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SECRETARY OF STATE FOR THE ENVIRONMENT

cc NO

BF with Treasury response

AT 16/4

PRIME MINISTER

RATES BILL: EXCLUSIONS FROM OPERATION OF GENERAL RATE LIMITATION SCHEME

see A 19

As we agreed when we met on 27 March (your office's letter of that date to mine refers), I indicated at Report stage of the Rates Bill that we would table an amendment in the House of Lords to Part II of the Bill (the general scheme) reflecting the general principle that authorities which over a period of years had conformed to Government spending guidelines should be excluded from the operation of the general scheme if and when introduced. I have now considered the precise form of that exclusion, bearing in mind particularly the points you made in our discussion.

It seemed clear from the discussion in the House at Report stage that an exclusion arrangement based primarily on targets - as was Sir Peter Emery's own amendment - is unlikely to be acceptable. It would not meet the strongly expressed concern of those such as Sir Bernard Braine and Peter Hordern whose upper tier authorities (Essex, West Sussex) have recently moved above target although they remain below GRE. I do not believe an amendment will prove acceptable unless it acknowledges spending below GRE as an adequate exclusion criterion as well as spending below target. To require both would encounter the Essex/West Sussex difficulty; I have therefore concluded that we need an either/or criterion.

The period during which the criterion is to be satisfied in order to achieve exclusion is very much a matter of judgement. My conclusion is that, so far as looking backwards is concerned, we should follow the Emery amendment in requiring a two year period of being below either target or GRE before the year in question. Furthermore, in order to meet your

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own concern about possible future changes in spending behaviour, I propose that the amendment should also include a test whether, in the year in which "designation" is being considered, the authority is budgetting to be below target or GRE. An authority whose expenditure rose above the threshold set would be brought within the scheme immediately and would be rate-limited in the following year. (In practice I doubt if sudden spending changes will occur very often in low spending authorities, which in the past have generally been politically stable.)

We must additionally guard against the possibility that a high spending authority that had been caught by selective rate limitation in the previous year, and so forced down to its target, might then escape general rate limitation if introduced. We can ensure this by providing that any exclusion should not apply to any authority selected in the previous year (before the introduction of the general scheme) under the selective scheme.

Your concern about not limiting the scope of the general scheme can be met by drafting the amendment so that the exclusion is from the operation of the scheme and not from the scheme itself: ie all authorities should be designated, but no rate limits would be set for those meeting the exclusion criteria.

It is not easy to quantify the effects of an amendment on this basis, simply because we do not know when if ever the general scheme might be introduced. But, purely for illustration, we have analysed the effects as of now; that is, we have identified those authorities which have spent below either target or GRE in 1982/83 and 1983/84, and are budgetting to do so in 1984/85. The result would be to exclude 214 authorities (ie about half) accounting for expenditure of £5119m (about a quarter), and for overspending

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of £23m (about 5%). Thus, although the numerical exclusion is large, the effect of the concession on spending behaviour is very much less pronounced.

In order to preserve administrative flexibility I propose that we should retain the existing Order-making power in Clause 10(2) of the Bill enabling the exclusion of authorities spending below a prescribed amount.

I should be grateful to know that you and colleagues are content for me to table an amendment to the Bill at Committee stage in the Lords on the basis described in this minute.

I am copying this minute to members of E(LF), the Chief Whip, the Chief Whip (Lords) and Sir Robert Armstrong.

PJ

P J

16 April 1984

Local Govt Relations

Pt 20

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Je VK.
be Mick Owen.
c LPO CWO
SO CWO/HL
WO CO
DTI
CS, HMT

10 DOWNING STREET

From the Private Secretary

26 April 1984

Dear John,

Rates Bill: Exclusions from Operation of General Rate Limitation Scheme

The Prime Minister has seen your Secretary of State's minute of 16 April and the Chancellor's minute of 18 April.

She recognises the difficult choices that are involved. She would like your Secretary of State and the Chief Secretary to discuss the issue with the Lord President and the Chief Whip to see if a solution can be devised which is acceptable to all parties and which satisfies the undertakings which the Government has given in the House.

I am copying this letter to Private Secretaries to members of E(LF), Murdo Maclean (Chief Whip's Office), David Beamish (Chief Whip's Office, House of Lords) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

(ANDREW TURNBULL)

John Ballard, Esq.,
Department of the Environment.

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Tim.

AJ 5/5

Duncan Prior from Patrick Jenkin's Office rang to say that the S/S has seen the Chancellor's minute of 18/4 -Attached and would like to make the following comment:-

He wants to persue the line set out in his earlier minute of the 16/4 -Attached and he is not swayed by the Chancellor's minute.

Sue
25/4/84

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CCNO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

RATES BILL:

EXCLUSIONS FROM OPERATION OF GENERAL RATE LIMITATION SCHEME

I understand Patrick Jenkin's reasons for proposing, in his minute of 16 April, to exempt from the general scheme of rate capping all authorities which have met either their targets or their GREs over a run of years. But I think this goes further than we need or should go.

2. Patrick's proposal could mean exempting some authorities which have failed to keep spending within target, simply because they are within their GREs. I do not think that this is consistent with our Manifesto commitment "to provide a general scheme for limitation of rate increases for all local authorities to be used if necessary". We could just defend an exemption for authorities which, in Patrick's words, "conformed to government spending guidelines". But we could not argue that authorities which spend more than their target would fall in that category.

3. I suggest, therefore, that the exemption should apply only to authorities which have met both targets and GREs. We would, of course, then need to think how this exemption could be adapted if we were in due course to give up targets. I think we might, for example, exempt authorities which both meet GREs and hold the increase in their current spending to less than the increase in prices - or less than an amount which we could specify each year by order. This would of course mean taking powers to substitute such an alternative test.

4. I know that this would not satisfy Bernard Braine or Peter Hordern: Essex and West Sussex are over target this year. But it seems to me defensible, and there are a number of good points we can make to them.

5. Copies of this minute go to members of E(LF), the Chief Whip, the Chief Whip (Lords) and Sir Robert Armstrong.

NL

(N.L.)
18 April 1984

Local Govt Relations A20.

AT
6/5

Prime Minister
Agree X?
AT
18/4

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18 April 1984

Yes md

MR TURNBULL

GENERAL RATE-LIMITATION: THE CHANCELLOR'S MINUTE

If the Government does not exempt counties like Essex and West Sussex from general rate limitation, there will be political trouble. But the Chancellor is right to be worried by the prospect of such exemptions. The Government cannot credibly set targets if it then describes authorities exceeding those targets as 'low-spenders', and proceeds to exempt them from rate limitation.

The question is whether this threat to the Government's long-term credibility is more or less important than the immediate political problem. We recommend that the Prime Minister should leave this to be resolved by colleagues in E(LF).

X

Oliver Letwin.

OLIVER LETWIN

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MINACA