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10.30

PRIME MINISTER

29 March 1985

LOCAL GOVERNMENT SEMINAR

1. Handling

The timetable is:

- 11.00 onwards *Participants arrive for coffee*
- 11.30 Patrick Jenkin: Introduction to morning session
- c 11.40 Kenneth Baker: Defects in the present system and defects to centralist approach
- Lunch General discussion
- 2.00 Patrick Jenkin: Introduction to afternoon session
- c 2.10 William Waldegrave: plans for reform
- c 3.30 Your summing up
- or later

Since the meeting is large and Ken and William have a lot to get through, we recommend that you should give them each a clear run for, say, 20-25 minutes, only then asking for comments.

You may wish to guard against the danger that Scotland and Wales will side-track the meeting, with both territorials looking for more money and Scotland enthusiastic about their own system.

2. Kenneth Baker on the Defects of the Present System and of Centralist Approaches

The points most likely to emerge are:

- a. Rapid rise in expenditure - at around £34 billion, and with the present system cracking apart, a new long-lasting, method of control is vital.

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- b. Lack of accountability - too few individuals paying domestic rates, (20% of ratepayers in many councils getting complete rate relief); too many businesses without the vote paying high non-domestic rates; too few services for which the customer pays directly.
- c. Dangerous complexity of the system - 67 different formulae in the grant settlement; substantial redistribution of money around the country which brings us no friends; perverse effects of housing benefit on rents and rates.
- d. Ever more unpopular attempts to impose better controls from the centre - targets, rate-capping, capital spending controls; disliked by Conservative Councils, used by the far-left to make trouble.
- e. The Conservative Party in disarray - many of our Councillors unhappy especially about capital controls; widespread loss of morale; feeling that 'nobody is listening'; poor prospects for local elections; disillusion of 10,000 Councillors likely to cause problems in a general election campaign.

Kenneth will mention two ways of dealing with these problems:

- i. more centralism - in which the Government treats local authorities as mere agents;
- ii. accountable local democracy - in which the Government reforms the system so that it contains checks and balances of its own, avoiding constant central interference.

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He will argue that option i. is both undesirable and politically unattractive.

3. William Waldegrave on Reforming the System (option ii.)

William will outline a bold and radical scheme of reform. It has 4 stages:

I Restoration of accountability to the electorate

- Abolition of domestic rates: (13% of LA income)* by installing a new, simple, across-the-board poll tax for all local inhabitants - a rough average of £150 for each person entitled to vote.
- An end to 100% local tax rebate: by setting an upper limit on the proportion of local tax met from benefits, building on the agreement in MISC 111.
- Increasing the amount of direct charging for services: (16% of LA income, mainly rents) by, for example, compelling councils to balance a wider range of revenue accounts; (as is already true of the housing revenue account).
- Minimising the chances of playing the electoral cycle: by forcing councils to hold annual elections for one third of their members, thus putting a stop to the practice of saving up money for election year.
- Proper audit checks: by strengthening the powers of Auditors.

* All figures on income percentages are for 1982-3 from DoE; they have not changed much since.

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- In the longer term, creating clearer lines of responsibility: by moving to a single tier of local government everywhere.

II Protection of the non-voting business rate-payer
(18% of LA income)

- by fixing a national level for business rates, collected by central government.

III Improvement of the grant system

- Massive simplification of grant system: (26% of LA income) by removing resource-equalisation, so that councils receive grant proportional to the number of people in their area and the kinds of service required.
- More central government control over the spending of central funds: by increasing the proportion of specific grants (15% of LA income), tied to particular uses.

IV More local autonomy

- Simplifying capital expenditure controls: by replacing the unpopular and ineffective 'prescribed proportions' with clear controls on net local authority borrowing; so Councils can spend their own capital receipts (6% of LA income) and rate revenue on capital projects without pushing up the PSBR.
- Abolition of targets and removal of rate-capping: once the system contains its own checks and balances, (with poll taxes biting on all the inhabitants, with the business rate-payer

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protected, with more targetted specific grants, and with proper PSBR limits), we could remove Government controls on current expenditure without causing a spending-spree.

4. Lennie Hoffmann's Paper

You will see that Lennie Hoffmann's paper is a slightly tamer version of these proposals.

Lennie favours retaining rates, instead of a poll tax - because he believes that the poll tax would be regressive and administratively complicated; he has nothing to say about capital spending or single tier authorities; and he does not recommend any change in electoral arrangements, or the scrapping of resource-equalisation.

Apart from these discrepancies, his scheme is the same as DoE's.

5. Victor Rothschild

Victor will probably suggest scrapping the business rate and replacing it by an increase in Corporation Tax, (up from 35% to 43% or 44%). This switches the tax from property to profits and saves on revenue administration, but has to be administered and redistributed nationally, and is less easy to collect.

6. Cyril Taylor

Cyril Taylor has written a paper dealing with many of the same issues. This is attached as Annex B.

Cyril's main recommendations are:

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- annual council elections (1/4 of the council elected each time);
- a second vote for business rate-payers;
- £6 billion reduction of government grants so that councils have to raise more of their own money; with matching reduction in income tax;
- total abolition of rate rebates;
- a poll tax (additional to rates);
- abolition of targets and rate-capping.

As you can see, this follows roughly the same lines as DoE's package. But it is much less thoroughly thought out, and somewhat less radical. Adding poll taxes to rates, as Cyril suggests, would be very unpopular: DoE's proposal to replace rates with poll tax is much more attractive.

7. Other Options

- a. **Transfer of the main education expenditure to Central Government**, matched by abolition of Government grants. Many people like this idea in theory but in practice it would lead to revision of the Education Acts, scrapping Education Committees, and even to scrapping the Shire Counties whose predominant service is education.
- b. **Sales Tax** - it would only amount to some 3% on all goods, which would not very visible. There would be massive variations in the revenue raised by differing authorities. And there would be problems in making every shopkeeper distinguish the local sales tax from the rest of the VAT and the price;

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and rise in revenue from the tax due to inflation and increased sales might lead to soaring local government spending.

- c. A local income tax - unlike poll tax, local income tax revenues would automatically rise in line with earnings, fuelling extra spending. There would be difficulties in distinguishing between the local and central government income tax impositions. The work would have to be done through the central government computer and Inland Revenue system, causing an increase in central bureaucracy; and many people might escape altogether through the black economy, which is probably growing.

8. Policy Unit Comments

I The Substance

William has done a first-rate job.

As DoE say, the objectives should be to restore accountability, to protect the business rate-payer, to reduce the complexity of the grant system, to have less redistribution, and then to restore a greater degree of local autonomy. Our conversations with leading Conservative councillors over the past year make us think that these objectives are widely shared, and that their fulfilment would greatly improve morale in the Party.

In particular, we agree that:

- rates should be replaced by poll tax
- nobody should receive 100% relief from local tax

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- direct charges for services should be increased
- there should be more effective audit checks
- the grants system should be reduced and tactically simplified
- the proportion of specific grants should be increased so that government gets the credit and retains control over its own spending
- the ghastly capital expenditure controls should be replaced by proper limits on net indebtedness
- if all the above measures are implemented, targets and rate-capping should be ended.

We suggest that you query these elements:

- λ - Compulsory annual elections: a central attempt to change the pattern of local elections will be regarded with suspicion, may well evoke irrational hostility of the sort seen over the Paving Bill, and takes no account of the current local variety of practice which councillors like.
- λ - Creating a single tier of local government: although ideal in theory, the experience of successive local government reorganisations, including the abolition of the GLC and the Mets, suggests that institutional change is not the answer; the problems always turn out to be greater, and the benefits usually smaller, than anyone imagines at the start.

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- National setting and collection of the business rate: this would be regarded as highly centralist; Conservatives in the Shire Districts, particularly, will object strongly. A far better solution is to 'cap' the business rate - ie to set a simple, national maximum rate in the £. This would leave our supporters in the Districts content, but would protect the businessman from the rapaciousness of urban left-wing councils; it would also avoid the creation of another, central rate-collecting bureaucracy.

II The Consultative Process

It is vital that any future reform of local government should carry with it our own supporters and councillors. Why not put these ideas forward in Ministerial seminars before issuing a formal paper, with our own local government people joining in the debate? Having a workable set of proposals is a good idea, but it would be quite wrong to present these in an autocratic way: our own supporters would get cross yet again with our local government policy.

8. Decision Points

You will need to decide:

- i. Whether the major proposals are on roughly the right lines?
 - a. Poll tax to replace domestic rates (with no 100% rebates)
 - b. Increased charging
 - c. National collection (DoE), or national maximum (policy Unit) for business rate

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- d. Major simplification of block grants and increased proportion of specific grants
 - e. Abolition of targets and rate-capping
- ii. Are there any minor elements of the package that need to be revised before consultation?
 - iii. How should the proposals be vented with the press, public, and - above all - the Party?

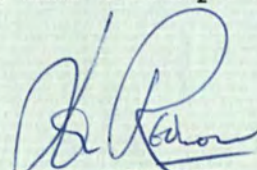
What are the next steps?

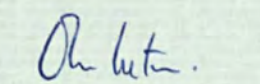
We recommend:

- a report to E(LF) in April on the effects of the proposals for particular councils;
- a couple of months of open, but informal and oral consultation, especially with our own Party;
- the issuing of a revised set of proposals as a Green Paper in July;
- a White Paper at the end of the year, ready for legislation in this Parliament.

9. Conclusion

We believe that this review offers the only real hope of winning back the confidence of the Party. We also believe that it offers the prospect of a lasting change for the better in local Government. After years of half-remedies, you should now attempt a fundamental reform on the lines proposed.


JOHN REDWOOD


OLIVER LETWIN

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HOW THE RATE SUPPORT GRANT SYSTEM WORKS

The system has been designed to perform two different tasks simultaneously - (1) redistribution between local authorities and (2) public expenditure control. The interaction of these two demands causes endless difficulties.

Step I Setting of planning total. The Government decides how much local authorities ought to spend next year. It adds to this a small "unallocated margin", to allow for overspending. The final sum is called 'the total public expenditure provision for local authorities'.

Step II Assessment of relative need. The Government then decides how much each authority needs to spend to maintain a standard level of services consistent with the total provision. The amount fixed for a given authority is called its "grant-related expenditure" (GRE). The main considerations in deciding this sum are the size of the authority's population and the nature of the services it has to provide.

Step III Setting Exchequer Grant. The Government also decides what proportion of total local authority spending it will meet from the Exchequer. This "Aggregate Exchequer Grant" is divided into "Block Grant (commonly known as "Rate Support Grant") and specific grants such as those for the police.

Step IV Distribution of Grant. Each authority reports on its total rateable value, and the total amount of block grant is then divided between authorities, each receiving a proportion that depends:

(1) upon its "grant-related-expenditure" (how much it needs to spend to provide an average level of services);

(2) upon its rateable value (how much it can raise from its own inhabitants);

(3) upon its actual spending; (the Government bears a smaller proportion of expenditure if an authority spends more than 10% above GRE).

Step V Restraining expenditure. A 'target' is set for each authority. Each individual target is related to the authority's performance in the

previous year. The aim is to allow only modest increases in spending for those authorities who are below GRE, and to produce realistic savings from overspenders. The total of all targets is equal to the total public expenditure provision for local authorities, including the "unallocated margin". An authority that spends above its target suffers 'hold-back': part of the grant to which it would otherwise have been entitled, is withheld. The rate of 'hold-back' increases as the authority's spending goes further over target.

Step VI

Selective limitation. Some authorities that spend either vastly over their 'grant-related-expenditure' or vastly over their targets, or both, will be rate-capped. The Government will set a binding limit on their spending and on the rate they can levy.

BRINGING ACCOUNTABILITY BACK TO LOCAL GOVERNMENTby Cyril Taylor

Central Government through block grants, specific and supplementary grants and domestic rate relief currently funds just under 49% of the costs of local government in England. Of the 51% paid for by the rates, only 40% is paid by domestic rate payers, ie the voters, with the remaining 60% being paid by the commercial rate payers who have no vote. Thus, English domestic rate payers pay only 20% of the total cost of local government services. This lack of electoral accountability is aggravated by the system of rate rebates under which fewer than one voter in three pays full rates.

Also, since rates are levied on houses and flats and not on people, many voters do not pay rates at all since they are neither tenants nor owners of property. In the Greater London area, there are 5,210,954 entitled to vote, yet there are only 2,705,020 domestic rate payers. Only half of Britain's 42 million electorate are rate payers and only 13 million of the 21 million rate payers pay rates in full. While it is true that many of the 21 million voters who do not pay rates are wives (or husbands) of the rate payers, it is also true that many of these non rate paying voters are also wage earners.

It is therefore not really surprising that, when residents are asked to choose between cutting local government services in order to keep the rates down or maintaining services even if it means rates going up, they invariably choose to maintain services. Recent opinion polls in Hillingdon show over 70% would rather maintain services and suffer higher rates. The majority of local government electors may well be justified in believing they are better off voting for a high spending authority since they will not be paying the bill.

Turnout in local elections is very low. In the 1982 London borough elections, only 44% of the electors bothered to vote. Also, ^{despite} recent spectacular rates rises in Camden and Lambeth, high spending local authorities were returned to power in both boroughs in 1982.

Besides this lack of accountability of local authorities to those who actually pay the rate bills, there is also the vexed problem of the relationship between central government and local government.

Central Government has two primary concerns regarding local government. First, as it pays nearly half of the cost of local government in England, it is natural that Ministers wish to exercise control on how this money is spent. Second, as local government spending forms part of the total public expenditure, Conservative Governments since 1979 have tried, without success, to lower local authority spending in order to cut back on the

very high porportion of the GNP spent by the public sector (42.5% in the last year). As local government, both current and capital expenditure, (nearly £34 billion in 1985/6) accounts for over a quarter of total British public expenditure of £132 billion, the Chancellor of the Exchequer is keen to reduce the amount spent by local authorities as part of his economic policy of reducing public expenditure and thus transferring more resources to the private sector.

This concern to reduce local government spending has produced a whole series of complex, arbitrary, confusing and often irritating central government controls on local government spending. The rate support grant has been replaced by block grant which in theory is set by an objective appraisal of a council's need to spend and its resources. Unfortunately, few authorities think the Grant Related Expenditure Assessment (GREA) is fair. Local government leaders spend their time lobbying Ministers to give them more money.

The GREA system has not succeeded in lowering local government spending so the system of block grant penalties, whereby Councils are "fined" if they spend too much and thus lose their block grant, was introduced. This is even more confusing and arbitrary than the GREA system. Some authorities' penalty levels are actually lower than their GREA level.

Again, this new sanction has not worked so rate capping was introduced and now the Ministry find themselves embroiled in the detailed financial management of 18 local authorities.

The current system is unsatisfactory. Local government expenditure is not being reduced. Relations between central and local government have deteriorated as central government takes more and more powers. The increasing frustration felt by councillors is making it increasingly difficult to recruit good candidates to stand as councillors. In some areas of the country, Conservative Associations are even advertising for council candidates.

It is therefore time that the Conservative Party sought a radical solution to the problem of reducing local government expenditure (and achieving value for money) while at the same time reducing the control of central government on the day to day decisions of councils by bringing the decision making process closer to the local elector and out of the hands of Whitehall and quangoes.

The way to do this is to make local authorities more accountable to the local electorate.

Reforming the way councillors are elected and the way rates are collected.

Currently, councillors are elected en bloc in London borough and county council elections with all councillors being elected at

the same time to serve a four-year term. In district elections, councils have the option of electing a third of their number every year or having a single election for all councillors every three years.

This system has led to abuses with councils making savage rate increases in their first years of office while making more modest increases in their last year of control, hoping the electors will have forgotten what happened earlier.

All the councils should elect a quarter of their members every year with councillors serving a four year term. This would subject the actions of councils to annual review by the electorate and encourage more responsible fiscal management.

With annual elections it would no longer be necessary to hold special by elections to fill casual vacancies and this would do much to offset the extra cost of annual elections.

Conversations with Conservative Association Chairmen indicate that far from opposing such a reform, they would welcome the challenge of annual council elections. Elections are the life blood of politics and they keep local party organisations up to scratch.

Separate rate bills from Council house rents

The existing system of collecting rates for council housing is not conducive to electoral accountability. Council house tenants have their rates consolidated into their weekly rent bill. Many council house tenants are therefore unaware of the level of rates. Similarly, the rate bills of preceptors such as the Greater London Council and the Inner London Education Authority are consolidated into the local borough rate, thus obscuring the relationship between the local elector and the preceptor.

The way to solve this problem is to have council tenants billed separately for their rates and to have boroughs and district councils bill their rate payers separately for rates levied on them by preceptors. The boroughs would still be responsible for collecting all the rates since it would be very expensive to have preceptors do this themselves (£20 million in London for each precept). However, as rate payers would be making out separate cheques for each preceptor, they would become much more closely aware of the rate levied by each level of local government.

A second vote for commercial rate payers

It is clearly unfair that the commercial rate payer pays 60% of the cost of rate borne council expenditure and yet has no vote. In London there are close to 680,000 non-domestic rate payers (hereditaments). If these rate payers were given an extra vote,

they could well influence the outcome of individual borough council elections. Commercial rate payers used to have a second vote; it is time this right was restored to them.

Cutting income tax through the abolition of block grant, GREA, targets and penalties

If more of local government costs were paid for locally out of the rate, local electors would be much more concerned with the outcome of local elections. Turnout would increase and more local electors would make the connection between high council spending and high rate bills.

Currently, the total Central Government grants to English local authorities cost £11.8 billion (£2.6 billion specific and supplementary grants and £9.2 billion rate support grants). Over a transition period of five years, this £11.8 billion of central government grant should be phased out and replaced with a much smaller (perhaps £5 billion) equalisation grant paid only to those poorer authorities with very low resources.

Concurrent with this phasing out block grant income tax should be cut. A £6 billion cut in the rate support and supplementary grants would finance a cut in the standard rate of income tax of 6p or a 20% reduction. For most domestic rate payers this would virtually offset the cost of the extra rate bill.

Since local electors would be spending more of their own money to pay rate bills, they would surely be more concerned to reduce local spending.

It is accepted that by substituting a cut in income tax for a reduction in the block grant paid to local authorities, the net effect will not necessarily be to reduce local authority spending since rates will go up to offset the loss of block grant. However, as individual rate payers will pay more to councils (rather than to the government), they may well decide to vote in local council elections for the party pledging itself to keep rates down.

Commercial rate payers who pay 60% of rates, will obviously be concerned by a large increase of their rates. However, rates are allowed as a business expense and therefore, on a post-tax basis, their cost is reduced by a third, providing a company has profits. Moreover, it is time there was another revaluation of capital values for rating purposes. Such a revaluation would lower rates for many businesses in areas of high unemployment.

Large companies, while concerned, would not be put at risk. They would also be entitled to campaign vigorously against profligate spending and exercise their votes against high spending authorities. If necessary, concurrent with the phasing out of block grant, corporation tax could also be reduced so as to offset the higher costs of rates.

For the small commercial rate payer, a rate rebate system could be brought in. For example, companies such as small shops with an annual turnover of less than £100,000 could have a sliding scale of rate rebates.

If block grant were reduced just to an equalisation payment, it would no longer be necessary to employ Dept of Environment staff to administer the complex apparatus of GREAs targets and penalties, which could be abandoned. Currently, the Department employs 33,836. Reductions in this staff would produce substantial savings (a cut of 5,000 staff would save nearly £100 million).

Rate capping legislation should be retained to protect rate payers in high spending areas.

Reform of the Welfare System

Another essential ingredient in this reform of the rates would be the abolition of rate rebates and all the other myriad benefits and their replacement by a single "tax credit" payment based on a family's income and needs. If even poor families paid their rate bills from their tax credit payment, they too would start to concern themselves with the spending of individual councils and they too would have a greater incentive to vote in local elections. Why the delay continues in consolidating the tax system with the welfare is a mystery.

Alternative local taxes

The Conservative Party has rightly decided that it is impractical to abolish rates. Wisely, it has been decided it would be too dangerous to give councils the power to levy a local income tax and a local sales would be unworkable since boroughs and districts are so small in size. It is, however, unfair that rates are levied on property and not on individuals.

One possible supplementary method of local government finance could be a resident's tax on all adults (school children and pensioners would be excluded). It would be administratively difficult, but not impossible, to prepare a list of residents. A resident's tax would ensure that large families with several wage earners would pay a fairer share of the costs of local service. For example, a resident's tax on all Greater London resident adults of £100 per head would provide £500 million equivalent to a 25p rate or a quarter of a typical London borough rate.

Freedom Charter for Local Authorities

Conversations with local authority leaders and chief executives indicate many would willingly face the prospect of higher rate bills if this gave them more freedom to take decisions locally. Similarly, rate payers would surely trade a 20% reduction in

income tax for higher rate bills. Such a step would effectively let the people control their own expenditure at the local level rather than having Whitehall decide.

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Cyril Taylor is the Deputy Leader of the Opposition on the GLC and is a Director of the Centre for Policy Studies.

CONFIDENTIAL

Local Government Finance

by

L.H. Hoffmann

March 1985

LOCAL GOVERNMENT FINANCE

1. THE OBJECTIVES

A system of local authority finance should have the following characteristics, in order of importance:

1.1 Rationality

1.1.1 Financial decisions by local authorities should have broadly the same consequences as financial decisions by a householder or a businessman. There is no need for the electors to be able to follow the details but there should be a clearly perceptible causal connection between financial decisions and local taxation requirements which electors would accept as reasonable and logical.

1.2 Accountability

1.2.1 There are two aspects to this principle. The first is that the consequences of financial decisions by local authorities should be visited upon their electors and no one else. As many electors as possible should contribute to local taxation and persons who have no vote (such as non-domestic ratepayers) should not contribute. Nor should a local authority be entitled as of right to central funds, although the principle of fairness (see paragraph 1.4) may require Central Government to ensure that all local authorities have the resources to provide certain minimum standards of service. Conversely, within the limits of its delegated powers, a local authority should be free to make its own spending decisions at the expense of its electors.

1.2.2 The other side of the accountability principle is that local authorities should *not* be held responsible for decisions which are in fact made by Central Government. Decisions on grants which reflect Central Government policy on counter-inflation, social priorities or regional policy should be seen as such and not concealed in an allegedly impersonal rate support grant formula.

1.3 Simplicity

1.3.1 The system should not pretend to a degree of precision which is not in practice attainable. In particular, the mechanism of distribution of RSG should not involve the use of formulae of great complication which suggest that issues of fairness and social policy can be expressed in mathematics. These formulae do not in practice prevent inequalities and are suspected of being capable of manipulation to reflect political priorities. This probably causes more resentment than the rough justice of cruder methods of distribution.

1.4 Fairness

1.4.1 Central Government should be responsible for ensuring that all citizens receive a minimum provision of certain services by their local authorities. This requires the distribution of a "needs" grant on a *per capita* basis. It does not require a "resources" grant for the purpose of equalising resources, but the "needs" grant should take resources into account when deciding what part of essential expenditure should be borne by local funds.

1.5 Efficiency

1.5.1 This covers a large number of questions. The structure of local government is one. Value for money means not only efficiency in the way the local authority (as a producer of services) controls its costs. It also means optimising what the ratepayer gets for his money. The latter may be best achieved by charging for more services rather than providing them "free", i.e. making ratepayers pay for them whether they really want them or not.

2. THE PROPOSALS

2.1 Simplified Grant System

2.1.1 Local authorities should receive a grant ("basic grant") calculated as follows. From the estimated cost of providing services to a standard level for persons within the local area¹ there should be deducted such sum as Central

Government considers it appropriate that the local authority should itself contribute to the provision of such standard services. There are various ways in which the deduction may be calculated. One is as a simple proportion, without regard to differences in rateable resources or the incomes of residents in different local authority areas. This would eliminate the whole of the redistributive effect of the present rate support grant system. It would be a logical step if rates were to be replaced by a uniform *per capita* charge upon all adults within a given local authority area. On the other hand, if rates are retained as a local tax, some regard may be necessary to inequalities in resources. This could be done by expressing the deduction in the case of each authority as the result of a centrally determined but uniform poundage domestic rate² ("the standard rate"). Thus authorities with a higher ratio of rateable domestic resources to inhabitants will suffer a larger deduction (and receive less grant) than poorer authorities. The basic grant will therefore reflect both needs and resources but will not aim, as at present, to *equalise* resources.

2.1.2 The effect of this system will be that any authority which charged its electors the standard rate would be able to provide them with minimum services. If it decided to provide better services, it would have to increase its domestic rates. The consequences of higher spending would be rational and visible: see Objective 1.1.

2.1.3 The consequences of higher spending would be visited upon the domestic ratepayers. Whether they are a sufficient approximation to the electors is considered later, but part of Objective 1.2.1 would be satisfied by restricting the effect to domestic ratepayers. The system would be simple: see Objective 1.3. It will also achieve the fairness required by Objective 1.4 but not aim for general redistribution of resources, which should be left to specific Government social and regional policies: see Objective 1.2.2.

2.2 Supplementary Grants

2.2.1 In order to remedy the crudeness of the basic grant system, Central Government would have to make specific supplementary grants in accordance with its social and regional

1. This should involve a simplified version of the present determination of GREs.

2. The result of the non-domestic rate is discussed in paragraph 2.3.1.

policies. Such grants may be necessary for the achievement of particular education policies, inner city policies, policing policy and so on. These would reflect the Government's social priorities and the constraints of its macro-economic policies: see Objective 1.2.2.

2.3 Local taxation

2.3.1 Rates should continue to be levied by local authorities on non-domestic properties but the non-domestic rate should be fixed by Central Government and the product set off against the basic grant³. The restriction of local authority taxation powers to its residents satisfies Objectives 1.1 and 1.2⁴.

2.3.2 Although domestic rates are not an ideal form of local taxation, there is no other which is not open to more serious objections. The objections to rates are, first, that the rateable value of an occupier's home may be wholly unrelated to his ability to pay and secondly, that many people do not pay rates, either because they are not occupiers or because they are entitled to some kind of relief. The first objection can be exaggerated. Within a given area, differences in rateable value are related to differences in the size and value of properties. Differences between areas (e.g. London and the provinces) can be largely neutralised by reducing or eliminating the redistributive effect of the rate support grant (see paragraph 2.1.1). The second objection can be met by alterations in the system of rate relief. The fact that non-occupiers do not pay is a private matter between them and the occupiers. Everyone must live somewhere and the fact that an occupier (e.g. a husband) may allow his wife and adult children to live on the premises without making a contribution to the rates is not an objection to the system.

2.3.3 The alternative to rates, in whole or in part, is a uniform *per capita* tax on all adult residents. This will require wholly new administrative machinery and will undoubtedly be more difficult to collect than rates. Its principal advantage is that it will be paid by rich and poor alike, thereby increasing

3. Logically, a non-domestic rate which exceeds basic grant should be paid over to the Exchequer.

4. This would mean the end of domestic rate relief.

accountability. On the other hand, this advantage will be bought at the cost of greater administrative costs and the unpopularity bound to be caused by the introduction of an overtly regressive tax. Furthermore, the degree of accountability produced by a *per capita* tax should be measured not against the existing rating system but against a system modified as suggested in paragraph 2.3.1.

2.3.4 A compromise is to retain rates for providing the local contribution to the standard level of services but to require a *per capita* tax to be used for raising money for any higher level of spending. This mitigates the regressive effect of the tax and brings it home to residents that the *per capita* tax is being exacted solely to finance a higher level of spending than is absolutely necessary. It does however require the local authority to maintain the administrative machinery of two systems of taxation.

2.3.5 It must be emphasised, however, that the implementation of Objective 1.1 must precede or accompany any reform of local taxation. If the amount payable in local taxes is not perceived as a fair and logical consequence of spending decisions by an authority accountable to the residents, an extension of liability to pay such taxes will make matters worse rather than better.

2.4 Abolition of Targets and Penalties

2.4.1 The present system of targets and penalties seeks to restrain local authority expenditure by making the marginal cost to the authority of expenditure over a certain amount greater than the actual cost of such expenditure. The scheme propounded above will allow local authorities freedom of expenditure on current account on matters within their competence, provided that they are funded from the domestic rate. There will still be Central Government control over borrowing, the non-domestic rate and of course over the total grants. It is hoped that with the introduction of what amounts to a general capping of the non-domestic rate, the Treasury will accept that no additional controls of current expenditure are necessary and that targets and penalties can be abolished.

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At a
 meeting
 20/11/19

What are Vires? No

2.5 The *Ultra Vires* Rule

2.5.1 If counter-inflation policy does not require control of local current spending out of the domestic rate, ratecapping, either general or selective, can be justified only on the ground that ratepayers need to be protected against the extravagance of their elected representatives. This is a sledgehammer to crack a nut. So far as the ballot box is not a sufficient control, cases of unreasonable extravagance and expenditure on matters outside the competence of the authority can be dealt with by the *ultra vires* rule.

2.5.2 The chief weakness of the *ultra vires* rule has been the lack of an authority specifically charged with enforcing it. Ordinary ratepayers cannot afford litigation and the Attorney-General has not acted. The machinery of the District Audit is slow, cumbersome and can only try to shut the stable door long after the horse has gone. One possibility would be for the Audit Commission to have the right to examine local authority budgets in advance and (as a separate power) the right to take injunction proceedings to restrain *ultra vires* expenditure.

2.6 Charges

2.6.1 A limited central control over charges may be exercised by the calculation of basic grant upon the assumption that certain charges will be made, e.g. that certain services will be in whole or part self-financing. Greater emphasis upon such charges would give ratepayers better value for their money. On the other hand, some control over charges to non-domestic premises would be needed to prevent authorities from resorting to such charges in order to compensate themselves for the loss of freedom to increase the non-domestic rate.

3. TRANSITION

3.1 The above scheme, and probably any scheme, presents formidable problems of transition. Authorities will need long notice of the date from which their basic grant entitlement will be fixed according to the new system, so that they can make the transition from the present system without unnecessary damage or waste.

3.2 Similarly, the transition to a centrally determined non-domestic rate will be difficult. It may be necessary to start by freezing existing rates, but one object of the proposal is to remedy the injustice to non-domestic ratepayers in presently high-rated areas and the reduction of their rates may sooner or later require an increase in the rates of others. On the other hand, provided that differentials in rateable values are realistic, there is no reason in equity why all non-domestic ratepayers should not pay the same poundage rate⁵. Most commercial premises do not present difficult problems of valuation (comparable actual lettings are usually available) and a quinquennial revaluation confined to the non-domestic list should be practical.

4. ACTION

The following action is recommended:

- 4.1 RSG reform to provide a basic grant calculated on a simplified *per capita* GRE basis with deduction of the product of the standard domestic rate and the centrally determined non-domestic rate. The basic grant may be zero but will not be negative⁶.
- 4.2 Transfer of the power to fix non-domestic rates from local authorities to Central Government.
- 4.3 Introduction of specific grants (paid directly or through central/local government partnership authorities) to give effect to Central Government policy on provision of local services or regional aid and development.
- 4.4 Introduction of more charges by local authorities and corresponding reduction in basic grant.
- 4.5 Abolition of targets and penalties.
- 4.6 Measures in conjunction with DHSS to make rate-paying more visible to poor people and council tenants⁷.
- 4.7 Pre-audit of local authority budgets and enforcement of the *ultra vires* rule by the Audit Commission.

5. Subsidies may be offered as a matter of explicit regional policy, but this is another matter.

6. Work should be done on devising a model simplified formula and running it to see what figures it produces.

7. This pre-supposes that the above proposals have been put into effect.

The 1940's -
N. Hammond -
Wash. @ low level.
more included.

RECOMMENDATIONS.

1. A National Non - Domestic Rate.
2. A Lump - sum Needs Grant.
3. Residents' Charge to replace Domestic Rates.
4. { Limit rebates. }
5. Tighter borrowing controls. "
6. Increased Fees and Charges. ~
7. Annual Elections. ~
8. { Overhaul L. A. budgetting framework. }
9. Targetted aid to urban areas.
- X 10. As a longer term move single tier local government.