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12 (a-b)

PROFESSOR GRIFFITHS

cc Mr Mills

COMMUNITY CHARGE: RELIEVING THE BURDEN

After careful thought I decided on Friday night not to put your joint note to the Prime Minister into the box. Given the importance of the issues you are raising I owe you an explanation as to why I took this decision.

As regards the consideration of options for 1991-92 we do not have the detailed papers from DOE and the Treasury and I would prefer to await those and let the Prime Minister have a full set of papers on Tuesday evening, still comfortably in time for next Thursday's meeting.

But the main issue is your comments about 1990-91. You mentioned earlier on Friday evening that you were keen for the Prime Minister to see this note quickly, but you did not mention you were going to raise the issue of further action to affect 1990-91. As soon as I saw that this issue was covered (at about 1930) I tried to contact you or John, but unfortunately could not reach either of you.

My concern to talk this through with you was that I am far from clear that there is a workable scheme here. On the basis of our quick checking of the relevant statutes I am sure you are right there are existing statutory powers for a further scheme of assistance (subject of course to a new round of secondary legislation). But to take the trick of reducing the RPI the new relief would, as you say, need to be applied across the board and that means giving relief to all chargepayers, not just former ratepayers. I assume this would mean giving a grant of £85 a head to all chargepayers, channelled in some way as a grant to local authorities.

But how and when could this be done? And how would the saving in community charge benefit be clawed back given that it has already been netted off in the bills currently going out? Maybe there are good answers to these questions; but I think any note to the

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Prime Minister offering this solution needs to spell them out.

Then there is the small matter of where the money would come from. I agree that GGE would not be increased as long as you find the mechanism which prevented local authorities increasing their spending above current budget levels. But the overall public sector financial position would be worsened by some £2-3 billion in 1990-91. Looking for extra expenditure savings in the next PES round won't help because that will focus only on spending in 1991-92. The only options are:

- an emergency round of cuts in established 1990-91 public expenditure budgets e.g. cutting all cash limits by the necessary 'X' per cent
- accepting a lower public expenditure surplus to the tune of £2-3 billion, with what that would imply for interest rates
- putting up taxes e.g. an immediate 2p. on the basic rate of income tax.

None of these is impossible, but before telling the Prime Minister that your proposal seems too good a chance to miss I really do think you ought to set the options out.

Perhaps we could have an urgent word on Monday morning.

*Rec.*

Paul Gray

30 March 1990

c: community (MJ)