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PRIME MINISTERCOMMUNITY CHARGE: BILATERAL TALK WITH CHRIS PATTEN

When you saw the latest papers at the weekend, you agreed to see Chris Patten privately in advance of your Party Conference speechwriting session tomorrow afternoon.

Before that talk, you will want to be aware of various further developments.

The Cabinet Office paper which you saw over the weekend has now been finalised. The amendments to the earlier draft are fairly minor, and I have marked/attached them to your original copy - see Flag A.

Both Richard Wilson and I have had various conversations with some of the other Ministers involved, and their offices, and I think we now have a reasonably clear idea of the positions they are adopting.

Your Initial Reactions

Your first thoughts when you saw the papers were:

- Option V was perhaps the best approach, whereby losses would be limited to, say, £2 a week where a charge unit includes a former ratepayer; the same relief would also be extended to pensioners (but not others) who were not ratepayers. The cost would be some £480 million on a cash basis and £390 million on a real terms basis.
- You were, I think, minded to regard this as a substitute for, not an addition to, the original Chris Patten proposal of an extra £650 million Exchequer financing of the area safety net.
- It would be better for administration to be carried out by central government but with the mechanics possibly being

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devolved to local authorities who were prepared to co-operate.

Chris Patten's Approach

Chris Patten has this evening sent you a further minute at Flag B setting out his latest views. These are radical. He now proposes:

- i) Going for a more expensive version of Option I, limiting losses on a household basis. There would be a basic £2 per household threshold, but with extra losses allowed for large households.
- ii) Not only drop the earlier idea of Exchequer financing of the area safety net, but virtually abolish the area safety net altogether. Consideration might still be given to a much smaller area safety net, financed by the Exchequer, for areas hardest hit.
- iii) Total costs are not clear. But (i) costs £1220 million and (ii) at least another £230 million. Then there are administrative costs. So total costs could be over £1500 million.
- iv) Administration by local authorities.
- v) Though the Department of the Environment were keen to postpone legislation until a new Session, he now supports doing this in the spillover.

Mr Baker's Views

Our impression is that Mr Baker favours something on the following lines - although I am not sure if Chris Patten is aware of this.

- Dropping Exchequer financing of the area safety net.
- Going for something like Option V which you favour, but at a more generous level than the £2 threshold. He attaches

major importance to having a package which is seen to cost more than the f650 million involved in the safety net idea. 3

- He has asked Richard Wilson to cost variations of the options with lower thresholds than f2 - either f1 or f0. The results are shown in the tables attached to this minute; you will see that a f0 threshold would cost around f1 billion.
- He is firmly opposed to central government administration.
- He also wants to have a system whereby the new relief is netted off the original community charge bills rather than taking the form of rebates later in the year. One way of achieving this we have put to him is to delay the initial bills until say June, giving time for the administration to be worked out; meantime local authorities would be financed by acceleration of payments of central government grants. Mr Baker seems attracted to this revised timing on electoral grounds.

#### Treasury Views

I am not clear what line the Treasury will take. They are horrified at the prospect of spending a lot of money, but have not yet revealed their tactics. A week ago they were hoping to get away with spending an extra, say, f100 million - a very different league to Chris Patten's!

#### Handling

I suggest you avoid giving Chris Patten any clear view of your conclusions at this stage; you will presumably want to hear what the Chancellor has to say when you see him on Thursday, and also reserve your final decision until the wider meeting with colleagues later that day.

But you could take the discussion tomorrow in the following order:

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- i) Which groups should any help be focussed on, eg all householders versus former ratepayers?
- ii) How much money should/needs to be spent?
- iii) Who will administer?
- iv) When to legislate?
- v) When should anything be announced - Party Conference or later?

You may also want to put to Chris Patten the thought that, if it is agreed that Community Charge is the top Public Expenditure priority, he will need to be much more modest in his demands elsewhere in his programmes. He is currently bidding on housing for £1 billion extra in 1990-91 rising to £1.25 billion in 1992-93; and for some £400 million a year extra on other environmental services.

I gave you some more general thoughts on how to link the Community Charge discussions to the overall Public Expenditure Survey in my earlier minute (below). The only extra crumb of comfort here - touched on in paragraph 22 (i) of Flag A and paragraph 14 of Flag B - is that not all the costs of an individual/household relief scheme will add to general government expenditure (GGE), which is the aggregate relevant for the public expenditure ratios. Under the new conventions, it will all add to the new planning total. But for GGE purposes the relief will count as a "negative tax", not expenditure; and GGE will be affected only to the extent that local authorities increase their spending plans.

Recd.

PAUL GRAY

26 SEPTEMBER 1989

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SUMMARY OF ILLUSTRATIVE COSTINGS - £1 THRESHOLD

Basis of comparison of bills/community charges

Cash comparison: actual rate bill vs charge with spending 7% above budget

Real terms comparison: rate bill plus 7% vs charge if spending 7% above budget

	Caseload ('000)			Caseload ('000)		
	Cost £m	Households or charge units	Adults	Cost £m	Households or charge units	Adults
<u>Universal options:</u>						
(i) Limiting losses to £1 per adult in household before benefit. <sup>+</sup>	1680	8890	20090	1450	7700	17770
(ii) Limiting losses to £1 per adult in household after benefit.	1380	6100	14330	1180	5170	12380
(iii) Limiting losses to £1 per charge unit.*	1750	11300	16570	1620	10380	14850
<u>Selective options:</u>						
(iv) Limiting losses to £1 where charge unit includes a former ratepayer. No relief for non-ratepayers.	700	5800	11000	570	4890	9280
(v) As (iv) but relief also for pensioners who were not ratepayers.	740	6220	11430	610	5310	9710
(vi) As (v) but limiting losses to £1 for single people and £2 for couples.	510	4800	8590	420	3970	7030
(vii) As (iii) but relief limited to those entitled to community charge benefit.	130	2240	2860	125	2140	2640
(viii) As (vii) but relief limited to vulnerable groups (pensioners, families with children, disabled etc).	50	830	1320	40	740	1140

+ Net of estimated flowback from community charge benefit cost

\* A charge unit is a couple or a single person

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Supplement to ANNEX C  
TABLE 3

## SUMMARY OF ILLUSTRATIVE COSTINGS - £0 THRESHOLD

Basis of comparison of bills/community charges

Cash comparison: actual rate bill vs charge with spending 7% above budget

Real terms comparison: rate bill plus 7% vs charge if spending 7% above budget

	Caseload ('000)			Caseload ('000)		
	Cost £m	Households or charge units	Adults	Cost £m	Households or charge units	Adults
<u>Universal options:</u>						
(i) Limiting losses to £0 per adult in household before benefit. <sup>+</sup>	2260	12120	26160	1980	11080	24260
(ii) Limiting losses to £0 per adult in household after benefit.	1930	10930	23680	1680	9860	21680
(iii) Limiting losses to £0 per charge unit.*	2430	14570	21860	2240	13470	19900
<u>Selective options:</u>						
(iv) Limiting losses to £0 where charge unit includes a former ratepayer. No relief for non-ratepayers.	1070	8810	16020	890	7720	14060
(v) As (iv) but relief also for pensioners who were not ratepayers.	1140	9290	16510	960	8200	14550
(vi) As (v) but limiting losses to £0 for single people and £0 for couples.	1140	9290	16510	960	8200	14550
(vii) As (iii) but relief limited to those entitled to community charge benefit.	300	4220	5860	280	3940	5410
(viii) As (vii) but relief limited to vulnerable groups (pensioners, families with children, disabled etc).	120	2170	3490	110	1970	3160

+ Net of estimated flowback from community charge benefit cost

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