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FROM: D I SPARKES

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CHANCELLOR

cc PS/Chief Secretary

COMMUNITY CHARGE TRANSITIONAL RELIEF

I had the following account from Paul Gray of the Prime Minister's views. She had seen both the Cabinet Office paper and Mr Patten's latest minute but not the Chief Secretary's minute. The Prime Minister has also had a brief chat with Mr Patten in the margins of another meeting at No 10 today.

- The Prime Minister has told Mr Patten that his proposals are way off the map; nothing on the scale he proposes could be contemplated.
- On the other hand, she has clearly been struck by Mr Baker's assessment that transitional relief is, for political reasons, the priority bid in this year's Survey.
- The Prime Minister, Messrs Baker and Patten have all come round to the view that DoE's original £650 million bid to eliminate contributions from gainers is a poor buy because it helps too many people who are already gainers. But Mr Baker is firmly of the belief that £650 million is now the de facto minimum necessary to buy off opposition in the party and country. And neither he nor Mr Patten will let the Treasury's original offer to fund the transition for losers in years 2 and 3 without protesting.
- The Prime Minister doesn't necessarily accept this. But having fully considered the options in the Cabinet Office paper, she thinks option (v), which helps former ratepayers and pensioners (but not non-ratepayers unless they are



pensioners) is targeted at the right audience. She recognises, however, that the cost is huge: £390 million on a real terms comparison and £480 million on a cash comparison. (Incidentally, the Prime Minister is disappointed that none of the options helps the RPI problem but grudgingly accepts that nothing can in fact be done.)

- To ward off criticism from Messrs Baker and Patten that such a package isn't enough, the Prime Minister would point out that the Government has already earmarked £200 million in grants for the North West and ILEA, and to this must be added the administrative costs of the new scheme and any territorial consequences.
- On administration, the Prime Minister's gut reaction is to give the task to central government; she fears some local authorities won't cooperate. But, on reflection, she feels that LAs won't be able to refuse the task if we give them a bit of money; she would rely on the Treasury to strike a tough but fair bargain.
- On implementation, the Prime Minister is keen to avoid a situation in which CC payers pay the full charge gross and receive a rebate later - perhaps a lot later if the transitional arrangements take a while to set up. So she may propose that LAs do not send out CC demands until, say, June, after the transitional arrangements have been put in place. She points out that in practice CCs will, like rates, be paid in instalments and the delay in making the first payment can be recovered in larger instalments later on in the year. But central Government grant next year would doubtless have to be front-loaded to compensate.



- The Prime Minister is unclear whether we would have to do anything for Scotland. She strongly believes the Scots already get a good deal as local taxpayers bear a smaller proportion of the cost of local services than in England and Wales. But, unfortunately, it appears that the Scots have discovered that these discussions are going on, in which case a bid from Mr Rifkind may be just days away.
- On timing, the Prime Minister is sympathetic to the Baker/Patten line that an announcement at or before the Party Conference would be better than waiting until January.
- The Prime Minister fully recognises that, were any package on the lines of Cabinet Office option (v) agreed, it would pose enormous difficulties for the Treasury. She has told Mr Patten that, when it comes to the crunch, she must support the Chancellor's assessment of what constitutes a prudent fiscal stance.
- Equally, the Prime Minister is keen to ensure that the Treasury extracts the maximum mileage from any concessions it has to make. She has told Mr Patten that, in return for a deal on the CC transition, the CST could expect other DoE bids to be withdrawn and savings to be offered. She would also like other Cabinet colleagues to make similar sacrifices. She might make this point at E(LG) next Wednesday and at Cabinet on Thursday if, as seems likely, the package requires Cabinet approval. But she is aware that you will not want a pre-Party Conference Cabinet discussion of spending priorities.

D.S.
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