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Prime Minister

THE COMMUNITY CHARGE

-LWMBP?

I have seen Chris Patten's minute to you of 23 April, and I thought you might find it helpful to have my views in the light of one year's Scottish experience of the community charge.

For such a major and controversial change, the community charge is working well in Scotland and there is clear evidence that the increased accountability it brings is having an effect on local authorities' spending decisions. I could not yet claim that the tax is a popular one: new taxes seldom are. But it is significant, I think, that the political debate in Scotland has moved on to compare the community charge with other ways of financing local services, and Labour's roof tax and the Democrats' local income tax are attracting severe criticism.

I have looked very carefully at the various proposals which Chris makes, but my own inclination would be to sit out the first year of the new tax in England without major changes, just as we did in Scotland, though I accept that some minor alterations, for example to the standard charge, might be desirable. I have to mention that any improvements to the transitional relief scheme or to the rebate system would reopen the retrospective issue as regards Scotland, and that is something which we would naturally wish to avoid.

My view is that any major concessions on the community charge will weaken confidence in the system as a whole, and unless they go a long way to meet the general concerns expressed will fail to satisfy our critics. We would have the worst of both worlds. If colleagues feel that major concessions are politically essential, then they must be designed either to achieve a major reduction in all bills or to deal properly and comprehensively with the charge of unfairness.

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The only realistic method of achieving a major reduction in bills would be to transfer functions from local to central government. The transfer of education would achieve that but at a cost in central government taxation which we would find it hard to contemplate. I do not think that simply throwing grant at councils would achieve the result, though I do agree with Chris that a realistic AEF settlement, taking full account of inflation will be necessary in the next year.

To have any serious prospect of removing the charge of unfairness there would need to be some kind of banded system. However I dislike Chris's proposal. It might meet some of the criticisms, but it is more likely, I am afraid, to be seen as the Government increasing its income through income tax to pay for an enhanced rebate system. There might be some immediate impact, as these changes would be perceived as part of the community charge, but the criticism of a flat rate bill paid by each person to their local authority would remain. The duke and the dustman would still pay the same. The arguments we have made about their contribution to local services through income tax, while entirely valid, have not been accepted up till now and there is no reason to believe that further increases in income tax would be received differently.

The only banding system that I can see that would meet the requirement would be one rate of community charge for those paying no income tax, another for those paying a standard rate, and a third for those paying a higher rate. This would obviously have to be based on information from the Inland Revenue, perhaps in the form of a certificate for each taxpayer and supplied by him to his local authority.

One possibility which I think we might consider, which would not weaken the system as a whole but might improve its implementation would be to consider deducting the 20% minimum community charge at source for those on income support. At present the collection of such relatively small sums is particularly problematic, and inefficient. If it could be made clear to those on income support that the amounts deducted from their benefit was determined by the local community charge, then there would not be a significant loss of the accountability which I continue to believe is the most important aspect of the new system.

In conclusion, my view remains that no major change is needed; we need a realistic, but not an over generous, grant settlement; but if colleagues feel that changes are necessary to meet the unfairness argument then I do not think Chris's proposals will meet that need.

Copies of this go to Geoffrey Howe, John Major, Peter Walker, Kenneth Baker, Chris Patten, Norman Lamont, David Hunt and the Secretary of the Cabinet.

Ron Dwight

pp. M R
(Approved by the Secretary of State and signed in his absence)

Scottish Office
25 April 1990

LOCAL GOVT: community Clerge Pt 18