

Target <sup>G</sup> regime  
27(a-e)

570

Share - comm. →  
Adv. Roads  
5.3 bn

PRIME MINISTER

THE COMMUNITY CHARGE

4th over

1bn  
3bn

I attach a copy of Mr. Patten's paper on the community charge for <sup>the</sup> discussion on Thursday.

I have not yet had time to highlight the main points in the report. The paper from the Chancellor has not yet arrived. (I will submit all the papers, plus the briefing from Richard Wilson on Wednesday evening.)

cutti  
needs

In the meantime, you may like a preliminary reaction to Mr. Patten's paper on first reading. The proposed policy package is very disappointing. With the exception of your own idea for an extra community charge (set at national level) for those on incomes above £50,000 per annum, the paper proposes no radical policy options. Crucially, it rejects the concept of new cash targets or limits for each local authority.

Policy Package

The main proposals are as follows

- a. Mr. Patten endorses your idea of an extra community charge (set at the national average rate) for those on incomes above £50,000 p.a. He proposes a further development: setting an extra half community charge for all those on higher rate tax bands.
- b. More expenditure on transitional relief
- c. A more generous community charge rebate scheme
- d. A major injection of extra Government grants - through AEF
- e. More extensive capping



Assessment

On (a), Mr. Patten's development of your proposal for an extra community charge for those on the highest incomes poses difficulties. It seems to cross the boundary from a transitional measure, targeted on those who have gained most from the shift from rates to community charge, to a local income tax - or at least higher income taxes to pay for local government. First, would it be differentiable from a banded community charge linked to income? Second, many of those paying this extra tax will have lost as a result of the shift from rates to the community charge.

On (b), more transitional relief, there would be a considerable extra cost to the Exchequer. But there is a good case for some extra transitional relief - there are some genuine anomalies and the low to modest income groups (C2s) are particularly important. The precise measures, duration and cost will need further thought.

On (c), the case for more rebates is less convincing - the rebate scheme already covers one in four chargepayers. Further improvement will weaken the basic concept of the charge: it is different in nature to transitional relief.

The critical shortcomings are on items (d) and (e) - the major injection of grant (at least £3 billion according to DOE) and extending capping to about 50 authorities. Capping up to 50 local authorities would be a step forward: but it would still exclude half of the 100 or so authorities that have major responsibilities for spending.

Combining only that limited degree of stronger capping with higher grant, and more extensive transitional relief and rebates (which might lead local authorities to believe that chargepayers can bear higher community charges than before), would seem to threaten precisely the further increase in local authority spending and community charges which the Government must avoid.

Conclusion

The Treasury's response to the paper is not yet clear. But in my



view there is insufficient in this package to get at the heart of the problem - the rapid growth in local authority current spending.

There is a case for looking again at the target approach, no matter how complex. The attached note from Policy Unit suggests targets should be based on a "budget plus RPI minus adjustment" approach, rather than SSAs. (In practice, an RPI formula depending on existing budget in relation to SSA may be most appropriate.) One point is clear: even thoroughly revised SSAs are unlikely to represent realistic targets for each LA in 1991/92. So further work on practical targets seems worthwhile.

But there may also be merit in taking a more measured look now at some of the more radical options which you discussed with Mr. Patten. In particular, if you and Mr. Patten consider that the right way forward is for central government to control the great bulk of local authorities' income/expenditure and to leave them with only a small marginal source of income, it may be helpful to work up that model further. Then Ministers can consider how to move towards that objective from the present position.

Clearly a central role for the community charge will be part of the package for next year though its level and variance could be reduced, if other taxes and duties bear some part of the burden for local spending. But the key task remains to find a better way than proposed in Mr. Patten's paper of limiting the growth in local authority spending next year to keep down the burden on the electorate both as taxpayer and chargepayer.

BHP

BARRY H. POTTER

24 April 1990

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