



PRIME MINISTER

RATE SUPPORT GRANT AND RATE CAPPING:  
TOTAL EXPENDITURE

As you know from Nicholas Ridley's letter of 23 October we are faced with an extremely serious problem in the operation of the local government finance legislation. Very briefly it centres on the fact that ever since the Local Government Planning and Land Act was enacted in 1980 we have calculated a local authority's "total expenditure" for the purpose of that legislation in a way that we must now acknowledge to have no lawful basis. The point is beginning to be exposed in the Department of the Environment's dealings with one local authority, and the Attorney General has advised that the Government could not hope to succeed in defending the past interpretation if the matter were challenged in court. Until our interpretation is validated by emergency legislation, no Rate Support Grant Orders can be laid, and local authorities cannot receive block grant for 1987/88. Far more awkwardly, until it is corrected the flaw in interpretation will also undermine the machinery for rate-capping overspending authorities.

2. I am now writing to let you know that the Bill that will be needed to deal with these points is going to be longer (some 17 clauses) and more complex than we had hoped. It also seems highly likely that there must be a Scottish component, though this is relatively simple.

3. The validating Bill will have to be on the statute book before the end of the financial year, and there are clearly going to be some problems in getting such a difficult measure through both Houses on that timescale. At the request of the business managers, therefore, officials prepared a variety of





ingenious alternative schemes. At a meeting today, however, it became clear that solving problems in one direction simply created greater ones in others, and there was general agreement that the right approach must be to press on with validating legislation that makes no changes to substantive policy. The Bill will need to be introduced before Christmas.

4. The other business managers and I are now taking stock of the implications of this for the rest of the programme and I will report again as soon as we have formed a clear view.

5. I am sending a copy of this minute to the Secretaries of State for Wales, the Environment, and Scotland, to the Lord Privy Seal, the Chief Secretary, and the Chief Whip, Commons, all of whom were either present or represented at today's meeting. I am also sending a copy to First Parliamentary Counsel and Sir Robert Armstrong.

Privy Council Office  
1 December 1986

lorw  
A handwritten signature in blue ink, consisting of the letters 'lorw' followed by a long, sweeping flourish that extends to the right and then curves back down.

LOCAL GOVT

RELATIONS

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