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PRIME MINISTER

3 July 1990

COMMUNITY CHARGE

Although the proposed settlement of £26.05 billion appears to be generous, realistic assumptions about next year's spending mean that average charge is going to be well above £400.

This makes one stop and think whether what is now on the table as having been agreed between Chris Patten and Norman Lamont should be the last word on the subject.

The right-hand column of Table 2 indicates average charge of £440 if spending reaches £41.5 bn. That is an increase of 14%, entirely plausible given past performance and current wage settlements. It is what the local authority associations are currently estimating.

Average charge next year as high as £440 would be disastrous. It would again mean a whole percentage point on the RPI. A couple's bill, on average, would be virtually £1000. Wandsworth's charge, assuming its spending went up only by 11% would jump from £150 to £380 because it drew so heavily on balances this year.

Even the most extensive capping imaginable is not going to be able to rein this back by more than £1 billion, and that is optimistic. Average charge would still be well above £400.

The situation will not be helped by the absence of county elections, which means that the engine of county spending on education and social services will go on unchecked. The fall-out will be in the shire districts, all of which next year have either thirds or all-out elections. The attached note may enable you to draw out the implications of this.

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Conclusion

The obvious solution is more grant, in the hope that it doesn't feed through into higher spending. The public expenditure implications are horrendous, but given what is at stake it seems wise, at the very least, to hold back from taking a decision at tomorrow's E(LG), to see if it is possible to squeeze a bit more out of the Treasury.

One option, which may assist Wandsworth in particular, may be to make it easier for them to use capital receipts to keep the charge down. This has not featured in the debate so far, but now that you have taken the decision not to go for more extensive capping, it is essential to go over such points to see if there is any way of easing the situation. Restrictions on use of capital receipts was certainly a major gripe of Paul Beresford's last year.

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LOCAL ELECTIONS: 2 MAY 1991

There will be elections in all metropolitan districts (thirds) and shire districts (thirds and all-out) in England. In Wales there will be elections in all non-metropolitan districts (all-out). There is nothing in Scotland.

The metropolitan districts are predominantly Labour (31 out of 36). But the shire districts show a more complex pattern. There are 296 English shire districts. Next year 182 will have all-out elections, and the other 114 elections of thirds.

The present political complexion of these is as follows:

182 all-out elections:	90	Conservative - controlled districts
	22	Labour " "
	70	NOC

114 thirds elections:	25	Conservative - controlled
	45	Labour "
	44	NOC