

PRIME MINISTER

DRAFT MINUTE TO THE LORD PRESIDENT

I attach a draft minute to the Lord President on his paper
"Towards a Community Charge Package".

I have drafted this for your signature (subject to any
amendments). Alternatively it can be turned into a Private
Secretary letter if you prefer.

BHP

Thank you very much
mb

BARRY H. POTTER
18 APRIL 1990

c:\wpdocs\economic\president.mrm

SECRET AND PERSONAL

DRAFT MINUTE TO THE LORD PRESIDENT FROM THE PRIME MINISTER

THE COMMUNITY CHARGE

Thank you for your minute of 12 April covering your paper "Towards a Community Charge Package". I was grateful both for your analysis of the problems that have arisen on the introduction of the Community Charge, and for your proposals on measures to remove the main perceived difficulties.

There is much in your analysis with which I fully concur. I agree that the sense of unfairness which has emerged reflects the speed of the change from domestic rates to the Community Charge. A large number of local authorities have set Community Charges well above the guideline figures. As a result the gains have ended up going to a relatively narrow range of households while, despite transitional relief, many households have experienced a substantial increase in local tax bills. And - in contrast to our approach on non-domestic rates - these gains, and those losses due to excessive community charges, have not been phased in over a period of years.

In some cases the high Community Charges may reflect changes in SSAs, relative to the old GREs, that have been too sharp and too sudden for local councils to adjust to fully in their budgets for 1990-91. But I would place much greater emphasis than you do on deliberate and widespread overspending by local authorities as the main cause of our difficulties. The increase in local authority current spending of some 27 per cent over the last two years is indefensible. It has placed an intolerable burden on the electorate - both as national and local taxpayers. It would have done so even if domestic rates had still been in place.

Correspondingly, I think the major element of the Community Charge package, which must emerge from our deliberations over the next few weeks, should be tough measures to rein back this unacceptable rate of increase in local authority spending. Some extra contribution from higher AEF will no doubt form part of the package. But a large injection of grant on anything like the scale mentioned in your minute would validate the existing

SECRET AND PERSONAL

overspending and surely encourage further overspending by local authorities next year - particularly, if as you envisage, charge capping were to play a less prominent role. Our fiscal position would be seriously damaged, and our credibility on holding down public spending completely undermined.

My preference would be to set local authorities much tougher spending limits and targets, capping those big spenders which exceed their target levels and perhaps rewarding with extra grant (in order to lower Community Charges) those which achieve spending at or below target levels. Chris Patten is considering such ideas at present and will report at our meeting next week.

I share your view that measures are also needed to remove the sense of unfairness by phasing in the gains from the abolition of rates for those on the highest incomes while, perhaps, providing more assistance for those on low to modest incomes who have lost most. Your particular proposal has some links back to the dual-running scheme which we abandoned earlier because of its overt relationship with domestic rates. But John Major is considering a new transitional arrangement for an additional Community Charge, set at a national average level, for those on high incomes, while Chris is reviewing the existing transitional relief scheme. They will wish to take on board your own ideas in framing their proposals.

I very much agree with you that careful attention will be needed to the construction and presentation of a Community Charge Package and that the legislative implications will have to be identified early so that suitable arrangements can be made. I know that you will be able to advise us on these matters when we meet next week.

I am copying this minute to John Major, Chris Patten, Tim Renton and Sir Robin Butler.

a:\economic\ccharge.mrm

