



Prime Minister

DUAL RUNNING: RATES AND THE COMMUNITY CHARGE

at f lamp
 Your Private Secretary's letter of 27 June, in relaying your agreement to our withdrawing the provisions for residual domestic rates in inner London after 1990, made 2 points about the size of community charges in inner London in the early years of the new system.

I did not elaborate on this point in my minute to you of 24 June but I think it worth putting on the record now that there are some grounds for cautious optimism about the introductory level of community charges in London in 1990. First we have another round of rate capping in 1989/90 which will continue the downward trend in spending we have seen this year and which led to such substantial reductions in the projected levels of community charge in inner London. Second there is a more realistic attitude from the London boroughs towards the level of their spending and the need to come to grips with it. I have only today received a letter from the leader of Southwark drawing attention to their planned reductions in expenditure and manpower over the next few years.

Our work on other aspects of the new finance system is now also beginning to take shape. Preliminary work on the new simplified grant system suggests that this can help to reduce the projected level of community charge in inner London. And we have the benefits of our structural reforms, the abolition of the ILEA and the proposals on housing revenue accounts which will also pay dividends in the early years of the new system.

You particularly asked, however, that I should stand ready to use the charge capping powers which are already in the Bill. Of course I am ready to do this if necessary. I have always argued that the capping powers will be particularly appropriate for use

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 Prime Minister?
 To note. Fully sets
 your points. *mt*

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during the transitional period before the full accountability of the new system is in place. You also draw attention to the safety net provisions. I can confirm that the powers in the Local Government Finance Bill are broad enough for us to establish a safety net of the sort you envisage and I am more than happy that my officials should jointly consider the implications of a safety net regime of that sort with officials from the Treasury and the other affected Departments.

I am copying this letter once more to the members of E(LF), the Lord Privy Seal, the Chief Whips in the Commons and Lords and to Sir Robin Butler.

A handwritten signature, likely of the Secretary of State, consisting of a stylized 'R' followed by a flourish.

N R

30 June 1988

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