



10 DOWNING STREET

THE PRIME MINISTER

12 November 1984

*Dear Mr Kilroy-Silk,*

Thank you for your letter of 19 October, enclosing this one from Mr P A Furlong about rates. Thank you too for your kind words about the Brighton bombing. We must now hope that the injured make the quickest possible recovery.

I am fully aware of the criticisms that have been made of the rating system and of the alternatives that exist, but I do not think Mr Furlong is being fair when he implies that we have broken a promise to abolish the existing rating system. It is true that our 1974 manifesto did have such a commitment - but we were not, of course, elected on the strength of that manifesto.

In 1979 our manifesto said that the overall burden of taxation had accelerated, making action on income tax rates our first priority on return of office. We had also received the report of the Committee of Enquiry under Sir Frank Layfield into Local Government Finance, which had studied all the options for alternatives to rates (including Mr Furlong's favoured option of rates on land rather than property). The Enquiry found site value rating to be unsuitable as a base for raising local revenue. It concluded that local accountability would not be promoted and that it would take at least 10 years before site rating, if acceptable, could be put into practice. We have also had the findings of the Select Committee on the Environment in 1982 whose conclusions were much the same as those of the Layfield Committee. And finally, we have seen the emergence



of a small number of high spending councils whose spending was so out of control that our economic strategy was in danger, and who were clearly no longer susceptible to the traditional pressures of the ballot box.

We have tackled, through rate capping, the immediate problem of the highest spending local authorities. From next April they will have their rates (or precepts) limited by law. Merseyside County Council, whose precept accounts for part of Mr Furlong's total rate bill, is one of the 18 authorities subject to rate capping.

However, we are not stopping here. Patrick Jenkin announced at the Conservative Party Conference on 10 October that he had asked Kenneth Baker, the Minister for Local Government, to take a look at the entire system of local government finance. He will examine the way that rate support grant is distributed to authorities; the balance between local financing and Exchequer financing of council spending; ways in which the accountability of local authorities to their electorates could be strengthened and, again, at how in a new system local revenues might best be raised, from business as well as from households.

This Government recognises that the present system is far from perfect; it will be looking for a system that is altogether fairer and more robust.

Yours sincerely

Raymond White

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