



Prime Minister ⁽²⁾

MUS 19/7

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Your ref:

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Dear Michael

MS

RATE LIMITATION LEGISLATION

Thank you for your letter of 4 July to John Ballard. It is helpful to know that the Prime Minister considers that we are proceeding broadly on the right lines.

You say that the Prime Minister is attracted to the idea of specifying the criteria as far as possible rather than adopting different criteria from year to year, even though this might involve forgoing the maximum freedom for manoeuvre.

My Secretary of State agrees that it could be difficult to persuade Parliament to leave the criteria entirely general. On the other hand it would be unwise to specify the criteria in great detail, because the expenditure and rating decisions of individual authorities can change markedly from year to year. Thus a set of criteria which selected one group of authorities in one year could well produce a very different group in the next year. It may therefore be necessary to vary the criteria from year to year in order to take account of changing circumstances.

My Secretary of State's present view is that the primary criterion should be the relationship between an authority's expenditure and the objective measure of needs represented by its grant related expenditure assessment (GRE). He thinks that the White Paper - of which he will shortly be circulating a draft to colleagues - should state clearly that authorities spending below GRE will not be selected. It would be unfair to select those spending below that level, and a statement on these lines would go a long way to reassure Government supporters in the ACC and ADC regarding the selective scheme.

Other factors would also be taken into account, such as recent trends in an authority's expenditure compared with that of other comparable authorities; its performance against expenditure targets; its manpower levels; and the level of its rates. It may well be appropriate to refer to such criteria in the Bill.

It will of course be necessary to apply the criteria fairly on the basis of general principles as between authorities, in order to minimise the risk of legal challenge.

It may be convenient if I comment also on the points raised in

the letter of 6 July from John Sparrow to the Prime Minister, and in the letter of 12 July from the Chancellor of the Duchy of Lancaster to my Secretary of State, in so far as they are not covered by what is said above.

My Secretary of State takes the view that the purpose of the scheme is to control both expenditure and rates. By controlling both grant and rates directly, the scheme will control expenditure indirectly but no less effectively. The main reason for the proposed de minimis exclusion is that the small authorities have only a small effect on the aggregate of expenditure. But they also make only a small contribution to the rates burden; the average rate in the shire districts (England) this year is about 20p, compared with an average precept for the shire counties of about 140p.

Mr Sparrow questions whether it is necessary to be precise in public about the general scheme. Since the scheme needs to be covered in legislation, and my Secretary of State is committed to consultation on the details of the schemes, it will be necessary to go into some detail in the White Paper. Colleagues will have an opportunity to comment further when the draft is circulated.

Mr Sparrow suggests that the rate and expenditure limits should have primacy over other statutory powers and duties and official advice. These issues were discussed in paragraph 73 of the Report on Rates Control by the Interdepartmental Group of Officials. The Group concluded that it did "not seem practicable, even if it were acceptable on policy grounds, to revise all such legislation so as to eliminate the risk of conflict between statutory duties and the limits to be imposed" under a rate limitation scheme. The magnitude of the problem is clearly demonstrated by the local authority statutory duties and powers set out in Annex F(i) of the Report. It seems more sensible instead to pay careful regard to statutory duties in the way we operate the selective and general schemes. In addition my Secretary of State is of course proposing that interdepartmental arrangements should be set up to ensure that local authorities should not be encouraged by circulars or subordinate legislation to spend monies in ways inconsistent with the control scheme - the last paragraph on page 8 of my Secretary of State's minute of 29 June to the Prime Minister refers.

My Secretary of State will be writing separately on the points raised by the Chief Secretary in his letter of 12 July.

I am copying this letter to the Private Secretaries to the members of Cabinet and to Henry Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Roger Bright

ROGER BRIGHT
Private Secretary