Prime Minister 2
A preliminary sight of the papers for Thursday's E(LF) meeting. DRN 6/12

PRIME MINISTER

6 December 1985

RATE REFORM

Kenneth Baker has now produced the first draft of his Green Paper on rate reform. There is still a good deal of work to be done, but the essential elements of a workable package are in place.

MAIN POINTS TO NOTE

1. Non-domestic rates. [E(LF)(85) 20, paras 2.26 to 2.47].

The Green Paper proposes:

a. either to cap the non-domestic rates or to make them uniform across the country;

b. to set an initial level of non-domestic rates that will maintain the real yield of the previous year;

c. to index subsequent rises, enshrining such indexation in primary legislation;

d. to redistribute the proceeds of the non-domestic rate between authorities;

e. to revalue non-domestic properties in 1990 and to instal a proper system of revaluations thereafter.

2. Community Charge. [E(LF)(85) 20, paras 3.38 to 3.52 & Annex G]

The Green Paper proposes to 'move from domestic rates to a flat rate community charge'. It makes clear that there will be a separate register and a means-tested rebate scheme adapted from the new housing benefit. And there are sensible arrangements in Annex G to cover odd cases such as owners of two homes.

But the paper leaves open:

a. whether there should ever be a complete replacement of domestic rates by community charge [para 3.41];

b. whether the gradual change from rates to community charge should proceed by cash increases in the community charge or freezing of domestic rates followed by instant abolition or reduction of the rating element to a permanent 30% of local revenue.

3. Grant. [E(LF)(85) 20, paras 4.29 to 4.68].

The Green Paper proposes a combination of:

- a needs grant, and

- a standard per capita grant for all authorities.

The new grants will have no connection with the spending level of any local authority. Each authority will know on 1 April what its grant for the following year will be, and every extra £ of local authority spending will be funded entirely by increases in the local community charge.

The Green Paper also promises a review of specific grants (with a strong hint that they will be reduced in scope).

4. Scotland. [E(LF)(85) 20 paras S.11 to S.28].

The only important difference between England and Scotland will be:

- a phasing out of the domestic rates in four years, reducing them to 60% of their present value in the first year, 40% in the second, 20% in the third and 0% in the fourth.

5. Capital Expenditure. [E(LF)(85) 22, paras 6.26 to 6.40].

The Green Paper proposes a 'gross expenditure control'. This means the Government would control the total amount spent by each local authority on capital projects, however funded.

Each authority would receive:

a. a given amount of capital spending permission due to its needs;

b. a given amount of capital spending permission due to the capital receipts acquired over the previous three years;

c. the opportunity to bid for a limited amount of money from a 'large projects pool'.

The Paper seems to suggest that local authorities might also be allowed to use a limited amount of current revenue, over and above their capital allocations for capital spending each year. But the drafting of this section is misleading: the proposal in effect amounts to a stipulation that each authority should cover a given minimum proportion of its capital spending out of its current revenue.

COMMENTS ON THE SUBSTANCE

In general, the Green Paper reflects decisions made in E(LF) and should be supported. But:

1. It is extremely dangerous to leave any doubt about the total phasing out of domestic rates. The figures in Annex A of Kenneth Baker's covering paper [E(LF)(85) 21] show that domestic rates could be phased out in almost all authorities by year 10 without undue disruption. It would then be possible to administer the coup de grace in the remaining 13 authorities.

2. The needs grant is still much too complicated. It would be quite impossible to explain the system proposed in paragraphs 4.32 - 4.36 at a constituency meeting.

3. The proposals for capital spending will cause a massive row. It is dangerous even to mention the possibility of preventing authorities from using some of their precious 'accumulated receipts' (ie accumulated permissions), and the idea of stipulating a minimum revenue contribution to capital is both needless and sure to cause widespread resentment.

COMMENTS ON PRESENTATION

On the whole, the document is reasonably well written. But there is a good deal of surplus verbiage and some repetition, particularly in the early chapters. It needs to be cleaned up by someone who is not so involved in the detail as the present drafters. Perhaps the DoE special advisers could help?

The chapter on capital expenditure (6) is by far the worst. It is conceptually and verbally confused, and needs to be thoroughly re-written by some new author.

Unavoidably, the document is long and complicated. It will not be read by intelligent laymen like Sam Brittan or Peter Riddell. Since the success of the policy depends crucially on persuading people like this that the proposals are sound and sensible, a good, clear summary needs to be provided in addition to the main paper. (I attach a copy of one of the Audit Commission's summaries, which is a good model.)

not attached. ~~I'd~~ Oliver will send it in on Wednesday night.

CONCLUSION

We recommend that you should:

1. welcome the draft, which has been prepared in a remarkably short time;

2. insist that the next draft should be unequivocal about the eventual replacement of domestic rates by community charge;

3. press for a simpler needs grant;

4. ask Kenneth Baker to rethink the proposals on capital expenditure, so that the gross expenditure control is made as politically attractive as possible;

5. ask DoE to tidy up the prose, particularly in the capital expenditure chapter, and to provide a good self-standing summary for the intelligent layman.

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