



CONFIDENTIAL

*Prime Minister  
To note preparations DOE  
are making for water  
capping.*

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My ref:

Your ref:

The Rt Hon Norman Lamont MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
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1 August 1990

*Dear Chief Secretary,*  
CHARGE CAPPING 1991-92

A key element in the package of measures on local authority finance, which Cabinet agreed on 19 July, is charge capping. In my statement to the Commons on that day I made it absolutely clear that I would be prepared to make vigorous use of my capping powers to protect chargepayers from excessive demands. Whilst it is difficult to assess precisely how many authorities might need to be capped next year, we must now, I believe, start to make adequate preparations for capping up to 100 authorities if we are to be confident of our package successfully delivering its objectives. Naturally, I share colleagues' hope that the deterrent effect, of the early announcement of our intentions, will limit the numbers which have to be capped; but we must be prepared for the worst.

Discussions have already started at official level. Terry Heiser wrote on 30 July to Robin Butler, copied to Peter Middleton, setting out the staffing requirements, and he promised a further letter about resource cover. I am now writing to let you know of the scale of cover that would be needed for an inter-departmental team of the size outlined in Terry's letter. I think all are agreed that it will be simplest for DOE to seek resource cover for the whole enterprise, although I shall of course be looking to colleagues to ensure that the full team of bodies, including our contribution of 16 staff, is available to do the work.

Broadly, we will need an increase in our 1990-91 Running Costs limit and the Administration Vote Cash limit to cover the salary and all other costs, current and some capital, of the exercise. The full team of up to 70 staff for 2.5 months from mid January to the end of March 1991, and the core team of 16 who are remaining in place from July to prepare for the next round, could require some £1.5m in 1990-91. We also need some £0.35m for capital expenditure. I propose to add to our Survey bid for 1991-92 sufficient to cover the costs of the full team for a further 3.5 months (April-July) of that



financial year and mid January to March 1992 (and the core team's costs for the whole year). For years two and three of the Survey, I propose simply rolling forward this year 1 bid by appropriate factors. We will need no non-running costs provision after this year.

We estimate that on that basis we need extra PES cover of £1.85m, £3.8m, £4.0m and £4.25m for these four years with running cost cover of £1.5m in 1990-91 and the full amounts across the Survey period. My officials are of course ready to set out the detail of these estimates. Briefly they assume that:

- a) we cap 100 authorities, ie we need the full team of 70, which Terry Heiser described in his letter to Robin Butler. If the number turns out to be smaller, we will be able to make some savings;
- b) the expanded team is housed in accommodation which DOE will have to acquire, and provide with fittings and services, for the period of occupancy;
- c) we need to provide for the possibility of having to use consultants to fill, say, half of the Grade 7 posts required. As Terry Heiser said, this would be far from ideal and certainly expensive. So I would hope not to have to use this provision. We have in mind various options for bringing permanent staff to London which would certainly be cheaper. But at this stage we must provide for all possibilities;
- d) overtime is worked at the same rate as in the last round.

Although there will clearly be costs for Treasury Solicitors, we have not been able to make any sensible estimate of what these might be; far less any costs of litigation.

The figures we have arrived at are not small; there is no doubt that this is an expensive policy to implement. However, it will clearly be cost effective; the savings it should deliver will greatly outweigh the costs - this year with 21 authorities the savings total over £200m. However, it will only be effective if the work is done carefully, with great attention to detail, and even-handedly. That can only be achieved if it is properly resourced, and our estimates set out the minimum necessary for this, on the assumptions stated. I do not think it would be prudent to allow for less.

I am copying this to colleagues on E(LG) and to Sir Robin Butler.

*Yours sincerely*  
*Chris Patten*

CHRIS PATTEN

*Approved by the Secretary of State  
 but signed in his absence*