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My ref:

Your ref:

Barry Potter
PS/Prime Minister
10 Downing Street
London
SW1A 0AA

7 July 1990

Dear Barry,

THE COMMUNITY CHARGE

attached

Your letter of 2 July set out the Prime Minister's request that my Secretary of State 'should demonstrate in terms of proposed capping criteria how an outcome of £40 billion in 1991/92 on actual local authority spending could be achieved under the Solicitor General's proposed approach to capping and a TSS figure of £39 billion'.

My Secretary of State has looked, for illustrative purposes, at the level of outturn spending which might arise with a capping scheme based on 1991/92 budgets and SSAs. The illustrative scheme would;

Estimate the
how would help
down income
in spending

- (i) exempt from capping any authority which budgeted to raise in 1991/92 less than its 1991/92 SSA or less than £15m;
- (ii) regard any increase in income compared with 1990/91 of more than 10% as excessive for authorities which budget for income between SSA and 5% above SSA in 1991/92, and, on the same basis;
- (iii) regard an increase in income over 8% as excessive for authorities which budget for income between 5% above SSA and 12.5% above SSA;
- (iv) regard an increase in income over 5% as excessive for authorities which budget for income more than 12.5% above SSA.

£30.2/100

In all cases the results assume that no cap is set below SSA.

The precise outcome of this scheme depends upon the level at which authorities initially set their budgets - particularly those which are exempt from capping because they are below SSA or £15m. But used to its full with a TSS of £39bn this scheme could potentially yield budgeted income after capping of £39.5 bn or less, even if initial budgets were set at up to £41bn. Depending on the extent to which capping deters authorities from increasing their budgets, up to 100 authorities could come into the scope of capping.

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The actual outcome level of income would be higher than this because the Secretary of State would have to consider alternative caps and might have to grant derogations to some authorities (eg those which used most of their balances in 1990/91 and could not reduce services sufficiently to restrict their income to even 10% above their budgeted spending from balances in 1990/91 level. Some 18 authorities within the scope of capping, including Wandsworth and Merton, financed over 10% of their budgeted spending from balances in 1990/91). However, taking account of the possible need for derogations, income after capping of £40 bn or less looks feasible with a scheme such as this. This is so even if authorities do initially budget for income of £41 bn or more.

The scheme illustrated is just one of a number which could yield budgeted income after capping of about £40 bn. My Secretary of State will want to consider the various alternatives in detail later in the year in the light of figures on SSAs for individual authorities. Ministers will also need to consider the effect of capping on the level of service provision. Reducing spending to £40 bn is likely to mean reductions in services in many authorities.

Although it is too early to go firm on specific criteria for capping excessive increases, my Secretary of State is satisfied that setting TSS at £39 bn, rather than some lower level, will not restrict his ability to deliver income after capping of £40 bn, if that were in the event decided to be the level to aim for.

I am copying this letter to John Gieve (Treasury), Carys Evans (Chief Secretary's Office), and Michael Carpenter (Solicitor-General's Office).

Yours
Phillip

PHILLIP WARD
Private Secretary