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PRIME MINISTER

COMMUNITY CHARGE TRANSITIONAL RELIEF

You have a meeting of E(LG) tomorrow to carry forward the discussions from your smaller Ministerial group.

The papers are not in as good a state as they might be. But this mainly reflects the short period of time since the last meeting, and the fact that the DoE and Treasury are still putting forward competing options. The papers are:

Flag A the formal E(LG) paper circulated by Chris Patten. This sets out the background and two options:

- the DoE scheme, with an aggregate GB cost (including administration) of £575 million. This has a losses threshold of £2. For ease of administration it is constructed on a household basis; but where there are more than two adults in a house, relief is limited to that accruing to two individuals with that total amount being shared out in some way between all the adults in the house;
- the Treasury scheme, targeted more strictly on individuals and couples who were former ratepayers. The GB costs are restricted to £220-250 million. This is achieved by setting the threshold at £2.50 for pensioners and the disabled and £4 for other eligible adults whether individuals or couples. The much lower cost of this scheme highlights how sensitive costings are to the level of the threshold for losses.

Flag B a separate minute from Chris Patten, which has not been circulated to members of E(LG), but only to those attending the last meeting. This sets out in more detail why he believes it essential to base administration on a household basis; it suggests that a scheme targeted precisely on former ratepayers could cost as much as £340 million to administer programme costs of £380 million. This minute also attaches a table showing the cost of a number of different options, which it might be useful to circulate to all those attending the meeting. The Cabinet Office will have copies

available if you want to do this.

Flag C Cabinet Office handling brief.

Flag D note from the Policy Unit expressing their worries that even spending the £575 million proposed by Mr. Patten may be inadequate.

Given the continuing difference of view between the DoE and Treasury this will not be an easy discussion to handle. But I suggest you use the Cabinet Office brief (Flag C) to define the issues, inviting first Mr. Patten and then the Chancellor to comment. Although you asked at the last meeting for the Scottish and Welsh Secretaries to be involved in the further work, it is not clear they have been, and they may also wish to speak early on. Assuming agreement can be reached on the terms of a scheme, you will also need to settle:

- how to handle the issue in Thursday's Cabinet
- what should be said publicly and when.

Mr. Ridley

As you requested I have briefed Mr. Ridley on the discussions you have been having. He was grateful to be given advance warning before the E(LG) meeting. Among his reactions were:

- although he sees the merit of focusing any further assistance on individuals rather than the area safety net, he continues to be concerned about the politics of the safety net;
- if more money is to be spent he still sees attraction in taking at least some of it from the existing figure for aggregate exchequer finance to local authorities. I explained to him your worries about this putting up the level of the standard community charge, and in turn the RPI. His reaction (like yours) was that the RPI conventions are barmy;
- he thought it would be far too generous to contemplate extra spending of £650 million. He suggested the possibility of extra

exchequer finance of £325 million, i.e. exactly half the cost of financing the area safety net. (This may be a crude approach, but perhaps has a good deal to commend it e.g. it is not that far from mid-way between the DoE and treasury options).

Final thought

Given that the papers are in a less than ideal state, you might want to have 15 minutes before the main meeting with the Cabinet Office and me to talk them through. This should be possible in diary terms as we have allowed what should be more than enough time for the 1990 diary meeting. Would you like me to organise this?

Rec.

Yes please

(PAUL GRAY)

3 October 1989

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