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NOTE FOR THE RECORD
COMMUNITY CHARGE

The Prime Minister spoke to the Chancellor of the Exchequer on the telephone this morning.

The Prime Minister said she had been reflecting on the latest community charge developments and had been considering the papers prepared on community charge capping for 1990-91. She had a number of fundamental concerns, given the implications for the political position. When the community charge system had been developed the Government had assumed that, if authorities persisted with high levels of spending, the blame for the resultant high community charges would fall on the authorities themselves. But in recent weeks that had not happened; rather, the general public blamed the high levels of community charge on the Government because of their responsibility for introducing the new system. A lot of criticism had also been focussed on the spending levels of Conservative controlled councils.

Continuing, the Prime Minister said that the impact of high community charges was falling on those in the middle income groups; what might be called the "conscientious middle". Those on low incomes were well protected by the various rebate arrangements; indeed, because charges had been set at high levels, the Government were having to meet a much higher bill than expected via community charge benefit. That benefit effect would be given a further twist because, since the levels of community charge were pushing up the RPI, that would carry through into a higher than expected uprating for all social security benefits next autumn.

The underlying problem was that, contrary to earlier expectations, the community charge regime was not bringing about increased accountability. Nor did that effect seem likely to materialise in the second year of the system in England. A modest degree of protection could be given to charge payers in 1990-91 if the current proposals for charge capping were implemented; it was essential to do this, both as a warning and as a measure of protection. But the overall effect would be

marginal at best - only some £250 million off expenditure.

Against that background, it was necessary to consider radical further measures in relation to 1991-92. The main option seemed to be the introduction of a direct control over levels of local authority expenditure; for example, laying down that expenditure by each authority could be no more than X per cent above SSA. That would, however, need to be matched by a substantial increase in the level of government grant to local authorities, perhaps with a larger proportion of the total in the form of specific grants (given that the block grant enabled local authorities spending controls to be slack). Overall, it might be possible for this dual approach to reduce total public expenditure by local authorities. It would then be for consideration whether to continue with the community charge as the one residual means of financing a higher expenditure in the system; an alternative would be to place some of the burden of higher spending on the business rate, or to place some of the duties currently undertaken by local authorities on businesses themselves, for example refuse collection.

All this pointed to the need for a major internal review, which would have to be carried out very speedily. It would be necessary to indicate publicly that some kind of review was under way, although the terms and manner of such an announcement needed careful thought. It would be important to stress to Government back benchers that the Government would only be in a position to respond to worries over the community charge if demands for extra expenditure in other areas were restrained.

The Chancellor responded that he did not dissent from the Prime Minister's judgement that a radical review was necessary. There were a number of ways in which substantial change could be introduced. But, as regards an announcement, he thought it important only to tell both the Party and the public that the Government was looking at the problem, and not to spell out just what was being considered. On the substance, one approach to look at would be to impose a penalty on higher spending for local authorities by obliging them to finance the cost of community charge rebates from their accumulated capital receipts. The

Prime Minister agreed, and said a more radical option would be to oblige authorities to fund increases in their expenditure above SSA from accumulated capital once 50 per cent of capital receipts had been deployed to repay debt. The Chancellor commented that action was needed in any event to ensure the debt repayment obligation was met.

The Prime Minister reiterated that any changes must be in a form which controlled total expenditure. The Chancellor agreed; other expenditure savings besides those generated by capping would be required. He said that the clear requirement was for an early Bill. The Prime Minister agreed and said she had been reflecting on the possibility of deferring a bill on student unions which was currently ear-marked for 1991-92. The Chancellor said another possibility, in 1990-91, would be to drop the Student Loans Bill, which had run into difficulties in the Lords. The Prime Minister said that this was a possibility if the problems in the Lords proved very great; however, dropping the Bill at this stage would be extremely difficult, given that it had already been through the Commons.

Discussion then returned to what should be said in public about any review. The Chancellor said he would be pressed on this in his wind up speech in the Budget Debate on 26 March. He was minded to say only that, in the light of experience so far with the new system and some of the difficulties to which it had given rise, the Government would of course be keeping the position under review. The Prime Minister thought it would be necessary to go further, for example by saying that the Government was currently considering community charge capping, but would also be carrying out a review of the whole system. The Chancellor repeated it would be important to give no flavour of exactly what possibilities were being looked at. The Prime Minister said she would need to have an early word with Department of the Environment Ministers. It was left that the Chancellor would reflect further on his possible comments on 26 March.

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25 March 1990

jd c:chancellor