

PRIME MINISTER

COMMUNITY CHARGE: CHARGE CAPPING, 1991-92

You saw earlier Mr. Patten's proposals for the distribution of total standard spending (TSS) and for charge capping in England next year (Flag A).

You, the Chancellor and Mr. Patten are now all agreed on:

- i) the distribution of TSS by service;
- ii) the distribution of TSS by standard spending assessment (SSA); and
- iii) the charge capping criteria.

However, some colleagues with spending responsibilities, while giving general support to charge capping, are predictably seeking special treatment for their service or country. This has led to a further round of correspondence.

The RSG and capping Statement will be made next Wednesday, 31 October (text at Flag B). A decision therefore needs to be reached on the objections raised, or qualifications proposed, by Mr. Hunt, Mr. Waddington and Mr. MacGregor.

Welsh Office

At Flag C is a minute from Mr. Hunt. He wants to avoid announcing charge capping criteria for Wales in advance, (ie next Wednesday). Instead Mr. Hunt proposes to make clear in his RSG announcement that he is quite prepared to cap authorities in Wales if necessary; and that he will apply the same criteria as for England.

This is a slightly disappointing response (Mr. Hunt was one of the stronger advocates of greater capping at the Ministerial

discussions this summer). But he has perceived that Wales can take a "free ride" on the back of the capping criteria announced for England.

By saying now that he will adopt the same capping criteria as in England, Mr. Hunt gives the same message to authorities in Wales, as in England. They can escape capping - by keeping down increases in local authority spending. Providing Welsh Office do make it clear they are prepared to cap on the same basis, this policy should be effective in curbing local authority spending.

Treasury and DoE do not wish to contest Mr. Hunt's proposals. Policy Unit suggest you also accept the proposals.

Agreed

Home Office

At Flag D is a minute from the Home Secretary. Mr. Waddington is seeking more generous capping criteria for both fire (and civil defence), and police authorities.

His argument is as follows.

- i) Where caps imply a real cut in service, there is a greater possibility of spreading the pain with multi-service authorities ie the typical local authority, than with these single service bodies. (There is still a case for cutting central administration).
- ii) While the criteria for selection for capping are based on year-on-year increases in actual spending, the severity of the cap is linked to the SSA. And SSAs for single service, particularly fire, authorities are not reliable.

Mr. Patten's response (Flag B) is suitably robust. To set more generous capping criteria for some authorities at this stage would undermine the whole thrust of the capping policy. It would also increase the risk of legal challenge.

It is much better to announce tough capping criteria now - and then look again in the light of consultation. If, and only if, on further examination the Government consider the criteria too tight would it be sensible to loosen it for one class (eg police or fire) of authority next April. A better approach would be to leave the criteria in place - but to allow derogation for individual authorities in trouble.

You may well conclude, like Mr. Patten, that it is best to stick to a single tough set of capping criteria at this stage, and to review again in March.

Department of Education and Science

At Flag F is the most difficult issue (see Mr. MacGregor's two letters and that from Mr. Patten). In his first letter Mr. MacGregor sought to exempt Education from any cuts imposed as a result of capping; in the second he loosened this to suggesting a more generous cap for the Education service. (The minute is misleading: it would imply higher local authority spending and higher community charges. He has kept to the same total only by assumption.) The issues and difficulties are explored in the Policy Unit note - below this one.

One can understand Mr. MacGregor's concern. There is a policy dilemma: whether to give priority to keeping down local authority spending and community charges; or whether to ensure there is enough to enable local authorities to implement education reforms. As the Policy Unit note shows, capping will bear down heavily on education. And it can be argued that it is difficult to foster radical change - open enrolment, local management of schools (LMS) and GM schools - in an atmosphere of tight resource constraint.

Yet one must not lose sight of the fact that many local education authorities are overspending. Nor that some of the best (in terms of output) like Kent and Cambridgeshire spend below their SSA (i.e. input). Overspending by the others, particularly in central services, needs to be squeezed out.

It would not make sense to go beyond exhortation to find reductions in spending from central services; and good presentation to get across the policy. No option which involves setting separate criteria for education authorities (implying higher spending and community charges); or restricting local authorities scope for cuts to only one third of their budgets is sensible or practicable.

There will be protests particularly from education authorities. The message the Government must get across is that half the local education authorities are overspending. They must budget within their caps. They must cut their spending down without damaging service delivery to pupils and charge payers - just as others already do within their SSAs.

Conclusion

- Yes i) Content for Mr. Hunt to announce intention to cap, if necessary, according to English criteria?
- Yes ii) Content that the capping criteria for fire and police authorities should be the same as for all-purpose local authorities?
- Yes iii) Content not to relax capping criteria to accommodate Mr. MacGregor's concerns?

BHP

BARRY H. POTTER
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