CONFIDENTIAL

CCND

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

NBPM

My ref:

Your ref:

20 December 1984

Dear Richard

SELECTIVE RATE LIMITATION IN 1985/86: SETTING OF RATE AND PRECEPT LIMITS

I think I ought to comment, for the record, on your letter to me of 11 December about the presentation of the rate and precept limits announced on that day.

First, I must stress that there has been no redetermination of the expenditure levels set in July; nor legally can there be in the absence of applications for redeterminations. It is therefore misleading to suggest that (the second sentence of your second paragraph) "the rate [limits] had been set at a level that implied a small net reduction in expenditure levels". The only safe formulation of this proposition about spending is the one used in my Secretary of State's letter of 4 December to the Lord President, namely that the rate limits imply a reduction in "the total of effective levels of spending" (this is because of the net effect of our assumptions about reserves).

Secondly, both we and DES are concerned about the last sentence of your second paragraph. We do not intend to make much of the expenditure effects of the rate limits; our presentation has centred more on the rate reductions we are achieving, and we are sure that is the best approach since the policy is based upon "protecting the ratepayer". But it has proved impossible, for example, for DES not to indicate how much ILEA will be able to spend from rates and financial reserves as a result of its precept limit, since the figure can easily be derived in the case of a single service body. Both my Secretary of State and Sir Keith Joseph have stated that the precept limit set for ILEA is compatible with a spending level of £900m.

We are of course clearing individual major comments by Ministers on rate limitation with Treasury officials as they occur, and I assume that on that basis you will be content for us not to stick to the letter of your suggested presentational approach.

I am sending a copy of this letter to Andrew Turnbull (No10), Janet Leiws-Jones (Lord President's Office), Hugh Taylor (Home Office), Elizabeth Hodkinson (Department of Education and Science), John Graham (Scottish Office), Colin Jones (Welsh Office), Steve Godber (Department of Health and Social Security), David Normington (Department of Employment), Dinah Nichols (Department of Transport), Iain Jack (Lord Advocate's Department), Paul Thomas (Lord Gowrie's Office), Alex Galloway (Paymaster General's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Government Whip's Office, Lords) and to Richard Hatfield (Cabinet Office).

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Richard Broadbent Esq

Relations: Local Govt. Pt 4

22 DEC 1984

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cc ~~OL~~ ~~BI~~

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

14 December 1984

Dear Andrew

SPEAKING NOTE ON RATE LIMITATION

My Secretary of State announced on Tuesday 11 December the rate limits of the 18 local authorities that are to be rate capped in 1985/6. The Prime Minister suggested subsequently that it might be helpful if colleagues could have a speaking note to help explain that statement, as opportunities arose. This speaking note is now enclosed.

Copies of this letter goes to the Private Secretaries to members of the Cabinet, the Paymaster General and the Chief Whip and to Richard Hatfield (Sir Robert Armstrong's Office).

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

SPEAKING NOTE FOR CABINET COLLEAGUES ON RATE LIMITATION

In the battle to contain public spending, rate limitation is a vital weapon. 18 of the highest spending local councils have been selected for rate limitation in 1985/6. These 18 between them account for a massive 75% - £632m - of the total revenue overspend by local government this year.

Patrick Jenkin announced on 11 December the rate and precept limits he is proposing to set for these 18 local authorities next year. These limits have been calculated on the basis of the expenditure levels set for each council in July this year; although the 18 councils have had every opportunity to comment on the proposed expenditure levels none has chosen to do so.

The rate or precept limits now announced are good news for ratepayers in all the areas concerned. In 13 of the 18 areas the limits are actually lower than what ratepayers are paying this year. In one case - Leicester - the proposed limit is 56% lower than this year. This is because the City Council is being asked to use some of the large reserves it has been accumulating over the past years at the expense of its ratepayers to finance their spending next year.

For 5 of the 18 authorities, although there is no cut in the rate, the figures announced by Patrick Jenkin are undoubtedly lower than they would otherwise have been, because the authorities will be spending less than they would otherwise have done.

It should be no surprise that the rate limits vary widely between authorities. The Act requires us to take account of the use of funds and balances and these differ widely. Putting it as simply as possible what it means is that if a council has financed part of its spending this year by drawing down balances and cannot be expected to do the same next year, then the difference has to be made up by an increase in rates. Conversely, if a council is adding to its funds and balances this year and does not need to do the same next year, then rates next year will need to be less than they are this year.

Nevertheless, the most important reason for lower rates next year than this year is that, just as when spending went up the penalties for overspending cut the grants payable to authorities, so when spending comes down, councils get more grant. So ratepayers in rate-capped areas benefit both by their councils making economies and by increasing Government grants. That is precisely what the Government intended.

The press has made much play of the precept limit for Merseyside, for example, which represents a 27% increase on this year. But what would the increase have been if it hadn't been for rate limitation? The Leaders of Merseyside County Council are quoting a budget next year of £250m. This would mean a precept increase of as much as 100%.

Or take Basildon. A 17% limit sounds high. But if Basildon District Council had rated up to finance their spending proposals, the increase could have been twice that figure.

The GLC, whose precept has effectively been frozen by Patrick Jenkin are talking about a precept increase, if they had their way, of at least 20%.

The 18 authorities now have until 15 January to comment on the limit proposed. If they have any comments to make and I am sure we can expect them to be vociferous over the coming weeks - they should not make them to the press but to Patrick Jenkin. Instead of spreading tales of doom and defiance about the effects of rate capping, they should start to use the proper statutory procedures under the Rates Act which they have refused to take advantage of so far. Now is the time for them to make their representations - once Patrick Jenkin has tabled the Orders in Parliament for approval of the limits proposed, it will be too late.

LA Capital Controls System Options

£ billion England	Chief Secretary's proposal (paragraph 10)	Chancellor proposal	Mr Jenkin proposal
Prescribed proportion:			
housing	15	15	25
housing land	100	30	40
non housing	15	30	40
Allocations	2.77	3.03	3.125
Total spending power	4.27	4.8	5.6
Deduct gross PES provision	4.07	4.07	4.07
Potential overspend	0.2	0.75	1.6
Actual overspend if the following percentages of total spending power are used:			
80%	–	–	about ·500
85%	–	less than ·050	about ·800
90%	–	less than ·300	about 1·100

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

John Ballard Esq
Private Secretary to
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

11 December 1984

Dear John

SELECTIVE RATE LIMITATION IN 1985-86:
SETTING OF RATE AND PRECEPT LIMITS

Your Secretary of State sent the Chief Secretary a copy of his letter of 4 December to the Lord President.

In general the Chief Secretary welcomed your Secretary of State's proposals, which seemed to him to strike about the right balance in the first year of rate-capping. He was glad to see that they implied a small net reduction in effective spending levels compared with the total of ELs agreed in July. He was however concerned about two points which we discussed on the telephone.

First, the Chief Secretary wondered whether it might not be possible to reduce the increase of 30 per cent in Merseyside's precept. However, he took the point that the authority might not be able to live within an RL set with no adjustment for the possibility of inadequate reserves in 1985-86.

Second, the Chief Secretary wondered whether your Secretary of State's calculations took account of the alleged underspending by the GLC and ILEA this year. You told me that your Secretary of State proposed to adjust downwards slightly the RL for ILEA in the light of latest information. On the GLC the current best information did not suggest the GLC was likely to underspend by a large margin. On this basis the Chief Secretary accepted your Secretary of State's proposals.

I am sending copies of this letter to the Private Secretaries of other members of E(LA), and to Andrew Turnbull (No. 10), Andrew Galloway, Paymaster General's Office, Murdo MacLean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

Local Govt Pt 24

Relations

12 DEC 1984

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AT 11/12

Treasury Chambers, Parliament Street, SW1P 3AG

John Ballard Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

11 December 1984

Dear John

SELECTIVE RATE LIMITATION IN 1985-86
SETTING OF RATE AND RATE PRECEPT LIMITS

We have discussed separately the substance of your Secretary of State's letter of 4 December. This letter concerns presentation.

In endorsing the overall package of proposals put forward by your Secretary of State, the Chief Secretary gave particular weight to the fact that they implied a small net reduction in effective spending levels (ELs) compared with the total of ELs agreed in July. We discussed how this point should be presented publicly and agreed it would be appropriate for Ministers to say that the rate precepts had been set at a level that implied a small net reduction in expenditure levels. This was the government's aim although actual expenditure levels would depend at the end of the day on decisions by individual councils on what, for example, represented a prudent level of reserves. It would be important for no individual Minister to refer to the rate precepts allowing spending up to certain specified levels on particular services.

I am sending a copy of this letter to Andrew Turnbull (No. 10), Janet Lewis-Jones (Lord President's Office), Hugh Taylor (Home Office), Elizabeth Hodkinson (Department of Education and Science), John Graham (Scottish Office), Colin Jones (Welsh Office), Steve Godber (Department of Health and Social Security), Callum McCarthy (Department of Trade and Industry), David Normington (Department of Employment), Dinah Nichols (Department of Transport), Iain Jack (Lord Advocate's Department,) Paul Thomas (Lord Gowrie's Office), Alex Galloway (Paymaster General's Office), Murdo Maclean (Chief Whip's Office, David Beamish (Government Whip's Office, Lords) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Richard Broadbent

R J BROADBENT

CONFIDENTIAL - UNTIL 4.00pm 11 December

SCNO

NBPM
AT
10/12

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

10 December 1984

Dear Lord President

SELECTIVE RATE LIMITATION IN 1985/86: SETTING OF RATE AND PRECEPT LIMITS

Following my letter of 4 December seeking comments on the rate and precept limits to be proposed for 1985/86 for authorities selected for rate limitation, I now enclose a table showing the limits upon which I have finally decided. I shall announce these in the House tomorrow as part of my RSG Settlement Statement.

There is no change in the general basis underlying these limits, as described in my letter of 4 December. Where the figures are different from those previously circulated, it is either because of minor technical refinements in the calculations or because updated information has been used.

I am copying this letter to members of E(LA), the Paymaster General, the Chief Whip and Sir Robert Armstrong.

Yours sincerely

f. PATRICK JENKIN

Approved by the Secretary of State and signed in his absence.

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The Rt Hon the Lord Whitelaw CH MC

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Rate Limits 1985/86

	Expenditure Level Col 1	Local rate 1984/85 Col 2	Rate Limit 1985/86 Col 3	rate increase implied by Rate Limit Col 4
Basildon	£ 13.660m	42.80p	50.33p	17.59%
Brent	£ 140.021m	193.42p	196.42p	1.55%
Camden	£ 117.429m	91.94p	92.02p	.09%
GLC	£ 785.032m	36.55p	36.52p	-.08%
Greenwich	£ 66.584m	118.91p	96.42p	-18.91%
Hackney	£ 82.315m	119.30p	114.09p	-4.37%
Haringey	£ 128.658m	229.16p	222.17p	-3.05%
ILEA	£ 900.366m	80.00p	74.19p	-7.26%
Islington	£ 85.564m	122.74p	111.21p	-9.39%
Lambeth	£ 112.558m	122.34p	107.57p	-12.07%
Leicester	£ 24.390m	37.50p	16.27p	-56.61%
Lewisham	£ 70.391m	115.74p	87.49p	-24.41%
Merseyside	£ 205.180m	65.00p	82.86p	27.48%
Portsmouth	£ 16.751m	27.20p	26.88p	-1.18%
Sheffield	£ 216.573m	208.24p	207.07p	-.56%
Southwark	£ 108.437m	149.74p	112.69p	-24.74%
South Yorkshire	£ 178.291m	83.30p	81.32p	-2.38%
Thamesdown	£ 14.199m	54.19p	57.22p	5.59%

Local Govt Pt 24

Ratecapping

10 DEC 1984

File.

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NBPM AT 7/12

Hobson.
cc PS/Sir G Young
PS/Mr Waldegrave
PS/Lord Avon
Mr Heiser
Mr Owen
Mr Hicks
Mr Fletcher/Rowsell
Mr Kidgell/Martin
Mr Smith/Lewis
Mr Young
Mr Roscoe Mr Ghosh.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

cc/10

My ref:

Your ref:

4 December 1984

Dear Willie,

SELECTIVE RATE LIMITATION IN 1985/86: SETTING OF RATE AND PRECEPT LIMITS

This letter contains my proposals, on which I should be grateful for urgent comments, for the rate or precept limits to be proposed for authorities selected for rate limitation under the Rate Act 1984. In the light of colleagues' comments I will decide on the limits to be put forward in the RSG Settlement Statement.

As you will be aware, section 4 of the Act contains the statutory framework for the setting of rate limits (RLs). The Secretary of State is required to have reference to the expenditure level (EL) as determined, block grant entitlements, and any contributions from or to the LRES. He may also take into account "any financial reserves available to the authority."

No major issues are raised in incorporating into the calculation the EL, grant entitlement and LRES payments. None of the selected authorities has applied for a redetermination of its EL, and so these remain unchanged. The exemplifications attached to this letter are based on the finally agreed grant distribution package for 1985/86, and take into account where appropriate the grant effects in 1985/86 of the two Supplementary Reports to be made at Christmas. They do not make any allowance for close-ending of 1985/86 grant, but in estimating holdback effects they assume the same level of disregard for the authorities concerned as in 1984/85.

The major issue in calculating RLs is taking account of the use of financial reserves (special funds, balances etc) by authorities. The information we have is very patchy; we have specifically asked the selected authorities for information about reserves under the powers in section 8 of the Act, but only a proportion of authorities has responded and most of their responses are incomplete. The Act allows me to make assumptions in the absence of a response, but there are difficult legal issues involved in what kinds of information (eg papers supplied for Opposition Councillors, Press reports, information supplied for officers of the Council outside the context of a formal application for a redetermination) can and should be taken into account, and how.

In practice, the exemplifications (on which I comment in the paragraphs below) incorporate my best judgements about reserves based on:-

i. Information derived from formal returns to our section 8 questionnaire where appropriate.

ii. Estimates of the special funds/balances available, obtained by projecting forward the returns we have for end 1983/84, or in a few cases 1982/83, using 1984/85 budget information.

I have additionally taken due account of such further information as is available to me, bearing in mind the extent to which I can be certain of its accuracy and completeness.

The selected authorities divide into three groups. Group 1 is those authorities which we consider will in March 1985 possess substantial balances (defined as more than 10% of their EL). The group consists of Leicester, Portsmouth, Thamesdown, Greenwich, Lambeth, Lewisham and Haringey. For each of these authorities we have considered reducing their level of balances to some defensible level based on our best judgement of necessary levels of working balances for efficient operation. This level varies for different classes, and sizes, of authority. Our analysis of local authority balances in recent years leads us to think that reasonable balance levels might be 10% of total expenditure for metropolitan counties and districts, 15% for the London boroughs, and 30% for shire districts; though practice varies widely. We further think it desirable to limit the size of reserve reduction in a single year for authorities in this group, to avoid substantial oscillations in rate levels between years; and intend not to assume a reserve reduction greater than one third of available reserves.

Table 1 shows for each of the group 1 authorities the effect of applying these arrangements, and the RL that would result. In practice, only Leicester, Portsmouth and Haringey are affected.

In Leicester's case the maximum size of reserve reduction is relevant because of their very substantial reserves (amounting to 68% of EL). Portsmouth is the only authority with significant HRA balances. Although Haringey hold substantial reserves (estimated at 21.3% of EL at end 1984/85), we have established from various sources that the vast majority of this consists of money held in trust for the rebuilding of Alexandra Palace, and not available to support general expenditure. The authority has made no formal representations to this effect; nevertheless I am legally advised that I should not take account of this money in considering reductions in reserves. The attached exemplifcations are on this basis (but see also paragraph

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12 below). I should also add that the effects in London at ratepayer level shown in the exemplifications are distorted by the incidence of the LRT precept for the first time, and the likely increase in the Metropolitan Police precept.

Group 2 is those authorities which have shown a budgetted intention to use special funds in 1984/85 to depress their budgetted total expenditure, and which do not appear to possess adequate reserves in those funds in 1985/86 to do the same again; they could therefore be in genuine difficulties if we assume that their reported 1984/85 spending level is realistic, and set an RL accordingly. The group consists of Sheffield, Hackney, Southwark, Brent, Merseyside and South Yorkshire. None of these has applied for a redetermination of their EL. We have considered whether we should allow in RLs for some latitude to take account of this budgetted use of reserves.

There are risks in making such an allowance:-

a. Our overall information about the financial position of these authorities, including their 1984/85 outturn, is necessarily incomplete in the absence of applications for redeterminations; they may still have cash reserves available though undeclared, for example by means of contingencies built into their budgets.

b. Special action on RLs could jeopardise the future of the redetermination procedure.

c. There is still an opportunity for these authorities to appeal against their RLs after RSG Settlement Day.

d. We can increase RLs after Settlement Day but not decrease them.

However, we have concluded that the risks in not making some allowance outweigh these considerations. We suspect that authorities such as Merseyside might in practice be unable to live within RLs if these were set purely on the basis of their ELs with no adjustment on account of reserve use; and at least some of these authorities might deliberately refrain from appealing against their RL in order to embarrass the Government. The consequences of major financial difficulties, for example on Merseyside, are I believe unacceptable.

We have therefore sought a consistent way of helping such authorities. We propose that, for any authority whose forecast reserves at end 1984/85 are less than their "class average" (see paragraph 6 above) and whose special fund use in 1984/85 is budgetted to be more than 5% of EL, then we should in calculating the RL make an allowance for that special fund use. We would do this by assuming in 1985/86 the use of funds equal to the amount by which their 1984/85 special fund use exceeded the 5% level. Because of the 5% threshold, this

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arrangement helps only those authorities who are budgetting to make substantial use of special funds this year, and who are therefore the most likely to experience difficulty. The authorities affected are Sheffield, Hackney, Brent, Merseyside and Haringey. It will be noted that the effect of this adjustment on holdback, because it permits extra spending in 1985/86 financed from reserves, is to produce substantially increased RLs in some cases; in particular Merseyside's RL shows a 30% increase over this year's precept level.

The top half of table 2 shows the RLs which the group 2 authorities would be set on the basis set out in paragraph 12. (Haringey appears in table 1 because of the non-available Alexandra Palace funds).

Group 3 is those authorities who, so far as we know, neither have excessive reserves (ie above 10% of their EL) nor have used reserves in 1984/85 to adjust their level of "total expenditure". These are Basildon, Camden, Islington, GLC and ILEA. I see no reason in the case of the first three authorities to make any special adjustment in respect of reserves; Basildon's high RL arises from its substantial use of balances this year, and from the effect of the RSG Settlement on its grant entitlement.

The GLC and ILEA raise difficult issues. They are large authorities which have historically operated with low levels of working balances. The balance levels we estimate for them at end 1984/85 are not far below 10% (9.6% and 7.3% respectively), and can reasonably be regarded as larger than necessary for efficient working for such authorities. If no adjustment were made for reserves, then the precept limits would shown an increase of 9% for the GLC - despite the reduction in their functions - because of their extensive use of balances this year to depress their precept; and only a small decrease (less than 1%) for ILEA.

An assumed reduction in GLC and ILEA reserves to 2% of their EL would produce a precept freeze for the GLC. I believe that in the case of these large authorities such a reduction is defensible, since although we would then be treating them differently from the other authorities they are indeed different in kind.

The RLs for group 3 authorities derived on the basis set out in paragraph 14-16 are shown in the lower half of table 2 of the exemplifications.

The total of effective levels of spending, as implied by the RLs I am proposing, is of the order of £20m lower than the total of ELs agreed in July.

I should be grateful to know by close of play on Wednesday 5 December at latest whether you or other colleagues have any comments on these proposals. (The figures may be subject to minor technical changes).

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I am copying this letter to members of E(LA), the Paymaster General, the Chief Whip and Sir Robert Armstrong.

Yours ever

Patrick

PATRICK JENKIN

The Rt Hon the Lord Whitelaw CH MC Lord President

Illustrative Rate Limits For 1985/86 Based On Settlement Grants

	Balances as % of EL	1984/85 local rate poundage	Rate limit	Percentage local rate increase	Rate increase at ratepayer level
GROUP I					
Leicester	68.0%	37.50p	16.06p	-57.17%	-
Portsmouth	36.6%	27.20p	26.19p	-3.71%	-
Thamesdown	25.4%	54.19p	57.24p	5.62%	-
Greenwich	11.9%	118.91p	96.45p	-18.89%	-6.20%
Lambeth	11.6%	122.34p	107.61p	-12.04%	-3.03%
Lewisham	11.7%	115.74p	87.51p	-24.39%	-8.64%
Haringey	21.3%	229.16p	228.11p	-.46%	3.93%

	Balances as % of EL	1984/85 local rate poundage	Rate limit	Percentage local rate increase	Rate increase at ratepayer level
GROUP II					
Sheffield	1.8%	208.24p	207.08p	-.56%	-1.13%
Hackney	-.2%	119.30p	109.37p	-8.33%	-1.14%
Southwark	.9%	149.74p	113.73p	-24.05%	-10.38%
Brent	3.7%	193.42p	196.44p	1.56%	6.20%
Merseyside	6.9%	65.00p	84.72p	30.33%	-
South Yorkshire	1.1%	83.30p	81.17p	-2.56%	-
GROUP III					
Basildon	6.7%	42.80p	50.34p	17.62%	-
Camden	2.2%	91.94p	92.02p	.09%	3.26%
Islington	1.5%	122.74p	111.25p	-9.36%	-1.74%
GLC	9.6%	36.55p	36.51p	-.10%	-
ILEA	7.3%	80.00p	75.13p	-6.09%	-