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Confidential

Dear Robin,

Operations Gynandromorph

I should be grateful if the Prime Minister could find time to read the enclosed note which explains my recent correspondence with you.

If the Prime Minister says "No" to the sub-heading, the matter is closed. If, on the other hand, she says "Yes", I shall pass my note to Waldegrave who, with the help of his Department, will be able to lick it into shape. Needless to say the DoE will have to do a great deal of work on the note.

I have shown it, informally of course (from now on), to Mr. Justice Hoffmann who said, "Cunning. It gets the Government off the hook. I may have a few comments in due course".

So all that is necessary is for you to give me a call and say Yes or No.

*Yours
Victor*

LOCAL GOVERNMENT FINANCE

Is this a starter?

- (1) The proposals made below are based on five propositions
- (1.1) Domestic rates cannot continue in their present form;
- (1.2) Even after modifications, the Chequers package will cause unacceptably large residents' charges for the less well off and for numerically large households in the inner city areas. (The DoE has supporting figures.);
- (1.3) A Local Sales Tax is unacceptable given the disparity in its yield between regional shopping centres and shops in adjacent local authority areas, and because of its buoyancy;
- (1.4) A graduated residents' charge is a thinly disguised local income tax and is therefore unacceptable;
- (1.5) Any property tax which entails a revaluation is unacceptable.
- (2) It is proposed to replace domestic rates by a local tax containing two elements:
- (2.1) A property element calculated by reference to floor space. It is said that a surveyor can accurately estimate the floor space in each house in a uniform street in twenty minutes. If someone's dwelling is double the floor space of the local average floor space, he or she pays double the average. No change is made unless a house is disposed of.

(2.2) A people element calculated by reference to the declared number of adults in each dwelling. The senior member of each household would have a duty to register, once a year with the local authority, the number of adults in the dwelling. That senior householder would also be responsible for payment of this part of the local tax. Local authority inspectors would be empowered to carry out spot checks and there would be heavy fines for evasion. There would be no graduation but relatively generous rebates for the poorest households.

(3) There are the following comments on the scheme:

(3.1) "Floorspace" is just a phrase. "Size" would be equally satisfactory provided the method of measuring the size of a dwelling is specified, for example the length of its perimeter multiplied by the number of floors.

(3.2) People will ask questions about the accuracy of size estimates. It is possible, by a small experiment, to set error limits. But in any case we are always concerned with estimates whose precision is unknown. The most obvious example is the District Valuer's estimates of rental values on which domestic rates are based.

*But in this case
the precision can be
checked.*

(3.3) As at present, there must be an appeals mechanism.

(3.4) The arithmetic shows that the average payment (England) should be about £110 per dwelling before rebates and about £110 per adult, though the yield of the people element would be considerably greater than, perhaps three times, that of the size element.

(3.5) The average figures cited immediately above do not disclose wide variations according to how much the local authority spends, and according to the size of the dwelling.

(3.6) The proposal implies one tax with two elements.

(3.7) The proposal covers the fact that people should pay for people-related services whereas size should determine the level of payment for property-related services.

(3.8) The proposal covers the point made by "objectors" that previous schemes were not progressive. In addition, the degree of progressiveness can be varied by changing the relative amount of the property and people elements.

(3.9) The people element provides the desired accountability, there being a close link between those who vote for, pay for and use people-related services.

(4) The question of Identity Cards, which would be valuable in the context of this note, arises. It is recognised that they may be politically unacceptable. But one cannot help asking why people do not mind having driving licences, travel cards, passports and National Insurance cards but object to Identity Cards? In addition, is it not obvious that a requirement to have an Identity Card would be of value in countering hooliganism and terrorism in all their different forms, and, possibly, drug offences?

(5) These proposals are conditional on one third of council members retiring each year.

