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PRIME MINISTER

ALTERNATIVES TO RATES

I have now read the draft Green Paper on alternatives to domestic rates which Michael Heseltine has circulated for consideration by E Committee tomorrow.

2. If we are to publish the Green Paper before the Party Conference very little time remains for any further work on the draft before us. But I am bound to say that I think we would be unwise to publish a document of such political importance without allowing ourselves more time to consider the issues it raises and how they can best be presented.

3. May I sketch out briefly my main concerns about the present draft? I recognise that it is based largely on the work done by officials a year ago. The purpose of that work was simply to establish the practicability of the alternatives to domestic rates. But we ourselves need to consider the wider implications of abolishing the present system and replacing it with another major source of local revenue. Would a different method of local finance enable us to control the level of local government expenditure more effectively, or would it leave us in a still weaker position than at present? Is there not a risk that the replacement of rates by another local tax or taxes could require more manpower in the public sector with damaging implications for our manpower policy? How do we view and present the prospect of significant new administrative burdens falling on employers or the trading community which are implied by a local income tax or local sales tax? Above all, do we know enough about the likely redistributational consequences of moving to a different system of local taxation to present the choices fairly in this Green Paper?



4. The present draft does of course acknowledge the importance of these issues. But the plain fact is that, in the time available, it has not been possible for officials to do much more than identify the lines along which further work needs to be carried out. If we were to published the Green Paper in this form I fear it would be evident that in certain critical respects we lack the sort of comprehensive assessment of the strengths and weaknesses both of the present system and the alternatives that is needed before we can invite public consideration of this important political issue.

5. The risk is that without some of this additional analysis we could find ourselves effectively committed by public reactions to an alternative tax or taxes whose consequences we have not fully appraised.

6. Of course I recognise that this is an issue on which we have got to make progress if we are not to vacate this ground to our political opponents. But I wonder whether with this Green Paper we are not also in danger of narrowing the range of options too much, too quickly. The present draft of the Green Paper looks only at solutions which would provide a total replacement to domestic rates. None looks easy and a major tax change of this kind cannot avoid having far reaching consequences. We ought at least to ask ourselves whether our objectives could not be met by building on the reforms of the present system which Michael Heseltine and Leon Brittan have proposed. This suggests looking at the alternative taxes not simply as ways of totally replacing domestic rates but perhaps as a means of giving local authorities a supplementary source of local revenue which would take some of the weight off the rates.

7. This leads me to conclude that the present draft is not really satisfactory and that a good deal more work is needed before we can confidently put out a Green Paper on this most difficult of issues.

8. I am copying this minute to the other members of E Committee.

(G.H.)

15th September 1981