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PRIME MINISTER

THE COMMUNITY CHARGE

Tomorrow's discussion on the community charge will also be attended by the Chancellor, Chief Secretary, Lord President, Mr. Patten and Mr. Hunt, Mr. Renton, Mr. Baker, Mr. Rifkind and Mr. Walker. The three main papers are:

- at Flag A from Mr. Patten
- at Flag B from the Chancellor
- at Flag C a minute from the Scottish Secretary which appears to advocate a Mates-type banded community charge.

In addition there are briefing papers and notes as follows:

- at Flag D from Richard Wilson
- at Flag E from Andrew Turnbull (setting out the views of the Whips' Office)
- at Flag F from Policy Unit (on your idea of an extra community charge, set at national level, for those on high incomes); and
- at Flag G my earlier note (plus attachment from the Policy Unit).

The substantive advice on both policy and handling is contained in Richard Wilson's brief at Flag D (which I discussed with him earlier today).

Handling

The discussion might be handled as follows:

- i) Level of charge: Agree that no decision on amount of AEF can be taken until the revised structure on local government finance is clarified.
- ii) Curtailing local authority current spending: Capping expenditure; setting targets; grant incentives or bonuses; "safety valve" sources of marginal income for local authorities.

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iii) Fairness: The extra community charge from higher taxpayers, your proposals, the Chancellor's and Mr. Patten's; transitional relief; and community charge benefits.

Policy Package

First, you may judge that the key task is to find much stronger powers to control local authority spending than contained in Mr. Patten's paper. The main elements should be:

- setting realistic and achievable targets for each authority for 1991/92 (not at SSA but inevitably a complex formula authority by authority);
- exemplary capping of all the large spenders (not 50 as Mr. Patten proposes but all the 110 or so London Boroughs, Metropolitan Districts, and Shire Counties unless they spend at or below target);
- possible small grant bonuses (not incentives on the scale proposed by Mr. Patten but very modest grants that the well-behaved authority can point to: this might be the political price for more extensive capping).

Were there to be some agreement on the above principles, officials could be asked to work up possible schemes. The various "safety-valve" ideas suggested in the Treasury paper do not seem promising.

Secondly, on fairness, unless a better option can be found, your own proposal combined and linked presentationally with the suggestions by Mr. Patten on extending transitional relief represents the best way forward. A fairness element seems critical for a successful package. Measures to extend the availability of community charge rebates do not seem worthwhile; the focus of fairness measures should be on transitional steps to ameliorate the shift from rates to community charge.

Third, on the level of spending in AEF grant, even with the stronger controls over local authority spending, a major increase in AEF will be necessary if community charges are to be held at their present level, let alone reduced. You may feel there is some advantage in looking further at how the burden of local spending is best levied on the electorate in their capacity as national and local taxpayers.

Finally, the meeting needs to decide a precise timetable for further work bearing in mind the legislative implications on which the Lord President should be able to advise.

BHP

(B.H. POTTER)

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