

NOTE FOR THE RECORD

THE COMMUNITY CHARGE

The Prime Minister and the Environment Secretary discussed the community charge this afternoon.

The Prime Minister said that three main problems had to be resolved:

- (i) the perceived unfairness of the community charge;
- (ii) the lack of tight control of local authority spending;
- (iii) setting an appropriate level for the charge.

The Prime Minister was attracted to the idea of a surcharge on income tax for those on high incomes, say, £50,000 per annum and above. The amount of this surcharge would be set at the average national community charge. The revenue raised would be redistributed to all local authorities on a per capita basis. The scheme would be directed at those on high incomes, irrespective of whether they had in fact gained or lost from the introduction of the community charge. Taken alongside the non-indexation of the upper rate income tax band, it could be represented as an important extra tax contribution from the better off.

The surcharge proposal might be presented as transitional in nature. It could be seen as helping pay for the cost of an improved transitional relief scheme for those on low to middle incomes. The possibility of sustaining the transitional relief scheme for a longer period and reviewing the rate at which transitional relief payments were phased out should be examined further.

The Environment Secretary said that he too saw attractions to such an approach. It would get away from the banded income idea which he and the Prime Minister agreed was undesirable. It would operate through the national tax system and avoid local authorities becoming involved in the details of individuals' incomes.

Second, the Prime Minister said that another element of the package would have to be firm controls on local authority spending. She favoured universal capping, ie a cash limit for each authority which it would be illegal for local councils to exceed.

The Secretary of State for the Environment said that he did not believe this was practicable in the short-term; and if such firm control was proposed, he would prefer to operate through controlling local authorities' income rather than their expenditure. For next year, to achieve the firm control the Prime Minister was seeking, he favoured a system of cash targets set by formula for each local authority. The targets would be accompanied by capping for those who exceeded them and by grant bonuses for those councils which set budgets at or below the target.

The main difference in approach between the Prime Minister and the Environment Secretary was on the middle set of authorities. The Prime Minister wished to ensure that those authorities in the middle had to stick to their cash targets. It was pointed out that this would involve the Department of the Environment in close control over every local authority's budget.

The Prime Minister said that any target system would have to ensure that the big spenders, ie the metropolitan districts, London boroughs and county councils would be capped if their spending was excessive. Thus capping would have to extend to 50 authorities or more if necessary. Capping would also have to be multi-year in approach.

The Environment Secretary said that an approach on this basis would be difficult but would be examined urgently by DOE officials. It would need early complex legislation.

Third, the Prime Minister said the Government needed to consider the right level for the community charge next year. Even if local authorities were set tough targets and stuck to them, there would still have to be higher community charges unless AEF was raised by at least £1½ billion - quite possibly rather more. The Environment Secretary said that a target for community charge for next year would have to be discussed as part of the normal annual negotiations. But it would be important to develop the basic framework first.

One possibility was to raise that additional AEF from hypothecating the source of revenue. This was not considered to be practical as part of the short-term approach.

The Prime Minister and the Environment Secretary also discussed the longer-term position. Both believed that there could be considerable merit in reformulating the relationship between central and local Government. Whereas local government at present received 75 per cent of its revenue from central government and raised 25 per cent from own income, a more appropriate model might be one in which 90-95 per cent of the income came from central government and local authorities were only able to raise a small sum of revenue for spending at the margin.

In further discussion it emerged that:

- (i) the Prime Minister was attracted to a system of universal expenditure limits with a small safety valve source of income for local authorities at the margin: some possibilities for this safety valve included VAT excise duties on petrol, use of capital receipts and perhaps vehicle excise duty.

- (ii) the Environment Secretary preferred direct control of local authorities' income perhaps by hypothecating some appropriate basket of tax revenue to provide for their expenditure.

After the meeting, the Environment Secretary said that these longer-term issues would need to be considered and developed slowly and carefully over some time. For the short-term, i.e. 1991-92, it would be important to reflect the latest ideas of fairness, controlling spending and the level of the charge in the Department of the Environment paper to be discussed on 26 April.

I telephoned PS/Secretary of State for the Environment, PS/the Chancellor, Chris Brearley (Deputy-Secretary, Department of the Environment) and Richard Wilson (Cabinet Office), to make them aware of the above developments and the need to reflect them where appropriate in the Department of the Environment paper.

BHP

BARRY H. POTTER

11 April 1990

A:\economic\communit (pmm)

SECRET



FILE

A:\Economic\BRIGHT

14
pm

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 April 1990

Dear Roger,

THE COMMUNITY CHARGE

In this afternoon's discussions on the community charge between your Secretary of State and the Prime Minister, two specific points were raised on which the Prime Minister would be grateful for notes as soon as possible.

The first is the liability for joint hereditaments, such as shops with a residential flat above, in terms of personal community charge, non-domestic rates and standard charge. The Prime Minister would be grateful for an explanation of what the rules are; how they are applied by community charge registration officials; and the case for the present approach.

The Prime Minister would also be grateful for a note on the liability for personal community charge of non-earning wives and how, in the light of the introduction of independent taxation, the existing approach can be defended.

I am copying this letter to John Gieve and Carys Evans (H.M. Treasury).

*Yours ever,
Barry*

BARRY H. POTTER

Roger Bright, Esq.,
Department of the Environment.

SECRET

MEM