



B

LOCAL GOVT
2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

20 November 1979

Dear Geoff

FUTURE OF RATING

We are coming under increasing pressure to say what we are doing about the future of rating. Our manifesto strongly implied that it was still our aim to abolish domestic rating, but made it clear that for the time being reductions in income tax must take priority. We have been repeating this in office. However, we are receiving a steady stream of letters and Parliamentary Questions challenging us to say whether we stand by our commitment and when we will act, and I expect interest to increase with publication shortly of Richard Shepherd's private members' Bill to abolish rating, and my own Local Government Bill, and after Christmas when local authorities start making their rates.

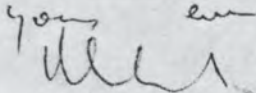
We need to consider how we are going to handle this. Clearly we should not allow ourselves to be rushed into premature decisions or statements, and to avoid that we should start taking steps now to clarify the options. In the first instance I suggest it will be helpful to ask officials to prepare for our consideration an analysis of the main alternatives to domestic rates and the costs and problems associated with each.

The main alternatives to domestic rating discussed in the Layfield Report were a local income tax, a local sales tax and Exchequer grant or assigned revenues and we should no doubt want these in particular to be considered. An interdepartmental assessment was made of these and other ideas immediately following Layfield. However, figures may now be out of date for a variety of reasons, and the assumptions in the analysis should be looked at afresh to see if they are consistent with our new policies, and with changed circumstances.

If you agree I should like to ask my officials in consultation with officials in from Treasury, Inland Revenue, Customs and Excise, Scotland and Wales to prepare this preliminary analysis over the next few months with a view to producing an option report which we could consider in the appropriate Ministerial forum next spring.

Meanwhile, I shall continue to hold our present position publicly, indicating that we remain committed to eventual abolition of domestic rates but that reduction of income tax is a higher priority for the time being; and that we are reviewing the alternatives but without disclosing the form or timetable of our review.

I am copying this letter to the Prime Minister, Nicholas Edwards, and George Younger.

you are

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe

21 NOV 1979





JMP

Local Govt.

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/17456/79

Your ref:

3 January 1980

See below

Thank you for your letter of 4 December agreeing to my proposal for a preliminary internal review of alternatives to domestic rates. I see that the Prime Minister is also content.

My officials are now going ahead with detailed arrangements. I fully appreciate the warning note you sound about the difficulties of some of the alternatives in terms of the general objectives of taxation policy.

I am copying this letter as before.

yes

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP



1-4 JAN 1980



NBPM
MAP
NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Local Govt

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

10 December 1979

FUTURE OF RATING

Thank you for sending me a copy of your letter of 20 November to Geoffrey Howe. I have since seen the letter of 26 November from the Prime Minister's Private Secretary, and Geoffrey Howe's letter of 4 December.

I share your view that we shall have to define our position with regard to domestic rates as soon as possible by careful consideration of alternatives and I am content for my officials to participate in the study which you propose.

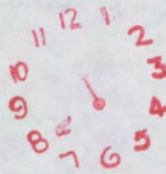
For the present I will answer Scottish enquiries about the future of rating along the lines indicated in your last paragraph.

I have noted with interest the points made by Geoffrey Howe. In particular, I would agree with him that the Treasury should take the lead in any subsequent detailed consideration which we may commission, since the fiscal aspects of the question are bound to be of key importance and the Treasury responsibilities for these extend over Great Britain.

I am copying this letter to the Prime Minister, Geoffrey Howe and Nicholas Edwards.

GEORGE YOUNGER

12 DEC 1979





10 DOWNING STREET

From the Private Secretary

10 December 1979

The Prime Minister has seen your Secretary of State's letter of 20 November and the Chancellor of the Exchequer's letter of 4 December about the review of alternatives to domestic rates.

She is content that the matter should be handled as proposed in the third paragraph of the Chancellor of the Exchequer's letter.

I am sending copies of this letter to Martin Hall (HM Treasury), George Craig (Welsh Office), Godfrey Robson (Scottish Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

D. A. Edmonds, Esq.,
Department of the Environment.

AB

PRIME MINISTER

*10/12
Type ~~flagged~~ draft at flag
for my signature*

MAD 10/20

You agreed that Mr. Heseltine should set in hand an inter-Departmental study of options on the rating system and alternatives. The Chancellor of the Exchequer (Flag A) has now written to put down a clear marker that the Treasury should eventually be in the driving seat on this exercise. Mr. Heseltine's original proposal is at Flag B.

Sir Robert Armstrong advises that you should support the Chancellor's view that the Treasury should take the lead in any further work which may come out of the initial review.

If you agree with this, I will confirm that you agree with paragraph 3 of the Chancellor's letter.

MAD

*Yes - especially
as we decided differently
on the rating system
not*

7 December 1979



Ref. A0871

MR. LANKESTER

You will have seen the exchange of correspondence between the Secretary of State for the Environment and the Chancellor of the Exchequer about the review of alternatives to domestic rates.

2. As the Chancellor of the Exchequer has said that he is content that the preliminary review should be conducted by Department of the Environment officials, in consultation with other Departments, I do not think that the Prime Minister need object or intervene (though previous reviews have been done under Treasury leadership). I am sure that the Chancellor is right, however, that at a later stage it would be more appropriate for the Treasury to take the lead.

3. If the Prime Minister agrees, I suggest that you should write to the Private Secretary to the Secretary of State for the Environment, with copies to the Private Secretaries to the Chancellor and other Ministers concerned, on the lines of the draft attached.

RA

ROBERT ARMSTRONG

6th December, 1979

DRAFT LETTER FROM MR. T.P. LANKESTER TO
PRIVATE SECRETARY TO SECRETARY OF STATE
FOR THE ENVIRONMENT

cc Private Secretary to Chancellor of the Exchequer
and other Ministers concerned

The Prime Minister has seen your
Secretary of State's letter of 20th November and the
Chancellor of the Exchequer's letter of
4th December about the review of alternatives to
domestic rates.

She is content that the matter should be
handled as proposed in the third paragraph of the
Chancellor of the Exchequer's letter.

I am sending copies of this letter to ~~the~~
~~Private Secretaries of those who received copies of~~
~~the earlier letters.~~

*(Copies as for
my letter of 26 Nov.)
MA)*



THE ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

Dear Sir:

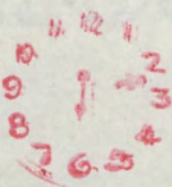
The enclosed letter is for you.

I am sending you a copy of the letter of the Attorney General dated 11/15/79, which is being referred to in the letter of the Attorney General dated 11/15/79.

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1979 DEC 1





RIF

7-12-79

10 DOWNING STREET

*Await Cabinet Office
advise on Tsy letter of 4/xii*

MA

PERSONAL

file Local Govt. BK



Original on
Local Govt. Pt 2
Local / Central Govt. Relations

10 DOWNING STREET

From the Private Secretary

SIR KENNETH BERRILL, K.C.B.

CABINET OFFICE

EF 2-1-80

The Prime Minister was grateful for your minute of 23 November, about relations between central and local government.

As I mentioned to you today, the Prime Minister has now decided to discuss the subject with a group of Ministers on 8 January. The decision to go ahead with the discussion now was provoked by a paper from the Chairman of the Conservative Party, and a rejoinder from the Secretary of State for the Environment. I attach copies of both these papers. The Prime Minister would be most interested in your reaction to them but, given the political genesis of this discussion, she would prefer that they were not circulated elsewhere within CPRS. The Prime Minister has invited the other Ministers who have seen the papers to submit written comments ahead of the 8 January meeting.

These papers bear on the major question of the central/local financial relationship identified in your minute.

The issue of the future of the rating system, to which you also refer, is now to come to Ministers next spring, on the basis of the opticians study commissioned by Mr. Heseltine. The Prime Minister believes that an effective programme to improve efficiency and reduce waste at local level would be of considerable political value. As you will know, there was some discussion of this earlier in the year, and the Prime Minister was disappointed with the initial thoughts offered by several Ministers. She had intended to have a meeting with Sir Derek Rayner and Sir John Hunt in the autumn to consider how to approach this. In the event, that meeting did not take place, and it is unlikely that there will be an opportunity to reinstate it before this discussion with Ministers. I know that the Prime Minister would, however, be grateful if you, in consultation with Sir Derek Rayner and the Cabinet Office Secretariat, would care to offer a note on the practicalities of effective and feasible action in this field. The discussion on 8 January could then be used to take account of the several strands of thinking about these issues to which you refer in your minute.

Mr. A. PATTISON

5 December 1979

PERSONAL

9B

2PPS

Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

4 December 1979

De Michael

You sent me a copy of your letter of 20 November to Geoffrey Howe proposing that an inter-departmental group of officials should prepare for our consideration an analysis of the alternatives to domestic rates.

I fully agree that this is a necessary step towards achieving our eventual aim of abolishing this form of rating and I should want my officials to be closely involved in the deliberations you propose. Meanwhile I agree with the line which you intend to take publicly.

/ I am copying this letter to the Prime Minister, Geoffrey Howe and George Younger.

*John
Dew*

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB



14 DEC 1979

1 2 3 4 5 6 7 8 9 10 11 12



A
BIF 7-12-79

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

4 December, 1979

Dear Michael

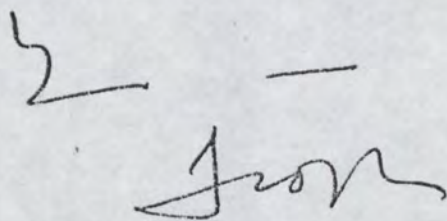
FUTURE OF RATING

Thank you for your letter of 20th November proposing an interdepartmental review at official level on the alternatives to domestic rates. I see that the Prime Minister would be content with this plan, aiming at collective discussion by spring next year.

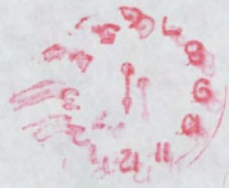
I too would be content for the study to be carried forward, and will ask my officials to get in touch with yours. However, I feel bound to add that I cannot see any prospect of shifting the burden on to existing tax instruments in the foreseeable future. In so far as room emerges for further general tax cuts, our first priorities must remain reductions in income tax, and the restructuring of capital taxes. These are bound to pre-empt any available resources for some time to come. As to possible new sources of revenue, we should certainly need to consider very carefully indeed the political as well as the economic implications of putting new powers to raise taxes in the hands of the local authorities.

While I am content that this preliminary review should be conducted by your officials, in consultation with mine and others, I am sure you will agree that, if we should decide that any of the alternatives merit further and more detailed consideration, it would be more appropriate for the Treasury to take the lead at that stage.

Copies of this letter are being sent to the recipients of yours and to Sir Robert Armstrong.


(GEOFFREY HOWE)

The Rt. Hon. Michael Heseltine, MP



DEC 1973

10/13

1.

Original on
Local Govt Pt 2
Local/Central Govt Relations

PRIME MINISTER

Here is a helpful paper from Sir Kenneth Berrill about relations between local and central government. Sir Kenneth Berrill has taken a look at this following our intervention to prevent Mr. Heseltine going ahead in isolation with his proposed Accounts Commission for Local Government.

Sir Kenneth lists a number of pieces of work now in progress, and suggests that there are three major questions to be considered by Ministers. His second question, on the future of rating, will be handled through the options review which Mr. Heseltine has now initiated. This will come to Ministers in the spring. His first and third questions will be relevant to your meeting with Lord Thorneycroft and certain Ministers in January.

It would be helpful if I could show Sir Kenneth the paper from Lord Thorneycroft and any responses to that from Ministers. We could then invite Sir Kenneth, with Sir Derek Rayner and Sir Robert Armstrong, to bring together any advice they wish to offer on the three issues identified in Sir Kenneth's note.

Yes - but not
the whole of
CPRS.

amb

30 November 1979



pe W

10 DOWNING STREET

From the Private Secretary

26 November 1979

The Prime Minister has seen a copy of your Secretary of State's letter of 20 November to the Chancellor of the Exchequer about the future of rating.

She is content that Mr. Heseltine should set in hand an inter-departmental analysis, with a view to producing an option report for Ministers to consider next spring.

I am sending copies of this letter to Martin Hall (Treasury), George Craig (Welsh Office), Godfrey Robson (Scottish Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

D.A. Edmonds, Esq.,
Department of the Environment.

W

CONFIDENTIAL

Original on
Local Govt Pt 2
Local/Central ~~Pt 2~~
Relations

Qa 04354

To: MR LANKESTER
From: SIR KENNETH BERRILL

Relations between Central and Local Government

1. The Secretary of State for the Environment has made a proposal for an Accounts Commission for Local Government. The Prime Minister has said that she would like to have this proposal considered in the wider context of improving the management of resources by local government, and I believe she had in mind a discussion with the Ministers concerned and with Sir Derek Rayner.
2. There is indeed a lot going on in the area of the management of resources by local government. I attach a list of ideas which we in the CPRS know to be running and there may indeed be others.
3. On this list, items (a) to (h) taken together would amount to substantial changes in the central/local government relationship. The first four items point largely in the direction of greater autonomy while the next four (and Mr Heseltine's latest proposal) aim to impose tighter financial disciplines.
4. But none of them tackles the basic central/local financial problem emphasised by Sir Derek Rayner (local government is responsible to a local electorate but central government provides the bulk of its funds).
5. It is, in a way, strange to find that this central issue is absent from the list (e.g. when the Inland Revenue is computerised, would local income tax provide the answer?). *No*
6. So we in the CPRS would welcome the discussion the Prime Minister has in mind as something which might pull together the threads of the work listed in the annex and give it all focus. If this meeting did take place, the basic questions which we think might be considered by Ministers are -
 - (i) Does the Government contemplate in the medium/longer term any radical change in the central/local financial relationship (Sir Derek Rayner's fundamental question)?

CONFIDENTIAL

(ii) Whatever the answer to (i), what is the future of the rating system, and what are the practical possibilities for alternative sources of local government finance (if any)?

(iii) Do Ministers wish to bring the various proposals in hand together as part of a broader strategy? There seem to be three general themes behind the proposals - first, to give much greater discretion to local authorities to allocate their own expenditure and decide their own priorities; second, to impose tighter central government controls on total expenditure (while 'interfering' much less on detail); and third, to impose more effective and public financial accountability.

7. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

23 November 1979

Att.

CONFIDENTIAL

- (a) Central government controls over local government: White Paper published in September proposing abolition of some 300 controls (comments asked for by mid-October).
- (b) Control over volume of circulars, etc. sent to local authorities.
- (c) Proposals to relax central Government control on the allocation of capital expenditure by local authorities (while tightening controls on total capital expenditure).
- (d) Proposals for reform of RSC from 1981/82 - unitary grant, and disciplines on high spenders.
- (e) Review of statutory duties imposed on local authorities (are they necessary? Should they be discretionary?), and scope for more charging (increase of existing charges or new charges).
- (f) Review of scope for contracting out/privatisation of local authorities' functions in whole or part. (This is linked to our review of scope for contracting out other public sector functions.)
- (g) Proposals to require local authorities to publish more statistics relevant to their cost effectiveness.
- (h) Expenditure Committee's recommendation for amalgamation of Exchequer and Audit and District Audit.
- (i) Sir Derek Rayner's note to the Prime Minister on efficiency and waste in local government (on which discussion was postponed to December some time). This raises the fundamental issue of local government finance and the unsatisfactory nature of the current arrangements. Short of this, it raised issues of inspection (especially the education inspectorate), more effective district audit (relevant to Mr Heseltine's proposal), and better dissemination of good and bad practice.

CONFIDENTIAL

Original filed
Local Gov. (Relations w Central Govt)
May '79

PRIME MINISTER

cc Mr Wolfson

Local Government

You have agreed to see Lord Thorneycroft and Sir Frank Marshall early next year, with the Ministers to whom Lord Thorneycroft circulated his letter at 'A'. There is a reply for you to sign in the signature folder.

You should be aware of two further papers relevant to this. Flag B is a commentary by Mr. Heseltine on several of the points raised in Lord Thorneycroft's paper. He challenges Lord Thorneycroft's central argument, that the long term effect of the Government's policy is to switch responsibility from local to national hands.

Flag C is a letter from Mr. Heseltine to the Chancellor proposing a study on the future of rating, to be considered by Ministers next spring.

The meeting with Lord Thorneycroft and others could be a good opportunity to return to the waste and efficiency questions in local government. An effective and publicised Government campaign in this direction should be politically welcome.

Have signed letter within folder

Content that Mr. Heseltine should set in hand his study on the future ^{of} rating, in order to present a range of options to Ministers next spring?

- Yes - go ahead.

MAP

ans.