

TO MCS for
4/6

Prime Minister (2)

You asked during the Merseyside meeting what could be done to protect business there from high rate increases in 1984-5, given that the new legislation will not be in place to bite on that year.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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Dean Willie

MS 20/7

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RATE LIMITATION

I am replying separately to Michael Scholar's letter of 4 July to John Ballard commenting on my Secretary of State's minute of 29 June to the Prime Minister. This letter is about the two points on rate limitation mentioned in your letter of 6 July about Merseyside.

The Prime Minister asked my Secretary of State to look into the possibility of including an appointed day in the Bill, to be announced, and to come into effect, immediately at Second Reading, and to be validated retrospectively later on.

My Secretary of State fully shares the Prime Minister's view that action to limit rate increases should be taken as quickly as possible; and that the greatest possible pressure should be brought to bear on local authorities to restrain their rate increases in 1984-85.

The timetable to which Ministers are working, (as set out in paragraph 1 of my Secretary of State's minute to the Prime Minister) involves the publication of a White Paper by early August; a consultation period; instructions to Counsel by October; introduction of the Bill in January; and Royal Assent by July 1984. It would not be practicable to shorten this timetable significantly; and it would certainly be impossible to have Royal Assent before rates for 1984-85 are set next spring.

If Ministers wished to operate the new provisions for 1984-85 this would involve retrospection from July 1984 (ie the date of Royal Assent) to autumn 1983. From autumn 1983 onwards the Secretary of State would have to take administrative action, without statutory powers, on the following lines:

- ✓ a) select authorities for rate limitation;
- b) set maximum expenditure levels for the selected authorities;
- c) consider any representations from the selected authorities;
- ✓ d) propose rate limits on the basis of the maximum expenditure levels and the grant entitlements in the RSG settlement.

Until the Bill has received Royal Assent, local authorities could not be required to keep their rates for 1984-85 within these non-statutory limits. It would therefore be necessary to provide in the Bill for validating retrospectively any non-statutory rate limit figures set by the Secretary of State during 1983-4. Any rate for 1984-85 which exceeded the limit would then become retrospectively invalid, and the local authorities concerned would have to be obliged under the Act to repay to their ratepayers the amount of the excess. This requirement would be very difficult to enforce especially insofar as the authority had already entered into commitments for the year. Even if it could be compelled to dismiss staff in order to make the repayment, the consequent redundancy payments could in some circumstances exceed savings on staff wages and salaries.

A proposal to legislate retrospectively in this way would, in my Secretary of State's view, increase enormously the problems of securing the passage of the Bill. Many of the Government's supporters in local government, who might otherwise be persuaded to acquiesce, would be pushed into outright opposition to the Bill. The scope for confrontation with individual authorities, and the risks of legal challenge, would also be greatly increased.

My Secretary of State believes that a more effective approach will be to make it clear both in the White Paper and during the passage of the Bill that the selection of authorities, and the setting of maximum expenditure levels and rate limits, for 1985-86 will take account of spending and rating behaviour in 1984-85. For example, if an authority deliberately increases rates in 1984-85 in order to build up their balances, its rate limit for 1985-86 could be set at a low level so as to ensure that the balances are run down again. Powers would be taken to achieve that. If the Government makes its intention clear in advance, this approach can be defended as entirely fair, and as giving adequate protection to ratepayers.

The Prime Minister hopes that it will be possible to protect Liverpool's industry from next year's rate increases. The general approach described in the preceding paragraph should act as an incentive for Liverpool, like other authorities, to act responsibly in setting its rates for next year. I should add that until the change of administration earlier in the year Liverpool has not been an especially high spending or high rating authority. The budget for 1983-84, prepared by the previous Liberal administration, is 9.5% above GRE, and 1.5% above target, an improvement on earlier years. Their rate in 1983-84 is only 7.1% above that for 1982-83. By comparison, 47 authorities with 1983-84 budgets greater than £10m are planning to spend more than 10% above GRE, and 10 metropolitan districts have rates higher than Liverpool's.

So long as the Government are aiming to catch only about 15 authorities (for the reasons explained in the minute to the

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Prime Minister), and are intending to use excess over GRE as the basic criterion for high spending, it would be difficult to justify selecting Liverpool on the basis of their recent figures.

Yours sincerely
Roger Bright

ROGER BRIGHT
Private Secretary

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Willie Rickett Esq