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BARRY POTTER

26th October 1990

Chargecapping

We spoke about the various issues which the Prime Minister needs to consider over the weekend.

Wales

As long as David Hunt makes an explicit commitment that he will not hesitate, if necessary, to cap along English lines, it hardly matters whether or not he actually announces criteria. There is nothing really to be gained from urging him to make such an announcement.

But it would be worth saying, in recording that the Prime Minister has noted his minute, that it is important he makes his intended commitment with due force and publicity.

Police and Fire Authorities

Chris Patten has now replied to David Waddington and there is no more to be said but agree with him. When decisions are finally taken in the Spring, it would be possible to set different criteria for the police and fire authorities (either as one or two separate classes) distinct from local authorities: a bridge to be crossed then, not now.

Scotland

There is nothing in fact for decision here, but as I mentioned to you Malcolm Rifkind has decided not to intervene in the current correspondence. The advice he has received is

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that capping in Scotland next year will almost certainly be impossible, despite some likely high increases in charges, and that anyway he hasn't got the power to set criteria in advance. See attachment.

Education

John MacGregor is sending another minute in later today. This will urge some small reconsideration of the criteria because of the school budget problem, but recognise (I am told) that the decision is ultimately not his. The end result is therefore to ensure that the Government gets the presentation right and in particular ensures that there is explicit agreement not only on what Ministers should say about schools budgets, but what they can say in legal terms.

No one will dissent from that, but it is very important nevertheless to emphasise it, because it is quite clear that, as of now, there is confusion on the subject. The present exchanges will have been well worth it even if this is the only concrete result.

Specifically, the message needs to be:

- that there will be half or more of LEAs which, because of past prudence, will not be constrained by the 9 per cent ceiling;
- accurate detail on LEA central budgets (£3.5 bn out of a total £12.5 bn being spent on schools this year: £1 bn of the 3.5 is, according to DES, going on central administration, advisory teachers and inspection). It is a reasonable supposition that this proportion is higher in those authorities

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which will be under most pressure from the capping criteria, but flesh must be put on this;

- that there is more than enough in the SSAs for teachers' pay (there is £770 million for next January's award assuming a 9.4 per cent median of the end-November inter-quartile range for private sector non-manual pay; plus £130 million for the phased overhang from this year; plus a cushion of about £100 million for local discretionary pay, which could in fact be switched to help fund a pay award above 9.4 per cent).

John MacGregor and Chris Patten need to be asked to have this absolutely ready.

As for the substantive issue, Brian Griffiths and I both agree that it is hardly possible to adjust the criteria to help meet the education problem (although NB Chris Patten's minute does not rule this out as impossible: a chink in the armour which DES may try to exploit).

But given the difficulties, the dilemma could perhaps be put to the Prime Minister in the following, admittedly stark, terms:

- seen from the centre, if an authority is within SSA there is no problem; and it is authorities' fault if they are not;

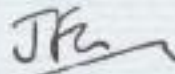
but seen from the schools, many will be faced with the need to cut in real terms their budgets for teachers: a 9 per cent ceiling will not cover an increase in pay bills likely to be around 11.5 per

*What about -
admin by
the SSA?*

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cent (next year's pay award plus the overhang);

- authorities will do their utmost to blame the Government, and they will have plenty of time to develop their case.



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SCOTLAND: COMMUNITY CHARGE 1991/2

Average charge this year: £306

Current Scottish Office projection for next year: about £370
(+21 per cent)

About £35-40 of the increase likely to be accounted for by making up collection shortfalls in years 1 and 2, and a higher non-collection assumption next year. Planned increases in expenditure likely to be below inflation: service cuts of 1-2 per cent are being planned to cushion making up the shortfall.

Collection Shortfalls

1989/90 and 90/91 budgets based on 95 per cent collection. Out-turn for collection now expected to be 90 per cent at best for each year. 91/92 assumption likely to be reduced to 90 per cent. This translates into 3 x £50 million which is about £40 per head. Burden of legal advice to authorities is that they need to make this up when setting charges for next year.

Capping

Only possible on 'excessive and unreasonable' planned expenditure. If this is at or below inflation, impossible in practice to cap however high actual charges are.