

c. Mr. Alison



10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letter of 5 January about the Rates Bill.

I and my Party continue to support the decentralisation of power and the enhancement of freedom and local choice. However we are also committed to the protection of the individual where he is being unreasonably oppressed, a description which applies very aptly to a large number of domestic and non-domestic rate-payers in the minority of irresponsible high spending authority areas.

This Government has twice received the overwhelming endorsement of the British people at General Elections for its policy of reducing the size of the public sector in the fight to bring down the rate of inflation and to curb the burden of taxation. Local government spending is a quarter of all public spending and must be kept under control just as much as that of central Government. It is true that local government's expenditure as a proportion of national income has fallen slightly, but only because councils have slashed their capital programmes - the programmes which provide work for the private sector and which can make a genuine contribution to economic recovery. Local government current spending on goods and services in England has on average increased by 9% in cost terms in the past five years after taking account of inflation; in some councils the increase has been even greater. This year local councils are spending about £2½ billion more than originally planned for 1983/4 - an excess equivalent to £140 for every household in the country. To pay for this spending councils have put up their rates by an average of 91% since 1979, and in some areas rate increases have been more than twice that amount - all this while prices have gone up by only 55%. This cannot continue.

/We are

We are not seeking "a veto over every local authority in the land". Our concern is with those authorities who, despite all attempts at influence and persuasion, remained unconcerned either about the burden on their ratepayers or the effect of their spending on national economic policy. Selective rate limitation is designed to put an upper limit on the rates of such authorities; within that limit there will still be freedom of local choice on the priorities of different services. We have been forced to this position because of the intransigence of the minority.

We hope it will never be necessary to introduce the powers of general rate limitation, but that the combination of the selective scheme, together with the existing constraints of the grant system, targets and holdback will achieve the desired result. However, the general powers must be available to influence those overspending authorities who will not be among the small number - some 12 to 20 - selected for rate limitation.

There is nothing ill thought out about the Rates Bill. The move to direct rate limitation is simply the latest in a long series of measures designed to bring local government's rating and spending behaviour under proper control. Of course one of those measures was to reduce the percentage rate of central government grant support in order to increase local accountability and to reduce the burden on the taxpayer. However, a small group of authorities have persistently gone on increasing their spending and putting the resulting burden on the ratepayer. Average rate increases could have been below the rate of inflation in each of the last four years if councils had observed Government's spending targets.

As you know, there has also been a long and careful study of possible alternatives to domestic rates, including public consultation on a detailed Green Paper. If an alternative had existed we would have found it and implemented it; but it became clear that there was no consensus for change, nor any alternative which - looked at overall - was better than the rating system. That is why we concluded that the rating system should remain for the foreseeable future the main local source of local government income, but that it should be improved with a view to

/increasing

increasing local accountability. In the light of this history of analysis I see no need for further enquiry or debate.

My meeting on 9 January was simply a private discussion with certain political figures in local government. I see no need to publish its conclusions. I can however say that we were fully in agreement on the need to protect ratepayers from the unreasonable demands of high spending authorities, and on the need to achieve the Government's overall economic objectives.

Like you I am releasing a copy of this letter to the Press.

Dr. J.A. Cunningham, M.P.