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COU H

Prime Minister

COMMUNITY CHARGE

with SHP.

I have read with interest the proposals which colleagues are currently considering on capping community charge levels and local authority expenditure.

We are in effect contemplating a system in which all significant local authorities are forced to get their spending down to at or below SSA level over a period. When that is achieved, the Government will be determining almost all local authority spending, and consequentially the level of local taxation. But if that is so, what is the point of a system of local taxation? If we are to have a system whereby the Government determines local spending - for which a case can be made, though I do not myself advocate it - then there is no real argument for having a local tax base, as authorities would not be accountable for the level of the taxation, merely the pattern of expenditure set within the Government limits. We would run the risk of having introduced what is inevitably in the early years an unpopular tax and then setting the level of it ourselves. Our objective of improving accountability would have been thrown out before being properly tested.

Not only would this be a complete change in our policy on local accountability, it would be a change of the most fundamental sort in the nature of local government. I am strongly of the view that such a change should not be made in response to understandable, but nevertheless excessive, concern over one year's community charge bills.

I am sure that we will find in England and Wales as in Scotland that in the second year of the new system the benefits of the increased accountability which the community charge brings will start to become evident, and over time will work to restrain local authority expenditure,

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voters will increasingly identify what they vote for with the financial consequences of their decisions. To abandon that policy now would in my view be a very serious mistake.

I also agree with John Major's view on the undesirability of a higher incomes levy. It would not satisfy those who want a proper banded system, it would hypothecate revenue in an undesirable way, and it would undermine our stated view that higher earners already pay a much greater contribution to local government spending through their higher income tax payments. There would also be serious practical problems affecting those who are income tax payers but not community charge payers such as those resident in Northern Ireland.

MR

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16 May 1990

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