

15 March 1985

PRIME MINISTER

Victor Rothschild is coming in to discuss his ideas on local
government.

Oliver Letwin and I have spent considerable time with him
suggesting ideas and answering queries. He is thinking
about:

Scrapping the business rate.

This could be replaced by adding 8-9 percentage points to
the Corporation Tax rate. Instead of taxing land and
property use, we would be taxing profits; the money would be
collected nationally and redistributed through some grant
formula.

Domestic rates: to scrap or reduce?

I think Victor has agreed that the poll tax is the most
attractive of the options available - income tax, sales tax,
poll tax. He wonders whether he should recommend going the
whole hog, imposing a quite substantial poll tax, and
abolishing rates completely; or whether he should follow the
DoE line of having both a smaller poll tax and a much
reduced domestic rate.

I expect that
this is the
question he
wants to ask
you on Monday

Making greater use of charges

We believe both Victor and the DoE have agreed that charges should be imposed or increased for many services where the user can have more direct say in the quality and style of service provided. We have one of the lowest levels of charging for local authority services of any of the Western countries.

Rate Support Grant

All seem to agree we need a simpler formula for distribution of grant, but that's where the arguments begin rather than end. We have raised the question of whether we are pouring too much money into Labour strongholds in the cities through the hidden Regional Aid of the present RSG system.

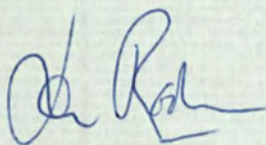
Structural Reform

Victor may still be an enthusiast for scrapping a tier of local government altogether. DoE are less enthusiastic!

Victor has formed a low impression of Government departments with which he has had to deal. There are some disagreements between the approach he (drawing on Lenny Hoffman) may wish to pursue, and the likely course that Patrick Jenkin, Ken Baker and William Waldegrave will recommend. He may seek to involve you in some of these disagreements.

He is also keen to pursue the question of union
contributions and deductions by employers. I have said to
him that we talk from time to time to Tom King about these
and other issues, but have not encouraged him, in view of
the political sensitivity of the subject.

We have minuted you separately about a possible new Trade
Union Bill.



JOHN REDWOOD