

NOTE FOR THE RECORD

COMMUNITY CHARGE

The Prime Minister had a discussion this morning with the Chancellor of the Exchequer, Chief Secretary, Secretary of State for the Environment and Minister for Local Government. The discussion touched briefly on possible forms of words the Prime Minister might use in her speech to the Conservative Central Council on 31 March. On that aspect it was agreed that the Chancellor and Secretary of State for the Environment would reflect further and provide the Prime Minister with a draft formulation, taking into account the general framework attached to my letter to Roger Bright dated 28 March. But most of the exchanges concerned the substantive policy considerations.

The Secretary of State for the Environment said that, in considering possible changes to the community charge arrangements for 1991-92, three main problems needed to be addressed:

- i) a continuing strong feeling among many people, including Government supporters, that it was unfair for Dukes and dustmen to be paying the same level of charge;
- ii) the absolute level of community charges which had emerged for 1990-91. In part this resulted from local authority over-spending, but it was also a consequence of the structure of the new system which had placed a limit on the total yield of business rates and involved a high level of "gearing" on the community charge;
- iii) amongst individuals, the impact of the new system was felt most by those who were just above benefit levels and those who lived in houses with traditionally low rateable values.

The challenge was to decide how best to respond to these difficulties within the context of what would undoubtedly be a very tight public expenditure round.



The Prime Minister said that, with community charges at the present level, the system was leading to an intolerable burden. People were not placing the blame on local authorities for their levels of spending; rather they were directing their fire at the Government who were seen to have been responsible for devising a system for allowing authorities to overspend. Various of the criticisms identified by the Secretary of State could be readily defended. The "Duke and dustmen" position was exactly the same as for other services such as electricity; and the progressivity in the financing of overall local government spending was provided through the large proportion of finance by Government grant and the benefit assistance given to the poorest. If the aim was to make the better off pay more towards local government spending, this was best achieved by adding further to central government grant, which would then feed through into lower community charges. But this could only be contemplated if a system was introduced in parallel to provide for effective control over the expenditure of all local authorities; an approach broadly analogous to that already introduced for business rating might be envisaged whereby local authority spending was capped at around the level of SSA, with only a small degree of latitude to allow for local variations.

The Chancellor said that, following the discussions earlier in the week, Treasury and Department of the Environment Ministers had already started urgent work on possible reforms. It had to be recognised however that attempts to restrain levels of community charge by increased Government grant would be extremely expensive; for example holding charge levels in 1991-92 at the same cash limit as 1990-91 might cost some £3 billion. The Prime Minister commented that the objective needed to be more ambitious - namely to reduce charge levels in 1991-92 compared with 1990-91. The Chancellor said that he and the Secretary of State were now actively considering eight different ways of achieving a practical impact on the community charge system, and they would be reporting on this work to the meeting with the Prime Minister scheduled for the following week. The difficulties in



controlling local authority spending should not however be underestimated; this objective was very attractive but earlier efforts to achieve it had met with little success. Nonetheless a radical look was being taken at all the possibilities.

The Prime Minister reiterated that effective control over local authority spending was essential. Among the issues to be considered were measures to reduce authorities' powers to spend on particular functions and the introduction of more extensive specific grants to them. In looking at radical possibilities for the longer-term consideration might also be given to an organisational change to abolish county councils and introduce unitary local authorities; this is something which many back-benchers wanted.

The Chief Secretary said that the community charge was undoubtedly a difficult problem for the Government, although perhaps not as significant in electoral terms as the state of the economy. But in tackling the problem it was important to do so in a way which did not undermine the Government's credibility. There was a danger that direct controls over local authority spending would cut right across the concept of greater accountability and would be extremely unpopular both with Conservative local authorities and some Government back-benchers. Rather than focusing on spending controls it might be better to concentrate on the eight options to which the Chancellor had referred.

The Prime Minister questioned whether Government back-benchers would be opposed to spending controls once the full impact of the receipt of the 1990-91 community charge bills had been felt. The key point in relation to accountability was that local authorities exercised their powers only within the remit given by Parliament; it was the responsibility of Government and Parliament to protect the citizen against the over-weaning use of those powers.



The Prime Minister added that in considering reforms to the system the position would need to be looked on a Great Britain basis. The community charge had had an easier reception in Scotland because charge-payers there bore a smaller proportion of total local authority spending since Government grant was higher. In any new arrangements there should be genuine equality between England, Wales and Scotland, and the grant mechanism adopted should override the normal territorial formula system for public expenditure.

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