PO-CH/NL/0251

PART C

Part · C.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 20/11/87.
Ends: 29/2/88.

PO -CH /NL/0251

PART C

Chancellor's (Lawson) Papers:

THE COMMUNITY CHARGE AND SETTLEMENT OF THE RATE SUPPORT GRANT SYSTEM

Disposal Directions: 25 Years

27/9/95.

PO -CH /NL/0251
PART C

CABINET OFFICE PAPER

The following Cabinet Office papers have been taken off the file. If you require access to these papers please contact the Cabinet Office.

Reference	Date Of Paper
L (87) 19th Meeting	2 December 1987

1. MR POTTER BHP 24/11

2. ECONOMIC SECRETARY

FROM: G F DICKSON

Date: 20 November 1987

cc: PS/Chancellor – 12/2
Mr Anson
Mr Kemp
Mr Hawtin
Miss Peirson
Mr Fellgett
Mr Gibson
Mr Tyrie

COMMUNITY CHARGE: MARRIED AND UNMARRIED COUPLES

I understand from Mr Tyrie that you would like to know about any difference in the treatment of married and unmarried couples for assessment and payment of the Community Charge (CC).

2. It is the intention of the reform of local government finance that everyone should contribute to the Community Charge. Collection of the CC will be more difficult than rates; and in dealing with individuals, rather than property, problems and anomalies are inevitable. For example, spouses with no income will be unable to pay and will look to their partner to pay the charge. Therefore, joint and several liability for the CC is a necessary safeguard lest the wage earner does not pay both charges. This raises the question of differences in treatment for married and unmarried couples.

3. Discussions between Ministers and between officials earlier this year showed a clear intention that unmarried couples should not receive any advantage over married couples. Two potential ways in which they could have benefited were through Community Charge rebates and lack of joint liability. Both are covered by existing or forthcoming legislation.

Eligibility for CC rebates

4. At present means tested Social Security benefits, such as Supplementary Benefit, treat married and unmarried couples alike; their joint means are assessed for benefit. Housing benefit,

which will be used to make rate rebate payments from next year and Community Charge rebates from 1989-90 in Scotland and 1990-91 in England and Wales, will contain the same provision. Couples who are living together as man and wife will be jointly assessed for Community Charge rebates. There is therefore no advantage, in legislation, of being unmarried. Unmarried couples who obtain a CC rebate for one partner will be in breach of DHSS regulations and open to legal redress. The situation is in common with all Social Security benefits and not particular to the Community Charge. A number of people may end up dishonestly claiming CC rebate with their other benefits.

Liability for the Community Charge

5. It was agreed earlier this year and will be drafted in the Rates Reform Bill that both married and unmarried couples would be jointly and severally liable for the Community Charge. The liability would extend only from the date on which the couple began to live together or were married. Married couples who were separated would not be jointly liable.

6. Married couples will be shown as married on the hidden part of the register; nothing will be shown for unmarried couples. Joint liability for unmarried couples will only be determined at the time a joint summons is issued. If either party wishes to contest the summons, it will be heard in the magistrates court. The burden of proof will be on the couple to prove they did not live as man and wife. The court will probably take into account any decision on joint assessment for Social Security benefits in making their decision. Since local authorities may have no right of access to Social Security information, it may not always be easy to put forward their case.

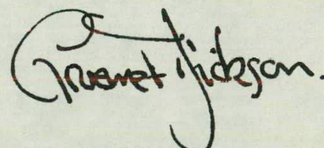
7. The advantage gained by couples through failure to establish joint liability may be significant. The court will still be able to fine the defaulting partner and to make an attachment of their earnings or to issue a distress warrant authorising seizure of their goods. But this would only apply to the defaulter; the other partner could claim ownership of all of the goods thereby frustrating the order. The court can then allow the debt to lie until it can be recovered.

8. If a local authority wish to establish that the joint liability of a married couple extends to before the date of their marriage, they will have the burden of proving that the couple lived together before being married.

9. Both the Social Security legislation and the Rate Reform Bill only address the position of couples living together as husband and wife. Those living together in different circumstances may well benefit compared to the married couple. Those eligible for Community Charge rebates could range from granny living with her family to a partner in a homosexual relationship.

Conclusion

10. Although the present situation is not perfect, it was reached after months of discussion between Ministers and between officials. It was the clear intention of Ministers that under the Community Charge proposals unmarried couples will not profit compared to married couples. Although it is difficult to provide a comprehensive cover for this intention, as it is in most legislation, it is unlikely that many will benefit. Those who obtain a CC rebate will be breaking the law as they would be with any DHSS benefit; and those who escape joint liability will enjoy the benefit of frustrating the courts powers. Couples benefiting in these circumstances are likely to be a small group compared to those dishonestly evading the CC in other ways.



G F DICKSON

THE TIMES FRIDAY, NOVEMBER 20, 1987

Ridley warned on poll tax costs

By David Walker, Public Administration Correspondent

The Government's revised timetable for introducing poll tax in 1990 will not be met unless ministers authorize councils to take on extra manpower and buy new computing power.

Deputations to the Department of the Environment are being planned by Conservative and Labour councillors to warn Mr Nicholas Ridley, Secretary of State for the Environment, that his target date will not be met if the Government tries to do it on the cheap.

Local authority treasurers are resentful about a recent speech by Mr Christopher Chope, a junior minister, in which he claimed they were trying to "pull the wool" over councillors' eyes on the extra staff required to get poll tax up and running.

The treasurer of one inner London borough estimated that collecting rates and poll tax during a four-year transitional period from 1990 will require four times as much effort as working the present system – and cost an extra million a year.

Officers in Waltham Forest, where poll tax will also run in parallel with domestic rates for four years, have spoken of needing about 500 extra staff.

That is probably an exaggeration. But even Conservative Harrow, where the new tax comes in on April 1, 1990 in a "big bang", will require an extra 100 staff.

Department estimates that poll tax could be planned for without extra resources were described by one treasurer as "naive" and by another as "a recipe for disaster".

Mr Neil Newton, treasurer of Bromley and president of the Society of London Treasurers, said planning for poll tax was easier in the suburbs and the shires where there was a settled population.

But Mr Howard Longden, chief executive of Hove, said that there was no suitable computer software and it would take a long time to work up one.

The department is prepared to consider an allowance for the extra cost of collection in 1989.

THE INDEPENDENT

More will lose under poll tax

The Government has disclosed for the first time that more households will lose than gain when the poll tax is introduced. Under previous plans for a four-year transition, ministers had estimated that 9.15 million households would lose, and 11.4 million gain.

But with the announcement that it will come in one go in 1990 in England and Wales, it is estimated that 8,810,000 households will lose in the first year, with 8,800,000 gaining. The number of pensioners living alone who lose has fallen from 470,000 to 380,000, Michael Howard, Minister for Local Government, told Jeff Rooker, Labour's local government spokesman.

THE GUARDIAN

pw Community Charge

THE INDEPENDENT

IN BRIEF

Spending allegation rejected

Margaret Thatcher has written to Jeff Rooker, Labour's local government spokesman, rejecting his allegations that the Government broke Whitehall codes to put out poll tax propoganda.

Mr Rooker said a Department of Environment leaflet defending poll tax proposals was issued by the Central Office of Information at the taxpayer's expense. According to convention, the Government was not allowed to issue publicity material promoting its policy until a Bill or White Paper had been published.

The Prime Minister has replied that there was "nothing improper" in civil servants preparing and issuing the leaflet, adding: "It must be right for Governments to explain on request their policies and legislative proposals, in the most economical way, to those who ask for details". So far 21,000 copies have been sent out.

Ch did you see?

THE GUARDIAN

THE number of households gaining under the poll tax would be almost identical to the number of losers, the local government minister, Mr Michael Howard, said in a written answer. He put the total of gainers at 8,800,000 households and the total of losers at 8,810,000. The figures mask the consequences for individuals, with at least 18,810,000 losers, compared with 14,185,000 who gain.

THE INDEPENDENT

Ingham up the poll

TORY MPs were amazed to read in all but a couple of daily newspapers on Tuesday that the Cabinet had decided to ignore their demands for a general overnight introduction of the poll tax in 1990. They read authoritative accounts that Nicholas Ridley, Secretary of State for the Environment, was about to announce an unsatisfactory compromise that would allow only some councils to opt out of a transition period.

But lo and behold, later that day, Mr Ridley triumphantly announced that the backbench demands had won the day, and there would be overnight introduction everywhere but in London. How was it, the backbenchers bemusedly asked, that the massed ranks of plugged-in journalists could get it wrong?

The answer is simple and salutary. The lobby correspondents based their stories on an unattributable briefing on Monday by Bernard Ingham, the Prime Minister's press secretary. Whether Mr Ingham got it wrong, or the lobby collectively misunderstood his words, remains a matter for conjecture.

TODAY

Young nurses in poll tax blow

PLANS to make student nurses pay the full poll tax could drive youngsters away from the profession, it was claimed last night.

Student nurses on just £4,600 a year could have to fork out around £300 each under the government plan.

Now the Royal College of Nursing says many young people will be deterred from becoming nurses.

An RCN spokesman said yesterday "Most student nurses are single and share accommodation. Their household bills are set to rocket.

"Most come to an area to train and remain there to work. London in particular depends on attracting people from other areas. This will accelerate regional recruitment problems."

Environment Secretary Nicholas Ridley announced in a Commons written answer that student nurses would have to pay the full community charge when it is introduced in 1990.

But students in universities, sixth forms and other higher education colleges will pay only 20 per cent of the tax — and 500,000 people will pay nothing at all.

1071

js/5095p

CONFIDENTIAL

CH/EXCHEQUER
REC. 23 NOV 1987
ACTION CST
COPIES TO

23/11

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Nov 23.87

Dear Nicholas,

COMMUNITY CHARGE : DISCLOSURE OF INFORMATION AND DIRECT DEDUCTIONS FROM BENEFIT.

I was suprised to receive your Memorandum of 18 November to E(LF) on two community charge issues which affect my Department. Neither Ministers here nor officials had any proper warning that you intended to raise the matter in this way. Nick Scott has previously written to Michael Howard on both matters setting out our position. Whilst I would not expect you necessarily to agree our view, I am not at all happy that the matter has been handled in this way without further consultation and, in particular, that you did not seek our comments on the paper before it was circulated to colleagues.

On the question of disclosure, I understand the argument that income support will include a contribution towards the minimum community charge. We had hoped to achieve some credit for it. In my view, it would be dissipated if it appeared that receipt of income support was conditional on claimants passing on their details to local authorities for community charge purposes.

The Memorandum gives the impression that we routinely disclose details of all supplementary benefit beneficiaries to local authorities. This is not the case. We do this for housing benefit claimants only. What is more, this disclosure is expressly provided for in our legislation to enable local authorities to administer housing benefit. We have in fact agreed that if an income support beneficiary claims a community charge rebate, at the same time, we

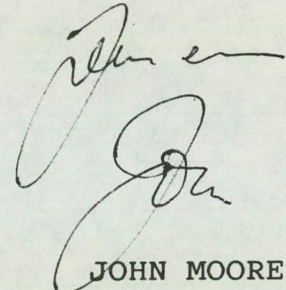
E.R.

will pass on those details which will ensure that the local authority can issue a net bill. This should go a very long way towards meeting your needs. But, because confidentiality of social security records is such an extremely sensitive issue, I do not believe it would be right to disclose details of income support beneficiaries generally.

Turning to the issue of deductions from benefit,as you recognise we already make deductions for rent and fuel arrears but these are, of course, essential to protect the well-being of the claimant. In addition, we make deductions for overpayments of benefit and most significantly, from next April social fund loans, will be repayable from benefits. (I should point out though that deductions are made only from beneficiaries in receipt of income support.)

This has always been an acutely sensitive matter taking, as it does, money from a benefit on which people rely to exist from day to day. Moreover, as you say, our aim is that people should manage their own budget. Making payments on their behalf to others in addition to being administratively expensive, runs directly counter to that aim. At the moment, we are currently looking with the Home Office at the feasibility of making fine enforcement by deductions from benefit. Taken together with the unknown impact that social fund loans will have on claimants incomes, we cannot contemplate scope for any other deductions.

I am copying this letter to other members of E(LF).



JOHN MOORE

3456/004

CONFIDENTIAL

FROM: R FELLGETT
DATE: 23 November 1987

1. MR POTTER RHP 24/11
2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Kemp
Mr Hawtin
Mr Turnbull
Mr Scholar
Mr Robson
Miss Pierson
Mr C D Butler
Mr L Watts
Mr B Fox
Mr Call
Mr Tyrie
Mr Olney (RGPD)

THE COMMUNITY CHARGE AND SERVICE PERSONNEL : E(LF) ON 26 NOVEMBER

E(LF) will consider a disagreement between Mr Ridley and Mr Younger about the application of the Community Charge (CC) to service personnel living in Crown property. I recommend that you support Mr Ridley's view that the CC should apply to servicemen on broadly the same terms as to civilians. But you should reserve most of your comments for the expenditure issues which are likely to arise; the MOD objection to Mr Ridley's proposals may be little more than a tactic to try and secure additional provision for public expenditure.

2. You wrote on 15 September giving agreement to Mr Ridley's proposals; the Prime Minister, Mr Hurd, Mr Rifkind, Mr Walker and Mr Newton all wrote in agreement before Mr Younger objected to the proposal affecting service personnel. The Community Charge issues are set out in Mr Ridley's Memorandum of 19 November and the attached note by officials.

3. Mr Ridley and Mr Younger agree that:

(i) servicemen living off-base should pay a personal CC to their local district or borough like anyone else; and

CONFIDENTIAL

(ii) special arrangements are needed for very mobile people (eg in short-stay barracks) and where security considerations mean that individuals names and addresses should not be recorded on the public CC register.

4. However, they disagree about:

(i) servicemen living in MOD property. Mr Ridley wants them to pay a personal CC to their local district or borough, whereas Mr Younger wants them to pay the same charge, irrespective of their location, to the MOD who will somehow pass it on to local authorities;

(ii) whether mobile servicemen or those particularly affected by security considerations should contribute, through a form of collective Community Charge, towards the CC set by their local council (Mr Ridley's view) or at a universal rate (Mr Younger).

5. Mr Younger's main argument for his case is that servicemen are required to be mobile, at the direction of their employer, and therefore have little opportunity to influence the level of Community Charge in different areas through voting in local elections. It would therefore be unfair for them to pay different CCs, depending on where they were posted. In addition he believes that there would be an undue administrative burden on local authorities in registering them.

6. There is some force in these arguments since the coverage length of a UK tour of duty is 3 years in the RAF and only 2 years in the Army. However, they apply equally to mobile people in the private sector. Indeed, the problem of enforcing the Community Charge is likely to be much worse for other groups; most servicemen are well-paid and law-abiding. It would be indefensible to have special arrangements for government employees, while saying that the full rigour of the Community Charge policy should apply throughout the private sector. I therefore recommend that you support Mr Ridley on this general issue.

7. However, you could agree that MOD, with their superior knowledge of who lives in their property, could help local authorities register and enforce the CC. This could be more efficient than LAs dealing direct with all individuals. Such arrangements would probably be essential, in any case, for those to whom security considerations apply. Officials would need to consider the details, including charging by MOD for any such service to LAs.

Public Expenditure Implications

8. At present, the MOD collect rent and rates from people living in service accommodation. However, the rates are not paid on to local authorities but retained by MOD to increase their gross expenditure within the net Defence Budget. Contributions in lieu of rates are paid by RGPD, out of Treasury public expenditure provision. The rationale for, these arrangements is not clear; payments by RGPD in lieu of rates on the PSA civil estate are now recovered from the Departments concerned and the NHS and other non-Exchequer bodies make payments directly themselves.

Extra-ordinary

9. No immediate change is proposed for non-domestic rates, but MOD will lose about £25 million a year of their income from domestic rates. Mr Younger wants a PES transfer for 1990-91 (and presumably a smaller sum for 1989-90 to cover Scotland) from RGPD, who will have a saving of a broadly similar amount as domestic rates are abolished.

10. I recommend that you oppose Mr Younger's wish. Mr Younger might argue that the net Defence Budget was set in the knowledge of this income and should be correspondingly higher when it disappears. However, MOD have long benefitted from the ability to charge "rates" in service personnel's rents, and spend the proceeds on military equipment or whatever. It is an anomaly at present and there is no reason why they should continue to obtain this benefit by other means after domestic rates have been abolished.

11. In addition, the Defence Block Budget is set in broad terms; it should not be subject to relatively small adjustments in the

light of new information. This is the price MOD pay for their (unparalled) freedon to switch freely within a block of £20 billion. In any case, the RGPD "savings" do not represent an overall reduction in public expenditure as a result of the Community Charge policy; the aggregate effect will be a significant increase, mainly as a result of local authorities' increased administrative costs. ?

12. If Mr Younger presses his case, you could agree to discuss it with him in the 1988 Survey. But you will not wish to agree to extra net defence provision for 1990-91 now, outside the Survey round.

CC on Empty Married Quarters

13. Mr Younger may raise the issue of community charges on empty married quarters (MQs). Briefly, at the moment there is no standard practice amongst local authorities as regards levying rates on empty quarters. Where they do, RGPD pay them a contribution in respect of those quarters surplus and for sale but not where quarters are held for re-occupation or where security reasons prevent sale. RGPD cannot put a figure on their payments to LA's in this respect, but say it is not significant. Under the new regime the proposal is that there will be a charge on all empty residential property at twice the standard community charge. With total MQ vacancies of 15,000 some £6.75 million is at stake, most of it "new" money. We would see this as a useful incentive on MOD to take swifter action on disposal of surplus MQs. If they were to do so, the additional receipts would more than compensate for any loss incurred to the Defence Budget on this account.

14. As background, you should be aware that the Palace are pressing a similar case to MOD's, for an increase in the Queen's Civil List, "paid for" by RGPD savings. The circumstances are different - Palace servants do not currently pay rates to the Queen or anyone else - but serving and former officers on the Palace staff may be in touch with colleagues in MOD.

Conclusion

15. A suggested line to take on the main issues, and supporting points, are summarised on the attached sheet.

16. DM agree.

PP R FELLGETT

CONFIDENTIAL

SUMMARY LINE TO TAKE

Servicemen in MOD property

Agree with Environment Secretary that servicemen should normally pay a personal Community Charge direct to their district or borough. Only rarely, when people are very mobile or engaged in very sensitive work, should a collective charge be paid on their behalf, at the local council's rate.

Supporting points

- indefensible to make government employees subject to special treatment, when no similar arrangement available for private sector;

- many professional and managerial staff in private sector may be required to move by employers - servicemen not unique;

- LA's problems over registration and enforcement of CC much more for other groups - most servicemen well paid and law-abiding.

- [If raised] may be more efficient for MOD to help local authorities register, collect and enforce the personal CC on servicemen. Officials could look at this further.

PES transfer from RGPD

Cannot accept an automatic increase in net defence budget just agreed for 1990-91. [If pressed], happy to discuss with Defence Secretary any bid he may make on this account in the 1988 Survey.

Supporting Points

- Fact that MOD have been charging "rates" without passing them on to local authorities is an anomaly which should stop, not a reason for perpetuating the same arrangement in another guise;

CONFIDENTIAL

- Defence Budget is a net block budget, set in broad terms.

- Accept RGPD will see a reduction in expenditure following abolition of domestic rates. But many people and organisations in public and private sectors will face changes. Overall, no public expenditure savings; net <u>increase</u> in public expenditure in prospect from the reform;

- [If raised] RGPD should not collect and pay CC on behalf of service personnel. Their expertise is property valuation. MOD know best how many people live in each of their properties.

RM6.83

UNCLASSIFIED

pmp

FROM: MISS M P WALLACE
DATE: 23 November 1987

MR CROPPER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

COMMUNITY CHARGE - CRD

The Chancellor has seen and was grateful for your minute of 19 November, attaching CRD briefs on Local Government Finance.

MPW

MOIRA WALLACE

CONFIDENTIAL

FROM: M GIBSON
Date: 24 November 1987

1. MR MCINTYRE

2. CHIEF SECRETARY

cc Chancellor
Sir Peter Middleton
Mr Anson
Mr Kemp
Miss Peirson
Mr Hawtin
Mr Potter
Mr Tyrie
Mr Call

I attach a draft brief for the E(LF) meeting on 26 November. It has been agreed with LG division.

M Gibson

M GIBSON

BRIEF FOR E(LF) MEETING 26 NOVEMBER 1987

COMMUNITY CHARGE: DISCLOSURE OF INFORMATION AND DIRECT DEDUCTIONS FROM BENEFIT

1. DISCLOSURE

(i) Background

1. DOE propose that DHSS local offices should notify local authorities of all people awarded Income Support. The key objective is to enable local authorities to reduce community charge evasion. Mr Moore has written (23 November) stating his opposition to the proposal in strong terms.

2. Based on previous correspondence (attached), the Welsh Office will also oppose. The Scottish Office supports.

(ii) Issues

a) Confidentiality - DHSS feel that this would be attacked as an infringement of a claimant's civil liberties; those in work are not , for example, going to have information passed automatically by their employers to local authorities. Claimants seem to be singled out unfairly, particularly since DHSS have already agreed to pass on details in cases where the recipient is claiming a community charge rebate (this would just leave those who don't wish to claim a rebate or those such as the mentally ill who have no community charge obligation).

Note: the Social Security Act 1986 contains an express provision which releases the Inland Revenue from strict confidentiality of tax records in making disclosures to DHSS; it would be possible to add a similar clause to the DOE bill, thus making the disclosure subject to Parliamentary approval.

b) Costs - DOE claim that the proposal would add little, since the detail is being passed on in most cases anyway. DHSS disagree, saying they would need to search all their live Income Support cases (about 5 million) and draw up lists. Our view is that the administrative costs should be quantified and met within existing resources (if necessary by transfer from DOE).

c) Presentation - DOE believe the fact that we are giving people compensation for the charge provides a justification for transferring information. The counter argument is that we are giving people compensation so that claimants can meet their bills like others, so why treat them differently just because they might be a bad debt risk.

Conclusion

3. This is essentially amatter of political judgement; do the advantages of having a comprehensive notification procedure outweigh the likely criticism on grounds of confidentiality and unfairness towards the poor? We have some sympathy with Mr Moore on the politics, and are particularly anxious that the adminsitrative costs should be properly quantified and taken into account.

2. DIRECT DEDUCTION

(ii) Background

4. DOE propose that there should be provision for direct deductions to be made from DHSS benefits where claimants are in arrears on their community charge bills.

5. DHSS, Scottish Office and Welsh Office oppose.

(iii) Issues

a) Equal treatment - attachment of earnings for those in employment is a parallel provision, but the analogy is not quite the same; those in work are not in the position of facing other deductions from a subsistence income;

b) Administrative costs - not quantified but DHSS tell us that their administrative costs for direct fuel deductions cost £8 million pa. Likely to be considerable for community charge rebates;

b) <u>Presentation</u> - deductions already exist for maintaining claimants essential services - housing, fuel, and water - and, from next April, the Social Fund. Deductions are subject to an overall limit (15%) set in regulations, and it is not clear how much further leeway exists. Proposal also sits oddly with objective of making claimants manage their own financial affairs. Nor is there provision for such a deduction in respect of rates at the moment.

<u>Conclusion</u>

DOE proposal would be a major innovation. Other categories of debt (particularly Social Fund) seem to have higher priority, bearing in mind need to leave people enough to live on. Proposal would add to presentational difficulties of seeling community charge. Again we have sympathy with the DHSS position on this issue.

CONFIDENTIAL

FROM: A C S ALLAN

DATE: 26 November 1987

PS/CHIEF SECRETARY

cc Mr B Fox
Mr Potter
Mr Revolta
Mr Fellgett
Mr Tyrie

THE COMMUNITY CHARGE AND SERVICE PERSONNEL: E(LF) ON 26 NOVEMBER

The Chancellor has seen Mr Fellgett's minute of 23 November. He noted the bizarre arrangements described in paragraph 8, whereby at present MOD collect rates from people living in service accommodation but retain them to increase their gross expenditure. He wondered whether we should not be seeking to change this now, regardless of what happens when the community charge is introduced.

2. He would also be grateful to know what the position is for policemen living in police houses etc.

ACSA

A C S ALLAN

UNCLASSIFIED

FROM: A C S ALLAN

DATE: 26 November 1987

MR FELLGETT

cc PS/Chief Secretary
Mr Potter
Mr Tyrie

MONKS AND NUNS

The Chancellor has seen Mr Howard's letter to Mr Scott of 19 November. He wonders whether there is not a danger that the Church of Scientology et al would be able to take advantage of this loophole? How are "religious orders" to be defined?

ACSA

A C S ALLAN

PUP.

Ch

Murdo says virtually no risk at all of Parliament sitting after 18 Dec.

Bigger risk is that Rates Bill will not be approved for introduction on present timetable (L Committee tomorrow — see note below). That would push 2nd reading after Christmas or leave holes in last week before.

A thought: if that happened would you be interested in bringing AS debate back before Christmas (post Weds 17)? — yes..

AA

24/1/337/21

'L' minutes behind

FINANCIAL SECRETARY

FROM: B H POTTER

Date: 1 December 1987

cc: Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Beastall
Mr Hawtin
Mr Turnbull
Mr L Watts
Mr Fellgett
Mr Dyer
Mr Tyrie

Mr Morgan (V/O)

L COMMITTEE: LOCAL GOVERNMENT FINANCE BILL

The primary purpose of the Bill is to introduce a new system of local government (current) finance in England and Wales as from April 1990. Its main features are

- replacement of domestic rates by the Community Charge;
- a uniform national non-domestic (business) rate;
- a new simpler system of central government grants to local authorities; and
- a power to cap or reduce an excessive Community Charge proposed by any individual local council.

In addition, the Bill includes provisions on the qualifications and duties of the Chief Finance Officer in a local authority.

Line to take

2. The draft Bill contains many errors and serious omissions. Its preparation has been badly handled by DOE and Parliamentary Counsel. Since there is no time to make further changes to the draft Bill, if it is to be laid before the House as intended on Thursday 3 December, a large number of amendments will have to be put down later on the Government side. That will lead to considerable political embarrassment. Some of the amendments will be controversial (with Government supporters as well as the Opposition); and some outside bodies such as the CBI may react sharply to the omissions and subsequent changes.

3. A delay of a month would allow the bulk of the drafting problems to be resolved. But given the political pressures to achieve Second Reading before Christmas, it would be difficult to delay introduction and very awkward for a Treasury Minister to propose that at L Committee. Ministers seem likely to regard delay as more politically embarrassing than removing the errors and omission by Government amendment.

4. On balance, we recommend that you agree to introduction of the Bill but only on condition that L Committee formally confirm (and Cabinet Office record) that certain policy provisions, not in the draft Bill, will be taken in as amendments in the Commons, at Committee Stage or Report. These are:

i) powers for the Chancellor to override the indexation of the National Non-Domestic Rate (NNDR) poundage in England, Wales and Scotland;

ii) provisions for a cost-effective mechanism to handle deficits in the National Non-Domestic Rate fund; and the Money Resolution to be changed or supplemented accordingly and a Ways and Means Resolution introduced if necessary;

iii) a power to take account of a local authority's access to other sources of income before its Community Charge cap is determined.

In addition, there are a large number of errors and omissions identified by the Valuation Office. You will wish to ask for these to be remedied.

Background Briefing

5. There should be no opposition from colleagues to recording the above three requirements in the minutes as a necessary condition for Treasury agreement to the Bill. At official level, it is acknowledged by DOE that such amendments to the Bill will be required.

6. The most important for the Treasury is the first - overriding annual indexation of the NNDR poundage (paragraph 4(i) above). At official level DOE have written to acknowledge that the clauses to introduce the necessary powers for the Chancellor have been omitted because of time pressures. We understand Mr Howard has been briefed to state that the amendments will be introduced at Committee Stage. Mr Rifkind is also being briefed to support the necessary amendments. Nonetheless you must get the need for this amendment formally recorded. Within the drafting time available, DOE have instructed Counsel to give priority to other changes eg on dual-running of the Community Charge and domestic rates in London over this (agreed) policy requirement. DOE do not like these powers which are to be conferred on the Chancellor; we must give no scope for wriggling off the policy commitment.

7. Annex A sets out the background to the problem on deficits in the NNDR fund (paragraph 4(ii) above). Though it deals with a hopefully rare contingency, it is an issue on which policy is still to be agreed. Paragraphs 3 and 4 of Schedule 5 of the draft Bill presented to L had set out one method of handling deficits; but it was found by us to be wholly unsatisfactory and Counsel has agreed to excise that section. Mr Howard will formally record at L that the paragraphs will be deleted before

the Bill is presented to the House. It is accepted by DOE officials that a mechanism for dealing with deficits needs to be found and that this will require a revised Money Resolution and may need a Ways and Means Resolution. Our understanding is that these Resolutions can be introduced at later stages. This is also the view of the House authorities; but the Resolutions will require time for debate on the floor of the House.

8. Similarly on Community Charge capping (paragraph 4(iii) above) DOE officials acknowledge the deficiency in the present draft and agree it needs amendment. But, since the point was originally a Treasury requirement, it is again desirable to reaffirm the policy commitment - lest DOE seek to evade it.

9. Annex B sets out the large number of errors and omissions identified by the Valuation Office. Again most of the problems are acknowledged by DOE officials. But the length of the list demonstrates the poor state of overall preparation in the Bill - though the Parliamentary Counsel Mr Bowman, who will be attending L Committee, has faced severe time constraints.

10. Finally one whole section of the Bill - giving enabling powers to local authorities to raise fees and charges - is missing, even though policy was agreed last February. We have advised the Chief Secretary to write about this separately - see Annex C.

Conclusion

11. It is unlikely that L Committee will countenance delay on introduction of the Bill in order to sort out the acknowledged serious drafting problems. Treasury interests are best served by ensuring L Committee formally confirm that the above policy commitments will be met by amending the Bill at the appropriate stages.

Barry H. Potter

BARRY H POTTER

~ T11/3201/3

CONFIDENTIAL

ANNEX A

1. The underlying policy issue is as follows.

i) Each LA in England pays into a notional fund a fixed payments schedule of projected NNDR proceeds. Each LA receives NNDR proceeds on the basis of its population. The fund is required to balance, taking one year with another.

ii) To ensure good financial and cash management and avoid large payments in and out of each LA, it is agreed policy that any net payment of NNDR due will be subtracted from or added to RSG entitlement. The effect is that in England only two or three authorities would actually pay into the fund.

iii) A deficit could arise if one or more of these LAs were to go on strike. It is agreed that a temporary in-year shortfall could be met by accelerating RSG payments to other LAs. But a deficit could arise at the end of the year (after RSG was paid out). Also if the fixed schedule of payments in any year turn out to exceed what LAs could reasonably collect, again a technical deficit would arise if the appropriate adjustments were made.

iv) <u>Treasury</u> wants to see all payments in classified as money into the Consoldated Fund; and payments

out would be Voted Supply. This would allow deficits to be overcome by the usual Supplementary/Contingencies Fund route; and the money would be recovered from LAs by adjusting the payments out schedule in a later year. The Fund could be created as a notional accounting fund and presented annually so demonstrating the balance.

v) DOE want a separate fund. They accept it would be managed by LAs and would be at arms-length from the NLF. It would as a result be more expensive (the LAs would have to borrow from the NLF to make up shortfalls). It would involve extra administration and complicate the netting off of payments with RSG. Access to loans to overcome a deficit might be delayed as the LAs negotiated with each other.

2. The distinction between the models is essentially one of presentation. The DOE approach is designed to sustain the fiction that NNDR proceeds are LA money - even though we believe it is more expensive and less secure (in terms of getting money to the LAs on time) than our proposal.

VO/OTM/19

LOCAL GOVERNMENT FINANCE BILL: DRAFT CLAUSES

This paper provides a commentary on the draft clauses. These points were discussed with Mr Ward and Mr Dunabin at DOE on 28 October and any relevant conclusion reached is also included. It was not, however, possible to get any of these necessary changes included in the Bill prior to publication.

Clause Number	Remarks
32(1)	We do not understand what is meant by the expression "compile", especially in sub clause (3) where a compilation is supposed to take place in one day. Earlier legislation has focused on the idea of the valuation list coming into force, and we prefer that idea. The sub clause talks about "lists" for the authority; there should only be one per charging authority area. We would rather it be called a "valuation list" than the terminology now suggested. DOE agreed.
32(3)	We assume that this provision, read together with (7) provides that whilst a list is the primary basis of charge between revaluations, it will continue to have effect until old list appeals have been resolved, and outstanding charging issues have been finalised. DOE thought so too.
32(4) & (5)	Again, we cannot understand what compilation is supposed to mean. It will take us something like two years to actually prepare the valuation list in question, and its compilation using computer technology will extend over many months. The list that is deposited with the Charging Authority, as it is now termed, will be the actual list that comes into effect the following April. We had never intended to send the authority a provisional list; subject to any changes that might be necessary before the date it comes into effect, that is the list in question. Accepted

32(8) This provision, in an earlier draft, has been dropped. It replicated s68(5) GRA and, without it, the lists are open to judicial review if the VO omits relevant hereditaments.

33 It is quite unworkable to require that the contents of local lists should be on a day-by-day basis. The list shows valuations, it is not as presently constituted the vehicle for charging. Effective dates have never appeared on its pages, and this has been a matter for discussion and arrangement with the rating authority and the ratepayer. We intend to amend the lists at about monthly intervals, certainly it would be chaotic to try to achieve much shorter intervals than that.

DOE think Counsel has confused the purpose of the list with the issue of chargeable liability.

33(4) It is inappropriate to give so much attention to the idea of disabled person relief. This is presently subject to a certification process in the Rating (Disabled Persons) Act 1978 and comprises a local authority function. It is now suggested that the apportionment should be shown in the body of the list. We would like to avoid this if at all possible and continue with the sort of informal arrangement that presently applies.

This is a mistake in the Instructions, the provision has to be recast.

35 (7) and elsewhere The expression "non-domestic rating <u>multiplier</u>" seems a curious way of expressing what has earlier been called the national non-domestic rate poundage. If it is the poundage that is meant, would it not be simpler to say so.

DOE think poundage preferable. They think (9) would be better as "50% or such lower figure".

36 (1) There is no period of grace allowed before empty rate begins to apply. Rating authorities can be expected to be very unwilling to work a system where liability for empty property rate could be triggered the day after vacation occurs.

DOE accept that and Counsel drew attention to it in his covering letter.

39 (1) This is a muddled provision for lists which are now intended for statutory undertakings, valued by formula.

DOE thought there was a better way of designating what went in the central list (eg "when Secretary of State orders that an undertaking should be valued by formula, it shall be entered on the central list").

41 (2) This covers the appeal regimc oncc the list has come into force, and relegates the entire process to regulations.

The whole of the community charge arrangements have been so relegated. DOE hope to achieve the same here.

41 (3) As drafted the VO is expected to have to give notice of his intention to alter the list. The intention was to enable the VO to be able to alter it and then notify the ratepayer accordingly. This uncertainty in the drafting will lead to further confusion about whether the VO is issuing a proposal (ie. a proposal to amend the list) or a notification (as in Scotland, and as ori ginally intended).

Accepted.

41 (4)

This uncertainty is also reflected in (4) (a) where it is implied that the VO will make proposals for the alteration of the list. That sub clause also contains the implication that others, apart from the VO are to be charged with the duty to maintain the list in an accurate form. This is something long asccepted as the sole responsibility of the VO.

DOE thought it would be helpful to separate out the VO's and ratepayer's roles, rather than combining them as now drafted.

41 (5)

We find this a strangely worded provision. We would have thought that the disagreement ought to be about an entry in the list, rather than the accuracy of the list per se. The expression now used by Counsel sounds more like an order of mandamus power alleging that the list is not accurate. Likewise, we would have thought that it was easier to say that the dispute could be determined by the VCCT rather than saying that an appeal should be made to them. We had understood that we would continue to be, as we think we should, the recipients of all such appeals. They will be referred on to the Tribunal as necessary.

DOE agreed that it should relate to an entry or a proposed alteration to the list. It was accepted that the provision tightening up what constitutes an agreement would be appropriate for regulations.

41 (6)

Sub clauses (a) and (b) appear to suggest that the list might contain details of the effective date for charging purposes. As we have said, several times, this is not something that we are currently able to achieve. The relevant information is held by the local authority, and if DOE are intending to charge us with this duty, we need clear powers of access to that information if we are to be able to discharge our function. Even then, there is a resource cost in all this for which no provision has yet been made. By contrast with 41(3), sub clause (c) contains the sort of provision we had earlier in mind, namely that we would notify prescribed persons of an alteration that had been made to the list.

DOE intend to discuss this with the LAAs - they understand the problem.

The combined effect of 41 (3) and (6) (c) appears to be that we would first notify people of what we intended to do with regard to the list, and then inform them that we had done it! This is the sort of paper chase the Rates Act 1984 was expressly designed to reduce.

Point taken.

42	It is inappropriate to group together valuation provisions and those concerned with the establishment of the non-domestic poundage level. We would prefer to see the valuation matters brought into the body of the Bill rather than relegated to a schedule.
	DOE agree there should, if possible, be separation of these different subjects.
45	Details now contained in schedule 5 relating to the NNDR poundage would appear to fit better with this provision for the non-domestic rating pool, rather than being attached to clause 44.
	Accepted.
48 (9)	We would have thought it undesirable to establish exemption by regulations rather than by including them in the body of the Bill. This is especially relevant with regard to agriculture.
	Agreed. As a minimum a schedule of subjects would be needed.
49 (1) and (2)	Clause 48 4 (a) includes lands within the definition of a hereditament. It therefore seems unnecessary to supplement the expression in these two provision.
49 (7)	This is a new and simplified charging arrangement. Instead of liability being placed upon the owner, any lessee or the user of the right, it is now suggested that the owner should be charged in every instance. This seems a desirable simplification.

DOE were not sure why Counsel had decided to change this, nor whether their Ministers would be happy with the change for this politically sensitive issue, but the change is in the Bill!

50 (1)

There is a need to tie this provision in better with the Time and Class of Hereditament Order (SI 1987 No 604) paragraph 2(3), for example, with regard to a property which will be a dwelling house, etc., when next in use. In sub clause (b) we prefer the word "occupied" to the proffered "enjoyed". Sub clause (c) re-introduces the idea of the use of a private garage for the accommodation of a motor vehicle, but this does not seem to easily fit in with the paragraph 1 (2) description in the aforementioned SI, (the 25 square metre test) which we have earlier said is the only provision we can work. It is intended that this description should override the earlier one, but we are far from happy with this intention.

This is the place where a clearer definition should be made between domestic and non-domestic property, and we think there is certainly scope for such. Regard should be had to the draft Scottish regulations which will cover such things as domestic car spaces. We need decisions about car ports and car parking spaces.

DOE take the view that this clause is meant to replace The Time & Class of Hereditaments Order as the primary division between the sectors, and that the new garage definition in (c) is intended to replace the earlier one.

50 (2)	The definition in sub clause (a) appears to bring into non-domestic property, holiday accommodation which comprises accommodation for short periods, time shares, leisure caravan sites, short stay hostels, and certainly hotels. We had understood that it was only hotels and guest houses that were to be included as non-domestic. We consider it most undesirable to have to apportion out accommodation in a hotel complex which is being used for permanent residence - we are strongly against that.
	DOE accept it does not presently achieve what they want but their lawyers have told them that they cannot ask Counsel to change the primary legislation when they can use the order making power in (5) to put things right. They are not happy with this either, but it seems likely to happen nevertheless.
	Sub clause (b) requires that we should bring into assessment moorings for all boats (even those used as residences) and (c) that we should assess the land on which residential or leisure caravans are stationed.
	These are mistakes, to be corrected.
56	This provision only makes sense if composite hereditaments are valued in their entirety and then apportioned, so that relativites can be read back into the 1973 lists. We have earlier advised that we would much prefer to simply value the non-domestic part for 1990 and, separately, apportion and certify the 1973 assessments. DOE have accepted that view but the Bill does not recognise it.
Sch 3 para 2	We have earlier argued that the Bill should retain the concept of "net annual value" leaving rateable value to be the basis of charge. This is especially relevant for mineral hereditaments, but it will also be useful for the transitional arrangements, when the discounted figure can be described as the rateable value.

DOE think they will have to redefine terms for Mineral hereditaments, and leave it as drafted. They do not now think that transitional relief figures need to be shown in the valuation list, so no new terms are required to distinguish NAV and RV.

On sub paragraph (2) this rounding down provision is something that belongs to the gross value/rateable value regime. It belonged to the process of statutory deduction from one to the other and is no longer required.

Noted.

On sub paragraph (3) it is inappropriate to speak of the rateable value being "calculated", we prefer something like "ascribed". Calculation has a technical sense within a valuation, and we have already commented upon the undesirability of the terminology "compiling a list" and "the day", which appears several times in this sub paragraph. Rather than "such day" in sub paragraph (3) (b) we would prefer "such earlier time" following the GRA provisions.

The terminology in question runs right through this schedule and we find it unacceptable wherever it occurs.

Noted.

It remains our view that sub paragraph (c) should be altered so that it reads as follows: "the quantity of minerals or other substances extracted from the hereditament, or the quantity of refuse or waste material brought on to the hereditament from elsewhere and permanently deposited there". This change was the subject of Mr Heard's letter to DOE in August.

DOE thought this further description could be included in a relevant order for Mineral classes.

Sub paragraph (9) appears to be a catch-all for all sorts of regulations to establish prescribed principles. As there is nothing elsewhere in the bill about the valuation and mineral hereditaments, plant and machinery, school premises, advertising stations, or rights of sporting, it would appear that this provision is designed to give the Secretary of State an order making power. If so, this would also serve as a preamble to the possible prescribed statutory rate for the contractors method of valuation.

DOE thought it was strange to exclude all valuation provisions, but thought it might have to suffice regardless.

Schedule 3 para 3(2)(b)

Here the expression "prescribed rules" appears to relate to formula valued properties. Presumably this is to be understood differently from "prescribed principles" in the earlier sub paragraph. Paragraph 4 (2) contains rounding provision which are again relevant to the process of statutory deduction in ascertaining rateable from gross value. They are irrelevant in the new era, when values are to be direct to rateable value.

Noted.

Schedule 6 para 4(4)

Nothing has been done to decriminalise the provisions for the issuing of rent returns, nor to take the opportunity to harmonise with Scotland. Neither would there appear to be anything about how a rent return is to be used as evidence in the defence of the list (a parallel provision to Section 83 GRA). Perhaps Counsel intends that this would come in as part of the regulations for VCCTs.

Schedule 6 para 5(1)

We have earlier suggested that the duty of a local authority to notify the valuation officer needs to be strengthened beyond what Section 85 GRA now requires. Counsel has used the same term "comes to the notice", and we think that this is insufficient. For, in the new world, charging authorities are unlikely to go out of their way to notice changes which are value-significant for the non-domestic valuation list, unless they are provided w some incentive so to do. It will be much more difficult to introduce this as a Government Amendment, yet it is vital to the whole rating process.

Schedule 6 para 6

The power of entry provisions are more limited then in Section 86 GRA, and we think too limited. Powers of entry were earlier conferred "to enter on survey and value any hereditament", and the term now used "needs to value" will not suffice. In the same way as for the last paragraph, we suggest this provision should also be decriminalised. We have earlier suggested that it migh appropriate for the Lands Tribunal to deal with issues sort.

Schedule 6 para 7

Sub paragraph 1(b) refers to "any proposal made or notice of appeal given". This again owes something to Counsel's uncertainty about the distinction between a proposal and a notification. Presumably DOE will want to give ratepayers the right, as Section 108 GRA did, to inspect the notifications issued by valuation officers as well as proposals or notices of appeal made in respect of ratepayer action.

Although we have no objection to sub paragraph (4), we do wonder if this is really necessary. There seem to be adequate opportunities for complainants to pursue their grievances, either through their MPs or the PCA, without making the custodian of documents liable to summary conviction. But, if it is decided that this ought to stay, again it would seem to need decriminalising.

VALUATION OFFICE
NOVEMBER 1987

CC – Mr Anson, Mr Kemp
PMG
Annex C
Mr Hawtin, Mr Gilmore
Mr Potter, Mr Turnbull
Mr Perfect

7/114

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

30th November 1987

Dear Nick,

LOCAL GOVERNMENT FINANCE BILL: FEES AND CHARGES

I understand that the draft Bill (prepared for introduction before Christmas) does not include the provision extending local authorities' power to introduce fees and charges.

E(LF) decided in February that this primary legislation should be sought. It is very disappointing and puzzling to learn that it is not yet ready. I am even more concerned to learn that there is a risk that it may not be possible to introduce the necessary provisions during the passage of the Bill. I am sure you will be concerned at this, not least since greater use of fees and charges reduce the burden on local taxpayers and reduce public expenditure. We estimate that greater use of fees and charges could save around £50 - £100 million. I hope therefore that you can take the necessary steps to ensure that E(LF)'s decision is implemented as planned.

I am copying this letter to members of E(LF), First Parliamentary Counsel and Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR

TR 5712p

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

CH/EXCHEQUER
REC. 08 DEC 1987 8/12
ACTION CST
COPIES TO

RESTRICTED

The Rt Hon Nicholas Ridley
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1

-7 DEC 1987

Dear Nick,

THE COMMUNITY CHARGE AND SERVICE PERSONNEL

I have seen the minutes of the meeting of E(LF) on 26 November at which your memorandum on the community charge liability of service personnel (E(LF) (87) 47) was discussed. Unfortunately no DHSS Minister was able to attend.

I note that it was proposed that George Younger should consider the possibility of compensating servicemen for variations in their community charge liabilities by adjusting their pay or accommodation charges.

I am concerned that arrangements worked out on this basis would be seen as running counter to the line we have taken in providing compensation for people on low income towards their minimum contributions to local taxes. We have decided that the compensation to be built into income related benefit rates should be based on the national average of domestic rate liabilities faced by income support claimants in 1988 and of community charge liabilities when the community charge is introduced. This means that people on low income living in low charge areas will be over compensated and that people living in high charge areas will be under compensated. We have justified this on the grounds that part of a local authority's responsibility to those living in its area is to keep its spending low. If it is known that the Government is pursuing the opposite approach for the benefit of service personnel, we will no doubt face increased pressure to provide compensation related to actual charges for people on low incomes. This could only be achieved by using different income-related benefit rates in different parts of the country, an approach already rejected by E(LF) as being at odds with a social security system geared to providing benefits at nationally uniform rates.

E.R.

I should like my officials to be consulted before any firm proposals are brought forward to compensate service personnel for variations in their community charge liabilities. I am copying this letter to the Lord President and the other members of E(LF), to George Younger, and to Sir Robert Armstrong.

Yours ever,

Nick.

NICHOLAS SCOTT

017/3649

PERSONAL AND CONFIDENTIAL

FROM: A G TYRIE

DATE: 8 DECEMBER 1987

PAYMASTER GENERAL

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Mr Fellgett
Mr Cropper
Mr Call

COMMUNITY CHARGE: CRITICISMS AND POLITICAL BLACKSPOTS

You asked for briefing on the likely lines of attack from our own people around the country and briefing on the districts which could become political trouble spots. I attach a note which sets out the main lines of attack I think you can expect from the more informed of our supporters, together with (by no means ideal) suggested answers, based on material provided by DoE. The Annexes set out the areas which will be most badly affected, with reference to marginal seats. I have had a lot of help on this from Robin Fellgett and some suggestions from Alex Allan.

I expect that the brighter among our supporters in local government will eventually realize that our decisions on implementation give local authorities time to adjust to the new tax, but not individuals. That straightforward charge will be very difficult to answer. I have not covered several lesser criticisms such as that of evasion and the increased administrative cost. Nor have I dealt with non-domestic rates.

I have no doubt that a lot of pressure will also come in public meetings from individuals describing their particular circumstances: pensioner couples living in low rateable value accommodation whose bills go up, new council house purchasers under the 'right to buy', newly weds in low rateable value accommodation, people with resident granny problems etc.

I think that the Research Department could usefully publish a small pocket-sized pamphlet with, say, twenty questions and answers on the community charge and on non-domestic rates,

in language which our people knocking on doors in local elections could understand. You may want to commission this from Peter Davis, before he leaves CRD at the end of the year, in collaboration with DoE advisers.

On the pretext that the Treasury needed briefing for the TWEB Mr Fellgett asked DOE to provide the answers to the five questions in my paper. My suggested answers are amended (I hope improved!) versions of these. I also append DoE's original suggestions because I think they reveal how ill-prepared the Government is.

Incidentally, one of their answers, the last sentence of paragraph two, is potentially pernicious. It has not been agreed (as DoE allege) that the safety net element of everyone's community charge should be shown on their individual bills. I think the Treasury should oppose this. It would be an invitation to demand cash from the Treasury to compensate charge payers for that element of their bills.

RJ.

pp A G TYRIE

011/3649

PERSONAL AND CONFIDENTIAL

COMMUNITY CHARGE: POLITICAL PROBLEMS BY AREA

The main lines of attack from the more informed of our own people on the ELF decision will be:

i. NEW PAYERS. Around 17 million people will pay local taxation for the first time. Most will have no time to adjust.

Answer. The aim of the changes is to ensure that virtually all adults make a direct contribution to the cost of local services, which nearly everyone uses. That means bringing into the charge a large number of people who pay nothing now, including wives. The amounts involved for individuals will depend on what their LA decides to spend. Rebates will be available for those on low incomes. The community charge will be introduced gradually in parts of London, where charges on current levels of spending would otherwise be highest.

ii. EXISTING PAYERS in many Conservative areas face higher initial bills, the 'hump'. For example, in St Albans two adults in a smaller (lower than average rateable value) house will see their bill rise from £439 to £558 before falling to £408 over four years. In Cambridge the bill for three people in an average house will rise from £541 to £789 (almost 50%) before dropping to £570. This pattern is similar throughout Southern England. See Annex 1.

Answer. This results from the operation of the safety net, which we believe is needed to phase the shifts in the burden of local taxation between areas. With the safety net average household bills do not change much between 1989 and 1990, provided authorities maintain spending unchanged in real terms, and the eventual (fairer) distribution of average bills is phased in, to give local authority areas time to adjust.

iii. UNFAIRNESS OF DUAL RUNNING. Some areas have it, other not. See Annex 2. The full CC in Wandsworth would be only £213 in 1990-91 but a new payer will only pay £100. In nearby Ealing, without dual running, the CC will be £303, three times greater for a new payer.

The criterion for dual running (a borough must spend at least £130 per capita above GRE in 1987-88) is unfair and will be out of date by 1990.

Answer. The £130 cut off for dual running was chosen to ensure that areas where final, (unsafety netted) figures would be highest were given additional time to adjust before domestic rates disappeared. To prevent authorities from 'planning' for dual running by artificially manipulating their spending the decision has to be taken on the basis of 1987-88 budgeted spending.

iv. ACCOUNTABILITY is lost. The complex nature of a safety net which is capped to £75 per capita obscures a LA's spending. Its spending will not be clear to electors until 1995-96.

Answer. Inevitably any transitional arrangements reduce accountability. But this should not be exaggerated: marginal changes in spending will still feed through, £ for £, into the bills that are paid in each area.

v. DISTANCE FROM ORIGINAL GREEN PAPER PROPOSALS. These were:

- a community charge of £50 in the first year, and rising no faster than £50 in later years;

- a transition period of up to 10 years;

- an indefinite full safety net.

We are a very long way from that. The withdrawal of the safety net will cause difficulties in many northern areas. See Annex 3.

Answer. Green Papers are, by definition, consultative documents. The Government has responded to calls to abolish domestic rates more quickly, and to phase out the safety net (and the inequities embodied in the present system).

ANNEX 1: THE HUMP: EFFECTS ON MARGINALS AND OTHER AUTHORITIES

Many authorities will see a significant rise in the local tax bills of many households in 1990-91 even though they are ultimate beneficiaries of the community charge and enjoy a subsequent gradual fall in bills on 'the hump'.

Authorities in marginal areas with 'a hump' include North Cambridgeshire, Cambridge, Basildon, Birmingham, Cheltenham, Croydon, Slough, Richmond, W. Oxfordshire, Stockport and Nottingham. As an illustration of the size of 'the hump': for two adults (in a house of 70% average rv) the effects will be (assuming unchanged spending and cash from 1987-88):

	1989-90	1990-91	Increase	1994-95
Basildon	£440	£650	(48%)	£518
Cambridge	£379	£526	(39%)	£380
Croydon	£305	£436	(43%)	£316
W. Oxfordshire	£335	£454	(36%)	£410
Birmingham	£347	£498	(44%)	£372

There is similar effect for three adults in an average rateable value house (for example where an aged relative lives with the family). Only people occupying above average rateable value accommodation per capita will see bills fall throughout the transition.

Other (non-marginal) authorities will also be hit by 'the hump'. The greatest 'humps' will be in high rateable value,

mainly southern authorities. Examples for a two adult house are (again at 1987-88 figures):

	1989-90	1990-91	1994-95
Elmbrige	£498	£628	£478
Epsom and Ewell	£435	£514	£364

Three adults in an average house in Epsom would see a similar pattern.

The authorities most hit by the 'hump' are:

Outer London: Barnet, Croydon, Harrow, Richmond.

Metropolitan districts: Stockport, Trafford, Solihull.

Districts: South Bedfordshire, Luton, Bracknell, Newbury, Slough, Windsor and Maidenhead, Wokingham, Aylesbury, Wycombe, Cambridge, South Cambridgeshire, Macclesfield, Christchurch, Poole, Wimborne, Eastbourne, Hove, Lewes, Rother, Basildon, Chelmsford, Epping Forest, Maldon, Rochford, Southend, Tendring, Uttlesford, Cheltenham, Cotswold, E. Hampshire, Fareham, Hart, Havant, Winchester, Lichfield, S. Staffordshire, Elmbridge, Guildford, Mole Valley, Reigate, Runneymede, Surreyheath, Tandridge, Woking, Waverley, Stafford and Warwick.

ANNEX 2: DUAL RUNNING

Authorities which just miss dual running include Brentwood, Haringey, Harlow, Ealing and Brent. These are close to inner London areas enjoying dual-running. Under the ELF decision an authority must spend at least £130 per head over GRE to qualify for dual-running. This just excluded Brentwood at £125 over and Harlow at £102 over. Both are close to Waltham Forest where a new payer will be charged £100 in 1990, compared to £355 in Brentwood and £321 in Harlow.

ANNEX 3: WITHDRAWAL OF THE SAFETY NET IN LOW RATEABLE VALUE (MAINLY NORTHERN) AREAS

Authorities covering marginal seats with large increases in local tax bills as the safety net is withdrawn include: Barrow, Darlington, Hyndburn, Pendle, Rossendale, York and Thamesdown.

For example, two adults in a smaller house will see eventual increases (assuming unchanged spending and cash from 1987-88) of the following in:

	1989-90	1994-95	Increase
York	£188	£364	(94%)
Hyndburn	£181	£424	(134%)
Pendle	£166	£424	(155%)
Darlington	£275	£490	(78%)

From DoE

TREASURY DEFENSIVE BRIEFING

COMMUNITY CHARGE TRANSITION

1. New payers

The aim of the changes is to ensure that virtually all adults are making a direct contribution to the cost of local services. That necessarily involves making a large number of people who pay nothing now pay something in future. The Government's judgement is that the amounts involved for individuals are not excessive, particularly bearing in mind the availability of rebates and the fact that the community charge will be involved gradually in parts of London, where charges would otherwise be highest.

2. Existing payers - perverse movements in bills

The transitional arrangements now announced mean that some households could pay more in 1990 than in 1989 or 1994. the number of such households will not be large, however. To the extent they do occur, such results stem from the safety net, which will believe is necessary to phase the shifts in the burden of local taxation between areas; the size of contributions to or from the safety net will be apparent on each community charge bill, which will also show the underlying, unsafety netted figure.

3. £130 cut - off

The £130 cut off for dual running was chosen to ensure that areas were final, unsafety netted figures would be highest were given additional time to adjust before domestic rates disappeared. If authorities were to know now whether or not to plan for dual running, the decisions had to be taken on the basis of 1987/88 budgeted spending.

4. <u>Safety net - no accountability</u>

Inevitably any transitional arrangements reduce to some extent to which the safety net reduces accountability should not be exaggerated: marginal changes in spending will still feed through, £ for £, into the bills that are paid in each area; and each bill will show both safety netted and unsafety netted figures during the transition.

5. <u>Changes since Green Paper</u>

Green Papers are, by definition, consultative documents. The Government has responded for calls to abolish rates more quickly, and to phase out the safety net (and the inequities of the present system that represents), first in the announcement on 30 July; and then after it become clear that there was pressure for further speeding up, on 17 November.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

9 December 1987

THE COMMUNITY CHARGE AND SERVICE PERSONNEL

The Prime Minister has seen the letter of 7 December from Mr Scott, Minister for Social Security and the Disabled, to the Secretary of State for the Environment about the community charge and service personnel.

The letter argues that to compensate service personnel for local variations in the community charge would increase the pressure to provide compensation related to actual charges for people on low incomes. It goes on to say: "This could only be achieved by using different income related benefit rates in different parts of the country, an approach already rejected by E(LF) as being at odds with a social security system geared to providing benefits at national uniform rates". The Prime Minister believes that this is to read too much into the E(LF) decision, which was not based on acceptance of a principle that the social security system should be geared to providing benefits at national uniform rates. Indeed in due course it may well be important that some benefits at least should vary geographically. As geographical variation in pay increases it may for example be right that unemployment benefit should also vary by area. Otherwise the unemployment trap could worsen in areas where pay was relatively low.

The Prime Minister has not commented on the question whether service personnel should be compensated for the actual community charges they will pay.

I am copying this letter only to Mike Eland (Lord President's Office), Alex Allan (HM Treasury), Jill Rutter (Chief Secretary's Office), Nicholas Wilson (Department of Employment) and Trevor Woolley (Cabinet Office).

David Norgrove

Geoffrey Podger, Esq.,
Department of Health and Social Security

CONFIDENTIAL

FROM: MOIRA WALLACE
DATE: 22 December 1987

MR FELLGETT

cc Mr Tyrie

COMMUNITY CHARGE: CRITICISMS AND POLITICAL BLACKSPOTS

The Chancellor saw Mr Tyrie's minute of 8 December. He noted Mr Tyrie's view that the Treasury should oppose the proposal that the safety net element of individual community charges should be shown on their bills. He would be grateful for a note on this.

MOIRA WALLACE

24/1/342/02

CONFIDENTIAL

1. MR HAWTIN

2. CHANCELLOR

FROM: R FELLGETT

Date: 4 January 1988

cc: PS/Chief Secretary
PS/Paymaster General
Sir Peter Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Turnbull
Mr Potter o/r
Mr Tyrie

COMMUNITY CHARGE: CRITICISMS ETC

You asked (Miss Wallace's minute of 22 December) for a note on our view that we should oppose the proposal that the safety net element of individual community charges should be shown on the demand note sent out by local authorities.

2. One aspect of the community charge system will be that the community charge in each local area will be the same throughout England, if every council spends exactly in line with its assessed need (ie GRE). Mr Ridley has mentioned this in public on a number of occasions. It is equivalent to the fact that, in the present system, rate poundages (but not rate bills) would be the same everywhere if all authorities spent at their GRE.

3. Some of the difficulties with this rate-poundage equalisation in the present system will be carried over into the community charge equalisation of the new system. For example, the signal that an authority is overspending if its community charge exceeds the English community charge norm will only be believed if GREs are widely accepted as a fair and reasonable spending norm for all authorities. And the definition of spending which is currently used to make this comparison carries little credibility,

because it ignores spending financed by specific grants, but includes some purely book-keeping transfers between different local authority accounts. We aim to moderate some of these defects in work with DOE officials following the remits from E(LF) last July on the format of community charge demand notes and on GREs.

4. A further problem applies only during the transitional period before April 1994, when the safety net will be in operation. The safety net phases-in the full re-distribution of grant which is needed to provide for equalisation of community charge bills rather than equalisation of rate poundages. Until this is complete, the community charge in a high rateable value area will be greater than the community charge in a low rateable value area, even if they both spend at GRE. (This manifests itself in the "hump".) From the draft background briefing that Mr Tyrie and I obtained, it seems that DOE's latest thinking is therefore to show on each community charge demand both the actual community charge, and what the community charge would be without a safety net. Their intention might be simply to improve accountability by allowing residents to compare the unsafety netted figure with the national norm; some DOE officials seem actually to believe that voters will change the way they approach local elections once information about local authority revenue and expenditure is laid out differently on the papers accompanying local tax demands.

5. However, the effect would be to tell adults throughout, roughly, the southern half of England (outside inner London) towards the end of the present Parliament that their community charge is, say, £250, whereas but for the safety net it would be around £200. This seems bound to generate political pressure for the safety net to be withdrawn, either at the expense of northern and inner city areas which should benefit from its transitional protection, or at the expense of the Exchequer, notwithstanding the agreement that you secured at the Prime Minister's meeting that extra money would not be made available. Indeed such pressures are likely to arise well before 1990 and

quite separately from the format of the demand note, although this latest DOE suggestion would probably make them worse. Up to £1 billion is involved.

6. We have long been aware of this sort of danger. It is reflected in earlier advice to you and the Chief Secretary about the format of community charge demand notes, especially during the transitional period. We have also raised this point about unsafety netted charges with DOE officials, and expect to discuss it alongside the other details before anything is finalised. If these discussions with officials prove unsatisfactory we will, of ocurse, advise you and the Chief Secretary.

Robin Fellgett

R FELLGETT

RM2.40

CONFIDENTIAL

RM

FROM: MOIRA WALLACE
DATE: 6 January 1988

MR FELLGETT

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Hawtin
Mr Turnbull
Mr Potter
Mr Tyrie

COMMUNITY CHARGE: CRITICISMS ETC

The Chancellor has seen and was grateful for your minute of 4 Janaury. He agrees that the proposal to show the safety net element of individual community charges on the demand note should be resisted.

MPW.

MOIRA WALLACE

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CHIEF SECRETARY
REC. -8 JAN 1988
ACTION Mr Gibson
COPIES TO CX, Mr Anson, Mr Kemp, Mr Hawtin, Miss Peterson, Mr Turnbull, Mr McIntyre, Mr Potter, Mr Fellgett, Mr Call

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

January 1988

Dear Nicholas,

COMMUNITY CHARGE: DISCLOSURE OF INFORMATION AND DIRECT DEDUCTIONS FROM BENEFIT

John Moore wrote to you on 23 November about the issues raised in your E(LF) Memorandum of 18 November. That Memorandum has not yet been discussed and, in the hope that the matter may be settled without further delay, I am writing to emphasise the importance in my view of information about income support recipients being made available for community charge registration purposes.

The main point I want to stress is that, while I fully appreciate John's concerns about confidentiality, the clinching argument seems to me to be that income support levels will include an element for the minimum contribution towards personal community charge liability. It is a matter of simple financial prudence for us to take steps to ensure that the recipients of this contribution are properly registered and required to pay their contribution. Indeed, I think that if arrangements along these lines are not set up we could be subject to criticism for exercising insufficient care to ensure that the considerable amounts of money which will be issued as benefit are properly spent. A further argument in favour of the proposal is that routine exchange of information along these lines would allow the people concerned to be considered automatically by the local authority for eligibility for a community charge rebate, without themselves having to make a separate application.

I therefore strongly support your proposals on this point. I hope that we can reach collective agreement on it as soon as possible so that it can be built into the arrangements for the introduction of the community charge system in Scotland which will be set up in the course of 1988.

I am copying this letter to the Prime Minister, members of E(LF), and to Sir Robin Butler.

Yours ever,

Malcolm

MALCOLM RIFKIND

HMP00701

24/1/DJS/1801/28

CONFIDENTIAL

FROM: R FELLGETT
DATE: 12 January 1988

1. MR POTTER
2. CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Hawtin
Mr Turnbull
Mr Culpin
PS/Inland Revenue
Mr A J Walker (IR)

Ch
Administrative diffs are also important (consider husband & wife problems for example)
AA

COMMUNITY CHARGE: BRIEFING LINE

We and the Inland Revenue are being asked by DOE to comment on papers about proposals to make the Community Charge better related to individuals ability to pay. DOE have, for example, sought some comments on a paper they are preparing for Mr Ridley about Mr Michael Mates' ideas for a banded Community Charge; Mr Ridley is likely to draw on this in seeking to persuade Mr Mates to continue to vote for the Government on the Local Government Finance Bill (the Poll Tax Bill).

2. We are not happy with the way DOE tend to concentrate on the administrative difficulties of proposals of this type; in our view, policy objections to extra taxes on income are much more important. We do not propose to trouble you with all the detailed papers shown to us by DOE. But you will wish to consider the general line that we propose to take in response to DOE requests of this type.

The Community Charge and Ability to Pay

3. Mr Mates proposal is that basic-rate income tax payers should pay a basic Community Charge, with a lower charge for non-tax payers and a higher one for higher-rate income tax payers. Other suggestions for banded Community Charges have been put forward by Sir George Young and CIPFA and other ways of making the Community Charge more related to ability to pay could of course be devised.

4. If the Government ever went beyond commenting on proposals of this type, and seriously considered making some concession, the DOE fallback is likely to be a request for more grant, paid for by higher income tax. They would argue that this would increase the amount of local authority spending financed by progressive taxation, and reduce the Community Charge. New legislation, or amendments to the Local Government Finance Bill (or Act) would not be needed. In reply, we would of course argue that extra grant would simply fuel extra local authority spending. In addition, the proposed briefing line attempts to inhibit serious consideration of this option by emphasising the strong policy objections to adding to the burden of taxation on incomes, whether local or central.

Proposed Line

5. Our proposed line in comments to DOE about their analysis of proposals for banded Community Charges, therefore concentrates on three points:

(i) The Government's firm intention is to reduce, not increase, taxes on incomes, to improve incentives to work etc.

(ii) Any banded Community Charge would, if the amount an individual paid depended on their income band, be a crude local income tax. A crude approach is no better than a full local income tax; on the contrary, there would be very high marginal rates of tax (with consequent earnings traps and effects on incentives) at the point an individual's income moved from one band to a higher one.

(iii) The DOE presentation of the case for a Community Charge has, in effect, emphasised the policy advantages of a universal tax that is very visible to those who pay it. There are wider public finance arguments against giving local authorities a new, powerful revenue raising power. The fact that the Community Charge will not

always be easy to pay is accordingly central to the accountability arguments to which the Government is publicly committed.

6. We may add points of the following type, although we suggest these should be very much secondary arguments:

(i) Such a proposal might have a sharp effect on one group of individuals. For example, Mr Mates' proposal would involve higher Community Charges for single, basic-rate taxpayers on modest incomes, including many nurses. (On the other hand, it would help groups like grannies looked after by their families, to whom we earlier drew attention.)

(ii) If the proposal requires Inland Revenue information, there may be significant administrative difficulties and problems over the confidentiality of Revenue data. (On the other hand, these could no doubt be overcome, probably at the expense of your other priorities for the Revenue, if the Government attached sufficient policy importance to them.)

7. In our view, DOE are prone to make too much of the administrative arguments. We will accordingly press them to concentrate on the main policy points mentioned above, and will decline to put substantial time and effort into investigating the administrative implications of policies that the Government does not intend to consider seriously. Nor do we intend putting substantial time and effort into checking the DOE figures exemplifying the effects of Mr Mates or others proposals; the Treasury and Revenue's priority should be given to modelling central taxation options for the Budget and later.

8. We do not, of course, intend to object to appropriate general DOE arguments that have been cleared with us in the past. Examples are that rates are poorly correlated with income so it is not unfair to replace them with a flat charge; rebates will be available for the poorest people; the very poorest households

(mainly single parent families) on average face decreases in rebated local tax bills; and grant paid for by central taxation, which is in aggregate more progressive than either rebated rates or rebated Community Charges, will continue to fund a higher proportion of local authority spending (in GGE terms, grant currently finances about 50%, and domestic rates only about 15%).

9. Subject to any comments you may have, we should be grateful for your authority to follow the proposed briefing line in our comments to DOE.

10. This advice has been discussed with FP and the Revenue.

Robin Fellgett

R FELLGETT

EXTRACTS FROM GREEN PAPER

3.38 "Alternatives to Domestic Rates" concluded that a flat-rate charge payable by all adults would meet all the technical criteria described in paragraph 3.7. It would be capable of producing a yield equivalent to that of rates, would be suitable for all tiers of local government, and would be conducive to proper financial control. But, in the White Paper, the option of introducing such a tax was rejected. The major objections put forward were operational:

> "... the tax would be hard to enforce. If the electoral register were used as the basis for liability it could be seen as a tax on the right to vote. A new register would therefore be needed but this would make the tax expensive to run and complicated, particularly if it incorporated a rebate scheme."

These problems are not insuperable. In view of the overriding importance of increasing local accountability through the introduction of a community charge they must now be tackled. Operational issues are considered briefly below and in more detail in Annex G.

Transition

3.39 The move from rates to a community charge will inevitably affect the personal finances of households since single-adult households gain at the expense of multi-adult households. The Government considers that the change should be made gradually by introducing the community charge initially at a low level. In the first year of the new scheme rates would be reduced – by, say, an amount equivalent to the yield of a £50 per adult community charge. That would mean that the overall position of the average two-adult household would be broadly unaffected: their rates would go down by about £100, but they would have to pay an additional £100 – £50 per adult – in community charges. In some authorities where rate bills are low, a £100 reduction in rates would be a large proportionate reduction. In other authorities, mainly in London and South East England where some authorities have domestic rate bills in excess of £500 per adult – over £1000 a year for a two-adult household – it would be a much smaller proportionate cut and rates would continue to meet a large part of the local tax bill. All those paying local taxes for the first time would however face a similar bill, and there would be a similar *cash* reduction in rate bills across the country. And in all areas single householders would pay less, and households with more than two adults would pay more, towards the cost of local services.

3.40 In subsequent years any additional local revenue would be raised through the community charge. That would ensure that the cost of extra spending would be met in full by all local residents. There would remain, however, in all authorities some residual rate burden. It would be possible to freeze this sum, and leave it frozen until it constituted a sufficiently small proportion of the total local tax bill to be wound up. But that would mean that rates would continue well into the 21st century. The Government's objective is to replace domestic rates entirely within a reasonable timescale.

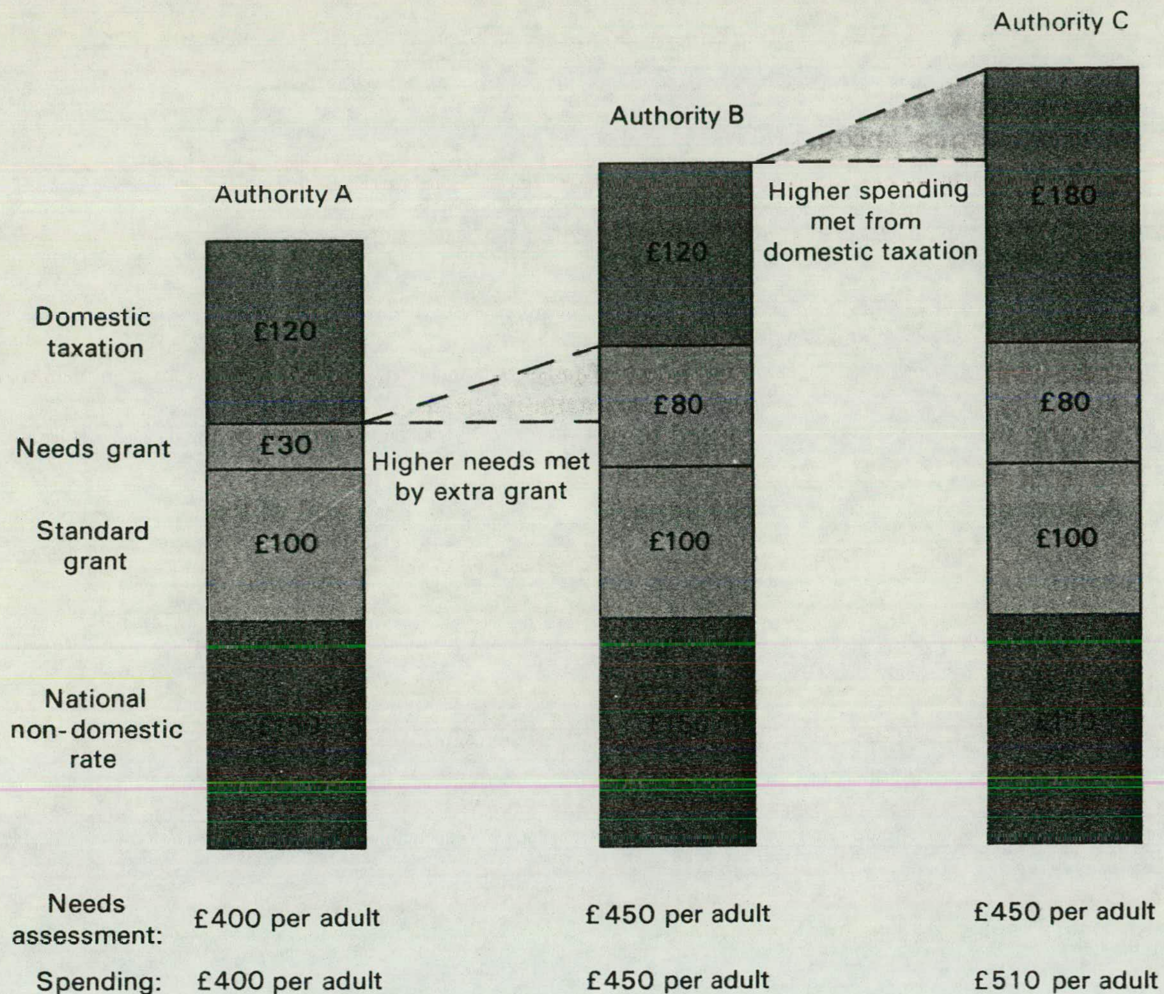
3.41 But people will need time to adjust. It is reasonable to expect domestic rates to have been phased out completely within 10 years of the introduction of the new system. In order to achieve this, it will be necessary to require periodic transfers from rates to the community charge. In Scotland and Wales, and in parts of England where rate bills are not high it will be possible to move relatively quickly. But in parts of England where there are higher rate bills a longer period of adjustment will be necessary. This will mean that rates will disappear in some areas before others. The arrangements for the transition in Scotland and Wales are discussed in Chapters 8 and 9 respectively.

3.42 Annex E considers the impact of these proposals on the housing market and concludes that any effects on the price and supply of housing arising from the abolition of domestic rates are likely to be small and spread over a long period.

Operational issues

3.43 As paragraph 3.38 made clear, the previous examination of alternative local taxes concluded that the major objections to a new flat-rate charge were operational. The Government recognises that there would be problems in any move away from a tax on property to a personal tax. This would, of course, apply just as much to local income tax, for example, as to the community charge. Residence would have to be defined and people would have to be registered for the tax. Since the tax is not a tax on the right to vote – and would be paid by people such as foreigners who do not have the right to vote in UK elections but who benefit from local services – the Government proposes that there should be a separate register for this purpose. A separate register would also be necessary because, unlike the electoral register, the new community charge

Figure 14: THE GRANT SYSTEM AND DOMESTIC TAXATION



All figures are per adult

The effect on local tax bills

4.40 The Government's proposals:

— that there should be a new grant system under which all marginal changes in spending are met by local domestic taxpayers;

— that the proceeds of non-domestic rates should be pooled and allocated as a constant amount per adult to all authorities;

— that there should be no other form of resources equalisation

would mean that some authorities would have to finance more of their spending from their domestic taxpayers than at present. In other areas the burden of domestic taxation would be less than it is now. Low spending authorities with high domestic rateable values would gain most. High spending authorities would lose, and so would authorities with low domestic rateable values.

4.41 In the bulk of authorities, the size of the changes would be small. But, in a small minority of cases, changes could be significant. And these effects would be superimposed on changes in the pattern of household bills *within* areas resulting from the gradual introduction of a community charge.

4.42 Allowing the effects of the grant and non-domestic rate proposals to feed through immediately, or within a very few years, would end the confusing situation that exists at present where domestic tax bills are lower in some high-spending areas than they are in authorities that

spend much less. But the Government is mindful of the fact that householders have taken on commitments on the basis of the present patterns of local taxation. It would be unreasonable to disrupt that pattern too severely or too quickly.

4.43 The Government therefore envisages that special arrangements would be introduced to avoid any significant shifts in the burden of local taxation *between* local authorities on moving to a new system. These arrangements would take the form of a "safety net", which would prevent changes in authorities' income in the first year of the new system arising from the structural changes to the grant and non-domestic rate arrangements proposed in this Green Paper. The method of setting the safety net would ensure that authorities could not benefit from any increase in expenditure between now and the introduction of the new arrangements. And the amount of an authority's safety net entitlement would be fixed in cash terms so that its real value would progressively decline. Changes in the balance of local taxation *within* a local authority, arising from the widening of the local tax base by the introduction of the community charge, would begin to feed through immediately. So would the effects of any *increases* in spending. But under these arrangements for the same level of spending under the new system the average level of an authority's local tax bills would be virtually unchanged. Once the new system is in operation and sufficient time has elapsed to permit a proper assessment of its impact and effects, the basis of the special arrangements could be reviewed.

4.44 A more detailed account of the impact of the new system and of the design of the special arrangements is given in the next chapter. Chapters 8 and 9 discuss the position in Scotland and Wales.

Specific grants

4.45 So far this chapter has discussed the main system of unhypothecated grants towards local authority expenditure. But a significant proportion of Exchequer support is paid in the form of specific grants. These make up about 20% of the grant total, amounting to some £2.8 bn in 1984/85. Police grant alone, which meets 50% of spending on the police service, cost about £1.4 bn in England in 1984/85. Contributions towards local authority spending on home improvement grants in England amounted to about £370m. At the other end of the scale, civil defence grant was worth only £8m, and that for sheltered employment only £9m.

4.46 Specific grants take a number of forms. Some are paid towards capital expenditure, some towards current expenditure and some, like slum clearance subsidy, towards a combination of the two. Grant rates vary from 100% in the case of some civil defence grants to 40% for spending on clean air. Some, like police grant, are paid towards actual expenditure on a complete service. Others, like the new education support grants, offer help towards service expenditure of particular types up to a total approved in advance. Specific grants can be either for programmes of expenditure or, as with transport infrastructure grant, for particular projects.

4.47 There will remain a role for certain existing specific grants, such as that for police expenditure. There may also be a case for some new grants, for example in the education field in support of the Government's objective of raising standards at all levels of ability. But, equally, extensive use of such grants could run counter to the approach set out in this Green Paper of local accountability and choice. And it is several years since there was a thorough appraisal of the role of specific grants. It is not clear that the existing pattern of grants can easily be justified in terms of current policy objectives.

4.48 The Government is therefore undertaking a separate review of the role of specific grants in the new system. In its view, specific grants may be justified where they are intended:

- to assist the delivery by local authorities of central Government policies of continuing national importance;
- to give special encouragement for a limited period to expenditure on activities or services which fulfil a specific central Government objective;
- to recompense local authorities for expenditure on activities carried out by them or other authorities at the request of central Government where there is limited or no local discretion over the expenditure incurred;
- to assist in the financing of activities that are not adequately covered by the proposed needs assessments.

4.49 In the Government's view, any existing or new specific grant must satisfy at least one of these criteria. But that would not, in itself, be sufficient to justify the continuation or introduction of a particular grant. It must be demonstrated, in addition, that the grant will

Chapter 5: The combined effects of changes to local taxation and grant

5.1 Chapter 1 explained how the present Government's efforts to constrain local government expenditure had revealed some serious underlying flaws in the present system of local government finance. These flaws weaken the accountability of authorities to local people, with the result that many electors are indifferent to how much their local council spends or are encouraged to vote for ever higher expenditure on services.

5.2 The Government intends to tackle the problem not by increased central control of local authority expenditure but by taking action to remedy the weaknesses in the present system which undermine local accountability. Accordingly, Chapter 2 set out proposals for limiting local authorities' access to non-domestic rates, by setting a uniform national non-domestic rate poundage, and redistributing the yield among all authorities as a common amount per adult. Chapter 3 described proposals for transferring the burden of local domestic taxation from rates to a flat-rate community charge levied on all adults resident in an authority's area. Chapter 4 set out proposals for a new simplified grant system, consisting of a "lump sum" needs grant to compensate for differences in authorities' assessed expenditure needs and a standard grant, which would be distributed as a common amount per adult to all authorities. In addition, there would be special arrangements to ensure that in the first year of the new system authorities' income from grant and non-domestic rates would broadly be the same as under the old system.

5.3 These proposals are interrelated and together provide a comprehensive reform of the local government finance system, the main features of which would be as follows:

— non-domestic rates would still make the same overall contribution to aggregate local authority expenditure, but individual authorities would no longer be able to increase the rates paid by non-domestic ratepayers in their area so as to finance marginal increases in expenditure;

— the local domestic tax arrangements would be fairer; all electors would make some contribution to the expenditure of their local authority and this contribution would be more closely related to their use of local services;

— the grant system would be more stable and more comprehensible; the grant an authority received would no longer depend upon how much it spent and there would be no grant support for marginal spending; and the grant system — in combination with the new tax arrangements — would be based on equal tax bills for comparable levels of service rather than the equalisation of rate poundages, which at present causes significant disparities between the tax bills of different areas;

— the combined effect of the tax and grant reforms would be to ensure that the full costs or benefits of increases or savings in expenditure accrued to local domestic taxpayers; with the widening of the tax base and the much more understandable relationship between spending and tax demands, this would greatly improve the accountabilty of local authorities to their electors.

5.4 These reforms would have important distributional consequences, affecting the finances both of local authorities and of households and individuals. This chapter explains in general terms what those would be likely to be and describes how the reforms might be phased in over a transitional period so as to keep their distributional effects within reasonable and tolerable limits. It is chiefly concerned with England; Scotland and Wales are discussed in Chapter 8 and Chapter 9. Annex J describes the distributional effects in greater detail.

5.5 The modelling assumptions on which this Chapter and Annex J are based include actual local authority spending in 1984/85; Family Expenditure Survey data for 1980 to 1983 combined and repriced to a common 1984/85 level; full implementation of the proposals contained in the White Paper "Reform of Social Security" (Cmnd 9691) before the new arrangements come into operation; and an unchanged overall contribution from national taxpayers, non-domestic ratepayers, and local domestic taxpayers towards local authority spending. The assumptions are purely illustrative and simply show the effects of the measures proposed in the Green Paper, had they been in place in 1984/85.

The effects on local authorities

5.6 Local authority income would be affected by two aspects of the proposals: the national pooling and redistribution on a per adult basis of the income from non-domestic rates; and the

ending of resources equalisation. The effects of these proposals on individual local authorities would be determined by the level of their expenditure in relation to their grant-related expenditure (GRE) and the size of their rateable values per head of population.

5.7 Two types of local authority would gain extra income from the non-domestic rate and grant proposals.

i. *Low-spending authorities.* Authorities spending at a low level in relation to their GREs will be levying non-domestic rates below the national average and will thus get a below-average yield from their non-domestic ratepayers. National redistribution of the total yield of non-domestic rates as a common amount per adult (as proposed in Chapter 2) would increase the amount of non-domestic rate income going to these authorities.

ii. *Authorities with high domestic rateable values.* At present, the block grant system equalises differences in the rateable resources of authorities; grant is in effect transferred from authorities with high rateable values to those with low rateable values. The discontinuation of this process means that authorities with high rateable resources — which generally have high rate bills at present — would retain a larger proportion of their grant than hitherto. Since non-domestic rates would now be dealt with separately, this effect would depend on the level of an authority's domestic rateable values.

In practice most gaining authorities would tend to fall into both categories. They would be those which have fared worst under the present system, facing disproportionately high rate bills for a relatively low level of spending.

5.8 Conversely, two types of local authority would experience a reduction in their non-domestic rate and grant income as a result of the proposed reforms.

i. *High-spending authorities.* The limitation of non-domestic rate poundages and the pooling and redistribution of non-domestic rate income would mean a reduction in revenue to authorities spending above the level of their GRE and currently levying an above-average non-domestic rate poundage.

ii. *Authorities with low domestic rateable values.* Just as authorities with high domestic rateable values would gain from the discontinuation of resources equalisation, so authorities with low domestic rateable values would lose.

As with the gaining authorities, most of those losing would tend to lose on both counts. They would be those which have fared best under the present system, with disproportionately low rate bills for relatively high levels of spending.

5.9 On the basis of 1984/85 data, over two thirds of authorities in England would be likely to gain extra income as a result of the grant and non-domestic rate proposals. Most of these authorities would be in southern, eastern and central England, where spending in relation to GRE is generally low and rateable values relatively high. The minority of authorities which stand to lose grant and non-domestic rate income would mostly be in northern England where spending in relation to GRE tends to be high and rateable values are relatively low.

5.10 The effects of the proposals in London would be different. Total rateable values per head of population in many London authorities are substantially above rateable values elsewhere. This advantage would normally be offset by a reduction in grant under the resources equalisation arrangements of the block grant system. Successive grant regimes have however protected London from the consequences of full resources equalisation by allowing its authorities to retain a significant proportion of its resource advantage over other authorities, primarily to moderate the very high rate bills which would otherwise occur. Because resources equalisation has always been limited for London, its high resource authorities stand to gain relatively little in grant terms from the complete abolition of domestic resource equalisation. But many London authorities, particularly in inner London, are spending very significantly above the level of their GREs. They therefore stand to lose substantial amounts of revenue from the proposal to pool and redistribute non-domestic rate income. The combined effect would be significant reductions in non-domestic rate income for many London authorities which would be only partially offset by gains in grant.

5.11 The proposal to move the burden of local domestic taxation from rates to a community charge means that domestic tax bills in London would no longer be inflated by high rateable values. There would therefore in principle no longer be any case for affording London any special resource advantage over other areas. In the case of non-domestic rates, the proposed revaluation will ensure fair treatment for all non-domestic ratepayers across the country, although the need for some transitional arrangements in introducing both the new values and the new non-domestic rating system is recognised.

Moderating the effects on local authority areas

5.12 Changes in the non-local income — ie non-domestic rate income and grant — of local authorities would inevitably affect the burden falling on their local domestic taxpayers. If an authority's total income from grants and non-domestic rates were to go down, average domestic tax bills would have to be higher to finance any given level of expenditure, and vice versa. In a number of authorities these changes would be likely to be significant.

5.13 As indicated in paragraph 4.43, the Government believes that such changes would be too disruptive in their likely effects on the personal finances of local taxpayers. It therefore proposes that there should be a "safety net" system of adjustments to the grant and non-domestic rate income of authorities, so as to eliminate changes in their income from these sources as a result of the proposed restructuring of the grant system and the proposal to pool and redistribute the yield of non-domestic rates. The safety net would take the form of offsetting adjustments to the grant and non-domestic rate allocations of authorities; it would effectively operate as a self-financing pooling arrangement. After allowing for the normal year-on-year changes in grant entitlements (for example, to update the data used in the needs assessments) the effect of the safety net would be to preserve authorities' grant and non-domestic rate income in the first year of the new system at broadly the same level as under the present grant and taxation arrangements.

5.14 The arrangement would generally provide local domestic taxpayers with full protection from the distributional effects of the grant and non-domestic rate proposals in the first year of the new system. After the first year of the new system the adjustments would be frozen in cash terms.

5.15 In preserving the initial entitlement to grant and non-domestic rate income, the Government would have no intention of validating excessive rate increases or any increases in expenditure which are not compatible with its public expenditure plans which occur between the publication of this Green Paper and the introduction of the new system. In determining the level at which grant and non-domestic rate income is to be preserved by the pooling adjustments, the Government would take account of authorities' expenditure and rating behaviour in the remaining years of the existing system.

The effects on households and tax units

5.16 If the level of local authorities' grant and non-domestic rate income were held constant in the changeover from the present local government finance system to a new system, the position of households and individuals would initially depend solely on the change in the domestic taxation arrangements described in Chapter 3. Since an authority's grant and non-domestic rate income would be preserved, the total amount of revenue to be raised from its domestic taxpayers would remain unchanged for any given level of expenditure. But the *distribution* of that burden between the authority's taxpayers would change as a result of the new domestic taxation arrangements.

5.17 Since the key objectives of the new arrangements include broadening the local tax base to include all adults and moving towards a situation where all local taxpayers pay a flat-rate charge for local services, this redistribution of the local domestic tax burden would affect both households and tax units (that is single people or couples) within households.

5.18 Within a local authority area the proposals would affect households in two different ways.

— *According to the size and composition of the household.* In general, single person households would benefit from the replacement of a tax on property by a tax on people, and households with three or more adults would lose.

— *According to the rateable value of the household property relative to that of other domestic properties in the authority's area.* For any given household type relatively high rateable value households would benefit more from the gradual move away from using property values as the basis of local taxation, while those in low rateable value properties would take a bigger share of the financing of local services. This effect would occur both across precepting authority areas and within rating authorities.

5.19 Among tax units, the principal redistributive effect would be between householder tax units and non-householder tax units, ie between those who are currently liable to pay rates and those who are not. The main beneficiaries would tend to be single-person householders and the main losers would be young single adults who at present are not householders and are not liable to pay rates.

5.20 Chapter 3, however, made it clear that the Government recognises that people would need time to adjust their personal finances to cope with the new community charge. It therefore proposed (paragraphs 3.39 to 3.41) that there should be a transitional period of up to ten years during which rates would be phased out and progressively replaced by the community charge. The distributional effects of this process on households and tax units can therefore be considered at two stages:

i. the effects in the first year of transition, with the community charge introduced at £50 per adult and the rest of local domestic tax revenue raised from rates;

ii. the effects when rates have been completely replaced by the community charge.

These effects are shown in detail in Annex J; the main points are summarised below.

(i) Effects in the first year of transition

5.21 A modest move towards the community charge of £50 per adult in the first year would produce a very small redistribution of the total local tax burden. The typical two-adult household would on average tend to face no significant change in their total local tax bill. Over 80% of households would gain or lose less than £1 a week — about the price of a pint of beer — and for 94% the changes would represent less than 1% of net household income.

5.22 The picture would be much the same for tax units. Almost 90% of them would gain or lose less than £1 a week and for 98% the changes would represent less than 2% of net income. The main losers would be non-householder tax units who would become liable to pay local taxes for the first time, the majority of whom are single adults in the 18-24 age group. This is the expected and proper consequence of widening the tax base to include all adults.

(ii) Effects of the complete replacement of rates by a community charge

5.23 The distributional effects of completely replacing rates by a community charge accentuate the scale of changes which would occur in the first year of transition. Nevertheless, the changes would still be relatively small for most people.

5.24 Just over half of all households would be better off with a community charge instead of rates, and half of those losing would lose less than £1 a week. Among tax units, the main effect would be a shift in the burden from householder tax units to non-householder tax units. The main gainers would be single adult households, primarily one-parent families and pensioners, while the main losers would again be young single adults because they would become liable to pay local tax for the first time. Overall, 52% of tax units would lose and 48% would gain; but over 70% of gains and losses would be less than £2 a week.

Interaction with the social security system

5.25 The proposal for replacing rates with a community charge would have implications for the social security system. If help for those with low incomes continues to be provided through the housing benefit scheme, the widening of the local tax base to include non-householders would increase the numbers eligible for benefit, although the scale of support needed for existing ratepayers would be reduced. On the basis of the assumptions set out in paragraph 5.5, the full replacement of domestic rates by the community charge would lead to an estimated increase in housing benefit caseload in Great Britain of about 18% but an increase in cost of only 4%. However, with the proposed transition over a number of years, these increases would build up gradually.

5.26 The impact of the community charge on the net tax payments of both householders and non-householders will be affected by the proposal in "Reform of Social Security" (Cmnd 9691) that all benefit recipients should pay at least 20% of their tax bill. Otherwise, the interaction between the proposals in Cmnd 9691 and those in this Green Paper are very limited. The proposals in Cmnd 9691 redistribute income support among low income households, generally in favour of families with children. The local taxation proposals described in this Green Paper involve a switch in local tax burden from householders to non-householders and affect all income groups. The effects are discussed in more detail in Annex J.

Limitation of local domestic tax bills

5.27 The new grant and taxation proposals should considerably improve the accountability of local authorities to their electors for their expenditure and taxation decisions. The reasons for increases in local taxes will be clearer. At the same time, if all local electors have to bear the full cost of marginal increases in their local authority's expenditure, they will have a strong incentive to take a much keener interest in the levels of such expenditure and may be less inclined to tolerate large increases.

5.28 This increased accountability will only be fully achieved, however, once rates have been completely replaced by the community charge. In the early years of the transitional period the impact of the community charge on electors who are brought into the local tax net for the first time would be modest. In order to ensure that local authorities do not take advantage of this situation by increasing their expenditure excessively the Government proposes to retain a power, similar to the selective rate-capping power, to prevent irresponsible authorities from imposing excessive burdens on their taxpayers.

Summary

5.29 The proposals for reforming the non-domestic and domestic local taxation arrangements and the system of Government grants to local authorities are radical and far-reaching. Yet with the system of adjustments to grant and non-domestic rate income described in this chapter there would be no dramatic shifts of resources between local authority areas on introduction of the new arrangements; and the proposed transitional mechanism for transferring the burden of domestic taxation from rates to a community charge would ensure that there were no drastic effects on the income of households or individuals. The introduction of the new arrangements would therefore be neither sudden nor disruptive. Despite that they will ensure that the local tax burden will be more equitably shared between domestic taxpayers than at present and that local electors will have to bear the full cost of any increases in expenditure for which they vote. They will narrow the gap between those who pay, use and vote for local services.

EXTRACT FROM MR RIDLEY'S PAPER E(LF)(87)28 A 9 July 1987.

CONFIDENTIAL

Non-domestic rates

15. I was also asked to consider the possibility of providing a larger contribution from non-domestic ratepayers in London, to keep down community charge bills.

16. The idea of a surcharge on non-domestic ratepayers is unattractive. Non-domestic ratepayers in parts of inner London will, in any case, lose considerably from the move to the national poundage (on 1987/88 figures, the poundage in Wandsworth will, at the end of the 5 year transition, have increased by 61%; and in Kensington and Chelsea by 91%). And most London rateable values are also likely to increase - often substantially - in real terms as a result of the 1990 revaluation. We would give ourselves an even bigger presentational problem if we said that on top of this non-domestic ratepayers in London had to pay 105% of the national poundage.

17. We could get round this problem by keeping the same poundage in London, but requiring only 95% of it to be paid into the national pool. The remaining 5% would then be shared equally across inner London. This would reduce community charge bills in inner London by around £50; but increase them by around £3 everywhere else. However,

- we will in any case be providing inner London with generous transitional help from the safety net (amounting to some £410m in the first year);

- it would be extremely undesirable to pay for further reductions in London by - in effect - a surcharge on community charge payers elsewhere: our supporters are urging strongly that, whatever else we do, we do not make the north contribute financially to alleviating the problems of London.

My own view is therefore that we should not pursue the idea of additional help from non-domestic rates.

CONFIDENTIAL

CL

In case point is raised again

AA

2131/20

CONFIDENTIAL

MAP

FROM: A TURNBULL
DATE: 13 JANUARY 1988

CHANCELLOR OF THE EXCHEQUER

Ch/
Content to send paper to Mr Ridley and possibly discuss

OK

MPW 13/1

cc Chief Secretary
Mr Anson
Mr Kemp
Mr Hawtin
Mr Odling-Smee
Mr Sedgwick
Mr Gilmore
Miss Peirson
Mr Potter
Mr Gieve
Mrs R Butler
Mr Deaton
Mr Fellgett
Mr G C White
Mr Kidman

TREATMENT OF NATIONAL NON-DOMESTIC RATE

One of the many issues which needs to be resolved as part of the exercise to introduce a new planning total is the treatment of the national non-domestic rate. Having looked at the way this is to be set up and operated, divisions in the Treasury believe the amount and distribution of the NNDR is almost entirely a central government responsibility and the payments made should come within the planning total. This reflects the fact that the statutory framework determining who pays the NNDR, the upper limit on the NNDR poundage, and how the NNDR proceeds are to be distributed to local authorities reflects central government policies; and that, once the statutory framework is set up central government has more discretion than local authorities.

2. A further argument, not reflected in the attached paper, is that it would be convenient to have the NNDR in the planning total as it should go up little more than in line with inflation. This will, to some extent, offset the RSG which realistically we must expect to rise somewhat faster.

3. DOE officials have resisted this proposal strongly. They are anxious not to present the new regime as "centralist" and hence wish to avoid showing it as leaving 75 per cent of local authorities' income under central government control. (We think they are whistling in the dark.)

4. They argue that "statute" is something independent which binds central government as well as local authorities. (In a sense it does, but what is in statute reflects central government policies.)

5. Attached is a paper which sets out why the Treasury believe the payments financed by the NNDR should be in the planning total. It has been discussed with DOE officials but not agreed with them. Indeed, they disagree with a lot of it. They would have preferred a different paper which set out all the arguments on both sides including each side's rebuttal of the other's points. We felt this would have put our case less clearly.

6. We suggest that you now send it to Mr Ridley, with an offer to talk to him informally about it. This is better than seeking a reply in writing which will no doubt be drafted by his officials. Although we feel strongly that the balance of argument supports our conclusion, this is an issue which needs to be handled carefully with DOE. We have hitherto been successful in securing their support for the idea of a new planning total, and we will want to retain that in the discussions that lie ahead with other departments.

AT

A TURNBULL

CONFIDENTIAL

pse type final for Ch/ signature

M.

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO SECRETARY OF STATE FOR THE ENVIRONMENT

NEW PLANNING TOTAL: NATIONAL NON-DOMESTIC RATE (NNDR)

In the joint note by our officials on the timetable for consultations on the new planning total, which I sent to the Prime Minister last month, a number of classification issues were identified, which need to be resolved in order to complete the preparatory work. The first of these is the treatment of the national non-domestic rate (NNDR) and I attach a paper prepared by my officials which has been discussed, but not agreed, with your officials.

I am firmly convinced tht the payments to local authorities (LAs) financed by NNDR proceeds should be included within the new planning total. The main point of changing the planning total, when the Community Charge is introduced in England and Wales, is to distinguish expenditure for which central government will be responsible and accountable from expenditure which will be at the discretion of local authorities. Under the new system of local government finance, the structure of non-domestic rates, the level of the NNDR poundage and the distribution of NNDR proceeds will be determined at the national level; and it will be central government - not local authorities individually or collectively - which will be accountable for the policy.

The main framework will be set in statute but within that framework, central government can exercise some discretion over the amount of NNDR revenue through the power to override indexation of the NNDR poundage. By contrast, LAs will have no powers over the poundage and only a minimal discretion over the rate base, through discretionary reliefs which will themselves be subject to central government regulation. Nor will local authorities have any responsibility for the level of receipts from the NNDR pool.

I believe that, given our basic rationale for changing the planning total, it would be very difficult to defend to the Treasury and Civil Service Committee and others, the alternative treatment of excluding these payments from the new planning total. And I am sure it would help to allay the concerns expressed earlier by the Prime Minister as well as any public criticisms of the proposed changes, if some 75% of LAs current expenditure continued to be included within the planning total.

In discussion between officials, I understand your officials argued that these payments should be excluded from the planning total so that they could be classified as local authorities own resources.

I appreciate their presentational anxieties and in particular their concern that including the payments within the planning total could be adduced as evidence that the NNDR will not continue to be an independent and hence reliable source of revenue to LAs. But it seems to me that we would be perpetuating a fiction, if we adopt a presentation showing NNDR monies as being part of local authorities self-financed resources.

We also need to keep this rather esoteric classification issue in perspective. I do wonder whether the classification of these payments, which of itself has no financial or policy significance to an individual LA, will add to, let alone provoke, adverse political reaction to the reform of local government finance from the local authority associations (LAAs) and others - particularly since the Bill is likely to be well on its way through Parliament by the time we inform the LAAs of our proposals.

I therefore hope that on consideration you will feel able to support my conclusion that the payments to LAs financed by NNDR proceeds should be within the new planning total. I would be very happy to discuss this further, if you feel that would be helpful.

[N.L]

CONFIDENTIAL

TREATMENT OF THE NATIONAL NON-DOMESTIC RATE IN THE NEW PLANNING TOTAL

Non-Domestic Rates

Under the provisions of the Local Government Finance Bill, uniform non-domestic rate poundages will be set for England and Wales (separately) as from April 1990. Different arrangements will apply in Scotland - see below.

2. Local authorities will continue to be responsible for collecting non-domestic rate revenue; but the revenues will be pooled centrally (in a notional fund) and redistributed to each local authority as a flat rate NNDR payment per adult. The notional fund is to be in balance, taking one year with another.

3. The amount of revenue collected and redistributed annually will depend upon the aggregate non-domestic rateable value base and the non-domestic rate (NNDR) poundage. Separate poundages for England and Wales in 1990 will be set by the Secretaries of State for the Environment and Wales respectively, following consultation with the Treasury. Thereafter the NNDR poundages for each country will be indexed annually to the rate of inflation; but there will be a power for the Chancellor to override the indexation and set a lower rate for the NNDR poundage.

Public Expenditure Planning Total

4. Under the Treasury proposals for a new public expenditure planning total to be presented in Public Expenditure White Papers (PEWP) as from 1990, the classification of local authority current expenditure would be changed. At present all LA current spending is within the public expenditure planning total. In future, it is intended that the planning total would comprise

central government's own expenditure; the grants it provides to local authorities; an appropriate measure of local authority capital spending; the external finance of public corporations; and a Reserve. Current expenditure which local authorities (LAs) finance themselves through the Community Charge would - like certain other public expenditure items such as debt interest - be outside the planning total but still within General Government Expenditure (GGE). The Government will continue to express its medium term objective for reducing public expenditure spending as a proportion of national income in terms of GGE which combines both central and local government spending.

5. The basic distinction between what is to be included in, and what is excluded from, the planning total rests on the degree of responsibility placed on central government for delivering that expenditure within public expenditure plans. Where central government is responsible for and can largely determine the amount of spending, the item is included in the new planning total. The corollary is that, only when an item of expenditure is largely outside the responsibility of central government and is in large part determined by some external agent - such as spending financed by the Community Charge, where individual local authorities have a genuine measure of disretion - should the item be excluded from the new planning total.

6. This paper considers how the payments to LAs financed by NNDR revenue should be classified. The Treasury proposes that these payments should be classified in the same way as central government grant to LAs and therefore within the planning total. DOE officials consider that such expenditure should be classified as LA expenditure financed by authorities' own resources and therefore outside the planning total.

The case for including spending financed by NNDR proceeds within the planning total

7. In the Treasury view, the critical issue in deciding on the classification is whether the payments to LAs financed by NNDR revenue are the responsibility of and can be determined by central government; or whether they are subject to significant influence by another agent ie the local authorities. On this basis the arguments for including payments to LAs financed by NNDR revenue within the planning total are as follows.

i) NNDR payments to local authorities will be very largely determined by central government, principally through statute. The size of the payments will depend upon the NNDR revenue from what is essentially a hypothecated tax; and an upper limit on the rate of that tax is set by statute with the Chancellor able to substitute a lower rate. LAs by contrast will have no powers over non-domestic rate poundages.

ii) Rateable values, which together with the poundage determine the NNDR bill for each business, are set in accordance with general valuation principles by the Valuation Office, a part of central government. The rules for determining which businesses are liable to pay non-domestic rate will be set in broad terms by statute and in detail by central government regulations. LAs have a very limited power over who is to pay and how much - it extends only to discretionary relief cases like charities; and even then the effects of that discretion on NNDR payments will be subject to regulation set by central government.

iii) Central government has decided that the NNDR poundage will be capped in real terms; it follows that the amount of NNDR revenue and hence NNDR payments to LAs will have been very largely determined by central government. Consistent with the philosophy of the new planning total, the classification of the payments within public expenditure totals should reflect that high degree of central government responsibility.

8. In practice the NNDR payments may well be seen by local authorities as very like central government grant. Indeed the payments they receive are likely to be an aggregate of Revenue Support Grant entitlement plus any net NNDR entitlement - NNDR revenue raised minus NNDR payments due.

9. The Treasury therefore concludes that the payment to LAs financed by NNDR revenue should be included in the new planning total. Once the proposed statutory framework has been set, central government can exercise some, in practice probably limited, discretion over the size of NNDR revenue, through the Chancellor's power to override indexation of the NNDR poundage. By contrast the local authorities have only a tiny discretion over the NNDR rate base (through the powers to grant certain reliefs, powers that are subject to central government policy regulation). In aggregate the payments to LAs can therefore largely be determined by central government and are not subject to significant influence by the local authorities.

10. The CSO will in due course determine how NNDR revenue and payments are to be classified in the national accounts. The issue can only be put to them formally when the details have been finalised. They have yet to discuss the details with DOE; but their preliminary view is that NNDR revenue would score as central government revenue and NNDR payments as central government spending. And that would indicate that the payments to LAs financed by NNDR proceeds should be included within the planning total. It is highly desirable to avoid introducing differences in the classification of such an important expenditure item as between the Public Expenditure White Paper and the National Accounts.

The case for excluding spending financed by NNDR proceeds from the planning total

11. DOE believe that the classification of the NNDR payments should describe, and be consistent with, the proposed relationship between central and local government in the Local Government Finance Bill. They consider that expenditure financed by NNDR payments is not significantly like central government grant but rather more akin in nature to that financed through the Community Charge. On this basis, payments to LAs financed by NNDR revenue should be excluded from the planning total. DOE's case rests on two arguments:-

- that NNDR payments are unique; they are not like other expenditure items or programmes within the planning total; and their size is not at the discretion of central (or local) government but rather is set by statute;

- that NNDR payments are local authorities "own money" and should be classified alongside local authorities other own resources (the Community Charge) and hence outside the planning total.

12. In part, the first of these arguments is about the different nature of the items to be included in the new planning total. It is true that NNDR payments are an intermediate payment, rather than final expenditure in the sense, for example, that spending on the MOD programme is. But this intermediate status is common to a number of items to be included in the new planning total such as EFLs and, of course, central government grant to LAs. The NNDR payments are not unique in this sense.

13. The first argument also seeks to draw a distinction between what is within central government control and what is prescribed by statute. Whereas central government distributes resources amongst other programmes within the planning total according to its own priorities, it will have no such discretion on the size of the NNDR payments. Rather Government will be following the mechanical rules set out in statute which determine NNDR revenue and hence NNDR payments.

14. The Treasury takes the view that the way statute provides for the structure of non-domestic rates,the level of the NNDR poundage and the distribution of NNDR proceeds is a reflection of central government policy. Furthermore within the statute central government does in fact have some discretion on the size of the payments - because the NNDR poundage may be set below its previous real level in any year. And there are many other programmes within the new planning total where the amount of expenditure is largely determined by statute, with discretion for central government only at the margin. A close parallel might be drawn with Social Security uprating; some benefits are statutorily indexed, while for others the Government can opt not to uprate in full against inflation in any year.

15. The second argument is essentially about how the relationship between central and local government is perceived and presented. In the Green Paper "Paying for Local Government" (PLG) it was made clear that the NNDR payments were to be regarded as local authorities' own money. Paragraph 2.4 states:-

> "Local authorities for their part will continue collectively to enjoy the full benefits of the non-domestic rate."

Considerable emphasis was placed on this in public presentation, particularly when the Green Paper was first circulated.

16. More recently, as work on the Local Government Finance Bill evolved, this line of argument has been developed further: the PLG system is increasingly being presented as the only viable alternative policy to centralisation of services - that is the transfer of local authority functions to central government. It can be argued that it would undermine this policy stance if the Government were to classify some 75% of LA expenditure as financed by money received from central government.

17. On the other hand, in the Treasury's view, the Government has already publicly acknowledged (eg the Financial Times article on November 16 by the Minister of State for Local Government) that the bulk of LA expenditure will be financed from sources outside LAs own control ie central government grant and NNDR. The meeting of E(EP) on the future arrangements for teachers pay decided on the composition on the management side of the proposed Teachers Negotiating Group by reference to the fact that 75% of LA current expenditure is controlled by central government. And Mr Baker has used this argument to defend that arrangement in public.

Scotland

18. In Scotland there will not be a uniform business rate for an interim period, pending harmonisation of valuation practice with England and certain other developments. During this period, which is expected to last until around 1995, the pattern of non-domestic rate poundages in different local areas in Scotland will be frozen, and then allowed to rise no faster than the RPI (subject to the Chancellor's override). Non-domestic rates income will therefore be kept by each locality rather than pooled throughout Scotland. In place of pooling, Revenue Support Grant will be distributed to offset the distribution of rates income, to achieve a distribution of grant and rates income together which matches the arrangement in England. Rateable values in Scotland will not be determined by the Valuation Office but by Assessors who are local officers.

19. On the one hand, it can be argued that since central government will have responsibility for increases in rate poundages and hence total NNDR revenue in Scotland, it is similar to the position in England and Wales. Central government can determine and control total non-domestic rates. The counter-argument is that LAs in Scotland will keep non-domestic rate revenue themselves (though it may be "equalised" away under the RSG system). In this sense it is their "own money" like the Community Charge.

20. Whichever way non-domestic rates are treated would lead to anomalies. One option, if it were agreed that NNDR payments should be within the planning total in England and Wales, would be to apply the same treatment in Scotland - on grounds of comparability once harmonisation is achieved throughout Great Britain. But the issues are not clear cut. And the views of the CSO will need to be sought, bearing in mind that harmonisation is unlikely to be achieved until around 1995.

Conclusion

21. In the Treasury's view the arguments based on the underlying philosophy of the new planning total point to including payments to LAs financed by NNDR proceeds within the planning total: the payments are very largely the responsibility of central government and not subject to significant influence by local authorities individually or collectively. DOE consider that the arguments about the perceived relationship between central and local government on the new local government financial system suggest that these payments should be excluded from the planning total. They consider this is more consistent with what has been said so far about the place of the NNDR in future arrangements and in particular about their independence from close central government control.

22. It is important not to exaggerate the wider, as distinct from the internal Whitehall, importance of the issue. In particular, it is necessary to judge whether the way NNDR payments are classified within the PEWP and the national accounts will have much impact on the perception of the new structure of local government finance. Clearly local authority associations and their contacts in Parliament may use it as a supporting debating point in attacking the Government's proposals on local government finance. But it is equally clear that, for example, the CBI and LA associations are already well aware that only about a quarter of local government current expenditure will be financed through local authorities own powers to raise revenue; Ministers have already stated that in public. It is to the Government, not local authorities that the CBI are directing their complaints about the quantum and distribution of business rates. And it is central government which will have to account to Parliament and the electorate for both the level of the NNDR and the distribution to LAs of NNDR proceeds.

23. It must be doubted whether such an esoteric issue as the accounting treatment of the NNDR payments within PES plans would add to, let alone provoke, adverse political response to the proposals from local authorities. Of itself, the accounting treatment has no financial or policy importance to an individual local authority. Moreover, by the time the proposed make-up of the new planning total is revealed to local authority associations, the revised structure of local government finance may well have been approved by Parliament.

24. The Treasury believes that the NNDR payments to LAs should be included within the planning total.

H M Treasury

mjd 63m

CONFIDENTIAL

pmp

FROM: MOIRA WALLACE
DATE: 13 January 1988

MR FELLGETT

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Hawtin
Mr Turnbull
Mr Culpin
Mr Potter
PS/Inland Revenue
Mr A J Walker IR

COMMUNITY CHARGE: BRIEFING LINE

The Chancellor has seen and was grateful for your minute of 12 January. He is content with your proposed briefing line ,with one amendment; he would delete the passage in brackets at paragraph 6(ii), because, although the policy objections to a surrogate local income tax were the most important, administrative difficulties also matter, and need not be played down.

MPW

MOIRA WALLACE

ps3/37T

CONFIDENTIAL

cc Chief Secretary
Mr Anson
Mr Kemp
Mr A Turnbull
Mr Odling-Smee
Mr Sedgwick
Mr Gilmore
Miss Peirson
Mr Hawtin
Mr Potter
Mr Gieve
Mrs R Butler
Mr Deaton
Mr Fellgett
Mr G C White
Mr Kidman

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

15 January 1988

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Dear Nick

In the joint note by our officials on the timetable for consultations on the new planning total, which I sent to the Prime Minister last month, a number of classification issues were identified, which need to be resolved in order to complete the preparatory work. The first of these is the treatment of the national non-domestic rate (NNDR) and I attach a paper prepared by my officials which has been discussed, but not agreed, with your officials.

I am firmly convinced that the payments to local authorities (LAs) financed by NNDR proceeds should be included within the new planning total. The main point of changing the planning total, when the Community Charge is introduced in England and Wales, is to distinguish expenditure for which central government will be responsible and accountable from expenditure which will be at the discretion of local authorities. Under the new system of local government finance, the structure of non-domestic rates, the level of the NNDR poundage and the distribution of NNDR proceeds will be determined at the national level; and it will be central government - not local authorities individually or collectively - which will be accountable for the policy.

The main framework will be set in statute but within that framework, central government can exercise some discretion over the amount of NNDR revenue through the power to override indexation of the NNDR poundage. By contrast, LAs will have no powers over the poundage and only a minimal discretion over the rate base, through discretionary reliefs which will themselves be subject to central government regulation. Nor will local authorities have any responsibility for the level of receipts from the NNDR pool.

CONFIDENTIAL

I believe that, given our basic rationale for changing the planning total, it would be very difficult to defend to the Treasury and Civil Service Committee and others, the alternative treatment of excluding these payments from the new planning total. And I am sure it would help to allay the concerns expressed earlier by the Prime Minister as well as any public criticisms of the proposed changes, if some 75 per cent of LAs' current expenditure continued to be included within the planning total.

In discussion between officials, I understand your officials argued that these payments should be excluded from the planning total so that they could be classified as local authorities' own resources.

I appreciate their presentational anxieties and in particular their concern that including the payments within the planning total could be adduced as evidence that the NNDR will not continue to be an independent and hence reliable source of revenue to LAs. But it seems to me that we would be perpetuating a fiction, if we adopt a presentation showing NNDR monies as being part of local authorities' self-financed resources.

We also need to keep this rather esoteric classification issue in perspective. I do wonder whether the classification of these payments, which of itself has no financial or policy significance to an individual LA, will add to, let alone provoke, adverse political reaction to the reform of local government finance from the local authority associations (LAAs) and others - particularly since the Bill is likely to be well on its way through Parliament by the time we inform the LAAs of our proposals.

I therefore hope that on consideration you will feel able to support my conclusion that the payments to LAs financed by NNDR proceeds should be within the new planning total. I would be very happy to discuss this further, if you feel that would be helpful.

Yours
Nigel

NIGEL LAWSON

24/1/VA/338/21

CONFIDENTIAL

TREATMENT OF THE NATIONAL NON-DOMESTIC RATE IN THE NEW PLANNING TOTAL

Non-Domestic Rates

Under the provisions of the Local Government Finance Bill, uniform non-domestic rate poundages will be set for England and Wales (separately) as from April 1990. Different arrangements will apply in Scotland - see below.

2. Local authorities will continue to be responsible for collecting non-domestic rate revenue; but the revenues will be pooled centrally (in a notional fund) and redistributed to each local authority as a flat rate NNDR payment per adult. The notional fund is to be in balance, taking one year with another.

3. The amount of revenue collected and redistributed annually will depend upon the aggregate non-domestic rateable value base and the non-domestic rate (NNDR) poundage. Separate poundages for England and Wales in 1990 will be set by the Secretaries of State for the Environment and Wales respectively, following consultation with the Treasury. Thereafter the NNDR poundages for each country will be indexed annually to the rate of inflation; but there will be a power for the Chancellor to override the indexation and set a lower rate for the NNDR poundage.

Public Expenditure Planning Total

4. Under the Treasury proposals for a new public expenditure planning total to be presented in Public Expenditure White Papers (PEWP) as from 1990, the classification of local authority current expenditure would be changed. At present all LA current spending is within the public expenditure planning total. In future, it is intended that the planning total would comprise

central government's own expenditure; the grants it provides to local authorities; an appropriate measure of local authcrity capital spending; the external finance of public corporations; and a Reserve. Current expenditure which local authorities (LAs) finance themselves through the Community Charge would - like certain other public expenditure items such as debt interest - be outside the planning total but still within General Government Expenditure (GGE). The Government will continue to express its medium term objective for reducing public expenditure spending as a proportion of national income in terms of GGE which combines both central and local government spending.

5. The basic distinction between what is to be included in, and what is excluded from, the planning total rests on the degree of responsibility placed on central government for delivering that expenditure within public expenditure plans. Where central government is responsible for and can largely determine the amount of spending, the item is included in the new planning total. The corollary is that, only when an item of expenditure is largely outside the responsibility of central government and is in large part determined by some external agent - such as spending financed by the Community Charge, where individual local authorities have a genuine measure of disretion - should the item be excluded from the new planning total.

6. This paper considers how the payments to LAs financed by NNDR revenue should be classified. The Treasury proposes that these payments should be classified in the same way as central government grant to LAs and therefore within the planning total. DOE officials consider that such expenditure should be classified as LA expenditure financed by authorities' own resources and therefore outside the planning total.

The case for including spending financed by NNDR proceeds within the planning total

7. In the Treasury view, the critical issue in deciding on the classification is whether the payments to LAs financed by NNDR revenue are the responsibility of and can be determined by central government; or whether they are subject to significant influence by another agent ie the local authorities. On this basis the arguments for including payments to LAs financed by NNDR revenue within the planning total are as follows.

i) NNDR payments to local authorities will be very largely determined by central government, principally through statute. The size of the payments will depend upon the NNDR revenue from what is essentially a hypothecated tax; and an upper limit on the rate of that tax is set by statute with the Chancellor able to substitute a lower rate. LAs by contrast will have no powers over non-domestic rate poundages.

ii) Rateable values, which together with the poundage determine the NNDR bill for each business, are set in accordance with general valuation principles by the Valuation Office, a part of central government. The rules for determining which businesses are liable to pay non-domestic rate will be set in broad terms by statute and in detail by central government regulations. LAs have a very limited power over who is to pay and how much - it extends only to discretionary relief cases like charities; and even then the effects of that discretion on NNDR payments will be subject to regulation set by central government.

iii) Central government has decided that the NNDR poundage will be capped in real terms; it follows that the amount of NNDR revenue and hence NNDR payments to LAs will have been very largely determined by central government. Consistent with the philosophy of the new planning total, the classification of the payments within public expenditure totals should reflect that high degree of central government responsibility.

8. In practice the NNDR payments may well be seen by local authorities as very like central government grant. Indeed the payments they receive are likely to be an aggregate of Revenue Support Grant entitlement plus any net NNDR entitlement - NNDR revenue raised minus NNDR payments due.

9. The Treasury therefore concludes that the payment to LAs financed by NNDR revenue should be included in the new planning total. Once the proposed statutory framework has been set, central government can exercise some, in practice probably limited, discretion over the size of NNDR revenue, through the Chancellor's power to override indexation of the NNDR poundage. By contrast the local authorities have only a tiny discretion over the NNDR rate base (through the powers to grant certain reliefs, powers that are subject to central government policy regulation). In aggregate the payments to LAs can therefore largely be determined by central government and are not subject to significant influence by the local authorities.

10. The CSO will in due course determine how NNDR revenue and payments are to be classified in the national accounts. The issue can only be put to them formally when the details have been finalised. They have yet to discuss the details with DOE; but their preliminary view is that NNDR revenue would score as central government revenue and NNDR payments as central government spending. And that would indicate that the payments to LAs financed by NNDR proceeds should be included within the planning total. It is highly desirable to avoid introducing differences in the classification of such an important expenditure item as between the Public Expenditure White Paper and the National Accounts.

The case for excluding spending financed by NNDR proceeds from the planning total

11. DOE believe that the classification of the NNDR payments should describe, and be consistent with, the proposed relationship between central and local government in the Local Government Finance Bill. They consider that expenditure financed by NNDR payments is not significantly like central government grant but rather more akin in nature to that financed through the Community Charge. On this basis, payments to LAs financed by NNDR revenue should be excluded from the planning total. DOE's case rests on two arguments:-

- that NNDR payments are unique; they are not like other expenditure items or programmes within the planning total; and their size is not at the discretion of central (or local) government but rather is set by statute;

- that NNDR payments are local authorities "own money" and should be classified alongside local authorities other own resources (the Community Charge) and hence outside the planning total.

12. In part, the first of these arguments is about the different nature of the items to be included in the new planning total. It is true that NNDR payments are an intermediate payment, rather than final expenditure in the sense, for example, that spending on the MOD programme is. But this intermediate status is common to a number of items to be included in the new planning total such as EFLs and, of course, central government grant to LAs. The NNDR payments are not unique in this sense.

13. The first argument also seeks to draw a distinction between what is within central government control and what is prescribed by statute. Whereas central government distributes resources amongst other programmes within the planning total according to its own priorities, it will have no such discretion on the size of the NNDR payments. Rather Government will be following the mechanical rules set out in statute which determine NNDR revenue and hence NNDR payments.

14. The Treasury takes the view that the way statute provides for the structure of non-domestic rates, the level of the NNDR poundage and the distribution of NNDR proceeds is a reflection of central government policy. Furthermore within the statute central government does in fact have some discretion on the size of the payments - because the NNDR poundage may be set below its previous real level in any year. And there are many other programmes within the new planning total where the amount of expenditure is largely determined by statute, with discretion for central government only at the margin. A close parallel might be drawn with Social Security uprating; some benefits are statutorily indexed, while for others the Government can opt not to uprate in full against inflation in any year.

15. The second argument is essentially about how the relationship between central and local government is perceived and presented. In the Green Paper "Paying for Local Government" (PLG) it was made clear that the NNDR payments were to be regarded as local authorities' own money. Paragraph 2.4 states:-

> "Local authorities for their part will continue collectively to enjoy the full benefits of the non-domestic rate."

Considerable emphasis was placed on this in public presentation, particularly when the Green Paper was first circulated.

16. More recently, as work on the Local Government Finance Bill evolved, this line of argument has been developed further: the PLG system is increasingly being presented as the only viable alternative policy to centralisation of services - that is the transfer of local authority functions to central government. It can be argued that it would undermine this policy stance if the Government were to classify some 75% of LA expenditure as financed by money received from central government.

17. On the other hand, in the Treasury's view, the Government has already publicly acknowledged (eg the Financial Times article on November 16 by the Minister of State for Local Government) that the bulk of LA expenditure will be financed from sources outside LAs own control ie central government grant and NNDR. The meeting of E(EP) on the future arrangements for teachers pay decided on the composition on the management side of the proposed Teachers Negotiating Group by reference to the fact that 75% of LA current expenditure is controlled by central government. And Mr Baker has used this argument to defend that arrangement in public.

Scotland

18. In Scotland there will not be a uniform business rate for an interim period, pending harmonisation of valuation practice with England and certain other developments. During this period, which is expected to last until around 1995, the pattern of non-domestic rate poundages in different local areas in Scotland will be frozen, and then allowed to rise no faster than the RPI (subject to the Chancellor's override). Non-domestic rates income will therefore be kept by each locality rather than pooled throughout Scotland. In place of pooling, Revenue Support Grant will be distributed to offset the distribution of rates income, to achieve a distribution of grant and rates income together which matches the arrangement in England. Rateable values in Scotland will not be determined by the Valuation Office but by Assessors who are local officers.

19. On the one hand, it can be argued that since central government will have responsibility for increases in rate poundages and hence total NNDR revenue in Scotland, it is similar to the position in England and Wales. Central government can determine and control total non-domestic rates. The counter-argument is that LAs in Scotland will keep non-domestic rate revenue themselves (though it may be "equalised" away under the RSG system). In this sense it is their "own money" like the Community Charge.

20. Whichever way non-domestic rates are treated would lead to anomalies. One option, if it were agreed that NNDR payments should be within the planning total in England and Wales, would be to apply the same treatment in Scotland - on grounds of comparability once harmonisation is achieved throughout Great Britain. But the issues are not clear cut. And the views of the CSO will need to be sought, bearing in mind that harmonisation is unlikely to be achieved until around 1995.

Conclusion

21. In the Treasury's view the arguments based on the underlying philosophy of the new planning total point to including payments to LAs financed by NNDR proceeds within the planning total: the payments are very largely the responsibility of central government and not subject to significant influence by local authorities individually or collectively. DOE consider that the arguments about the perceived relationship between central and local government on the new local government financial system suggest that these payments should be excluded from the planning total. They consider this is more consistent with what has been said so far about the place of the NNDR in future arrangements and in particular about their independence from close central government control.

22. It is important not to exaggerate the wider, as distinct from the internal Whitehall, importance of the issue. In particular, it is necessary to judge whether the way NNDR payments are classified within the PEWP and the national accounts will have much impact on the perception of the new structure of local government finance. Clearly local authority associations and their contacts in Parliament may use it as a supporting debating point in attacking the Government's proposals on local government finance. But it is equally clear that, for example, the CBI and LA associations are already well aware that only about a quarter of local government current expenditure will be financed through local authorities own powers to raise revenue; Ministers have already stated that in public. It is to the Government, not local authorities that the CBI are directing their complaints about the quantum and distribution of business rates. And it is central government which will have to account to Parliament and the electorate for both the level of the NNDR and the distribution to LAs of NNDR proceeds.

23. It must be doubted whether such an esoteric issue as the accounting treatment of the NNDR payments within PES plans would add to, let alone provoke, adverse political response to the proposals from local authorities. Of itself, the accounting treatment has no financial or policy importance to an individual local authority. Moreover, by the time the proposed make-up of the new planning total is revealed to local authority associations, the revised structure of local government finance may well have been approved by Parliament.

24. The Treasury believes that the NNDR payments to LAs should be included within the planning total.

H M Treasury

CONFIDENTIAL AND MARKET SENSITIVE

FROM: P N SEDGWICK
DATE: 15 JANUARY 1988

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Dame A Mueller
Mr Kemp
Mr Scholar
Mr Culpin
Mr Hawtin
Mr C W Kelly
Mr Odling-Smee
Mr Peretz
Miss Peirson
Mr Turnbull
Mr Hibberd
Mr Potter
Mr Cropper

Ch
OK — or should Sedgwick have a steer to argue explicitly for 5(iii)(b)?
AA

A lamentably shoddy note from DE. Mr S should certainly be steered to argue for 5(iii)(b). To go for (c) would be wholly contrary to existing RPI methodology & I could not accept it unless income tax, too, was included in the RPI — thus enabling us to junk the RPI & TPI. N.

SEDGWICK → CHEX 15/1

THE TREATMENT OF THE COMMUNITY CHARGE IN THE RPI

I have received a copy of a DE note on the treatment of the Community Charge (CC) in the RPI (copy attached under cover of a letter to me from Ivor Manley of DE). The various options discussed in the DE note have different effects on the recorded RPI. The treatment of the CC in the RPI has widespread ramifications, for example on the uprating of benefits, pensions, tax allowances and IGs; and more generally on prospects for pay and the monitoring of economic performance. The treatment of the CC in the RPI is therefore a matter of potential political and market sensitivity.

2. The Department of Employment argue that in the past "no significant changes (to the RPI) in coverage or methodology" have been made without convening the RPI Advisory Committee (RPIAC). (I would be the HMT representative on the RPIAC.) Their own view is that the RPIAC should be convened, but they are in the first instance seeking views from some parts of central government. While the Secretary of State for Employment can disregard the advice of the RPIAC, in practice this has never happened. The presumption must be that if it met he would accept the advice of the majority.

3. If the RPIAC is to discuss the CC it would be necessary to convene it in time for it to have completed its deliberations before the introduction of the CC in Scotland next year. It has

tended to be a slow moving body in the past, hence DE's wish to decide soon whether to convene it.

4. I have to attend a meeting at DE on January 28 (originally planned at short notice for next Tuesday, but delayed at DOE's request) to discuss whether to convene the RPIAC. Sir P Middleton held a meeting yesterday to discuss our approach.

5. At the meeting the following approach was suggested.

(i) The government should, if at all possible, decide how it thinks that the CC should be treated in the RPI before deciding whether to summon the RPIAC. (This has not always been the approach in the past. When the treatment of mortgage interest payments in the RPI was discussed by the RPIAC the DE and Treasury had different views.)

(ii) Before the government reaches a view it needs more analysis on the arguments for and against the various options than the current DE paper provides, together with more figuring on the implications for RPI inflation of the possible approaches.

(iii) The DE paper (without much of the necessary figuring and analysis) discusses three options. These are:

(a) to exclude the CC from the RPI and let the rates component fall as rates are phased out; without a corresponding reduction in the weight for rates in the RPI having already taken place this would knock about ½ per cent off total RPI inflation in 1989 (when rates are abolished in Scotland) and 4 per cent off in 1990 (when rates are abolished in England and Wales):

(b) to exclude the CC from the RPI, but to reduce the weight given to rates; this reduction in the weight would occur in advance, in January of each year, when the RPI weights are customarily updated in line with the pattern of expenditure in the previous year.

Cont'd

(c) To include the CC in the RPI.

It was agreed that (a) was a non-starter even though DE claim that it was the option most in line with existing RPI methodology. It would for a time seriously damage the credibility of the RPI as a measure of general price inflation. It would make it difficult to decide both the basis on which to uprate social security benefits and pensions and the treatment of indexed gilts and national savings.

Effectively the choice is between the approaches outlined in (b) and (c). But we need much more analysis and figuring on the arguments for and the possible implications of these two approaches.

(iv) The treatment of the CC in the RPI is potentially a market and politically sensitive issue. There is a risk that the fact that we are considering how to treat the CC in the RPI will leak. The implications of the option that DE appear to favour - which would involve large negative effects on total RPI inflation - could be very newsworthy. If there is a leak the government would be under pressure to make various commitments; for example to give a general undertaking that no-one would be worse off as the result of the treatment of the CC in the RPI. It might be sensible to devise now, for use if there were premature disclosure, a form of words for public use describing the present discussions with the minimum hostages to fortune.

6. I would be grateful for your initial reactions before I attend the meeting January 28. In particular are you content for me to argue for the preparation of a fuller paper by DE, in conjunction with Treasury, and to oppose any convening of the RPIAC until we have assessed the additional analysis and figuring?

P.N.S

P N SEDGWICK

CONFIDENTIAL

Department of Employment
Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 5574/6447
Switchboard 01-213 3000 Telex 915564
GTN 213 Facsimile 01-213 7575

I T Manley CB
Deputy Secretary

Mr P Sedgewick
HM Treasury
Parliament Street
London SW1

11 January 1988

Dear Sedgewick,

COMMUNITY CHARGES AND THE RETAIL PRICE INDEX

The proposed change from local authority rates to community charges raises the question of whether the latter should be included in the coverage of the retail prices index (as rates are now) or excluded (on the grounds that a community charge is a direct tax and therefore should not taken into the RPI). As you have a particular interest in this matter I should like to discuss with you how it might be resolved.

As you know the RPI is the responsibility of my Secretary of State. He is aware of the pending problem but has, as yet, taken no decision on how it should be handled: in particular, whether or not the RPI Advisory Committee should be reconvened to consider the issue. My purpose in talking with you is to take account of your views when advising my Secretary of State on the line he should take with colleagues.

If we seem likely to decide that the Community Charge should be excluded from the Index, a strong case can be made for consulting the Advisory Committee. We are not obliged to do so but past practice has been that no significant changes in coverage or methodology have been made without adopting this course. The public expectation would be that such a radical and potentially controversial change as the Community Charge would be put to the Committee and, therefore, the exclusion of the Charge without reference to the Committee would be unlikely to secure widespread public acceptability. I appreciate that the Community Charge is politically sensitive but I should expect to be able to restrict discussion by the Committee to its treatment in the RPI rather than focus on the Charge in its own right.

Nevertheless, given the sensitivity of the Community Charge I wish to have your views on the implications of putting even that limited issue to the broadly based Advisory Committee.

I attach a background note outlining the issues which the Advisory Commitee would, if reconvened need to consider. Convening the Advisory Committee is a long and cumbersome process and if we choose this route we must start shortly if we are to have everything in place in time for the introduction of community charges in Scotland next year. I would like, therefore, to set up a meeting with you, and with those to whom I am copying this letter, in the next week or so. Copies go to Derek Osborne, Chris Brearly (DOE), David Flaxen (CSO) and Jim Hibberd (HMT).

Yours, Ivor Manley

15/1

I T MANLEY

CONFIDENTIAL

TREATMENT OF COMMUNITY CHARGES IN THE RETAIL PRICES INDEX - DISCUSSION PAPER

This paper presents some preliminary comments on the implications of the proposed change from Local Authority Rates to Community Charges for the RPI. There are strong theoretical reasons for excluding such costs from the RPI but these are not conclusive and are likely to be countered by the practical view that the cost of local services should continue to be covered as in the past In view of this the note concludes that the matter should be put to the RPI Advisory Committee.

The Proposals for Community Charges

The Government proposes to reform the system of local government finance. Domestic rates are to be replaced by a flat rate charge for local services payable by all adult residents - a community charge. Each local authority will set the level for its own area and this will be paid by nearly all adults. The money raised will be used to help finance the provision of local services.

Timing

The change will take effect in Scotland from April 1989 and in England and Wales from April 1990. Therefore the treatment in the RPI needs to be determined by the end of this year.

Nature of the Community Charge

Both rates and the Community Charge are means of financing the provision of local services. However, whereas rates can be viewed as a tax on the consumption of housing and therefore an indirect tax, similar to VAT, which is taken into account in compiling the RPI, the Community Charge is to levied on a per capita basis regardless of consumption and it can therefore be viewed as a direct tax, which should not normally be taken into the Index. (A weaker alternative is that since the question of residence is an important feature of the proposed Community Charge, it is possible to present a case that for RPI purposes the Charge is an indirect tax associated with housing. While not strong, this line of argument might be used as a rationale for keeping the Charge within the coverage of the RPI).

CONFIDENTIAL

The Treatment of Local Authority Rates in the RPI

Local Authority rates have been included, with rents, in the coverage of the RPI since 1914. They have been mentioned as part of housing costs in the numerous discussions of the treatment of housing in the index but they have not been seen as raising any problems. The Committee's reports do not discuss in any detail the basis on which rates are included in the index.

There are two possible arguments for the inclusion of rates in the RPI.

i) rates can be regarded as a tax on housing (an indirect tax) and therefore part of the price of housing consumption as VAT is part of the price charged for other goods and services. Unlike VAT, however, rates can be and are paid separately from other housing payments, eg. owner occupiers pay rates directly to local authorities (they also pay regardless of whether they make mortgage payments).

ii) rates may be regarded as the price for local services. However, they are different from most other prices in that particular payments do not relate to the acquisition or consumption of particular units of service. This argument would, however, treat local services differently from similar public services which are excluded from the coverage of the index (eg education and police services would be covered but health and defence would not).

General Considerations

The Advisory Committee have not been consulted about the treatment of rates in the index but, in the last series of meetings most members seemed to support the view that they should be included. Paragraph 41 of the 1986 report states:

"Though mainly concerned with items which might be brought into the index, we did also consider whether there were any items currently included which should not be. In particular it was suggested that local authority rates are essentially a form of taxation rather than

CONFIDENTIAL

a direct payment for services provided. We concluded that, as the taxation is on the occupation of property, it is appropriate to include it as a housing cost, just as indirect taxes on beer, cigarettes, petrol etc are included in the indices for these items."

There are a number of other considerations that might be of interest in any discussion:-

i) International practice - There is no international standard governing the situation. The general consensus of opinion amongst official price statisticians in the European Community is that rates should be included in the index as an "indirect tax" on housing but community charges should be excluded as a "direct tax" on persons independent of consumption.

ii) Tax and Price Index (TPI) - the TPI can accommodate different treatments in the RPI of rates or community charges and the change from one to the other. The Advisory Committee was not consulted on the introduction of the TPI but may be persuaded that this index provides a satisfactory way of covering community charges if these are excluded from the RPI.

iii) Proposals for Water and Sewage rates - Proposals for changing the system of payments for water and sewage services are under consideration. Since these services are fairly specific when compared with other local services it is possible to take a different view of their treatment in the RPI from the treatment of community charges.

iv) Similar costs and services presently covered by the RPI - Whether community charges are covered by the RPI or not it might be argued that certain other services should be treated consistently. For example, goods and services covered by prescription charges and road fund licences at present covered by the RPI might arguably be excluded on the same grounds as used for excluding community charges. The extent to which the cost of local services is met from general taxation will, under the present guidelines for constructing the RPI, be treated as reducing the price ie as a general subsidy.

v) Computational issues - Although the basis on which local authority rates are included in the RPI is not certain. the present computational procedures imply that they are treated as a tax on housing rather than payments for services since there is no recognition of variations in the volume of services consumed for the payments made. If community charges are not regarded as part of housing costs and yet are included in the RPI the treatment of changes in the volume of services would have to be defined for the computations. A simple solution might be to assume no change in the volume of services and to compute a community charge index as an index of average weekly payments per household ie. as the present rates index.

The Treatment of Community Charges

It will be seen from the foregoing that there are no clear guidelines on which to base a decision on the treatment of community charges in the RPI. The two main options are:-

i) To treat community charges as a direct tax and exclude them from the index.

This is a "conceptually" attractive solution but it may not be publically acceptable. It also raises practical and technical problems for the transition.

Under present methodology changing from rates, an indirect tax on housing, to community charges, a direct tax on persons, reduces the "price" of rates to zero (just as the change from income tax to VAT increased prices). The effect would be to reduce the overall level of the index by about 4 per cent, possibly with negative rates of inflation in some months. Technically the transition could be achieved without introducing a major discontinuity by making the change at the January links (1989 and 1990). This is equivalent to excluding local authority rates from the index before the community charges become effective. It is questionable whether this could be justified under the present methodology and without reference to the Advisory Committee.

CONFIDENTIAL

ii) To treat community charges as essentially the same as rates and retain them in the index

This has presentational advantages but there are conceptual objections to having a "direct tax" in the index. If community charges are taken as payment for local services then the appropriate price for the RPI would be the price for a fixed volume of services; allowances would need to be made for changes in the quality and quantity of such services.

The transition from rates to communtiy charges would be relatively straightforward; the index would be an index of average weekly payments for local services. An adjustment to aggregate local authority receipts to allow for payments by non-index households would be necessary.

Conclusions

The issues that community charges raise for the RPI are not straightfoward. There is a strong case on technical grounds for excluding community charges from the index but this could, following existing methodology, lead to an immediate reduction in the measured rate of inflation and to likely public criticism. There are presentational arguments for retaining payments for local services in the RPI but this would be contrary to the tradition of excluding direct taxes from such indices. It is difficult to see that the matter can be resolved satisfactorily without the support of the Retail Prices Index Advisory Committee and since such issues have hitherto been put to the Committee not to consult them on this occasion is to invite suspicion.

STATISTICS DIVISION
DEPARTMENT OF EMPLOYMENT
JANUARY 1988

MEMBERSHIP OF THE RPI ADVISORY COMMITTEE

Mr D B SMITH, CB	Deputy Secretary, Department of Employment (Chairman)
Professor A B ATKINSON	Professor of Economics, London School of Economics
Mr T A BOLEY	Central Director—Corporate Development, Electricity Council (representing the nationalised industries)
Mr C W CAPSTICK, CMG	Director of Economics & Statistics, Ministry of Agriculture, Fisheries & Food
Mr P D DWORKIN	Director of Statistics, Department of Employment
Mr H P EVANS	Under Secretary, Her Majesty's Treasury
Mr D W FLAXEN	Assistant Director, Central Statistical Office
Mr J S FLEMMING	Economic Adviser to the Governor of the Bank of England
Mr R F FOWLER, CBE	Former Director of Statistics and Statistical Research, Department of Employment
Mr K H B FRERE	Honorary Treasurer, National Federation of Consumer Groups
Professor A R ILERSIC	Professor of Social Studies, Bedford College, London
Mr D LEA, OBE	Assistant General Secretary, Trades Union Congress
Professor J F PICKERING	Professor of Industrial Economics, University of Manchester Institute of Science & Technology
Mr G V J PRATT	Economic & Research Officer, Co-operative Union
Mr R H PRICE	Director of Employment Affairs, Confederation of British Industry
Mrs A RIGG	Deputy Chairman, Consumers' Association
Professor H B ROSE	Economic Adviser to Barclays Bank PLC and Visiting Professor of Finance, London Business School
Mr L SEENEY, OBE	Director General, National Chamber of Trade
Mr W H STOTT	Chief Statistician, Department of the Environment
Dr D THORPE	Head of Research, John Lewis Partnership
Mrs J VARNAM	Executive Member, National Federation of Women's Institutes
Mr M V WILDE Miss A J CLEVELAND	Representing the Department of Health & Social Security
X FRANCES WILLLIAMS JILL JOHNSTONE	Nominated by the National Consumer Council
Secretary:	Mr D J SELLWOOD (Department of Employment)
Assistant Secretary:	Mr M HARGREAVES (Department of Employment)

MEMBERSHIP OF THE TECHNICAL WORKING PARTY

Mr P D DWORKIN (Chairman)

Professor A B ATKINSON
Mr D W FLAXEN
Mr J S FLEMMING
Mr D FODEN } nominated
MR N BECK } by Mr Lea
Mr R F FOWLER
Mr K H B FRERE
Mr P HASLETT (nominated by Mr Price)
Professor A R ILERSIC
Professor H B ROSE
Dr P A ROWLATT (nominated by Mr Evans)
Dr J M SLATER (nominated by Mr Capstick)
Mr W H STOTT

Secretary: Mr D J SELLWOOD
Assistant Secretaries: Ms D A CRAKER
Mr M HARGREAVES

Mr R Saoul of Marks & Spencer PLC also took part in the Technical Working Party's discussions of the treatment of quality change.

RA7.9 CONFIDENTIAL

FROM: A C S ALLAN
DATE: 18 January 1988

MR SEDGWICK

cc Chief Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Dame A Mueller
Mr Kemp
Mr Scholar
Mr Culpin
Mr Hawtin
Mr C W Kelly
Mr Odling-Smee
Mr Peretz
Miss Peirson
Mr Turnbull
Mr Hibberd
Mr Potter
Mr Cropper

THE TREATMENT OF THE COMMUNITY CHARGE IN THE RPI

The Chancellor was grateful for your minute of 15 January. He thought the DE paper was lamentably shoddy.

2. He believes that, in your discussions with DE, you should argue for the option of excluding the Community Charge from the RPI, but reducing the weight given to rates. To go for including the Community Charge in the RPI would be wholly contrary to existing RPI methodology, and the Chancellor would not accept that unless income tax, too, was included in the RPI - thus enabling us to fuse the RPI and TPI.

A C S ALLAN

CONFIDENTIAL

Rup

cc:
PS/Chancellor
Mr Anson
Mr Kemp
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr Potter
Mr McIntyre
Mr Gibson
Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

25th January 1988

Dear Nick,

COMMUNITY CHARGE: DISCLOSURE OF INFORMATION AND DIRECT DEDUCTIONS FROM BENEFIT

I have seen a copy of Malcolm Rifkind's letter to you of 7 January and John Moore's of 23 November. As Malcolm says, we need to reach collective agreement on these points soon.

Your memorandum and John's letter set out some of the arguments on both sides on the two issues. And E(LF) discussion has now been fixed for early February. I think it is also important that before we meet DHSS should quantify the extra administrative costs which each proposal would involve, so that they can be properly taken into account. It would be helpful if John could arrange for this to be done.

I am copying this letter to the Prime Minister, members of E(LF) and to Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

CHIEF SECRETARY
REC. 29 JAN
ACTION Mr Potter
COPIES TO CX EST Mr Anson, Mr Kemp, Mr Gilmore, Mr Hartin, Mr Turnbull, Mr Fellgett, Mr Call.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1P 3AG

27 January 1988

RIDLEY → CHEX 27/1

Dear Nigel

NON-DOMESTIC REVALUATION: FORECASTS

You may recall that in April last year the Inland Revenue circulated within Government a set of forecasts of the likely effects of the 1990 non-domestic revaluation. These are based on estimates from local valuation offices.

We have found those estimates extremely valuable in helping us to deal with worries about the effect of the revaluation and to challenge some of the more alarmist stories being spread by the various interest groups. The results of that survey are also the only reasonable basis we have for estimating the likely level of the national non-domestic rate poundage in 1990 which is a subject of considerable speculation by the business community.

The Valuation Office have now issued their rent return forms, many of them should by now have been returned. This exercise in its own right has excited considerable interest among businessmen as to the likely impact of the revaluation and I am sure that this will be reflected in the consideration of the Local Government Finance Bill in Parliament. Since it is known that the information is available to Government, it will become increasingly difficult to refuse to give any estimate of the impact of the revaluation. And, indeed, where there are unnecessary fears, it will be helpful to us to be able to discount them.

I am therefore writing to seek your agreement to an exercise by the Inland Revenue to update last year's forecasting exercise, but based on the actual rent returns. I think we should undertake such an exercise with a clear view that we will be wanting to publish at least a summary of the results.

I understand there are resource constraints which may prevent the Valuation Office devoting much effort to such an exercise before the end of March. My officials would, of course, wish to assist in any way possible in the design of the exercise and offer any help otherwise that they can. My hope would be that it would be possible to have some results which we could use to assist us during the course of debate in the House of Lords.

I hope you can agree in principle to such an exercise so that officials can get on with defining it and working up a firm timetable.

I am copying this letter to Malcolm Rifkind and Peter Walker.

Yours ever
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

pmp

1. MR POTTER

2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 28 January 1988

cc: PS/Chancellor
PS/Paymaster General
Sir Peter Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Hawtin
Mr Turnbull
Miss Peirson
Mr Gibson
Mr Tyrie
Mr Call
Mr A J Walker (I/R)

Is Ch going → E(LF) Show him?

COMMUNITY CHARGE: MONKS AND NUNS

Mr Ridley's memorandum for E(LF) next Thursday (E(LF)(88)1) proposes that monks and nuns wholly maintained by their Orders should be fully exempt from the Community Charge. This follows Mr Howard's earlier conversion to this option, which is now also supported by Mr Scott and Mr Walker. Only you and Mr Lang have expressed doubts about full exemption, and Mr Lang is primarily concerned about the tactics of announcing a concession rather than its substance.

2. In preparing the accompanying factual paper by officials, we have secured agreement that monks and nuns with salaried jobs, eg in teaching or nursing, would not be eligible for any exemption even if they make all their income over to their Order. This removes an anomaly in the original proposal for exemption. The remaining difference between your position and Mr Ridley's is equivalent to only about £¼ million a year loss of revenue. In the circumstances, you may wish to write round before the E(LF) meeting to say that you are prepared to accept the majority view of colleagues. Little, if any, time need then be spent on this topic at the meeting.

Options

3. Mr Ridley's memorandum and the paper identify five separate options, but only two now seem to make practical sense. The first would be to grant automatic 80% relief to monks and nuns (like students); as monks and nuns with salaries would be excluded this would be financially similar, but administratively much easier, than making rebates available. In practice, the remaining 20% cost would be borne by the Order, as monks and nuns have no individual income separate from the collective income of their Order. In effect, although not necessarily in name, the Community Charge would be paid collectively.

4. The second option is full exemption, ie 100% relief. Mr Ridley favours this because monks and nuns would have to pay even 20% of the charge collectively rather than individually, which would not promote accountability; and because income support recipients are helped to pay their 20% contribution whereas monks and nuns would not be eligible for income support.

5. Against this, we might argue that:-

(i) the purpose of the Community Charge is to raise tax revenue, and not just promote accountability, and full exemption would cost about £¼ million a year more than 80% relief;

(ii) Orders will probably be able to finance 20% of the Community Charge out of their savings on domestic rates. (The Carmelite community described in the officials' paper will save some part of £1,200 a year when doemstic rates are abolished, whereas 20% of the Community Charge for its members would be £900).

But with only £¼ million at stake, it does not seem worth pressing these points in E(LF). Scottish Office officials say that Mr Lang is likely to feel that the issue is not worth much further debate.

Timing of an announcement

6. Mr Ridley would like to announce full exemption immediately, but to announce any other decision later. He does not explain why. It would be much better, as Mr Lang wrote earlier, to delay any announcement. That would avoid giving the impression that the Government generally favoured concessions. If you write as I suggest, you might mention this, while acknowledging that the Parliamentary tactics in handling the Bill are, of course, primarily for Mr Ridley.

A definition

7. A robust definition of monk or nun maintained by their Order will be needed, which includes Catholics, Anglicans and Buddists, but excludes Moonies, Hari Krishna devotees and monks and nuns with salaries. It will also need to be straightforward for relevant sections of the public and for local authority Community Charge Registration Officers to operate, and safe from legal action. As yet no such definition is available. But it would be needed under any option, so there is little point in delaying a decision or announcement until a definition has been devised.

Conclusion

8. If you agree that there is no need to take this issue to E(LF), I recommend that you write quickly to colleagues along of the lines of the attached draft.

9. ST agree.

Robin Fellgett

R FELLGETT

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

To: Secretary of State for the Environment

COMMUNITY CHARGE: TREATMENT OF MEMBERS OF RELIGIOUS ORDERS

I have seen your memorandum for E(LF) next Thursday (E(LF)(88)1) proposing that monks and nuns wholly maintained by their Order should be fully exempt from the Community Charge. In the hope that we can avoid spending much time on this issue on Thursday, I thought it would be helpful to write and let you and other colleagues know my reactions beforehand.

I am pleased that the proposals now recognise that any exemption or other relief should not apply to monks and nuns who have their own income, eg as salaries from teachers or nurses, even if they make all their income over to their Order. This will avoid the anomaly of treating a nurse or teacher who is also a monk or nun quite differently to his or her professional colleagues.

On this basis, I feel that it would be best to offer 80% exemption (like students). It would be administratively much easier than rebates of up to 80%, which the vast majority of other monks and nuns could be expected to get.

Compared to your preference of 100% exemption, this has the advantage of raising about another £¼ million a year in revenue; like any other tax the main purpose of the Community Charge is surely to raise revenue as well as promote accountability. And we could argue that Orders, who will no doubt have to pay the 20% contribution because their income is held collectively rather than individually by their members, will probably

be able to finance this out of their savings when domestic rates are abolished. I see that the Carmelite community described in the officials' paper will save some part of £1,200 a year from the abolition of domestic rates, whereas 20% of the Community Charge for its members would be £900.

The difference between 80% exemption and 100% exemption is, nevertheless, a small sum compared to the amounts of money we normally have to consider in our discussions of local government finance. If, therefore, you and a majority of colleagues favour full exemption for monks and nuns, I do not propose to press a contrary view in E(LF) on Thursday.

As to the timing of an announcement, my preference would be to leave this as long as possible. Now that teaching or nursing monks and nuns are excluded from the exemption, there will be less direct read-across to other groups arguing for special treatment. But, although tactics on the Local Government Finance Bill are primarily for you and Peter Walker, I think there is a strong argument against appearing to give the impression that the Government is inclined to react to pressures in the House by making concessions.

I am copying this letter to the Prime Minister, to colleagues on E(LF), and to Sir Robin Butler.

[J.M]

020/2986

CONFIDENTIAL

cc:
PS/Chancellor
PS/PMG
Sir P Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Hawtin
Mr Turnbull
Miss Peirson
Mr Potter
Mr Fellgett
Mr Gibson
Mr Tyrie
Mr Call
Mr A J WALKER

Treasury Chambers. Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

29 January 1988

Dear Secretary of State,

COMMUNITY CHARGE: TREATMENT OF MEMBERS OF RELIGIOUS ORDERS

I have seen your memorandum for E(LF) next Thursday (E(LF) (88) 1) proposing that monks and nuns wholly maintained by their Order should be fully exempt from the Community Charge. In the hope that we can avoid spending much time on this issue on Thursday, I thought it would be helpful to write and let you and other colleagues know my reactions beforehand.

I am pleased that the proposals now recognise that any exemption or other relief should not apply to monks and nuns who have their own income, e.g. as salaries from teaching or nursing, even if they make all their income over to their Order. This will avoid the anomaly of treating a nurse or teacher who is also a monk or nun quite differently to his or her professional colleagues.

On this basis, I feel that it would be best to offer 80 per cent exemption (like students). It would be administratively much easier than rebates of up to 80 per cent, which the vast majority of other monks and nuns could be expected to get.

Compared to your preference of 100 per cent exemption, this has the advantage of raising about another £¼ million a year in revenue; like any other tax the main purpose of the Community Charge is surely to raise revenue as well as promote

accountability. And we could argue that Orders, who will no doubt have to pay the 20 per cent contribution because their income is held collectively rather than individually by their members, will probably be able to finance this out of their savings when domestic rates are abolished. I see that the Carmelite community described in the officials' paper will save some part of £1,200 a year from the abolition of domestic rates, whereas 20 per cent of the Community Charge for its members would be £900.

The difference between 80 per cent exemption and 100 per cent exemption is, nevertheless, a small sum compared to the amounts of money we normally have to consider in our discussions of local government finance. If, therefore, you and a majority of colleagues favour full exemption for monks and nuns, I do not propose to press a contrary view in E(LF) on Thursday.

As to the timing of an announcement, my preference would be to leave this as long as possible. Now that teaching or nursing monks and nuns are excluded from the exemption, there will be less direct read-across to other groups arguing for special treatment. But, although tactics on the Local Government Finance Bill are primarily for you and Peter Walker, I think there is a strong argument against appearing to give the impression that the Government is inclined to react to pressures in the House by making concessions.

I am copying this letter to the Prime Minister, to colleagues on E(LF), and to Sir Robin Butler.

Yours sincerely,

Jill Rutter

pp JOHN MAJOR

(Approved by the Chief Secretary + signed in his absence).

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Nicholas Ridley MP
Secretary of State
Department of Environment
2 Marsham Street
LONDON
SW1P 3EB

CH/EXCH
REC. 02 MAR 1988 2/3
ACTION CST
COPIES TO

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 1 February 1988

Dear Nick,

NATIONAL NON-DOMESTIC RATE:TRANSITION

I am broadly content with your proposals in your minute of 24 February to the Prime Minister.

I agree, in particular, with your judgment that the transitional arrangements must be complete, for all but the most extreme cases, by the time of the 1995 revaluation, particularly as the safety net arrangements for the Community Charge will end at the time.

Nor would I wish to reopen the decision that the costs of the transitional arrangements for the national non-domestic rate should be met by other non-domestic ratepayers. But I am concerned that the price of doing so might be an increase of as much as 10% in the initial level of the NNDR. If this becomes known, it is bound to reinforce the opposition to the NDDR on the part of the business community. I do not suggest that you revert to the idea of meeting the cost of the transitional arrangements for losers by imposing parallel delays on the rate at which gainers benefit from the NDDR, since many of these will be in the North and in the inner cities. But the presentation of this aspect, and the timing of any announcement of the likely figure, will be very important.

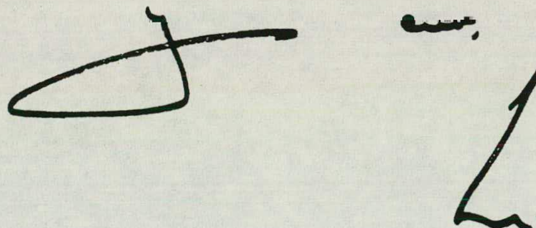
EC7ADX

I do not suggest that you now accept an amendment to write an "rpi minus x" indexation formula for the NNDR into the Bill. But the phasing out of the transitional arrangements means that in the first four years the NDDR will in fact rise consistently by less that the rpi. This may be a useful presentational point.

I remain sceptical of a statutory requirement on local authorities to consult business. But I will not oppose a concession on the point if you think it would help.

There is one point not mentioned in your minute which is of serious concern to organisations representating small businesses- the "zoning" method of valuing business premises, which is widely believed to discriminate against smaller businesses. I may wish to take this up with you and with Norman Lamont separately.

I am copying this letter to the Prime Minister, to other members of E(LF), to Norman Lamont and to Sir Robin Butler.



KENNETH CLARKE

EC7ADX

888-273

IOD
Institute of Directors

16 February 1988

Rt Hon Norman Lamont MP
Financial Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG.

Dear Norman,

NON-DOMESTIC RATES - REVALUATION

I enclose a copy of our letter of 4 February to the Secretary of State for the Environment concerning the need for generous phasing of the introduction of new rateable values and the National Non-Domestic Rate in 1990. Our fears that a significant number of small businesses in particular, in all parts of the country, will face increases of several hundred per cent in their rates bills are shared by the other main business organisations and a joint deputation went to discuss the matter with the Secretary of State on 8 February. We are not raising this matter now to create in any way a lobby against the legislation but because our members are expressing their concern to us and we need to know how to answer them.

The Secretary of State made the remarkable assertion that nobody knows yet what the outcome of the revaluation will be, even in broad terms and therefore there is no point in speculating about what phasing may be required. This was despite the fact that some of the figures placed before him by the organisations had been prepared in conjunction with district surveyors.

It would be unacceptable for businesses to have no official indication of what the likely National Non-Domestic Rate is and the phasing arrangements before publication of the valuation lists on 1st January 1990. Businesses need to plan ahead and they are already very concerned about the impact of the changes in 1990. I am writing, therefore, to ask if you can help to throw any light on this matter by publishing preliminary estimates of the effects of the revaluation before Part III of the Local Government Finance Bill is debated in Committee. The crucial point to know is the distribution of increases, preferably by region. We understand that district valuers have been monitoring all new lettings in their areas for some time now and have received over 50% of the revaluation forms already. We cannot, therefore, believe that the valuers do not now have a pretty shrewd idea of the shape of the final outcome.

It is in the interests of the Treasury to ensure that the 1990 changes do not lead to the closure of large numbers of small businesses with a consequent loss of income, corporation and value added tax and national insurance revenues and increase in social security expenditure. We therefore urge you to make available as much information as possible at this stage so that the question of phasing relief can be discussed on an informal basis.

X I hasten to add that we accept that it is not realistic to expect the general Exchequer to fund the phasing relief. It will have to be funded by a corresponding phasing of reductions in rates bills.

Yours,

Judith.

Mrs Judith Chaplin
Head of Policy Unit

JC

IOD
Institute of Directors

From the Director General

4 February 1988

Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB.

Dear Nicholas,

LOCAL GOVERNMENT FINANCE BILL - NON-DOMESTIC RATES

I wrote to you on 23 September with our response to the Yellow Consultation paper on Non-Domestic Rates. Since then the Bill has been published and had its Second Reading. In addition, a lot more information has become available - not from the Government but from the private sector - about the likely outcome of the revaluation of non-domestic property and introduction of a National Non-Domestic Rate in 1990.

In particular, it has become clear that the redistribution of the aggregate rates burden meshes rather less well with regional policy objectives than we had hoped. Certainly depressed inner city areas will benefit, but local high streets and small businesses elsewhere in the North will in a significant number of cases face increases in their rates bills of between one hundred and five hundred per cent - as large as those in the South East. Even with generous phasing arrangements this will threaten their survival. Closure of the non-surviving businesses is likely to be swift and final, whereas it will be a while before many new businesses start up in the sectors and locations which benefit from the changes.

Hoskyns → Ridley 4/2

In the light of this we have the following comments concerning the proposals in Part III of the Bill:

1. The NNDR Formula

We remain concerned that the Government's strategy is still to freeze the aggregate burden of non-domestic rates, not to reduce it in the longer term. In the absence of such a strategy, we support the recommendation by some other business bodies that the NNDR, rather than being uplifted each year for the movement in the RPI, should be limited to so many percentage points below the RPI increase. A figure of 3% below the RPI has been suggested by analogy with the 3% below inflation restriction on British Telecom and British Gas prices. There is certainly scope for authorities to make efficiency gains of 3% per annum and business should enjoy its share of those gains.

Institute of Directors 116 Pall Mall London SW1Y 5ED Tel: 01-839 1233 Telex: 21614 IOD G Fax: 01-930 1949

A reduction in the NNDR in real terms of 3% a year after 1990 would have the further benefit of reducing the need for phasing the 1990 changes. Indeed there is no reason why local authorities should not be expected to make savings of 3% in 1990 as well as in the subsequent years.

2. Empty Property

We were disappointed, after the sympathetic comments in your letter of 5 November, to find that clause 36 of the Bill, far from extending the exemption for empty industrial and warehouse property to commercial property, increases the instances where rates will be levied on empty property; rather than authorities having discretion to levy rates up to 50%, clause 36 makes it mandatory to levy 80%. We urge you to reconsider this.

Where a business is no longer viable after April 1990 because of the increase in its rates, the proprietor should in fairness have an opportunity to cease trading without loss; in any event he must cease trading promptly, if he is not to be guilty of wrongful trading. Unfortunately, the high rates which have forced him out of business may well make it difficult to find a buyer for the lease or freehold, as the case may be. He cannot then cease trading without perhaps substantial loss and may try to trade his way out of this hopeless situation, with even worse consequences for himself and his creditors when he fails. There is therefore a particularly strong case for making all business property eligible for 100% empty property relief for the first few years after April 1990.

3. Phasing

In our letter of 23 September we tentatively suggested that the phasing arrangements should include a 25% limit on the annual increase in rates bills as a result of the revaluation and introduction of the NNDR. In the light of more recent information from our members, professional valuers, the Forum of Private Business and the National Federation of Self-Employed and Small Businesses, we now feel that even 25% would lead to an unacceptable level of business closures. We, therefore, urge that the limit on year-on-year increases in rates bills attributable to the revaluation and NNDR should be of the order of 10% in real terms, at least for small businesses and at least until the first rental review of the property on an open market basis after publication of the new valuation lists. The cost of a 25% limit would be modest and could properly be charged to the general Exchequer as the price of preventing business closures which would have adverse consequences for the Exchequer in terms of VAT, income and corporation tax revenues and social security expenditure. The cost of a 10% limit would be more significant and we accept that it might be appropriate in that case to phase some of the rate reductions for those who gained from the changes to pay for at least part of the phasing relief for those who lose. We would not, however, like to express a final view on how the cost of the phasing relief should be shared between the gainers, non-domestic ratepayers generally and the Exchequer, until that cost can be estimated with some accuracy.

An apparent obstacle to a limit expressed as a percentage of the previous year's rate bill rather than of the total increase to be phased in is that it would mean the phasing arrangements continuing past the next revaluation in 1995. But, as we explained in our letter of 23 September, the inherent tendency for periodic revaluations to over-correct (because the new rateable values are based on market rentals distorted by the old values) will be particularly pronounced in 1990. Hence those faced with the largest increases in their rates bills in 1990 are likely to enjoy a reduction in their relative rateable values in 1995 as the over-correction in 1990 is itself corrected (or over-corrected). On the simplifying assumption that real changes in rates bills are passed on in due course to landlords in lower rentals it would only be necessary to implement 50% of the 1990 changes by 1995 and then no further correction would be required other than for market changes arising between 1990 and 1995 (or rather between the relevant antecedent dates).

The combination of a 3% a year reduction in the NNDR (starting in 1990) with a 10% limit on the real year-on-year increase in rates bills would have the effect of allowing increases arising from the April 1990 changes to be phased in at the rate of 13%, not just 10%. Thus by April 1996 increases of up to 108% (i.e. 13% compound for six years) would have been fully phased in; after taking account of offsetting reductions in the 1995 revaluation, few increases under 200% would require further phasing and the balance of larger increases might be reduced to a level at which they could reasonably be phased in fully before the following revaluation in the year 2000.

In essence, therefore, we are suggesting that the 1995 revaluation should be seen as a second stage of the 1990 revaluation, which will put right the large over-corrections at the first stage arising from the long interval between the 1990 and the 1973 revaluations and the combination of the revaluation with the introduction of the NNDR.

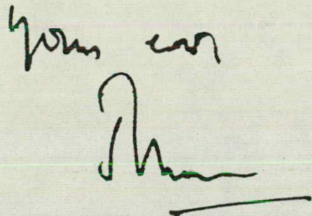
In suggesting a limit on rates bill increases on a compound rather than straight line basis (with perhaps a larger limit for balances remaining after the 1995 revaluation), we have in mind that generous relief is particularly important in the early years while appeals are outstanding and while few properties have had rent reviews which reflect the new rateable values.

We appreciate the difficulty in drafting and applying provisions which would give more generous phasing arrangements to small businesses or small business premises, or which would limit relief to the period up to the next open market rental review. These are, nevertheless, options for concentrating phasing relief where it is most needed, which you may wish to consider.

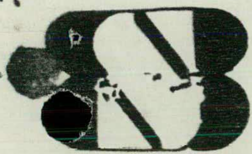
4. Consultation with Business Ratepayers

We welcome your sympathetic comments on the future of mandatory consultations with non-domestic ratepayers under the Rates Act 1984. We would be very willing to come and discuss with you, or one of your Ministerial colleagues, what could be done to ensure the continuance of these consultations on a sound and effective basis. If it would be useful, we could bring along two or three of our members who are involved in these consultations in different parts of the country.

In conclusion, I must stress that phasing of the 1990 changes will be crucial to the survival of many small businesses. It is not their fault that the revaluation has been so long delayed, nor is it something for which they have been able, in the competitive position of most small businesses, to prepare by setting aside financial reserves or negotiating their current rents downwards. We urge you to make a commitment now to provide adequate relief and preferably to enshrine it in the present Bill so that businesses may plan ahead.



JOHN HOSKYNS



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

cc Mr Fellgett

As agreed. I have told the FST's office that you are in the lead on this topic.

18/2

cc Mr Calder
Mr Gonzalez
Mr Pawley (CVO)

17th February, 1988.

FINANCIAL SECRETARY
REC. 18 FEB 1988
ACTION Mr Jaugdoo IR
COPIES TO PPS, CST, PMG, EST
Mr. Hawtin
Mr. Culpin
Mr. Horace Mr Tyrie
PS/IR

The Rt. Hon. Norman Lamont, M.P.,
Financial Secretary,
H.M. Treasury,
Parliament Street,
LONDON SW1P 3AG.

Dear Norman,

You will remember I spoke to you the other day in the Lobby about the need to ask the Inland Revenue to work out some figures on the rate revaluation.

As I mentioned I took a delegation consisting of all the main business groups to see Nicholas Ridley on the question of the very high increases that firms would have to pay as a result of revaluation and the non domestic rates. Most of the business organisations produced their own figures as to what the likely effects to revaluation would be. These figures came from individual firms and were calculated by their own professional advisors. Unfortunately, Nicholas Ridley was unable to produce any figures of his own although he strongly claimed that the increases would be nothing like what was being suggested by the business groups. Clearly the Government is not in a very good position if it cannot put forward its own figures.

As I said I understand that already half the forms for revaluation have been returned to the Inland Revenue, and I would therefore hope you may be able to get them to make some calculations. You will be receiving similar requests for this information from the Institute of Directors.

Grylls
FST
17/2

You will be the first to agree, I am sure, that it

Life Patron: The Lord Taylor of Hadfield
National President: Philip Coussens *Chairman:* Michael Grylls, MP
Vice Chairmen: Spencer Batiste, MP Graham Bright, MP Bill Cash, MP Neil Hamilton, MP
Christopher Kirkham-Sandy, FCA Andrew Rowe, MP Fred Tuckman, MEP
National Organiser: Alan Cleverly *Administrator:* Irene Jeffery

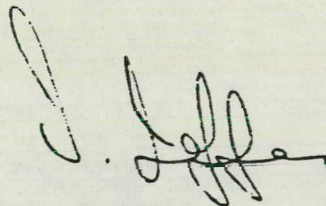
The Rt. Hon. Norman Lamont, M.P. 17th February, 1988.

---

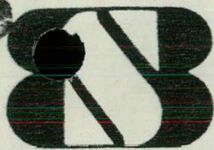
is not acceptable to leave businesses with so much uncertainty and that business really must know what it has to pay well in advance.

Please forgive me for not signing this letter personally but I have had to leave for an overseas visit.

Yours sincerely



Michael Grylls, M.P.
Chairman.



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

THE AFFECT OF UNIFORM BUSINESS RATE ON SMALL FIRMS

Whilst it is recognised that a significant part of the rise in rates envisaged when the UBR comes into force is occasioned by the revaluation of property, the new method is likely to impose an added and uneven burden on businesses in the better controlled councils where business rates previously were low (e.g Kensington and Chelsea). Even though it is apparently part of the Government's aim to encourage businessesto move to the North, businesses in various Northern areas will face similar difficulties.

The increase in business rate will affect small firms more dramatically than large firms because:-

1. Small firms have few premises compared to large firms and the rises will not be able to be averaged with decreases. In addition small premises bear a higher rate due to zoning and other revaluation techniques.

2. Small firms in retailing are likely to face rises due to shop locations whereas manufacturers will face decreases and the large multiple retail stores will be more able to take advantage of the reduction in manufacturer's rates' bills than small firms.

3. In small firms rates account for a higher proportion of pre tax profits (Forum of Private Business estimate 25% for small firms compared to 5% for PLC's).

The evidence of potential inequities has been gathered by NFSE, Forum of Private Business and National Chamber of Trade and is summarised as follows:-

NFSE Sample 74 of shops offices and factories

71 increases of which 13 would rise less than 50% and 58 would rise more than 50%.

Life Patron: The Lord Taylor of Hadfield
National President: Philip Coussens *Chairman:* Michael Grylls, MP
Vice Chairmen: Spencer Batiste, MP Graham Bright, MP Bill Cash, MP Neil Hamilton, MP
Christopher Kirkham-Sandy, FCA Andrew Rowe, MP Fred Tuckman, MEP
National Organiser: Alan Cleverly *Administrator:* Irene Jeffery

FORUM OF PRIVATE BUSINESS **Sample 2400**

Business	Average	Median	Average
Distribution	+104%	+49%	-6%
Services	+ 72%	+25%	-22%
Manufacturing	+ 10%	-22%	-53%

NATIONAL CHAMBER OF TRADE Average increase 25% but wide discrepancy from -60% to +240%

RETAIL CONSORTIUM Survey of 28 retail companies with 8,487 shops/stores and an average percentage increase of 75%

CONCLUSION

All the evidence shows that a very large number of businesses are facing a substantial increase in costs. For many small businesses, on whom the Government has relied to revitalise the economy and reduce unemployment, this would be an insuperable problem and would lead to closure particularly in city areas. The most realistic solution is that rises should be limited in any one year for small firms (however defined).

SF/Con/13

CONFIDENTIAL

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5805
Switchboard 01-213 3000

Minister of State

CH/EXCHEQUER
REC. 18 FEB 1988
ACTION PS/IR
COPIES TO PS/CST PS/FST MR MONCK MR BURGNER MR KALEN MR POTTER MISS SINCLAIR MR FELLGETT MR TYRIE

Michael Howard Esq QC MP
Minister of State for the Environment
Minister for Local Government
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

(Also IOD letter below)

18 February 1988

Dear Michael

As you are aware, there is considerable and rapidly spreading concern amongst the small firms community about the effect of the introduction of the National Non-Domestic Rate. Many small businesses believe that they will face very large rises in their rates bills and several organisations are running campaigns calling for us to amend our proposals. There are fears that small firms particularly, and especially those in the retail sector, will be badly affected. These fears are being fed by plausible calculations of the effects of the changes, particularly the revaluation.

In discussion with these groups, I have made the point that there will be a 5 year transition period and that those who pay more in the short term will at least have the knowledge that their rates will be more closely controlled in the long run. Nevertheless, as long as we are unable to counter the calculations with our own forecasts, the concerns of small businesses will continue to grow. I understand it will not be possible to allay the worst fears until the Valuation Office forecasts are available. We must be in a position as soon as possible to explain more fully to small firms how revaluation and the NNDR is likely to affect them and what the transitional arrangements will be.

I am anxious to help you recover from the present difficult position and I would find it helpful to discuss what we can say about the likely size of increases affecting small firms and the transitional arrangements for those facing large increases. I should also be grateful to know what the Valuation Office position is and for that reason I am sending a copy of this letter to Nigel Lawson.

Yours

John

JOHN COPE

COPE → HOWARD 18/2

A rather silly letter. It is not the NNDR which will have the big effect, but — as IOD (letter below) recognise — the revaluation, which would have happened anyway. I had assumed that we would phase in the new rateable values over the same 5-year phasing as the NNDR. Anything else would be provocative. But this ought to be decided & announced ASAP. N.

CONFIDENTIAL

mjd 3/144m

CONFIDENTIAL

BF 29/2

FROM: MISS M P WALLACE
DATE: 22 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr Hawtin
Mr Potter
Mr Culpin
Miss Sinclair
Mr Fellgett
Mr Tyrie
PS/IR

MPW → PS/FST 22/2

INTRODUCTION OF THE NATIONAL NON-DOMESTIC RATE

The Chancellor has seen Judith Chaplin's letter to the Financial Secretary of 16 February, and a copy of Mr Cope's letter of 18 February to Mr Howard. The Chancellor thinks that the latter rather misses the point, as it is not the NNDR which will have the big effect, but - as the IOD letter recognises - the revaluation, which would have happened anyway. The Chancellor had assumed that we would phase in the new ratable values over the same five year period as we phase in the NNDR. But this question ought to be decided, and the decision announced as soon as possible.

MPW

MOIRA WALLACE

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

H/EXCHEQUER
23 FEB 1988 23/2
MR TURNBULL
CST. MR ANSON
MR HAYDEN PHILLIPS
MR HAWTIN MR ODLING SMEE
MR SEDGWICK MRS CASE
MISS PEIRSON MR POTTER
MR GLEVE MRS R. BUTLER
MR DERTON MR FELLGETT
MR GC WHITE MR [illegible]

23 February 1988

Dear Nigel

Thank you for your letter of 15 January about the proposed treatment of the national non-domestic rate (NNDR) in relation to the new planning total. I am afraid I do not agree with your proposal to include NNDR in the planning total.

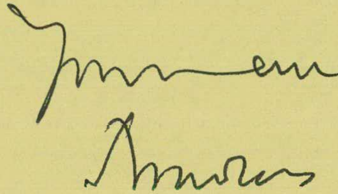
As I understand it your objective in proposing changing the planning total is to reflect reality by including only what central Government has under its effective control and leaving out items which are controlled only indirectly or at the margin. The NNDR is unique: it is not something over which central Government will have a significant degree of control. It will be collected by local authorities and the proceeds will all be redistributed to them through the NNDR pool. The level of the rate will be indexed by statute to the RPI, subject only to the limited power to under-index. Its inclusion in the planning total would I believe therefore overstate the degree of influence exercised by central Government.

I also consider that treating NNDR on a par with revenue support grant would give substance to the argument that 75% of local authority expenditure was effectively going to be financed by central Government in the new system and undermine our stance that NNDR will form part of local authorities' "own" money. My own conclusion is therefore that NNDR receipts should be classified separately and outside the planning total. I do not regard this as an esoteric accounting issue but something which is important to the relationship between central and local Government.

In my view NNDR has a greater affinity with debt interest than with those items included within the planning total and should therefore be similarly classified. Rateable values in the non-domestic sector depend upon the stock of property and new additions neither of which are under the direct control of central Government. Influence on the yield is restricted to the Government's power to under-index the poundage eg to limit the

increase in non-domestic rates which might otherwise result from buoyancy. In a similar way, central Government cannot influence the total of past debt, and only has limited influence over market interest rates.

If you would not be prepared to go so far as to show NNDR alongside the spending financed by the community charge, I suggest that NNDR should be shown separately from the planning total, but with a new line showing the sum of the two. This alternative proposal is set out in the attached table.



NICHOLAS RIDLEY

TABLE 1: PLANNING TOTAL BY SPENDING AUTHORITY

Central government's own expenditure

Central government grants to local authorities

Current grants

Revenue Support Grant

Specific grants

Capital grants

etc

New ~~planning~~ total Central Govt. Expenditure

NNDR

New planning total [~~and NNDR~~]

Other local authority expenditure (excluding debt interest)

Local authority debt interest

etc

General government expenditure

CH/EXCHEQUER
REC. 24 FEB 1988 25/2
ACTION CST
COPIES TO

24/2/88

RIDLEY → PM 24/2

Prime Minister

NON-DOMESTIC RATE TRANSITION

We have so far agreed that we should provide transitional phasing for the combined effects of the revaluation and the Uniform Business Rate by spreading the increases over the five years to the 1995 revaluation and setting a ceiling on the maximum increase in any year.

The various representative organisations of business have now united in supporting a package which would:

- limit annual increases to 10%
- require increases to be spread over 10-15 years
- link future increases in rate poundages to RPI-3%.

This package is supported by the CBI, the ABCC and IoD as well as the representatives of small business.

We are now being pressed to make our position on transition clearer. These questions are the subject of backbench amendments on the Local Government Finance Bill Committee. I expect to have difficulty resisting some of these unless I can make a firmer statement of what is on offer. We are also being pressed by the national retailers who say that uncertainty is damaging their forward planning of investment. They are of course a group which will be hard hit by the changes.

I think we must stick to our resolve to get the great bulk of the rate changes through within 5 years. We could not possibly achieve this with a ceiling on rate increases as low as 10% pa. Without knowing the results of the revaluation in detail, the lowest it would be prudent to go would be 15% pa compound, plus the annual indexation increase. On that basis we would get all increases up to 100% through by 1995.

I have made clear that these arrangements are to be self-financing within the business sector, that is, that they will have to be paid for by a temporarily higher poundage, phased out over the 5 years and outside the indexation arrangements. Without details of the distribution of increases on revaluation, I cannot say precisely how high the premium will have to be. Our best guess is that it is likely to be no more than 10% in the first year, probably less, and diminishing thereafter. I should note that this arrangement has the disadvantage, which I can see no way of avoiding short of additional Exchequer grant, that a large majority of business ratepayers - all except those due for reductions of more than 10% - will face initial increases in 1990.

I do not propose to give in to suggestions that there should be statutory provision for the transition to last longer than 5 years. It would be very confusing to try to implement the 1995 revaluation while still trying to complete transition from 1990. There will however be a significant number of businesses - particularly shops in the very low-rated Conservative boroughs in London - facing increases well above 100%, thus leaving substantial amounts still to come through in 1995. I think it would be wise, therefore, to take powers to apply a transitional scheme to the 1995 and subsequent revaluations. We will then be able to argue that any rate increases from 1990 which are outstanding in 1995 can be looked at alongside the later revaluation and appropriate arrangements made then.

We considered previously the question of whether to limit the indexation of the business rate to an "RPI minus" formula. Our conclusion then was that a direct link to the RPI was generous to business in the light of the rate increases they have experienced in recent years and in the light of the higher rates of increase in local authority costs. We have agreed that there should be a power for the Chancellor to set a lower indexation increase and amendments to the Bill are being prepared for that purpose. In my view we should not go any further. As it stands the RPI indexation

will put considerable pressure on community charge. A lower level of indexation will merely transfer pressure onto the Chancellor to increase the level of Exchequer grant. If the Chancellor wishes to alter the burden of business taxation the discretionary power already agreed will be adequate.

<u>Business consultation</u>

I had earlier proposed to drop the duty on local authorities - which we introduced in 1984 - to consult local businesses before setting their rates, on the grounds that without locally variable rates, there was no peg on which to hang it. I have however received persuasive arguments from the ABCC, and CBI and others that local consultation still has a valuable role in relation to local spending and especially the services authorities provide to businesses. I therefore propose to reinstate an equivalent duty in the Bill, and to announce this at the same time as the announcement on transition.

<u>Conclusion</u>

I would like to be able to announce our position - a 15% pa ceiling on increases and a duty to consult - by the time the Standing Committee reaches non-domestic rates on 1 March. I would therefore be most grateful for colleagues' agreement by lunchtime on 29 February.

I am copying this letter to the other members of E(LF) and to Sir Robin Butler.

NR

N R
24 February 1988

2128/7

CONFIDENTIAL

FROM: A TURNBULL
DATE: 25 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Anson
Mr Phillips
Mr Hawtin
Mr Odling-Smee
Mr Sedgwick
Mrs Case
Miss Peirson
Mr Potter
Mr Gieve
Mrs R Butler
Mr Deaton
Mr Perfect
Mr G C White
Mr Kidman

Mr Turnbull
I wd prefer to try a different compromise version might be easier for Mr R to accept. I have indicated what I have in mind on the text.
NL.

Ch/ Content to write as proposed?
AT 25/2

NEW PLANNING TOTAL AND NNDR

Mr Ridley's letter of 23 February does not accept your proposal to include expenditure financed by the NNDR in the new planning total. Nevertheless some progress has been made as he recognises that it would not be right to aggregate the NNDR expenditure with the expenditure financed from resources over which local authorities have genuine discretion.

2. His counter-proposal is to put the NNDR in an intermediate zone so that there are two sub-aggregates within GGE - the "new planning total" and "the new planning total plus NNDR". In our view this will cause confusion about the aggregate against which the Government's performance in controlling expenditure is measured.

3. Attached is a letter which puts a counter-proposal. It seeks to emphasise points of agreement in DOE's acceptance that the NNDR receipts are not local authority money in the same way as the community charge; and our willingness to accept that NNDR receipts will not simply be an extension of RSG. By emphasising that the NNDR would be shown as a separate category, we hope it will be possible for Mr Ridley to accept it will in the planning total. The letter offers a talk if necessary. This could be either by 'phone or in the margins of another meeting.

4. We do not know if this will do the trick. It is clear that Mr Ridley did not go all the way with his officials but it may be that he will still refuse to make the final step of bringing the NNDR within the planning total. If so, we will be faced with three alternatives:

i. having it outside the planning total but not part of local authorities' self-financed expenditure;

ii. seeking a view from the Prime Minister;

iii. putting the issue on one side when we take the full proposals to other departments and putting it to the Prime Minister when, after consultation with other departments, we seek final confirmation on whether to go ahead.

5. In practice (i) is regrettable, but it would not be a disaster. It is unlikely to make any difference to the growth of the NNDR which will be determined by its own rules; and it achieves our most important objective of not aggregating the NNDR financed expenditure with expenditure the level of which is genuinely with local authorities' discretion.

6. The course at (ii) is unpredictable given the Prime Minister's earlier reactions to this project, though she might favour the alternative which appeared to show less scope for local authorities. It also further delays consultation with departments which we are anxious to get on with as soon as possible. On (iii), it is unlikely that we would get a better verdict from a collective discussion than from bilateral ones. A decision can be left until we have Mr Ridley's reaction.

A TURNBULL

CONFIDENTIAL

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO

Secretary of State, Environment

NNDR AND THE NEW PLANNING TOTAL

Thank you for your letter of 23 February. Although I think we have made significant progress towards resolution of this issue, I do not think the proposal you put to me is entirely satisfactory.

2. I welcome both your agreement to keeping the payments to local authorities financed by NNDR proceeds separate from local authorities' expenditure financed by the community charge. I also fully understand your reluctance to show the NNDR figure under the general heading of central government grants to local authorities: for our part, we accept that the expenditure financed by the NNDR should be identified as a separate entry in the table and not as a sub-category under central government grants.

3. But I fear that it would be most confusing in the presentations of one of the main tables in future Public Expenditure White Papers to have two entries identified as 'new planning total' and 'new planning total and NNDR' respectively. Attention would inevitably tend to focus on one or the other as the aggregate or control total the Government was aiming to achieve each year. I do not believe, therefore, that the two

aggregates would be sustainable for any period of time. And, since the NNDR was being clearly linked to the new planning total in your table ~~as per table 1 in the final 'new planning total and NNDR' aggregate~~ we would come under pressure to make that our full planning total.

4. I am anxious to achieve the simplest and least controversial presentation of the new planning total and I believe that in practice there can only be one aggregate labelled as the planning total. I would, therefore, very much prefer to go for a simpler presentation of the separate constituent items within the new planning total, with the NNDR identified as one of these separate items but distinct from central government grant. This would recognise the unique characteristics of the NNDR; would distinguish it from expenditure for which local authorities have complete discretion; but would acknowledge the part which central government undoubtedly plays. By not aggregating the expenditure financed by the NNDR with central government grants, we would avoid the problem which concerns you of overstating the degree of influence exercised by central government.

5. I would like to resolve this issue soon so that we can put an agreed position to departments when setting out the full scheme. If necessary I would be happy to talk to you about it.

[NL]

TABLE 1: PLANNING TOTAL BY SPENDING AUTHORITY

Central government's own expenditure

Central government grants to local authorities

Current Grants

Revenue Support Grant

Specific Grants

Capital Grants

etc

NNDR

New Planning Total

Other local authority expenditure (excluding debt interest)

Local authority debt interest

etc

General government expenditure

24/1/DJS/2329/5

cc PS/CST

PERSONAL AND CONFIDENTIAL

FROM: R FELLGETT

DATE: 26 February 1988

1. MR HAWTIN

2. CHANCELLOR

cc Sir P Middleton
Mr Monck

RATEABLE VALUE OF BUSINESS PROPERTY

At Cabinet on 25 February Mr Walker mentioned a House of Lords ruling, on an appeal by Addis Plc, that businesses in areas adjacent to Enterprise Zones were entitled to a reduction in their rateable value and hence rate bills. You were invited, in consultation with the Welsh, Environment and Scottish Secretaries of State and the Chancellor of the Duchy to consider the implications for the funding of local authorities and what response might be necessary. I understand that the immediate impact on rates bills of properties close to Enterprise Zones is a reduction of around £100 million (£12 million a year - the appeals go back to 1980).

2. I have spoken to VO and DOE officials. It appears that the implications of the Law Lords ruling go much further than Mr Walker mentioned. Taken to its logical conclusion, their interpretation of the law implies that any ratepayer can propose a reduction in their rateable value for almost any reason affecting the value of their property, other than inflation since the last rating revaluation. There are already signs of a bandwagon. For example, a block proposal to reduce the rateable values of 28,000 petrol stations has been submitted since the ruling on 11 February, on the grounds that the economic circumstances of the retail petrol trade have changed since the antecedent date for the last revaluation in 1973. It would clearly be impossible for local authorities and the VO to make good the loss of revenue from such proposals, by putting in enough counter-proposals of their own for increases in rateable values.

sounds like DOE, Tsy & Revenue officials were slow to spot this - only WO on the ball

PERSONAL AND CONFIDENTIAL

3. DOE officials are submitting advice to Mr Ridley tonight, proposing that he seek immediate policy clearance from colleagues for legislation to overturn the Law Lords ruling. Mr Ridley is expected to write to colleagues on Monday. We will offer quick advice on his letter when it arrives. We will obviously suggest that you support overturning the Law Lords ruling and returning the law to the interpretation which had hitherto prevailed, with the maximum degree of retrospection that can be sustained.

4. Although the Cabinet minutes record a remit to you to lead on this, I suggest that you can leave action to Mr Ridley, subject to seeing precisely what he will propose on Monday.

5. There are no necessary implications of this for the aggregate of Exchequer grant, or for its distribution in years up to 1988-89. RSG is distributed on the basis of rateable values at a given date, and not adjusted retrospectively to take account of appeals or other changes. There is, however, a statutory provision for Exchequer compensation to any local authority whose rateable value falls by more than 2½%. This has never been used but seems (at first sight) to compel additions to the quantum of grant rather than a redistribution. DOE officials are taking a helpfully robust line against the option of any further compensation for local authorities whose rate income has suffered by less than 2½%.

Robin Fellgett

R FELLGETT

24/1/DJS/2326/12

CONFIDENTIAL

FROM: R FELLGETT

DATE: 26 February 1988

1. MR HAWTIN

2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Monck
Mr Scholar
Mr Turnbull
Mr Luce
Mr Potter (o/r)
Miss Sinclair
Mr MacAuslan (o/r)
Mr Tyrie
Mr Call
PS/Inland Revenue
Mr Calder (IR)
Mr Jaundoo (IR)
Mr Morgan (CVO)

NON-DOMESTIC RATE TRANSITION

This submission offers advice on Mr Ridley's minute of 24 February to the Prime Minister. It also covers his letter of 27 January to the Chancellor, and Mr Cope's letter of 18 February to Mr Howard, copied to the Chancellor. The letters of 16 February from the Institute of Directors and 17 February from the Small Business Bureau to the Financial Secretary are also relevant.

2. This correspondence concerns the transition from present business rates bills to those after 1990, following both a rating revaluation of business properties and a uniform business rate in England (and separately in Wales) in place of independent rate poundages set by individual local authorities. It also concerns the information available to assess the transition and final new rates bill for business property.

3. I recommend that you:

(i) oppose Mr Ridley's latest proposals for the transition, because they seem untenable without additional Exchequer finance;

(ii) but indicate that, if a decision can be delayed, the VO and IR could help estimate the likely effects of the revaluation in order to devise a more acceptable transition (although this could not easily be done quickly and would not provide the information that Mr Ridley has actually asked for).

Transition

4. E(LF) on 30 April 1987 decided to phase-in the largest gains and losses from the revaluation and move to a National Non-Domestic Rate (NNDR) together, over 5 years, by imposing a percentage limit on the annual change in individual rate bills. The percentage then envisaged was 20% or 25%, although no figure was included in the Prime Minister's summing-up.

5. Mr Ridley's minute of 25 June to the Prime Minister implied, without explaining that it was a new proposal, a different method of phasing-in the changes. Rather than offset the cost of phasing for losers by an equivalent phasing for gainers, he suggested "setting an NNDR poundage in 1990-91 slightly above the average poundage for 1989-90" (in real terms, ie before annual increases in the NNDR indexed to the RPI). In other words, the cost of phasing for losers would be paid for by a supplement on the NNDR for all others, phased out as losses are phased in. Compared to the E(LF) decision this penalises modest gainers and losers in 1990-91, to allow large gains to come through more quickly. This asymmetric approach has been incorporated in the Local Government Finance Bill.

6. Mr Ridley now proposes to limit the annual increase for losers to 15% (also in real terms). He suggests that the "slight" addition to the average poundage for 1990-91 will, in fact, be about 10%. In effect, businesses whose bills would rise by more than 15% from the revaluation and NNDR would be limited in 1990-91 to 15%; businesses whose bills were due to rise between 5% and 15% would also face increases of 15%; and those whose bills were due to fall or rise by up to 5% would face increases 10% higher than they would otherwise expect. The 10% surcharge is, however, a very uncertain figure: there is no adequate evidence on which

to base it and the DOE officials have worked from highly speculative assumptions that we cannot check.

7. I doubt if a surcharge of around 10% for all business ratepayers apart from significant losers would be accepted by the business community. It would be difficult to avoid the Exchequer paying. (The precedent of Scottish revaluation relief grant is worrying). I estimate the full cost of a 10% surcharge would be about £¾ billion in 1990-91, and reducing thereafter.

8. There are broadly three options for a self-financing transition:

(i) Revert to the E(LF) decision of broadly equal phasing for gainers and losers. This could be defended as treating both equally; losers would have time to adjust and gainers would see regular gains each year. The disadvantage is that gainers, including much of manufacturing industry and many businesses in the North and inner cities, who regard themselves as having waited since 1975 for fairer rates, would have to wait longer for their full gains. It would also require amendments to the Bill.

(ii) Stick to the asymmetric phasing favoured by Mr Ridley, but with a much larger annual limit on increases than 15% (indeed probably much larger than 25%) so the surcharge would be small enough - one or two percent - to be tenable. This has the opposite pros and cons.

(iii) Amend the Bill to provide wide powers to prescribe the transition by regulation, and leave both options above open.

9. At this stage, we have little evidence on which to base a final decision (see below). Although business would no doubt welcome the certainty of a firm, detailed, announcement, they should recognise the advantages of an equitable transition based on a reasonable knowledge of gainers and losers. It would

therefore be best not to fix on a numerical limit, like Mr Ridley's 15%, without knowing the consequences.

10. Indeed it would be advisable to leave all options open (the third alternative) until we can model gainers and losers and pick the most saleable option. This would not be welcome to Mr Ridley, who wishes to offer assurances now to the various business interests. However, it may be defensible to say that the Government cannot take final decisions in the absence of information about the effects of revaluation and NNDR; all representations from business will be taken into account; and regulations to implement a decision will, of course, be subject to the scrutiny of Parliament. The IoD letter implies that a decision should depend on information about gainers and loser.

11. If political pressures nevertheless require an announcement of a numerical limit on annual charges within the next few months, broadly symmetric phasing of 20-25% a year, as E(LF) envisaged, now looks more defensible than Mr Ridley's option. The higher the figure, the faster the overdue revaluation will come into effect.

12. (We have considered, and rejected, more complicated options involving phasing the move to NNDR at a different rate to the effect of the revaluation. In logic, the revaluation, which will reflect the cumulative effect of economic changes since 1973, should be introduced quickly, while the changes in rate poundages due to the NNDR could be phased-in more slowly. But in practice, business (especially small business) is unlikely to distinguish the two elements of their rates bills, and simply see both types of change as a consequence of Government policy.)

<u>Information</u>

13. We have discussed Mr Ridley's letter of 27 January with the VO and IR statisticians. Two types of information could be made available but these would, for technical reasons, depend on different surveys of the likely effects of the revaluation. (The effect of the simultaneous move to NNDR on rates bills can be estimated without difficulty.) The two are:

(i) the effect on average rates bills for various types of property for different geographical areas. This is what Mr Ridley and Mr Cope want, and would update the earlier VO study which the Chancellor decided should be given only very limited circulation within Whitehall.

(ii) the effect on the overall distribution of rates bills. This is lacking at present, and would be needed to model overall gainers and losers to pick the best option for transition.

14. Mr Ridley and Mr Cope want to rebut the more alarmist stories being spread by some representatives of small business in the retail trade. The business community also has a legitimate interest in information about the effects of revaluation, which could help them plan their construction and location decisions. Wider dissemination of the information would equally help with the civil service relocation exercise.

15. On the other hand, publication of the VO estimates, which will be seen as a more authoritative study than stories from business groups and private valuers with their own axes to grind, might actually increase the alarm of the business community. (A sample of the more alarming figures from the earlier VO study is attached.) It would also be unfortunate to reassure business, on the basis of a sample study, and then find that the impact on some property from the actual revaluation was quite different. On balance, I suggest you continue to resist publishing VO estimates of the revaluation, although something may have to be conceded in due course.

16. In any case, the priority should be to provide information on which to base final decisions about transition. This could be done, but the exercise would be more cost effective and relevant if the VO undertook the sample valuations necessary as part of the actual revaluation exercise beginning in July. This would also allow IR statisticians to undertake the analysis after their work on the Finance Bill has passed.

17. This would allow time for the Government's decisions on transition to be announced in the Autumn, still some 18 months before local government finance reform comes into effect in April 1990.

Other points in Mr Ridley's minute

18. You will wish to agree that the NNDR should not automatically be indexed to something less than the RPI, which would in practice require increases in central taxation to make up the difference in Exchequer grant. I also suggest that you agree with Mr Ridley that it would be wise to take powers to have a transition after the 1995 and subsequent rating revaluations. They may not be needed (although I expect some transition is almost inevitable) but it seems prudent to take such powers.

19. Mr Ridley finally agrees with your earlier letter of 17 July, and proposes to retain a duty on local authorities to consult with business. This will no longer be linked to the setting of local business rates, but dropping such a requirement would give the wrong signals.

Conclusion

20. I therefore recommend that you respond to Mr Ridley's two letters and that from Mr Cope in terms of the attached draft. (Depending on the outcome of this correspondence, we will provide separate responses to the IoD and SBB letters.) Mr Ridley has asked for comments by lunchtime on Monday 29 February.

21. This advice has been agreed with the Inland Revenue (including the Valuation Office), FP and IAE.

22. We understand that the Cabinet Office are briefing the Prime Minister that the symmetric option originally favoured by E(LF) looks more attractive than Mr Ridley's proposal and that a decision is not needed immediately.

Robin Fellgett

R FELLGETT

7/003

CONFIDENTIAL

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

To: Secretary of State for the Environment

NON-DOMESTIC RATE TRANSITION

Thank you for copying to me your minute of 24 February to the Prime Minister. I am also responding to your letter of 27 January to Nigel Lawson, and John Cope's letter of 18 February to Michael Howard which he copied to Nigel, about the availability of information on the likely effect of the revaluation and move to a uniform business rate.

I agree with you that it would be prudent to take powers to apply a transitional scheme to the 1995 and subsequent valuations (which might be broadly drafted to allow us maximum flexibility at the time); that we cannot afford to add automatically to the substantial benefit that business can expect from the indexation of business rates to the RPI; and (as I suggested earlier) that we should retain the duty on local authorities to consult with business, to avoid giving the wrong signals.

I am, however, worried about the position we now seem to have reached in your latest proposals for managing the transition after 1990. We agreed in E(LF) in April 1987 that major losses and gains, from the change to a National Non-Domestic Rate and from the revaluation, would be phased in over 5 years. Although no figure was settled, we then envisaged a maximum increase in rates bills (in real terms, ie before allowing for annual indexation

to the RPI) of 20% or 25%, with corresponding phasing for gainers so the transition would be financially neutral. As I understand it, your latest proposal involves phasing for losers (but not gainers), offset financially by a supplement to the NNDR in 1990-91 of around 10% for everyone apart from significant losers. This is far from the option touched on in your minute of 25 ~~July~~ June to the Prime Minister of a "small" supplement. I doubt if it would be attractive to business. We should therefore consider amending the Bill to revert to the E(LF) decision. If we do, and there is no choice but to announce a figure shortly, I would favour as high an annual limit as possible, closer to 25% than 15%, to phase in the long-overdue effects of revaluation as fully as we can before 1995.

However, I am not clear that we have yet to take a final decision. Although you and John Cope have suggested collecting one form of information about the likely effects of revaluation, I understand that a very different form of survey would be needed to assess the likely distribution of gainers and losers, so we can consider a final decision on transition on the basis of some firm information about the likely range of effects on business. That survey would be best done in the initial stages of the revaluation itself, which will begin in July.

I therefore see merit in announcing that we will amend the Bill to take broad regulation making powers to determine the transition in the light of evidence actually gathered in the course of the revaluation. We would hope to make an announcement in the Autumn after studying the results of the survey. This could be presented as a response to the concerns of industry - the Institute of

Directors have, for example, written to Norman Lamont to suggest discussions of phasing for which, they say, the crucial point to know is the distribution of increases. We would, of course, assure business that their representations will be taken into account, and assure Parliament that they will have an opportunity to consider our conclusions when they come to the regulations.

I am copying this letter to the Prime Minister, to colleagues E(LF), and to Sir Robin Butler.

[JM]

COMBINED EFFECT OF REVALUATION AND NNDR

1. GAINERS BY MORE THAN 50%

	Shops	Offices	Factories
LONDON		Southwark 51% (10.2%)	City 50% (10%) Haringey 54% (10.8%)
NORTH		Newcastle 52% (10.4%) Leicester 64% (12.8%) Manchester 53% (10.6%)	Newcastle 62% (12.4%) Sunderland 58% (11.6%) Sheffield 60% (12%) Leicester 50% (10%) Sandwell 53% (10.6%) Wolverhampton 51% (10.2%) Liverpool 67% (13.4%) Manchester 51% (10.2%)

2. LOSERS BY MORE THAN 50%

	Shops	Offices	Factories
LONDON	City 66% (13.2%) Hammersmith 128% (25.6%) Kens & Chel 249% (49.8%) Wandsworth 102% (20.4%) Westminster 102% (20.4%) Barnet 53% (10.6%) Bromley 101% (20.2%) Croydon 81% (16.2) Redbridge 63% (12.6%) Richmond 106% (21.2%)	Kens & Chel 90% (18%) Wandsworth 60% (12%) Harrow 60% (12%)	Hammersmith 63% (12.6%) Kens & Chel 194% (38.8%) Bromley 53% (10.6%) Harrow 99% (19.8%)
SOUTH	Cambridge 66% (13.2%) Basingstoke 103% (20.6%) Bournemouth 81% (16.2%)	Basingstoke 87% (17.4%) Reading 83% (16.6%) Slough 82% (16.4%) Thamesdown 50% (10%)	Slough 52% (10.4%)

PERSONAL AND CONFIDENTIAL

pmp

FROM: MOIRA WALLACE
DATE: 29 February 1988

MR FELLGETT

cc Sir P Middleton
Mr Monck
Mr Hawtin
PS/Chief Secretary

RATEABLE VALUE OF BUSINESS PROPERTY

The Chancellor was grateful for your minute of 26 February. He has commented that he would be content for Mr Ridley to legislate.

MOIRA WALLACE

2128/7

CONFIDENTIAL

FROM: A TURNBULL
DATE: 29 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Anson
Mr Phillips
Mr Hawtin
Mr Odling-Smee
Mr Sedgwick
Mrs Case
Miss Peirson
Mr Potter
Mr Gieve
Mrs R Butler
Mr Richardson
Mr Deaton
Mr Perfect
Mr G C White
Mr Kidman

Ch/ Content with revised draft? MPW 1/3

Thanks. OK as slightly revised

NEW PLANNING TOTAL AND NNDR

My submission of 25 February put forward a proposal for you to put to Mr Ridley on the treatment of the NNDR. You have suggested that inserting a sub-total for central government expenditure would make it easier for Mr Ridley to accept treating the NNDR within the planning total.

2. There are some difficulties with this, eg:

- privatisation proceeds are in effect part of central government expenditure;

- part of the EFLs of nationalised industries comes from central government.

Thus "central government expenditure" would not correspond exactly with what CSO would record.

3. Nevertheless, we do not think there are overwhelming objections. For example the problem of the EFLs can be coped with by a footnote.

4. I attach a revised letter which includes a table showing the suggested format.

AT

A TURNBULL

RM6.11

CONFIDENTIAL

BF 3/3

FROM: MOIRA WALLACE

DATE: 29 February 1988

MR TURNBULL

cc Chief Secretary
Mr Anson
Mr Phillips
Mr Hawtin
Mr Odling-Smee
Mr Sedgwick
Mrs Case
Miss Peirson
Mr Potter
Mr Gieve
Mrs R Butler
Mr Deaton
Mr Perfect
Mr G C White
Mr Kidman

NEW PLANNING TOTAL AND NNDR

The Chancellor has seen your minute of 25 February. He would prefer to try a different compromise which might be easier for Mr Ridley to accept - taking Mr Ridley's two sub-aggregates, and renaming the first "central Government expenditure" and the second (which includes the NNDR) the "new planning total". We spoke, and you undertook to consider this. If you see no objections, I should be grateful for a revised draft for the Chancellor to send.

MPW

MOIRA WALLACE

CONFIDENTIAL

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO

Secretary of State, Environment

NNDR AND THE NEW PLANNING TOTAL

Thank you for your letter of 23 February. Although I think we have made significant progress towards resolution of this issue, I do not think the proposal you put to me is entirely satisfactory.

2. I welcome your agreement to keeping the payments to local authorities financed by NNDR proceeds separate from local authorities' expenditure financed by the community charge. I also fully understand your reluctance to show the NNDR figure under the general heading of central government grants to local authorities: for ~~our~~ my part, ~~we~~ I accept that the expenditure financed by the NNDR should be identified as a separate entry in the table and not as a sub-category under central government grants.

3. But I fear that it would be most confusing in the presentations of one of the main tables in future Public Expenditure White Papers to have two entries identified as 'new planning total' and 'new planning total and NNDR' respectively. Attention would inevitably tend to focus on one or the other as the aggregate or control total the Government was aiming to achieve each year. I do not believe, therefore, that the two

aggregates would be sustainable for any period of time. And, since the NNDR was being clearly linked to the new planning total in your table we would come under pressure to make that our full planning total.

4. I am anxious to achieve the simplest and least controversial presentation of the new planning total and I believe that in practice there can only be one aggregate labelled as the planning total. I would, therefore, very much prefer to go for a simpler presentation of the separate constituent items within the new planning total, with the NNDR identified as one of these separate items. This would recognise the unique characteristics of the NNDR; would distinguish it from expenditure for which local authorities have complete discretion; but would acknowledge the part which central government undoubtedly plays. The distinction could be further highlighted by inserting a sub-total for central government expenditure. By keeping expenditure financed by the NNDR separate from central government expenditure, we would avoid the problem which concerns you of overstating the degree of influence which central government exercises. I attach a table setting out the format I have in mind. This is by no means my first preference, but I have sought to go as far as I sensibly can to meet your concerns.

6. I would like to resolve this issue soon so that we can put an agreed position to departments when setting out the full scheme. If necessary I would be happy to talk to you about it.

[NL]

MG2940p

BF 4/3

papers pse

CH/EXCHEQUER
REC. 29FEB1988 ✓ 29/2
ACTION CST
COPIES TO

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000
From the Secretary of State for Social Services

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

pmg

24 February 1988

Dear Nicholas

COMMUNITY CHARGE: DISCLOSURE OF INCOME SUPPORT RECORDS AND ATTACHMENT OF BENEFIT

We have both now had an opportunity to consider the decisions made in Cabinet Committee E(LF) on 4 February and I thought I should write to you to confirm the way forward.

On disclosure of information from income support applications, as you know, DHSS solicitors are drafting amendments to the Social Security Act 1986 to go into the Local Government Finance Bill which will provide for an exchange of information in relation to community charge rebate similar to the current arrangements for housing benefit.

This will enable local authorities to receive information in the majority of cases. For the remainder - those who will be receiving income support but who do not claim a community charge rebate, we will provide instructions for a provision in your Bill which will enable us to pass such information to the community charge registration officer subject to safeguards on further disclosure in accordance with the Cabinet Committee decision. I understand that your officials are exploring the Data Protection aspects of any transfers which may occur within the local authority.

I turn now to the decision on deductions from benefit. We had not previously thought in terms of an order equivalent to attachment of earnings but I accept that defaulting income support recipients should be treated in the same way as persons at work who default on community charge. Orders for deductions from benefit made by a court are not without problems both for ourselves and the courts and my officials will liaise with the Lord Chancellor's Department and the Home Office to explore what will be needed.

F.R.

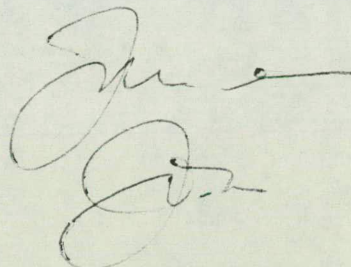
I note that the decision suggests that the deductions which can be made under our income support regulations should be increased to take account of community charge. They will in any case be increased proportionately because the community charge element will be included in the total applicable amount and deductions are a fixed percentage of that amount. Any attempt to ring-fence the community charge element so that it could be used to pay arrears would run counter to our agreement in E(LF) last year that once the benefit levels are set for April 1989, the amounts included to cover the minimum community charge payment will be uprated annually as part of the general uprating of benefits. I am sure you will agree that it would not be sensible to attempt to recalculate each year a separate element for the community charge as that would only serve to highlight the issue annually, particularly if that amount is not increased in line with actual increases in the level of community charge. It could also lead to beneficiaries paying only that element identified, even where the 20 per cent contribution is higher than the average. Further, it would move us away from the principle that under income support we expect people to budget for themselves from the amount they receive rather than have the State indicate how the money should be spent.

More generally, if the community charge element were to be ring-fenced for the payment of arrears, I think you would find that current payment might well suffer because the amount had already been used. As I have already indicated in earlier correspondence, one of our major problems with deductions is to set the deductions which can justifiably be made for essential purposes at a level which leaves claimants enough to manage current bills. This is, of course, a factor which the courts will no doubt take into account if asked to make an attachment of benefits order.

We should, of course, need primary legislation to make such orders and I will ask my officials to contact yours to establish how you wish us to carry forward the Cabinet Committee decision. In particular I would be grateful in the light of recent publicity if your officials could agree with mine any line you propose to take in standing Committee until the details are more clearly sorted out.

I will of course need additional running cost provision for all these changes. We are currently looking at our estimates in the light of these decisions and the requirements will be included in the public expenditure survey.

I am copying this letter to other members of E(LF), to the Lord Chancellor and to Sir Robin Butler.



JOHN MOORE

BF 2/3

FROM: MOIRA WALLACE
DATE: 29 February 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Monck
Mr Scholar
Mr Turnbull
Mr Luce
Mr Potter
Miss Sinclair
Mr MacAuslan
Mr Fellgett
Mr Tyrie
Mr Call
PS/IR
MR Calder - IR
Mr Jaundoo - IR
Mr Morgan - CVO

NON-DOMESTIC RATE TRANSITION

The Chancellor has seen Mr Fellgett's minute of 26 February, and Mr Ridley's minute of 24 February. He has commented that Mr Ridley's option is unacceptable to the Treasury, and involves a breach of faith - or as near as makes no difference - with the business community over the level of the NNDR. He has also commented that it is intolerable that the hard-won E(LF) decision should be overturned. The question is what the (symmetrical) percentage should be, and that can only sensibly be determined when we have all the facts.

MPW.

MOIRA WALLACE

001/4206

CONFIDENTIAL

Treasury Chambers. Parliament Street. SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

29 February 1988

Dear Secretary of State,

NON-DOMESTIC RATE TRANSITION

Thank you for copying to me your minute of 24 February to the Prime Minister. I am also responding to your letter of 27 January to Nigel Lawson, and John Cope's letter of 18 February to Michael Howard which he copied to Nigel, about the availability of information on the likely effect of the revaluation and move to a uniform business rate.

I agree with you that it would be prudent to take powers to apply a transitional scheme to the 1995 and subsequent valuations (which might be broadly drafted to allow us maximum flexibility at the time); that we cannot afford to add automatically to the substantial benefit that business can expect from the indexation of business rates to the RPI; and (as I suggested earlier) that we should retain the duty on local authorities to consult with business, to avoid giving the wrong signals.

I am, however, worried about the position we now seem to have reached in your latest proposals for managing the transition after 1990. We agreed in E(LF) in April 1987 that major losses and gains, from the change to a National Non-Domestic Rate and from the revaluation, would be phased in over 5 years. Although no figure was settled, we then envisaged a maximum increase in rates bills (in real terms, i.e. before allowing for annual

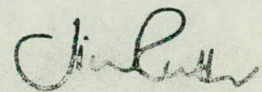
indexation to the RPI) of 20 per cent or 25 per cent, with corresponding phasing for gainers so the transition would be financially neutral. As I understand it, your latest proposal involves phasing for losers (but not gainers), offset financially by a supplement to the NNDR in 1990-91 of around 10 per cent for everyone apart from significant losers. This is far from the option touched on in your minute of 25 June to the Prime Minister of a "small" supplement. I doubt if it would be attractive to business. We should therefore consider amending the Bill to revert to the E(LF) decision. If we do, and if there is no choice but to announce a figure shortly, I would favour as high an annual limit as possible, closer to 25 per cent than 15 per cent, to phase in the long over-due effects of revaluation as fully as we can before 1995.

I see very great difficulties in reaching a decision on this in the timescale you suggest, nor am I clear that we have yet to take a final decision. Although you and John Cope have suggested collecting one form of information about the likely effects of revaluation, I understand that a very different form of survey would be needed to assess the likely distribution of gainers and losers, so we can consider a final decision on transition on the basis of some firm information about the likely range of effects on business. That survey would be best done in the initial stages of the revaluation itself, which will begin in July. To make a decision prematurely runs the risk of getting the transition wrong.

I therefore see merit in announcing that we will amend the Bill to take broad regulation making powers to determine the transition in the light of evidence actually gathered in the course of the revaluation. We would hope to make an announcement in the Autumn after studying the results of the Survey. This could be presented as a response to the concerns of industry - the Institute of Directors have, for example, written to Norman Lamont to suggest discussions of phasing for which, they say, the crucial point to know is the distribution of increases. We would, of course, assure business that their representation will be taken into account, and assure Parliament that they will have an opportunity to consider our conclusions when they come to the regulations.

I am copying this letter to the Prime Minister, to other E(LF) colleagues and to Sir Robin Butler.

Yours sincerely,



PP JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence).

CONFIDENTIAL

CH/EXCHEQUER
REC. 01 MAR 1988
ACTION CST
COPIES TO

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 February 1988

Dear Roger,

NON-DOMESTIC RATE TRANSITION

The Prime Minister has seen your Secretary of State's minute of 20 February and the Chief Secretary's response of 29 February.

The Prime Minister shares the Chief Secretary's view that your Secretary of State's latest proposals for managing the transition are a long way from the approach endorsed by E(LF) last year. She believes that the right approach would be to have a transition in which the phasing for losers and gainers was broadly balanced, rather than to have phasing for losers, but not gainers, offset by a substantial supplement to the NNDR.

The Prime Minister would therefore be content for your Secretary of State, in Committee this week, to set out the position as described by the Chief Secretary. If this cannot be agreed in correspondence she would, however, be prepared to discuss the position with your Secretary of State and others following her return from the NATO Summit.

I am sending a copy of this letter to the Private Secretaries to members of E(LF) and Trevor Woolley (Cabinet Office).

Yours,

Paul.

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

CONFIDENTIAL