



Ref. A084/2640

PRIME MINISTER

Local Government Finance

(C(84) 28 and 25)

These memoranda follow up the discussion at your meeting of Ministers last Thursday. The Secretary of State for the Environment proposed then that the motion on the Party Conference agenda on the abolition of domestic rates and its eventual replacement with an alternative system of local taxation, should be dealt with by announcing the establishment of a wide-ranging review of local government finance. Your meeting concluded that the Party Conference motion was not acceptable and that it should be dealt with by proposing a suitable amendment, and that a formal review should not be established though further studies within Government might be put in hand with suitable arrangements for Ministerial supervision. C(84) 28 is a memorandum by the Secretary of State for the Environment proposing an amendment to the Party Conference motion and the line he proposes to take in the debate; C(84) 25 is a note by me setting out proposed arrangements for Ministerial supervision of the further work.

MAIN ISSUES

2. The main issues before the Cabinet are as follows:
- i. What line should be taken at the Party Conference and what should be the terms of an amendment to the motion?
 - ii. What should be the broad scope of the work to be done?
 - iii. What should be the arrangements for Ministerial supervision?

The Party Conference Motion

3. With the proposed amendment, the Party Conference motion would read:

"This Conference welcomes the rate capping legislation as a necessary measure to protect ratepayers in high spending areas, and urges the Government to make

improvements in the local government financial system which will strengthen local accountability and encourage responsible local spending policies."

The Secretary of State for the Environment, in responding to the debate, proposes to refer in general terms to the Government's intention to look closely at the most serious deficiencies of the present system of local government finance, in particular the imbalance between those who pay for local services and those who enjoy them, while avoiding any impression that the work would have the status of a formal review.

4. The danger is of raising expectations that it will not, at the end of the day, be possible to satisfy. The working of the motion is probably as non-committal as the Government could hope to carry: the Secretary of State's line is to avoid speculating about the outcome of any further thinking. It might be best even to be slightly pessimistic.

The Further Work

5. There is not as yet any considered programme of work. The Secretary of State says, however, that it will need to range beyond the previous examination of alternatives to domestic rates since that exercise showed that one could not "unplug" rates and "plug in" an alternative without looking more widely at the scope for changes in grant arrangements and service responsibilities. Implicitly, therefore, the work will cover at least alternative sources of finance, and alternative grant arrangements and service responsibilities. The last may have implications for organisation.

Supervision

6. My note C(84) 25 sets out the arrangements for supervision which you agreed earlier in the week, ie the work to be steered by a reconstituted E(LF) under your chairmanship with membership extended to include all the principal local authority Ministers plus the Chief Secretary, Treasury, the Lord President and the Chancellor of the Duchy. The work itself will be undertaken by the Department of the Environment,

consulting as necessary with other Departments, under the close supervision of the Minister for Local Government (Mr Baker). Mr Baker will submit a programme of work for the Committee's approval as soon as possible with a view to material coming forward for consideration by the Committee by next spring.

HANDLING

7. You will wish to invite the Secretary of State for the Environment to open the discussion. The Chancellor of the Exchequer, the Chief Secretary, Treasury, and the Secretary of State for Education and Science (because of the significance of his programme) may, in particular, wish to comment. The Paymaster General may have views on the handling of the Party Conference.

8. It will probably be better to avoid detailed discussion of the drafting of the Conference amendment. If there is a need to rework it, the Secretary of State for the Environment might be asked to consult with you, the Lord President, the Chancellor of the Exchequer and the Paymaster General.

CONCLUSIONS

9. You will wish the Cabinet to reach conclusions on the following:

- i. that, without any formal review being established, further work should be done on local government finance on the broad lines described in C(84) 28;
- ii. that close Ministerial oversight will be necessary, as set out in C(84) 25;
- iii. whether the amendment to the Party Conference motion and the line to take proposed by the Secretary of State for the Environment are acceptable.

3 October 1984

approved by ROBERT ARMSTRONG
and signed in his absence.

3

Lindsay Wilson.

Cabinet filing

FROM: CHIEF SECRETARY
DATE: 3 October 1984

PRIME MINISTER

**PARTY CONFERENCE:
MOTION ON LOCAL GOVERNMENT FINANCIAL ARRANGEMENTS**

I have seen the Secretary of State for the Environment's paper C(84)28.

2 I am rather concerned that his proposed amendment and what he proposes to say in responding to the debate will raise expectations of major change in the system of financing local government. I think this would be a mistake for very much the reasons which persuaded us against announcing a formal review. It is not clear that we will be able to devise and deliver a solution to the intractable problems of the rating system and it is important not to create a sense of uncertainty about our aims at the time that we are introducing rate capping and abolishing the metropolitan counties.

3 I hope, therefore, that the Secretary of State will agree to modify the amendment, in particular to avoid the words "urges the Government to make improvements", and will be careful not to raise expectations of further reforms of the rating system when he responds to the debate.

4 I am sending copies of this minute to other members of the Cabinet and to Sir Robert Armstrong.

PETER REES