



Local Gov  
Prime Minister →

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2 MARSHAM STREET  
LONDON SW1P 3EB

MUS 4/12

My ref:

Your ref:

4 December 1981

GREEN PAPER ON DOMESTIC RATES

Thank you for your 2 letters of 20 and 27 November about the Green Paper. With the agreement of the Prime Minister to publish, and considering the tightness of time, I have, as you know, sent the draft to the printers to be set. You will see from the attached copy of the proofs that I have been able to take into account most of your suggestions. However, I do not feel that it would be right to include the full text of the version that you have proposed for paragraph 1.13 of the paper, about controls on local government revenues or expenditure.

I recognise the strength of the Treasury view on this point, and the proof therefore contains in manuscript an addition which goes as far as I believe we should reasonably go. I do not think that we should go further for 2 main reasons. First, in the discussions we have had on these proposals in Cabinet in recent weeks, the Attorney General's advice has been that controls of this sort would not work. A piece in the Green Paper suggesting they might work would raise expectations we could not fulfil. Secondly, the natural reaction to such a piece would be to ask why we are not following this course in our interim measures if it is a practical proposition. There is also the pointless offence that a more strongly-phrased piece might cause in local government. I hope that my suggested revision will be satisfactory to you.

Two further points on which you enclosed proposed amendments with your letter of 20 November. John Stanley and I both prefer to stick to the shorter treatment, as slightly amended on the proof, of the paragraph (13.7) on economic effects on housing which appeared in the draft I circulated on 9 November. I hope, also, that you will be content to retain the original text of paragraph 7.4, on which you made a drafting suggestion. I understand that Willie Whitelaw would be most unhappy with a change of this sort, which would affect my compromise draft about the practicality of using the electoral register as a poll tax roll - a subject on which no consensus has been reached.

Wherever possible, we have taken the drafting points made by colleagues. However, Patrick Jenkin suggested a change in paragraph 10.5 of the draft to commit the Government now to a review of alternatives to non-domestic rates. This would be a new undertaking, with major and far-reaching implications on which we have not had the opportunity for collective discussion. My own opinion is that we ought to assess the response to what the Green Paper has to say about rates in general and non-domestic rates in particular before committing ourselves. I have therefore retained the text as it stood in the draft of 9 November.

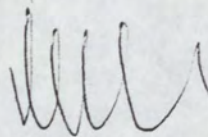
On further reflection, I am not sure that the conclusion as drafted and as shown in the attached copy is full enough. I shall be considering

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over the weekend the possibility of a fuller version.

As for handling, subject to the agreement of the Prime Minister and the Lord President, I would propose to publish on Tuesday 15 December, and on that day to make an oral statement in the House of Commons.

I am copying this to the Prime Minister, all Members of Cabinet, and to the Chief Whip.

Yours ever  


MICHAEL HESELTINE

cc J Vesceles  
A Walters



Prime Minister

(2)

To note. This letter\*  
rather makes me think that  
we were bounced into

Treasury Chambers, Parliament Street, SW1P 3AG

writing when we  
did last  
week.

Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
London SW1P 3EB

MCS 3/12  
27 November 1981

Dear Secretary of State,

GREEN PAPER ON RATES

\* see also Mr  
Heseltine's letter of  
4/12, attached.

The Prime Minister's Private Secretary has written conveying the Prime Minister's authority for you to publish the Green Paper, during the course of the next month.

I realise that publication in December limits the opportunity for you to reflect in the Green Paper progress on the rating part of the Local Government Finance Bill, as I earlier suggested. You will obviously need to adjust the present references to the Bill. I have already suggested doing so in my proposed revision of the passage on rate capping - to which I attach considerable importance. If we do not take a convincing stance on this, we shall lose credit with our supporters. It has been quite clear from their reactions to the Bill that, while there is considerable unhappiness about the means, there is no doubt that something must be done to protect ratepayers from the worst excesses of profligate authorities.

I have some sympathy with the point Keith Joseph makes in his letter of 20 November: that we should avoid unnecessary provocation. But I could not accept the sort of changes he proposes. They would effectively negate the whole thrust of this important passage, and close off options I believe must be left open. However, I do see scope for some adjustment to the wording I originally proposed, and attach a redraft which I believe goes a long way towards meeting Keith's point.

I trust you will adopt the wording I now propose, as well as the other amendments I sent you on 20 November. I believe all will strengthen the Green Paper. The housing passage, in particular, seems to me to remedy a weakness which could lay us open to justified criticism from informed opinion.

I have one further comment, arising from Patrick Jenkin's letter of 19 November. He is no doubt right when he says that if the domestic system of local taxation is to be completely overhauled we shall almost certainly be bound at some stage to review the future of the non-domestic system. But I am not sure that we would be wise to commit ourselves firmly to such a review, at least until we have a clearer idea about the policy we want to pursue on the rating system generally.

Might the best answer be to substitute something on the following lines:

"Before making final decisions, however, it would be necessary to consider whether the taxation system should continue in the long run to include a local tax on non-domestic property"?

I am copying this letter to the Prime Minister, other members of the Cabinet, the Paymaster General, the Chief Whip and Sir Robert Armstrong.

yours sincerely



LEON BRITTAN

(Approved by the Chief Secretary and signed in his absence)

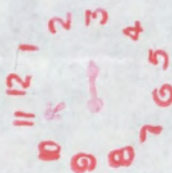
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PARAGRAPHS 1.13 AND 1.14:REVISED DRAFT

1.13 Some people question whether the delicate balance between national and local interests is pitched correctly at present, and suggest further action to restrain public expenditure and to protect the interests of local taxpayers. The weaker the influence of the local tax system in keeping local expenditure within bounds, the greater the need for such action might seem. Measures to strengthen the influence of local democracy on authorities' rating decisions have often been suggested. It can also be argued that some kind of limits on local authorities' income or expenditure would be preferable: for example, in the form of a maximum permissible tax rate, or a ceiling on tax increases, along with appropriate borrowing controls; or an expenditure ceiling. Any of these would protect local taxpayers from very high tax increases, because local authorities would effectively have to plan their expenditure within a prescribed upper bound.

1.14 Central influence need not necessarily imply central control, however. Many local authorities are prepared to accept a degree of self-restraint in the common good, and to respond to Government guidance on the aggregate levels of spending the economy can afford. This Government has supplemented such guidance by reforms of the grant system to provide clearer incentives to prudence, and by measures designed to increase electors' awareness of the activities of their Councils and the costs they entail. There could be scope for further action along similar lines. Ultimately, however, the effectiveness of all such measures depends on local authorities' own sense of responsibility towards their ratepayers and towards national needs.

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Prime Minister

MS 8/12



Treasury Chambers, Parliament Street, SW1P 3AG

David Edmonds Esq  
 Private Secretary to the  
 Secretary of State  
 Department of the Environment  
 2 Marsham Street  
 London SW1P 3EB

7 December 1981

Dear David,

MS

## GREEN PAPER ON DOMESTIC RATES

The Chief Secretary was grateful for your Secretary of State's letter of 4 December enclosing a copy of the proofs of the Green Paper. He very much appreciates the effort your Secretary of State has made to meet his points.

We discussed the manuscript addition your Secretary of State proposes to insert after paragraph 1.13, and agreed on the following text which has been endorsed by your Secretary of State and by the Chief Secretary:-

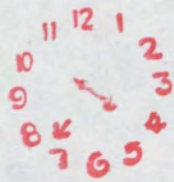
"It could be argued that the Government should supplement the existing arrangements by seeking powers to take direct action where necessary to restrain public expenditure so as to protect the interests of local rate-payers. The weaker the influence of the local tax system in restraining expenditure, the more pressure will develop on central government to impose direct controls on levels of local government expenditure. For example, statutory upper limits could be imposed on local authorities income and expenditure. The case for the Government taking such powers has to be judged against the very considerable constitutional and practical difficulties that would be involved."

I am sending copies of this letter to Michael Scholar at No 10, to the Private Secretaries to Members of the Cabinet, and to Murdo MacLean.

Yours ever  
 Terry Matthews

T F MATHEWS  
 Private Secretary

8 DEC 1981





phone  
04-212 8001

DEPARTMENT OF THE  
ENVIRONMENT  
2 MARSHAM STREET  
SWIP 3EB



*ms*

*With the Compliments of the  
Private Secretary to the Secretary of  
State for the Environment*

Prime Minister

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2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

7 December 1981

*Terry Mathews*

GREEN PAPER

My Secretary of State mentioned in his letter to the Chief Secretary of Friday that he was looking again at the Chapter in the Paper on Conclusions. He has slightly expanded the draft that you have seen, and I enclose his version. It would be a very great help if you could let me know first thing tomorrow morning whether you, or any of those to whom this is copied, have any comments on this.

I am copying this to the Private Secretaries to the Prime Minister, all members of Cabinet, and to the Chief Whip.

*D A Edmonds*

D A EDMONDS  
Private Secretary

Terry Mathews Esq  
PS/Chief Secretary

## CHAPTER 14

### CONCLUSION

14.1 The Government is committed to the reform of the domestic rating system. This paper marks the essential first step towards that end. It identifies the range of realistic alternatives on which consultation can now take place <sup>and</sup> which provide the basis on which decisions can be made.

14.2 This Paper also seeks to identify, for the first time, the possible effects that each of the alternatives could have on personal and family finances, showing the different impact on different types of household. These projections are, of course, subject to other changes in income and spending patterns, and above all to the expenditure levels of the local authority itself. Nor are the considerations only in respect of the individual ratepayer/taxpayer, but could be of major significance in their national economic and fiscal impact. The Paper also, therefore, seeks to set out the implications that either new systems of local revenues or a reformed rating system would have for the interests of central and local government as well.

14.3 The arguments for and against the rates are already well rehearsed. The system has become particularly controversial as spending grows and in times of high inflation. This paper examines the options for reform and compares them against each other. None of them is easy - no tax is popular. The Government will consider very closely all representations. But the country views this matter with a sense of urgency and the Government therefore wishes to move ahead as quickly as possible. Its aim is to produce proposals for a system which would remedy as fully as possible the shortcomings of the existing system of domestic rating and which would command the widest possible acceptance in the country as a whole.

DEC 1981



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ALW  
JU  
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DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH  
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
LONDON SW1 3EB

20 November 1981

*From Michael,*

You sent me a copy of your minute of 9 November, covering a copy of the latest draft of the draft Green Paper on Alternatives to Domestic Rates.

I am broadly content with the draft, but I believe that the reference to direct control over local authority revenues or expenditure in paragraphs 1.13 and 1.14 will needlessly antagonise the local authority world, and will offend those who might be expected to have sympathy with our objectives. As you note in your minute, the reception of the Green Paper will not be helped if it is too provocative to local government. Moreover, the thrust of the interim rating measures lies in precisely the opposite direction, increasing local authorities' accountability to their local electorate.

If the reference is to remain, it ought, I believe, to be modified. The detailed examples of methods of control in the third sentence of 1.13 might be deleted; and paragraphs 1.14 might be amended to read as follows:-

"1.14. The balance between shielding the local taxpayer and restricting local authorities' freedom to determine their expenditure would need to be struck with care, taking account of local authorities' statutory responsibilities and of any discrepancy between their aggregate budgets and the Government's public expenditure plans. Local democracy would in any event be seriously weakened; and although, if all else fails, it might be necessary to pay this price for securing restraint in local authority expenditure, the Government believes that the strengthening of local accountability is a better way forward."

I am copying this letter to the Prime Minister, other members of the Cabinet, the Paymaster General, the Chief Whip and Sir Robert Armstrong.

*General*  
*Kear*  
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