

Prime Minister 1

Agree to write as proposed?

DLW

20/12

PRIME MINISTER

20 December 1985

RATE REFORM: KEITH JOSEPH'S LETTER

Yes not

Keith Joseph has a valid point. The safety-net arrangements which protect Northern domestic ratepayers from losses do also mean that low-spending Southern authorities will go on having high domestic taxes; and this will become more and more obvious as the highly visible residence charge takes over from the opaque domestic rating system.

But if you now go back on earlier decisions and phase out the safety-net arrangements, you will have:

- i. big Northern losses again;
- ii. another month's delay (at least) because the whole Green Paper is drafted on the assumption that there will be no geographical shifts in local domestic tax burdens.

We recommend that you should let the Green Paper go forward on the present basis, but ask officials to illustrate the effects of phasing out the geographical safety-net, so that the scheme could be amended in the White Paper if reactions to the Green Paper show that a gradual end to South-North subsidies would be politically feasible.

OLW

OLIVER LETWIN