

NOTE
OF
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8/9



Jan P -

NOTE OF A MEETING AT 11 DOWNING STREET ON 8 SEPTEMBER 1989

Present

- Chancellor
- Chief Secretary
- Secretary of State for the Environment

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The Chancellor said that he wanted to focus mainly on the introduction of the community charge. Before turning to questions of substance, however, he thought they should discuss the conduct of business between the two departments. He had been disturbed to find that the Department of Environment had issued a Press Notice in which the Secretary of State had welcomed the Pearce report on sustainable development, without consulting the Treasury or even warning it that it was to be done. He had no objection to the publication of the report which he thought was a useful contribution to a developing debate but the issues were of great concern to the Treasury as well as to the DoE and it was therefore essential that Treasury Ministers and officials were consulted on any statements about the Government's position. He hoped that in future in such cases the Secretary of State would write setting out his proposed line so that he had a chance to comment.

2. The Chancellor continued that similar issues had arisen over the community charge. This was a matter of vital importance to the Treasury given the sums of money at stake. It was very important, therefore, for the Treasury and Department to work together and to try to establish common ground as far as possible. He was most surprised, therefore, that the Secretary of State had minuted the Prime Minister just 24 hours before the meeting without showing a draft of the minute to Treasury Ministers (or officials) or discussing the matter with them. This was not the way business had been conducted under previous Secretaries of State and he hoped that it would not happen again.



3. The Secretary of State said that the Pearce report had been placed in the House of Commons 3 weeks before Professor Pearce decided to hold a Press Conference. The Secretary of State's statement had, as far as he was aware, not impinged on Treasury responsibilities and said nothing about taxation. He would look into why the Treasury had not been informed about the Press Notice in advance. Turning to the community charge, this meeting had been set up in early August but no-one had suggested then or subsequently that he should delay sending a minute to the Prime Minister which she had requested until he had cleared it with the Treasury. Indeed, he was not sure that there would have been time to do so. He knew his officials had kept Treasury officials closely in touch with developments. Obviously he wished to work closely with Treasury colleagues as with others but he hoped there was no implication that he had acted in an underhand way.

4. The Chancellor said it was not a question of seeking Treasury approval. Clearly where differences couldn't be resolved they had to be referred to the Prime Minister or a wider forum for decision. But it was normal practice to discuss questions like this, with expenditure implications, with the Treasury. In this respect, the Treasury was in a special position which was recognised, for example, in the standard rule that Cabinet papers had to be discussed with the Treasury. Moreover, in this case it was not just a matter of expenditure but of taxation as well. In relation to the Pearce report, he hoped the Secretary of State would not hesitate to send him any suggestions that he might have on taxation.

Community Charge

5. Turning to the substance, the Secretary of State said that the Government faced two political problems. The first which



would arise in the Autumn and Winter was the safety net where there was considerable backbench opposition and concern; the second would arise in the Spring when individuals began to receive their bills; this could give rise to a row similar to that over housing benefit but on an even greater scale. The Prime Minister could face questions in the House (in front of the cameras) twice a week on individual cases which seemed difficult to defend. While the case for the community charge might be presented more effectively, better presentation would not be enough. There were two strategies: either to make a major change now to try and win back the political initiative or to battle through the Autumn and Spring and see what the Government could get away with. His guess was that the latter course would still lead to concessions both on the safety net and rebates, so the financial costs would not be avoided but the political damage would be enormous. Nonetheless, he realised that these not were the only problems facing the Government and that the Treasury too faced great difficulties on inflation and public expenditure.

6. The Chancellor said that the two problems were of different kinds. He agreed that there would be trouble in the Spring over individual losers. How great an outcry there would be was impossible to say but large numbers of losers were intrinsic to the whole reform and attempts to help were going to provoke calls for more and more concessions. The rebate scheme was already very generous; moreover the introduction of the community charge in Scotland had been managed without further assistance. The problem over the safety net was not a problem with electors; it was an issue rather for MPs and Councillors. The fact was that richer councils were already contributing to poorer through resource equalisation and the new regime would phase out these cross subsidies and indeed reduce them substantially in the first year. Much could be done to bring this out more clearly. On a separate point councils were putting about exaggerated figures for likely community charges and it was important for the DoE to counter these by disseminating more reasonable forecasts.



7. The Secretary of State said there were bound to be many substantial losers; and the problems would be much worse in England than in Scotland and Wales where the average charges would be lower. Even with an average increase in spending of 7 per cent many charges would be well above the £275 standard. He was not sure that the public or even colleagues in Cabinet were yet aware of the scale of some of the likely charges and losses. It was a matter of political judgement how best to handle the difficulties. He would rather stick to the existing package than go back to Parliament with a minor and unconvincing concession which he would not be able to sustain. A long Winter of Parliamentary wrangles and public dissatisfaction could do great damage to the Government standing in the markets as well as in the opinion polls. The row over the safety net could not be divorced from a general unease with the community charge which was likely to grow in coming months. The 1922 Committee were quite clear that the existing system included cross-subsidies and they wanted them abolished immediately. Moreover, they could point to many losers of modest means in their own constituencies whose losses would be caused in part by contributions to a safety net which would benefit the better-off in Labour constituencies. The Chief Secretary said that the latter was not the point they had emphasised.

8. The Chancellor said that there was no free lunch; any concession to the gainers would have to be paid for either by ratepayers or by taxpayers. The cost of meeting the transition for the losers in the first year would be about £¾ billion when the knock-on effects on Scotland and Wales were taken into account. This would feed straight through into higher spending. This year's Survey was extremely difficult and vitally important. A concession of that magnitude would make the Chief Secretary's job impossible not only because of its size but because of the signal it would send to other colleagues. Moreover, there were many other bids, including he suspected bids from the Department



of Environment, to which colleagues would give higher priority. In his view, a judgement had to be made on what had to be done to get the package through Parliament. That meant delaying any concessions until the last moment. In his view two things could be done:

(a) the transition for gainers could be limited to one year and the cost of the transition for losers would be met by specific grants from 1991-92 within an unchanged Aggregate External Finance (although since no figure had yet been announced for AEF in that year, any offset would not be apparent).

(b) It would be possible to bring the special arrangements for the ILEA within the safety net, thus saving £70 million in 1990-91 which could be used to ensure that the gainers received 50 per cent of their gains in the first year.

There were risks to the Treasury in making these changes particularly in relation to the decision on AEF for 1991-92 but he would be prepared to take those risks.

9. The Secretary of State said that he was very doubtful about the ILEA element. It would mean taking away funds that had already been announced for inner London areas including Conservative constituencies. He accepted that there was a risk that, as in Scotland, councils would spend up and additional grant would lead to higher spending but he thought a substantial concession was nonetheless necessary. As to priorities, he could see good chances of scoring runs on a number of environmental issues in the coming months but he would be unable to do so if he was forced on the defensive throughout on the community charge. The Chancellor said that the ILEA element of the package was the less important of the two. As had been made clear in 1985 when the decision was taken, the introduction of the community charge



was bound to be painful and controversial. He would put in his own minute to the Prime Minister in advance of the meeting the following week.

Dunc-Sparkes
p.p. JOHN GIEVE
8 September 1989