



PRIME MINISTER

CHARGE CAPPING 1991/92

I have seen John MacGregor's minute to you of 23 October^{572 BT} about the effects of charge capping on schools' budgets. I do, of course, accept the desirability of protecting classroom delivery and am not under any illusions about the criticism that will face us when we announce our proposed capping criteria, including from our own supporters. This criticism will run across all services but can be expected to be particularly vehement on education, not least because it is the biggest service. I believe, however, that the criteria I have put forward gives us a good platform from which to rebut such criticism, not only for education but for all services.

The starting point for my criteria is the agreed figure for total standard spending (TSS) which represents an increase of 19% on the figure for this year and is 7.1% above the current level of local authority spending which resulted from an increase this year which we all thought was high. The element for education (£17.5 billion) is 8.6% above this year's budgets. I understand that DES think it necessary for the Aggregated Schools Budget to rise by 13% in response to cost pressures - from this year's total of £9 billion.

No authority will be capped if it spends at or below its share of TSS (ie at or below its standard spending assessment (SSA)). Our position is that SSAs are generous and realistic. Those authorities budgeting above their SSA will be setting budgets at levels more than we think appropriate to provide the standard



level of service and in this respect my criteria already allow for appropriate spending on schools. Authorities spending between their SSA and 5% above it will have to moderate their increases to within 9% of this year's budget if they are to avoid capping. Authorities spending above that level will have to live with smaller increases. I do not think that this is unreasonable even for education authorities in view of our overall objective.

Some local authorities may claim that the capping criteria give them no option but to squeeze classroom provision. But the simple fact is that this is not the case for two connected reasons. First only those budgeting excessively or for excessive increases will be capped, and secondly reductions do not have to be made across the board - indeed we would expect authorities to concentrate on where there is most scope for saving and eliminating waste, and I believe the pressures on authorities will lead them to the same conclusion.

Quite apart from my reservations about the need to make special provision within the capping regime, there are severe practical obstacles; in capping I can set only a single figure limiting the income of the authorities concerned: that is the limit of the power. Within that it is for authorities to decide where to make reductions. Even if I were to construct the criteria so as to allow for a larger increase in schools budgets, there is nothing I can do to direct authorities to spend their income on education rather than services to which a lower priority is assigned.

Even if it were possible to exclude Aggregate Schools Budgets from the criteria, we should be saying, in view of the scale of schools spending within the whole, that reductions for other services should be one third as much again as they would need to



be if authorities were left full room for manoeuvre. We cannot rule out the possibility that for some authorities it may make more sense, and be less controversial, to make savings in education rather than in other services, for example where the benefit of schools reorganisation are becoming available. John is, of course, ^{not} alone in wishing to protect his service. I note that David Waddington too has reservations about my proposals.

By giving advance warning of the criteria, we will strip authorities of the excuse deployed last year that damaging cuts had to be made because of the timescales for implementing them. While the rhetoric may be strong on the effects for front line services, in reality - given the pressures on authorities as well as us - they are likely to prefer to cut waste and inefficiency if they can. We shall all have to reinforce this pressure by stressing that capping need not force authorities to disrupt services, and that if that happens it is because of their own inability to manage their services.

I am copying this minute to other members of E(LG) to Nick Lyell and to Sir Robin Butler.

CP

2 October 1990

Approved by the Secretary of State
and signed in his absence

LOCAL GOVT
Rates

pt 20

