

SECRET AND PERSONAL

FROM: A G TYRIE
 DATE: 6 NOVEMBER 1987

CHANCELLOR

cc Chief Secretary
 Sir P Middleton
 Mr F E R Butler
 Mr J Anson
 Mr P Cropper
 Mr M Call

COMMUNITY CHARGE: A MODIFIED SAFETY NET

It took me a while to grasp Mr Ridley's latest wheeze, even with Mr Fellget's assistance.

It is superficially attractive and hence pretty pernicious. At a glance it looks as if these proposals tackle the 'hump' but in practice they don't. By 'the hump' I mean the sharp rise in the local tax bills for many people, under a safety net with no transitional arrangements, which would wither away (and become a dip in many cases) as the safety net is withdrawn.

Mr Ridley's scheme does, of course, shave a lot off the 'hump' of those worst hit. It looks like a sweetener for our supporters in the Shires. Those local authorities are the ones most vociferous in demanding implementation without transitional arrangements, probably stirred up by Howard and co. But our key point must be that the sweetener will not go to the people about whom we should be most concerned in the run up to an election.

There are several lines you could take to try and scotch this plan:

- i. Only 39 boroughs benefit from the proposal out of over 200 who would suffer from the 'hump'. Even those 39 see only a reduction in the 'hump' not an end to it. The small scale of the scheme should be obvious from the sums involved: a £75 million sweetener tackling £1 billion of 'safety net problem' in year one.

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ii. Nor are the 39 boroughs the ones which will cause the most political concern. These are almost all in safe seats. It is among the remaining 180 odd that the real political problem lies. Among these are many of the key marginal seats for the next election (if you would find it helpful I could draw up a list of some key marginal seats which would still be hit by the 'hump' under the these proposals*).

iii. What possible public justification can we give for a whip round among all community charge payers (the £3 increase) and the redistribution of this cash among some of the 40 odd wealthiest boroughs in the country? What explanation can we give to a hand out to South Bucks, Epsom and Chiltern etc? That is Mr Ridley's proposal. Ironically, even if we got away with the rumpus that would be caused by such politicking and gleaned a bit of good-will from our troops in these boroughs their thanks would probably turn to criticism when many of them realised that they still faced a substantial 'hump'.

In fact Mr Ridley is suggesting that we pour money into these safe seats because our local government troops in them are (probably because they don't understand the safety net) demanding immediate implementation. Our task should be to educate them not buy them off with a sweetener today which could turn sour in their mouths tomorrow anyway.

iv. Mr Ridley is also proposing running two systems for London. 10 boroughs would be forced to keep rates, the rest not - quite a nice political trick to hand the Labour party!

v. Mr Ridley has been opposing transitional arrangements because they weaken accountability but this sophisticated scheme destroys the last vestige of accountability in the system.

*DOE have not provided us with the necessary exemplification to examine the full effects of this 'hump'. We have been given (in Annex B) exemplification for 50 odd boroughs. We need exemplification for the rest.

vi. As it stands Mr Ridley's proposal leaves unanswered legitimate Treasury fears that the shock of introduction with no transition would lead to appalling public expenditure pressure. We would be asked to bail out hard cases. This is quite apart from the likely shortfalls from local authorities who are deliberately obstructive and who fail to collect the new charge properly. Most of the Treasury's arguments in July still apply.

I agree with official advice that you should write to the Prime Minister before the meeting. If you do so I think you need to spell out as simply as possible:

- Why the safety net causes a 'hump'. (Has she fully grasped this?)
- Why the 'hump' would be so electorally damaging in the early 1990s. You could perhaps add some exemplification for key political seats.
- Why Mr Ridley's £75 modification does very little to mitigate the electoral problems, and creates a new problem, a difficult to justify whip round for South Bucks and co.

You might find it useful to have a meeting before E(LF). This looks like Mr Ridley's best chance of winning and you need to be well armed.

One further thought: might not the Paymaster General, [redacted] in view of his new responsibilities, find it useful to get involved in all this, particularly in view of the electoral implications of ii? Annex C might also get him interested. Westminster faces a large 'hump'!

AGT.

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COMMUNITY CHARGE: TRANSITION

I have just seen the Chief Secretary's note on Mr Ridley's proposals.

I entirely agree with the Chief Secretary that Mr Ridley's proposals for London result in absurd anomalies and are a soft spot for attack. But I do not think we can use this as ^athe vehicle for getting at the package as a whole. If we confined our attacks to the London problem Mr Ridley would take it as tantamount to endorsement, in principle, of immediate implementation for the rest of the country.

Although it would not be easy Mr Ridley would eventually find some scheme for London that would be acceptable to colleagues, even if it meant throwing the last shreds of accountability out of the window in the area where theory would suggest it is most needed. That would be the end of ^{the}negotiating road and we would have lost on transition. In my view we can only win if we take these proposals head on: they put at risk our electoral chances at the next election. We need points on the marginals and showing how E(LF) members are affected. Croydon has a £63 'hump'. How does that suit Mr Moore?

AGT.

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