

Subject

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to David Willetts

10 DOWNING STREET

From the Principal Private Secretary

4 March 1986

Dear Robin,

RATES

The Prime Minister held a meeting yesterday to consider the notes that had been prepared on the correspondence she had received about prospective rate increases in the metropolitan districts of Wirral, Sefton and Bury. The Lord President, the Secretary of State for the Environment, the Secretary of State for Transport, the Chief Secretary, Treasury, the Chief Whip, the Minister of State, Home Office (Mr. Shaw), the Minister of State, Department of the Environment (Mr. Waldegrave) attended. Mr. F.E.R. Butler and Mr. A.C.S. Allan (Treasury), Mr. C.J.S. Brearly (Department of the Environment), Mr. K. Sheehan (Home Office), Miss C. Egerton (Department of Transport) and Mr. A.J. Langdon (Cabinet Office) were also present.

The Prime Minister said that she was most grateful for all the work that had been done at short notice to devise options for action since the preliminary meeting that she had held on the previous Friday. Many of the options would doubtless need to be swiftly discarded, but she was very glad that such a wide range of possibilities had been explored.

The Prime Minister asked whether there were any special factors at work in the areas under discussion. She had been particularly struck by the size of the rate increase proposed at Bury, and by the impression given by the letter from the Leader of the Council there that well-motivated members of the Council had become demoralised by the working of the rate support grant system. Your Secretary of State explained that, while the strength of feeling in the three boroughs was not to be doubted, there were no very unusual features about the demands on the services for which they were responsible. Their spending plans, and the rate increases that would flow from them, were illustrative of local authorities throughout the country. Some authorities, of which Leicester and Nottingham were examples, were

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proposing rate increases that would be substantially higher even than Bury. Leicester was just about to emerge from having been rate-capped. The statutory machinery for rate-capping involved a complex series of procedures, and hence a lead-time of several months; it was not possible to take short cuts with this machinery so as to impose rate-caps on authorities late in the day and without having gone through the preparatory steps. That was true whether or not an authority had previously been subject to a rate-cap.

The Prime Minister said that she reluctantly accepted that the deployment of rate-capping powers was limited in the way that had been described. Government supporters, however, would show fierce resentment if the Government did not take effective action to protect them from the effects of unreasonable local authority spending.

Whatever shape the 1987-88 Rate Support Grant Settlement took (and the meeting noted that decisions would be needed in the summer on the level of Aggregate Exchequer Grant) it was essential that a more flexible and effective rate-capping machinery should be devised as a matter of urgency. What was needed was a restraint that could if necessary be applied to unco-operative authorities for a number of years. The need for effective restraining machinery was not confined to the short term: it was vital that the reformed local government finance system being developed under the Green Paper proposals should embody clear and effective arrangements to enable the community charge to be capped.

Turning to the options that had been identified for relieving the situation in Wirral, Sefton and Bury, the meeting agreed that the most promising possibilities were allowing residuary bodies to use capital receipts and guaranteeing that a specified amount of block grant would be recycled. The options of allowing secession from Transport Joint Boards and providing 100% grant for highway projects were specifically discussed and decided against.

Your Secretary of State assured the meeting that allowing residuary bodies to use capital receipts and to borrow to spread the cost of redundancy compensation, after taking account of balances, would not attract any of the problems of double-counting that had become apparent in the capital control system. A dispensation on those lines could be worth about 3p rate in Wirral and Sefton, but would not affect Bury. The more substantial option was to guarantee now - before local authorities finalised their budgets - the amount of block grant money that would be recycled in 1986-87 under the arrangements that were now replacing holdback. He had already mentioned a figure of £400 million recycled money in Parliament, but in his view it would be



perfectly safe to guarantee £500 million. Some authorities (including Wirral and Sefton) would have made some allowance for recycled money, but a guarantee at this stage would be the most significant action the Government could be seen to be taking at short notice to influence local authorities to keep their budgets low.

Summing up, the Prime Minister said that she agreed that your Secretary of State should proceed forthwith to announce both the authorisation of residuary bodies using capital receipts and borrowing to spread the cost of redundancy compensation, and the guarantee of recycled block grant money. The amount to be guaranteed should be not less than £400 million and could be £500 million if the Chief Secretary, Treasury agreed. It was important that the Government should get the maximum effect from these announcements and your Secretary of State should discuss the handling with the Chief Whip.

Finally, the Prime Minister emphasised again that work should be put in hand to improve the effectiveness of rate-capping machinery in the short term, even if that involved legislation, and to ensure that there were effective arrangements similarly to limit unreasonable local authority charging under the reformed local government finance system proposed in the recent Green Paper.

I am sending copies of this to Joan MacNaughton (Lord President's Office), Stephen Boys Smith (Home Office), Richard Broadbent (Chief Secretary's Office, Treasury), Richard Allan (Department of Transport), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office).

*L. Wick*  
Nigel Wicks

(N.L. WICKS)

Robin Young, Esq.,  
Department of the Environment.





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NIGEL WICKS

I attach a note of yesterday's rates meeting,  
in the form of a draft letter for you to send  
to Robin Young.

*Anthony Langdon*

A J LANGDON

CABINET OFFICE

4 March 1986



*To Helen King*

DRAFT

*Rates*

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The Prime Minister said that she was most grateful for all the work that had been done at short notice to devise options for action since the preliminary meeting that she had held on the previous Friday. Many of the options would doubtless need to be swiftly discarded, but she was very glad that such a wide range of possibilities had been explored.

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Their spending plans, and the rate increases that would flow from them, were illustrative of local authorities throughout the country. Some authorities, of which Leicester and Nottingham were examples, were proposing rate increases that would be substantially higher even than Bury. Leicester was just about to emerge from having been rate-capped. The statutory machinery for rate capping involved a complex series of procedures, and hence a lead-time of several months; it was not possible to take short cuts with this machinery so as to impose rate caps on authorities late in the day and without having gone through the preparatory steps. That was true whether or not an authority had previously been subject to a rate cap.

The Prime Minister said that she reluctantly accepted that the deployment of rate capping powers was limited in the way that had been described. Government supporters, however, would show fierce resentment if the Government did not take effective action to protect them from the effects of unreasonable local authority spending.

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Turning to the options that had been identified for relieving the situation in Wirral, Sefton and Bury, the meeting agreed that the most promising possibilities were allowing residuary bodies to use capital receipts and guaranteeing that a specified amount of block grant would be recycled. The options of allowing secession from Transport Joint Boards and providing 100% grant for highway projects were specifically discussed and decided against.

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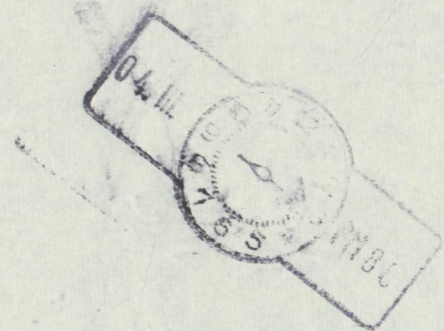
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blind copy  
JW Helts





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