PO-CH/NL/0251

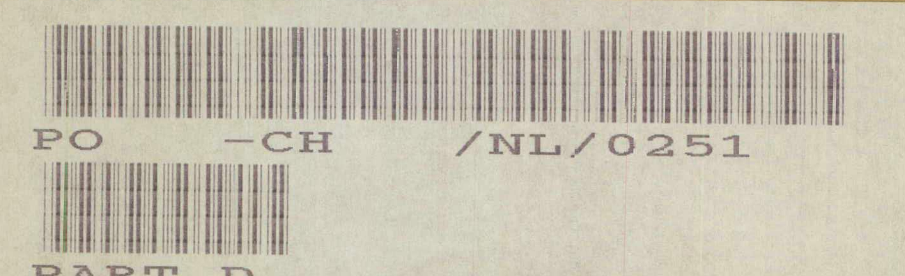
PART D

Part D.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 1/3/88.
Ends: 8/4/88.



Chancellor's (Lawson) Papers:

THE COMMUNITY CHARGE AND SETTLEMENT OF THE RATE SUPPORT GRANT SYSTEM

PO -CH /NL/0251
PART D

Disposal Directions: 25 Years

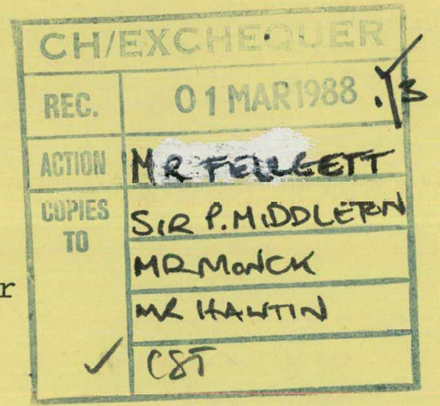
27/9/95.

CONFIDENTIAL

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

1 March 1988

Ch/X a p4 alarming. We have commissioned urgent advice on all this

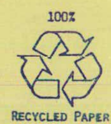
Dear Nigel

VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASE

You may recall that Peter Walker briefly mentioned the "Addis" case in Cabinet on 25 February. I am now writing to seek your and copy addressees urgent agreement to a change in rating law, with immediate effect from the date of an announcement, to reverse the recent House of Lords judgement in this case, which concerned the basis on which properties are valued for rating between general revaluations. The change would be given effect by amendments to the Local Government Finance Bill. Without it, there will be a continuing serious loss of income for rating authorities, and an unmanageable increase in Valuation Office workload at the same time as they are preparing for the 1990 revaluation. There is also a Court of Appeal judgement in another recent case ("Cakebread") which will similarly result in a loss of rate income to authorities for no good reason, and which I propose to reverse from 1 April 1988.

Background: Addis

The law provides that when a property is valued between general revaluations, as for example if it is new, or on appeal, it shall be valued as it would have been at the last general revaluation except that the state of the property and locality is taken as at the time of the actual valuation. Thus - in order that those valued later do not face higher values as a result of general inflation - the general level of rents, or "tone of the list" is taken to be as it was in 1973. The way this has been interpreted in practice is that the valuer looks at the physical state of the property and area as it is now, but considers what it would have been worth in the world of 1973. Thus it has always been thought that economic shifts since 1973 - eg the recession in manufacturing in the North - could not be taken into account between revaluations. We had proposed to retain these provisions for the new system, but, of course, with a return to quinquennial revaluations. The words at issue in the "Addis" case are repeated verbatim in the Bill.



The "Addis" case concerned a factory close to but outside an enterprise zone in Swansea. It was agreed that the value had fallen by about 20% following the establishment of the zone in 1981. The case turned on whether this was a matter of the "state" of the locality, or of the "tone of the list". The House of Lords, overruling the Court of Appeal, held that it was the former, and could therefore be taken into account at once. In doing so, they appear to have remade the law, and given us an entirely different valuation system, in which apart from the value of money, the crucial distinction between matters to be taken as at the date of the list, and matters to be taken as they are now, no longer has any clear meaning.

Consequences of the judgement

So why on earth did no-one give any thought to what we should do if appeal successful?

The consequences are both direct and indirect. Firstly, direct, there are some 8000 appeals relating to properties near to enterprise zones, many dating back to 1981, which have been held in abeyance pending "Addis". These will now be decided in favour of the ratepayers, who will be able to recover rates overpaid in past years. The affected local authorities - some of the 20 or so in the near neighbourhood of EZs - will have to meet these repayments. We can as yet quantify the amount at stake only very roughly. The Chief Valuer's Office's provisional estimate is that the loss of rate income is around £12m pa, and that with backdating, it could amount to around £35m. At national level, this is not very significant, but for some authorities, the amounts could be very large: £5-10m or possibly 10% of their annual rate yield. Under present practice, authorities would normally get no compensation through block grant for past years, and will have to increase their rates to recover these amounts. They will, with some justice, blame the increases entirely on the Government which set up enterprise zones. [But why should Govt be held responsible for their failure to plan for contingency of successful appeal?]
Secondly, indirect. The principles which the House of Lords applied in Addis appear capable of far wider application. The judgement refers to "intangible factors affecting the state of the locality". It seems to us that on this basis it would be open to, say, the occupier of a warehouse in Liverpool to argue that the switch of trade to the east coast ports was a matter of "state" rather than "tone". Appeals on this basis would not be backdated before April 1987, but could start to go down now that the judgement is public; there is an incentive to get them in by 31 March to get the benefit for the full 1987/88 financial year.

The implications for both rate income, and Valuation Office and tribunal workload, are potentially very serious indeed. Effectively, the system of general revaluations would be overridden, and there would be continuous rolling revaluation at the initiative of the ratepayer. Manufacturers in the North could appeal now to secure the benefits we are expecting them to get in 1990. (In principle, these losses could be offset by Valuation Officers proposing increases for those whose values ought to be higher, but in practice they have no capacity to do this). The non-domestic rate base would be seriously eroded for the last

three years of the old system, and other ratepayers in the affected areas, including domestic ratepayers, would have to pick up the bill, probably without any offsetting increase in grant.

The implications for the new system are not much less serious. Loss of rate income ceases to be such a problem, since the changes would in any case have taken place on revaluation. The problem of Valuation Officers having to deal with a continuing flow of appeals relating to changes in the economy, while at the same time coping with the peak resulting from the 1990 revaluation, would however remain.

Proposed course of action

I do not think that we can live with these consequences of the judgement. There will be a continuing serious loss of rate income for 1988/89 and 1989/90, possibly much more than £100m pa if my fears about the wider implications are realised. There is also likely to be an intolerable increase in Valuation Office workload at a time when they should be concentrating on the 1990 revaluation.

The action that would be required is to amend the General Rate Act 1967, s.20, to make clear that when a property is valued between revaluations, the only factors to be taken into account as at that date are, broadly, physical changes in the state of the property or amenities of the locality, not intangible matters affecting the general level of rents in the area. I have yet to consult Parliamentary Counsel, but I think that broadly the desired result can be achieved. The same provision would be made for the post 1990 system. The changes would be made by way of amendments in the Lords to the Local Government Finance Bill; subject to the House authorities' views, this appears to be within the scope of the Bill.

If we are to act at all, we need to act fast. The reason for this is that now the judgement is public, professional rating surveyors will soon become alert to the wider implications, and we can expect them to be urging their clients to put in immediate appeals, since those made before 31 March secure backdating of any reduction to 1 April 1987. An amendment operating from 1 April 1988 would therefore not be effective in heading off the upsurge in Valuation Office workload, and would lead to a further loss of rate income for 1987/88.

I therefore propose that I should make an early announcement that the law will be changed to reverse the judgement with effect from the date of the announcement. What this means is that any proposal for a change in valuation made after that date would be considered on the new basis, ie on the same basis as before Addis. Proposals made before that date would be considered as required by the judgement: strictly speaking, the Valuation Office could then serve counter-proposals reversing those changes with effect from the announcement date, but given the impending general revaluation I envisage that they might refrain from doing so.

There are bound to be loud protests from the Opposition and private rating surveyors that not only is the Government once again overturning a judgement it doesn't like, but also that this is retrospective legislation, even though it would not affect any appeals made before the date of the announcement and would apply only to the current and future financial years. I believe, however, that the approach is justified by the scale of the problem and by the odd nature of the rating appeal system which means that appeals lodged on 31 March can have their effect backdated for up to 12 months. I should, however, be particularly grateful for Patrick Mayhew's comments on this aspect.

"Cakebread"

This is a much simpler case, without the far-reaching implications of Addis. The Court of Appeal has held that an unintended by-product of the legislation setting up water authorities in 1973 was to change the scope of a reference in the General Rate Act so that the rates the authorities pay centrally are deemed to cover sewage works, offices etc as well as water supply, although the basis on which these amounts were calculated has no regard to these factors. The direct loss is larger than for Addis, around £100m for past years and £40m pa continuing loss. There is no reason on the merits why water authorities should receive this windfall, which effectively means that sewage functions are not rated. It would however seem oppressive to claw it back for past years, and there is no point in acting from the date of an announcement since all water authorities will by now have entered their appeals. I therefore propose to reverse the position with effect from 1 April 1988.

?

Losses for past years

See before 8000 or 5000?

There is a rather separate issue, of the amounts of money that rating authorities with enterprise zones will lose through having to reimburse the 5000 successful appellants for overpayments in past years back to 1981. They will no doubt press us to reimburse them, either by re-opening the RSG settlements for those years or by some other means. They will argue that there is a moral obligation, both because the losses result indirectly from the Government's enterprise zone policy, and because they would have been compensated through RSG if the reduction in rateable value had been known at an earlier stage. As noted above, I cannot yet fully quantify the problem, in particular not as it affects individual authorities, nor how serious the pressure will become. I am afraid the case for compensation is very compelling. The losses arise directly from the imposition by Government of the enterprise zones. We already accept that losses of rate income arising within the zones should be fully compensated for. I would find it very difficult to justify not providing assistance with the direct carry over costs associated with the enterprise zones.

X

There are at present no powers to give such compensation and I would need to take one. I suggest this might best be achieved by amending the existing specific grant power within Schedule 32 of the 1980 Act. Where other losses arise, either from the decision

of the House of Lords, or the "Cakebread" case, which are not directly connected with the existence of an enterprise zone, I would propose to take the line that the existing provisions in Section 67 of the Local Government Planning and Land Act 1980 - which are provided for just such a purpose, should be followed through where appropriate. That would involve compensating authorities where annual losses amounted to more than 2½% of rateable value.

Conclusion

I should therefore be grateful for your and copy addressees' agreement to my reversing the Addis and Cakebread judgements by amendments to the Local Government Finance Bill, and for the amendments in the case of Addis to be effective from the date of an announcement, which I would hope to make by 8 March. I should also be grateful for agreement to announce that we propose to compensate for losses arising from the existence of an enterprise zone. I should therefore be grateful for your views no later than 4 March.

I am sending copies to the Prime Minister, to other members of E(LF), to the Lord Chancellor, to the Attorney General, to First Parliamentary Counsel and to Sir Robin Butler.

NICHOLAS RIDLEY

Alex

CH/EXCHEQUER
REC. 02 MAR1988 2/3
ACTION C.ST
COPIES TO

1/3/88.

Prime Minister

NON-DOMESTIC RATE TRANSITION

I have seen the minute which the Secretary of State for the Environment sent to you on 24 February.

I agree that transitional protection for non-domestic ratepayers is important, and the Local Government Finance Bill includes provisions for Scotland which are equivalent to those which Nicholas Ridley will be using to limit annual increases. I have some doubts, however, about the detail of the approach he is suggesting. He proposes that the same ceiling on increases - 15% - should apply each year including the first year. In my view transitional arrangements should set out to protect those facing exceptional increases, and I think that we should leave a rather wider band within which the full increase would be borne without assistance in the first year. For example, when revaluation rate rebates were introduced in Scotland in 1985, only those facing increases in rates bills of roughly 30% were eligible for assistance. A higher starting figure would help keep the caseload within reasonable bounds and would also reduce the number of problem cases at the end of the five year period, to which Nicholas Ridley also draws attention. It would also reduce the cost of the transitional provisions and, therefore, the extent to which these provisions postpone the already overdue benefit to those who gain from revaluation.

I acknowledge, however, that my approach would not entirely eliminate those problem cases, and I therefore agree that provision should be made for further transitional arrangements at the 1995 revaluation and subsequently: we would intend that these should also apply to Scotland.

I support Nicholas Ridley's arguments that we should not have an explicit 'RPI minus 3' formula: the changes we are already proposing to make will enable under-indexation if it is thought appropriate in any year, without tying our hands.

Finally, I support the proposal to re-instate the requirement to consult business ratepayers. This is something we have maintained throughout in Scotland and I think it has some value.

I hope that, when the terms of his statement about ceilings are settled, Nicholas Ridley will make it clear that similar principles will apply to Scotland; and that, in order to avoid any confusion, he will make it clear that his announcement about business consultation has no implications for Scotland because we already have provision for it.

I am sending copies of this minute to Nicholas Ridley, other Members of E(LF) and to Sir Robin Butler.

MR

M R

1 March 1988

24/1/DJS/2328/20

PERSONAL AND CONFIDENTIAL

Ch/ You will want to see advice. CST will look at it 1st thing tomorrow /draft letter cd be much stronger—how wd we justify not compensating losers from wider application of Addis principle (who might legitimately have an excuse for lack of contingency planning) if we then compensate those who could have predicted problem. mpw 2/3

FROM: R FELLGETT
DATE: 2 March 1988

1. MR HAWTIN [initialled] 2/3
2. CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr D J L Moore
Mr Prior (VO)

VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASES

Mr Ridley's letter of 1 March was foreshadowed in my submission of 26 February.

Addis

2. You have already commented that you would be content for Mr Ridley to legislate to reverse the Law Lords ruling on the Addis case.

3. Mr Ridley proposes legislation retrospective to the date of his announcement (which he envisages would be 8 March). In theory, it would be preferable for retrospection to invalidate any proposals for reduced rateable values that had not been put forward by the date of the Law Lords judgement (11 February); a significant number of proposals (with unquantified consequences) are being put down as the Law Lords decision and its implications become known in the valuation profession. It might be argued that retrospection to the date of judgement would simply put the legislation back into the form that the Government always thought it had. But this would be highly provocative to Parliament, the House of Lords in particular, and increase the difficulties of getting the necessary clauses through both Houses. On balance, I recommend that you agree with Mr Ridley to limit retrospection to the date of his announcement.

4. The draft letter attached also touches on the point at the end of the third page of Mr Ridley's letter about the VO serving

counter-proposals to reverse, with effect from the announcement date, the changes won by Addis etc. He suggests that the VO might refrain from doing so. I understand that this might be correct in practice in most cases. But the VO would not wish Mr Ridley to offer a guarantee that they would not apply the law as it stands after the announcement; and to recoup lost revenue we might wish to take steps to limit the financial benefits to firms who have climbed on the Addis bandwagon after the Law Lords decision.

Cakebread

5. This is an entirely separate case, affecting the rateable value only of water authorities, without the wider implications of "Addis" described in my earlier submission. There is therefore even less argument for retrospection, and I suggest that you agree with Mr Ridley's proposal to legislate with effect from 1 April 1988. You will have noted that the loss of revenue is estimated at around £100 million, falling on districts with substantial sewage works: at this stage, I cannot rule out the possibility that some authority will have lost over 2½% of its rateable value in a financial year, which would call the guarantee of extra Exchequer support mentioned in my earlier submission. However, the windfall benefit to water authorities can be taken into account in their EFLs.

Losses for Past Years

6. Mr Howard has persuaded Mr Ridley to bid for Exchequer finance to cover the losses to local authorities from the direct effect of the Addis decision on the rateable value of properties close to Enterprise Zones. This would not extend to the wider effects. The cost would be around £35 million (rather less than I earlier reported to you, because only a small number of appeals go back as far as 1980). There is some force in Mr Ridley's argument that the "blight" in areas around Enterprise Zones is a consequence of Government policy, and the loss of rate income should be made good in the same way that the Government recompenses authorities for rates holidays in Enterprise Zones. If there had been an

earlier general revaluation Addis would have benefited from lower rateable values; Exchequer finance might be seen as the cost of delaying the revaluation.

7. On the other hand, the Government is certainly not responsible for the Law Lords and their decisions, which are the immediate cause of any loss of income to rating authorities. Also, the appeals have been outstanding for many years and any prudent local authority would know that they might result in loss of income, and should have made contingency provision for this. The extent of the Exchequer guarantee should be well known to authorities. I therefore judge that the pressure for additional Exchequer finance can be resisted, although there will undoubtedly be some complaints (West Glamorgan and Swansea are already running a campaign).

Conclusion

8. I recommend that you agree to Mr Ridley's proposals for legislation, and the earliest possible announcement of his intentions; but do not agree to Exchequer compensation for losses arising from the Addis decision, even applied narrowly to property in the neighbourhood of Enterprise Zones. A draft letter is attached.

9. This advice has been agreed in general terms with the Valuation Office, and (as regards water authorities) with PE.

Robin Fellgett

R FELLGETT

24/1/DJS/2328/21

CONFIDENTIAL

DRAFT LETTER FOR THE CHANCELLOR'S SIGNATURE TO THE SECRETARY OF STATE FOR THE ENVIRONMENT

VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASES

Thank you for your letter of 1 March.

2. I agree with your view that we should legislate to reverse the decisions of the Law Lords in the "Addis" case, and the Court of Appeal in "Cakebread".

3. On Addis, I have considered whether retrospection to the date of your announcement would be enough or whether we should make new legislation retrospective to the date of the Law Lords decision. However that degree of retrospection seems likely to create difficulties in Parliament, particularly in the Lords; on balance retrospection to the date of announcement may be the best that we can achieve, although this reinforces the need for an urgent statement of our intentions.

4. You envisage (the end of the third page of your letter) that the Valuation Office might refrain from serving counter-proposals to reverse the effects of the Addis decision with effect from the date of your announcement. I should be grateful if you could avoid any assurances of this nature. The VO could not ignore the law as it will be after amendment if, for example, a further valuation proposal is put forward in the future covering a property to which the Addis decision applied.

5. I also agree with your proposal for legislation covering "Cakebread", where our officials will need to be in touch to consider the implications for water authority EFLs.

6. I do not, however, agree with your proposal that the Exchequer should make good losses for past years to authorities in the neighbourhood of Enterprise Zones. As you yourself mention, existing statutory provision provides for compensation where there is a significant annual loss, currently set in regulations at 2½% of rateable value. Local authorities were well aware of the appeals in hand, and of the circumstances in which they would have to cover the loss themselves if the appeal was successful. Any prudent authority should have made contingency provision, whatever campaign authorities like West Glamorgan and Swansea are trying to mount now.

7. In any case, while the Government is responsible for Enterprise Zone policy, it is certainly not responsible for the Law Lords, whose decision is the immediate cause of loss of revenue to some authorities.

8. I am copying this letter to the Prime Minister, other members of E(LF), the Lord Chancellor, the Attorney General, First Parliamentary Counsel and Sir Robin Butler.

[N.L]

006/4207

CONFIDENTIAL

FROM: **JILL RUTTER**
DATE: **2 March 1988**

APS/CHANCELLOR

cc:
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Hawtin
Mr Potter
Mr Call

NATIONAL NON-DOMESTIC RATE: TRANSITION

The Chief Secretary discussed this today with Mr Ridley. I attach two letters that I have now sent to Roger Bright - one recording the Chief Secretary's discussion and one commenting on the speaking note for Committee tomorrow.

2 Mr Ridley stressed to the Chief Secretary that he faced very real difficulties in Committee tomorrow where he had a natural majority of one and 6 potential rebels supporting the small business lobby's demands for an easier transition. Mr John Butterfill had tabled an amendment to provide for a slower transition for businesses with a rateable value less than £15,000.

3 Mr Ridley accepted there was no question of Exchequer support for the transitional arrangements. He accepted that the costs would have to be financed from a cap on the gains - subject to retaining the possibility of a very small supplement - 1 or 2p - to the national non-domestic rate. He wished however to acknowledge in Committeee that there might be a case for a differential regime for small businesses. This does of course have minuses as well as plusses - if it is to be self-financing it postpones the gains for small businesses as well as the losses.

CONFIDENTIAL

4 As you will see the Chief Secretary undertook to consider a form of words that Mr Ridley might use to stave off the possibility of defeat. Mr Ridley pointed out to the Chief Secretary that there was a considerable premium in having the Local Government Finance Bill emerge unscathed from the House of Commons Standing Committee - that this had successfully been achieved with the Community Charge proposals but there was a real risk of going down. On this amendment if the Government were unprepared to offer even sympathetic consideration. The Chief Secretary acknowledged the difficulties Mr Ridley faced and agreed to consider a form of words; stressing that Mr Ridley should make no commitments to a differential regime.

5 The Chief Secretary has subsequently seen Mr Ridley's form for words and proposed the amendments marked. This reflects discussion with Messrs Fellgett and Potter.

Jill Rutter

JILL RUTTER
Private Secretary

004/4206

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
Private Secretary to the
Secretary of State for the Environment
Department of Environment
2 Marsham Street
London
SW1

2 March 1988

Dear Roger,

NATIONAL NON-DOMESTIC RATE: TRANSITION

Your Secretary of State came to discuss the problems he was facing in the Standing Committee consideration of the Local Government Finance Bill on the transition to the national non-domestic rate and the introduction of the new non-domestic rateable values. He said that there was a strong risk of rebellion from Conservative members tomorrow which necessitated addressing three issues:

(a) how big the annual uprating above inflation should be during the transition - the small business lobby was arguing for a 10 per cent cap on real rate bill increases;

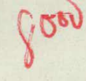
(b) how the transition should be financed - whether it should be financed through a cap on gains or through a higher NNDR poundage and

(c) whether there was a case for a special transition regime for small businesses.

The timing of data on new rateable values meant that it would be impossible to devise the right transition scheme until the Bill was on the statute book. But the backbenchers would not simply take the Government's position on trust. He accepted the points made by the Prime Minister and the Chief Secretary that the gainers should pay for the transition scheme - gainers

would therefore be capped and losers safety netted. It was unclear yet whether the cap and safety net would be symmetric because the balance of gains and losses would be different. The size of the NNDR would depend on how the scheme would be devised - there might be a case for a small supplement or discount on the NNDR of 1 to 2p.

The Chief Secretary noted that ELF had envisaged 20 to 25 per cent caps on increases.



Continuing, your Secretary of State said that there was no question of the Exchequer providing a penny more. He would drop his idea of a supplement on the rate. But he wanted in Committee tomorrow to hold out the possibility of increases less than 20 per cent in real terms. The lobbies were producing horror stories and were demanding a special regime for small businesses. He wanted to be able to say that he would consider the case for an easier transition - a limit of say 15 per cent a year on both gains and losses for small businesses. He would therefore like to make three points in Committee tomorrow:

(a) that the phasing should be affordable - in the range of 15 to 20 per cent per annum real increases;

(b) that it should be paid for by a cap on gainers and

(c) that he accepted that there might be a case for slower transition for small business. He would not be committed to such slower transition but he believed that it was tactically essential to be prepared to acknowledge the case.

The Chief Secretary said that he was pleased that Mr Ridley accepted the point on gainers. But he was far from clear that there was a need to give an indication of figures tomorrow. He believed it would be very hard for Tory rebels to vote against the Government on the basis that the Government would indicate the figures once it had more reliable information on the scales of gains and losses rather than taking a leap in the dark. If such a broad indication had to be given it should be of a range of 15 to 25 per cent. Your Secretary of State said that since the E(LF) decision had been in the terms of 5 year transition the figure of 25 per cent had not arisen. The Chief Secretary pointed out that phasing over 5 years only implied 20 per cent increases if no-one faced an increase larger than 100 per cent.

Your Secretary of State said that the reassurance he was seeking would not have a cost to the Exchequer. Mr Butterfill had tabled an amendment to provide for a more gentle transition for small businesses with rateable values of under £15,000. He was not going to accept the amendment as such although he thought

that the principle behind it was quite sensible. He wished therefore to be non-committal but sympathetic in the Committee consideration the next day. He would stress that any scheme would be paid for by the gainers. He would acknowledge there might be a case for an easier transition for smaller businesses.

The Chief Secretary asked Mr Ridley to produce a form of words which he would then consider.

I am copying this letter to Paul Gray at No. 10.

Yours,

Jill

JILL RUTTER
Private Secretary

CONFIDENTIAL

005/4206

Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

2 March 1988

Dear Roger,

NATIONAL NON-DOMESTIC RATE: TRANSITION

As I told you we had certain amendments to the draft speaking note which your Secretary of State proposed to use in Standing Committee tomorrow.

These amendments are designed first to make clear that while we are prepared to consider a scheme for differential transition for small businesses we are not committed to such a scheme. It would of course have the disadvantage of postponing the gains for small business gainers beyond the delay for large business gainers as well as easing the phasing of increases for small business losers. The draft you sent to me gave too much of the impression that the only problem with Mr Butterfill's scheme was the precise methodology and in particular the rateable value limit of £15,000.

The Chief Secretary also wanted the speaking note to make clear that any small business scheme that might be agreed would have to be self-financing.

Secondly the Chief Secretary was unhappy with the reference to the "supplement" in Point III and has made amendments to the passage to make clear that this would only be introduced if the balance of losses and gains made it unavoidable. In line with what your Secretary of State said at today's meeting, we have said that any premium would be "very small".

CONFIDENTIAL

...

I attach a copy of the speaking note with Treasury amendments in manuscript. You told me that you would let met know if these caused you any difficulty.

I am copying this letter to Paul Gray at No. 10.

Yours, Jill

JILL RUTTER
Private Secretary

TO: ROGER BRIGHT - DOE
FROM: JILL RUTTER: HMT

DRAFT SPEAKING NOTE ON NON-DOMESTIC TRANSITION

POINT I

THE FIGURES BEING BANDIED ABOUT SEEM A MOST UNRELIABLE GUIDE TO THE GENERAL IMPACT OF THE REVALUATION. IT IS TOO EASY TO TAKE PARTICULAR EXAMPLES AS THE BASIS FOR ALARMIST SPECULATION. OF COURSE THOSE THAT ARE MAKING THE CASE FOR CONCESSIONS WILL WANT TO DRAW ATTENTION TO THE WORST CASES BUT THOSE WHO MAKE THESE CASES ARE IN NO BETTER POSITION TO KNOW THE TRUE OUTCOME OF THE REVALUATION, THAN WE ARE. NO ONE - NOT EVEN THE VALUATION OFFICE - CAN KNOW UNTIL THE REVALUATION IS ACTUALLY COMPLETE. ONLY THEN WILL WE HAVE THE NATIONAL PICTURE WHICH WILL ALLOW US TO GET A CLEAR VIEW OF THE UBR POUNDAGE AND ASSESS THE IMPACT ON INDIVIDUAL BUSINESSES. I DO WANT TO MAKE THIS POINT, HOWEVER, THERE IS THE IMPRESSION BEING GIVEN THAT ALL BUSINESSES WILL BE LOSERS. THAT CANNOT BE THE CASE. THERE IS NO REASON TO BELIEVE THAT THERE WILL NOT BE AT LEAST AS MANY GAINERS AS LOSERS. TO BE FAIR TO THE NFSE THE EXAMPLES THEY CIRCULATED TO THE COMMITTEE CONTAIN SOME EXAMPLES OF SIGNIFICANT GAINS AS WELL AS LOSSES: - 47% IN A SHOE SHOP IN GLOUCESTERSHIRE, - 32% FOR A SHOP IN HULL - 62% FOR A SHOP IN PRESTATYN. BUT THE BALANCE OF LARGE LOSSES THEY SHOW IS NOT CREDIBLE, IF IT IS TAKEN TO INDICATE THE BROAD PATTERN OF THE REVALUATION.

POINT II

THUS WE CANNOT KNOW NOW HOW LONG A PERIOD OF TRANSITION IS NECESSARY. WE HAVE ALREADY ACCEPTED THAT THE LARGEST INCREASES

SHOULD BE PHASED IN OVER AT LEAST 5 YEARS. BUT I AM SURE HONOURABLE GENTLEMEN WOULD AGREE THAT THE SIZE OF THE MAXIMUM ANNUAL INCREASE IN RATE BILLS WHICH WE PROPOSE TO SET UNDER CLAUSE 43 SHOULD DEPEND, TO SOME EXTENT ON THE SIZE OF THE GAP THAT IS TO BE BRIDGED. BUT I CAN GIVE THIS ASSURANCE: THAT I AM VERY MUCH AWARE OF THE NEED TO ALLOW ENOUGH TIME FOR BUSINESSES TO ABSORB THE CHANGES IN RATE BILLS - PARTICULARLY INCREASES - AND FOR THOSE INCREASES TO BE TAKEN INTO ACCOUNT IN FUTURE RENT NEGOTIATIONS WITH LANDLORDS.

POINT III

I INTEND TO ANNOUNCE SPECIFIC PROPOSALS WHEN I MAKE REGULATIONS IN THE AUTUMN. IT IS TOO EARLY TO TAKE ~~A~~ FIRM VIEW NOW.

I THINK THE WHOLE COMMITTEE WOULD ACCEPT THAT LIMITS ON RATE INCREASES WILL HAVE TO BE MATCHED BY THE DEFERRAL OF GAINS WHICH WOULD OTHERWISE BE DUE, OTHERWISE THE TOTAL YIELD OF THE BUSINESS RATE WOULD BE REDUCED. OBVIOUSLY, THOSE THAT STAND TO GAIN, ARE THOSE THAT HAVE BEEN PAYING TOO MUCH FOR SOME TIME NOW. IN DECIDING BY HOW MUCH TO LIMIT ANNUAL INCREASES, WE MUST TAKE ACCOUNT OF THE IMPACT ON THOSE THAT HAVE LEGITIMATE EXPECTATIONS OF SOME RELIEF. THERE WILL INEVITABLY BE A COST OF PROTECTING THOSE THAT LOSE AND IT ~~MAY~~ WILL BE ~~APPROPRIATE~~ NECESSARY TO ARRANGE FOR THERE TO BE OFFSETTING LIMITS ON THE RATE AT WHICH GAINS CAN BE TAKEN. WE WILL BE BRINGING FORWARD APPROPRIATE AMENDMENTS AT A LATER STAGE. THE SYSTEM IS NOT SYMMETRICAL SO ANY LIMITS MAY HAVE TO BE IN THE FORM OF AN X% LIMIT ON INCREASES AND A Y% LIMIT ON REDUCTIONS IF WE ARE TO ACHIEVE THE OBJECTIVE THAT THE EFFECT ON THE POOL AS A WHOLE IS NEUTRAL. IT ~~MAY ALSO BE THE CASE THAT A~~ IS CONCEIVABLE THAT A VERY SMALL PREMIUM ADDITION TO THE UBR POUNDAGE UNDER THE PROVISIONS OF PARA 7 OF SCHEDULE 4 ~~IS REQUIRED~~ MAY BE NECESSARY - AT LEAST IN THE FIRST YEAR - IF THE X AND Y FACTORS DO NOT PRODUCE A REASONABLE BALANCE. BUT WE WOULD WISH TO AVOID THAT AND SO FAR ~~SO FAR~~ AS POSSIBLE WE WILL SEEK TO MATCH THE CONCESSIONS TO THE LOSERS WITH A LIMIT ON THE GAINERS.

I CAN SEE THE CASE IN PRINCIPLE FOR EASING THE TRANSITION FOR SMALL BUSINESSES - ALTHOUGH THE END-STATE WOULD BE THE SAME FOR BOTH SMALL AND LARGE BUSINESSES.

POINT IV

MY HON FRIEND THE MEMBER FOR BOURNEMOUTH IS SPECIFICALLY SEEKING A LIMIT ON THE TRANSITIONAL ARRANGEMENTS AS THEY APPLY TO SMALL BUSINESSES. HE HAS SUGGESTED A DIVIDING LINE BETWEEN SMALL AND LARGE BUSINESS AS A RATEABLE VALUE OF £15,000 ON THE NEW LISTS.

[I ~~DO NOT FIND THAT IDEA UNACCEPTABLE, ALTHOUGH I~~ WOULD LIKE TO LOOK MORE CLOSELY AT THE METHOD HE PROPOSES FOR GIVING THAT HELP, AS WELL AS THE PARTICULAR DIVIDING LINE. I WANT TO EMPHASIZE THAT WHAT ATTRACTS ME TO THIS SCHEME IS THAT IT PROPOSES DIFFERENT TRANSITIONAL REGIMES FOR SMALL AND LARGE BUSINESSES ~~RATHER THAN DIFFERENT END STATES.~~] IT DOES NOT SEEM TOO DIFFICULT, OR WRONG IN PRINCIPLE, TO SAY THAT LARGE BUSINESSES COULD BE LIMITED TO ANNUAL INCREASES OF X% WHILE SMALL BUSINESSES COULD BE LIMITED TO ~~X-5%~~ A LOWER PERCENTAGE INCREASES, ~~AND~~ REDUCTIONS IN THEIR RATE BILLS IN REAL TERMS.

[~~THERE ARE PROBLEMS ABOUT THE EXACT NATURE OF THE DIVIDING LINE BECAUSE A VALUE OF £15,000 WILL INVOLVE VERY DIFFERENT PROPERTIES IN DIFFERENT PARTS OF THE COUNTRY AND BECAUSE ANY PARTICULAR PROPERTY MIGHT CROSS THE BOUNDARY - IN EITHER DIRECTION - DURING THE COURSE OF THE TRANSITION - BECAUSE OF PHYSICAL EXTENSIONS OR SUCCESSFUL APPEALS.~~] ~~BUT~~ I AM HAPPY TO UNDERTAKE TO CONSIDER SUCH A SCHEME WHEN I MAKE REGULATIONS UNDER CLAUSE 43 IN THE AUTUMN. I FEAR THIS MUST BE WITHOUT COMMITMENT [~~TO ANY PARTICULAR FIGURES~~] AT THIS STAGE BECAUSE AS I HAVE SAID, WE DO NOT YET KNOW THE FIGURES WITH WHICH WE WILL BE DEALING, NOR IS IT CERTAIN WHAT BUSINESSES THEMSELVES ~~WILL~~ WOULD MAKE OF SUCH A PROPOSITION, SINCE THE SCHEME WOULD OF COURSE NEED TO BE FINANCIALLY NEUTRAL.

POINT V

I REALISE THAT THIS OR ANY OTHER SCHEME OF TRANSITION COULD TAKE US BEYOND 1995 BEFORE ALL THE EFFECTS ARE PHASED IN. TO THOSE THAT HAVE URGED THE CASE FOR A LONGER PERIOD OF TRANSITION, I CAN SAY THAT I ACCEPT THAT THIS SHOULD BE A POSSIBILITY. I SHALL THEREFORE BE BRINGING FORWARD AMENDMENTS AT A LATER STAGE TO ALLOW FOR A FURTHER SET OF TRANSITIONAL ARRANGEMENTS TO BE INTRODUCED TO DEAL WITH THE COMBINED EFFECTS OF THE REMAINDER OF THE 1990 REVALUATION AND THE NEXT REVALUATION IN 1995. AND THAT IS A COMMITMENT.

CONFIDENTIAL

pp M

JH/K/66

Minister of State

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

CH/EXCHEQUER
REC. 02 MAR1988 2/3
ACTION CST
COPIES TO

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

2 March 1988

Dear Nick

NON-DOMESTIC RATE TRANSITION

I have seen your note of 24 February to the Prime Minister. I am responding in Norman Fowler's absence in the USA in view of the imminent Standing Committee discussions.

You are already aware that many small firms representatives have expressed concern about the effects of the introduction of the non-domestic rate on their rates liability. Your proposal to give a clearer statement of the transitional arrangements is therefore welcome. I have seen John Major's letter of 29 February suggesting that we should only say now that some unspecified transitional arrangements were to be made in the autumn. It seems to me that this would maximise the pressure from the small firms lobby and others, as well as giving greater scope for alarmist estimates of the effects. I would suggest therefore that at least the announcement that decisions will be made in the autumn should be accompanied by the suggestions of possible transitional provisions preferably as outlined in your minute of 24 February to the Prime Minister. I think that your transitional arrangements would avoid over-large changes and give businesses a better chance to adjust to the new circumstances.

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

Yours ever

John

JOHN COPE

24/1/342/023

CONFIDENTIAL

~~1. MR POTTER~~ not available.

2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 2 March 1988

cc: PS/Chancellor
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Scholar
Mr Hawtin
Mr Turnbull
Mr Luce
Miss Sinclair
Mr MacAuslan
Mr Tyrie
Mr Call

NON-DOMESTIC RATE TRANSITION

Mr Ridley is coming to see you at 2.30 pm this afternoon. I understand that he hopes to convince you that his proposal for asymmetric phasing of the transition to the NNDR and revalued rateable values is right, not withstanding your letter of 29 February. He also wishes to discuss what he can say in Committee on Thursday.

2. Given the terms of Paul Gray's letter of 29 February from No.10 - the Prime Minister hopes Mr Ridley will agree with you and if not will take a meeting on her return from the NATO Summit - I doubt if you need concede anything of substance, whatever Mr Ridley's concerns about his own supporters in Committee who have been briefed by the small business lobby. DOE officials acknowledge that they are unlikely to be defeated in Committee, although they continue to maintain that something will have to be decided and announced for Report in April.

3. The main points in your letter were:-

(i) the Bill should be amended to allow for symmetric phasing (ie X% increase a year for losers, and similar phasing of roughly X% for gainers so the transition is financially neutral);

(ii) no decision on the figure (X) until the VO have real information on the actual revaluation starting in July, but a presumption that this should be as high as possible to phase-in the long overdue revaluation.

If you are convinced that political pressures compel an announcement of a figure, despite the dangers of doing so without adequate information, you might concede the second point at a meeting with the Prime Minister provided you secure agreement to broadly symmetric phasing. I attach an aide memoir of the main arguments.

4. If Mr Ridley is unconvinced and wishes to take this issue to a meeting with the Prime Minister, I think you could accept whatever form of words Mr Ridley feels is necessary to placate the Committee, provided they:-

(i) reaffirm the Government's commitment to a financially neutral transition, ie no new Exchequer money;

(ii) acknowledged the possibility of amendment to permit symmetric phasing (if the possibility is not even mentioned in Committee it will be more difficult to bring forward amendments on Report or in the Lords);

(iii) gives no commitment on the figure X.

Robin Fellgett

R FELLGETT

24/1/342/022

Previous decisions and correspondence

1. E(LF) on 30 April 1987 considered Mr Ridley's proposal for transition with "protection for the largest losers ... paid for by a corresponding delay in the largest gains" (ie broadly symmetric phasing for gainers and losers). PM summed up "phase the largest gains and losses over 5 yers by imposing a percentage limit on the annual charge in the individual rates bills".

2. Mr Ridley's minute of 25 June said "[E(LF) decision] means setting an NNDR poundage in 1990-91 slightly above the average poundage for 1989-90". Unfortunately not recognised as a new proposal for asymmetric phasing. In any case 10% supplement to NNDR in 1990-91 now proposed hardly "slight".

Arguments for symmetric phasing

1. Asymmetric approach requires 10% supplement to NNDR in 1990-91 (in real terms) according to Mr Ridley. Would be seen by business as new impost by Government and a breach of faith - average business expecting no real incrase in rates in 1990-91.

2. Asymmetric approach turns (small) gainers into losers in 1990-91.

3. Symmetric approach would still allow gainers to see tangible benefit - a cash reduction in rates bills - each year until full gains in place.

4. Symmetric approach apparently favoured by Institute of Directors. Letter of 16 February to Financial Secretary says "[phasing for losers] will have to be funded by a corresponding phasing of reductions in rates bills."

Arguments for delaying decision on annual percentage limit

1. Inadequate information on distribution of gains and losses. Have only estimates of average effect on various categories of business in different areas (eg shops in Westminster or factories in Liverpool). Cannot say, for example, what proportion of businesses will gain or lose by over 25% or 100%.

2. First relevant information will be gathered in July as revaluation starts.

3. Business can be assured that the Government will announce its intentions as soon as adequate information is available in autumn, and Parliament will have opportunity to debate them.

Arguments for a high (eg 25%) annual limit on losses

1. Gets more of long over-due revaluation into place by 1995. (Eg 25% annual compound limit would phase in changes of up to 200%; 15% limit would only phase in changes up to 100%,)

2. With symmetric phasing, allows bigger annual gains for gainers, eg manufacturing industry in north and inner cities.

Arguments for **not** publishing VO study of gainers and losers

1. Not a good basis for assessing transition (see above).

2. New immediate study to provide better information would cost about £¼ million in VO running costs and disrupt preparation for revaluation; better done as part of revaluation itself in July.

3. Study can only represent VO's best guess of revaluation. Could be embarrassingly wrong in places.

4. Study could be unduly alarming (eg VO estimate shops in Kensington face 250% increase on average) and taken as definitative. Small business representatives and private sector valuers will be seen to have their own axes to grind.

APS / Chancellor

Redrafted by Mr Fellgett to take account of the CST + Chancellor's amendments.

Jin
3/3

One or two minor drafting changes: otherwise OK –

Ch/ main suggestions from CST are additions at X and Y, the latter beefing up the precedent argument. Example of why N Ridley should be cagey about VO and counter-proposals (formerly at Z) has gone at VO's request – it seems they/

PTO

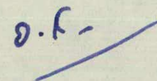
felt the "example" somehow implied this was only case in which they might do this.

This ought to go tonight. We are having it typed up and will pp in your name. if you are content

MPW
8/3

24/1/DJS/2328/21

CONFIDENTIAL



DRAFT LETTER FOR THE CHANCELLOR'S SIGNATURE TO THE SECRETARY OF STATE FOR THE ENVIRONMENT

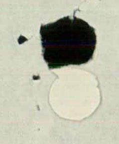
VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASES

Thank you for your letter of 1 March.

2. I agree with your view that we should legislate to reverse the decisions of the Law Lords in the "Addis" case, and the Court of Appeal in "Cakebread". I also agree that retrospection to the date of announcement is probably the best we can achieve, which reinforces the need for the earliest possible statement of our intentions.

3. You envisage (the end of the third page of your letter) that the Valuation Office might refrain from serving counter-proposals ~~to~~ which would reverse the effects of the Addis decision with effect from the date of your announcement. In practice, this would ~~commonly~~ normally be the case, particularly in 1987-88. However, I should be grateful if you could avoid any assurances of this nature. The ~~VO~~ Valuation Office could not ignore the law as it will be after amendment.

4. I also agree with your proposal for legislation covering "Cakebread", where our officials will need to be in touch to consider the implications for water authority EFLs.



5. The only proposal with which I do not agree, however, is your suggestion that the Exchequer should make good losses for past years to authorities in the neighbourhood of Enterprise Zones. As you mention, existing statutory provision provides for compensation where there is a significant annual loss, set in regulations at 2½% of rateable value. This is a long-standing, and well known, arrangement to deal with exceptional loss of income for any reason. It has always been understood that a local authority could, and would, meet a smaller loss. I would be very concerned at the precedent that any departure from this arrangement would set. Moreover, in this case the local authorities concerned were very well aware of the appeals in hand, and of the circumstances in which they would have to cover the loss themselves if an appeal was successful. Any prudent authority should have made contingency provision, whatever campaign is now being mounted by authorities like West Glamorgan and Swansea, who will have benefited in other ways from the Enterprise Zone.

7. I am copying this letter to the Prime Minister, other members of E(LF), the Lord Chancellor, the Attorney General, First Parliamentary Counsel and Sir Robin Butler.

[N.L]

mjd 3/16m

CONFIDENTIAL

cc - CST
Sir P. Middleton
Mr Anson
Mr Monck
Mr Moore
Mr Hawtin
Mr Pellegett
Mr Prior

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

3 March 1988

The Rt Hon Nicholas Ridley, AMICE, MP
Secretary of State for the Environment
2 Marsham Street
London SW1

Carys says
FB out of order

Dear Secretary of State,

VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASES

Thank you for your letter of 1 March.

I agree with your view that we should legislate to reverse the decisions of the Law Lords in the "Addis" case, and the Court of Appeal in "Cakebread". I also agree that retrospection to the date of announcement is probably the best we can achieve, which reinforces the need for the earliest possible statement of our intentions.

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I also agree with your proposal for legislation covering "Cakebread", where our officials will need to be in touch to consider the implications for water authority EFLs.

The only proposal with which I do not agree, however, is your suggestion that the Exchequer should make good losses for past years to authorities in the neighbourhood of Enterprise Zones. As you mention, existing statutory provision provides for compensation where there is a significant annual loss, set in regulations at 2½ per cent of rateable value. This is a long-standing, and well known, arrangement to deal with exceptional loss of income for any reason. It has always been understood that a local authority could, and would, meet a smaller loss. I would be very concerned at the precedent that any departure from this arrangement would set.

Moreover, in this case the local authorities concerned were very well aware of the appeals in hand, and of the circumstances in

which they would have to cover the loss themselves if an appeal was successful. Any prudent authority should have made contingency provision, whatever campaign is now being mounted by authorities like West Glamorgan and Swansea, who will have benefited in other ways from the Enterprise Zone.

I am copying this letter to the Prime Minister, other members of E(LF), the Lord Chancellor, the Attorney General, First Parliamentary Counsel and Sir Robin Butler.

Yours sincerely,

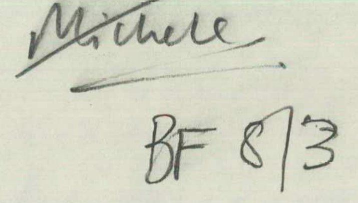
Moira Wallace

pp **NIGEL LAWSON**

(Approved by the Chancellor and signed in his absence)

PP/3315p

CONFIDENTIAL



BF 8/3

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

CH/EXCHEQUER 4/3
REC. 04 MAR 1988
ACTION MR FELLGETT
COPIES TO CST, SIR P. MIDDLETON, MR N MONCK, MRS A CASE, MR HANTIN

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

3 March 1988

Dear Nicholas,

VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASES

I have seen your letter of 1 March to the Chancellor concerning urgent action to restore valuation law.

I agree that prompt action seems necessary. I note that you are seeking specific grant powers in order to recompense local authorities, but it is not clear where the resources are to come from. I am content with what is proposed as long as these resources are not taken from the agreed levels of block grant in support of service provision.

Copies of this letter go to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

JOHN MOORE

Personal & Confidential

APS / Chancellor

From: R Fellgett
4.3.88

cc Mr Hawtin

Addis and Cakebread

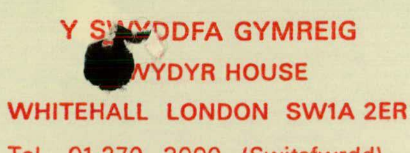
I have confirmed with the Welsh Office that neither the effect of Addis on rateable values (RVs), nor a decision on extra compensation, should affect RSG penalties or the normal operation of RVs in the RSG system.

2. Penalties depend primarily on expenditure. There is only a tiny second-order effect of changes in RVs. In this case, Swansea (the highest overspender in Wales) and West Glamorgan should see a minute reduction in penalties. Penalties would be unaffected by compensation.

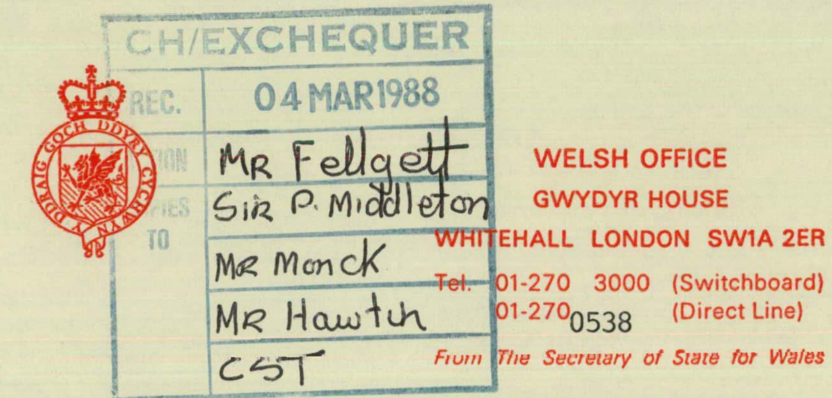
3. Changes in RV occur all the time. In Wales, Addis changes will affect the distribution of RSG in the normal way for 1988-89; Swansea etc will receive compensation from a re-distribution of the agreed total of RSG. RSG for 1987-88 and earlier will be unaffected. Compensation would not affect the distribution of RSG.

4. WO officials confirm that they (& Mr Walker) see no undue difficulty in dealing with a political campaign for compensation by Swansea & West Glamorgan.

Robin Fellgett



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 0538 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

4 March 1988

CONFIDENTIAL

VALUATION FOR RATING: THE "ADDIS" AND "CAKEBREAD" CASES

You will recall that I raised this issue in Cabinet on 25 February. I have now seen Nicholas Ridley's letter of 1 March and have to say that I agree with his conclusions that the effect of the judgements should be reversed, not only because of the loss of rate income involved and the increased workload in Valuation Offices, but also in order to restore to Enterprise Zones the full advantage in terms of rates which they offer to firms locating there. This is an integral part of our enterprise zone policy and should be maintained for the full ten years in each case.

As for grant compensation for local authorities suffering a loss of rate income, I have already been pressed to make arrangements to compensate councils for the refunds which they will have to make. I am not entirely convinced that we should go beyond Section 67 of the Local Government Planning and Land Act 1980. However if compensation is to be provided then it must be on the basis of additional resources and it must be offered on the same terms in England and Wales. Clearly this is not an occasion when we should be prepared to provide compensation from within existing resources.

I therefore support legislation to reverse the "Addis" and "Cakebread" judgements and I am prepared to go along with a decision to provide compensation to local authorities on the above terms.

I am copying this letter to the Prime Minister, to other members of E(LF), to the Lord Chancellor, to the Attorney General, to First Parliamentary Counsel and to Sir Robin Butler.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

IMMEDIATE

rcd 7.15 pm. 7 March.

pmp -

TO: ROBIN FELLGETT
LG DIV'N
RM 102/1
HM TREASURY
270 4945

APS/Chancellor cc Mr RIG Allen.

Attached is a line that DoE have prepared (and I have amended) for their press office to use as background in response to press stories that the Chancellor's power to uprate the National Non Domestic Rate will increase Community Charges. They understand that any quotes for the record will need to be cleared with Treasury Ministers.

FROM: CHRIS DUNABIN
FLT(A)
N6/04
DOE
2 MARSHAM ST

DRAFT LINE FOR PRESS OFFICE AS DISCUSSED. (SEE ITEM "HIGHER POLL TAX FEARS" BY ANDREW EVANS ON PA TAPE AT 13.19). QUICK COMMENTS PLEASE

Robin Fellgett
7/3

The Chancellor's power to uprate the national non-domestic rate by less than inflation is not one which the Government would envisage being used as a mattter of course, or frequently. It ~~might be used for any of several reasons.~~ For example, it might be ~~used~~ considered to offset any increase in the rate base arising from the construction of new buildings, or to give businesses a share of any efficiency savings which local authorities are able to realise. In neither of those cases would there be any extra burden on community charge payers. [The power is not limited to such cases, but even where those considerations did not apply, it would be open to the Government to offset any real-terms fall in the NNDR by an increase in the third main element of local authorities' income, namely Revenue Support Grant.] [For example, the Chancellor might decide that ti would be appropriate to adjust the burden of business taxation as between rates and some other tax, leaving unaffected authorities' total revenue from NNDR and grant together.]

nevertheless provides an opportunity to cut the real rate of this tax on business, if ~~overall~~ economic and financial circumstances suggest that this would be appropriate in a particular year.

IMMEDIATE

TO: ROBIN FELLGETT

rcd 7.15 pm.
7 March.

LG DIV'N

HM TREASURY

FROM

APS/Chancellor cc Mr RIG Allen.

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Robin Fellgett
7/3

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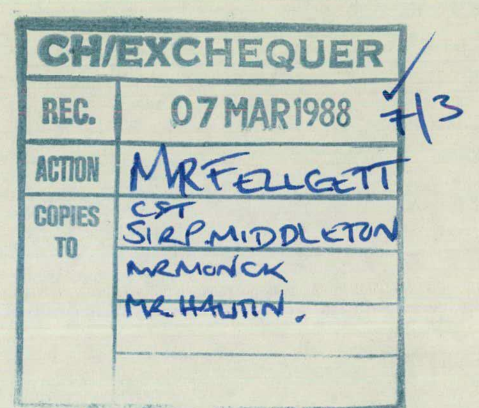
nevertheless provides an opportunity to cut the real rate of this tax on business, if ~~[illegible]~~ economic and financial circumstances suggest that this would be appropriate in a particular year.

BF 8/3



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

Dear Secretary of State,

VALUATION FOR RATING : THE "ADDIS" AND "CAKEBREAD" CASES

You sent me a copy of your letter of 1 March to Nigel Lawson. You seek his approval, and that of colleagues, to your proposal to reverse, by legislative means, two recent Court decisions on rating, namely Addis and Cakebread. The idea is to insert two suitable provisions in the Local Government Finance Bill currently before Parliament, which are to have effect, in the case of the one reversing the Addis judgment, from the date of an announcement which you would make during this rating year (probably 8 March), and in the case of the one reversing the Cakebread judgment, from 1 April, that is to say the start of the next rating year. This degree of retrospection is seen as being essential to limit the financial damage to the rating authorities as a result of the judgments.

Subject to some points of detail set out below, I consider the retrospection proposed is defensible.

The Addis Judgment

In Addis you intend that any proposal for a change in valuation made before the date of your announcement shall be dealt with on the basis of the law as interpreted by the House of Lords; any proposal received on or after that date will be dealt with in accordance with the new law. Whilst persons submitting proposals on or after 8 March will not be able to claim that their proposal be considered under the old law as regards the period

up to that date, this seems an acceptable result, since proposals for revaluation are not, as I understand, appeals against valuations for that year, but applications to change the status quo. Therefore you would not be affecting accrued rights by preventing reliance on the old law, since no rights potentially arise until a proposal is made. By preserving the position of proposals made prior to 8 March, you would be respecting the expectations of their proposers that the old law will apply.

Your letter however recognises the possibility of "counter-proposals" being made by valuation officers on or after 8 March but before 31 March, which could have the effect of reversing any changes achieved by proposals made prior to 8 March based upon the House of Lords interpretation of the law. This would be clearly unacceptable, since accrued rights may be affected by the retrospection. It is not sufficient, in my view, to rely on the discretion of the valuation officers not to make such proposals; they should be prevented from doing so from the legislation.

A further point is that your announcement should set out in as much detail as possible how you intend the law to be amended, so as to give persons who are considering whether to make a proposal an opportunity to decide whether such a course would be worthwhile.

Your letter further indicates that you have not consulted Parliamentary Counsel as yet. It seems to me that this will not be an easy provision to draft. Your officials should therefore consult Parliamentary Counsel as a matter of urgency to check that a suitable provision can be drafted.

<u>The "Cakebread" Judgment</u>

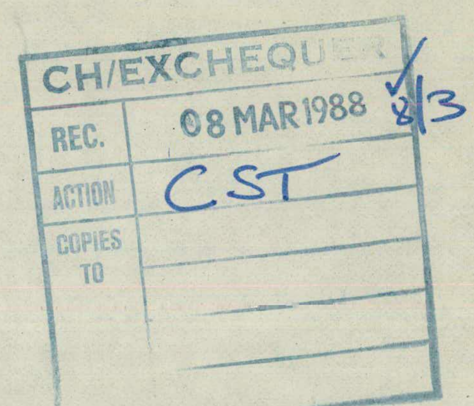
This provision is more straightforward. Given the relatively short period of retrospection, I see no obstacles provided adequate notice of the change is given to the water authorities prior to 1 April.

I am copying this letter to the recipients of yours.

S.A. Parker

Approved by the Attorney General and signed in his absence.

CONFIDENTIAL



7/3/88.

Prime Minister

THE COMMUNITY CHARGE: MEMBERS OF RELIGIOUS ORDERS

E(LF) agreed on 4 February that there should be an exemption for members of religious orders who were wholly maintained by their order. I am writing to set out my proposals for implementing this decision.

I do not propose to limit the exemption to Christian orders. We have received representations from some of the Buddhist organisations, and I take the view that it would be difficult to justify excluding people of that religion following a genuinely monastic life.

I propose that to be exempt an individual would have to pass two tests. First he would have to be a member of a religious community whose principal purpose was dedicated to prayer, contemplation, the relief of suffering or such other activity as may be prescribed. Secondly he would have to be wholly dependent on the community for his material needs, having no income or capital of his own. Income would include social security benefits.

There is a difficulty over monks and nuns who work in employment such as teaching, and whose salary is covenanted to their order. We had intended that in such cases the individual would not be exempt, and that his salary should be covenanted to the order net of his community charge liability. I am advised, however, on the basis of general principles of law that income which is covenanted is the property of the convenantee from the outset, and the person making the covenant has no rights in respect of it or access to it. I am also advised that covenants net of an unspecified amount are not possible.

CONFIDENTIAL

In these circumstances the monk is, in fact, unpaid; and would have no way of meeting his community charge liability. If that liability were met by anyone at all it would have to be met by the order (who would have no legal obligation in the matter). It was to avoid this happening that we sought the exemption in the first place. I propose, therefore, that monks who covenant their income to their order should also be exempt, on the grounds that the income is never actually theirs.

I do not think that there is likely to be a great deal of difficulty with fringe and pseudo-religious groups. The second test - which requires the members to cut themselves off from benefit and to divest themselves of all income and capital - will prove a strong deterrent. Coupled with the need to mount a convincing case that one is a member if a religious order it would be very difficult indeed for people other than those living a genuinely monastic life to qualify. I would propose, however, to retain a regulation-making power to refine the definition if experience showed that some adjustment was necessary.

Decisions on whether an individual qualified for the exemption would initially be for the community charge registration officer (CCRO), subject to appeal by the Valuation and Community Charge Tribunal (VCCT) and (on a point of law) to the Courts. There are likely in practice to be few difficult decisions. In cases of doubt I would expect the CCRO to decide against exemption and for the matter to be tested on appeal if necessary. Verifying the poverty part of the definition could give rise to difficulties; but we cannot avoid having this as part of the definition, since it is the poverty of monks and nuns which was the basis of our decision to exempt them. In practice it will be for the members of the order to demonstrate to the satisfaction of the CCRO that they qualify for the exemption.

CONFIDENTIAL

There may be attempts by members of local authorities to bring pressure on CCROs to exempt members of certain groups. Here again the difficulty of the poverty test will help to avoid abuses; and we must take the view that CCROs are professional people who would act professionally in applying the statutory definitions for this exemption, and would not be influenced by improper pressure.

I should be grateful for colleagues' agreement to our proceeding on these lines by 14 March. This approach has been developed in the light of informal contacts with representations of the Churches and other religions. I would propose to consult fully with them before bringing forward amendments to the Bill.

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

N R

7 March 1988

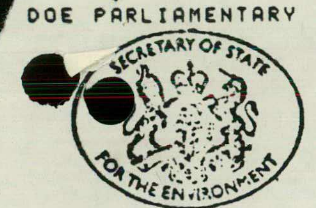
Ch/

DoE's proposed line on compensation (X on p4) not tough enough, I think. Officials say Mr Ridley is adamant on this. PM has not yet opined on question of compensation. I have spoken to Paul Gray who will ensure she sees papers tonight

8/3

PSO [illegible] CST [illegible]

DOE PARLIAMENTARY (TUE)08.03.'88 21:08 PAGE 2



cc Mr Fellgett
PS/CST

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

8 March 1988

Dear Lord President

PARLIAMENTARY STATEMENT ON ADDIS, CAKEBREAD, AND LEASING

We discussed today the possibility of my making one statement dealing with all three of the topics on which I have recently been in correspondence with colleagues, ie Addis, Cakebread and Leasing. I too think it would be useful to cover all 3 topics at once and would like if possible to do this tomorrow. I attach a draft of the statement and would be grateful to know that you and colleagues are content.

It is important that, on the leasing issue, regulations are laid simultaneously with the statement being made. I am not yet absolutely certain that that can be done tomorrow and my office will keep yours in touch on the point. In any case my officials will be writing to local authorities at the time of the statement as required by the Attorney-General.

Finally, I should be grateful if you would give the necessary authority to have the provisions in these cases drafted for the Local Government Finance Bill.

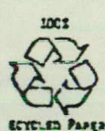
Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Lord Privy Seal, members of E(LF), to First Parliamentary Counsel and to Sir Robin Butler.

Yours sincerely

R Bright

p.p. NICHOLAS RIDLEY

(approved by the Secretary of State and signed in his absence).



DRAFT STATEMENT FOR THE SECRETARY OF STATE

LOCAL GOVERNMENT FINANCE BILL

1. Mr Speaker, with permission. I should like to make a statement about ~~the~~ some issues which will require amendments to be introduced to the Local Government Finance Bill. They concern the law of rating and arrangement for the control of local authority capital expenditure in England and Wales.

Addis v Clement

2. It is central to the rating system that the value of a hereditament should reflect the physical condition of the property and the"state of the locality" at any particular time but otherwise the basis for the valuation should be - the property market conditions- as they were at the date of the last revaluation.

3. For many years now the view has been that the expression "state of locality" related to its physical state and its amenities. and that in order to make a case for a change in rateable value appellants had to show that there had been physical changes to the property or its locality.

4. This view was recently tested in the case of Addis v Clement (VO) which turned on whether a factory on the borders of the Lower Swansea Valley Enterprise Zone could rely on the introduction of the EZ, to seek a reduction in rateable value. The Court of Appeal upheld the traditional view by holding that the establishment of an EZ was not a change affecting the state of the locality. The House of Lords, however, took the opposite view.

5. Following that judgement it appears that ratepayers may obtain changes in rateable value to reflect changes in market conditions since 1973. Many thousands of new proposals may result. In our view changes in economic circumstances should be taken into account at the general revaluation in 1990, and not piecemeal between revaluations.

6. I therefore propose to bring forward amendments to the Local Government Finance Bill so that, with effect from midnight tonight, proposals to amend current rateable values will be determined according to the law as it was understood to be prior to the decision in the Addis case. This means that changes will be taken into account only in so far as they relate to the physical state of the hereditament and its locality. Changes in economic factors will be taken into account in the 1990 and subsequent revaluations.

7. Proposals already made will be decided, where relevant, in the light of the law as decided by the House of Lords in the Addis case.

Cakebread

8. The second issue affects the rating of water hereditaments. Most such hereditaments are currently rated by statutory formula. Others, particularly sewage treatment works, have, however, always been treated as excluded from the formula and rated conventionally. The Court of Appeal has now held, in the case of Severn Trent Water Authority v Cakebread (VO), that the Water Act of 1973 changed the statutory definition of a water hereditament so that those previously excluded from the formula are covered by it, even though the formula did not make allowance for that. This decision would give a continuing windfall benefit to water authorities. We have therefore decided to restore the law to the position previously accepted for many years, also with effect from midnight tonight.

9. These two decisions will affect the revenue of the local authorities concerned. Rateable values are of course constantly changing as a result of appeals process and net additions to the rateable stock. Ordinarily, and by agreement with the local authority associations, changes in rateable value during and after a year are not reflected in rate support grant for that year or earlier ones. Exceptionally there is provision in section 67 of the Local

Government Planning and Land Act 1980 for authorities to be compensated if they suffer a reduction of more than 2½% of their rateable value in any year. It is not yet clear whether as a result of these decisions any authority will lose rateable value in excess of that level and, therefore, whether the existing arrangements will be triggered. While I am prepared to listen to representations on this, I cannot give any commitment to extend the existing arrangements for compensation. I intend, by making my proposals retrospective to today to limit the losses which might otherwise arise.

Local authority capital expenditure

10. Thirdly, I have to inform the House that, once again, a minority of local authorities are employing artificial devices to incur capital expenditure and to undertake borrowing over and above the levels permitted to them under the existing capital control system.

11. Only a minority of authorities are involved. But the sums involved are large. Individual deals can represent future expenditure of several hundred million pounds. If all options granted under agreements recently entered into are taken up, the equivalent of several billion pounds of capital expenditure may be incurred. No Government could ignore evasion of its expenditure controls on this scale.

12. A number of different devices are being used. They fall into two classes.

13. First, there are schemes under which local authorities are acquiring capital assets on terms which are outside the letter of existing capital controls, for instance by the taking of medium term leases or by barter.

14. Secondly, there are schemes under which local authorities are raising money by lease-and-leasebacks or sale and leasebacks of their operational assets. This is borrowing in fact though it may not be borrowing in law. [~~It is a particular cause for concern because~~ in effect money is being borrowed by disposal of capital assets in order to finance deficits on revenue account.]

15. Amendments have been made to the Prescribed Expenditure Regulations. These will take effect from midnight tonight. But the amending regulations will be temporary in the first instance. My Department will consult local government and other interested parties about whether any changes or clarification are required

before the amendments are made permanent. I have adopted this procedure to avoid any repetition of the events of 1986-87, when consultation preceded a change in the regulations and when nearly £2bn of deals were rushed through in the interim.

16. The main changes made by the regulations are that acquisition of a leasehold interest in land with a term of more than 3 years will score as prescribed expenditure. The present limit is 20 years. And, regardless of term, prescribed expenditure will be scored on acquisition of a lease of property in which the authority hold a superior interest or which has during the previous 5 years been the subject of a development agreement to which the authority were a party.

17. Some authorities may as a result of the new regulations incur prescribed expenditure as a result of the exercise of options provided for in agreements already entered into. I and my rt hon Friend will consider issuing additional capital allocations where we are satisfied that the agreements were not entered into for the purpose of evading capital expenditure controls.

18. Subject to the approval of Parliament to the necessary provisions, I propose to supplement the changes to the regulations with certain changes to the primary legislation. These changes are as follows:-

19. To clarify that, when a local authority acquire land on terms other than freehold for cash, the amount of prescribed expenditure scored is the value of the interest acquired on the assumption that it was acquired freehold and for cash. That was the intention of the 1980 Act.

20. To provide that where a local authority acquire property, or where works are carried out on property which the authority own, and valuable consideration for the acquisition or the works is given but not in money, then prescribed expenditure will be scored.

21. To clarify that, where a local authority acquire an interest in or right over land and the interest or right does not confer a right of occupation, nil prescribed expenditure is only scored if the interest is neither a freehold nor a leasehold.

22. In addition, I intend to widen the statutory definition of prescribed expenditure to include the acquisition of share or loan capital in a body corporate and expenditure incurred in the discharge of obligations under a guarantee or indemnity relating to borrowing by a person other than the local authority.

Conclusion

23. All the legislative changes which I have outlined will be included in the Local Government Finance Bill. They will, however, be retrospective [handwritten: effective] to midnight tonight.

2128/22

CONFIDENTIAL

BF ~~14/3~~ ~~16/3~~ BF 21/3 ~~BF 19/3~~

FROM: A TURNBULL
DATE: 8 MARCH 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Scholar
HEGs
Mr Odling-Smee
Mr Sedgwick
Mr Spackman
Mr Potter
Mr Gieve
Mrs R J Butler
Mr Richardson
Mr Perfect
Mr G C White
Miss Walker
~~Mr Kidman~~

pmp

any more recent ppsan this? m.

A NEW PLANNING TOTAL

When the Chancellor and Mr Ridley discussed the new planning total with the Prime Minister, she agreed that, as from March this year, the circle of consultation could be widened to take in other departments.

2. We have been working with DOE officials on a number of issues and though not all of them have been finally settled, we have reached agreement on sufficient of them to put proposals to other departments. The two issues we felt it important to resolve before going wider were:

i. local authority capital control: a near final draft of a consultation document on a new control regime for local authority capital, other than housing, has just been circulated to departments at official level. You have written to DOE with proposals on how that regime would be incorporated into the new planning total, ie capital grants and borrowing permissions above the line, use of capital receipts and revenue contributions below the line and we expect that to be agreed. We have yet to finalise the way these new borrowing permissions would be allocated to individual services but that is something that can only be agreed with all departments. Separate proposals on housing will be coming from DOE shortly. Mr Ridley will be seeking agreement to the proposals for housing and for other services at E(LF) before the end of the month;

ii. the NNDR: the Chancellor has put a counter proposal to Mr Ridley in which the NNDR is above the line but shown separately from other central government expenditure. I am now reasonably confident that this will be accepted.

3. There are other issues where a final position has not been reached but this need not hold up the wider consultations:

i. the timetable for E(LA) discussions on grant where we are still talking to DOE about whether the whole process should be geared to producing an announcement in the Autumn Statement (which would be the logical consequence of the new planning total); or whether as now decisions are taken at the July Cabinet and announced before the Recess (which would help local authorities in planning their budgets and spreads the workload within government);

ii. the way capital grants should be paid after 1990 where we have agreed with DOE and the Scottish Office that grants should relate to capital spending and not to the debt servicing payments which continue for years afterwards. For Scotland, we have agreed that payments relating to past capital spending should be capitalised by a lump sum payment from central government which is used to repay PWLB borrowing. In return, they have also agreed that home improvements and other grants would no longer be paid as specific grants but have to be met out of RSG. We are discussing with DOE how to deal with the continuing payments in England where the amounts involved are very much larger and there is no proposal to wind up any of the specific grants.

4. We need to consider:

i. how to bring the discussion within government to a point where we are ready to announce our intentions to the outside world;

ii. when and how to make the public announcement.

5. On (i), we propose the following steps.

a. Once we have confirmation of agreement on the NNDR, you should minute the Prime Minister, copied to Cabinet colleagues, attaching an updated version of the paper we sent to the Prime Minister and Mr Ridley. This is slightly artificial in the sense that the Prime Minister has been approached already but it seems better than writing to, say, Mr Hurd or Mr Baker which would highlight the degree to which prior discussions have gone on already. Attached at Annex A is a draft minute and at Annex B a draft of the paper.

b. The minute would not seek endorsement from Ministers nor invite reactions, though it would be helpful to inspire a low-key response from the Prime Minister indicating that she was content with the procedure proposed and reinforcing the message about confidentiality in the last paragraph of the minute.

c. Instead, the Treasury would convene a meeting of PFOs to clarify the proposals and agree arrangements for discussing outstanding issues.

d. Beneath PFOs, we might ask each department to nominate a contact. This would be a circulation list for papers rather than a committee membership. The Treasury would call meetings ad hoc to resolve particular issues.

e. Around June, you would minute colleagues again, but this time seeking confirmation of the proposal.

6. On (b), DOE are anxious to be a position to tell local authorities associations what is planned around the end of July. As work on the 1988 RSG announcement reaches a conclusion there are likely to be questions about the preparatory work for the next round. We agree that an announcement in July would be

helpful. This would allow those who wish to comment to do so before final decisions are taken in early 1989 on how the Survey for that year is to be conducted. If, for example, the TCSC were not given anything until November, they would probably not react until well into the new year as they would be dealing with the Autumn Statement as their first priority.

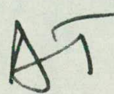
7. There are a number of ways in which the publication could be made:

- White Paper;

- Green Paper;

- Treasury consultation document addressed, in particular, to the TCSC and local authority associations.

8. In choosing the means we need to consider just what profile we want to give this exercise. Is it to be presented as a major change in the relationship between local authorities and central government? Or a major change in the way public expenditure is planned and controlled? Or is it a technical change which brings the basis for public expenditure planning into line with the reform of local government finance? My own instinct is to go for a lowish profile. The more we emphasise the political message the more difficult it will be to achieve a consistent presentation with DOE. We will want to be stressing the advantages for public expenditure control and they will want to be offering reassurance to local authorities that this is not a major extension of central government power. This does not need to be decided now though it would be useful to have your reactions.



A TURNBULL

CONFIDENTIAL

DRAFT MINUTE TO PRIME MINISTER AND COLLEAGUES

A NEW PLANNING TOTAL

From time to time there have been suggestions that we should restructure the public expenditure planning total so that it includes the grant central government pays to local authorities and excludes the expenditure local authorities finance from their own resources rather than, as at present, including all local authority spending. This suggestion was made at the July Cabinet meeting on public expenditure last year, and I indicated that it was a subject to which I was giving some thought.

2. The danger we have faced hitherto in making such a change is that it would inevitably be interpreted as a weakening of the Government's determination to restrain the growth of local authority spending. However, the introduction of the community charge and the national non-domestic rate provide an opportunity to re-examine the present definition of the planning total and its relationship with our objectives for public spending.

3. The attached paper discusses the case for making the change in that context. This would not imply any change in our underlying objective of reducing general government expenditure (which will continue to include local as well as central government spending) as a

proportion of GDP. Inclusion of forward plans for grant in the planning total will help us break away from the framework in which we are always reacting to whatever level of spending local authorities decide upon.

4. There are a number of issues which will need to be considered. These include the way local authorities self-financed expenditure is shown in the individual chapters of the White Paper; the treatment of local authority borrowing and capital grants for housing and for other services; any implications for the territorial formulae; and the timetable for E(LA) and consultations with local authority associations.

5. Before committing ourselves to these proposals, we need to consider the implications with departments. Rather than inviting reactions from colleagues at this stage, I suggest that the Treasury sets in hand discussions at official level. I will then report further to colleagues with my recommendations.

6. There is an important caveat to be made. Although I believe that changing the planning total in the way suggested would not weaken our ability to restrain local authority spending, indeed it should buttress the other reforms that are being made, especially the introduction of the Community Charge, there is a danger that the proposal could be misunderstood if it were not explained properly. It would, for example, be

damaging if local authorities felt, albeit wrongly, that there was a weakening in our resolve to restrain local spending and reduce the burden of taxation. If we do decide to go ahead, it would be essential, therefore, when the time comes to broach this with the outside world (possibly in the summer when the RSG for 1989-90 is announced and the local authority consultative machinery starts to look forward to the next round) that the presentation should be carefully made. In the meantime, consideration of the proposal should remain confidential within Government.

7. I am copying this minute and the attached paper to Cabinet colleagues and to Sir Robin Butler.

[JM]

A NEW PLANNING TOTAL

One of the characteristics of the way the Government in this country plans its expenditure is that it includes the spending of both central and local government in its planning total. Very few other industrial countries do this. For federal states such as Germany, the US or Canada this would be inappropriate; but even in other unitary states such as France or the Netherlands, the government makes plans only for central government expenditure.

2. There are understandable reasons why the Government makes and legislates for policies which may be implemented by either central or local government. Responsibility for education, roads and law and order is shared between the two. It is helpful in planning policy to draw together all the expenditure, irrespective of the level at which it is incurred.

3. The Government also has policies for the burden of taxation and the community charge will be just as much part of that burden as VAT. Finally, the Government has policies for the role and scope for the public sector as against the private sector and its share of national output.

4. While drawing all public sector spending together, either in aggregate or for individual departmental programmes, has a number of advantages, it also has disadvantages. Our present procedures lump together expenditure for which government has differing degrees of responsiblity and thus blur the status of the various aggregates. If the planning total is exceeded, for example, it is not immediately clear whether responsibility for this lies with central or with local government.

5. A further disadvantage is that by counting the total expenditure of local authorities in the planning total, insufficient attention is paid to the grants which central government provide to local authorities (because they are transfers between parts of the public sector they do not count in the consolidated spending of the two sectors). Yet grant is extremely important - it is a major influence on what local authorities spend and it represents money which central government has to raise in taxes.

6. The "Paying for Local Government" reforms provide both an opportunity and a justification for rethinking our system. One of the objectives is to increase local accountability, ie to make it clear to local electorates when local spending rises whose responsibility this is, so that they can draw the appropriate conclusions. The present arrangements do not do this.

7. We see advantage in restructuring our planning of public spending on the following lines:

i. There would be no change to our underlying objectives for public spending, ie the aim of reducing public spending as a proportion of GDP would continue to be expressed in terms of general government expenditure (ie central plus local spending) as a proportion of GDP.

ii. But within general government expenditure the planning total would become the sum of central government's own expenditure, the grants it provides to local authorities, the permitted level of local authority borrowing for capital purposes, payments from national non-domestic rates and the external finance of public corporations, plus a reserve.

iii. The current expenditure which local authorities finance for themselves through the community charge and the capital spending financed from revenue contributions or use of receipts, would be outside the planning total but still within GGE as debt interest is now. The attached table shows how the accounts would look.

8. The new planning total would have a number of advantages:

i. It would comprise those elements for which central government has a direct responsibility and it would exclude that spending which local authorities decide for themselves.

ii. It would contain the grants paid to local authorities. These would have to be planned for 3 years ahead and not just one as at present. This would not only give local authorities a better basis on which to plan their finances,

but would make it clearer to the local electorate who was responsible for increases in local taxation. It would also create a baseline against which next year's discussion about grant would take place. It would help stop grant being determined by previous years' overspending.

9. There is one danger in adopting such a system. It could be interpreted as a decision by central government to give up its attempt to influence locally financed spending and to cut the local authorities free. This can be avoided if the change is made in the proper context. The proposals in the Local Government Bill will:

i. establish a national framework for non-domestic rates;

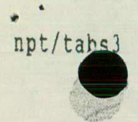
ii. increase pressures of accountability through the community charge.

To make the change in the context of these reforms will make it clear that the Government is still concerned about local authority spending. Continuing to express our objective in the MTFS in terms of general government expenditure (ie central <u>and</u> local) will also make it clear that the Government is still concerned about the level of taxation and borrowing for the whole public sector.

10. The logical time to make the change would be with effect from April 1990. This would imply that the 1989 Survey and RSG discussions would be conducted within the new framework and the 1989 Autumn Statement and 1990 PEWP would announce the results on the new basis. The precise timetable for RSG discussion and for the announcement of grant in future years is still for decision. To conduct the 1989 Survey on the new basis it would be necessary to have resolved all the issues of classification and control by the autumn of 1988, so that a baseline on the new basis can be constructed by early 1989.

HM TREASURY
March 1988

npt/tabs3



CONFIDEENTIAL

A NEW PLANNING TOTAL AND GGE

£ billion

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Central government's own expenditure	85.0	93.0	98.4	104.6	109.7	114.2
Central government grants to local authorities						
Current grants	19.0	19.6	19.6	21.1	23.0	23.3
Capital grants	0.2	0.2	0.4	0.5	0.8	0.8
Central government expenditure (1)	104.3	111.8	118.4	126.2	133.6	138.4
National non-domestic rate 'payments'	6.1	6.2	6.5	7.3	7.9	9.0
Local authority capital spending/ borrowing (2)	4.4	4.5	3.7	3.2	2.9	3.1
Public corporations						
Nationalised industries' EFLs	2.3	3.8	1.7	0.4	0.5	0.7
Other public corporations	1.0	1.1	0.9	0.8	0.6	0.8
Reserve	0.0	0.0	0.0	0.0	0.0	3.0
Privatisation proceeds	-1.1	-2.1	-2.7	-4.4	-5.0	-5.0
NEW PLANNING TOTAL	116.9	125.3	128.6	133.5	140.5	149.9
Other local authority expenditure (excluding debt interest)	3.4	4.4	5.1	5.8	6.2	6.4
Local authority debt interest	3.9	4.1	4.5	4.3	4.4	4.5
Central government debt interest	10.6	12.0	13.2	13.3	13.4	13.6
Accounting adjustments	5.3	4.4	6.9	8.0	8.1	8.5
GENERAL GOVERNMENT EXPENDITURE	140.1	150.2	158.2	164.8	172.6	182.8

(1) Excluding finance for public corporations.

(2) The element in this line will need to be defined.

Mrs K Hammond
The Terningwheel
Effingham Road
COPTHORNE
W. Sussex

HM TREASURY — MCU
RECD. 17 MAR 1988
ACTION
SIGNATURE

Rt Hon Nigel Lawson MP
c/o House of Commons
LONDON
SW1A 0AA

10th March, 1988

Dear Sir

On behalf of all travelling showmen, I would like you to be aware of a nationwide problem that we face. We are members of the Showmans Guild of Great Britain and travel around the country with fairground equipment.

Owing to the increase in our particular community population, the sites that were obtained before 1948 are no longer adequate. We are facing an impossible task of obtaining planning permission for certain sites for showmens' depots, due to the fact that there is no legislation relating to travelling showmen as the gypsy community have.

There has been a meeting between the Department of the Environment and the Showmans Guild to discuss suitable terms in which to put forward a bill or an amendment to the existing caravans act of 1968. If a bill is passed then planning application can be made, and if planning is accepted we can then call a place 'our home' and carry on our business on our land, legally.

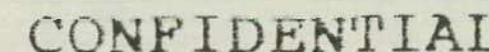
We would be grateful to know whether you would be willing to support us in our cause when it comes up in the House for debate. I await your reply as soon as possible and thank you for your co-operation.

Yours faithfully

K Hammond

K Hammond (Mrs)

24/1/DJS/2328/19



CONFIDENTIAL

1. MR POTTER
2. CHIEF SECRETARY

FROM: G F DICKSON
DATE: 11 March 1988

cc: PS/Chancellor
PS/Paymaster General
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Scholar
Mr Hawtin
Miss Peirson
Mr Turnbull
Miss Sinclair
Mr Gibson
Mr Burns
Mr Tyrie
Mr Call
Mr A J Walker (IR)

COMMUNITY CHARGE: MONKS AND NUNS

The Secretary of State for the Environment has now written to the Prime Minister with detailed proposals for the exemption of members of religious Orders from the Community Charge. Most of the points are in accord with the discussion at E(LF) on 4 February. But, contrary to the position reached at E(LF), Mr Ridley now proposes that those monks and nuns with an income should also be exempt from the Community Charge. We recommend that you oppose this change to agreed policy.

Background

2. The E(LF) memorandum specifically excluded monks and nuns with salaried employment from the proposed exemption. In your letter to Mr Ridley of 29 January, you supported this on the basis that the Government should avoid treating nurses or teachers who are also monks or nuns, differently from their secular colleagues. But this line has been overturned in Mr Ridley's latest proposal. The DOE argument is that most working members covenant their income to their Order and therefore effectively have no income. It was the view of DOE lawyers that monks and nuns could not make the covenant net of the Community Charge and that the Order could not be required to meet the charge on their behalf.

Assessment

3. We recommend you oppose the proposed exemption from the Community Charge for salaried monks and nuns for two reasons.

i) DOE appear to have got the facts wrong: we are advised by the Inland Revenue (who are the experts on the law on covenants) that there would be nothing to stop monks and nuns agreeing with their Order to change their existing covenant and taking out a new one, which would covenant all their income net of their Community Charge. Any competent solicitor should be able to advise them on drawing up a covenant which was acceptable to the Revenue. Mr Ridley's advice was also mistaken when he says that covenanted property is the property of the covenantee from the outset; the Revenue advise that covenant payments must be made out of funds available to the covenantor. The main objections in Mr Ridley's letter are therefore invalid.

ii) Secondly it would create a new class of person exempt from the Community Charge - salaried employees. Every other able-bodied adult who works will have to pay a Community Charge. Allowing this exception would break the firm distinction previously made.

4. There are, in addition, practical reasons why the proposal is unnecessary. The E(LF) memorandum states that Orders have in effect a contract with their members to maintain and house them and the members are therefore treated as having no other need in respect of which to claim benefit. It is now argued that the Order need not pay a Community Charge, on the members behalf, as part of that unwritten contract, even though the member has covenanted all their income to the Order. In practice most Orders would pay; it is unlikely that problems would arise between members and their Order.

5. Since Registration Officers will have to determine which inhabitants of Orders qualify as monks and nuns, there is no further great difficulty in determining which monks and nuns are wage earners. They are likely to be more honest and co-operative than most groups.

Recommendation

6. I suggest you write to Mr Ridley reminding him that the exemption was specifically designed to ease the burden on religious Orders. Where they have income from members there is no burden. To exempt salaried monks and nuns seems both unnecessary and undesirable because it would lead to invidious comparisons. The line on exemptions was drawn at a defensible point by E(LF), where no salaried employee is to be exempt; that line should not be moved. A draft letter is attached.

G F DICKSON

24/1/DJS/2328/23

CONFIDENTIAL

DRAFT LETTER TO:

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

THE COMMUNITY CHARGE: MEMBERS OF RELIGIOUS ORDERS

I have seen a copy of your letter of 7 March to the Prime Minister setting out your proposals for the exemption of members of religious Orders from the Community Charge.

2. The definition you propose for individuals is comprehensive and I am pleased that it should exempt only members of bona fide religious Orders. But I cannot support your proposal to exempt from the Community Charge members of religious orders who work in the community and have an income. As you recognise, this would be a concession beyond the position reached at E(LF) last month.

3. I believe that it would be a damaging concession. If we allow members of religious orders who have an income to be exempt from the Community Charge, we will be creating a new class of salaried employees as exempt persons. Many will be working in schools and hospitals alongside secular colleagues who might have identical income yet be required to pay a full Community Charge. That would lead to invidious comparisons and make it much more difficult to defend the line on politically sensitive cases like student nurses. We must avoid such amonalies if possible.

4. But I wonder whether your proposed concession is even necessary for the reasons of legality you cite in your minute. The Inland Revenue have advised me that members could agree with their Orders to change their covenants. The Order would then receive the income remaining after the member had paid their Community Charge. The form of words would have to be acceptable for the covenant to be valid; but this is something on which a competent solicitor could advise.

5. Our agreement to make exempt wholly maintained members clearly eased the burden on religious Orders. They will no longer pay domestic rates and most of their members will not have to pay a Community Charge. Where a member has an income there is no greater burden on the Order, if the member pays the Community Charge out of that income, than there is on any secular household.

6. We drew the line on exemptions in a sensible place at E(LF); and there is no new argument for extending it into a salaried class. Our objective in making a concession to religious orders was fulfilled without extending it in the way you now propose. I therefore believe that you should reconsider this proposal.

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

(JOHN MAJOR)

BF T4/3
PP

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Moore MP
Department of Health and Social Security
Richmond House
79 Whitehall
LONDON
SW1A 2NS

CH/EXCHEQUER
REC. 11 MAR 1988
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11 March 1988

Dear John

COMMUNITY CHARGE: ATTACHMENT OF BENEFIT

The meeting of E(LF) on 4 February agreed that there should be a scheme to enable the attachment of benefit broadly comparable to that for the attachment of earnings for those in arrears with their community charge. The Sub-Committee asked me to prepare such a scheme in consultation with you. I was grateful for your letter of 29 February on the subject.

There are a number of ways in which we could provide for deduction from benefits. The enforcement provisions we envisage for the community charge will involve the local authority in sending a reminder, followed by a summons, followed by an order empowering the local authority to use distress and/or attachment of earnings. We could simply add a third option, the attachment of benefit, with the same court proceedings as are necessary for distress and attachment of earnings. A local authority which obtained such an order could require DHSS in certain circumstances to deduct benefit to a prescribed maximum amount.

I agree with you, however, that this has presentational problems, and is a less flexible approach. It would also increase the workload of the Courts. The alternative would be to build on the existing procedures under which deductions can be made from benefit without the need for court procedures. I understand that it is currently possible for direct payment from benefit to be made to creditors without consent if it is in the interest of the claimant to do so. It seems to me that these precedents are the ones we should be building on.

I propose, therefore, that in implementing the decision of E(LF) we should develop an approach based on the arrangements already used for direct deductions, which do not need a court order. The details of such a scheme are set out in the annex to this letter.

You raise the matter of the maximum amount which can be deducted. I agree entirely that there should be no ring fencing of the uprating. E(LF) has, however, agreed that arrears of community charge should be met be deductions from benefit. This implies

either that community charge arrears should be given priority over the other kinds of debt which can currently be dealt with by direct deduction, or provision made so that when the existing priorities have been covered, an additional deduction can be made in respect of community charge arrears. This latter course, as explained in the annex, would entail an increase in the maximum amount deductible. It seems appropriate that, if we choose this course, the extra amount payable in respect of community charge arrears should be a weekly sum equivalent to 5% of the single person's allowance (£1.70), as is the case with other debts.

Where individuals who are in arrears with their community charge also face deduction from benefit for other purposes I would argue that the community charge should be given a high priority. The importance attached to the community charge is demonstrated by the fact that failure to pay will be punishable by imprisonment, an option not open in the case of other types of debt. I think colleagues would agree that it would be unsatisfactory if the system we adopt meant that community charge arrears could not be dealt with because of other debts.

I am sending a copy of this letter to other members of E(LF), to the Lord Chancellor, and to Sir Robin Butler. I should be grateful for colleagues' comments by 14 March. I should like to announce our intentions fairly soon to avoid the risk of further alarmist stories in the press.

Yours ever
Nicholas

NICHOLAS RIDLEY

1. Alex - to see x
2. BF 18/3

X pl. m

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

CHIEF SECRETARY
11 MAR 1988
Mr Potter
CX Mr Anson Mr H Phillips
EST Mr Hawtin Mr Turnbull
Mr Fellgett Mr Call.

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

11 March 1988

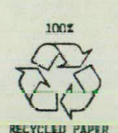
Dear John

NATIONAL NON-DOMESTIC RATE TRANSITION

The Debate in Standing Committee on the proposals for the transition went fairly well last week. No fewer than 7 of our colleagues spoke strongly on the need for adequate transitional arrangements. But they were generally satisfied with the assurances I was able to give, in the terms we agreed, and did not press their amendments to the vote.

It is clear, however, that there is a considerable head of steam behind some special scheme to give small businesses preferential transition arrangements, though the Debate in Committee gave a taste of how difficult it may be to define a small business for this purpose. I have asked my officials to put in hand the preparations of a paper which I can put to E(LF) on this issue and others related to the transition. I hope this can be discussed before Easter because I shall need to prepare amendments to provide for a special scheme for small businesses, if we decide on that, and to provide for the capping of gains to balance the pool.

X On that point, I have seen the note which was produced of our meeting on 2 March. I am generally content with it except that I do not believe that I accepted, in the absolute terms suggested, that I would drop altogether the proposal for a supplementary poundage or that I believed all of the cost of transitional protection could be met by the limit on gains. I accept that our objective should be that losers should be compensated by gainers, but it will be difficult to achieve such a result precisely even if we can avoid giving a figure for the level of transitional protection until after Royal Assent. If the effect on the national pool is to be neutral, which I take to be our principal objective, we must keep the option of a small supplementary poundage open. At least I do not think we should remove the power from the Bill.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Finally, although things went well with our own people, the Labour Party were quick to spot that the limit on gains meant that the benefits to manufacturing industry particularly in the North would be deferred. Those benefits were, of course, our strongest argument against their rejection of the UBR proposals and they are certain to be making the most of this deferral in their constituencies. We should, therefore, take any opportunities to stress the good news for the losers - of which there will be some even in the North - in the coming weeks, and of course to draw attention to the large benefits for the gainers even though these may not be realised in full at the outset. I hope that Peter Walker, Malcolm Rifkind, Kenneth Clarke and John Cope, may also be able to take any opportunities for this.

I am copying this letter, with a copy of the speaking notes on which I drew in Committee, to the Prime Minister, members of E(LF) and to Sir Robin Butler.

Yours ever
Nicholas

NICHOLAS RIDLEY

DRAFT SPEAKING NOTE ON NON-DOMESTIC TRANSITION

POINT I

THE FIGURES BEING BANDIED ABOUT SEEM A MOST UNRELIABLE GUIDE TO THE GENERAL IMPACT OF THE REVALUATION. IT IS TOO EASY TO TAKE PARTICULAR EXAMPLES AS THE BASIS FOR ALARMIST SPECULATION. OF COURSE THOSE THAT ARE MAKING THE CASE FOR CONCESSIONS WILL WANT TO DRAW ATTENTION TO THE WORST CASES BUT THOSE WHO MAKE THESE CASES ARE IN NO BETTER POSITION TO KNOW THE TRUE OUTCOME OF THE REVALUATION, THAN WE ARE. NO ONE - NOT EVEN THE VALUATION OFFICE - CAN KNOW UNTIL THE REVALUATION IS ACTUALLY COMPLETE. ONLY THEN WILL WE HAVE THE NATIONAL PICTURE WHICH WILL ALLOW US TO GET A CLEAR VIEW OF THE UBR POUNDAGE AND ASSESS THE IMPACT ON INDIVIDUAL BUSINESSES. I DO WANT TO MAKE THIS POINT, HOWEVER, THERE IS THE IMPRESSION BEING GIVEN THAT ALL BUSINESSES WILL BE LOSERS. THAT CANNOT BE THE CASE. THERE IS NO REASON TO BELIEVE THAT THERE WILL NOT BE AT LEAST AS MANY GAINERS AS LOSERS. TO BE FAIR TO THE NFSE THE EXAMPLES THEY CIRCULATED TO THE COMMITTEE CONTAIN SOME EXAMPLES OF SIGNIFICANT GAINS AS WELL AS LOSSES: - 47% IN A SHOE SHOP IN GLOUCESTERSHIRE, - 32% FOR A SHOP IN HULL - 62% FOR A SHOP IN PRESTATYN. BUT THE BALANCE OF LARGE LOSSES THEY SHOW IS NOT CREDIBLE, IF IT IS TAKEN TO INDICATE THE BROAD PATTERN OF THE REVALUATION.

POINT II

THUS WE CANNOT KNOW <u>NOW</u> HOW LONG A PERIOD OF TRANSITION IS NECESSARY. WE HAVE ALREADY ACCEPTED THAT THE LARGEST INCREASES

SHOULD BE PHASED IN OVER AT LEAST 5 YEARS. BUT I AM SURE HONOURABLE GENTLEMEN WOULD AGREE THAT THE SIZE OF THE MAXIMUM ANNUAL INCREASE IN RATE BILLS WHICH WE PROPOSE TO SET UNDER CLAUSE 43 SHOULD DEPEND, TO SOME EXTENT ON THE SIZE OF THE GAP THAT IS TO BE BRIDGED. BUT I CAN GIVE THIS ASSURANCE: THAT I AM VERY MUCH AWARE OF THE NEED TO ALLOW ENOUGH TIME FOR BUSINESSES TO ABSORB THE CHANGES IN RATE BILLS - PARTICULARLY INCREASES - AND FOR THOSE INCREASES TO BE TAKEN INTO ACCOUNT IN FUTURE RENT NEGOTIATIONS WITH LANDLORDS.

POINT III

I THINK THE WHOLE COMMITTEE WOULD ACCEPT THAT LIMITS ON RATE INCREASES WILL HAVE TO BE MATCHED BY THE DEFERRAL OF GAINS WHICH WOULD OTHERWISE BE DUE, OTHERWISE THE TOTAL YIELD OF THE BUSINESS RATE WOULD BE REDUCED. OBVIOUSLY, THOSE THAT STAND TO GAIN, ARE THOSE THAT HAVE BEEN PAYING TOO MUCH FOR SOME TIME NOW. IN DECIDING BY HOW MUCH TO LIMIT ANNUAL INCREASES, WE MUST TAKE ACCOUNT OF THE IMPACT ON THOSE THAT HAVE LEGITIMATE EXPECTATIONS OF SOME RELIEF. THERE WILL INEVITABLY BE A COST OF PROTECTING THOSE THAT LOSE AND IT ~~MAY~~ WILL BE ~~APPROPRIATE~~ NECESSARY TO ARRANGE FOR THERE TO BE OFFSETTING LIMITS ON THE RATE AT WHICH GAINS CAN BE TAKEN. THE SYSTEM IS NOT SYMMETRICAL SO ANY LIMITS MAY HAVE TO BE IN THE FORM OF AN X% LIMIT ON INCREASES AND A Y% LIMIT ON REDUCTIONS IF WE ARE TO ACHIEVE THE OBJECTIVE THAT THE EFFECT ON THE POOL AS A WHOLE IS NEUTRAL. IT MAY ALSO BE THE CASE THAT A SMALL PREMIUM ADDITION TO THE UBR POUNDAGE UNDER THE PROVISIONS OF PARA 7 OF SCHEDULE 4 IS REQUIRED - AT LEAST IN THE FIRST YEAR - IF THE X AND Y FACTORS DO NOT PRODUCE A REASONABLE BALANCE. BUT SO FAR AS POSSIBLE WE WILL SEEK TO MATCH THE CONCESSIONS TO THE LOSERS WITH A LIMIT ON THE GAINERS.

Point IV

My hon friend the member for Bournemouth is specifically seeking a limit on the transitional arrangements as they apply to small businesses. He has suggested a dividing line between small and large business as a rateable value of £15,000 on the new lists.

I do not find that idea unacceptable in principle although I would like to look more closely at the detailed proposal for giving that help, especially at the particular dividing line. I want to emphasize that what attracts me to this scheme is that it proposes different transitional regimes for small and large businesses rather than different end states. It does not seem too difficult, or wrong in principle, to say that large businesses could be limited to annual increases of x% while small businesses could be limited to x-5% increases and reductions in their rate bills in real terms.

There are problems about setting a dividing line by reference to rateable value because any particular rateable value chosen will involve very different properties in different parts of the country and because any particular property might cross the boundary - in either direction - during the course of the transition - because of physical extensions or successful appeals. But I am happy to undertake to consider such a scheme when I make regulations under clause 43 in the autumn. I fear this must be without commitment at this stage because as I have said, we do not yet know the figures with which we will be dealing. Nor is it certain what businesses themselves will make of such a proposition.

POINT V

I REALISE THAT THIS OR ANY OTHER SCHEME OF TRANSITION COULD TAKE US BEYOND 1995 BEFORE ALL THE EFFECTS ARE PHASED IN. TO THOSE THAT HAVE URGED THE CASE FOR A LONGER PERIOD OF TRANSITION, I CAN SAY THAT I ACCEPT THAT THIS SHOULD BE A POSSIBILITY. I SHALL THEREFORE BE BRINGING FORWARD AMENDMENTS AT A LATER STAGE TO ALLOW FOR A FURTHER SET OF TRANSITIONAL ARRANGEMENTS TO BE INTRODUCED TO DEAL WITH THE COMBINED EFFECTS OF THE REMAINDER OF THE 1990 REVALUATION AND THE NEXT REVALUATION IN 1995. AND THAT IS A COMMITMENT.

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any other recent pp on this?
M.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 March 1988

Dear Roger,

THE COMMUNITY CHARGE: MEMBERS OF RELIGIOUS ORDERS

The Prime Minister was grateful for your Secretary of State's minute of 7 March, setting out his detailed proposals for the exemption for members of religious orders from the community charge.

The Prime Minister is doubtful about one aspect of your Secretary of State's proposals, namely the exemption from the charge for monks and nuns who covenant their income to their religious order. She has noted that, although legal advice is that income which is covenanted is the property of the covenantee from the outset, it is for the covenantor in the first instance to decide to make that arrangement. The Prime Minister also wonders whether accepting the principle that someone who covenants should be exempted might have wider undesirable repercussions; for example if a person covenanted their whole income to a child, a third person or a charity could they then be eligible for social security benefit?

The Prime Minister would therefore be grateful if your Secretary of State could give further consideration to this aspect of the proposals.

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

Yours,

Paul.

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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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

14 March 1988

Dear Mr Ridley

COMMUNITY CHARGE: ATTACHMENT OF BENEFIT

I note that in your letter of 11 March, you describe the manner in which an attachment of benefits order would be applied. This seems to me to be fully in line with the decision of E(LF) on 4 February and this is the course we should now be pursuing.

E(LF) endorsed my contention that low income individuals who default on their community charge should be treated in a consistent fashion, ie that an attachment order should be considered whether the income consists of earnings or social security benefit. This argument seems to be one which will be easy to defend in that recipients of benefit will not be regarded as second class citizens who require special measures to ensure payment of the charge.

Despite the above, you are now proposing, directly contrary to the decision of E(LF) to introduce attachment of benefit, that a system of direct deductions should be applied to income support recipients. I totally disagree with this suggestion. As I have said before a system of direct deductions would not only be seen as a form of a discrimination against income support recipients but would cause significantly more administrative problems at a time when the repayment of social fund loans will be taxing the resources of my local offices.

I fully agree that the E(LF) decision to consider an attachment of benefits order should be announced as soon as possible to avoid further rumour.

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

Yours sincerely

R D Clark

for JOHN MOORE
(approved by the Secretary of State and signed

Institute of Directors

14 MAR 1988

BF ~~16/3~~ ~~22/3~~ ~~24/3~~

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

11 March 1988

Mr. Jaundoo IK
PPS, CST, PMG, EST
Mr. Anson Mr. Kemp
Mr. Hawtin Mr. Potter
Mr. Culpin Mr. Hoare
Mr. Tyrie PS/IR

Dear Norman,

NON-DOMESTIC RATES - REVALUATION.

I wrote to you on 17 February urging you to publish as soon as possible preliminary estimates of the outcome of the revaluation to assist the Parliamentary discussions about the phasing arrangements in the Local Government Finance Bill.

Since then the Secretary of State has made the welcome announcement in Standing Committee that he accepts the case for extending the phasing over a longer period than five years and for more generous relief for small business premises. He said that he could not settle the percentage limits on year-on-year increases in rates bills or the length of the phasing period until he knew the outcome of the revaluation and would wish to consult with business organisations before coming to a final decision. He also said that he would be bringing forward regulations under clause 43 "in the autumn".

The implication, therefore, is that preliminary information on the revaluation is to be made available in good time for consultations before those regulations are laid. We would welcome your confirmation that this is correct.

Yours

Judith

Judith Chaplin
Head of Policy Unit

figures that would have applied had the community charge been fully in force this year, which would have been to the great benefit of his constituents.

Estuarine Development Schemes

8. **Mr. Ron Davies:** To ask the Secretary of State for the Environment what information he has as to how many estuarine development schemes are presently under consideration for England and Wales.

The Secretary of State for the Environment (Mr. Nicholas Ridley): I am not sure what an estuarine development scheme is.

Mr. Davies: If that is the case, I am not quite sure what we have a Secretary of State for the Environment for.

When the right hon. Gentleman gets round to doing some work in his Department and starts to identify the many estuaries around the coast of England and Wales threatened by developments — to control the ebb and flow of water or provide marinas, barrages or crossings — perhaps he will take the opportunity to study the number of estuaries affected by such developments and identified as sites of special scientific interest. When he has done that, will he be prepared to make a clear statement to the country about the value that he attaches to sites of special scientific interest when they are threatened by development?

Mr. Ridley: I would not dare to make any clear statement about any matter to do with planning in Wales. As the hon. Gentleman knows, it has nothing to do with me. As any application for development in relation to an estuary or anywhere else comes forward, it will be treated in the normal way and all relevant considerations will be properly weighed.

Mr. Steen: Since I have virtually more estuaries in my constituency than Labour voters, would my right hon. Friend be good enough, when looking at estuarial development, to realise the pressure on the land around estuaries, particularly in constituencies such as mine, where there are areas of outstanding natural beauty and where people want to come and live and constantly want to erode the natural beauty of the area? Will he consider issuing some circular or guidance to encourage local planning authorities to resist any suggestion that areas such as that should be spoiled for development?

Mr. Ridley: I shall certainly resist any Labour voter development schemes that come to my notice. The factors that my hon. Friend mentioned are important and are, or should be, taken into account at the level of applications and certainly will be if anything comes to me on appeal. I think that these matters are already covered adequately in circulars.

Rating Reform

9. **Mr. Nellist:** To ask the Secretary of State for the Environment what is his estimate of the number of single pensioners who will be *(a)* losers or *(b)* gainers under the poll tax; and if he will make a statement.

Mr. Howard: In England and Wales 80 per cent.— around 2 million—of single pensioners living alone and 66 per cent. — around 2·75 million — of all single pensioners would have gained if the community charge had been introduced in full on the basis of 1987-88 local authority spending. Twenty per cent. — around half a million and 34 per cent. — just over 1 million — respectively would have paid more.

Mr. Nellist: It is bad enough that a third of a million single pensioners living along would suffer under the poll tax and be losers, often the poorest pensioners living in the lowest-rated authorities. Why has the Minister not admitted, almost until the answer today, that of the 1 million single pensioners living with their children or grandchildren, two thirds will be losers under the poll tax? Yesterday half a million of the richest people in this country gained £2,000 million in tax cuts while, in reality, 1 million single pensioners in England alone—just over 2,000 per constituency—will lose under the poll tax.

Mr. Howard: It is absolutely typical of the hon. Gentleman that when a measure is taken that ensures that 80 per cent. of single pensioners living alone will benefit, he complains about it. The effect of the Budget yesterday on a single adult on national average earnings would be to make him better off by more than £200 a year. That is virtually enough to pay for his community charge in the average area.

Sir George Young: Does my hon. and learned Friend recall defending the poll tax as a fair tax before the Budget by saying that households in the top 10 per cent. of incomes would pay 16 times as much as households in the bottom 10 per cent? How does he propose to defend it now?

Mr. Howard: My hon. Friend is quite right. We have to reconsider our figures in the light of the Budget. I have to tell the House that we have not yet completed that exercise. Preliminary estimates show that instead of the top 10 per cent. of households paying 16 times as much as the bottom 10 per cent. towards the cost of local authority services, in future they are likely to be paying 15 times as much.

Mrs. Fyfe: Would the Minister care to tell us how much more the top earners are earning when compared to the bottom earners? Is it more than 15 times as much?

Mr. Howard: I am afraid that I tried to follow the hon. Lady's question but I did not catch it.

Mr. Speaker: Quite exceptionally, will the hon. Lady say it again?

Mrs. Fyfe: The Minister said that the top earners would now be paying 15 times as much, implying that the tax changes have made very little difference towards the comparison about which we are talking. Those top earners may be contributing 15 times as much to local taxes but how much more are they earning when compared with the lowest earners? Is it more or less than 15 times as much?

Mr. Howard: It is not how much they are earning or even how much they are paying in national taxes that is the figure that I gave a few moments ago. The top 10 per cent. of households in income terms will pay 15 times as much towards the cost of local authority services as the bottom 10 per cent.

Housing (Maladministration)

10. **Mr. David Martin:** To ask the Secretary of State for the Environment whether he will meet members of the

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 March 1988

Dear Roger,

COMMUNITY CHARGE: ATTACHMENT OF BENEFIT

The Prime Minister has seen the recent exchanges between your Secretary of State and the Secretary of State for Social Services following the earlier E(LF) discussion.

The Prime Minister considers that the treatment of community charge payers in work and on benefit should be on all fours. Since the attachment of earnings has to be done by Court Order, she feels that deductions from benefit should follow the same route.

I am copying this letter to the Private Secretaries to members of E(LF), the Lord Chancellor and Trevor Woolley (Cabinet Office).

Yours,

Paul

Paul Gray

Roger Bright, Esq.,
Department of the Environment.

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24/1/DJS/2328/32

UNCLASSIFIED

FROM: R FELLGETT
DATE: 17 March 1988

1. MR HAWTIN
2. CHIEF SECRETARY

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

NATIONAL NON-DOMESTIC RATE TRANSITION

Mr Ridley's letter of 11 March is primarily a record of the approach he took in Committee, following his agreement with you on the broad nature of the transition to new non-domestic rates bills after 1990.

2. However, he comments that he did not wish to drop altogether the idea of a supplementary poundage alongside a transition in which phasing for losers would be broadly offset by phasing for gainers. I suggest that you accept this, in the terms of the amendments you suggested to Mr Ridley's draft statement, which he accepted in spirit (although not quite as fully as we might have hoped). A brief response to Mr Ridley's letter would also provide an opportunity to circulate the notes of your meeting with him, for which there have been a number of requests from other Departments.

3. Mr Ridley also mentions that he hopes to put a paper to E(LF) on the transition issue. This should be directed primarily at the question of what additional powers he needs in the Bill to provide flexibly for a transition, to be set out in Regulations once genuine information about gainers and losers is available.

There is, however, a chance that Mr Ridley will try and reopen the understanding that no details of the transition need be announced until the Autumn.

4. You might also wish to note that, consistently with your understanding with Mr Ridley, the VO and IR have in hand some work to prepare to provide a representative sample of revaluation information. This will be collected over the Summer as the revaluation begins, with the aim of informing Autumn decisions on the transition.

Robin Fellgett

R FELLGETT

24/1/DJS/2328/33

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE TO SECRETARY OF STATE FOR THE ENVIRONMENT

NATIONAL NON-DOMESTIC RATE TRANSITION

Thank you for your letter of 11 March.

2. I was pleased to hear that the debate in Committee went well, and that our supporters were satisfied with the line that we agreed.

3. On the point you raised about the minutes of our meeting on 2 March (attached for colleagues who have not previously seen them) I am happy to confirm that I am not pressing you to remove the power to set a supplementary poundage from the Bill. There is much to be said for retaining the maximum flexibility. But, as we agreed, it will be necessary for the phasing for losers to be broadly offset by phasing for gainers, so any supplement to the NNDR poundage in 1990-91 or later years that may be needed to balance the financial consequences of these two sides of the phasing will be very small.

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

[J.M]

24/1/342/030

MR R I G ALLEN

FROM: 17 March 1988

cc: Mr Hawtin
Mr Potter o/r
Mr Pickford
Miss Sinclair
Mr Scotter

THE BUDGET AND FUNDING OF LOCAL AUTHORITIES

According to the Financial Times (bottom right hand corner of page 11) Michael Howard, the DOE junior Minister, yesterday told the Commons that, following the Budget tax cuts, the top 10% of earners would pay 15 instead of 16 times as much towards local authority services as the bottom 10%.

2. In previous correspondence with DOE we have agreed that they could say that the top 10% pay about 15 times as much as the bottom 10%. This reflects the progressive nature of central government taxation in aggregate, and the fact that about half of local authority expenditure is financed by government grant. The figure of "about 15" was based on historical data about expenditure and taxation, and will no longer be valid following the Budget tax changes.

3. DOE officials accept that there is no basis in fact for Mr Howard's statement, and acknowledge that it was also contrary to my agreement with them that no figures, not even the 15% previously agreed, would be used following the Budget. They have apologised.

4. They will advise Mr Howard to write to Sir George Young (who asked the Question being Answered) withdrawing the figures, and explaining that no figure can be calculated at present, because the previous estimates were based on outturn expenditure patterns which could not be updated with the Budget tax changes. I have asked them to make it clear to Mr Howard that the Treasury is concerned about incorrect statements of this type being made to the Commons, particularly during the Budget Debate.

5. If, in the meantime, you should get any queries I suggest you simply take the line that the Treasury does not recognise these figures, and refer any enquiries to the DOE Press Office.

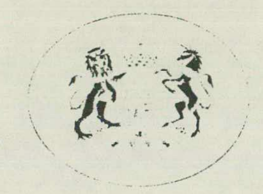
Robin Fellgett

R FELLGETT

002/3298

PS/Chancellor
PS/Financial Secretary
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Scholar
Mr Turnbull
Mr Potter
Mr Hawtin
Miss Sinclair
Mr Fellgett
Mr Call
Mr Tyrie

PS/IR
Mr Morgan (CVO)
Mr Jaundoo (IR)
Mr Gonzalez (IR)



Treasury Chambers, Parliament Street, SW1P

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

21st March 1988

Dear Secretary of State,

NATIONAL NON-DOMESTIC RATE TRANSITION

Thank you for your letter of 11 March.

I was pleased to hear that the debate in Committee went well, and that our supporters were satisfied with the line that we agreed.

On the point you raised about the minutes of our meeting on 2 March (attached for colleagues who have not previously seen them) I am happy to confirm that I am not pressing you to remove the power to set a supplementary poundage from the Bill. There is much to be said for retaining the maximum flexibility. But, as we agreed, it will be necessary for the phasing for losers to be broadly offset by phasing for gainers, so any supplementary to the NNDR poundage in 1990-91 or later years that may be needed to balance the financial consequences of these two sides of the phasing will be very small.

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

Yours sincerely,

pp JOHN MAJOR

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

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
Private Secretary to the
 Secretary of State for the Environment
Department of Environment
2 Marsham Street
London
SW1

2 March 1988

Dear Roger,

NATIONAL NON-DOMESTIC RATE: TRANSITION

Your Secretary of State came to discuss the problems he was facing in the Standing Committee consideration of the Local Government Finance Bill on the transition to the national non-domestic rate and the introduction of the new non-domestic rateable values. He said that there was a strong risk of rebellion from Conservative members tomorrow which necessitated addressing three issues:

(a) how big the annual uprating above inflation should be during the transition - the small business lobby was arguing for a 10 per cent cap on real rate bill increases;

(b) how the transition should be financed - whether it should be financed through a cap on gains or through a higher NNDR poundage and

(c) whether there was a case for a special transition regime for small businesses.

The timing of data on new rateable values meant that it would be impossible to devise the right transition scheme until the Bill was on the statute book. But the backbenchers would not simply take the Government's position on trust. He accepted the points made by the Prime Minister and the Chief Secretary that the gainers should pay for the transition scheme - gainers

would therefore be capped and losers safety netted. It was unclear yet whether the cap and safety net would be symmetric because the balance of gains and losses would be different. The size of the NNDR would depend on how the scheme would be devised - there might be a case for a small supplement or discount on the NNDR of 1 to 2p.

The Chief Secretary noted that ELF had envisaged 20 to 25 per cent caps on increases.

Continuing, your Secretary of State said that there was no question of the Exchequer providing a penny more. He would drop his idea of a supplement on the rate. But he wanted in Committee tomorrow to hold out the possibility of increases less than 20 per cent in real terms. The lobbies were producing horror stories and were demanding a special regime for small businesses. He wanted to be able to say that he would consider the case for an easier transition - a limit of say 15 per cent a year on both gains and losses for small businesses. He would therefore like to make three points in Committee tomorrow:

(a) that the phasing should be affordable - in the range of 15 to 20 per cent per annum real increases;

(b) that it should be paid for by a cap on gainers and

(c) that he accepted that there might be a case for slower transition for small business. He would not be committed to such slower transition but he believed that it was tactically essential to be prepared to acknowledge the case.

The Chief Secretary said that he was pleased that Mr Ridley accepted the point on gainers. But he was far from clear that there was a need to give an indication of figures tomorrow. He believed it would be very hard for Tory rebels to vote against the Government on the basis that the Government would indicate the figures once it had more reliable information on the scales of gains and losses rather than taking a leap in the dark. If such a broad indication had to be given it should be of a range of 15 to 25 per cent. Your Secretary of State said that since the E(LF) decision had been in the terms of 5 year transition the figure of 25 per cent had not arisen. The Chief Secretary pointed out that phasing over 5 years only implied 20 per cent increases if no-one faced an increase larger than 100 per cent.

Your Secretary of State said that the reassurance he was seeking would not have a cost to the Exchequer. Mr Butterfill had tabled an amendment to provide for a more gentle transition for small businesses with rateable values of under £15,000. He was not going to accept the amendment as such although he thought

that the principle behind it was quite sensible. He wished therefore to be non-committal but sympathetic in the Committee consideration the next day. He would stress that any scheme would be paid for by the gainers. He would acknowledge there might be a case for an easier transition for smaller businesses.

The Chief Secretary asked Mr Ridley to produce a form of words which he would then consider.

I am copying this letter to Paul Gray at No. 10.

Yours,

Jill

JILL RUTTER
Private Secretary

pso 30M

MP

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

23 March 1988

Mrs K Hammond
The Terningwheel
Effingham Road
COPTHORNE
W. Sussex

Dear Mrs Hammond,

The Chancellor has asked me to thank you for your letter of 10 March on behalf of the Showmans' Guild of Great Britain. He has noted the points you make.

Yours sincerely,

Moira Wallace

MOIRA WALLACE
Private Secretary

CONFIDENTIAL

Ch/less good stuff

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CHIEF SECRETARY
REC. 24 MAR 1988
ACTION: Mr McIntyre
COPIES TO: Cx Mr Anson, Mr Phillips, Mr Hawtin, Miss Peirson, Mr Turnbull, Mr Gibson, Mr Call

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

23 March 1988

Dear Paul,

Thank you for your letter of 17 March which my Secretary of State saw with those from Jill Rutter of 8 March and Rod Clark of 9 March.

My Secretary of State is happy for the work to be carried forward in the DHSS group to a remit broadly as proposed by the Chief Secretary. He remains convinced that the problems raised in his minute of 19 February are real ones and must be addressed urgently: in his view, the marginal tax rate illustrated in that minute of 90.1% for low earners is already excessive, particularly after the income tax reductions in the Budget; and it would now be all the more unwise to increase that tax rate to 93.4% by steepening the housing benefit taper to 70% for 1989/90. He is coming under increasing pressure in the Local Government Finance Bill where the issue is beginning to be understood by a number of backbenchers. He fears the subject will be difficult to handle at Report Stage, and even more so when the Bill is in the Lords. It may also arise on the Housing Bill.

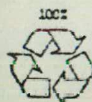
Accordingly, my Secretary of State hopes that the group can consider the options quickly, to a timetable which would allow for collective Ministerial discussion before, say, the end of May, in advance of the main PES discussions. Perhaps Geoffrey Podger could confirm that such a timetable is achieveable.

I am copying this letter to Jill Rutter (Treasury), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (DTI), Nick Wilson (Employment) and Trevor Woolley in Sir Robin Butler's Office.

Yours sincerely,

Deborah

DEBORAH LAMB
Private Secretary



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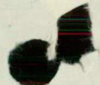


FROM: MOIRA WALLACE
DATE: 23 March 1988

MR FELLGETT

cc PS/Chief Secretary
Mr Hawtin
Mr R I G Allen
Mr Potter
Mr Pickford
Miss Sinclair
Mr Scotter

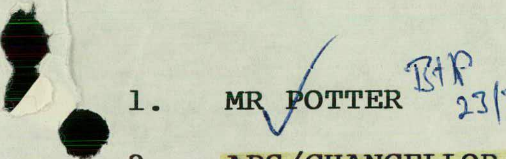
THE BUDGET AND FUNDING OF LOCAL AUTHORITIES

The Chancellor has seen a copy of your minute of 17 March to Mr Allen. He would like to know what the correct post-Budget figure is.

MPW

MOIRA WALLACE

24/1/344/014



BF 28/3 29/3

1. MR POTTER BAP 23/3

2. APS/CHANCELLOR

FROM: R FELLGETT

Date: 23 March 1988

cc: PS/Chief Secretary
Mr Hawtin o/r
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Scotter
cc Mr Culpin

THE BUDGET AND FUNDING OF LOCAL AUTHORITIES

The Chancellor enquired (your minute of 23 March) about the correct post-Budget figure.

2. The Chancellor may recall that we earlier agreed with DOE officials that they should refer to the top 10% of households by income contributing about 15 times as much as the bottom 10% of households to local authority finance, on current tax and grant arrangements but under the Community Charge. This estimate took account of the progressivity of central taxation, which funds grant, and the existence of rebates from the Community Charge for poor households. It was based on outturn information about patterns of expenditure and tax payments in 1986, and inevitably subject to considerable uncertainty.

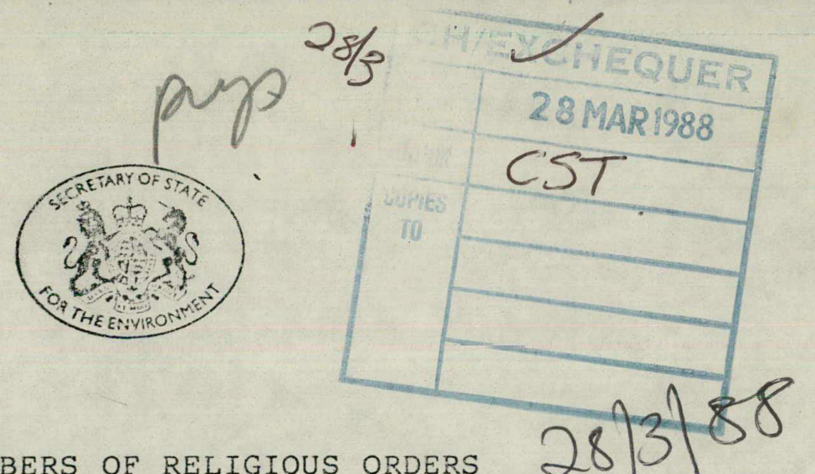
3. Any post-Budget estimate is subject to greater uncertainty, due to the difficulty of estimating behavioural reactions to tax charges. The best estimate available is that it will reduce the ratio by a little less than 1 (eg from 15:1 to over 14:1, if 15 was indeed the correct figure). We have accordingly told DOE to continue to refer to "about 15", while emphasising that this cannot be a precise estimate.

Robin Fellgett

R FELLGETT

Alex

See X. We never wrote in to suggest windsurfing M



Prime Minister

THE COMMUNITY CHARGE: MEMBERS OF RELIGIOUS ORDERS

I am grateful for colleagues' responses to my minute of 7 March.

I accept that the exemption should not extend to salaried monks and nuns who covenant their income to their order. I now understand that there are ways in which such covenants could be made net of community charge liability, and that the Churches themselves have indicated that they would not press for such an exemption.

X I am happy, as Peter Walker suggests, to include education in the list of activities which would qualify members of a religious community for exemption, provided, of course, that salaried teachers were excluded.

Malcolm Rifkind has suggested that it would be better if the "principal occupation" test applied to the community rather than the individual. I accept that this would greatly reduce the practical problems for community charge registration officers, who would almost certainly have adopted this approach in any event. I do not think, however, that we can link the poverty test to the rules of the order. We have received representations from members of Buddhist communities who objected to references to "rules" on the grounds that poverty for Buddhists was more a matter of fact than of rule. Where the community in question does have a rule of poverty it should not, in practice, be difficult for CCROs to establish which members of the community are bound by it. Other cases may provide some difficulties, but they will be few and far between.

I now propose to arrange for amendments to the Bill to be drafted in line with my proposals, subject to the changes mentioned above. The amendments would be introduced in the Lords. I propose

also to write to the Cardinal Archbishop of Westminster, which I undertook to do when the Government had come to a decision, explaining the effect of our proposed exemption in general terms. In order to minimise the likelihood of non-Government amendments on the subject at Commons Report stage, I also propose to announce the decision by way of a written answer, in terms of the attached draft.

Since this now meets colleagues' concerns, and in view of the need to move quickly with Report Stage approaching, I propose to issue the written answer and write to Cardinal Hume before the House rises for the Easter Recess.

I am copying this minute to Members of E(LF) and to Sir Robin Butler.

N R

28 March 1988

DRAFT INSPIRED PQ

To ask the Secretary of State for the Environment whether he proposes to exempt members of religious orders from the community charge.

DRAFT ANSWER

The Government proposes to table amendments to the Local Government Finance Bill which will have the effect of exempting from the community charge members of religious orders the principal occupation of which is devoted to prayer, contemplation, the relief of suffering, education, or such other activities as may be prescribed. The exemption will be limited to those who are dependent on their communities for their material needs, and who have no income or capital of their own.

07 APR 1988

Delayed due to Enclosures.

BF to Moira 15/3

Minister for Local Government

CHIEF SECRETARY	
REC.	- 8 APR 1988
ACTION	Mr Potter
COPIES TO	Mr Anson Mr Phillips Mr Hawtin Miss Peirson Mr Turnbull Mr McIntyre Mr Gibson Mr Fellgett Mr Call

FINANCIAL SECRETARY	
REC.	07 APR 1988
ACTION	CST
COPIES TO	

Department of the Environment
2 Marsham Street
London SW1P 3EB

Telephone 01-212 7601

(recds)

PS cc to Mr Culpin & Mr Scotter + return

28 March 1988

Dear Norman

THE COMMUNITY CHARGE AND THE BUDGET

As you know, we have used as part of our defence of the community charge the argument that those with the highest incomes will pay far more towards the cost of local services than the less well off, because about half the cost of local services is met from national taxation, in the form of Government grants to local authorities.

Our previous estimate had been that the households with the top 10% of incomes would pay some 16 times as much as the households with the bottom 10%. George Young has now asked me how that figure might be affected by the Budget changes.

We need to give a reply that is as helpful and specific as possible: evasiveness will merely mean renewed questioning on this point, and will blunt the impact of an argument which we have been putting in the forefront of our case. I enclose a draft of the letter I would like to send. Because this inevitably involves some interpretation of the impact of the Budget, I would be grateful for your agreement to a response in these terms.

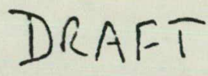
Yours ever

Michael

MICHAEL HOWARD

PS I did actually use the "15+" formula in answering George Young's question before I knew of any Treasury sensitivity on the point — Hansard attached!

The Rt Hon Norman Lamont MP



Minister for Local Government

Department of the Environment
2 Marsham Street
London SW1P 3EB

Telephone 01-212 7601

March 1988

During Environment Questions on 16 March, you asked how the Budget affected our estimate that, when the community charge is introduced, the top 10% of households by income would, on present tax and grant arrangements, pay 16 times as much towards the cost of local services as the bottom 10%. You have also asked a Priority Written PQ on the same issue.

Our estimate was based, not on extrapolations from tax rates before the Budget, but on calculations derived from the actual amounts of tax paid, both direct and indirect, as revealed by the Family Expenditure Survey for 1986. Obviously, such sample data can only be obtained some time after tax rates are set. We will not therefore be able to recalculate the relative contributions of the top 10% and the bottom 10% of households on the same basis in the immediate future.

We have, however, undertaken some sensitivity tests which suggest that the ratio is unlikely to fall below about 15:1 as a result of the recent Budget.

It also remains true that the estimated ratio between these two groups would be greater with the community charge than it is with rates, because of the extent of the benefit to the poorest households of the new local government finance system.

You asked me in the House how I propose to defend our proposals. I have no difficulty in continuing to do so with precisely the same arguments I have used in the past.

MICHAEL HOWARD

Sir George Young Bt MP

gures that would have applied had the community charge been fully in force this year, which would have been to the great benefit of his constituents.

Estuarine Development Schemes

8. **Mr. Ron Davies:** To ask the Secretary of State for the Environment what information he has as to how many estuarine development schemes are presently under consideration for England and Wales.

The Secretary of State for the Environment (Mr. Nicholas Ridley): I am not sure what an estuarine development scheme is.

Mr. Davies: If that is the case, I am not quite sure what we have a Secretary of State for the Environment for.

When the right hon. Gentleman gets round to doing some work in his Department and starts to identify the many estuaries around the coast of England and Wales threatened by developments — to control the ebb and flow of water or provide marinas, barrages or crossings — perhaps he will take the opportunity to study the number of estuaries affected by such developments and identified as sites of special scientific interest. When he has done that, will he be prepared to make a clear statement to the country about the value that he attaches to sites of special scientific interest when they are threatened by development?

Mr. Ridley: I would not dare to make any clear statement about any matter to do with planning in Wales. As the hon. Gentleman knows, it has nothing to do with me. As any application for development in relation to an estuary or anywhere else comes forward, it will be treated in the normal way and all relevant considerations will be properly weighed.

Mr. Steen: Since I have virtually more estuaries in my constituency than Labour voters, would my right hon. Friend be good enough, when looking at estuarial development, to realise the pressure on the land around estuaries, particularly in constituencies such as mine, where there are areas of outstanding natural beauty and where people want to come and live and constantly want to erode the natural beauty of the area? Will he consider issuing some circular or guidance to encourage local planning authorities to resist any suggestion that areas such as that should be spoiled for development?

Mr. Ridley: I shall certainly resist any Labour voter development schemes that come to my notice. The factors that my hon. Friend mentioned are important and are, or should be, taken into account at the level of applications and certainly will be if anything comes to me on appeal. I think that these matters are already covered adequately in circulars.

Rating Reform

9. **Mr. Nellist:** To ask the Secretary of State for the Environment what is his estimate of the number of single pensioners who will be *(a)* losers or *(b)* gainers under the poll tax; and if he will make a statement.

Mr. Howard: In England and Wales 80 per cent. — around 2 million — of single pensioners living alone and 66 per cent. — around 2·75 million — of all single pensioners would have gained if the community charge had been introduced in full on the basis of 1987-88 local authority spending. Twenty per cent. — around half a million and 34 per cent. — just over 1 million — respectively would have paid more.

Mr. Nellist: It is bad enough that a third of a million single pensioners living along would suffer under the poll tax and be losers, often the poorest pensioners living in the lowest-rated authorities. Why has the Minister not admitted, almost until the answer today, that of the 1 million single pensioners living with their children or grandchildren, two thirds will be losers under the poll tax? Yesterday half a million of the richest people in this country gained £2,000 million in tax cuts while, in reality, 1 million single pensioners in England alone—just over 2,000 per constituency—will lose under the poll tax.

Mr. Howard: It is absolutely typical of the hon. Gentleman that when a measure is taken that ensures that 80 per cent. of single pensioners living alone will benefit, he complains about it. The effect of the Budget yesterday on a single adult on national average earnings would be to make him better off by more than £200 a year. That is virtually enough to pay for his community charge in the average area.

Sir George Young: Does my hon. and learned Friend recall defending the poll tax as a fair tax before the Budget by saying that households in the top 10 per cent. of incomes would pay 16 times as much as households in the bottom 10 per cent? How does he propose to defend it now?

Mr. Howard: My hon. Friend is quite right. We have to reconsider our figures in the light of the Budget. I have to tell the House that we have not yet completed that exercise. Preliminary estimates show that instead of the top 10 per cent. of households paying 16 times as much as the bottom 10 per cent. towards the cost of local authority services, in future they are likely to be paying 15 times as much.

Mrs. Fyfe: Would the Minister care to tell us how much more the top earners are earning when compared to the bottom earners? Is it more than 15 times as much?

Mr. Howard: I am afraid that I tried to follow the hon. Lady's question but I did not catch it.

Mr. Speaker: Quite exceptionally, will the hon. Lady say it again?

Mrs. Fyfe: The Minister said that the top earners would now be paying 15 times as much, implying that the tax changes have made very little difference towards the comparison about which we are talking. Those top earners may be contributing 15 times as much to local taxes but how much more are they earning when compared with the lowest earners? Is it more or less than 15 times as much?

Mr. Howard: It is not how much they are earning or even how much they are paying in national taxes that is the figure that I gave a few moments ago. The top 10 per cent. of households in income terms will pay 15 times as much towards the cost of local authority services as the bottom 10 per cent.

Housing (Maladministration)

10. **Mr. David Martin:** To ask the Secretary of State for the Environment whether he will meet members of the

CONFIDENTIAL

FROM: J S HIBBERD
DATE: 30 MARCH 1988

MCS 30/3

A meeting at this point would be a good idea.

1. MR SCHOLAR
2. SIR PETER MIDDLETON
3. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Anson
Sir Terence Burns
Dame A Mueller
Mr H Phillips
Mr Culpin
Mr Hawtin
Mr C W Kelly
Mr Odling-Smee
Mr Sedgwick
Mr Peretz
Miss Peirson
Mr Turnbull
Mr Potter
Mr Cropper

Ch
I find the indexed gilts argument quite weighty; but the other arguments against Option B seem much more flimsy. I should have thought we should seek legal advice on the indexed gilt point, but subject to that should continue to press for B.
A meeting soon after Washington/Easter?
AA

HIBBERD → CHEX 30/3

THE TREATMENT OF THE COMMUNITY CHARGE IN THE RPI

We now have a revised draft of DEmp's paper on the treatment of the Community Charge in the RPI. (A copy is attached - top copy only.) It is an improvement on the original, though it is still not as good as we would like. However, I suspect, it is as good as we are likely to get. There is probably not much to be gained by going back to the drafters for fundamental revisions, though we can suggest some tightening up in various places. Once it is agreed (by correspondence) it will be circulated by Mr Fowler to certain Ministers.

Options

2. The DEmp draft suggests three main options for treating the community charge:

Option A. Replaces rates with the community charge in the RPI. This would have the effect of raising the level of the RPI in April 1990 by about ¼ per cent. It would also increase faster thereafter than under Options B or C if, as seems likely (and as has been the case with rates), the community charge rises faster than prices generally.

Why?

Option B. Rates removed from the RPI without introducing a major discontinuity. The community charge is not included in the RPI. The RPI would rise more slowly, perhaps by 0.1-0.2 per cent per annum, than in Option A.

cc-rpi29.3

<u>Option C.</u> Rates reduced to near zero in April 1990 and the community charge not included in the RPI. This would lead to a <u>step</u> reduction of about 4 per cent in the RPI for the year beginning 1990Q2. Thereafter, as with Option B, it would grow more slowly than in Option A.

<u>**Existing RPI Methodology**</u>

3. In terms of existing RPI methodology the general issue seems clear. Rates are an indirect tax, on imputed housing services, and thus have a place in the RPI along with other indirect taxes. The Community Charge, on the other hand, is not an indirect tax, since it does not vary with the consumption of any particular service. It is more akin to a direct tax and does not belong in the RPI. It should not replace rates in the RPI when rates are dropped. Rates should be left in the index, but be given a zero price, when the community charge is implemented.

4. This argues for Option C, or, if that is regarded as impractical, for some version of Option B. (There are various versions of Option B presented in the Annex to DEmp's latest draft. They simply represent different profiles for phasing out rates.) This was the approach strongly favoured by you when we last approached you on the subject. (Alex Allan's minute to Peter Sedgwick - 18 January.) However, it presents some particularly acute problems.

<u>**Indexed Gilts**</u>

5. The Indexed Gilts prospectus says:

> "If any change should be made in the coverage or the basic calculation of the index, which in the opinion of the Bank of England constitutes a fundamental change in the index which would be materially detrimental to the interest of stockholders, Her Majesty's Treasury will publish a notice ... informing stockholders and offering them the right to require Her Majesty's Treasury to redeem this stock."

6. The question is, what constitutes a change to the coverage or calculation of the index? We could argue that Option C is the only option that strictly represents no change to existing methodology. But Option C would require Ministers to argue that the Community Charge is a direct tax and not a charge which may vary with the consumption of some service. It would also require a clear and unambiguous view from statisticians in all the Departments concerned - something we seem unlikely to get. Moreover, it would involve losses for social security beneficiaries and IG holders (see below). It may be, therefore, that it should be set aside as an unrealistic option. If so, Option B is the closest we can get to no change. It may, arguably, represent a change, but it is a change that benefits IG holders, relative to Option C.

Only DOE have diffs.

Why?

7. We have not yet formally consulted the Bank; we thought it might be unhelpful to do so before our own views are firm. But we believe that they are likely to take the view that any change - ie either Option B or Option C - which removes rates from the index and does not replace them with the Community Charge, will constitute a fundamental change "materially detrimental to the interest of stockholders". It would then trigger the redemption clause.

8. We could press the Bank hard on this. We would argue for Option C on the grounds that it represents no change in the coverage or calculation of the index; this looks unpromising. Failing that we could press for Option B. Though it represents a change, it is one that would benefit IG holders compared with Option C, which we would argue to be the strict no-change Option.

9. Our guess is that the Bank would argue that both Options B and C represented changes in the coverage or calculation of the index; and that both were detrimental in comparison with Option A, or with the present situation. It is hard to predict whether we could persuade them off this; it is a question of how the prospectus would be interpreted in law and we cannot be sure that we are on firm ground. Before proceeding any further ourselves, we should probably consult the Treasury Solicitors' Department. And the Bank would want to consult Freshfields. Even if TSD pronounce in our favour, we still cannot rule out that some IG holders might subsequently test it in the courts. And we might lose.

10. It is worth spelling out what redeeming IGs would mean. We would have to offer stockholders the right to redeem their stock at current redemption values. Since the redemption value of all IGs stands above their current market value, all stockholders would take advantage of this. It would mean:

(a) redeeming around £15 billion of stock;

(b) at a cost, measured in terms of the difference between redemption and market value, of £2.8 billion;

(c) and, no doubt, in the process destroying the IG market - which we continue to regard as one of the Government's cheapest forms of borrowing.

11. There is no comparable provision in the case of index-linked national savings certificates. The prospectus there simply states that index-linked valuation will be related to the RPI or any index which replaces it. However, repayment is available at eight days' notice: so the risk here is that if a general IG redemption were triggered that also cause a rush for repayment of the £3.6 billion of stock outstanding.

<u>Social Security Upratings</u>

12. Around two thirds of social security benefits, including pensions, are uprated by the RPI. Option B would undoubtedly be difficult for the Government to sustain, though support from the RPIAC (if forthcoming) would help. (If Option C were adopted the 4 per cent loss would have to be made good in the upratings.) Social security beneficiaries and their supporters would claim that, by excluding the Community Charge, the Government was deliberately depressing the growth in the RPI in order to reduce future upratings, since, like rates, the Community Charge may be expected to rise faster than prices generally. There is a serious risk that the RPI would be discredited and that the pressure on Ministers to uprate pensions (especially) by earnings instead of prices would become irresistible. That would be very expensive for public expenditure, even if it only meant an earlier switch to earnings upratings than might otherwise be the case.

13. Most of the remaining, income-related, social security benefits are uprated by the Rossi index (the RPI less housing costs). The components of the Rossi index are at Ministerial discretion. We could make an allowance for the community charge in the Rossi index without raising the same methodological issues as in the total RPI. It might then be possible for the Government to argue that the poor (including poor pensioners) were having their benefits uprated adequately. But that would not help the nearly poor pensioners, as critics would quickly point out.

Surely v odd to put community charge in Rossi index when rates are not there now (presumably).

Banded Community Charge

14. There is a proposal that the community charge be banded relative to income. If Ministers counter this with the argument that the community charge is, as its title implies, a charge and not, by implication, a tax which should properly be related to income, this would present further ammunition for those who want the community charge included in the RPI ie Option A.

Conclusion

Prescott-speak.

15. If, notwithstanding this discussion, you remain of the view that Option B is the right approach, we need to present our case as convincingly as possible to the Bank, and the other Ministers involved, including the Secretary of State for Health and Social Security (neither he nor his officials have been party to any of the discussions between officials so far). The Prime Minister, too, will presumably wish to be involved. There is considerable scope for disagreement. Apart from the Bank, the Secretaries of State for Environment and Health and Social Security are likely to favour Option A strongly.

16. We have now got to the point where these issues must be resolved by Ministers. It is essential that officials are able to present a united approach when the subject goes before the RPIAC, which now seems unavoidable. You may wish to hold a meeting after Easter to discuss this. We will then give DEmp any comments on their latest draft, in the light of that discussion.

Jim Hibbard

J S HIBBERD

I am astonished by this submission. (In particular, I have seldom read such nonsense as in paras 12 & 13). What is happening is a major tax reform, in which an indirect tax (rates) is being replaced by a direct tax (the CC). This makes Option A nonsense (unless we go out for the TPI), option C strictly correct, but option B the only sensible course. I will hold a mtg; but before that we will need the advice - urgently - of the Law Officers on the 16 point.

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TREATMENT OF RATES AND THE COMMUNITY CHARGE IN THE RPI

Paper by the Department of Employment

1. The introduction of the community charge has implications for the retail prices index which raise potential political and market sensitive issues. The central question is whether or not the community charge should be included within the scope of the RPI, as rates are, or excluded like income tax and national insurance contributions.

Main arguments

2. The main considerations in favour of exclusion are:-

(a) Payments such as the community charge, though very rare internationally, have been classified by the international bodies that set standards as direct taxation for the purposes of compiling national accounts. They are likely to be so treated in the United Kingdom though the Central Statistical Office has not yet adjudicated on this. The construction of price indices usually but not necessarily follows the national accounts treatment on such matters, which would imply exclusion of the community charge from the RPI just as direct taxes such as income tax and national insurance contributions are excluded.

(b) Rates are presently regarded for index purposes as an indirect tax on housing, akin to VAT on other goods and services, and are considered as part of the price of housing. Like VAT they are therefore included in the RPI. The community charge on the other hand is not related to the consumption of a specific good or service and therefore has no place in the RPI.

3. The main argument for including the community charge in the RPI is that, though the nature of the funding will have changed, the services for which rates are now charged will continue to be provided and the "man in the street" will continue to meet their cost out of his

take-home pay. From his perspective little will have changed so he might expect to see the RPI continue to include the expenditure. For recipients of state pensions and benefits this view could be reinforced by the use of the RPI for indexation,as they will need to finance their share of the community charge out of their pensions and benefits and may well expect it to be taken into account in the uprating. A related argument for including the community charge is that rates have in the past increased faster than other prices and excluding their equivalent in future might well give the impression that an attempt was being made to restrict the coverage of the index deliberately to produce a lower rate of inflation and thus save money on pensions and other benefits.

Conceptual problems

4. Under current RPI methodology the community charge could replace rates following very similar computation procedures. However, this would raise important conceptual problems. The inclusion of a direct tax in the coverage of the RPI would change its nature, open the question of what the index should cover and might suggest that the Government can pick and choose what to include. Inclusion of the community charge as a payment for services equally presents conceptual problems since payments are not directly related to the amount of services received. Also local services will continue to be financed partly from national taxation and it could be argued that if the community charge were included in the RPI then so should be that part of national taxation which is devoted to local purposes. It should be noted that whatever treatment is agreed for the RPI, the tax and price index (which refleclts both direct and indirect taxation, national and local) will include the community charge.

Public presentation of changes to the RPI

5. The question of the treatment of the community charge in the RPI is politically sensitive because the decision materially affects the RPI and may also affect the public perception of the community charge. The argument that the community charge should not be in the index because it

is a direct tax is unlikley to be an effective counter to the accusation that the Government is fiddling the index. Use of such an argument might prove doubly embarrassing because the charge is being presented as a payment for services rather than a poll tax.

6. The way in which the decision on the treatment of the community charge is taken may be important for the public credibility for the RPI. Since 1947 all significant issues affecting the method of construction and calculation of the index have been decided on the basis of advice from the Retail Prices Index Advisory Committee. A decision not to consult this committee (or not to follow its recommendations if consulted) would of itself require explanation. The Committee, which is convened by the Secretary of State for Employment, includes representatives of industry, the trade unions and consumers as well as academics and government departments. Although advisory its recommendations have always been accepted (the latest in July 1986) with one exception in 1971 when the Committee's proposals for regional price indices were not taken up (on the grounds that the membership had not been unanimous). The Department's usual stance is that the index is what the Retail Prices Index Advisory Committee says it should be, and this has proved an effective answer to criticism over the years.

7. A further problem arises because supplementary benefits are uprated using the "Rossi index" which excludes housing costs (and therefore rates). Whereas state pensions and index linked national savings are uprated using the "all items" RPI. The Rossi index is appropriate because the housing costs of supplementary benefit recipients are covered by housing benefit but, as everyone will be liable to at least 20 per cent of the community charge, it may be argued that this should be included in the Rossi index.

They're liable to 20% rates in 1988-89 & 89-90.

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Main Options

8. Against the above background there are three main options:-

A. Community charge included in the RPI replacing rates

The RPI would be computed in the same way as at present but replacing average weekly payments per houshold on rates by average community charge payments. The change would have the effect of adding up to ¼ per cent to the index, mainly in April 1990. Thereafter the index movement would depend on the increase in the community charge relative to other prices. If as the Government intends the community charge places restraints on local authority spending then the RPI might not be much affected. However, it seems more likely that the community charge would increase the measured rate of inflation at least in the short term. This is particularly the case because non-domestic rates will in future be uprated by no more than the increase in the RPI and if local authority spending is rising more quickly then there will be further upward pressure on the Community charge.

! Do PM/DoE agree with this!

B. Rates removed from the index without introducing a major discontinuity and the community charge not included

The RPI would be replaced by an index which excluded any payments for local authority services. The effect would be an index which, on past experience, would rise by 0.1 or 0.2 percentage points per annum less than with Option A. Because the abolition of rates is being phased this option raises certain technical issues of timing which would need to be resolved. These raise questions of general index methodology and could apparently be referred to the Advisory Committee. The main alternatives for consideration are outlined in the Annex of this note.

C. Rates reduced to zero and the community charge not included in the RPI

The charge [is] would be treated as a direct tax replacing an indirect tax on housing. This is the reverse of the situation which occured when the Government reduced income tax and increased VAT in 1979 and thus increased the RPI. The effect of Option C would be to reduce the level of the RPI by 4 per cent and possibly to produce negative annual inflation figures and a reduction in index linked benefits. Clearly this option would be politically unacceptable.

The choice

9. Officials have discussed the above options but have not reached agreement. The Treasury, the Central Statistical Office and the Department of Employment tend to favour option B excluding the community charge while the Department of the Environment tends towards option A including the charge.

10. Officials are agreed that it would be in the interests of public acceptability for the matter to be put to the Retail Prices Index Advisory Committee. They are, however, undecided on how this should be done. Treasury argue that Ministers should decide on an agreed central government line, either to include or exclude the community charge, and that Departmental representatives should support this line in the Committee's discussions. Should Ministers wish to agree a line beforehand then the Committee's terms of reference might limit its involvement to advising on the technical issues of implementation. Against this approach it might be argued that such unanimity amongst officials would be seen as contrary to past practice and therefore suspect; also that the Committee's discussions have in the past cast a different perspective on the issues and Ministers might prefer to consult before taking a decision.

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Decisions required

11. Important political issues are involved. Ministers will wish to consider:-

(a) whether their preference is for the community charge to be included or excluded from the RPI;

(b) whether the RPI Advisory Committee should be asked to consider the issues, as officials recommend;

and if so

(c) in what terms the issue should be put to the Advisory Committee, that is to say before or after a final Government view has been taken, and for consideration of the issue of substance or simply how to implement the decision if taken one way or the other.

ANNEX

PHASING OF THE RPI TREATMENT OF RATES AND THE COMMUNITY CHARGE

Introduction: when to change the RPI

1. A major issue, arising if the community charge is to be excluded from the RPI once rates have been abolished, concerns the phasing-in of the new index treatment. The charge is being introduced in Scotland in April 1989 and in England and Wales generally in April 1980, but with phasing over four years in some London boroughs. Decisions are needed on how to deal with this timing aspect, which could significantly affect the RPI. One way would be to make the change as if rates were being replaced across the whole of Great Britain from April 1989; alternatively 1990 could be taken as the operative date, with the earlier changeover in Scotland being coped with by taking the level of the community charge there as a temporary proxy for rates. Again, the introduction could be phased in progressively over the whole period though, as rates in Scotland and the London boroughs affected account for less than 15 per cent of all rates in Great Britain, a case can be made for rejecting this third option and adopting a practical solution which minimises operational difficulties.

2. Having decided in which year (or years) the index treatment is to be changed it will be necessary to determine at what *time of year* this is to happen. Whereas rates will be abolished from April of the year in which the community charge is introduced, the RPI by convention measures price changes with respect to a January baseline, and from an operational point of view it would be appropriate to take rates out of the index from January rather than April. This would result in a slightly larger RPI increase (because it would remove from the index an item which would not have been increasing at that time of year) but the numerical effect is very small - about 0.04 per cent once and for all.

Short-term impact

3. It should be noted that deciding to exclude the community charge in the long term need not necessarily imply exclusion of its immediate impact. It could be argued that, though it is inappropriate for the RPI to cover the community charge on a regular basis, it would undermine confidence in the index if the charge were ruled out of scope at the very time that the changeover from rates was increasing index households' payments to local authorities. The decision reached on this point has some numerical significance since, though the total "take" from the community charge may be similar to that from rates, its incidence will be such as to fall less heavily on the categories excluded from the general RPI (namely high-income households and one- and two-person pensioner households mainly dependent on state benefits) and correspondingly more heavily on "index households". The excluded households currently account for about a sixth of all rates (before allowing for housing benefit) so, if their average liability were to be reduced by a quarter the average liability of index households would rise by 5 per cent, on top of the normal annual increase. If the average index household's total community charge were regarded as the direct equivalent of what it used to incur by way of rates then this increase would feed straight into the index as a price change, raising it by about 0.2 per cent, and also serve to increase expenditure and thereby boost the weight for the community charge in the next year (though the latter effect would be very small).

4. This outcome would reflect index households' payments but might be thought to give undue significance to the definition of such households. Pensioner and high-income households are excluded from the general RPI primarily as a means of bringing the *weighting* of the index closer to the expenditure patterns of most households: not in order to cause the *price indicators* to reflect the experience of certain groups in society in preference to others.

Possible alternatives

5. The following table presents four possible courses of action. These are not exhaustive but are intended to illustrate the range of options available. The estimates of numerical impact assume that the 12-month change for all items except rates/community charge will remain at 4 per cent, that the community charge will increase at 8 per cent per annum, and that its introduction will affect index households in the way suggested in paragraph 3 above.

	RATES / COMMUNITY CHARGE EXCLUDED FROM JANUARY	*INITIAL COMMUNITY CHARGE USED AS PROXY FOR RATES*
CHANGE MADE IN 1989	Option A Neither rates nor community charge affects index after January 1989 Effect Probably gives lowest RPI increase of any option Advantage Operational & presentational simplicity Disadvantage Drops rates from the RPI while they are still being paid in most of UK	Option B Index reflects rates and com. charge (whichever applies) in 1989 but not thereafter Effect RPI rises by 0.2 per cent more than for Option A in 1989 Advantage Timing matches main part of administrative change Disadvantage Inconsistent treatment of community charge as between Scotland and elsewhere
CHANGE MADE IN 1990	Option C Rates taken out of the RPI in January 1989 for Scotland and a year later elsewhere Effect RPI rises marginally less than with Option B in 1989 Advantage Avoids drawbacks of A and B Disadvantage Removes index households' local authority payments from the index just when they are increasing most	Option D Index reflects rates and com. charge (whichever applies) in 1989 & 1990 but not thereafter Effect Similar to including community charge in short term Advantage Avoids drawack of Option C Disadvantage Inconsistent treatment of community charge over time, including it initially but excluding it for the future

6. Each of the options would require careful presentation to avoid the danger of undermining public confidence in the RPI. If statistical convention were to be the determinant then Option A would be preferable to any other but it is recognised that other factors also need to be taken into account.

24/1/342/08

CONFIDENTIAL

1. MR POTTER BHP 5/4
2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 5 April 1988

cc: Chancellor
Sir Peter Middleton
Mr Anson o/r
Mr Phillips o/r
Mr Hawtin o/r
Mr Tyrie

COMMUNITY CHARGES: POSSIBLE DOE CONCESSIONS

Mr Tyrie spoke to me last week about possible DOE concessions to the argument from Mr Michael Mates MP and others that the Community Charge should be better related to individuals ability to pay. He had heard from his contacts that some of Mr Mates supporters had been led to believe that concessions might be forthcoming, particularly if support for the Mates amendment on Report increased beyond the 39 people on the Government side that were already said to be firm supporters.

2. Possible concessions at the expenses of the public finances, fall into the following categories:

(i) further exemptions from liability to the Community Charge, in full or in part, which would have to be financed by the Exchequer (whatever was said at the time) because the Community Charge for all others could not be allowed to rise;

(ii) a more generous scheme of Community Charge rebates, involving higher thresholds for entitlement to the full rebate, a more relaxed taper or a higher percentage rebate;

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(iii) more AEG (paid for by progressive central government taxation), to reduce the Community Charge to a lower level.

3. We are aware at official level that DOE are canvassing minor amendments to the definitions of people who will be exempt from the full Community Charge, to offer as concessions on Report or in the Lords as necessary. For example, remand prisoners might be exempt as well as the convicted. Technical discussions are proceeding among officials, which might lead to a proposal from Mr Ridley to E(LF) in due course. The possible changes that we are aware of would involve very few people, and be relatively inexpensive. There may, however, be more extensive concessions in Environment Ministers' minds that they have not discussed with their officials, or that their officials have been told not to discuss with us.

4. Mr Tyrie reports that concessions of the second type - more generous rebates - are being canvassed among backbenchers. This is potentially much more expensive. A very rough calculation suggests that if the percentage rebate were raised by 10% (ie to 90%), the cost would be in the region of £125-£175 million. (Changes in the taper would not only cost more but bring more people into rebate.)

5. I do not have any particular news about the option of more grant, although the possibility is obvious and is a factor in your discussions with Mr Rifkind about Scottish penalties.

6. Mr Tyrie further reports that Environment Ministers are said by some backbenchers to have "life rafts" being prepared, in case the Bill runs into serious trouble in the Lords. These might need to be brought forward for Report in the Commons in the week beginning 18 April, if Mr Mates amendments attracts any more supporters. I assume that any such life rafts would fall into one of the three categories mentioned above: a concession on the general principle that the Community Charge should be a nearly universal, flat-rate obligation would presumably be politically impossible (even if, in theory, it could make the Community Charge more acceptable without extra Exchequer finance.)

7. We will endeavour to find out from DOE officials about what they might have in mind, to avoid being bounced on a specific proposal for an immediate concession to avoid a defeat. They are, however, under orders not to speak to us about anything important. We naturally take any available and reasonable opportunities to remind them that the Community Charge is meant to be brought in without additional Exchequer finance: the Chancellor secured the agreement of the Prime Minister and colleagues to this at the meeting which decided to limit phasing-in to parts of inner London, and we have subsequently secured endorsement in correspondence to the principle that the safety net should be self-financing.

8. Subject to your views, we do not propose to make an issue with DOE officials of Mr Tyrie's latest intelligence. That might give them the impression that we were worried. We are not entirely surprised to hear that options to make the Community Charge more palatable, at the Exchequer and taxpayers expense, are being canvassed. Our main aim must be to prevent them becoming established policy.

9. You may wish to consider whether, at a political level, anything need be done to reinforce the message that the Community Charge will be introduced on its merits, and not on the back of an Exchequer subsidy.

pp Barry H. Potter

R FELLGETT

24/1/338/022

CONFIDENTIAL

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CHANCELLOR

FROM: B H POTTER

Date: 7 April 1988

cc: PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Hawtin o/r
Mr Turnbull
Mr MacAuslan
Mr Fellgett o/r
Mr Morgan (VO)

Ch/our officials have put a stop on Cabinet Office circulation of NNDR/small business paper. If you agree that we ought to register objections, do you want draft minute? (Difficult now to get ~~the~~ Treasury paragraph inserted in paper as time is short.) [illegible] 7/4

NL @ [illegible]

POTTER TO CH/EX 7 APRIL

E(LF): NON-DOMESTIC RATE TRANSITION AND DUAL RUNNING

I attach copies of two papers which are to be considered next week by E(LF). The paper on dual running has only just arrived: it proposes that the number of dual-running authorities within London should be reduced from 14 to 10 and that a specific grant should be made available towards the cost of dual running. We will advise once we have had time to digest the proposals.

2. The other E(LF) paper on the non-domestic rate transition is most unsatisfactory. It is another example of a half-baked proposal put together hurriedly by DOE officials to meet a supposed political need for further concessions or clarification at a critical step in the progress of the Local Government Finance Bill - this time Report Stage on 18 April. I recommend that we oppose the proposal and call for a more considered appraisal of the best transitional arrangements.

Background

3. E(LF) accepted last year that there should be transitional arrangements for introducing the NNDR. The Chief Secretary agreed that the Secretary for State for the Environment could

hint to the Standing Committee on the Finance Bill in March that there might be a special small business transition scheme; but he should emphasise that any slower phasing-in of losses for small businesses would have to be wholly paid for by postponing the gains for beneficiaries under the NNDR. Mr Ridley stuck to this line.

The DOE proposals

4. DOE have now come forward with specific proposals for the small business transitional arrangement. The scheme is designed to give less rapid rate increases for small losers (maximum 10% real pa against 15% real for larger businesses), and for the transition to full valuation to be extended over up to 10 years. These slower increases in rates for small businesses would be paid for by all gainers ie there would be a cross-subsidy from both large and small gainers to the small business loser. And there is a clear hint in paragraph 6.iii that a small premium on the NNDR poundage might be necessary to smooth the way for these transitional arrangements.

5. The fundamental problem with Mr Ridley's scheme is that it is targetted not on the small business but upon the small hereditament. DOE officials have persisted with this approach despite advice from the Valuation Office that some other basis of selection would be necessary to produce efficient targetting. There are major objections to this form of transitional arrangement:

(i) it would apply to all small hereditaments irrespective of their need for cross-subsidy and the size (and profitability) of the business; if the cut-off were applied at £1,500 rateable value it might cover up to 40% of the total non-domestic rate base;

(ii) it would benefit all large businesses which operate through small hereditaments eg specialist clothing

stores like Tie Rack, many branches of betting shops, chain fast food shops etc; the paper comes surprisingly close to acknowledging this - paragraph 10 says "... I suggest that the threshold should be set so as to include almost all corner or neighbourhood shops but exclude most high street retail units";

(iii) it is unclear whether Mr Ridley wishes to apply just a rateable value criterion in determining eligibility or also a class description criterion; unless the latter is also applied any guest houses, small workshops, sports grounds etc which face large increases in rates would also be covered; but even if such a criterion were applied, the Valuation Office believe that it would not work - many descriptions are out of date;

(iv) unless the cut-off rateable value is varied regionally it would cover very different-size businesses; (Mr Ridley's proposal that we could get round this by reference to criteria set on post-1990 rateable values does not seem very sensible: why announce a scheme now and try to defend the arrangement, while admitting that it was not yet clear who would qualify?

Assessment

6. There are of course economic objections to such a generous scheme - not least that a ten-year transition gives maximum benefit to the very ratepayers who have done best for the last ten years from delayed revaluations. But I suspect arguments of political acceptability are critical. How could manufacturers in the North be persuaded to cross-subsidise successful small retail chains (like Tie Rack) in the South? DOE officials probably well recognise this. And to avoid that outcome they would press for an Exchequer subsidy to pay for the additional costs of general phasing-in of losses for small businesses. We must avoid that.

7. I agree with the Valuation Office that if a special transitional scheme for small businesses is to go ahead, it should be based on targetting small businesses not small hereditaments. The solution might be to base selection on turnover data from VAT returns either on its own or in combination with information on rateable values. Despite the claim in paragraph 8 of the paper that no other categorisation of firms would operate, the Valuation Office believe a turnover criterion might be practical; have suggested this to DOE officials on a number of occasions; and are surprised it has not been pursued by them. But I should emphasise that we still have to check what alternative qualification criteria can be made to operate.

<u>Handling</u>

8. It would be difficult to hold up circulation of the E(LF) paper now. But you can write before the meeting pointing out the practical difficulties in Mr Ridley's proposed approach and suggesting that alternatives be investigated. We are ready to draft a letter or paper for E(LF) if you wish.

9. But you will also want to make the point that there is no need to define how any transitional arrangement for small businesses might work before Report Stage of the Bill. There is no reason why Mr Ridley cannot stick to the line he took at Committee Stage ie that he will make best efforts to devise a suitable scheme and will bring forward specific proposals in the autumn once preliminary information from the rating revaluation has been completed. At the Committee discussion, Mr Ridley said "... I find my hon Friends idea (a limit under transitional arrangements as they apply to small businesses) acceptable in principle .... I shall be happy to consider such a scheme when I make regulations under Clause 43 in the autumn."

10. If Mr Ridley can be persuaded to go no further than his earlier statement, it would give us time to work out whether a VAT or joint VAT/rateable value approach is practical; and if not how extra criteria can be applied to narrow down the range of small businesses which would benefit under Mr Ridley's proposals.

Barry H. Potter

BARRY H POTTER

Thanks. On dual running, this seems OK provided the new specific grant is not an addition to total grant.

On NNDR transition, 2 points. First, the simplification that we should limit to X. Second, while I take the point about chains of shops, I do not see the turnover route as a solution, since the one option is to meet the same objection. It would be better to adapt Mr R's suggestion so that, where a shop is part of a chain, the combined rateable value of the chain determines eligibility.

NL

DRAFT E(LF) PAPER

DUAL RUNNING: THE COMMUNITY CHARGE AND DOMESTIC RATES

1. Last November (E(LF)(87)   ) we agreed that in most parts of the country, the community charge could be introduced in a single stage subject only to transitional grant arrangements. In 14 London authorities, however, we saw that the likely level of community charges on their current spending levels could be very high and decided that there the community charge should be phased in over 4 years as domestic rates are phased out.

2. We now need to review that decision in the light of:

   i. later information about spending;

   ii. the proposal for the abolition of the ILEA;

   iii. the continued wishes of some of the local authorities and their Members of Parliament to be excluded from these arrangements.

The Present Schemes

3. Our criteria for including authorities within the dual running regime are set out on the face of the Bill. Any authority area where budgeted total expenditure per head in 1987/88 exceeds the assessed needs for that area by more than £130 per head is required to implement dual running. Annex A shows in rank order the spending in local authority areas on the basis specified in the Bill. The lowest spending area caught by that test is Kensington and Chelsea.

4. Annex A also shows expenditure per head on the basis of provisional 1988/89 budgets. This shows that a big gap has now opened up between the highest cost Conservative controlled area, Wandsworth (+£145, all attributable to ILEA) and the lowest cost Labour controlled area, Hammersmith and Fulham (+£213). The London Borough of Waltham Forest has virtually disappeared from the reckoning as a result of rate capping this year (+£54).

9. I believe that the 3 central boroughs have made a compelling case for revising our criteria so as to exclude them from dual running. We can achieve this by increasing the cut off on 1987/88 based expenditure from £130 to £200 per head. This would exclude each of the 4 authorities. We could alternatively use 1988/89 expenditure where we could set a lower £150 cut off. While I see the advantages of a less dramatic increase in the cut off level I favour, on balance, retaining the 1987/88 base which is now firmly fixed. The 1988/89 numbers remain provisional and subject to change.

Grant aid

10. Whatever our conclusions on the scope of dual running, it is inescapable that the operation of two revenue systems will cost more than one. If we do not take account of that in our grant distribution community charges in the affected areas will be further increased. I believe we will be subject to justifiable criticism if we do not make some arrangements for compensation. I have considered:

- including appropriate amounts in the safety net grant payments for the affected boroughs. But the safety net will be removed in stages throughout the transitional period. The extra support would therefore be withdrawn in stages before the costs to which they related had disappeared; or

- including an amount to reflect the cost of an efficient collection of domestic rates in the needs assessments for the boroughs. This would suffer from the obverse problem that the transitional safety net would override the benefit of that addition, which would only be felt as the safety net was withdrawn.

11. Even if these technical difficulties could be overcome, neither approach would easily satisfy an inevitably critical audience that any extra funds had been received by the authorities concerned. Nor can we be sure that any funds are spent for these purposes. I have therefore concluded that, notwithstanding the normal objections to the creation of specific grants, that should be both a desirable and effective solution in this case. Specifically I propose a high level of specific grant (90-100%) for pre set amounts of administrative expenditure for the duration only of the dual running arrangements.

Attitude of the Affected Boroughs

5. Most of those authorities affected by dual running belong to the Association of London Authorities which is of course fundamentally opposed to our reforms. None of those authorities has pressed for exclusion from the scheme. Four affected authorities are, however, members of the London Boroughs Association. Collectively and individually they have pressed for exclusion from the arrangements. They are:

Kensington and Chelsea
Westminster; and
Wandsworth.

Waltham Forest have subsequently associated themselves with these views.

6. Essentially their arguments are that the dual running provisions will be onerous and costly. At a time when they will be having to cope with the administrative arrangements for the introduction of the community charge and the take over of education, together with the implementations of many of the reforms in the Education Reform Bill, they will also be required to run both their domestic rating system and a new and special rebate scheme which would only apply in inner London.

7. Nor do they see the benefits from these proposals which we saw earlier. With the exception of Waltham Forest, each of these boroughs, on its own account, is relatively low spending. Each spends below its needs assessment. Its selection results entirely from the overspending by the ILEA. Even without abolition, each borough was already planning to take over education functions and anticipated significant savings over the 4 years to 1994. To that extent our selection criteria which focus on current overspending and the theoretical implications for community charges in 1994, in their view, miss the point. They point out correctly that the effect of the transitional safety net grant proposals is to have community charges in 1990/91 which are higher in high rateable value areas like Surrey or Buckinghamshire (which will not be subject to dual running than in some of those boroughs which will.

8. These views are supported by those Conservative members of Parliament for the 4 boroughs I have consulted. Interestingly the conservative members representing other selected authorities have supported the retention of dual running.

12. On present figures I estimate an annual cost for 4 years of up to £15m. The details of the scheme must be the subject of official discussions with the Treasury. However, if I am to take the necessary powers, I need agreement in principle now so that Counsel may be instructed.

Conclusion

13. I invite colleagues to agree:

(i) that the criteria for selecting authorities for the dual running arrangements should be increased so that it applies only where reported expenditure in 1987/88 is greater than £200 per head

(ii) in principle, that there should be a specific grant to compensate authorities for the additional costs of dual running and that I should amend the Local Government Finance Bill to take the necessary powers.

doc673ps

DATE: 21-MAR-88

ANNEX A

RANKED OVERSPEND ON GRANT-RELATED EXPENDITURE PER HEAD AT AREA LEVEL

	1988/89		1987/88	
	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head
City of London	£ 7,671	1	£ 7,630	1
Camden	£ 349	2	£ 481	2
Tower Hamlets	£ 329	3	£ 344	5
Greenwich	£ 298	4	£ 321	6
Lewisham	£ 294	5	£ 378	4
Hackney	£ 290	6	£ 382	3
Southwark	£ 243	7	£ 301	7
Lambeth	£ 225	8	£ 278	8
Islington	£ 220	9	£ 229	9
Hammersmith and Fulham	£ 213	10	£ 215	10
Wandsworth	£ 145	11	£ 190	11
Brentwood	£ 145	12	£ 125	15
Westminster	£ 131	13	£ 158	12
Harlow	£ 131	14	£ 102	17
Kensington and Chelsea	£ 105	15	£ 137	14
Brent	£ 82	16	£ 80	22
Scunthorpe	£ 77	17	£ 62	35
Langbaurgh-on-Tees	£ 75	18	£ 64	33
Calderdale	£ 73	19	£ 61	37
Wansbeck	£ 71	20	£ 60	42
Hartlepool	£ 69	21	£ 61	39
Stevenage	£ 67	22	£ 41	84
Bolsover	£ 67	23	£ 67	28
Rotherham	£ 67	24	£ 68	27
Bassetlaw	£ 66	25	£ 46	69
Doncaster	£ 66	26	£ 77	24
Sheffield	£ 65	27	£ 54	53
Blyth Valley	£ 65	28	£ 59	43
Thurrock	£ 64	29	£ 48	66
Sedgefield	£ 64	30	£ 59	44
North East Derbyshire	£ 64	31	£ 56	50
Liverpool	£ 63	32	£ 93	20
Newham	£ 63	33	£ 94	19
Barnsley	£ 63	34	£ 65	31
Manchester	£ 63	35	£ 95	18
Haringey	£ 63	36	£ 117	16
Welwyn Hatfield	£ 62	37	£ 36	92
Oxford	£ 62	38	£ 32	102
Wear Valley	£ 62	39	£ 55	51
Wakefield	£ 61	40	£ 57	49
Knowsley	£ 59	41	£ 64	34
Middlesbrough	£ 59	42	£ 69	25
Derwentside	£ 59	43	£ 69	26
Burnley	£ 58	44	£ 45	71
Wigan	£ 58	45	£ 50	62
Newcastle upon Tyne	£ 57	46	£ 88	21
Carlisle	£ 57	47	£ 66	30
North Tyneside	£ 56	48	£ 66	29
Rochdale	£ 56	49	£ 43	81
Salford	£ 56	50	£ 49	64
Stockton-on-Tees	£ 56	51	£ 49	63
Bradford	£ 56	52	£ 52	56
Gateshead	£ 56	53	£ 65	32

DATE: 21-MAR-88

ANNEX A

RANKED OVERSPEND ON GRANT-RELATED EXPENDITURE PER HEAD AT AREA LEVEL

	1988/89		1987/88	
	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head	Overspend (underspend) on GRE per head	Ranked overspend on GRE per head
St Helens	£ 56	54	£ 49	65
East Yorkshire	£ 55	55	£ 39	86
North Warwickshire	£ 55	56	£ 23	128
Chesterfield	£ 55	57	£ 52	55
Copeland	£ 55	58	£ 61	38
Thamesdown	£ 54	59	£ 45	74
High Peak	£ 54	60	£ 51	59
Darlington	£ 54	61	£ 54	52
Waltham Forest	£ 54	62	£ 143	13
Tameside	£ 53	63	£ 58	45
Sunderland	£ 53	64	£ 62	36
Bristol	£ 53	65	£ 45	72
South Tyneside	£ 52	66	£ 58	46
Barrow in Furness	£ 51	67	£ 61	40
Boothferry	£ 51	68	£ 34	94
Walsall	£ 50	69	£ 10	180
Mansfield	£ 50	70	£ 44	77
Basildon	£ 50	71	£ 60	41
Derbyshire Dales	£ 50	72	£ 44	78
South Lakeland	£ 48	73	£ 57	48
Kingston upon Hull	£ 48	74	£ 52	54
Allerdale	£ 48	75	£ 57	47
Great Grimsby	£ 48	76	£ 31	106
Derby	£ 48	77	£ 45	76
Richmond-upon-Thames	£ 46	78	£ 44	79
Rossendale	£ 46	79	£ 37	90
South Derbyshire	£ 46	80	£ 41	82
Glanford	£ 45	81	£ 27	114
Beverley	£ 45	82	£ 31	107
Amber Valley	£ 45	83	£ 45	73
South Bedfordshire	£ 45	84	£ 43	80
Erewash	£ 44	85	£ 46	70
Milton Keynes	£ 44	86	£ 31	104
St Albans	£ 44	87	£ 20	140
Sandwell	£ 44	88	£(2)	261
Three Rivers	£ 43	89	£ 20	139
Crawley	£ 43	90	£ 31	109
Eden	£ 43	91	£ 50	60
Holderness	£ 43	92	£ 28	113
Hertsmere	£ 42	93	£ 26	116
Enfield	£ 42	94	£ 16	161
Durham	£ 41	95	£ 37	89
Tynedale	£ 40	96	£ 34	95
Watford	£ 40	97	£ 21	135
Castle Morpeth	£ 39	98	£ 32	100
Alnwick	£ 39	99	£ 32	101
Northavon	£ 39	100	£ 33	99
North Bedfordshire	£ 39	101	£ 46	68
Woodspring	£ 39	102	£ 32	103
Bath	£ 39	103	£ 36	91
Wirral	£ 39	104	£ 51	57
F[illegible]e	£ 39	105	£ 25	120
Nuneaton and Bedworth	£ 38	106	£ 16	160

NATIONAL NON-DOMESTIC RATE AND NON-DOMESTIC REVALUATION TRANSITIONAL ARRANGEMENTS AND BUSINESS CONSSULTATION

1. This paper invites the sub-committee's further views on my proposals for transitional arrangements to protect those non-domestic ratepayers who would otherwise face substantial rate increases on introduction of the national non-domestic rate (NNDR) and non-domestic revaluation in 1990, and for a continued duty on local authorities, to consult their business ratepayers.

2. The sub-committee last discussed the subject at its meeting of 30 April 1987 (E(LF)(87) th). Since then, members of the sub-committee have seen my minutes to the Prime Minister dated 25 June 1987 and 24 February 1988 and associated correspondence. I subsequently gave the Standing Committee on the Local Government Finance Bill on 3 March an outline of the approach I now propose (Hansard cols. 1211-1216).

3. This paper seeks the sub-committee's agreement to some elaboration of the detail of those proposals, which I would then plan to announce at Report Stage, probably on 20 April. Unless I am able to do so, I would expect a rough ride from some of our backbenchers, who have been subject to an intensive campaign of lobbying by the small business organisations.

Transition

4. The need for transitional measures, which colleagues have accepted, arises because some businesses would otherwise face very large rate increases on 1 April 1990. These fall into two categories. Firstly, there are several London boroughs where rates are very low, because of a combination of prudent spending polices and the generous treatment of London in the present block grant system. They would face big increases from moving to the NNDR set at the present average rate poundage. The extreme case is Kensington, where the increase, if the NNDR had been introduced in 1988/9, would have been 104%; the City, Wandsworth, Westminster, Bromley, Croydon and Redbridge also show increases of 40% or more. Overall, however, we now estimate that 60% of business premises will gain from NNDR.

5. Secondly, there are classes of property which will face big increases in rateable value on revaluation, as a result of the major changes in relative demand for property since the last revaluation in 1973. Those most severely

affected are likely to be prime high-street shops especially in southern England, mostly owned by multiple retailers, many of which will face increases in the range 70-100% and sometimes more. Many small shops will also face fairly big increases.

6. My proposals for smoothing the transition, as announced to the Standing Committee, are as follows:

i. There will be a ceiling on the percentage by which the rate bill for any hereditament may increase in the first five years of the new system. My view remains that the appropriate level for that ceiling in terms of what business can be expected to tolerate is 15% plus the RPI increase, but I have accepted colleagues' arguments for deferring a decision until we know more about the effects of revaluation.

ii. I shall take power to extend the transitional arrangements beyond 1995, when they would take account also of change arising from the next revaluation . With a 15% ceiling, the tiny number of businesss facing increases of 300% or more could have a full ten years phasing, if necessary.

iii. In line with our earlier discussion, I have agreed that the transitional protection should be paid for by a cap on the larger gains. I should say that this proposal is already meeting hostility from manufacturers. Moreover such figures as I have on the distribution of gains and losses suggest that the cap may need to be very tight, with possibly a 10% cap on gains required to pay for a 15% ceiling on losses. I am therefore keeping open the option of a small premium on the poundage to ease this problem.

iv. Fourthly, I have agreed under pressure to consider sympathetically more generous transitional arrangements for small businesses. It is difficult to assess the case for this without a firm view on the overall ceiling; but I would expect to have severe difficulty in resisting Government backbench amendments at report stage if I were not to come forward with such a scheme, which to be worthwile would have to offer small businesses a ceiling say 5% below the general ceiling. Paragraphs 7 - 14 below consider how such a scheme would work.

Special transitional scheme for small business

7. The object of a scheme such as I propose is to acknowledge that rates tend to form a higher share of costs for small businesses, and that small businesses may be more vulnerable to shocks and therefore need more time to adjust to increased rates. It is also relevant that small businesses are concentrated in retailing, which is the sector likely to face the biggest increases on revaluation.

8. The rating system, however, operates on buildings rather than on firms. The transitional arrangements will be operated by local authorities, who hold information only on the rateable value of the property, not the size of firm that occupies it. Moreover there is no universal categorisation of firms into large and small for other statutory purposes, and therefore no evidence that an occupier could produce to the authority to demonstrate that it was a "small business". (The one possible exception is Corporation Tax, but there the distinction between small and large is based on profits and so reflects success rather than size.)

9. I have therefore concluded that, to be capable of being operated by local authorities, a "small business scheme" must in practice be a "small hereditaments scheme", whereby properties below a specified rateable value benefit from a lower ceiling on rate bill increases. I recognise that this means that some of the benefit will spill over to those organisations which operate through small branches.

McDonalds!

10. The pressure for such a scheme in coming principally from organisations representing very small shopkeepers. Both for that reason and to contain the costs, I suggest that the threshold should be set so as to include almost all corner or neighbourhood shops, but exclude most high-street retail units. (It is the application of the criterion to shops that matters, because few manufacturers and office based businesses will face large increases.) It is possible to select a rateable value threshold that would achieve that result either by reference to present rateable values (where the figure would be £1000 or £1500) or post-1990 rateable values (£10,000 or £15,000 since rateable values for retailers seem likely to increase about tenfold). These limits are far lower than the £15,000 old rateable value which was urged on me in Committee, but that

would be far too generous, bringing in all high-street multiples and even some superstores. Using present RVs would have the advantage that businesses would know for certain, once we announced the figure, whether they would benefit; it would also avoid complications where values were changed on appeal. Using new RVs however is better presentationally, since a bigger number sounds more generous, and it may also help in fending off protests from businesses who on the former basis would know they were just outside the scheme. On balance I prefer setting the threshold by reference to new rateable values.

No one will know what it means.

11. There may be a case - as was also urged on me in Committee - for setting a higher threshold in London and the south-east, to reflect higher values there; but I would prefer to suspend judgment on this until we know more about the distribution of new rateable values.

12. As noted above, I think that the appropriate differential between the two thresholds is 5%. That makes the difference, over five years, between increases of 100% coming through in full, and limiting them to 60%. It is not possible to cost such a differential in detail, but in year 1, it might mean a 5% reduction for possibly 10-20% of hereditaments, ie. an increase in the amount to be found by deferring gains of possibly ½% to 1% of total rate yield.

13. On timing, I am now persuaded that we would offer too great a hostage to fortune by going firm on the level of the general threshold at this stage. I understand that privately, the main busines organisations would accept 15%, though they are arguing publicly for 10%; but if they knew we were already prepared to concede 15% they might be encouraged to press for more.

14. For the same reasons, I think it would be a mistake to announce full details of a small business scheme now. Moreover we do not have the information that would be needed to cost it properly. My judgment is that the backbench critics will be sufficiently placated if I am able to announce at report stage that there <u>will</u> be a more generous ceiling for small businesses based on a rateable value test, and to reiterate that the transition period can continue for more than five years for the larger losers. I seek the sub-committee's agreement to my making such an announcement.

Business consultation

15. Colleagues were generally content with the proposal in my minute of 24 February that we should retain a duty on local authorities to consult local businesss organisations, adapted to focus mainly on levels of service to business. The CBI and the Association of British Chambers of Commerce have separately put to me proposals for how this should operate.

16. The CBI propose an elaborate and prescriptive scheme, which in particular would give business organisations "stop powers" to defer expenditure in some circumstances. I do not think this is acceptable, both because it would involve giving unelected bodies power to override local decisions, and because it would require the definition, in detail, of those subjects in which business has an interest. This would offer endless scope for litigation. I am therefore, attracted by the ABCC's more realistic scheme, which would require authorities to consult business representative organisations on their expenditure proposals, and give the latter some privileged access to non-public information. (I shall consult the Audit Commission on the latter point.) Only the outline of the duty would appear in statute; there would be a code of practice giving guidance to authorities on the operation of the scheme, on which I would consult colleagues in due course.

Conclusion

17. I therefore invite the sub-committee:

i. to reaffirm that they are content with the general transitional arranements set out in paragraph 6;

ii. to agree that I should announce that there will be a lower ceiling on rate bill increases for hereditaments below a specified rateable value, but that I should defer an announcement on the levels of the two ceilings and on the threshold between them;

iii. to agree that the duty on authorities to consult business should take the less rigid form proposed by the Association of British Chambers of Commerce;

iv. to note that, if they agree, I propose to announce these decisions at Commons Report stage on 20 April, with the necessary amendments to the Bill then being tabled in the Lords.

N R

April 1988

doc671ps

CONFIDENTIAL

FROM: MISS M P WALLACE
DATE: 7 April 1988

MR POTTER

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Hawtin o/r
Mr Turnbull
Mr MacAuslan
Mr Fellgett o/r
Mr Morgan (VO)
PS/IR

Ch
Not on agenda but may be useful as background.
AA

E(LF): NON-DOMESTIC RATE TRANSITION AND DUAL RUNNING

The Chancellor was grateful for your minute of 7 April.

2. On dual running, he thinks this seems OK, provided the new specific grant is not an addition to total grant.

3. On NNDR transition, he has commented that:

(i) It is essential that we stick to the principle recalled in paragraph 6(iii) of Mr Ridley's paper - namely that transitional protection should be paid for by a cap on larger gains; and

(ii) while he takes your point about chains of shops, he does not see the turnover route as a solution, since it is open to similar objections. He thinks it would be better to adapt Mr Ridley's suggestion so that, when a shop is part of a chain, it is the combined rateable value of the chain that determines eligibility.

mpw

MOIRA WALLACE

WALLACE TO POTTER 7 APRIL

CONFIDENTIAL

FROM: A C S ALLAN
DATE: 7 April 1988

MR HIBBERD

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

ACSA → HIBBERD 7/4

THE TREATMENT OF THE COMMUNITY CHARGE IN THE RPI

The Chancellor was grateful for your minute of 30 March, and will want to hold a meeting soon after his return from Washington.

2. He was not at all persuaded by the arguments in paragraph 12 and 13 about the difficulties for social security upratings if we adopted option B. What is happening is a major tax reform, in which an indirect tax (rates) is being replaced by a direct tax (the community charge). This makes option A a nonsense (unless we go over to the TPI), option C strictly correct, but option B the only sensible course

3. He feels that we need urgent legal advice, from the Law Officers, on the indexed gilt points as soon as possible.

ACSA

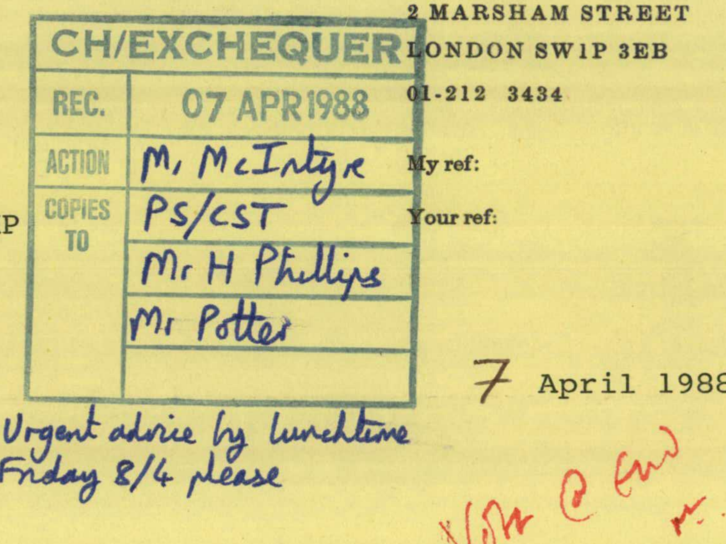
A C S ALLAN

PERSONAL AND CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:



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

7 April 1988

Urgent advice by lunchtime Friday 8/4 please

Now @ End

Dear Nigel

COMMUNITY CHARGE REBATES

When we met before Easter we discussed the impact of the community charge on the less well off. We confirmed that, although Michael Mates' New Clause is nonsense in a large number of respects, nevertheless it has attracted a lot of sympathy from our supporters, probably on two counts: first, that it seemed to provide extra assistance to the less well off; and secondly, that it appeared to "clobber the rich" - at least a little. I think we can maintain our position in relation to increased imposts on "the rich" - but this letter is not about that, and you may wish to return to me on that aspect.

On the impact on the less well off, there are a large number of our supporters both in and out of Parliament who share a vague perception that it is "unfair". I think they misdirect their critisism - it is not the community charge which causes this, but the combined effect of all the imposts which occur in moving from benefit to taxpayer levels of income. Nevertheless, our community charge proposals are a focus of this unease which presents itself to our supporters immediately. Also, it is one way of contributing to alleviating this unease to workon this part of the front, as well as facilitating the passage of the Bill.

RIDLEY TO CH/EX 7APR

The right answer to the Mates New Clause is to improve the rebate arrangements, so that they are seen to be "fairer" as well as taking out most of the beneficiaries of Michael's New Clause to the greatest extent possible.

In the wider employment trap context, a DHSS-chaired group of officials is, as you know, already looking at a number of options for improving the housing benefit arrangements. These include less steep tapers and increased earnings disregards, which would raise the level at which the taper starts for people in low-paid employment. The solution to the Mates problem lies, I believe, in making such adjustments to the community charge rebate scheme as well. But we cannot await the outcome of the DHSS Committee because Report on the Local Government Finance Bill is on 18 April; so I think we must proceed on community charge rebates in advance of whatever we decide to do on housing benefit generally.

I therefore propose that I should announce on Report a reduction in the slope of the community charge rebate taper from 20p to 15p, and a £10 increase in the earnings disregard (from £5 to £15 for single people and £10 to £20 for couples).

The cost of these two proposals together would be about £200 million (at 1988/89 prices) in 1990/91. They would mean that abut 1¼ million individuals and couples received rebates who would not otherwise do so. Of these about ¼ million would be single people under retirement age, and about 300,000 would be single pensioners or pensioner couples. (The number of pensioners benefiting is limited because we are operating on earnings disregards - which do not disregard incomes from occupational pensions.)

I would like to have your reaction to these proposals as soon as possible - time is very short if we are to have something to announce at Report. Only a very small number of officials here are involved. If it would help for one of your officials to discuss the contents of this letter the person to contact here is John Adams (212 0961).

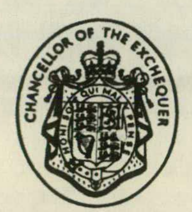
Yours ever
Nick

NICHOLAS RIDLEY

As Mr R writes, I had a brief discussion with him à deux before Easter. I understand his problem & agree that we should look at the worst effects of the CC. Some relief for the adverse effects [illegible] is, however, essential that the Exchequer only [illegible] which does not fall on other CC payers but is financed by a commensurate reduction in the AEG or its successor). On the basis of our conversations, I believe Mr R will accept this.

MJD 1/138A

PERSONAL AND CONFIDENTIAL



FROM: A C S ALLAN
DATE: 7 April 1988

MR MCINTYRE

cc PS/Chief Secretary
Mr H Phillips
Mr Potter

COMMUNITY CHARGE REBATES

The Chancellor has seen Mr Ridley's letter to him today.

2. As Mr Ridley says, the Chancellor and he had a brief discussion before Easter. Given the Parliamentary problems, the Chancellor agrees that we should be looking at some relief for the worst of those adversely affected by the community charge. He feels, however, that it is essential that any such relief does <u>not</u> fall on the Exchequer, but is financed by other community charge payers (via a commensurate reduction in AEG or its successor). On the basis of their conversation, he believes Mr Ridley would accept this.

ACSA

A C S ALLAN

ACSA TO MCINTYRE 7 APR

FROM: R FELLGETT
DATE: 7 April 1988

1. MR PHILLIPS — See separate note. HP 8/4

Copies attached for:
PS/Chancellor
Sir P Middleton

2. CST

cc Mr Anson o/r
Mr Hawtin o/r
Mr Turnbull
Mrs Case
Miss Peirson
Mr Gieve
Mr Potter
Mr Burns

1989-90 RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND

This submission offers advice on the approach you might take to the forthcoming discussions of the RSG settlement for England for 1989-90. It discusses the main elements of the settlement - Aggregate Exchequer Grant (AEG), provision for relevant public expenditure and aggregate GRE. When you have considered it, I expect you will wish to discuss it with us.

Background

2. At Annex A is a short history of RSG settlements since 1979 and trends in local authority spending. The 1988-89 settlement involved an announced increase in AEG of £750 million. But with higher grant penalties than in 1987-88 (mainly because the level of expenditure provision, against which overspending is measured, was less realistic than for the earlier year) the increase in grant at outturn is now estimated to be around £550 million. This is a significantly tougher settlement than for 1987-88. Partly as a result, there are encouraging signs that the rapid rate of growth of local authority spending has started to slow down a little.

NB

FELLGETT → CST 7/4

3. The settlement for 1989-90 will be the last one under the present RSG system. From 1990-91, with the introduction of the Community Charge system, local authorities will lose just over half their independent taxing powers, because business rates will be indexed to the RPI. The consequent shortfall in business rate revenue will have to be met by a combination of slower growth in spending, higher increases in grant, and higher increases in Community Charges (CCs).

4. A steady increase in grant, with a small increase in real terms each year, seems the right medium-term approach after 1990. Larger increases in grant would undermine the accountability link between the level of CC and expenditure, which the new system is intended to promote, whereas smaller increases in grant would create intolerable pressures on the CC. If it can be achieved, despite all the pressures to subsidise CCs with generous increases in grant, this approach should moderate the growth in local authority expenditure after 1990. The 1989-90 settlement could form a useful precedent.

?

Objectives

5. The general objective of the RSG settlement for 1989-90, should be to encourage a further fall, and certainly avoid any rise, in the underlying rate at which local authority current spending is increasing. It has recently risen faster than money GNP, requiring tougher constraints on other expenditure to achieve a fall in the GGE:GNP ratio. In the longer term, it would be helpful to get the growth rate in LA current spending down to that in money GNP, and ideally reduce it further so that local authorities made a contribution to reducing the GGE:GNP ratio, in line with the overall objective for public expenditure.

essential (though diff)

Aggregate Exchequer Grant

6. Grant is the main tool available in the RSG system to influence spending. I therefore suggest that your objective in discussions with colleagues should be to aim for an increase in AEG at outturn

of no more than £550 to £600 million. The lower figure would be similar to the cash increase expected under the 1988-89 settlement; the higher one could be justified by the extra costs local authorities face in preparing for the CC. These figures would (on the latest FSBR GDP deflator) represent a real increase in grant of about ¼-¾%.

7. We could aim for an even tougher settlement on the grounds that 1989-90 is the last chance to cut grant in real terms before the CC system comes into operation. A real cut would be a firmer signal to local authorities to control their spending under the CC regime. To the extent that it meant higher rates that could make the subsequent CC more attractive and it would increase the starting poundage for the National Non Domestic Rate. You might use this as the basis of your opening stance in negotiations.

8. However, it does not seem a realistic objective for the outcome of the negotiations. There are no overriding difficulties with public expenditure control, or economic conditions generally, that would support such a line. It would appear inconsistent with Government priorities for education, law and order and other local authority services. It would be difficult to apply to Scotland, where the CC is to begin in 1989; and a noticibly more accommodating RSG settlement for Scotland than for England in 1989-90 would be an awkward precedent. A real cut in grant would be seen as a one-off settlement before the CR regime; an offsetting large increase in 1990-91 would be hard to avoid and, as a precedent for later settlements under the CC system, that would not be in the longer term interests of public expenditure control (or the credibility of plans for grant in the new planning total).

9. Indeed, we do not underestimate the difficulties of securing an agreement along the lines proposed. It would be seen (and attacked in some quarters) as a tough settlement. It would involve a reduction in the announced grant percentage (the ratio of AEG to all relevant expenditure announced in the settlement) of about 1½ percentage points. In contrast, for 1987-88 and 1988-89 the

depends on what provision is

percentage barely changed. For reasons explained below, an increase in AEG of £550-£600 million for 1989-90 at outturn will require the same increase to be announced in the settlement significantly less than the equivalent increases of £750 million for 1988-89 and £1.2 billion for 1987-88.

10. DOE will no doubt advise Mr Ridley to argue strongly for AEG to be based on the same percentage announced in the 1987-88 and 1988-89 settlements, mainly on the grounds of stability in the RSG system in its last year and to set a high base for grant under the new planning total and CC system, where the safety net from 1990-91 to 1993-94 will be based on grant and rate income in 1989-90. This grant percentage would lead to an increase in AEG of around £1 billion, or 8%. We cannot see anyway of squaring an unchanged grant percentage with an increase in AEG of £550 to £600 million; expenditure provision would have to be set so unrealistically low that it could be subject to legal challenge. The arguments in favour of an unchanged percentage will therefore have to be faced and argued against in the following terms:

i. an increase of £1 billion - twice the forecast GDP deflator - would give totally the wrong signal to local authorities in the last year before CC, and would encourage them to increase the rate of growth in their spending again, and would thus make the CC policy harder to implement;

ii. it amounts to financing (albeit about one year in arrears) a predetermined proportion of whatever local authorities decide to spend, to which there are public expenditure policy objections, pay policy objections (because 80% of spending is pay), and perhaps political objections (as many local authorities are controlled by the Government's political opponents);

iii. the grant percentage will in fact change anyway, because with the transfer of polytechnics from local to central government control, their full cost of about £800 million (and not a percentage of their cost) will be deducted from AEG.

You will recognise much of the first two arguments from last year's discussions. It may again prove difficult to persuade colleagues of their force, if they take the view that an unchanged grant percentage is necessary for the stability of the RSG system in its last year, and to set a higher base for levels of AEG and the safety net under the CC system.

11. On the other hand, much of the political difficulty with reducing the grant percentage comes from consequent higher increases in rates; a firm grant settlement not only reduces expenditure but results in higher rate rises. But uniquely in 1989-90, rates are unlikely to be greatly affected by the RSG settlement. Labour authorities (as Strathclyde have done in Scotland for 1988 89) may decide to freeze rates to make the subsequent Community Charge look relatively less attractive. Shire county elections in May 1989 may also help keep rates down. Conversely, high increases in rates would presumably cause the Government less political difficulty than in other years. It may therefore be easier to secure the agreement of colleagues to a cut in the grant percentage, particularly if that meant in reality the same increase in the quantum of grant as for 1988-89. (Average increases in rates should then be roughly 8%, although, as already noted, rates increases in 1989-90 may bear little relationship to underlying changes to grant and expenditure).

Expenditure Provision

But major impact on grant %

12. Provision for local authority current expenditure has no direct effect on local authority spending, although it may have some effect as a signal. We anticipate that English local authorities will set budgets around £1¼ billion above the PEWP plans in 1988-89; this will be a claim on the Reserve. A transfer from the Reserve of about £1½ billion will be necessary for 1989-90, if provision is set equal in real terms to budgets for 1988-89 plus a small addition for CC costs.

13. There are arguments for a larger transfer from the Reserve to allow for a small real increase in local authority expenditure

in 1989-90. It is unrealistic to plan for local authority spending to show no real rise over the two years, when it has been increasing 4-5% per annum in real terms recently and, at least for some local authority services, there are a pressures to accommodate new demands and new policies. However, higher and more realistic provision would lead to smaller grant penalties in 1989-90 than in 1988-89, because penalties are broadly based on the excess of expenditure over provision. To achieve an increase in AEG at outturn of £550-600 million, the increase announced in the settlement would have to be even less. We doubt if this could be agreed. Provision will therefore have to be based on a transfer from the Reserve of only about £1½ billion. In that case, the figures for AEG would be:

	1988-89	**objective for 1989-90**	**£ billion**
announced:	13.00	13.55 - 13.60	
outturn:	12.45	13.00 - 13.05	

14. A transfer from the Reserve of £1½ billion, which allowed for no real growth in spending compared to 1988-89 local authority budgets, is unlikely to be welcomed by colleagues in spending departments; you will recall the difficulty last year in agreeing provision for DHSS. However it would allow for an average increase in departmental plans, compared to the plans in Cm 288 (not LA budgets) of about 8%. That should be defensible.

GREs

15. Finally, I suggest that you argue for the minimum possible increase in GRE. This is widely regarded as an expenditure norm and the point at which an authority "goes into grant penalty". (In fact, unlike the old target and penalty system, grant is witheld in response to an increase in spending at all levels of expenditure, not just those above GRE; and the rate of loss increases at GRE + 10%). GRE does form the basis of selection for rate capping. A low increase in GRE will therefore help moderate the rate of increase in expenditure. It should be possible to secure an

increase for the majority of services close to the GDP deflator, with extra as necessary for some services like the teachers and police where pay (and manpower for the police) are approved by central government, and some addition to allow for the costs of preparing for the Community Charge.

Other options

16. For completeness, I should mention that we have considered and rejected the option of proposing the reintroduction of target and penalties. However attractive in expenditure control terms, we conclude from the last RSG round that they are not, in political terms, a credible option.

17. We also doubt if you could propose any option involving further complicated and controversial local government finance legislation without Mr Ridley's backing; the business managers would undoubtedly be strongly opposed. It therefore seems that the "frozen grant" idea, which was discussed briefly before the last round, is not a serious option for 1989-90. DOE officials have indicated to us that it is not part of their thinking, or Mr Ridley's. In any case, one of the attractions of the frozen grant idea was that it would involve closing down the present RSG system and ceasing to make grant adjustments in respect of earlier years: this point is being pursued separately.

Polytechnics

18. If has been agreed and announced that, when the polytechnics and other colleges are transferred out of local government control in April 1989, a sum equal to pooled expenditure on these colleges will be deducted from AEG. This is to ensure that the transfer has no direct effect on either ratepayers or central taxpayers. For simplicity, all the figures above exclude an equivalent amount for all years: thus, for example, the announced total of AEG for 1988-89 is taken as £12,966 million and not the £13,775 million actually announced for the year, because £809 million has been subtracted for the polytechnics. (The precise adjustment has still to be calculated and agreed with DES; and there will be

complications in Scotland, where the equivalents to polytechnics are already a central government responsibility and in Wales, whee the polytechnics will remain in local government.)

The figures

19. Many of the figures quoted in this submission are still uncertain; we will not be able to estimate local authority budgets for 1988-89 or any projections based on them with more precision until the full budget returns have been received by DOE, hopefully during May.

Tactics

20. Agreement will need to be reached in E(LA). This is not, however, a Committee on which you will find many natural allies. Mr Ridley may wish to see a tougher settlement than colleagues with spending responsibilities. You may therefore feel that there would be advantages in trying to secure the maximum possible agreement with Mr Ridley before the formal E(LA) sessions start, probably in late May. Although we have received no approach yet from DOE, in previous years Mr Ridley was inclined to seek agreement with you or your predecessor bilaterally, or at least explore options, beforehand. He may prefer to avoid a protracted haggle in Committee.

21. If you decide to meet Mr Ridley during April, you might explore whether he was interested in a grant settlement along the lines we have suggested above. If you decided to reveal your hand, you could describe it to him as an offer to increase grant in line with the GDP deflator, plus an addition of (say) £50 million (giving £570m in all) towards the cost in current expenditure of preparation for the Community Charge.

22. Any private discussions would obviously have to be on the basis that, unless they produced an agreement that you could take jointly to E(LA), you would withdraw any offer that you made and start from a tougher position in Committee. One option for

E(LA) would be to base your position on the announced baseline for expenditure provision for 1989-90 in the latest White Paper, and the arguments for a very tough line set out in paragraph 7.

23. You may also feel that it would be worthwhile discussing your objectives in broad terms with Mr Parkinson (who will be chairing E(LA)). And in the light of discussions with Mr Ridley and Mr Parkinson, it might be worth acquainting the Prime Minister with the approach that you decide to take.

Conclusion

24. The preliminary conclusions of this submission, which has been agreed with GEP, are therefore:

i. the overall Treasury aims should be a firm settlement to encourage a further reduction in the underlying growth rate of local authority current spending in 1989-90 and later, and to set a useful precedent for the Community Charge regime from 1990-91;

ii. more specific objectives for the outcome of discussions with colleagues are: an increase in AEG of no more than £550-600m, an increase in provision involving a claim on the Reserve of about £1½ billion, and an increase in GRE for most services of about 4% (the GDP deflator). We do not underestimate the difficulty of securing such an agreement, which would be seen as a tough settlement. Tactically, however, you will wish to start from a tougher position;

iii. it would probably be worthwhile discussing the options privately with Mr Ridley before E(LA) begins its discussions; and it could be useful to talk also to Mr Parkinson (and, in the light of those discussions, possibly briefly to the Prime Minister).

pp M L Reader

R FELLGETT

ANNEX A

History

A1. In the first two years of the present Government up to 1980-81, the RSG system inherited from the previous administration contained a presumption that the Government would finance a given percentage of local authority spending. In fact, some reductions in this "grant percentage" were made, with a view to discouraging local authority public expenditure. Over the 2 years, the percentage fell by about 2½ percentage points from 59.8% to 57.2% of expenditure. Continuing real growth in local authority current spending of about 2½% a year in real terms dragged grant up by £2.7 billion in cash over the two years, although with high inflation this represented a real cut of 2%.

A2. The introduction of the new block grant system for 1981-82, the application for targets for local authority spending and penalties for exceeding them for 1982 83, and a series of tough grant settlements contributed to a slow down in the rate of increase in local authority current spending to just ½% a year in real terms from 1981-82 to 1985-86. Over these 4 years grant increased by only £0.9 billion, the grant percentage fell by 8½ points, and there was a reduction in the real value of grant of 13%.

A3. The Settlement for 1986-87 was designed to place constraints and incentives on authorities which would result in a claim on the Reserve for no more than £½ billion. Targets and penalties were abandoned, but the slope of the poundage schedule steepened so that a majority of authorities were entitled to less grant if they spent more. Grant was planned to increase at outturn by around £½ billion. In the event, this proved unsuccessful. The claim on the Reserve was for £2 billion. The abolition of targets and penalties not only removed a significant constraint on spending, but allowed authorities to manipulate their books to reclaim around £½ billion of penalties paid in earlier years (with the consequence that grant for 1986-87 was not, in fact, higher than outturn for 1985-86).

A4. Since 1986-87 local authority current spending has been increasing in real terms by around 4-5% a year. There is

therefore a strong argument that the abandonment of targets and penalties, and the subsequent more generous RSG Settlements for 1987-88 and 1988-89, have removed a major constraint on local authority expenditure. On the other hand, some part of this real growth will have been a "catching-up" following up the earlier tougher financial regime, which arguably would have happened anyway at some stage. And because lower inflation has not been accompanied by equal reductions in nominal increases in earnings, real increases in pay have placed local authority spending under pressure - around 80% of net current spending by local authorities is pay and similar items.

A5. The 1987-88 Settlement was the most generous since, at least, the early years of the present Government. The amount of grant available was increased by £1.2 billion, including extra sums for teachers' pay, based (I believe for the first time under the present Government) on an unchanged grant percentage. However with the abolition of "grant recycling" which paid back to all local authorities grant withdrawn from high spenders, the increase in grant at outturn is likely to be around £950 million.

A6. The Settlement for 1988-89 was also notionally based on a little-changed grant percentage, with an increase in the grant available of £750 million. In practice, provision for spending was set (artificially) even lower than a realistic estimate, which both reduced the increase in grant at a fixed percentage and increased the amount of grant recovered as a consequence of authorities in aggregate overspending this plan. At outturn, grant is likely to rise by around £550 million.

A7. There are now some preliminary indications that the rate of growth in local authority spending may be slowing down a little in 1988-89. This has yet to be confirmed, and the rate of growth will fall by no more than a percentage point. If a slowing down is taking place, it is likely to be the consequence of: a tougher RSG Settlement for 1988-89 than for 1987-88; the effects of rate-capping, which are finally being seen in lower expenditure policies in a number of previously very high spending areas; the Government's additional control on teachers' pay through the Interim Advisory Committee; and less need for "catching up" now that targets and penalties have been abolished for some years.

54G/SAH/19

CONFIDENTIAL

FROM: J DIXON
8 April 1988
Room 53B/G
Ext 4589

MISS PEIRSON

cc Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr H Phillips
Mr Scholar
Mr Culpin
Mr Hawtin
Mr C Kelly
Mr Odling-Smee
Mr Sedgwick
Mr Peretz
Mr Turnbull
Mr Luce
Mr Potter
Mr Cropper
Mr Hibberd

THE TREATMENT OF THE COMMUNITY CHARGE IN THE RPI : PUBLIC SERVICE PENSIONS

We had a word about the minutes by Mr Hibberd of 30th March 1988 and Mr A C S Allan of 7th April which Dame Anne Mueller has brought to my attention.

2. Option B - not including the community charge in the RPI - would have serious implications for social security upratings, as Mr Hibberd has argued. This difficulty would apply also to public service pensions upratings, which are all based on the RPI. I have no doubt that the row that would occur would far outweigh the one that has arisen over the recent RPI error. It will be recalled that, coincidentally, the error was 0.1 per cent, that is very similar to the forecast slower rise in the RPI, 0.1 to 0.2 per cent, compared with Option A (including the community charge in the RPI).

3. But unlike the present row, which is still, three months later, generating a heavy MP's postbag, the 0.1 to 0.2 per cent shortfall would be a continuing one every year. The current RPI

error of 0.1 per cent will be put right by April 1989. So I am in total agreement with Mr Hibberd when he says (para 12) that the RPI could become discredited, and that pressure could arise to move to uprating according to earnings rather than prices, with a consequential increase in public expenditure.

4. The main purpose of this minute is to ask you to associate the public service pension issue with any comments that you may make about social security upratings. In my view, there would be a considerable row on both fronts. You will recall that the Order uprating (according to the RPI) public service pensions must state exactly the same percentage as the Order uprating social security benefits.

5. In Mr Hibberd's conclusion (para 15), he says 'There is considerable scope for disagreement'. There is a further difficulty, in that Ministers from most of the public service would be briefed about the effect upon their pensioners (teachers, NHS, armed forces, police, fire, local government, and so on), as well as on the social security pensioners, who are mainly DHSS' concern.

J.D.

J DIXON

PERSONAL AND CONFIDENTIAL

FROM: J P MCINTYRE
DATE: 8 April 1988

CHANCELLOR

cc Chief Secretary
Mr Phillips
Mr Potter

COMMUNITY CHARGE REBATES

Mr Ridley's letter of 7 April proposes that he should announce at Report Stage of the Local Government Finance Bill (18 April):

i. a reduction in the slope of the community charge rebate taper from 20 per cent to 15 per cent;

ii. an increase in the earnings disregard, for the purpose of calculating entitlement to community charge rebate, from £5 to £15 for single people and from £10 to £20 for couples.

2. We and LG have considered these proposals in the light of Mr Allan's minute of yesterday, recording your view that we should look at some relief for those worst affected by the community charge but that the cost should not fall on the Exchequer. However, as explained below, our conclusion is that not only are there serious disadvantages in the proposals but that it is hard to see how their cost could be offset by reducing the AEG or its successor.

The existing rebate scheme

3. The background is that there are two income tapers under the new social security system. These tapers are applied when incomes rise above the level of Income Support to which an individual or family is entitled. One is applied to assistance with rents (65 per cent in 1988-89 and planned to rise to 70 per cent in 1989-90, though the latter has not been announced). The other applies to assistance with rates (20 per cent). Ministers have not yet

decided what the taper for the community charge should be. But it was agreed last year that the rebate arrangements would be broadly similar to those for rates, and Mr Scott has announced this in the House. The expectation, therefore, is for a 20 per cent taper.

4. The earnings disregards are £5 for single people and £10 for couples for calculating both Income Support and Housing Benefit entitlements. This is one of the simplifying features of the new system. The only exception is lone parents who have a £15 disregard for the purposes of calculating Housing Benefit.

The effect of Mr Ridley's proposals

5. Total community charge rebates in 1990-91 will be very roughly £1.6 billion. This is already about £140 million more than the existing rate rebate scheme would cost, because more people will be entitled to rebates under the community charge. A reduction in the taper to 15 per cent would cost about £130 million, and the proposed increase in the earnings disregard would add around £100 million to the cost of the scheme. The combined effect would be around £200 million, as there would be some overlap. This would be all income forgone and add to the PSBR, but it would not be public expenditure. DHSS account for it as part of the Housing Benefit scheme.

6. Neither proposal would affect those entitled to the maximum 80 per cent rebate, who will also get some (though not necessarily full) compensation in their Income Support for their 20 per cent community charge payments.

7. The effect of the proposals would be on those on incomes just above Income Support levels. Those already entitled to less thanthe maximum rebate would get increased rebates, and additional people would be floated on to Housing Benefit because it would extend further up the income scale. To give one example, a couple with two children paying average rent and community charge would see their HB entitlement extinguished at gross earnings of £10,000 instead of £8,250 (£147 weekly net income instead of £125.)

8. Taken together, Mr Ridley estimates that his proposals would add about 1¼ million individuals and couples to the numbers already expected to be entitled to community charge rebates (7 million). 300,000 would be single pensioners or pensioner couples. 250,000 would be single people below retirement age. 700,000 would be couples below retirement age. Most of the 1¼ million would add to the total Housing Benefit population, as they would not be recipients of rent assistance.

9. The annex illustrates how the proposals would help some typical charge-payers on low incomes.

Assessment

10. The arguments against the proposals are:

i. They would add £200 million to the PSBR.

ii. Additional financial support for those paying community charge would have the effect of making it less painful and so reduce its effectiveness in improving accountability.

such as it is anyway

iii. The proposals would be seen not only in terms of the community charge but as a major retreat in the context of the social security reforms, only a week after their introduction. This might well encourage pressure for more concessions.

?

iv. They would add perhaps a million to the number of people on benefit, when the government's general strategy is to reduce dependence on benefits.

✓

v. They would make it very difficult to proceed with the planned increase in the rents taper to 70 per cent in April 1989, as this would be seen as the government getting back the 5 per cent lost on the community charge taper. Mr Ridley would see this as an advantage; he has already argued for the reversal of the 70 per cent

decision. But it would add £50 million (public expenditure) to the DHSS programme.

vi. The community charge rebate scheme (even without Mr Ridley's concessions) will cost over £1½ billion, already £140 million more than the rate rebate scheme, because more people will be entitled to rebate. The new rents policies are also putting strong upward pressure on Housing Benefit. Against this background, we need to look for ways of containing expenditure rather than adding another £200 million.

vii. It is not easy to see why a 20 per cent taper should be right for rates but only 15 per cent for the community charge. A reduction to 15 per cent would give a windfall gain to a householder paying the same in community charge as in rates.

vii. The higher earnings disregard would remove one of the elements of simplicity in the new benefit system. It would make housing benefit more complex for Local Authorities to administer. And there might well be pressure to raise the disregards for Income Support and the rent rebate element of HB to the same level. On HB alone, this would add £110 million to public expenditure.

(so just do taper?)

ix. They would conflict with the government's objective of concentrating help on the poorest. The beneficiaries of the concessions would all have incomes above Income Support levels, and the biggest gainers would be better off rebate recipients (see annex).

All this is true, but there is nothing that can be done to help poorest unless some concession is made on 20%

11. I am afraid we are unable to find anything to say in favour of the proposals except that they would slightly reduce the marginal tax rate of very roughly 50,000 people by 3-5 per cent. Even this advantage is more than offset by the disadvantage that they would <u>increase</u> the MTRs of up to 1 million people brought within the rebate system from 34 percent to 44 per cent.

Alternative concessions

12. We and LG have considered whether there are less objectionable counter-proposals we could put to Mr Ridley that would be likely to satisfy him. But we have not come up with any. If Mr Ridley's aim is to make a gesture of substance towards those just above Income Support levels, the two concessions he has proposed are the obvious means of achieving this.

13. One way of responding would be to argue that only one of the concessions be made. This would roughly halve the cost. But the other objections listed above would remain.

Offsetting the Cost

14. You suggested that we might seek to offset the Exchequer cost of any additional relief by a reduction in grant (probably Revenue Support Grant rather than specific grants). In that way, the cost of extra help for the poorest chargepayers would be met by chargepayers as a whole. But, in practice, shifting the cost on to chargepayers would be difficult. There is no forward plan in the PEWP for the RSG at present - though there will be under the new planning total post-1990. Whatever commitment might be made now to reduce grant, it would be impossible to prevent DOE taking the cost of the relief into account in determining their bottom line in the negotiations on grant for 1990-91.

Mr Mates' new clause

15. It is obviously a matter of political judgment as to whether Mr Ridley's proposals are necessary to ensure the defeat of the new clause. (As you know, Mr Ridley is also pressing for concessions on other issues in the Bill eg dual running and transitional arrangements for small business.) We would only comment that concessions made at this stage might not be enough to avoid problems in the Lords. Indeed, concessions now might even encourage opposition in the Lords to go for more. Although Mr Ridley's proposals are expensive and would provide significant gains for the better off rebate recipients, they might not be enough to satisfy the government's critics - many would get only modest increases in rebate, and the effect on MTRs would be

slight. If this assessment were to prove correct, we might well be faced with demands for further concessions when the Bill is in the Lords.

Conclusions

16. On the substance, the arguments against Mr Ridley's proposals are very strong. And, on tactical grounds, it is not clear that, if concessions have to be made, now is the time to make them, in advance of the Bill going into the Lords. However, you may not wish to rebuff Mr Ridley completely, and the attached draft reply ends by offering urgent consultations between DOE officials and ourselves to see whether there might be alternative solutions which avoid the disadvantages in the proposals Mr Ridley has put to you.

17. This has been agreed with LG.

JMc

J P MCINTYRE

DRAFT LETTER TO MR RIDLEY

COMMUNITY CHARGE REBATES

Thank you for your letter of 7 April.

As you know from our talk before Easter, I well understand the difficulty you are caused by Michael Mates' new clause. And I can see why you are attracted by the idea of announcing concessions at Report Stage in order to reduce support for the clause. However, the proposals in your letter would not only be expensive but have a number of other disadvantages. In particular, they would conflict with our policies of reducing dependence on benefits and would weaken accountability which is at the heart of our policy in introducing the community charge. I also have doubts whether, on tactical grounds, it would be right to offer any such concessions at this stage.

As you say, your proposals would cost around £200 million. This would be over and above the £400 million or so we will already be providing through Income Support in compensation for those on benefit who will have to pay 20 per cent of the community charge. It would also be additional to the £1½ billion or more we are likely to spend on the rebate scheme as it stands. It really is very difficult to contemplate adding to these already large expenditures.

Your proposals would also, as you acknowledge, bring a further 1¼ million individuals and couples within the rebate

scheme. This would be on top of the 7 million or so who are currently expected to be entitled to rebates. The proposals would therefore be a major reverse for our policy of reducing dependence on benefits.

A further consideration we need to keep in mind is that your proposals would be seen not only in the context of the community charge but of the social security reforms. Within days of the reforms being introduced, we would be seen as beating a major retreat. This might only encourage critics of the reforms to demand further concessions, and I would not like to add to the pressures John Moore is already facing on this front.

So I am afraid that, on their merits, I see very considerable disadvantages in the proposals. However, I know that they also need to be considered against the need to deal with Michael Mates' new clause. On this point, I do wonder whether your proposals, even if they were to achieve their objective in the Commons, might only encourage our critics in the Lords to seek further changes. If this proved to be the case, we might be faced with demands for more concessions. Defeat of Michael's new clause without offering concessions might strengthen our position in the Lords.

However, in view of your concern, I would be content for your officials and mine to consider as a matter of urgency whether

there are any alternative means of reducing support for Michael's clause which would avoid the expense to the Exchequer and the other disadvantages of the proposals you have put to me.]

NIGEL LAWSON

The increase in the earnings disregard raises particularly difficult problems. It would remove one of the ~~simplifying~~ important features of the new social security system, since it would open up a gap again between the earnings disregards for different benefits. This would inevitably make it more complicated to administer, and would create pressure to raise the earnings disregards for Income Support & the rent element of Housing Benefit.

The reduction in the community charge rebate taper also raises difficulties. But if, following our discussion with the Prime Minister & the Chief Whip on Monday, we are convinced that a concession is necessary, it is in this area I think a move here might be the least damaging. But I would only accept it on two conditions

(i) that we stick firmly to our existing decision to raise the rent taper from 65 per cent to 70 per cent in 1989-90; and

//over

agree to

(ii) that we recover the cost of the concession (about £130 million) from a commensurate reduction in aggregate grant to local authorities in 1990-91. This is fully within the spirit of the Mates clause, since it will mean that a small amount is added to all community charge bills to finance additional rebates for the less well off.

I am copying this letter and yours to the Prime Minister & Chief Whip

NIGEL LAWSON

(Nigel Wicks knows about the Ridley letter & is keen to have it & your reply in the table for Monday).

ANNEX - ILLUSTRATIVE EXAMPLES

(i) Couple, two children under 11, net income £120 per week, paying average community charge of £235 each, i.e. £9 per week total.

	Existing rebate scheme	Ridley scheme
Maximum rebate (80 per cent of community charge)	**£7.20**	**£7.20**
	-----	-----
Net income	**£120.00**	**£120.00**
Income support applicable amount	**£79.10**	**£79.10**
Earnings disregard	**£10.00**	**£20.00**
	------	------
'Excess' income	**£30.90**	**£20.90**
applying the taper to this	**£6.15**	**£3.15**
	------	------
and deducting it from the maximum rebate above to give the actual rebate	**£1.05**	**£4.05**

Gain **£3.00 per week**

[The two changes - disregard and taper - are to some extent self-cancelling. Changing the disregard only would produce a gain of £2 - changing the taper only would produce a gain of £1.50]

Further examples

(ii) Pensioner couple, state and occupational pension totalling £90 net, paying average community charge of £235 each.

Existing scheme **£2.75 per week** Ridley scheme **£3.85 per week**

Gain **£1.10 per week**

[Pensioners will not gain from the increase in the earnings disregards since pensions are not earnings]

(iii) Single person, under 25, net income £80 per week, paying London community charge of £10 per week.

Existing scheme **nil** Ridley scheme **£2.15 per week**

Gain **£2.15 per week**

(iv) HEO(D), married, one child under 11, gross salary £13,500, net income £190 per week, living in Hackney (community charge £700 each).

Existing scheme **nil** Ridley scheme **£6.25 per week**

Gain **£6.15 per week**

FROM: H PHILLIPS
DATE: 8 April 1988

CHIEF SECRETARY

cc PS/Chancellor
Sir P Middleton
Mr Anson o/r
Mr Hawtin o/r
Mr Turnbull
Mrs Case
Miss Peirson
Mr Gieve
Mr Potter
Mr Burns

1989-90 RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND

The attached submission from Mr Fellgett recommends that the Treasury should aim for another firm settlement in this year's E(LA) negotiations on grant and provision for local authority current expenditure in England. The following are considered to be realistically achievable targets for the negotiations:

- a very small real increase in Aggregate Exchequer Grant (AEG) at settlement of £550-600 million (cf £750 million for 1988-89 and £1.2 billion for 1987-88);

- an increase in provision for LA relevant public expenditure leading to a claim on the Reserve of about £1½ billion; and

- aggregate GREs set broadly constant in real terms.

2. I agree with Mr Fellgett that this package represents an achievable and acceptable settlement for the Treasury. Following the 10% real increase in LA spending over the preceeding two years, a tougher settlement was negotiated in E(LA) last year. The indications from local authorities' budget information for 1988-89 are that this has resulted in a slower

projected rate of increase in LA spending. Our aim should be to build on this year's improvement and reach an equally tough settlement that will reinforce the downward pressure on the underlying rate of growth in LA expenditure.

3. We considered taking a more aggressive stance and seeking real cuts in grant with the aim of inducing nil growth or even a real fall in LA expenditure. But in the last year of the present system it is unlikely that Ministers in E(LA) would be prepared to risk a major confrontation on grant and spending with local government - especially since local authorities' acquiescence, if not their full support, will be necessary next year in preparing for the Community Charge and in introducing major new policies, particularly on education. Nor would a real cut in grant necessarily be in the Treasury's medium-term interests. It would be widely seen as a last ditch attempt to cut LA spending before the new system was introduced. The cut in grant would almost certainly then have to be reversed for 1990-91 to keep Community Charges down to politically tolerable levels. Starting the new system with a major injection of grant, which would then form the base for the safety-net grant up till 1993-94, would give wholly the wrong signals to local authorities and to chargepayers.

4. But the difficulties in achieving even the firm settlement we have in mind are formidable. We expect the Secretary of State for the Enviroment and other Departmental Ministers to argue for "stability" and a "quiet settlement" in the last year of the present system. They will seek to interpret that as requiring the current grant percentage (broadly the ratio of AEG to provision for LA relevant expenditure) to be maintained, following the near-stability attained in the last two settlements. Such a settlement would add about £1 billion to grant compared to our target of £550-600 million - and there is no real scope to narrow that gap by squeezing provision.

But must squeeze as much as possible.

5. There is therefore very little choice but to move colleagues off the concept of a stable grant percentage. As you are already

aware, there are powerful arguments which you can adduce against a fixed percentage: it amounts to a Government commitment to meet a constant proportion of LA expenditure - including overspends against provision. But convincing colleagues of this, even in the last year of the present system, will be a difficult task.

6. Moreover E(LA) contains few natural Treasury allies. Indeed past experience suggests that Mr Ridley may well wish to see a tougher settlement than others at E(LA); he also has a strong personal dislike for set-piece battles in the Survey and E(LA). We therefore recommend that, as a first step, you see how far a settlement can be reached bilaterally beforehand. You may wish to await the first contact from Mr Ridley or consider a pre-emptive strike. And, since any settlement will have to be approved by E(LA), we suggest it would be helpful to make Mr Parkinson aware early on of the Treasury's objectives for this year's E(LA) settlement.

7. You will now wish to consider both the substance of the recommendations and the proposed tactical handling contained in the submission and perhaps then discuss them further with us.

HP.

HAYDEN PHILLIPS