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BARRY POTTER

10 May 1990

cc: ✓ Brian Griffiths

MR HESELTINE'S COMMUNITY CHARGE PROPOSALS

I attach a summary of these which you may care to have to hand for briefing the Prime Minister.

Much of this speaks for itself. I offer only the following comments on certain aspects:

SPECIAL ELECTIONS

Heseltine argued in Cabinet for these in 1981 rather than referenda. He says now he narrowly failed to convince Cabinet. The records however suggest that there was little support. The fear was that they were bound to end up being on wider issues than just spending and that Government supporters' seats would be at risk. Referenda were preferred (and proposed in a Bill) because it was felt they could be better confined to the narrow issue of spending.

I believe that this debate in 1981 between the merits of elections and referenda to approve higher spending became well known in the media.

SURCHARGE TO COMPENSATE FOR INFLATION

This idea at least recognises the dangers of an open-ended ability on the part of authorities to raise extra revenue, but probably not enough. A widespread breaching of target expenditure through referenda or elections would of course increase GGE, increase PE through extra benefit, and increase the RPI through higher average charge - all outwith the control of central Government.

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SAFETY NET/TRANSITIONAL RELIEF

His proposals are obviously attractive, but extremely expensive. Transitional relief to protect against actual levels of charge would simply be an open invitation to councils to spend up. It would cost in the order of billions and would leave accountability in shreds. I very much doubt whether Heseltine has thought this through and it would be a legitimate area for criticism. It sits ill with his initial, confident assertion that there is no point in just pumping in more grant regardless.

JK.

JOHN MILLS

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Mr Heseltine's Community Charge Proposals (Times, 10/5/90)

- No point in pumping in lots more grant regardless. It won't all feed through into lower charge.
- Nothing to be gained from simply transferring functions to the centre.
- A general cap on charges or expenditure - ie no council can increase them by more than a given % - won't work and should be resisted:
 - why wasn't something so obvious done before? crawled over it in early 80s and rejected it;
 - negates accountability and would be an act of centralised power outside our experience;
 - figure must be set high enough to limit breaches to extreme cases; but if it is too high there is a licence for others to spend up.
- Fear of electoral defeat is the key to pressing down on local government expenditure.
- Authorities should be free to set and account for their own budgets. If exceed SS by given %, an election for whole council must be held, ie capping by electorate.
- Further discipline would be a surcharge payable to Treasury to compensate for inflationary consequences.
- With present safety net provisions an accident is waiting to happen. Little incentive for gaining councils (ie those who will benefit from Treasury taking over next year) to pass on to chargepayers the equivalent. It will be easy for them to hold charge steady in money terms although this will be a big % increase in spending.

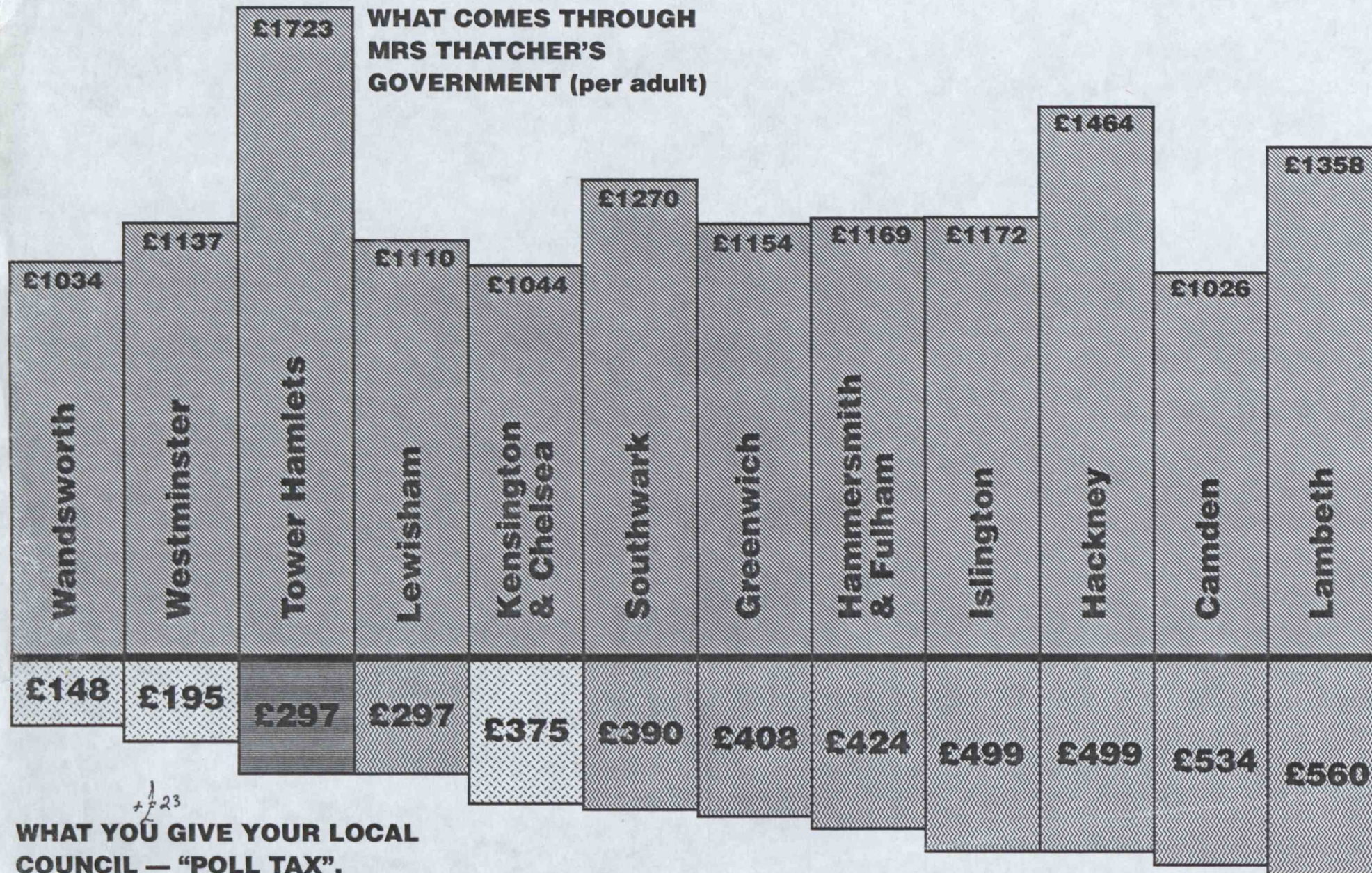
- There should be no withdrawal of safety net support next year, so that losing authorities have no cause to blame the government.
- Transitional relief scheme should be improved and expanded and calculated by reference to actual not assumed spending.
- Should exempt elderly remaining at home (exempt already if in care): current situation which provides incentive for going into residential care is a negation of Tory principles.
- (Apparently) should also exempt students, student nurses and the physically disabled.
- Relief needed for small traders living above the shop who are liable for UBR and Community Charge.
- 1991/2 settlement must be based on realistic economic assumptions and a determined adjustment of SSAs to reflect reality in a wider range of authorities. Should rely on realistic settlement plus election proposal to keep charge down.
- Original manifesto commitment (1974): "[abolish rates] and replace it by taxes more broadly-based and related to people's ability to pay". In part to finance changes outlined above, better-off should pay more. Banding upwards based on income so that higher-rate taxpayers pay more. But must retain principle that everyone pays something.

COMMUNITY CHARGE:
SUMMARY OF MICHAEL HESELTINE'S REPORTED VIEWS

1. Accepts that Community Charge is here to stay.
2. Single tier local authorities.
3. Directly elected mayors.
4. Accepts principle that everyone should pay something towards cost of local government services.
5. Against bringing services such as education under central government.
6. Against universal capping.
7. If a Council budgets above Government guidelines, then the whole Council automatically comes up for re-election.
8. Extend the transitional relief scheme.
9. Abolish the double burden on extra hereditaments (NB: there is no double burden at present).
10. "Banding" upwards, i.e., top rate taxpayers to pay a higher charge.




PAYING FOR YOUR LOCAL COUNCIL

**WHAT COMES THROUGH
MRS THATCHER'S
GOVERNMENT (per adult)**



**WHAT YOU GIVE YOUR LOCAL
COUNCIL — "POLL TAX".**

KEY

-  Conservative
-  SLD
-  Labour