

7A-D

PRIME MINISTER

COMMUNITY CHARGE

You are having a further meeting on Thursday afternoon with a small Ministerial group to consider whether a further package of assistance should be given to Community Charge payers when the new arrangements are introduced in England and Wales in April 1990. Those attending will be the Chancellor, Chief Secretary, Lord President, Chris Patten, Kenneth Baker and Tony Newton.

At the last meeting you commissioned the Cabinet Office to prepare a paper on possible schemes for providing help to individual losers, so that this could be considered alongside the earlier proposal from Chris Patten for an extra £650 million expenditure by the Exchequer taking over the financing of the area safety net.

That work has been underway while you have been in Japan. Richard Wilson has kept in close touch with Mr. Baker. It is still not complete, but a draft report from the group is now available. This is at Flag A.

I think the group have done a first-class job in the time so far available. The paper addresses all the key issues and sets out in paragraph 17 and on table 2 eight possible options together with illustrative costings. More detailed material is in the six annexes to the paper:

- Annex A summarises existing Community Charge benefit plans.
- Annex B answers the questions raised about what proportion of total expenditure is met by Charge payers (the suggestion at the last meeting that this is going up to 30 per cent has shown to have been misleading).

B

- Annex C gives more details of the costings together with some ready reckoners for variations in the options.
- Annex D shows the impact of the Exchequer taking over funding of the area safety net on individual losers; as suspected this is not well targetted and some two-thirds of the money goes to increase the gains of those who are already gaining.
- Annex E details the administrative options as between central government or local authorities.
- Annex F sets out the position on the RPI. Unfortunately none of the schemes of assistance would reduce the RPI, any more than the existing Community Charge rebates do.

You may also like to glance at the Policy Unit note at Flag B, which comments on the work of the group. John Mills has been a member.

The range of options in the paper covers a big variation in costs. Richard Wilson's covering note to the Flag A paper steers gently in the direction of Option V, which on an indexed basis would cost some £390 million. The cost is kept down to this level because help is given only to former rate payers and to pensioners living with them. Non-pensioners who have not previously paid rates would get no help. Various of the other options that extend help to everyone are much more expensive. All the options have been costed on the basis of protection above a loss of £2 per week; but clearly could be modulated for a different figure.

Another key point to emerge is that legislation will be required. The only issue would be timing; whether to tag it on to this Session's Local Government Bill or have a new Bill in the next

Session.

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If you have chance to go through the paper over the weekend the Cabinet Office group would obviously find it helpful if there are any further options they have not covered that you would like them to look at before they finalise the paper for Thursday's meeting.

Impact on the overall Public Expenditure Survey

I have been discussing with the Treasury how the overall Survey arithmetic now looks. It is a depressing picture. The Public Expenditure/National Income ratio looks set to rise significantly (perhaps from 38.5 per cent to 39.25 per cent) in 1990-91 and to drop back down only to 38.75 per cent by 1992-93. That assessment as far as I can see is based on some very tough assumptions of settlements with other spending Ministers and allows nothing for extra help on the Community Charge. If you do decide that some package is politically necessary, I think it will be important to get collective endorsement of the fact that this is the top priority and that other programmes will have to be squeezed - or more accurately cannot get anything like the increases still being bid for. Candidates for squeezing include housing (Chris Patten wants £1 billion or more extra in each year), DES (bids rising from £1.4 billion to nearly £2 billion over the period), Transport (bids rising from £1.25 billion to well over £3 billion) and Defence (bids rising from £400 million to £2 billion).

If you agree that downward pressure on other spending programmes is needed, the question is how? One approach would be:

- Follow this Thursday's ad hoc meeting with a meeting of E(LG) on Wednesday 4 October; with final endorsement of whatever Community Charge package emerges at Cabinet on 5 October, coupled with an appropriate injunction that other programmes need to be squeezed as a result.



- That would then provide a helpful background for the Star Chamber to start its work on resolving outstanding programmes after the Party Conference.

Other Meetings Before Next Thursday

Chris Patten is pressing for a brief word with you on Wednesday afternoon in the margins of the session planned for your Party Conference speech. He obviously wants to lobby you on the Community Charge decision.

If you allow him to have a private say, you might also want to give the Chancellor an opportunity before Thursday's meeting to explain the general Public Expenditure difficulties. That is difficult in diary terms because he only returns from Washington overnight Wednesday/Thursday. But we probably could fit him in for half an hour on Thursday afternoon in advance of the Community Charge meeting later that day.

Next Steps

- i) Are there any comments you want to feed into the work of the Wilson group or other options you want explored before Thursday?
- ii) Agree to see Chris Patten privately on Wednesday? ✓
- iii) Agree to see the Chancellor privately on Thursday? ✓

Rec. ① Think option 2 the best scheme.

PAUL GRAY  
23 SEPTEMBER 1989

② Agree with para 5 of Annex E that we should not have co-operation of many local authorities - tend to central job. also

MRM A: COMCHARGE

SECRET where could devolve to some local authorities if they wished to do so and were co-operative.