



cfo

PRIME MINISTER

CHARGE CAPPING

John MacGregor sent me a copy of his minute of 11 June to you in response to my minute of 7 June on charge capping.

with BP?

I can certainly give an assurance that my proposals for the final cap of each authority represent my judgement, looking at its overall financial situation, of what is achievable and appropriate in its particular circumstances. I therefore do not feel that any further alleviation of the caps is needed. On John's particular point about the northern metropolitan authorities, some of these do have substantial reserves which I have, of course, taken into account in my proposals for final caps. It remains to be seen to what extent the authorities choose to use reserves to meet the cuts implied by their caps rather than reduce spending. Whilst some of them have said that it would be imprudent to draw down their reserves further, experience on ratecapping suggests that when faced with decisions on how to meet their caps authorities opt to use reserves in preference to cutting expenditure.

As regards John's points about handling authorities' publicity that their final caps will have drastic consequences, I suggest that we should take a robust public line, as follows. Authorities have only been capped because they are excessive spenders budgeting substantially above their SSAs. The final caps represent my view of what is reasonable and appropriate in all the circumstances of the authorities concerned on the basis of the information available to me, including where appropriate authorities' representations - which I have carefully considered - in support of alternative proposals for caps. The final caps are a judgement in the round in each individual case, and it is for the authorities concerned to decide how to live within them.

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In view of the possibility of further litigation once final caps are set, we must continue to avoid being drawn on how authorities should meet the cuts implied by the caps, or on what the consequences of the caps might be, or on what factors were taken into account in setting the caps. To be drawn on any of these matters would run a high risk of giving material to the authorities which they could readily exploit in any legal attack on their final caps. Thus, whilst I understand John's concerns, we should not publicly make any suggestion either in relation to specific authorities or generally, about how (eg by drawing down reserves or cutting spending on non-essentials) it might be open to authorities to cut their budgets.

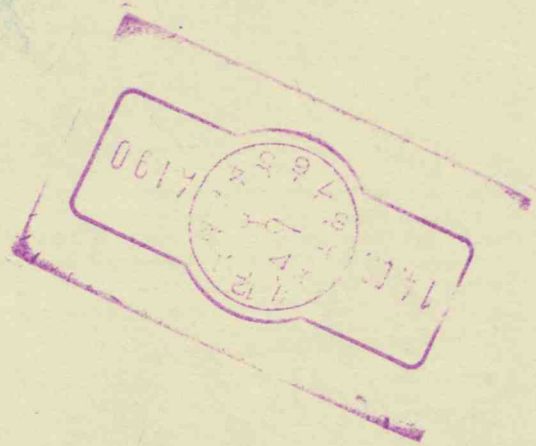
Finally, as regards John's points about imposing a condition on education on Wigan — We used conditions in some rate-capping cases in 1989/90: the authorities did not seek to use them in the way John fears and they were of some value in exposing managerial shortcomings in the authorities concerned. Nevertheless I accept that we cannot be sure what consultants might say in the event. I would, therefore, be prepared to forego a condition on Wigan in view of John's reservations.

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

A handwritten signature in dark ink, appearing to be the initials "CP".

CP

13 June 1990



LOCAL GOVT

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