



2 MARSHAM STREET
LONDON SW1P 3EB 4
01-212 3434

My ref:

Your ref:

The Rt Hon The Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1

Prime Minister

*Mr Ridley now
proposes to take powers for
rate capping on the face
of the bill.*

5 December 1986

DRN

5/12

MS

Dear Lord President,

TOTAL EXPENDITURE BILL

Following our discussion on Monday, my officials have been working up the proposals for rate limitation which we agreed to include in the Bill. This work has highlighted a timing issue which we did not fully address.

As you will recall, the proposal was to provide in the Bill that rate and precept limitation should continue this year as normal, but on a later timetable, given that Royal Assent could not be achieved until April. April 9 was mentioned at our meeting. The best approach would involve allowing designated authorities to fix rates and precepts the same way as all other authorities, and reducing them subsequently if they are above the limit we eventually set. In timetabling terms it would run as follows:

10 March	Precept authorities issue precepts (limitation powers not enforceable, but authorities have indication of proposed limits).
1 April	Rating authorities make rates (limitation powers not enforceable, but authorities have indication of proposed limits).
9 April	Royal Assent to total expenditure Bill.
10 April (?)	RSG Reports laid; formal redetermined expenditure levels and provisional rate/precept limits issued.
By 8 May	Orders fixing rate and precept limits laid before Parliament.
Between 8-22 May	Orders fixing rate and precept limits debated and made.

After Orders are made, allow 4 weeks for precepting authorities to issue revised lower precepts; 6 weeks for authorities to issue revised lower rates; end date late June.

You will see the timing difficulty. I have therefore reconsidered whether we should adopt the alternative we looked at on Monday which links the total expenditure provisions with the enactment of rate and precept limits - by formula on a class basis to avoid hybridity. Timing here would be:

10 March	Precept authorities issue precepts (limitation powers not enforceable but authorities aware of <u>exact</u> limit to be set by Bill).
1 April	Rating authorities make rates (limitation powers not enforceable but authorities know <u>exact</u> limit to be set by Bill).
9 April	Royal Assent to total expenditure Bill.
10 April	RSG Reports laid; authorities notified of effect of precept/rate limit formula.

No further action by Government. Where authorities have set rates/precepts higher than the limit in the Bill, they will be required within 4 weeks (precepting authorities) or 6 weeks (rating authorities) to substitute the lower figures.

The difficulties we foresaw with this approach were the danger of hybridity, and the risk of loss of control of the authorities' expenditure. Avoiding hybridity depends on being able to deal with "classes" of authority. Maintaining effective control of expenditure depends on being able to define suitable classes. The proposed classes are described in the Annex. Parliamentary Counsel has seen this material and is checking it with the House authorities on the hybridity question. The position looks reasonably promising. The main outstanding issue is whether the separate treatment of ILEA would make the Bill hybrid, and I understand we will not get a firm answer on this until Monday. If we cannot treat ILEA as a separate class then I think we would have to treat all authorities designated for precept limitation as a single class, which would not be so satisfactory. On other aspects, there should be no scope for legal challenge to the limits provided the formula is applied correctly. The approach will necessarily be somewhat broad brush, but, with the classes I have identified, should involve no significant loss of control over the authorities concerned. Nor do I think that this approach will make the rate limitation provisions of the Bill much more controversial than they otherwise would be.

Subject to your views and those of colleagues therefore - which I would be grateful to have if possible by lunchtime on Monday - I propose to instruct Counsel to adopt the formula based approach to enacting rate limits. Such instructions have been prepared.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Chief Whip in both Houses and the Secretaries of State for the Home Department, Scotland, Wales, Education and Science and Transport, *Sir Robert Armstrong and Sir George Engel.*

Yours sincerely,

Ridley.

PP NICHOLAS RIDLEY

(Approved in draft by the Secretary of State and signed in his absence).

ANNEX

CLASSES

1. We would propose to set formulae which were the same for all authorities in each of the following classes:

Selective Rate Limitation

- (a) Previously designated authorities;
- (b) authorities newly designated for 1987/88.

Precept Limitation

- (a) Transport authorities
- (b) Police authorities
- (c) Fire and Civil Defence Authorities
- (d) ILEA

FORMULA

2. The basic formula would be -

$$\text{Maximum rate or precept} = (\text{EL} - \text{BG}) \frac{100}{\text{RV}}$$

Where EL - is the expenditure level determined in July and as validated in Bill;

BG - is the block grant (including the effects of LREs) estimated to be payable to the authority in the rate support grant report for 1987/88 for spending at EL;

RV rateable value used in the Report for 1987/88.

3. If it is desired to make some provision for redetermination of expenditure levels, the ELs for all authorities in a class can be uplifted by a given percentage.

4. An additional factor is necessary to take account of teachers' pay. This would be a factor of general application, but only biting on education authorities.

5. No direct account would be taken in the formulae of reserves (negative or positive).

*Trade Items - Comptroller
Labour Council
7 May*

SECRET



1980 Apr - 8
P.S.C.
R-cap.

Ref. A086/3428

20-30

PRIME MINISTER

*Spending for next year
10 bands below
plus Skelton
£600 m*

Cabinet: Total Expenditure Bill

The Lord President may wish to mention at Cabinet, under Parliamentary Affairs, that this Bill will be introduced next week in the House of Commons, and taken ahead with all possible speed after the Christmas Adjournment.

2. As you know, the Bill is necessary to give retrospective and prospective validation to a highly technical point of interpretation that would, if uncorrected, prevent the Rate Support Grant machinery and the rate and precept limitation machinery from taking their course next year. It has now become clear that the Bill will be so long (about 20 clauses) and complex that Royal Assent much before the beginning of April is not realistic. Mr Ridley has therefore secured the agreement of the Lord President and other colleagues concerned that the rate and precept limits for 1987-88 should be enacted on the face of the Bill. If this were not done, there would be a sequence of Orders and consultation periods stretching from Royal Assent to late May, or even June.

3. While the Lord President and the other Ministers concerned (including the business managers) fully agree that there is no other realistic way of preserving rate and precept limitation next year, the matter has so far been handled on a strict need-to-know basis, to prevent the Government's current vulnerability to legal challenge becoming known. Cabinet tomorrow is the last opportunity to inform all colleagues of what will be a very sensitive piece of legislation.



HANDLING

4. After the Lord President has briefly described the need for the Bill, you may wish to emphasise that strict confidentiality must be observed until the Bill is published. (The minutes of the item will be in a confidential annex.)

5. You may then wish to ask the Secretary of State for the Environment and the Chancellor of the Exchequer if they wish to comment further. (Final details of the treatment of joint police authorities and joint fire authorities are under discussion between the Home Secretary and the Chief Secretary : if that is raised you may simply wish to say that you expect these points to be resolved very quickly.)

6. The need for a validating Bill is manifest. If there should be any questioning of the approach that the Bill takes to rate-capping, you may wish to emphasise that the proposed course will give the authorities concerned certainty about their position; and that any other approach would lead to a most unwelcome period of acrimonious confusion following Royal Assent.

Ms Woolley
(Private Secretary)

MP ROBERT ARMSTRONG

10 December 1986



QUEEN ANNE'S GATE LONDON SW1H 9AT

11 December 1986

*NBP at this stage**Dear Secretary of State*TOTAL EXPENDITURE BILL

Thank you for copying to me your letter of 5 December.

Although I think I understand the advice you have been given, the requirement to set maximum precepts on a formula basis causes me acute difficulties and makes a mockery of the very considerable efforts we have made to arrive at tough but realistic decisions on redeterminations over the last two years.

My difficulties arise because, as your and John MacGregor's officials know, our consideration of the redetermination applications by the joint police and joint fire and civil defence authorities had led us to the view that, while we could safely reject some 70% of the bids made for additional expenditure compared with the provisional ELs we issued in July, we needed to concede higher than average increases in respect of the West Midlands Police Authority and the West Yorkshire Fire and Civil Defence Authority.

As John Moore said in his letter of 8 December, doing this by a formula on the face of the Bill inevitably involves setting precept limits for all on the basis of the highest assessment, particularly when dealing with expenditure on the police and the fire services with which we can take no risks.

The results of our assessments (the detailed calculations on which John MacGregor's officials have) are at Column E of the attached table. These show that the formula requires us to apply a percentage increase of 6% to the provisional ELs in respect of the police authorities and an increase of 4% (rounded down from 4.3%) in respect of the fire and civil defence authorities.

But this produces the absurd result that several authorities will be permitted to precept at above the levels of their redeterminable applications. I do not believe it will be easy for you to defend this in the House since it contradicts our previous insistence on value for money and much of our argument about savings from the abolition of the metropolitan counties. I have therefore looked carefully at the possibility of reducing the assessments made for the West Midlands Police Authority and the West Yorkshire Fire Authority. In neither case would this be safe.

The Rt Hon Nicholas Ridley, MP.

/cont....

The proposal for the West Midlands Police Authority gives them in fact only just over half of what they sought in their redetermination application, in what is one of the most sensitive policing areas in the country. We have already taken a very stringent view of their requirements, rejecting completely the case for an increase in police force establishment (the Authority bid for 313 extra men) and cutting down sharply on the bid for extra civilians. But the Authority has convinced us that they face much higher costs, particularly for pensions and rent allowances than we had allowed in July. There is also a particularly large and unavoidable expenditure on computer systems which are being replaced in 1987-88. The Audit Commission was of course heavily critical of the support given to the West Midlands force by the Metropolitan County Council.

As for West Yorkshire, the increase in their EL compared to the other fire and civil defence authorities is mainly due to a slight reduction in the manpower saving we assumed in July. Again we are conceding only about half of what the Authority is asking for, and we must set this against the need to ensure that minimum standards of fire cover, which are not now being met, are achieved.

Given that I cannot reduce further these West Midlands and West Yorkshire figures, we would be forced under your requirement about a formula to apply these same figures to the other authorities in the same classes regardless of need. You may conclude, as I have done, that, whatever is decided for other classes of authority, it would be less harmful to our public expenditure policies and the signals we give to local government generally to remove the police and the fire and civil defence authorities completely from the precept control process for 1987-88. I understand that this can be done in your Bill. To do so would be to remove a cause of embarrassment and contention and probably ease its passage.

The saving grace is that we would also make clear that the very comprehensive controls we operate under section 85 of the 1985 Act related to manpower and administration would remain in place. We are the only Department to have adopted such controls, and given the very high proportion of expenditure in the police and fire service on manpower, they will in practice provide an effective form of constraint.

I am copying this letter to the recipients of yours.

Yours sincerely
D. W. P. Hill

APPROVED BY THE HOME SECRETARY
AND SIGNED IN HIS ABSENCE

SECRET

ANNEX A

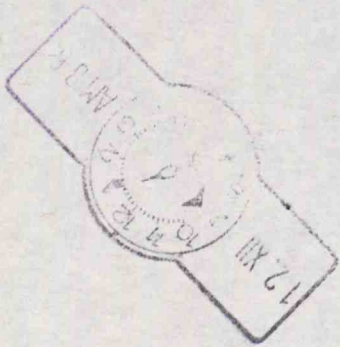
<u>Authority</u>	<u>A</u> EL as originally determined	<u>B</u> Recommended total expenditure on non-formula basis (including redetermination and contingency)	<u>C</u> Percentage Increase from <u>A</u> to <u>B</u>	<u>D</u> Recommended total expenditure on formula basis (police authorities + 6 per cent; fire authorities + 4 per cent)	<u>E</u> Maximum precepts from <u>D</u> (percentage increase on 1986-87 in brackets)
	<u>£</u>	<u>£M</u>	<u>%</u>	<u>£M</u>	(p in the £)
<u>POLICE</u>					
Greater Manchester	89.121	89.121	Zero	94.468	18.58 (15.3)
Merseyside	62.047	63.776	2.8	65.770	24.85 (2.7)
South Yorkshire	36.726	37.171	1.2	38.930	17.08 (10.2)
Northumbria	45.542	46.115	1.3	48.275	15.06 (22.8)
West Midlands	81.402	86.303	6.0	86.303	12.72 (10.6)
West Yorkshire	66.117	67.439	2.0	70.084	20.61 (5.7)
<u>FIRE</u>					
Greater Manchester	43.312	44.239	2.3	45.044	10.24 (7.6)
Merseyside	29.284	29.753	1.6	30.455	7.21 (0.3)
South Yorkshire	20.681	21.010	1.6	21.508	10.85 (3.4)
Tyne and Wear	20.989	20.989	Zero	21.829	11.1 (1.1)
West Midlands	39.523	39.789	0.7	41.104	7.01 (6.9)
West Yorkshire	33.788	35.233	4.3	35.140	12.1 (8.0)
London	156.348	161.588	3.4	162.602	8.19 (6.3)

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Local Govt

Abilene

PT 31



SECRET



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

COPY NO. 2 OF 24

OUR REF : JM/PSO/15647/86

Serial No: 1716

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

8 December 1986

NBRN

Dear Nicholas,

RATE SUPPORT GRANT AND RATE CAPPING : TOTAL EXPENDITURE

Thank you for sending me a copy of your letter of ^{after} 5 December.

Your proposal has the merit of simplicity. Setting precept limits on the basis of a common percentage uplift to determined ELs will inevitably relax expenditure control, to the extent that a percentage which is generous enough to give a reasonable figure for the most needy authority may be over-generous to others. But I do not think this problem is insurmountable as far as the PTAs are concerned, especially since we can continue to stress that further reductions will be required in 1988/89.

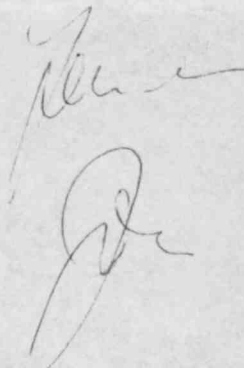
I am however troubled on two points. First, though it is now over six weeks since the Attorney's advice was received we have since that date been considering the PTAs' redetermination applications without referring to this problem, as instructed by Willie Whitelaw's letter of 3 November. Ministers and officials have conducted meetings with the Authorities, and have asked them to complete a large amount of work on a restricted timetable. We have also taken the line, in writing to the AMA, that redetermination applications must be considered individually and that there is little scope for collective discussion. If now we enact precept limits on a formula basis, even though the formula takes some account of the authorities' representations, it will be hard to avoid accusations of bad faith. The fact that it has taken so long to reach decisions and announce the legislation may lead to worse criticisms. To minimise this damage, a meeting already scheduled with the Greater Manchester MPs for next Monday will have to be cancelled. Clearly it would be much better for the Government's standing if this could be done after you have made a statement to the House.

SECRET

S E C R E T

I am also concerned that the complexity of the legislation, and the business managers' decision that Royal Assent cannot be achieved until April, must call into question how far we can expect to get what we want eventually onto the statute book within the timetable proposed. This is of course a matter for you and the judgement of the business managers.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Chief Whips in both Houses and the Secretaries of State for the Home Department, Scotland, Wales, Education and Science, the Lord President of the Privy Council, Sir Robert Armstrong and Sir George Engel.

A handwritten signature in cursive script, appearing to read 'John Moore', is written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal stroke at the end.

JOHN MOORE

S E C R E T

LOCAL GOVT Relations PT31





DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

The Rt Hon Nicholas Ridley MP
 Secretary of State for
 the Environment
 2 Marsham Street
 London SW1P 3EB

8 December 1986

Dear Secretary of State
TOTAL EXPENDITURE BILL

NBP 7.

Thank you for your letter of 5 December.

My particular responsibility is for precept limitation of the ILEA. I have compared the result which might be achieved through the formula (treating ILEA as a separate class but on the principles to be applied to other LEAs) with the approach I had been thinking of adopting towards the authority. It seems that the formula may be slightly more generous than I might otherwise have wished because there is no provision for drawing down of reserves and it involves a conservative estimate of the rateable value. By the latter, I mean that this formula refers to the rateable value used in the RSG Report for 1987-88 (i.e. that at April 1986), whereas under the Rates Act 1984 I would have used the latest estimate of the rateable value, thus taking into account any increase between its value at April 1986 and that latest estimate. Is it not possible to incorporate the latest estimate of Rateable Value into the formula? Otherwise, the formula approach looks acceptable, provided ILEA can be treated as a separate class of authority.

I also have an interest in the effect of your proposal on the eight rate-capped local education authorities. The test of the approach for these authorities will be whether it can produce a fair and reasonable result. This can only be confirmed by looking at the results of the formula. My officials are in touch with yours about the details, in particular the proposed treatment of teachers' pay. Subject to the satisfactory resolution of these points, and to confirmation that ILEA can be treated as a separate class, I am content with what you propose.

I am copying this letter to the Prime Minister, the Lord President of the Council, the Lord Privy Seal, the Chief Whips in both Houses and the Secretaries of State for the Home Department, Scotland, Wales and Transport, Sir Robert Armstrong and Sir George Engle.

Yours sincerely

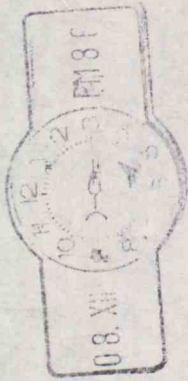
Shirley Temple

SECRET

Approved by the Secretary

of State and signed in his absence

LOCAL GOVT Relations PT31



RECEIVED

1881

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw CH MC
 Lord President of the Council
 Privy Council Office
 Whitehall
 London
 SW1A 2AT

NBPA.

~~SECRET~~

8 December 1986

Dear Willie,

TOTAL EXPENDITURE BILL

FILE WITH ON

I have seen a copy of Nicholas Ridley's letter of 5 December to you.

Having seen his explanation and protracted timetable for rate capping I can understand Nicholas' reasons for wishing to curtail it as under the original proposal and I am therefore prepared to accept his new approach.

But we must ensure that the change does not lead to any general relaxation in the pressure we planned to apply to rate-capped authorities. Nicholas suggests that it should involve no significant loss of control over the authorities concerned. But I am rather concerned that it would lead to pressure to set the formula rate cap for each class of authority by reference to the individual authority which would be hardest hit. That would inevitably mean that rate caps were less tight than we had intended for all other authorities in the same class, which could have very significant effects on public expenditure in 1987-88 and later years.

We must clearly find an approach which still achieves our public expenditure objectives, avoiding any such weakening in our general stance. One way of doing this would be to calculate the formulae in the Bill by reference to the average authority in each class (which means an element of rough justice).

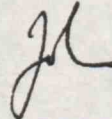
SECRET

Whether we follow that course or some alternative with similar general results, the decisions to be taken on points 3-5 of Nicholas' annex are vital. And adjustments for redetermination (3) and teachers' pay (4) should be the minimum that can be defended for the average authority in each class. And reserves (5) should be indirectly taken into account in the adjustments.

I hope we also agree that we must resist firmly any attempt in Parliament, where I fear the formulae will be controversial, to amend the Bill in this area.

I am copying this letter to the Prime Minister, John Biffen, John Wakeham, Bertie Denham, Douglas Hurd, Nicholas Ridley, Malcolm Rifkind, Nick Edwards, Kenneth Baker, John Moore, Sir George Engle and Sir Robert Armstrong.

Yours ever,



JOHN MacGREGOR

