



Prime Minister

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Agree, subject to
colleagues, the draft
White Paper?

MUS 22/7

Pt 2

*No Not announce
reduction in a White
Paper. Need to consider
further its
outlined
basis
mt.*

PRIME MINISTER

RATE LIMITATION WHITE PAPER

As foreshadowed in my minute of 29 June I now attach the draft text of the White Paper on rate limitation and rate reform. The text seeks to take account so far as possible of points made by other Departments at official level on an earlier version. It may be helpful if I briefly summarise the contents of the White Paper, highlighting significant points including those raised in comments on my minute.

Chapter 1 sets the scene. It describes our efforts since 1979 to reverse the long term growth of local government current expenditure, and recognises that we have met with only limited success. The figures in this chapter provide the basic justification for our policy of rate limitation.

Chapter 2 described the search for an alternative to domestic rates. This is an integral part of the argument, since it shows how reluctant we were to move to rate limitation. The chapter also constitutes our formal response to the Environment Committee's report

Chapter 3 gives a detailed account of the selective scheme. This largely follows the account in my earlier minute. We have drafted in terms only of option B (rate limits derived from approved expenditure levels) since we need to be firm about the basic framework of the scheme. The statement in paragraph 3.6 about criteria for selecting authorities follows the approach set out in my Private Secretary's letter of 18 July to yours; in particular it makes it clear that authorities spending below their grant related expenditure assessment (GRE) will not be selected. Paragraph 3.7 proposes the exclusion on de minimis grounds of authorities with small budgets. Paragraph 3.16 makes it clear that account will be taken of spending and rating



decisions in 1984-85.

I have not referred in Chapter 3 to the question of consultation with colleagues over applications for derogations. Such consultation will be essential, but including reference to it in the White Paper would expose us to attack over the extent to which we shall be meeting judgements in public about the balance between individual services.

The Chief Secretary has asked about the relationship between the expenditure levels to be used in the scheme as a basis for fixing rate limits - which for legal reasons must be achievable within a year - and the existing system of expenditure targets used as a basis for grant holdback for high spending authorities. We can run the rate limitation scheme either with or without expenditure targets, and we do not yet need to decide whether to retain them for 1985-86. The draft White Paper leaves our options open.

Chapter 4 describes the general scheme. The account is relatively brief, since much of the ground has already been covered in Chapter 3. In particular, as you have agreed, the White Paper proposes "model 2" (ie rate limits derived from approved expenditure levels). As in the case of the selective scheme, I think it better not to canvass the alternative "model 1" (direct determination of rate limits) though I understand that the Secretary of State for Scotland will be proposing a general scheme based on "model 1" because their grant system does not enable them to operate "model 2".

Paragraph 4.1 does not specify whether the important Order introducing the general scheme would be subject to affirmative resolution procedure in both Houses, or only in the House of Commons. There is bound to be pressure for the former approach, but this is a point on which we can listen to views.



Chapter 5 sets out the various reforms of the rating system which I propose. I have written to the colleagues concerned on all the points listed. But consultation is not quite complete, and for the purpose of the draft I have had to assume that they are content with my proposals.

At Cabinet on 10 May, my predecessor was asked to look into two possibilities (CC(83)17th meeting). The first concerned the proposed discount scheme for single people. I have reviewed the possibilities but concluded that, on the grounds of complexity and cost, we should not propose such a scheme in the White Paper. I am separately discussing with Peter Rees and Norman Fowler whether we should consider the introduction of rebates for water charges, which are based on rateable values. But even if we do eventually make proposals for such a change, it should not I consider appear in this White Paper.

I think rebates would be wrong

The second issue concerned a rating revaluation. Now that rates are to remain, it is important that the tax base should be updated.

It is particularly urgent that we proceed with a non-domestic revaluation, for which industry including the CBI are pressing. The revaluation could not take effect before 1987; it requires an additional 700 posts in the Inland Revenue Valuation Office. Subject to the views of the Chief Secretary, with whom I am in correspondence, I propose that we should go ahead and announce the non-domestic revaluation in the White Paper.

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A domestic revaluation presents greater political difficulties. Because the existing rental method of assessment will no longer serve, I propose that we should make no firm commitment in the White Paper, but should undertake to consult further on the issue. As instructed by the Cabinet, I am looking at alternative methods and am in correspondence with colleagues most closely concerned. I shall report in due course.

