

PRIME MINISTER

THE COMMUNITY CHARGE

Tomorrow's discussion is the first substantive consideration of the urgent work you asked for on the community charge. You were keen to limit the discussion to DOE and Treasury Ministers.

The Environment Secretary's paper covering a paper by officials is at Annex A. At Annex B is the Cabinet Office brief from Richard Wilson. Annex C is a brief from the Policy Unit.

There are three main issues:

- (A) Should anything further be done for 1990-91;
- (B) For 1991-92,
 - i) what measures are best to rein back the growth in local authority expenditure;
 - ii) What further action is necessary to relieve the burden on local taxpayers?

The aim might be to reach agreement on (i) above; and to decide which of the various options under (ii) and (iii) should be pursued further. (A useful checklist is provided in paragraph 59 of the DOE paper.)

A. 1990-91

Mr. Patten mentions but does not press the case for further action in 1990-91. The Policy Unit favour such action. The benefits are seen as a reduction in the forecast increase in the RPI; ratcheting down the level of the community charge; and reducing the cost (in terms of extra grant) of keeping down community charges next year.

But there is a strong case against further action. It would be seen as a political defeat; it would validate the massive

overspend planned by local authorities, switching the burden in effect from chargepayer to taxpayer; and it would undermine the new public expenditure planning total in its first year. (This and other known claims would more than exhaust the Reserve.)

B. 1991-92

There will be some downward pressure on spending and community charges in 1991-92. First, the evidence from Scotland is of better accountability, lower increases in spending and community charges in the second year. Second, authorities contributing to the safety net this year will not have to do so next: the councils (largely Conservative controlled) will be able to reduce community charges, while holding spending constant in real terms. But some local authorities will of course still try to push up spending and charges - and blame central government.

The DOE paper provides no proper forecast as distinct from assumptions about what local authorities might do. This seems essential before any consideration of AEF levels.

B. i) Restricted Local Authority Expenditure

Some of the options in the DOE paper can be dismissed as either impossible to introduce or ineffective in 1991-92 - in particular changing the functions of local authorities and moving to annual elections. (Neither would necessarily reduce community charges) There are three basic approaches:

- a) The strongest means of controlling local authority expenditure in 1991-92 would be universal capping. Mr. Patten is clearly not attracted to universal capping (or the variant of controlling local authority income). I understand the Treasury may not be very sympathetic to this approach. But Mr. Patten is envisaging extending capping on the existing model. A more imaginative 'target' type approach with less DOE supervision could be worth exploring - as discussed in paragraphs 13 and 14 of the Cabinet Office minute.

- b) Less effective would be some system of enhanced selective capping designed both to extend the number of authorities caught and to cap over a period of years. It would, however, be seen as extending an essentially punitive approach; and it would undermine accountability.
- c) Another approach would be to strengthen the grant pressures so that the community chargepayer pays more than 100% of extra spending above the SSA. This involves a return to grant penalties, i.e. withdrawal of grant for overspending. It is probably politically unattractive.

A further approach might be to combine enhanced capping with grant bonuses for authorities which keep their spending down to below some target increase either on last year's budgets or on SSA. This could be presented as enhancing accountability: central government would reward the virtuous with extra specific grant for the purpose of reducing charges, not raising spending, and penalise the sinners (by capping expenditure and charges of the profligate councils).

B ii) The Burden on Local Taxpayers

There are two broad approaches:

- a) A fundamental shift from the flat rate principle to graduated charge or
- b) selective measures to alleviate the burden for those on low incomes or facing higher local tax bills.

Several administrative difficulties are noted by DOE to a) - a graduated charge. They may not be insuperable. It would represent a political retreat: but it would also remove a principal focus of discontent. It may also be better than large increases in grant in order to reduce the community charge to an acceptable flat level. (That increase in grant would have to

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come from income taxpayers with the greatest burden on the higher rate payers.)

A number of selective options under b) would keep down the community charge for certain individuals. Improvements to the taper are favoured by DOE. But Treasury are concerned about the wider effects on benefits. Further action could also be taken on the capital limits for community charge benefit recipients. And the transitional relief provisions could also be made very generous. These options seem worth exploring further.

BHP

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