p | 6.2p |
| Rossendale | £12.4ph | -3.7p | 2.6p | £3 | -6.6p | 4.6p | £5 | -9.4p | 6.6p |
| Great Yarnouth | £1.2ph | -3p | .3p | - | -5p | .5p | £1 | -7p | .7p |
| Hansbeck | £12.2ph | -2.0p | 2.9p | £4 | -3.4p | 5.0p | £6 | -4.9p | 7.2p |
| Hastings and Bedworth | £3.0ph | -1.1p | .7p | £1 | -1.9p | 1.3p | £3 | -2.7p | 1.8p |
| Leam | £1.1ph | -4p | .3p | £1 | -6p | .5p | £1 | -9p | .7p |
| Draxley | £17.4ph | -3.0p | 5.8p | £11 | -4.4p | 8.6p | £17 | -5.8p | 11.2p |
| Hamesdown | £15.8ph | -3.0p | 3.8p | £6 | -5.3p | 6.6p | £10 | -7.6p | 9.4p |
| Met. District | | | | | | | | | |
| Manchester | £13.7ph | -1.9p | 2.9p | £5 | -3.3p | 5.1p | £8 | -4.7p | 7.2p |
| London Boroughs | | | | | | | | | |
| City of London | £8,889.6ph | -1p | 13.9p | £72 | -1p | 20.4p | £106 | -2p | 25.9p |
| London | £179.1ph | -7.6p | 22.4p | £90 | -11.1p | 32.9p | £118 | -14.7p | 43.4p |
| Greenwich | £40.3ph | -7.9p | 6.3p | £14 | -13.8p | 11.1p | £24 | -19.8p | 15.8p |
| Hackney | £45.4ph | -8.4p | 7.9p | £20 | -14.7p | 13.8p | £34 | -21.0p | 19.7p |
| Hammersmith and Fulham | £16.7ph | -2.8p | 3.0p | £8 | -4.9p | 5.3p | £13 | -7.0p | 7.4p |
| Hillingdon | £72.9ph | -7.7p | 12.8p | £38 | -13.4p | 22.4p | £66 | -19.2p | 28.3p |
| Hounslow | £44.3ph | -8.7p | 11.3p | £28 | -15.2p | 19.8p | £49 | -21.8p | 31.4p |
| Leisham | £75.1ph | -23.8p | 12.5p | £29 | -41.6p | 22.0p | £51 | -59.5p | 32.4p |
| Outward | £79.0ph | -8.1p | 12.9p | £29 | -14.1p | 22.7p | £51 | -20.2p | 42.2p |
| Over Hamlets | £138.0ph | -8.7p | 16.9p | £42 | -15.3p | 29.6p | £74 | -21.8p | 42.2p |
| Princes | £15.2ph | -4.4p | 3.2p | £8 | -7.8p | 5.6p | £14 | -11.1p | 8.0p |
| Met. Counties & ILPA | | | | | | | | | |
| South Yorkshire | £22.2ph | -4.5p | 5.1p | - | -7.9p | 8.9p | - | -11.3p | 12.7p |
| West and West | £6.1ph | -1.5p | 1.5p | - | -2.7p | 2.6p | - | -3.8p | 3.7p |
| LEA | £30.7ph | -1.4p | 3.8p | - | -2.4p | 6.6p | - | -3.4p | 9.4p |

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IMPROVING ACCOUNTABILITY FOR THE LEVYING OF RATES IN HIGH SPENDING AUTHORITIES

DRAFT CONSULTATION DOCUMENT

I Introduction

1. Local authorities which spend at relatively high levels are obliged to levy high rate poundages in order to finance their high expenditure. This extra burden is serious for all classes of ratepayer, particularly at a time of recession. This document outlines possible measures to bring home to local authorities and their electorates the consequences of high spending policies, to strengthen accountability, and to give some protection to non-domestic ratepayers, who have no direct representation on their councils. The technical appendix discusses some of the issues in more detail.

2. The main features of these measures are as follow:

- i. They would apply to local authorities spending above threshold levels related to their needs.
- ii. An authority proposing to spend above this threshold would be obliged to finance the excess expenditure by means of a supplementary rate, to be levied not earlier than July.

iii. There would be a limit on the amount of expenditure that could be financed by means of a first supplementary rate.

iv. If this amount were insufficient to finance the whole of the excess expenditure, the authority would be obliged to levy a second supplementary rate.

v. An authority proposing a second supplementary rate would first be obliged to submit itself for re-election before levying the rate.

vi. The obligation to levy a supplementary rate would apply even if an authority had sufficient balances to finance the excess expenditure without a supplementary call on the ratepayer.

vii. Members of an authority which deliberately flouted this requirement would be liable to surcharge.

viii. Any supplementary rate would be levied at a higher poundage on domestic ratepayers than on non-domestic ratepayers. This would bring home to domestic ratepayers the cost of high spending, and would protect the non-domestic ratepayer, who has no vote.

The Thresholds

3. The thresholds would take account of each authority's spending needs. The first threshold would be set at a percentage above the standard level that is assessed for each authority each year for the purpose of distributing block grant: the grant related expenditure assessment.

4. The threshold would be set each year, probably at the time of the rate support grant settlement (normally November or December) for the following financial year. It would take account of the prevailing economic situation and the Government's public expenditure plans.

5. The second threshold would be set as a percentage above the first.

Supplementary rates

6. The scheme would preserve the freedom of local authorities to determine their own levels of expenditure and rates. But it would require them to make an explicit demand on their ratepayers for spending above a first threshold, and to seek the explicit approval of the electorate for spending above a further threshold.

Protecting the non-domestic ratepayer

7. A supplementary rate would only be levied to finance a high level of spending. In order to bring home to the electorate the consequences of such spending, the Government would take powers to require that the domestic ratepayers should bear a greater proportion of the supplementary rate than of the main rate and that the non-domestic ratepayer should be correspondingly protected. Possible ways in which the rate poundage might be levied differentially on the domestic and the non-domestic sectors are described in the appendix.

Local elections

8. In order to give the electorate a direct opportunity to decide whether they wish to support high levels of spending, any authority levying a second supplementary rate should be required to submit itself for re-election within a defined period. The detailed arrangements for such elections will be the subject of a second consultation document.

Conclusion

9. Comments on the proposals are invited. They should reach the Department of the Environment (in the case of Wales the Welsh Office) by [the end of August]. Subject to the outcome of these consultations it is envisaged that legislation might be introduced in the 1981-82 Session of Parliament to come into effect on 1 April 1983.

ALTERNATIVES TO DOMESTIC RATES

I SCOPE OF THE CONSULTATION DOCUMENT

1. The interdepartmental study of 1980 undertook a preliminary review of all the main alternatives to domestic rates. They were assessed against seven criteria:
 - (i) practicability;
 - (ii) cost of administration;
 - (iii) perceptibility and accountability;
 - (iv) financial control in local government;
 - (v) equity between taxpayers;
 - (vi) compatibility with the Government's fiscal strategy;
 - (vii) suitability for all tiers of local government.
2. These criteria, especially those of practicability and cost, suggested that some of the possibilities could be eliminated without further study, namely:

Payroll tax.

Duties on alcohol, tobacco, petrol

Charges for licences for sale of alcohol or petrol

Vehicle licence duties

Local development land tax.

The remaining options were judged to be

Local Income Tax (LIT)

Local Sales Tax

Poll Tax.

3. A fourth possibility was identified: that local authorities should lose their independent revenue-raising powers and become wholly dependent on exchequer grant, or assigned revenues. This approach was not recommended, because it would tend to undermine local authorities' independence. However it finds favour with many ratepayers' action groups and should therefore be the subject of further consultation.
4. The consultation document will need to review possible reforms of domestic rates and compare their benefits with those of the alternative taxes.
5. Abolition of domestic rates would have implications for non-domestic rates. The interdepartmental study pointed to the need to maintain an equitable balance between non-domestic rates and any new tax that was introduced. This issue will need to be dealt with in the consultation document.

6. The interdepartmental study did not study the problems in depth. There are many aspects that need more detailed exploration for example:

- (i) the economic implications of alternative taxes, including redistributive effects between different household types and income groups and different parts of the country, and likely consequences for the retail price index;
- (ii) interactions with the fiscal policies of central government;
- (iii) interactions with the grant system and with non-domestic rates;
- (iv) allocation of revenue to the different tiers of local government;
- (v) practical problems of organising and administering alternative local taxes;
- (vi) tax collection costs falling on employers or traders;
- (vii) EEC aspects;
- (viii) timing constraints, eg arising out of the computerised programmes in Inland Revenue and Customs and Excise.

7. It will not be possible to make substantial progress on these issues before the consultation document is published in the autumn. Work will have to proceed during the consultation period.

II PROGRAMME OF WORK

8. It is suggested that an interdepartmental group of officials should be set up immediately, under the chairmanship of the Department of the Environment. Its first task would be to prepare a framework for the consultation document, which Ministers would be invited to approve in July.

9. The group would then prepare a draft consultation document for Ministers to consider later in the summer, with a view to publication in September or October.

10. It would concurrently draw up a programme of further work and a timetable for consultation and decision. This would enable Ministers to take a considered view, before the consultation document is published, as to whether they wish to complete consultations and take substantive decisions on alternative taxes by early 1982, with a view to legislation in the Session of 1982-83, or whether they prefer to publish a White Paper first (perhaps in the summer of 1982), and legislate in the first year of the next Parliament.