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PRIME MINISTER

THE COMMUNITY CHARGE

I attach the note from the Cabinet Office on the community charge. Also attached are the various technical papers mainly written by DOE.

The Cabinet Office paper lists options but gives no policy recommendations. As you know, the Chancellor and Mr. Patten are meeting again next Tuesday to discuss what policy recommendations to put to you. I understand the Chancellor wishes to discuss this with you beforehand at the bilateral on Monday.

Summary of Cabinet Office paper

The main points on the control of local authority expenditure are as follows

- (i) The system of limits should apply to the 107 major authorities and to the larger district authorities.
- (ii) The cash limits are best set on local authority income, defined as expenditure plus additions to balances.
- (iii) The approach to the construction of income limits would be to:
 - start from existing spending in 1990-91;
 - apply a general uplift factor to be determined by Ministers;
 - make any adjustments necessary, eg. because of changes in functions;
 - and, where the result was above SSA, to apply a reducing factor so that the limits would converge towards SSA over a period of years

validation
overspending

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(iv) There would need to be an ability to apply a derogation from these limits either by:

(a) an order from the Secretary of State or

(b) as a result of a single issue referendum;

(v) The duration of the scheme suggested is five years.

A key issue is the necessary legislation. Further advice is being sought from the lawyers. The provisional conclusion of officials is that the legislation should be introduced in the next session of Parliament.

The officials' group also considered other changes to the community charge system. Their conclusions can be summarised as follows

- (a) The transitional relief scheme should be extended over a longer period; the rate of withdrawal of relief should be relaxed; and the relief should cover changes arising from withdrawal of the area safety net, low rateable grant and (possibly) the ILEA transitional grant
- (b) Transitional relief might also be extended to cover additional groups, in particular the disabled
- (c) The idea of an extra community charge set on a national average basis for individuals with incomes above a certain amount needs further work. The main issues are to whom the levy should apply; when the levy should be paid; what the amounts should be; and whether there should be a link with the amount of grant provided to local government
- (d) Annex E provides a list of ways of strengthening the value for money work of the Audit Commission;

- (e) Annex F describes the extra burdens facing local authorities in 1991-92.

Assessment

My minutes of yesterday and the day before at Flag B explained the policy options on the central income limits proposal and the views of the Chancellor and Mr. Patten. At Flag C is a note from Policy Unit (which I discussed with Brian Griffiths and John Mills earlier).

You will wish to discuss the best way forward with the Chancellor. The key judgments are the political acceptability of cash limits and referenda on the one hand; and, on the other, the practical difficulties of legislating on both, in time for next April. A possible way through might be as follows.

- (i) Take legislation in the next session on income limits. For 1991-92 they might be put in place with no derogations.

Cash limits
[This would provide the maximum certainty over local authority spending next year (and hence community charges). There are no important local elections in April 1991, so the temporary loss of local accountability may be judged acceptable. But, with no derogations, DOE will argue that limits might have to be fairly generous and that would mean a higher burden on the Exchequer.]

- Ref.*
(ii) Announce, as part of the package, that from 1992-93 onwards, the limits could be exceeded only after success in a single issue referendum. That would give time for the necessary legislation to be worked up carefully and introduced in the session after next.

- Relief*
(iii) Introduction of a fairness package in April 1991 to include some or all of the extra transitional relief measures; and (possibly)

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- (iv) Introduction of the higher rate levy (though it may be worth investigating a second non-indexation of the 40 per cent tax band - linked overtly to community charge - as an alternative)

This would make the higher rate start at a very low level.

Such a package would combine tough limits on local authority spending for the very short term with measures to increase the perceived fairness of the charge. Thereafter, local accountability would be preserved and enhanced by the referendum provision.

Would you like Policy Unit to give further consideration to a package along these lines?

BHP

Yes without (iv)

BARRY H. POTTER

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11 May 1990

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