

PRIME MINISTER

23 March 1990

COMMUNITY CHARGE CAPPING

Although your natural instincts are to go for as much capping as possible, we believe that the arguments against are extremely powerful and far outweigh those in favour. Despite what has been said in public, we believe that there are very strong grounds for not capping and accepting any embarrassment it may cause, rather than proceeding with what could be a hiding to nothing.

There are basically five sets of arguments:

(1) Presentational

- Though →  
this was  
also true  
of rates.  
Rec.*
- capping budgets not charges. Some low charges capped; many high ones not. Impossible to explain to voters. (This is one reason why you decided against capping in Scotland last year);
  - anomalies. For example, some people on income support will pay more not less because of social security 'de minimis' rules. Impossible to explain;
  - long drawn out business. Capping and 'cuts' in the headlines all summer. Will overtake next year's settlement decisions in June/July. Media will have a field day.

(2) Arbitrary Criteria

- whatever criteria are chosen, there will be an arbitrary cut-off point. Those below - especially



backbenchers in shire districts - will complain bitterly that we are giving further help to Labour voters in high spending places like Haringey but nothing to their people who are already contributing to the safety net to help the likes of Haringey. Impossible to defend;

- capping only 20 or so out of 600 authorities will be difficult to present as generally fair.

**(3) Inconsistency with Principle of Community Charge**

*They can't  
for several  
years.*

- the Government will be accused of not being prepared to let the electorate pass its own judgement on authorities. The accountability argument will be seriously weakened;
- many Tory councillors believe they can do well in May by attacking high Labour budgets. Capping will take the wind out of their sails and turn the election debate away from high spending towards 'cuts'.

**(4) Cutting Budgets**

- as Chris Patten makes clear, the relationship between budgets and charges is obscure. In fact it's Byzantine. It means that we shall leave many very high charges completely untouched;
- whatever the merits of the case, hostile local authorities will use the excuse to make cuts which cause maximum embarrassment in education, social services and community care;



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- the local elections in May in the capped authorities will be referenda on "cuts";
- there is the prospect of all this being portrayed as a Tory 'winter of discontent' as public services in capped authorities are cut. There is already concern from the Home Office, for example, about the impact on the fire service in Derbyshire if it was capped.

(5) Risk of Legal Challenge

- There are bound to be court battles. However optimistic DoE is that its case is watertight, there is always the risk of tremendous embarrassment. This was the main reason you decided against capping in Scotland last year.

The real reason for capping is short-term and political - to reduce the amount of money people have to pay out this year. Yet the net effect of the whole process will be relatively small: only 20 odd authorities and small sums saved per capita when all the arguments are done. Meanwhile:

- the media will have a field day on the anomalies;
- Labour will have a field day on 'cuts' which cannot be blamed on the bloody-mindedness of trade unions but which will be laid at the Government's door. Local authorities like Haringey would deliberately cut the most sensitive things and go on paying money to fringe groups etc;
- the real reasons for capping - excessive budgets - will be lost sight of and the focus will be on the Government;

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- local authorities will argue furiously that the SSA levels set by the Government were simply inadequate. This is an argument which we have not so far won. Now it will be simply transferred to the Courts, when they are asked to decide if the Secretary of State has acted reasonably in concluding that budgets are "excessive";
- under the Act, once the decision to cap is announced, there is no going back even if Labour councils were unseated at the local elections;
- attention in Whitehall will be diverted from looking for workable solutions for 1991. This is a big problem: the timescale to consider 1991 options is short.

#### WAY FORWARD

To the extent that capping is a necessary short-term tactic it will nevertheless mean a complex diversion from thinking about making changes in 1991. This is now the critical issue. The window of opportunity to decide on this is very short indeed and I am very worried lest our limited expertise on these highly complex issues is diverted into wrangles on capping, when we should be looking ahead.

Nevertheless I do believe there are measures which can be taken to ease the community charge issue next year, but they need working at now with all the resources we can muster. And longer-term, change in 1991 is the only realistic option we can aim for. The options include:

- more specific grants

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- transfer of certain activities (but probably not the whole of education) to the centre
- a 'general' cap based on the RPI, perhaps with rebates to chargepayers to the extent authorities keep below RPI.

### CONCLUSION

Capping will create a minefield of difficulty which may be impossible to negotiate. We need to rely on the inherent fairness of the community charge, which will show through increasingly as it beds down in years 1 and 2, and on accountability.

If we go for capping we are fearful that we shall simply be bringing on ourselves a winter of discontent.

The major focus now should not be on whether or not to cap, but what happens next year and from then on. There are a number of ways in which expenditure could be controlled or reduced next year, but they need to be worked on immediately. Regardless of the decision you ultimately take on capping, the setting up of a small group to work on this is critical.

John Mills

JOHN MILLS

Yvonne Barker

PP BRIAN GRIFFITHS

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**COMMUNITY CHARGE CAPPING**

In advance of our meeting on Monday I am sending you a copy of the paper on my capping proposals. Subject to minor amendments, I shall be circulating it on Monday for discussion at E(LG) on Tuesday 27 March. I thought it would be helpful if, in advance of that meeting and our own Monday meeting, I outlined some of the considerations affecting our approach to decisions on capping.

Capping is not an easy option. As my paper makes clear there are significant political and presentational disadvantages, and inevitably we shall face legal challenge with the potential embarrassment even if ultimately we are successful. Any capping scheme will produce anomalies, such as some capped authorities having lower charges than others not caught. Although there are good reasons for this (such as the operation of the safety net and the statutory threshold below which authorities are exempt from capping), we must recognise that such a result will be wholly inexplicable to the public.

Nor can I say that there is unbridled enthusiasm for capping among our supporters. Whilst my impression is that Parliamentary colleagues tend to favour capping - the Whips are currently conducting an exercise to ascertain more fully what colleagues feel - Conservatives in local government tend to be against capping because it could cut across their campaign at the forthcoming elections. And inevitably, whatever we do, some of our Parliamentary colleagues will be disappointed since there is no possibility of capping some of the authorities which we have been pressed to cap. Moreover, where our proposals for caps differ - as they will - from proposals for cuts put forward by Conservative groups on local councils this could create some difficulties for them.