

PRIME MINISTER

*of 2.4.85*

In the attached letter Lord Rothschild is "signing off" his contribution to the local government finance problem. I have agreed the line of the reply with William Waldegrave. Lord Rothschild told me that he would love to make a similar contribution to another problem; and thought that he might be able to help on drugs. That is the reference in the last paragraph of the letter for your signature below.

*F.R.B.*

3 April, 1985.

LORD ROTHSCHILD

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2nd April 1985



*Dear Robin,*

I think I have done about as much as I can with one exception, referred to later\*, and I should therefore be obliged if you would give my report, of which two copies are enclosed, to the Prime Minister.

Should it be thought that my intervention has been useful, it would interest me to have a "sharp look" at the problem you mentioned to me on Monday evening. Needless to say, and as in this case, there is a committee studying the problem - I heard a Home Office Minister say this on the telly the other evening. But like the Department of the Environment Ministers, he doubtless has many other things on his plate.

Should this idea appeal to the Prime Minister there are, I think, three points to be clarified: first, in spite of your jokes about my interest in security, a high level of secrecy would be necessary, if only because I don't want to be murdered; secondly, I think a young man would have to be seconded to me for the duration of the operation. I have in mind a Mr. Quentin Thomas of the Home Office. (He was the Secretary of the Royal Commission on Gambling.); thirdly, because of the delicacy of the subject, the Prime Minister or you on her behalf, would have to give rather firm instructions, orally I hope, to those concerned.

Should this be a starter, you and I might have a talk about it before things go too far.

*Yours  
Victor*

\* see 4. in the attached memorandum.

LOCAL AUTHORITY FINANCE

A "sharp look", requested on 30.10.1984

1. The Prime Minister and her Ministers gave cautious endorsement, subject to more detailed examination and wide discussion, of the following courses of action (among others):

SCRAP

Domestic rates  
Local non-domestic rates  
Targets  
Block grant  
Rate-capping  
Capital allocations

INSTEAD

Annual elections  
Community charge\*  
Centrally determined non-domestic rates  
Centrally measured Needs grant\*\*  
Pre-audit  
Targetted help to inner urban areas  
Borrowing control

2.1 The Community charge is, I believe, a winner. But I am nervous lest it is accidentally or deliberately misinterpreted, for example: "Tories hit the poor again", "No compassion for the have-nots" etc. At the Chequers meeting on 31.3.1985, the Prime Minister referred twice to the use of Supplementary Benefits to counterbalance the impact of the Community charge on the poor. While it is agreed that everyone should pay for the services they get from their local authorities, someone with an income of £37.80 per week (including Supplementary Benefits) cannot afford to have that reduced to £35.95 (which follows, perhaps, from the MISC. 111 proposals). I do not believe this problem is insurmountable, either in practice or in public utterances and I have in mind that the Community charge can always be described as non-regressive.

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\*Community is an "in word" which may be a good or a bad thing.

\*\*Equalisation of needs, but not of resources.

2.2 Of course, if it is non-regressive, those who get no "rebate" will pay more; but because of its wider base in comparison with that of the Domestic rate, it may well be possible to avoid hardships and still collect what is necessary.

2.3 Only the figures can provide the answers to the questions posed above: and as, for some reason beyond my comprehension, they do not exist, they will have to be got. As a stimulus for the D.o.E. I have made a start in Cambridgeshire.

3. Inadequate emphasis was laid at the Chequers meeting on the pre-Audit principle, to be carried out by the Audit Commission. It is to be hoped that this lack of emphasis was not due to the bickering between the D.o.E. and the Audit Commission which Heiser should forcibly stop, without recriminations by either side.

4. There is one piece of unfinished business. I conceived the idea that the building of Council houses should be privatised. Whether this is practical or useful is not yet known but it is done in other countries. A report on this subject will, it is hoped, be available in about four weeks' time.

R.

2nd April 1985