

SECRET

12 June 1984

MR TURNBULL

RATE LIMITATION

Should the Government select Brent, Sheffield and Merseyside for rate-capping, despite the fact that this will not prevent their rates from rising dramatically?

Lord Whitelaw and Patrick Jenkin ^{and Peter Rees} say yes, because the Government would otherwise face the difficulty of explaining why these extravagant authorities were not rate-capped. But Keith Joseph says no, because it will be near-impossible to explain why these authorities - once "rate-capped" - nevertheless increase their rates dramatically.

We still take Keith's view, for two reasons:

1. If the three offenders are exempted from rate-capping, the worst that can happen is that the Government's supporters will press for them to be rate-capped, thereby giving us favourable publicity; whereas, if the Government rate-caps the three, it will be ridiculed by the Opposition when rates soar, thereby giving us unfavourable publicity.
2. If the Government does not cap Brent, Sheffield and Merseyside in 1985/6, it will be able to assure people

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that these authorities will be capped in 1986/7 if their rates go on upwards; there is no similar defence or promise if the authorities are rate-capped and their rates rise dramatically.

As we suggested in our previous minute, either way forward has its drawbacks. But it must be better to allow a few high-spending authorities to escape the net this year and have our enemies demanding that they be rate-capped, rather than bringing into disrepute and ridicule the whole idea of rate-capping by capping those whose rates will go up a great deal.

We recommend that, if the Prime Minister supports our view and wishes to argue the case further, she should see Lord Whitelaw privately; if he is persuaded, the E(LA) decision could then be referred to full Cabinet for review.

Oliver Letwin.

OLIVER LETWIN

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SECRET

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Treasury Chambers, Parliament Street, SW1P 3AG

D Barclay Esq
Private Secretary
10 Downing Street
LONDON
SW1

12 June 1984

Dear David

RATE LIMITATION: SELECTION CRITERIA

The Chief Secretary has seen your letter to John Ballard and Lord Whitelaw's views in his Private Secretary's letter of 4 June.

The Chief Secretary shares Lord Whitelaw's view that it would be wrong to exclude Sheffield, Merseyside and Brent by manipulating the criteria for rate limitation. Rate limitation means that rates will be lower than they would otherwise be - not necessarily that they will be reduced - and in the Chief Secretary's view there is no reason to deny the benefits of rate capping to the ratepayers of these authorities in 1985-86 simply because the authorities have indulged in creative accounting in an attempt to evade rate capping.

On the proposals agreed in E(LA) (and assuming Liverpool is included) some £4bn of local authority expenditure would be in rate capped authorities. Excluding Sheffield, Merseyside and Brent would reduce the coverage of rate capping by over £500m. It would reduce the potential savings.

The Chief Secretary is also concerned that excluding these authorities would mean that only one major authority outside London was subject to rate limitation. He thinks it is important presentationally for more non-London authorities to be within the scope of the scheme, and, on these grounds too, would oppose exclusion of these authorities.

I am copying this to Private Secretaries to members of E(LA) and to Sir Robert Armstrong.

Yours sincerely

JOHN GIEVE

J. Gieve

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PRIME MINISTER

Policy Unit argued that three councils whose rates will rise rapidly, Brent, Sheffield and Merseyside, should be excluded from the first year of rate capping. (Their rates rise rapidly because they have engaged in creative accountancy in 1984-85 which temporarily has kept rates low this year. Despite its name, rate capping is activated by what a council spends not how it rates and the three are undoubtedly high spenders.)

The Lord President, Secretary of State for the Environment and Chief Secretary all wish to stick by the decision of E(LA) though Keith Joseph favours excluding the three. Policy Unit, in attached note, make a case for excluding the three.

- (i) Do you wish to pursue the matter further or
- (ii) Do you accept the majority view on E(LA)?

AT

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Would you look at the question
in the House to-day. I thought
it was in the opposite sense to
this. I don't see how soon to
reach a decision on the bill is
not better an Act?

12 June 1984

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CC NO ✓

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

11 June 1984

Dear Andrew

P120 attached

RATE LIMITATION: SELECTION CRITERIA AND SETTING OF EXPENDITURE LEVELS

Thank you for your letter of 31 May to John Ballard. My Secretary of State has also seen copies of Janet Lewis-Jones' letter to you of 4 June, and of Sir Keith Joseph's letter of 7 June to the Lord President.

Ministers here have reconsidered the selection criteria and the setting of expenditure levels in the light of the Prime Minister's views. My Secretary of State considers, however, that the conclusions of E(LA) on these matters at the meeting on 24th May were right.

On selection criteria, E(LA) took account of the risk of high rate increases when deciding on selection criteria which would include Brent, Merseyside and Sheffield. My Secretary of State drew particular attention to this point in his paper (E(LA) (84) 7). As the Lord President has pointed out, E(LA) concluded that that risk was outweighed by the problem of justifying the failure to select such notorious high-spenders. My Secretary of State shares that judgement: the Government will argue that in the absence of rate-capping, rates would have gone up even more.

On expenditure levels, capped authorities could only avoid incurring holdback (and thus avoid the part of the rate increase due to holdback) if the levels were no higher than target, or if spending above target but below expenditure level were disregarded. But E(LA) have concluded that expenditure levels generally should be a cash standstill on 1984/85 budgets: if targets too were at that level, there would be serious public expenditure consequences. The alternative of a disregard for expenditure above target by capped authorities is unlawful, since disregards must be applicable to all authorities. My Secretary of State has therefore concluded that the problem raised in your letter cannot be resolved by reconsidering the setting of expenditure levels.

I am copying this letter to Private Secretaries to other members of E(LA) and to Richard Hatfield (Cabinet Office).

Your ever
Alan

ALAN DAVIS
Private Secretary

Andrew Turnbull Esq

local Govt Relations
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 MR MP with POG
 response
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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

7 June 1984

Dear Lordine,

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RATE LIMITATION : SELECTION CRITERIA

I see from the letter of 31 May from No 10 that the Prime Minister is concerned about E(LA)'s agreement to use criteria which will bring Sheffield, Brent and Merseyside into the list of authorities to be rate-capped, with estimated rate or precept increases of 10, 27 and 31 per cent.

As you know from my letter of 22 May and from my remarks at E(LA), I share this concern. We could indeed exclude these three authorities very simply by adopting the criteria in Column 1 of Annex 1 to E(LA)(84)7 ie 25 per cent (instead of 20 per cent) over GRE in 1984-85 and 4 per cent over target. On the figures in Column 3 of Annex 2 to Patrick Jenkin's letter of 18 May, this would reduce the estimated average rate or precept increase of the authorities to be rate-capped from 4 per cent to almost zero. It would also reduce or even eliminate the need for derogations and enable us to concentrate our efforts on the 15 most serious overspenders.

I am sending copies of this letter to the Prime Minister, other members of E(LA) and Sir Robert Armstrong.

Erin. Keir

The Rt Hon Viscount Whitelaw PC CHMC
 Lord President of the Council
 68 Whitehall
 LONDON SW1A 2AT

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response
AT 5/6

5 June 1984

MR TURNBULL

RATE LIMITATION

Yes, Lord Whitelaw is right that it will be difficult to explain why extravagant authorities like Sheffield and Merseyside are not rate-capped. But this difficulty is tiny compared with that of explaining why rate-capped authorities will increase their rates dramatically.

If we exempt three offenders from rate-capping, the worst that can happen is that we will be pressed to rate-cap them. If we rate-cap these three, we will be ridiculed for rate-capping when their rates soar.

If the Government does not cap Sheffield and Merseyside in 1985-85, it will be able to assure people that it will cap them in 1986-87 if their rates go on upwards. There is no similar defence or promise if these authorities are rate-capped and their rates rise dramatically.

The authorities have used creative accounting. This can be used as an explanation for not rate-capping them.

As we suggested in our previous minute, either way forward has its drawbacks. But it must be better to allow a few high-spending authorities to escape the net this year and

have our enemies demanding that they be rate-capped, rather than bringing into disrepute and ridicule the whole idea of rate-capping by capping those whose rates will go up a great deal. We recommend the Prime Minister responds to Lord Whitelaw along these lines.

It may be possible to overcome the problem of high rate rises in Sheffield, Brent and Merseyside without excluding them from rate-capping. It would need a disregard to the holdback for expenditure between rate limit and derogation level; we are working with DoE officials to see whether this would be lawful and feasible.

Linda Rust.

R. OLIVER LETWIN

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CS/JO



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

4 June 1984

Dear Andrew,

**RATE LIMITATION: SELECTION CRITERIA AND
SETTING OF EXPENDITURE LEVELS**

The Lord President has seen your letter of 31 May to John Ballard.

While the Lord President appreciates the Prime Minister's point, he has asked me to say that he has been equally concerned with the problem which the Government would face in explaining why such notoriously extravagant authorities as Sheffield and Merseyside were not brought into the scope of rate limitation.

I am sending copies of this letter to Private Secretaries to other members of E(LA) and to Richard Hatfield (Cabinet Office).

*Yours ever,
Janet Lewis-Jones.*

JANET A LEWIS-JONES
Private Secretary

Andrew Turnbull Esq
Private Secretary
10 Downing Street

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