

PRIME MINISTER

COMMUNITY CHARGE: THE WAY FORWARD

You are now considering the next moves in the efforts to secure wider acceptance of the Community Charge. You have rightly identified the pressure on the "conscientious middle" as the political problem. Even though on average monthly mortgage payments are about ten times larger than monthly Community Charge payments, the latter is seen as the last straw.

Although there are some who argue that a flat rate charge (with rebates for the poorest) is inherently unfair, I think the majority would accept it if:

- a. It were at a modest level - no-one complains about paying the same £100 road tax for a Mini or a Mercedes or £70 for the television.
- b. It comes within a progressive system of taxation which provides the finance for the remaining three-quarters of local authority expenditure.

It has not been possible to achieve a consensus because the charge has come out far higher than expected, causing changes in families' budgets beyond their capacity to adjust. This has come about as a result of a number of factors:

- a. Abandoning dual running. Experience in Scotland was a misleading guide because their Community Charge was financing a much smaller percentage of expenditure.
- b. An over-ambitious grant settlement which violated the first law that transitions should be smoothed, not made more painful. Although grant increased in line with inflation, this was bound to lead to real increases in Community Charge for most people. First, the disproportionate contribution of those in large houses was lost so that Mr and Mrs Ordinary would have to pay more even if total income were



constant in real terms. Secondly, with the lion's share of local authority spending being on wages rather than goods, spending was likely to rise in real terms even if numbers employed did not rise.

- c. Holding the contribution from businesses constant under the UBR arrangement. This meant that any increase in spending in real terms was concentrated on the domestic sector alone each 1 per cent adding 4 per cent to the Community Charge.

Clearly, mistakes have been made along the way, though one should not imagine that the alternative courses would have been without difficulty:

- As you have pointed out, rate revaluation would have been painful, especially if it too were combined with the introduction of the UBR.
- Dual running would have been administratively very costly.
- If grant had been higher, only part would have been reflected in lower charges. Some would have leaked into even higher expenditure.

However, the issue is how to make progress from here. Your immediate reaction was that the effort to achieve accountability had not worked and would not, at least in the necessary timescale; and that way forward was to introduce direct controls over levels and local authority expenditure, eg by specifying permissible reasonable expenditure levels which could be exceeded only by modern equivalent of one penny rate. You have suggested a Bill in the remainder of this Session.

I would like to urge caution on these propositions. I do not believe that accountability has failed. The first step in accountability is transparency. If people do not know what is happening, they do not know who to blame. In fact, a massive step forward in transparency has been achieved. For the first time people know not only what their authority is charging, but



have a scale by which to judge whether it is high or low. They know that £275 is a low charge, £475 a high one.

Under rates, two people living in different authorities could be paying different amounts, but they would not know whether that was because they lived in different sized properties, differently rated properties (ie old or new), because of quirks in resource equalisation, or whether one council was more extravagant than another.

Now everyone has a reasonable idea, and next year when the safety net has unwound completely for the contributors and a further step for the receivers, it will be even more apparent who the big spenders are.

The origins of the current reforms lay in the feeling that the Heseltine régime of targets and holdback had only a few years to run. It was deeply resented by the more responsible councils who tried to live within it. In contrast, the Labour councils who had spent heavily in the past got more generous targets. They were also more unscrupulous in fiddling their way out by creative accountancy.

The search was then on for ways of harnessing counter pressures to higher spending other than bureaucratically imposed limits. Hence the Community Charge which breaks out of the "those who pay don't vote, and those who vote don't pay" by aligning paying and voting.

I still believe there is mileage left in accountability, indeed it has yet to yield its full fruit. The first stage of transparency is close to being achieved; the voter knows whether he is paying relatively a lot or little. He is now looking round for who to blame. Clearly in the first year the Government is the easy target, but this will become less and less plausible as time goes by.

It would be a tragedy if, having got this far, you were publicly to concede in the first month of the charge operating in England



that accountability was a dead duck. There is a political penalty too. This is not like calling for a review of the Health Service whose basic structure had not been looked at for years. Here, you would be reviewing your own review.

Another of the themes of 1984-85 was that the mechanisms for controlling local government finance were bringing the Conservative in Westminster into conflict with the Conservatives in local government. Hence the need to find mechanisms which brought other pressures on the latter. To go beyond the 20-30 or so worse spenders who are largely Labour, the route of widespread expenditure limits covering, say, the 100 or so councils with spending over £15 million would lead the Government back into the tensions from which "Paying For Local Government" was designed to release it.

DoE can no doubt explain what general expenditure limits would require in terms of manpower. It would be a much more complicated job than running the Health Service. Instead of dealing with 10 or 20 Regional Health Authorities, DoE would be dealing with 100 or so different authorities delivering not one but five major services and a host of lesser ones.

You also need to look ahead to the way expenditure limits would transform relations with local government. In effect, Councils would become the Government's agents, but while this may help on the expenditure front, it would bring problems of a different kind. The Health Service tells you how it would be. Those working in and managing local government would turn their efforts towards getting a higher budget allowed from central government since that would be the only margin of freedom left to them. They would take no responsibility for any shortcoming but would merely deflect it onto Government.

Finally, I am concerned about proceeding by an emergency Bill introduced in the Summer. You recently recounted how the original pledge to abolish domestic rates came to be announced. At the time, work was in hand on the alternatives but had not been completed. At Mr Heath's insistence, you made the pledge



SECRET

- 5 -

before you were ready. I am worried that you could again run into legislation before it has been properly prepared - the sense of haste being heightened by having to drop something already in the programme.

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29 March 1990

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