

Prime Minister

CCJ.M/us 20 A-E

SECRET

This arrived late (at 9.00pm) that LA spending in 1991-92 cannot be capped. The comparison at V1 is that legislation on enhanced capping is not workable because it has only a small impact on average community charges. But if you look at 'V' in my note, it is clear that Mr Palton has conveniently ignored two other factors:



It is typical of DOE officials' thinking - influenced by AEF or the prospect of a highly misleading attempt to suggest

PRIME MINISTER

COMMUNITY CHARGE

- that the effects of capping will encourage LA in general to budget lower, and - that more spent to keep down charges can be put in - if

Annex C of the paper circulated by the Cabinet Office for tomorrow's meeting contains some very important figures. I have been looking at them to see if we might find a way of comparing between tough use of present capping powers and new powers, so as to show more clearly their potential effect on spending and on community charges in 1991/92.

The results are in the three attached tables which examine charges with different levels of AEF - £1.5bn higher than present provision, £2.5bn higher and £3.5bn higher.

Across the top of each table are the five different levels of TSS examined in the Cabinet Office paper, with the resulting Community Charge for Standard Spending - our benchmark for charges in 1991/92 - shown below the TSS figure.

Down the left hand side of each table are the five levels of actual spending examined in the Cabinet Office paper. Below each spending level is the average community charge which would result from that level of spending.

The table itself is divided into blocks which show for each combination of spending assumption and TSS:

- (a) the capped level of spending and the resulting average community charge with capping powers enhanced by legislation;
- (b) the capped level of spending and the resulting average community charge with more vigorous use of existing powers. The capped levels of spending and charge could be reduced further by use of the 'excessive increase' arm of present capping powers.

The table makes exactly the same assumptions as the Cabinet Office paper about the cuts which could be achieved by capping in 1991/92. (These are that authorities should be allowed caps equal to 1990/91 budgets at spending level I, 3% higher than 1990/91 budgets at spending level II and 5% higher than 1990/91 budgets in cases III to V.)

on enhanced capping means it will not leak into other pending. BHP 12/6

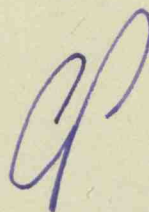
A few examples may help explain the tables:

- in table A, AEF is increased by £1.5bn from the present provision. If TSS were set at £38.4bn (column C) then the CCSS would be £372. If authorities budgeted to spend at £40.5bn (section III) the average charge would be £422 without capping. The top two lines of section III, column C show that, with capping powers enhanced by legislation, spending might be brought down to £39.9bn and the average charge to £404. With existing powers spending might be brought down to £40.3bn and the average charge to £415;
- in table B, AEF is increased by £2.5bn. TSS of £39.5bn (column C) would give a CCSS of £375. Spending of £40.5bn (section III) would give an average charge of £393. Enhanced capping could reduce spending to £40.1bn and the average charge to £381. Present capping powers could reduce spending to £40.4bn and the charge to £389;
- in table C, AEF is increased by £3.5bn. TSS of £39.5bn (column C) would give a CCSS of £347. Spending of £41bn (section IV) would give an average charge of £379. Enhanced capping powers might give capped spending of £40.4bn and an average charge of £363. Existing powers could reduce spending to £40.8bn and the average charge to £373.

X | There are only two points which I want to draw out from these tables. First the differences for the chargepayer (as seen in the average charge) between enhanced powers and existing powers is not all that considerable when we look at realistic combinations of TSS and likely budgets.

Second it is crucial to see how all the different factors - TSS, budgets, capping and AEF inter-relate with each other. They show that there is a danger that if we get our judgements about capping wrong we could end up with significant cuts in service, not just gains in efficiency and charges much higher than the level we say they should be. This danger is at least as serious as that of encouraging authorities to spend up by setting TSS and AEF too high.

I am copying to Geoffrey Howe, John Major, Norman Lamont, Tim Renton, Michael Portillo, Sir Robin Butler, Richard Wilson and Peter Owen.



CP

12 JUN 1990

TABLE A

AEF up by £1.5bn

Level of 1991/92 budgets	Use of capping	-----Level of TSS-----				
		A £35.4bn CCSS=£288	B £36.6bn CCSS=£322	C £38.4bn CCSS=£372	D £39.5bn CCSS=£403	E £40.5bn CCSS=£431
I. £38.4bn (up 5%) CC=£362 Min increase for caps 0%	a. Enhanced Spending CC	£37.7bn £342	£37.9bn £349	£38.2bn £355	£38.3bn £358	£38.3bn £360
	b. Present Spending CC	£38.1bn £353	£38.2bn £357	£38.3bn £360	£38.4bn £361	£38.4bn £361
II. £39.5bn (up 8%) CC=£393 Min increase for caps 3%	a. Enhanced Spending CC	£38.4bn £363	£38.8bn £373	£39.1bn £383	£39.3bn £386	£39.4bn £389
	b. Present Spending CC	£39.0bn £379	£39.2bn £385	£39.4bn £390	£39.4bn £391	£39.5bn £392
III. £40.5bn (up 10.5%) CC=£422 Min increase for caps 5%	a. Enhanced Spending CC	£39.0bn £378	£39.4bn £390	£39.9bn £404	£40.1bn £410	£40.2bn £414
	b. Present Spending CC	£39.7bn £400	£40.0bn £407	£40.3bn £415	£40.4bn £418	£40.4bn £420
IV. £41.0bn (up 12%) CC=£436 Min increase for caps 5%	a. Enhanced Spending CC	£39.0bn £379	£39.5bn £393	£40.2bn £412	£40.4bn £420	£40.6bn £425
	b. Present Spending CC	£40.0bn £406	£40.3bn £416	£40.7bn £427	£40.8bn £430	£40.9bn £433
V. £41.7bn (up 14%) CC=£456 Min increase for caps 5%	a. Enhanced Spending CC	£39.1bn £381	£39.6bn £396	£40.5bn £422	£40.9bn £432	£41.1bn £439
	b. Present Spending CC	£40.2bn £412	£40.7bn £427	£41.2bn £441	£41.4bn £447	£41.5bn £450

NB: Figures assume no transfer of responsibility for community care

Each extra £1bn of AEF reduces all of the charges shown by £28

TABLE B

AEF up by £2.5bn

Level of 1991/92 budgets	Use of capping	-----Level of TSS-----				
		A £35.4bn CCSS=£260	B £36.6bn CCSS=£294	C £38.4bn CCSS=£344	D £39.5bn CCSS=£375	E £40.5bn CCSS=£403
I. £38.4bn (up 5%) CC= £334 Min increase for caps 0%	a.Enhanced Spending CC	£37.7bn £313	£37.9bn £320	£38.2bn £327	£38.3bn £330	£38.3bn £332
	b.Present Spending CC	£38.1bn £324	£38.2bn £328	£38.3bn £332	£38.4bn £332	£38.4bn £332
II. £39.5bn (up 8%) CC= £365 Min increase for caps 3%	a.Enhanced Spending CC	£38.4bn £334	£38.8bn £345	£39.1bn £354	£39.3bn £358	£39.4bn £361
	b.Present Spending CC	£39.0bn £351	£39.2bn £356	£39.4bn £361	£39.4bn £363	£39.5bn £363
III.£40.5bn (up 10.5%) CC= £393 Min increase for caps 5%	a.Enhanced Spending CC	£39.0bn £349	£39.4bn £362	£39.9bn £376	£40.1bn £381	£40.2bn £385
	b.Present Spending CC	£39.7bn £371	£40.0bn £379	£40.3bn £386	£40.4bn £389	£40.4bn £391
IV. £41.0bn (up 12%) CC= £408 Min increase for caps 5%	a.Enhanced Spending CC	£39.0bn £351	£39.5bn £365	£40.2bn £384	£40.4bn £391	£40.6bn £396
	b.Present Spending CC	£40.0bn £378	£40.3bn £388	£40.7bn £398	£40.8bn £402	£40.9bn £404
V. £41.7bn (up 14%) CC= £428 Min increase for caps 5%	a.Enhanced Spending CC	£39.1bn £353	£39.6bn £368	£40.5bn £393	£40.9bn £403	£41.1bn £411
	b.Present Spending CC	£40.2bn £384	£40.7bn £399	£41.2bn £413	£41.4bn £419	£41.5bn £422

NB: Figures assume no transfer of responsibility for community care

Each extra £1bn of AEF reduces all of the charges shown by £28



TABLE C

AEF up by £3.5bn

Level of 1991/92 Budgets	Use of Capping	-----Level of TSS-----				
		A £35.4bn CCSS=£232	B £36.6bn CCSS=£266	C £38.4bn CCSS=£316	D £39.5bn CCSS=£347	E £40.5bn CCSS=£375
I. £38.4bn (up 5%) CC= £305 Min increase for caps 0%	a.Enhanced Spending CC	£37.7bn £285	£37.9bn £292	£38.2bn £298	£38.3bn £301	£38.3bn £303
	b.Present Spending CC	£38.1bn £296	£38.2bn £300	£38.3bn £303	£38.4bn £304	£38.4bn £304
II. £39.5bn (up 8%) CC= £336 Min increase for caps 3%	a.Enhanced Spending CC	£38.4bn £306	£38.8bn £316	£39.1bn £326	£39.3bn £330	£39.4bn £332
	b.Present Spending CC	£39.0bn £322	£39.2bn £328	£39.4bn £333	£39.4bn £334	£39.5bn £335
III. £40.5bn (up 10.5%) CC= £365 Min increase for caps 5%	a.Enhanced Spending CC	£39.0bn £321	£39.4bn £333	£39.9bn £347	£40.1bn £353	£40.2bn £357
	b.Present Spending CC	£39.7bn £343	£40.0bn £350	£40.3bn £358	£40.4bn £361	£40.4bn £363
IV. £41.0bn (up 12%) CC= £379 Min increase for caps 5%	a.Enhanced Spending CC	£39.0bn £322	£39.5bn £336	£40.2bn £355	£40.4bn £363	£40.6bn £368
	b.Present Spending CC	£40.0bn £349	£40.3bn £359	£40.7bn £370	£40.8bn £373	£40.9bn £376
V. £41.7bn (up 14%) CC= £399 Min increase for caps 5%	a.Enhanced Spending CC	£39.1bn £324	£39.6bn £339	£40.5bn £365	£40.9bn £375	£41.1bn £382
	b.Present Spending CC	£40.2bn £355	£40.7bn £370	£41.2bn £385	£41.4bn £390	£41.5bn £393

NB: Figures assume no transfer of responsibility for community care

Each extra £1bn of AEF reduces all of the charges shown by £28