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Local Govt: Rates

FROM: CHIEF SECRETARY
DATE: 27 September 1989

PRIME MINISTER

COMMUNITY CHARGE TRANSITIONAL RELIEF

In Nigel Lawson's absence in Washington I should let you have my views on the Cabinet Office paper. I have also seen Chris Patten's minute to you of 26 September which bids for an estimated £2 billion addition to public expenditure in one of the most difficult Surveys under our Administration.

2. There are two main issues before us:

- whether a scheme of transitional relief for individuals is justified, can be afforded and is politically and administratively feasible at this stage; and

- whether to make any changes to the safety net beyond the Government's decisions announced by Nick Ridley on 19 July.

3. Any consideration of a new extra relief for individuals from the community charge must give proper weight to the massive scale of assistance we already plan to provide through community charge benefit and income support. Our proposals are designed to help about one chargepayer in four. Community charge benefit will be available for all those in real need, including families with earnings up to around 75% of average male earnings. The cost is very substantial - about £2½ billion next year: that represents some 25% of local authorities' total income from the community charge.

4. We have therefore already provided generously for those who are in genuine need and any sums above that will require the most thorough justification. None of the expensive universal options, not even the more generous selective schemes in the Cabinet Office paper, seems to pass the simple but sensible test of providing support for those in genuine financial need. And Chris Patten's proposals make no attempt either to discriminate in terms of financial needs or in terms of defining carefully those who should be regarded as losers under the community charge.

5. His proposals:

- are very poorly targeted. They would give full protection to all losses over £3 per week and for losses over £2 per week to those who previously paid rates. The former group includes all those who have not been contributing to the cost of local services and whom the community charge was designed to bring in. Chris now proposes that they should only meet about half of their community charges next year;

- would be seen as a major reversal of policy. Our opponents would claim that the wide ranging protection envisaged represents a belated recognition that the shift of the local tax burden from households to individuals is not tolerable;

- would be an administrative nightmare. 15 million adults would be getting a rebate, transitional relief or both. Many local authorities could not cope; a large number might be tempted not to try;

- would seriously weaken accountability. The overall aim of the community charge policy is to rein back local authority spending by making the link between spending and community charges more transparent and improving accountability to the electorate. Chris proposes that something approaching half of local authorities community charge income should now be provided by the taxpayer. That would seriously dilute accountability and delay the day when electoral pressures begin to work on local authority spending;

- would add to public spending - not just the Planning Total. Reducing the community charge borne by many individuals from their own pockets throughout the country is bound to tempt local authorities to spend up higher than they otherwise would have.

6. Turning to the safety net, I note that Chris now recognises an injection of £650 million to meet safety net contributions would represent poor value for money. Instead he proposes outright abolition of the safety net, except in London where, again at a cost to the Exchequer, it would be retained. This does not make sense. A self-financing safety net has a crucial role: it prevents excessive shifts in grant between authorities and thus helps to discourage both very high community charges in certain areas and a surge in local authority spending. A safety net on grant changes has been in place to control the effects of much smaller shifts in grant since 1980. To back away from that now would be presentationally damaging, and would send quite the wrong signal to local authorities about our overall policy of bearing down on levels of expenditure. In the light of the new material on value for money in the Cabinet Office paper, I do not believe it would be sensible to pursue proposals for substituting more grant or phasing out the safety net. Nigel and I therefore agree that the proposals in his minute of 8 September should be dropped.

7. In conclusion, I must emphasise the sheer scale of the bids Chris has entered. His basic scheme costs £1.2 billion; to this must be added £230 million as the costs of additional transitional relief from abolishing the safety net; and finally a further £160 million is proposed to pay for the cost of a new safety net in London. Administration costs would amount to a further £100 million or so. Taking account of the inevitable consequential bids from Scotland and Wales, the total would be around £1950 million.

8. This extra £2 billion, coming on top of the £2½ billion already committed, would be unacceptable in any public expenditure Survey but especially this one. I see no scope for absorbing additions on this scale. As John Major told Cabinet in July, the scope for drawing down the reserve next year was already exhausted before the Survey began. And I am sure colleagues will not be prepared to agree to forgo adequate funding of priority areas such as health, transport and law and order, as well as the environment and social security. My own view, which I know Nigel shares, is that additions on anything like this scale would mean that Cabinet could not achieve the objective which it set itself.

9 I am copying this minute to Geoffrey Howe, Kenneth Baker, David Waddington, Tony Newton, Chris Patten and Sir Robin Butler.

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NORMAN LAMONT