

PO-CH/NL/0251

PART L

SECRET

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Begins: 15/11/88.

Ends ; 23/12/88.



PO -CH /NL/0251



PART L

Chancellor's (Lawson) Papers:

THE COMMUNITY CHARGE AND
SETTLEMENT OF THE RATE
SUPPORT GRANT SYSTEM

DD'S: 25 Years

15/11/95

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PART L

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15/11/88. Jay



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Prime Minister

SIMPLIFIED NEEDS ASSESSMENTS

Last year in E(LF) we agreed the basis for determining needs assessments in the new system of local government finance. Since then my officials have taken forward this work in consultation with officials from relevant departments. They have now produced a package of options some of which are firmer than others. These are described in the enclosed paper which is in the form of a note to go to the local authority associations.

For most services there are a number of options which produce overall assessments ranging from broadly in line with present assessments to ones more favourable to inner city areas including inner London. The effect of the latter options would be to reduce community charges in inner London boroughs typically by around £100. Illustrative effects on community charges are shown in the enclosed table: these are based on:

- a. options more favourable to shire areas,
- b. a broad mix of options and,
- c. options more favourable to urban areas.

I must stress that these are purely illustrative at this stage and are intended simply to demonstrate the potential scale of the changes that might be made when we come to take decisions on new needs assessments. In particular they are based on 1988/89 budgets which for some authorities, such as Brent, understate real expenditure through the use of various creative accounting arrangements.

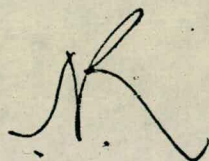
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The next stage in developing the simplified needs assessments is to discuss the options with the local authority associations. To this end officials have drafted a set of consultation papers for each of the service assessments. These contain some exemplifications of the effects on individual service needs assessments but there will be no reference to an overall package nor to the implications for community charges. Copies of the service annexes have been sent to officials in relevant departments.

We are under considerable pressure from the local authority associations to initiate the promised consultation on needs assessment. I would like to start consultation immediately so that officials have time to resolve all the technical issues and present us with final options next summer. I would be grateful for your agreement to my initiating consultation with the local authority associations on the basis of the enclosed paper and for the agreement of colleagues to the relevant annexes.

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



N R

15 November 1988

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DRAFT PAPER TO NEW SYSTEMS WORKING GROUP

SIMPLIFIED NEEDS ASSESSMENTS

1. The yellow booklet "The New Grant System"- set out the government's proposals for needs assessments in the new grant arrangements to be introduced in 1990. It noted that the methodology for making assessments should be much simpler than at present, that it should be more understandable to local tax payers, that it should be more stable, and that it should reflect needs no less fairly than the present GREs. This paper reports on progress on developing new needs assessments and invites the New Systems Working Group to set up a sub group to examine the proposals in more detail.

2. At present there are 63 separate GRE components for services. Ministers have announced that in the new system there should be many fewer assessments but that there should be separate assessments for every local authority and for each of the major local authority services. We now propose that there should be 12 separate service assessments in the new system. There should be four education assessments for primary, secondary, tertiary and other education; three personal social services assessments for children, elderly and other PSS; separate assessments for police, fire, highway maintenance, and capital expenditure; and a single assessment for all other services.

3. At present GREs are based largely on a client group/unit cost approach with an appropriate adjustment for the special needs associated with particular services, and an adjustment for higher costs in London. Where appropriate we propose to adopt a similar approach in the new needs assessments. The options for the new needs assessments are described in the attached annexes.

SUMMARY OF OPTIONS

4. Education : the present GRE components for education are fairly simple in form and have proved stable in practice. The main simplification proposed here is to rationalize the present 12 education components and reduce them to 4. These would cover primary, secondary, tertiary and other education. As at present the new assessment would allow for variations in the number of pupils, the number of pupils with additional educational needs, sparsity, and higher costs in London.
5. Personal Social Services: The present GREs for personal social services are the most complex of all. The scope for simplification on these services lies most in removing the redundant elements of the present assessments rather than reducing the number of separate assessments. We propose to retain separate assessments for children's services, services for the elderly, and the block of other services including those for the mentally and physically handicapped.
6. Two research projects have been undertaken to provide evidence for new needs assessments. The first by Kent University looked at children's services. The initial results of this work have already been reported to the local authority associations. A second option for this needs assessment is to draw on the results of the Kent research in order to construct a simplified version of the present arrangement.
7. The second research project was undertaken by York University into services for the elderly. They have produced a number of options all of which are much simpler than the present GRE. As with the children's GRE further work is in hand to develop these options.
8. For the other personal social services element we propose either to retain the existing methodology, which consists of a simple regression of expenditure against population and an index

of social deprivation, or to distribute this element in proportion to the sum of the PSS components for children and the elderly.

9. . Police : The present GRE for police is based on police establishments as approved by the Home Secretary. Within London the GRE of the Metropolitan Police is taken to be its budgeted expenditure on police services for the year as approved by the Home Secretary. We are proposing either to retain this methodology exactly as it is in the new system, or to include an allowance for the number of civilian staff employed by these forces. We have already discussed the second option with the local authority associations in the context of the 1989/90 settlement. We will continue this discussion in the context of the new needs assessments. Considerations here are the implications for incentives for efficiency, and privatisation of civilian work.

10. Fire and Civil Defence : The present GRE is distributed on the basis of a number of indicators such as population, density, number of fires, and high fire risk areas with the relative weights for these factors being derived from a regression against expenditure. We had hoped that better information on categorization of areas according to the level of fire risk would provide a basis for the new needs assessment. But the necessary data may not be available in time for use in new needs assessments. The options for this service are either to retain more or less the present methodology or to switch to a needs assessment based on establishments.

11. Highway maintenance : We propose to retain a separate needs assessment for highway maintenance in the new system but other transport services will be covered by the other services needs assessment. For highways maintenance we propose an assessment which allows both for the length and type of roads for which an authority is responsible, and the degree of usage on the

loads. As at present we propose to include a separate indicator to allow for the higher cost associated with severe weather conditions to take account of the cost of winter maintenance.

12. Financing costs of Capital Expenditure : At present the treatment of capital financing costs within the GRE system is not uniform. Debt charges on expenditure incurred before 1981/82 are in most cases distributed on the same basis as current expenditure for the particular service. Financing costs for capital expenditure incurred since April 1981 have been included within a separate GRE component distributed on the basis of individual authorities' allocations.

13. For the new system our objective is, as far as possible, an integrated needs assessment for financing costs of capital expenditure whenever it was undertaken. The financing costs of capital expenditure incurred before April 1990 can be taken into account on the basis of past needs assessments, past capital allocations, or outstanding debt at March 1990. Or they could be distributed on the basis of needs assessments for current expenditure.

14. We propose that annual capital guidelines should form the basis of the allowance for financing costs on capital expenditure incurred after April 1990.

15. The capital consultation paper proposes that half cash-backed capital receipts in 1990 and half of future capital receipts must be set aside for debt redemption or as a substitute for future borrowing. This will reduce the financing costs to be allowed for in the needs assessments. This use of receipts could be allowed in the needs assessment of the individual authorities setting aside receipts, apportioned across all authorities, or an intermediate position taken with part allowed for locally and part apportioned.

16. Other services : We are proposing that all remaining services should be combined into a single block. This provides the greatest scope for simplification amongst all of the proposals. Because of the diversity of services included in this block there are only a limited number of approaches which can be used to distribute it. The simplest would be to use a single indicator, such as population but this would take no account of the varying needs of authorities. We propose therefore to take account of a number of other factors which are thought to affect the cost of supplying a standard level of service for this group of services. The indicators we propose to use are population (with an allowance for the daily inflow of commuters), density of population, sparsity and an indicator of social deprivation. We propose to use a regression against past expenditure to inform the weights to be assigned to each of these indicators.

17. Area cost adjustment : At present a cost adjustment is made for London in respect of labour costs. This reflects the extra non-discretionary costs which London authorities face in providing a standard level of service. It is based on a comparison of wage rates using data from the New Earnings Survey. This method allows for variations in pay but some authorities have argued that it may not allow fully for all the higher costs of local authorities in London. We propose to examine this further.

18. Next Steps : This paper outlines the proposals for new needs assessments but there is still a lot of detailed work to be done and a number of technical issues to be resolved. We suggest that a Needs Assessment Sub Group be set up to carry this work forward.

The New Systems Working Group is invited :

- a) to comment on the proposals for new needs assessment; and
- b) to set up a Sub Group to carry forward the development of the new needs assessments.

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Table 1

THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

(£ per adult)

	COL 1 1988/89 Adjusted published Community Charges	COL 2 Option 1	COL 3 Diff. (Col 2 - Col 1)	COL 4 Option 2	COL 5 Diff. (Col 4 - Col 1)	COL 6 Option 3	COL 7 Diff. (Col 6 - Col 1)
TOTAL England	245	245	-	245	-	245	-
TOTAL central boroughs	446	412	-34	348	-99	334	-112
TOTAL other inner London boroughs	536	500	-36	443	-93	430	-106
TOTAL inner London boroughs	521	486	-35	427	-94	414	-107
TOTAL outer London boroughs	236	236	-0	228	-8	225	-11
TOTAL London boroughs	335	322	-12	297	-37	290	-44
TOTAL Metropolitan districts	249	258	8	250	1	247	-2
TOTAL Shire districts	223	222	-1	231	8	234	11

NOTES

COLUMN 1 SHOWS PUBLISHED COMMUNITY CHARGES FOR 1988/89 WITHOUT ALLOWANCE FOR THE TRANSITIONAL SAFETY-NET, BUT ADJUSTED TO ALLOW FOR THE EFFECTS OF ABOLISHING ILEA AND RING-FENCING THE HOUSING REVENUE ACCOUNT (HRA). THE ILEA AND HRA EFFECTS ARE PROVISIONAL AT THIS STAGE, AND WILL BE PHASED IN DURING THE EARLY 1990s THROUGH THE TRANSITIONAL SAFETY-NET.

COLUMN 2 ILLUSTRATES 1988/89 COMMUNITY CHARGES WITH SIMPLIFIED NEEDS ASSESSMENTS GENERALLY FAVOURABLE TO THE SHIRE AREAS IN PLACE OF 1988/89 GRANT RELATED EXPENDITURE ASSESSMENTS (GRES). THE EFFECT OF THIS CHANGE TO NEEDS ASSESSMENTS ON COMMUNITY CHARGES IS SHOWN IN COLUMN 3.

SIMILARLY COLUMNS 4 AND 5 ILLUSTRATE THE EFFECTS OF A FAIRLY CENTRAL SET OF SIMPLIFIED NEEDS ASSESSMENTS.

COLUMNS 6 AND 7 ILLUSTRATE THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS FAVOURABLE TO INNER CITY AREAS.

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THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

	(£ per adult)						
	COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7
	1988/89	Option 1	Diff.	Option 2	Diff.	Option 3	Diff.
	Adjusted		(Col 2 -		(Col 4 -		(Col 6 -
	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						
GREATER LONDON							
City of London	255	269	15	269	14	269	14
Camden	532	500	-32	441	-91	430	-103
Greenwich	616	597	-19	585	-31	580	-37
Hackney	550	508	-41	414	-136	393	-156
Hammersmith and Fulham	483	453	-30	383	-100	369	-114
Islington	437	359	-79	293	-144	279	-158
Kensington and Chelsea	284	241	-43	187	-97	178	-106
Lambeth	519	508	-12	422	-97	405	-114
Lewisham	627	612	-16	575	-52	566	-62
Southwark	543	476	-66	416	-126	403	-140
Tower Hamlets	760	703	-56	632	-128	611	-149
Wandsworth	499	480	-19	441	-58	430	-69
Westminster	364	326	-37	254	-109	238	-126
Barking and Dagenham	292	254	-38	261	-31	259	-34
Barnet	230	234	4	233	3	230	0
Bexley	222	225	3	227	5	228	6
Brent	271	262	-9	223	-48	210	-61
Bromley	195	217	22	220	25	221	27
Croydon	197	197	-0	191	-7	188	-9
Ealing	236	225	-10	216	-20	207	-28
Enfield	255	244	-12	242	-13	240	-15
Haringey	291	297	6	247	-44	233	-58
Harrow	226	214	-12	217	-9	217	-10
Havering	218	242	24	251	33	253	35
Hillingdon	264	282	17	287	22	287	23
Hounslow	224	233	9	223	1	220	-4
Kingston-upon-Thames	241	247	6	250	9	250	9
Merton	215	210	-5	207	-8	205	-10
Newham	252	219	-33	185	-67	171	-80
Redbridge	196	197	1	193	-3	191	-5
Richmond-upon-Thames	260	289	29	281	21	281	21
Sutton	235	221	-14	228	-7	229	-6
Waltham Forest	252	242	-10	223	-29	216	-36

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	Adjusted		(Col 2 -		(Col 4 -		(Col 6 -
	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						

GREATER MANCHESTER							
Bolton	221	246	26	245	25	243	23
Bury	247	269	21	268	20	269	21
Manchester	192	209	17	163	-29	153	-39
Oldham	213	217	4	210	-3	207	-6
Rochdale	271	300	29	299	28	297	26
Salford	265	266	1	249	-16	246	-19
Stockport	223	225	1	227	3	228	4
Tameside	268	286	18	285	18	284	16
Trafford	195	202	7	200	5	200	5
Wigan	277	299	22	303	26	304	27
MERSEYSIDE							
Knowsley	277	276	-1	254	-23	246	-31
Liverpool	256	244	-12	221	-35	213	-42
St Helens	275	295	20	307	33	308	33
Sefton	231	239	7	241	10	241	10
Wirral	267	272	5	266	-1	264	-3
SOUTH YORKSHIRE							
Barnsley	283	310	27	317	34	318	35
Doncaster	282	314	32	321	39	322	40
Rotherham	287	303	16	304	18	304	17
Sheffield	287	286	-1	280	-7	279	-8
TYNE AND WEAR							
Gateshead	255	259	4	260	5	259	4
Newcastle upon Tyne	288	274	-14	256	-32	253	-35
North Tyneside	248	250	2	251	2	250	2
South Tyneside	276	262	-13	250	-26	247	-29
Sunderland	274	261	-13	258	-16	256	-18
WEST MIDLANDS							
Birmingham	207	210	3	185	-22	175	-31
Coventry	246	249	3	243	-3	238	-8
Dudley	235	231	-4	231	-4	231	-4
Sandwell	237	241	5	228	-8	222	-14
Solihull	179	165	-14	171	-8	172	-7
Walsall	264	276	12	273	9	270	6
Wolverhampton	237	247	10	233	-4	225	-12
WEST YORKSHIRE							
Bradford	272	288	16	277	5	272	-1
Calderdale	296	327	31	329	33	329	33
Kirklees	285	320	35	326	40	325	40
Leeds	219	224	5	218	-1	217	-2
Wakefield	281	301	20	310	28	311	29

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AVON							
Bath	259	255	-4	253	-6	254	-5
Bristol	270	255	-15	253	-17	254	-17
Kingswood	240	203	-37	202	-38	203	-38
Northavon	254	233	-21	237	-17	239	-14
Wansdyke	255	251	-4	255	-1	257	1
Woodspring	262	250	-12	253	-9	255	-7
BEDFORDSHIRE							
North Bedfordshire	254	249	-5	256	2	258	4
Luton	244	216	-28	218	-26	218	-26
Mid Bedfordshire	252	248	-4	260	8	263	11
South Bedfordshire	278	265	-13	271	-7	272	-6
BERKSHIRE							
Bracknell	186	159	-27	167	-19	170	-17
Newbury	178	166	-12	177	-1	181	3
Reading	194	185	-8	190	-4	191	-2
Slough	178	164	-14	169	-10	170	-8
Windsor and Maidenhead	211	202	-9	210	-0	213	2
Wokingham	210	189	-21	197	-13	200	-10
BUCKINGHAMSHIRE							
Aylesbury Vale	218	204	-14	217	-2	221	3
South Bucks	238	236	-2	248	10	252	14
Chiltern	234	228	-5	238	4	241	8
Milton Keynes	256	242	-14	250	-6	253	-3
Wycombe	232	229	-3	237	5	240	9
CAMBRIDGESHIRE							
Cambridge	204	210	6	217	13	219	15
East Cambridgeshire	214	221	8	240	26	246	33
Fenland	213	228	14	243	30	249	35
Huntingdonshire	202	207	5	222	20	227	25
Peterborough	228	232	4	241	13	244	16
South Cambridgeshire	186	190	5	208	23	215	29
CESHIRE							
Chester	238	235	-3	246	8	249	11
Congleton	233	228	-5	239	6	242	9
Crewe and Nantwich	241	242	1	252	11	254	13
Ellesmere Port and Neston	212	195	-16	204	-7	206	-5
Halton	234	226	-8	233	-1	234	0
Macclesfield	223	217	-6	227	4	230	7
Vale Royal	231	230	-1	243	12	246	15
Warrington	234	225	-9	234	1	237	3

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	Adjusted		(Col 2 -		(Col 4 -		(Col 6 -
	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						
CLEVELAND							
Hartlepool	290	274	-16	262	-28	258	-32
Langbaugh-on-Tees	305	301	-4	291	-13	289	-16
Middlesbrough	301	281	-19	268	-33	264	-36
Stockton-on-Tees	275	258	-17	247	-29	243	-32
CORNWALL							
Caradon	193	204	11	216	23	220	27
Carrick	196	205	9	216	20	220	24
Kerrier	194	206	12	218	24	223	29
North Cornwall	193	208	15	222	29	227	34
Penwith	196	215	20	227	31	231	35
Restormel	190	204	14	217	27	222	31
CUMBRIA							
Allerdale	261	270	10	284	23	289	28
Barrow in Furness	268	274	5	283	15	287	19
Carlisle	268	268	-0	279	11	283	15
Copeland	268	278	10	292	24	297	28
Eden	256	269	13	287	31	293	37
South Lakeland	270	282	11	297	26	302	31
DERBYSHIRE							
Amber Valley	259	271	12	282	23	284	25
Bolsover	285	301	16	314	28	316	31
Chesterfield	267	285	18	294	27	295	28
Derby	261	267	6	274	13	275	14
Erewash	260	266	5	275	15	276	16
High Peak	272	283	11	296	24	299	27
North East Derbyshire	285	292	7	305	20	307	22
South Derbyshire	261	268	6	283	21	286	25
Derbyshire Dales	267	280	14	298	31	302	36
DEVON							
East Devon	197	207	11	220	24	224	27
Exeter	188	195	8	202	14	203	16
North Devon	200	211	12	226	26	231	31
Plymouth	187	190	3	196	9	198	11
South Hams	202	219	18	234	32	238	37
Teignbridge	200	209	9	222	21	225	25
Mid Devon	208	218	10	233	25	238	30
Torbay	218	239	21	245	28	247	29
Torrige	200	215	15	230	30	234	34
West Devon	202	214	12	229	27	234	31

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	Adjusted		(Col 2 -		(Col 4 -		(Col 6 -
	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						
DORSET							
Bournemouth	175	191	16	194	19	195	20
Christchurch	172	177	5	183	11	186	14
North Dorset	164	165	1	178	14	183	19
Poole	171	175	4	178	8	180	10
Purbeck	162	169	7	181	19	186	24
West Dorset	165	175	10	185	20	189	24
Weymouth and Portland	168	182	15	186	19	189	21
East Dorset	184	187	3	194	10	198	14
DURHAM							
Chester-le-Street	248	244	-4	252	4	253	5
Darlington	261	245	-16	251	-9	252	-9
Derwentside	266	275	9	284	18	286	20
Durham	237	236	-1	247	10	249	12
Easington	240	249	9	256	16	257	17
Sedgefield	286	292	6	302	15	303	17
Teesdale	224	228	4	243	18	246	21
Wear Valley	283	286	4	297	14	299	16
EAST SUSSEX							
Brighton	213	216	3	214	1	214	1
Eastbourne	192	218	26	218	26	219	27
Hastings	194	198	4	197	2	197	2
Hove	198	179	-18	177	-21	177	-21
Lewes	197	198	1	200	3	202	5
Rother	198	203	6	207	10	210	12
Wealden	201	201	0	206	6	209	8
ESSEX							
Basildon	264	254	-10	259	-5	262	-3
Braintree	221	215	-5	226	5	230	9
Brentwood	386	380	-5	389	3	392	6
Castle Point	235	212	-23	217	-19	219	-17
Chelmsford	229	213	-16	222	-8	225	-4
Colchester	229	226	-3	234	4	237	7
Epping Forest	262	256	-6	265	3	269	7
Harlow	374	354	-21	357	-17	359	-15
Maldon	228	226	-1	239	11	243	15
Rochford	231	217	-14	225	-6	228	-3
Southend-on-Sea	231	219	-12	223	-8	225	-6
Tendring	227	230	3	238	12	242	15
Thurrock	294	295	2	302	8	304	11
Uttlesford	225	220	-5	235	10	241	15

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	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						

GLOUCESTERSHIRE							
Cheltenham	219	220	1	230	11	233	13
Cotswold	207	214	8	233	27	239	32
Forest of Dean	216	219	3	240	24	246	31
Gloucester	211	208	-3	218	7	220	9
Stroud	215	219	3	236	20	241	25
Tewkesbury	200	208	8	224	23	228	28
HAMPSHIRE							
Basingstoke and Deane	178	158	-20	166	-12	169	-9
East Hampshire	195	187	-8	199	4	203	8
Eastleigh	188	175	-12	180	-8	182	-6
Fareham	195	181	-14	185	-10	187	-8
Gosport	187	167	-20	170	-17	172	-15
Hart	217	198	-19	206	-11	210	-8
Havant	188	169	-19	173	-15	175	-13
New Forest	199	195	-4	205	6	208	10
Portsmouth	199	183	-16	186	-13	187	-12
Rushmoor	201	177	-24	180	-21	182	-19
Southampton	185	178	-8	181	-5	182	-3
Test Valley	186	179	-7	190	3	193	7
Winchester	194	187	-7	197	3	201	7
HEREFORD AND WORCESTER							
Bromsgrove	168	167	-1	181	13	185	17
Hereford	162	164	2	173	11	176	13
Leominster	177	188	12	207	30	213	36
Malvern Hills	179	187	8	204	24	209	30
Redditch	202	202	-1	211	9	214	11
South Herefordshire	164	171	8	190	26	196	32
Worcester	180	182	2	191	11	193	13
Wychavon	183	100	5	204	21	209	26
Wyre Forest	198	194	-4	205	7	208	10
HERTFORDSHIRE							
Broxbourne	247	226	-20	232	-14	235	-12
Dacorum	258	234	-24	242	-17	245	-13
East Hertfordshire	248	241	-8	251	2	255	6
Hertsmere	260	244	-16	251	-9	254	-6
North Hertfordshire	252	245	-8	253	1	257	4
St Albans	255	240	-15	247	-8	250	-5
Stevenage	285	260	-25	265	-21	267	-18
Three Rivers	259	245	-14	253	-7	256	-4
Watford	249	227	-22	231	-18	233	-16
Welwyn Hatfield	283	271	-12	280	-3	283	1

CONFIDENTIAL

Table 1

THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

	(£ per adult)						
	COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7
	1988/89	Option 1	Diff.	Option 2	Diff.	Option 3	Diff.
	Adjusted		(Col 2 -		(Col 4 -		(Col 6 -
	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						
HUMBERSIDE							
Beverley	263	259	-4	265	2	266	3
Boothferry	270	274	4	284	14	286	16
Cleethorpes	277	273	-4	276	-1	276	-1
Glanford	265	266	2	277	12	280	15
Great Grimsby	265	262	-2	263	-2	262	-2
Holderness	260	264	4	273	13	276	16
Kingston upon Hull	250	267	17	267	18	267	17
East Yorkshire	277	289	12	297	19	298	21
Scunthorpe	303	307	4	309	6	308	5
ISLE OF WIGHT							
Medina	225	234	9	242	17	246	21
South Wight	238	258	20	268	30	272	35
KENT							
Ashford	184	176	-8	186	2	190	6
Canterbury	180	187	7	196	16	199	19
Dartford	198	195	-3	202	3	203	5
Dover	181	181	1	190	9	193	12
Gillingham	172	147	-25	151	-21	153	-20
Gravesham	180	165	-16	171	-9	173	-7
Maidstone	173	164	-9	173	-0	176	3
Rochester upon Medway	159	145	-14	151	-8	153	-5
Sevenoaks	183	180	-3	192	9	196	13
Shepway	199	204	5	212	13	215	16
Swale	181	185	4	194	13	197	16
Thanet	182	187	4	192	10	194	12
Tonbridge and Malling	190	191	1	201	11	205	14
Tunbridge Wells	180	181	2	191	11	194	14
LANCASHIRE							
Blackburn	255	260	6	262	8	261	7
Blackpool	233	237	4	238	5	237	4
Burnley	259	263	4	266	6	265	6
Chorley	227	233	5	239	11	239	12
Fylde	225	234	9	239	15	240	15
Hyndburn	244	250	5	253	8	252	8
Lancaster	227	232	5	236	9	236	9
Pendle	252	262	10	266	14	266	15
Preston	213	219	6	222	9	221	8
Ribble Valley	237	241	4	249	12	251	14
Rossendale	263	282	19	290	27	292	28
South Ribble	228	224	-4	227	-0	227	-1
West Lancashire	234	238	4	244	11	245	12
Wyre	225	228	3	232	7	232	7

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Table 1

THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

	(£ per adult)						
	COL 1	COL 2	COL 3	COL 4	COL 5	COL 6	COL 7
	1988/89	Option 1	Diff.	Option 2	Diff.	Option 3	Diff.
	Adjusted		(Col 2 -		(Col 4 -		(Col 6 -
	published		Col 1)		Col 1)		Col 1)
	Community						
	Charges						
LEICESTERSHIRE							
Blaby	202	198	-5	205	2	206	4
Charnwood	206	216	10	223	17	225	19
Harborough	218	223	5	234	16	236	18
Hinckley and Bosworth	200	209	9	215	15	216	16
Leicester	228	235	6	236	7	235	7
Melton	228	246	18	254	26	256	28
North West Leicestershire	220	233	13	241	21	243	23
Oadby and Wigston	214	207	-7	210	-4	210	-4
Rutland	199	206	7	217	18	220	21
LINCOLNSHIRE							
Boston	192	214	22	226	34	230	38
East Lindsey	198	229	31	243	45	248	50
Lincoln	196	216	20	222	26	224	28
North Kesteven	196	199	3	214	18	219	23
South Holland	194	216	23	231	37	236	42
South Kesteven	205	211	7	224	19	228	23
West Lindsey	203	210	7	225	22	230	27
NORFOLK							
Breckland	180	183	3	203	23	208	28
Broadland	179	171	-8	189	11	194	15
Great Yarmouth	190	202	11	218	28	222	31
North Norfolk	174	189	14	209	35	214	40
Norwich	200	209	9	221	20	223	22
South Norfolk	178	175	-3	198	20	204	25
King's Lynn and West Norfolk	179	191	12	212	32	217	37
NORTHAMPTONSHIRE							
Corby	217	203	-13	212	-4	214	-2
Daventry	241	234	6	253	11	257	16
East Northamptonshire	201	193	-8	208	7	212	11
Kettering	216	204	-12	214	-2	216	0
Northampton	231	225	-7	232	1	234	2
South Northamptonshire	209	202	-7	220	11	225	16
Wellingborough	212	219	7	230	18	233	21
NORTHUMBERLAND							
Alnwick	254	265	11	283	29	289	35
Berwick-upon-Tweed	252	268	16	286	34	291	39
Blyth Valley	286	281	-4	293	7	296	11
Castle Morpeth	251	252	1	269	19	275	24
Tynedale	265	273	8	290	26	296	31
Wansbeck	289	296	7	309	20	312	23

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Table 1

THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

(£ per adult)

	COL 1 1988/89 Adjusted published Community Charges	COL 2 Option 1	COL 3 Diff. (Col 2 - Col 1)	COL 4 Option 2	COL 5 Diff. (Col 4 - Col 1)	COL 6 Option 3	COL 7 Diff. (Col 6 - Col 1)
NORTH YORKSHIRE							
Craven	212	225	13	243	31	250	38
Hambleton	210	217	7	237	27	243	34
Harrogate	234	240	6	254	20	258	24
Richmondshire	210	216	6	235	25	242	32
Ryedale	209	219	11	235	26	240	32
Scarborough	219	237	17	250	30	254	35
Selby	227	232	5	251	25	258	31
York	185	191	6	200	15	203	18
NOTTINGHAMSHIRE							
Ashfield	245	252	6	254	8	253	8
Bassetlaw	269	280	11	286	18	288	19
Broxtowe	245	238	-7	239	-6	239	-6
Gedling	245	227	-18	229	-17	228	-17
Mansfield	263	267	3	268	5	267	4
Newark and Sherwood	249	256	7	264	15	265	16
Nottingham	249	257	9	257	8	256	7
Rushcliffe	244	246	2	252	8	253	9
OXFORDSHIRE							
Cherwell	244	234	-10	246	2	251	7
Oxford	233	242	9	248	16	251	19
South Oxfordshire	245	243	-3	257	12	262	17
Vale of White Horse	232	227	-5	241	9	247	15
West Oxfordshire	250	245	-5	260	10	265	15
SHROPSHIRE							
Bridgnorth	183	181	-2	193	10	197	14
North Shropshire	194	195	1	206	13	211	17
Oswestry	195	198	3	208	13	212	17
Shrewsbury and Atcham	192	190	-2	197	6	200	8
South Shropshire	186	192	7	206	21	211	26
Wrekin	207	201	-7	207	-0	209	2
SOMERSET							
Mendip	209	219	10	236	27	241	33
Sedgemoor	224	232	8	249	25	254	30
Taunton Deane	209	217	8	233	24	238	29
West Somerset	217	247	30	264	47	270	53
South Somerset	213	220	7	238	25	244	31

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Table 1

THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

(£ per adult)

	COL 1 1988/89 Adjusted published Community Charges	COL 2 Option 1	COL 3 Diff. (Col 2 - Col 1)	COL 4 Option 2	COL 5 Diff. (Col 4 - Col 1)	COL 6 Option 3	COL 7 Diff. (Col 6 - Col 1)
STAFFORDSHIRE							
Cannock Chase	209	204	-5	215	6	217	8
East Staffordshire	204	206	3	220	16	223	19
Lichfield	202	194	-7	207	6	210	9
Newcastle-under-Lyme	212	216	4	227	16	230	18
South Staffordshire	200	200	-0	216	15	219	19
Stafford	206	204	-2	218	12	222	15
Staffordshire Moorlands	220	224	4	240	20	244	24
Stoke-on-Trent	213	221	9	231	18	232	20
Tamworth	199	196	-3	206	7	207	8
SUFFOLK							
Babergh	211	217	6	236	25	242	31
Forest Heath	194	208	13	225	31	231	36
Ipswich	203	213	9	222	19	225	22
Mid Suffolk	199	206	7	225	27	232	33
St Edmundsbury	181	182	1	198	17	203	22
Suffolk Coastal	207	217	10	234	26	239	32
Waveney	194	202	8	215	21	219	25
SURREY							
Elmbridge	188	186	-2	192	4	196	8
Epsom and Ewell	244	230	-14	234	-9	238	-6
Guildford	267	264	-2	273	6	278	11
Mole Valley	173	175	3	184	11	188	15
Reigate and Banstead	232	225	-7	233	1	237	5
Runnymede	195	222	27	228	33	232	37
Spelthorne	220	214	-6	219	-1	223	3
Surrey Heath	189	184	-5	191	2	195	6
Tandridge	222	216	-6	227	5	232	10
Waverley	214	216	2	226	12	231	17
Woking	172	163	-8	170	-1	174	2
WARWICKSHIRE							
North Warwickshire	259	260	1	275	17	280	21
Nuneaton and Bedworth	252	255	4	263	12	265	14
Rugby	222	222	0	234	11	237	15
Stratford on Avon	229	232	3	249	20	254	25
Warwick	226	222	-4	232	6	235	9

DATE: 10-NOV

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Table 1

THE EFFECTS OF SIMPLIFIED NEEDS ASSESSMENTS ON IMPLIED 1988/89 COMMUNITY CHARGES WITH NO TRANSITIONAL SAFETY NET

(£ per adult)

	COL 1 1988/89 Adjusted published Community Charges	COL 2 Option 1	COL 3 Diff. (Col 2 - Col 1)	COL 4 Option 2	COL 5 Diff. (Col 4 - Col 1)	COL 6 Option 3	COL 7 Diff. (Col 6 - Col 1)
WEST SUSSEX							
Adur	206	201	-5	211	5	214	8
Arun	187	182	-5	195	8	198	12
Chichester	179	178	-1	194	16	200	21
Crawley	250	223	-27	232	-18	235	-16
Horsham	182	178	-3	195	13	200	18
Mid Sussex	182	172	-10	185	4	189	8
Worthing	179	174	-4	183	5	186	7
WILTSHIRE							
Kennet	220	219	-1	240	20	246	26
North Wiltshire	234	227	-7	247	13	253	18
Salisbury	215	213	-1	232	18	237	23
Thamesdown	266	257	-9	270	4	273	7
West Wiltshire	236	232	-4	249	13	254	18
ALL PURPOSE AUTHORITY							
Isles of Scilly	147	229	82	259	112	270	123

SECRET

[passed to PS/CST]

pyg

CHIEF SECRETARY

FROM: B H POTTER

Date: 16 November 1988

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Edwards
Mr Turnbull

Ch
Leave to CST, but seems
to be a matter for DOE &
then lawyers to sort out, notes
that for CST to minute PM.

I agree. However, the
potential of no matter is
in the two options
- without them it
is a nonsense.

SIMPLIFIED NEEDS ASSESSMENTS

The Environment Secretary has written to the Prime Minister seeking permission to circulate a note to the local authority associations (LAAs) which describes and exemplifies the impact of new approaches to assessing local authorities' relative needs (ie the determination of GREs) on Community Charges.

2. This has important and complex implications not discussed in the minute. Circulation of such a note could lead to a claim on the Reserve in 1989-90. At worst, it could expose the Government's rate-capping proposals and possibly the RSG settlement for 1989-90 to legal challenge. I recommend that you write to the Prime Minister urging that no such note should be circulated to the LAAs at this stage.

Background

3. You may recall that E(LF) commissioned work on a new needs assessment in July 1987. Officials were asked to produce a simpler, more understandable, more stable and no less fair system for assessing the relative needs of local authorities.

4. Treasury officials have participated in the various groups which considered needs assessments for the different services eg education, fire service etc. The work has been dominated by DOE officials and those of the Departments concerned eg DES and Home Office.

of the CST
to write, Le SW
write for Risk, copy from,
and have to consult his
lawyers before there is a
question of coming to
write, since it is
in us

Mr Charles Daffin

5. The exercise has been successful in meeting some of the criteria set by Ministers. It will be simpler and should be more understandable. The number of 'services' assessed separately has been reduced from 65 to 12. One general method has been adopted for assessing needs, broadly identifying the client group for whom the service is needed and the unit costs of provision. And the number of factors taken into account in assessing the characteristics of the client group and the influences on unit costs has been substantially cut. Whether the system will prove more stable has yet to be tested: that is essentially an empirical issue. Whether it is no less fair ie defensible is also still to be considered.

6. However there is no single "right" answer in the sense of one correct needs assessment formula for each service. As the draft paper shows (for example in paragraphs 6-8), several options on each of the main service assessments are still under consideration within central government. The proposals have not yet been (but will need to be) considered formally by Ministers. espe

The problem

7. The difficulty arises when various options on individual services are put together to form the packages (1-3) discussed in Mr Ridley's minute and exemplified in terms of Community Charges for the current year. There are important timing considerations about when this material is circulated to the LAAs. Whether described as illustrative or not, the table might imply Government consideration of new GREs (which has not taken place at Ministerial level): and any such new GREs threaten to undermine the status of the present GREs. The Government needs to be careful not to question the validity of the present GREs, until they no longer serve any operational purpose within the present local government finance system.

8. Mr Ridley's minute is rather confused on this. The penultimate paragraph indicates that when material is made available to the LAAs "... there will be no reference to an overall package nor to the implications for Community Charges." But the packages in the note which he proposed to circulate do refer to Community Charge figures, based on new GREs. It is true that LAs would have to adjust the figures on the basis of assumptions, in order to work out, albeit broadly, their new individual GREs. (The will.) But the critical point is that circulation of any exemplifications of CCs based on illustrative new GREs will indicate that the Secretary of State for the Environment (and by extension the Government) is aware now of revised possible GREs for individual authorities.

Rate-capping

9. The most immediate danger lies with rate-capping. Between now and next March, final decisions need to be taken on the expenditure limit (the Expenditure Level (ELs)) and rate limit for the seven all-purpose authorities being capped next year. Other DOE officials (not those who drafted Mr Ridley's minute) have already spotted the implications for setting ELs.

10. The Government announced provisional ELs last July. Five of the seven authorities have now applied to have their ELs redetermined at a higher level. Under the 1985 Rates Act, the Government must take into account the authority's written application for such a redetermination and "other relevant information" in considering whether to raise the EL.

11. DOE lawyers take the view that knowledge of even illustrative packages based on new GREs constitutes "other relevant information". Moreover two of the option packages in the note indicate that for two rate-capped authorities (Southwark and Hackney) the new GRE would be higher than the provisional EL put forward in July. In the lawyers view, the minimum redetermination would be to move the EL up to the highest GRE exemplified for the two authorities. DOE officials are inclined to recommend such a redetermination; the higher EL would, however, be announced without specifying the new GRE as being the reason for the revision. We could not be sure, however, that the genesis of the change would remain confidential.

Wider implications

12. The sums involved for this revision to the ELs are relatively small though they would represent an unwelcome £7m claim on the 1989-90 Reserve. But there are at least two potentially much wider and much more damaging implications:

- i) circulation to the LAAs of the note attached to Mr Ridley's minute would amount to an admission that the Government now knows its present GREs are no longer the best estimates of needs; it could lead the seven authorities and ILEA (which are rate-capped) to challenge in the courts their present GREs, on which the original selection for rate-capping was based;
- ii) it could also lead to a legal challenge of the 1989-90 RSG settlement as a whole; though the Rate Support Grant Act is now through, the settlement has still to be debated in the House: at the very least, the release and circulation of the GRE packages to the LAAs would no doubt be used in the debate.

Conclusion

13. No operational need for the new GREs within Government will arise till next May/June, when the first exemplifications for E(LA) are prepared. It is, of course, reasonable for the LAAs to receive and have time to comment upon the Government's new GRE proposals. But in our view not even illustrative Community Charges based on new GREs can be offered until they have been considered collectively by Ministers; and they cannot be released safely, till after the rate limits are set and local authorities have set their rates for 1989-90 ie March 1989. If the DOE insist that March through to July 1989 (when the RSG settlement is likely to be announced) is not a long enough consultation period, then we could allow illustrations of one or two individual service needs formula to be released in January. But I suggest that be kept as a fallback option.

14. I attach a draft minute for you to send to the Prime Minister. In view of the sensitivity of this issue, it is copied only to Mr Ridley and Mr Parkinson. I have also put in square brackets two paragraphs which set out the problems in detail. Again given the sensitivity, you may wish to exclude them.

Barry H. Potter

BARRY H POTTER

SECRET

DRAFT MINUTE TO THE PRIME MINISTER**SIMPLIFIED NEEDS ASSESSMENT**

I have seen a copy of Nick Ridley's minute of 15 November to you on this subject.

I do not wish to comment on the substance of the proposals at this stage. But I am most concerned about the timing of the release of the note to the local authority associations attached to the minute. We need to consider very carefully when it would be right to seek the views of the local authority associations on needs assessment; and in what form we should do so.

Once various options on the twelve separate service needs assessment are linked together to form the packages referred to in the minute and exemplified in the table, it would imply that the Government has knowledge of some, however illustrative, new GRE figures. That is not the case: there has been no collective consideration of the new needs assessments. Any paper which implied the Government had considered new GREs would inevitably cast doubt on the accuracy of the present GREs. Those present GREs are still critical in two respects. First they formed the basis for selection of the seven all-purpose authorities and ILEA for rate capping this year. Second they are the basis for distributing the Rate Support Grant which will be debated in the House next month. Our rate-capping and RSG proposals will not complete their passage through Parliament until March and January 1989 respectively.

[I understand that DOE officials are already concerned that the existence of this material in this form could require an upward revision to the provisional Expenditure Levels of two authorities which have sought redetermination of their ELs - Southwark and Hackney. The implied availability of new GREs would constitute "other relevant information" under the terms of the 1985 Act, which must be taken into account in considering any application for redetermination of ELs. Such revision would on its own lead to a claim on the Reserve of some £7 million in 1989-90.

But I am by no means convinced that the implications would stop there. It seems to me that, once the Government had circulated material which implied doubt about its existing GREs, we could face legal challenge - from all the authorities (including ILEA) that are to be rate capped next year - on the basis that the present GREs were essentially flawed. Also we could expect a difficult debate in the House on the RSG settlement, not least from our own backbenchers concerned about local rate increases. Finally it is by no means inconceivable that a local authority might successfully challenge in law the whole basis of the RSG settlement for 1989-90.]

I believe that we should not circulate this material in this form until after there has been collective consideration of the proposals. In my view, the Government ought not to put forward even illustrative revised GREs until the RSG settlement has passed through the House and until after all the stages of setting the rate limits for the rate capped authorities have been finalised

SECRET

and authorities have set their rate poundages for 1989-90. That means a delay until next March. I appreciate that would squeeze the time available for the local authority associations to be consulted on the new needs assessment proposals. But we could of course still give them at least four months even starting then.

I therefore urge that the note not be circulated to the local authority associations at this stage. I am copying this minute only to Nick Ridley and Cecil Parkinson.

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by to Thom 18/11



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

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

CH/EXCHEQUER	
REG.	17 NOV 1988 ✓ 17/11
ADVIS	CST
ISSUED TO	

My ref:
Your ref:

[Handwritten signatures and initials]

17 November 1988

Dear John

LOCAL AUTHORITY FEES AND CHARGES

Thank you for your letter of 14 November. I have also seen Richard Luce's letter to you of 10 November.

There is a grave risk of exaggerating the possible benefits from a general power to charge. Apart from the proposed enlargement of the power to charge for library services - which Richard describes in his letter as "modestly useful" - the proposed charges we have on the stocks are, almost without exception, not for local authority services at all, but for the granting of licences, certificates and approvals. The only candidates so far are set out in the attached list (previously circulated in the official correspondence to which you referred). The only major item on this list - charging for extra curricular school activities - was introduced separately in the Education Reform Act. When we discussed this in E(LF) on 26 February 1987 we agreed that all the major candidates were non-starters, and I doubt if any colleague now wants to resurrect them.

The best estimate of the total income from all of the proposed charges is only £10-£20 million, and we cannot of course expect all authorities to impose charges even if we give them the power to do so.

If we introduce a general power, we will, as I said in my letter of 9 November, be accused of contemplating charges for practically everything, including basic services - from tolls for public roads to charges for basic social services. We will face amendment after amendment seeking to restrict the power in each and every local authority service. I simply do not believe it is worth provoking a major political row in order to introduce a power which, on current plans, has so little practical value.

If colleagues wish to pursue some or all of the minor charges on the list, then in my view it would be better to introduce them in a schedule to the Local Government and Housing Bill, provided that the provisions can be drafted in time, rather than by means



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of a general power. I would be happy to accept any additions to the list which colleagues feel to be runners. In that way we will make our intentions entirely clear and avoid the damaging - and unnecessary - accusation that we are concealing an intention to introduce major new charges by the back door.

/ Copies of this letter go to the Prime Minister, members of E(LF), Richard Luce, the Chief Whip and Sir Robin Butler.

*Yours
Nicholas*

NICHOLAS RIDLEY

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Specific Powers to Charge - Extensions

(a) MAFF

- (i) Inspection of imported meat and meat products.

(b) Environment

- (i) Consent for the operation of an offensive trade
- (ii) Approval to height of a chimney serving a non-combustion process
- (iii) Approval to height of a chimney serving a combustion process
- (iv) Approval to grit and dust arrestment plant
- (v) Exemption of furnaces from requirement to fit grit and dust arrestment plant
- (vi) Waste disposal site licences
- (vii) Caravan site licences
- (viii) Public path orders
- (ix) Certificate of fitness for human habitation
- (x) Copy of register of common lodging houses

(c) DHSS

- (i) Registration of residential care homes
- (ii) Client access to non-computerised personal information

(d) OPCS

- (i) Facilities at weddings

(e) Home Office

- (i) Public entertainment licences (private members' clubs)
- (ii) Licensing of sex shops, sex cinemas and sex encounter establishments
- (iii) Cinema licences
- (iv) Theatre Licences
- (v) Fire certificates

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(f) DTI

- (i) Certification of weighbridge keepers
- (ii) Reference tests on pre-packaged goods

(g) Transport

- (i) Scaffolding licences and skip permits
- (ii) Issuing certificate that a way property dedicated by a person is a highway maintainable at public expense
- (iii) Temporary traffic orders made at the request of another body

(h) Education

- (i) Extra curricular school activities

(i) Scotland

- (i) Admission to LA museums and galleries
- (ii) Registration and re-registration of certain residential and other establishments.

*Wps pr*FROM: A J C EDWARDS
DATE: 17 NOVEMBER 1988

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr FellgettLOCAL AUTHORITIES:
SIMPLIFIED NEEDS ASSESSMENTS

Following our discussion this morning, I registered with Mr Osborn at DOE our concern about the pace and form of Mr Ridley's proposed consultation with local authorities over reform of the GRE system and in particular our anxiety that sending to Local Authority Associations detailed material about the new system could enable them to challenge the Government's rate-capping and expenditure limit decisions and possibly even the distribution of rate support grant.

2. Mr Osborn said that DOE had been mindful of these possible complications but were less worried about them than we were, not least because they were inclined at official level to think that the expenditure limits of some rate-capped authorities should be increased anyway. Local authorities would not, he thought, be able to put together firm figures for total GREs under the new system from the various options which would be displayed for the individual service categories. He did not warm either to the thought that Mr Ridley might send a postscript to his earlier minute which would take care of the points which were troubling us.

3. Mr Osborn did agree, however, that we should meet on Monday to discuss these matters.

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4. In the light of this exchange, I suspect that the best way ahead will be for you to do nothing for now but to send a note to Mr Ridley early next week, after our meeting with Mr Osborn, which would -

(i) make quite clear that the arithmetic circulated by the DOE is no more than a preliminary statistical exercise, not commanding interdepartmental agreement;

(ii) urge even greater caution about consultation with local authorities than Mr Ridley himself has suggested, without suggesting that no consultation of any kind can take place until next March; and probably

(iii) suggest some prior discussion (before substantive consultation) on the main issues of substance, not least key technical aspects and the implications for London of different techniques of needs assessment.

5. If you agree, I will report back to you after Mr Osborn's meeting. In the meantime, Miss Evans has as you know taken the precaution of asking No.10, given the possible legal problems, not to intervene in this correspondence until you have done so.

AJCE
A J C EDWARDS

CH/EXCHEQUER	
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any

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QUEEN ANNE'S GATE
LONDON SW1H 9AT

21 November 1988

Dear Nicholas,
SIMPLIFIED NEEDS ASSESSMENTS

Thank you for copying to me your minute of 15 November to the Prime Minister. I am content with your proposal to consult the local authority associations and with the paper describing how Home Office services are to be treated under the new arrangements, although I understand that officials still have one or two points to resolve.

Copies of this go to the recipients of your minute.

*Yours,
Douglas*

The Rt Hon Nicholas Ridley, MP
Department of the Environment

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REC.	21 NOV 1988
ACTION	CST
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✓21/11
Pyp

PRIME MINISTER

SIMPLIFIED NEEDS ASSESSMENTS

I have seen a copy of Nicholas Ridley's minute to you of 15 November about simplified needs assessments.

I welcome Nick's paper and his intention to start consultations very soon. The inner London boroughs have a particular interest in the proposals for education needs assessments in the context of the transfer of education responsibilities from ILEA and they have been pressing hard for the publication of the paper. I hope it will be possible for it to issue before the end of November. The boroughs are likely to press for final decisions on the education needs assessments to be taken as early as possible next year, but this is something I shall discuss separately with Nick.

Copies of this minute go to other members of E(LF) and Sir Robert Butler.

K.S.

KB
Department of Education and Science

21 November 1988

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MP

FROM: BARRY H POTTER
DATE: 21 November 1988

CHIEF SECRETARY

cc PS/Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Edwards
Mrs Case
Mr Turnbull
Mr Laite
Mr Call**LOCAL AUTHORITY FEES AND CHARGES**

In his letter of 17 November, the Environment Secretary again argues that the proposed general power to charge for certain local authority services should be dropped from the Local Government and Housing Bill. In its place however, he now offers to introduce a schedule of powers (as set out in the attachment to his letter) to charge for certain specific and minor items (mostly licences and certificates).

2. On balance I advise that you do not accept the new proposal but rather continue to press for inclusion of the general power

Background

3. The background was covered in my earlier submission of 11 November. Since you wrote to Mr Ridley on 14 November there has been a helpful letter from Mr Walker (17 November) supporting your position.

4. I understand that Mr Ridley's latest letter again predominantly reflects the views of Mr Gummer. His reply ignores most of the substantive points in your letter of 14 November - specifically the earlier firm agreement to introduce a general enabling power and the fact that the powers are ready. (There is no mention in his latest letter of the general powers not being drafted in time.)

5. Mr Ridley's letter rests on two points:-

(i) the earlier argument that it will be awkward to get the legislation through Parliament; and

(ii) that the general power will be of little practical value since use of the power is likely to be limited to minor certificates and licences generating only a maximum of £20 million annual revenue.

Instead he proposes that these minor charges should be included as a schedule in primary legislation in the Local Government and Housing Bill.

Assessment

6. On the face of it the proposal to draw up a schedule of charges for specific items identified in an earlier inter-departmental trawl looks tempting. DOE officials however confirm that this legislation would need to be drafted quickly now in order to be included in the Bill. Departments will not have made the necessary preparations (because they were expecting to draft secondary legislation on a more relaxed timetable, not primary legislation now). Both we and DOE officials suspect that the schedule in the letter might not be drafted in full in time - even if all the departmental Ministers confirmed they wished to proceed. In practice the Government would end up with a rather meek measure compromising a few small probably non-controversial proposals for fees for certain licences and certificates.

7. This is a long way from the Government's original intention as approved by E(LF) confirmed six months ago by the Prime Minister and announced in Parliament. That was to draft a general power to enable local authorities to set fees or charges where they wished. For the reasons set out in the earlier submission, I believe you should urge Mr Ridley to stick to that decision. No matter how limited the initial schedule to be introduced now, (it reflects items mainly identified and discussed before the last

Election) the Government may well wish to set fees and charges more widely in future. After 1990 transfers of functions, new policies in areas like community care and housing and the new local authorities' financial regime will all involve the "enabling not providing" role which is a consistent DOE theme. That will create a greater need need to licence and approve activities than at present. It is desirable to get a general power on the statute book now.

8. I have explored the scope for compromise with DOE officials to little effect. For them (and us at official level) the sticking point has been the general rather than specific power. I suggest, however, you gently remind Mr Ridley that the presentational problems raised now were considered earlier and that a solution (specifying in primary legislation where the powers could not be used) was identified. Also it might help if use of the enabling power were to require Affirmative Resolution in Parliament of the secondary legislation identifying the particular services to be charged.

9. I attach a draft letter on this basis for you to send to Mr Ridley.

Barry H. Potter

BARRY H POTTER

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DRAFT LETTER TO SECRETARY OF STATE FOR THE ENVIRONMENT

LOCAL AUTHORITY FEES AND CHARGES

Many thanks for your letter of 17 November. I have also seen Peter Walker's letter in support of mine of 14 November.

I have considered carefully your revised proposal to introduce a power to set charges for the specific items identified in the attachment to your letter. But I am not convinced that this would be the right way forward.

First I wonder whether, starting at this late stage, it would prove possible to draft the necessary schedule in time: it would involve a wide range of Departments in preparing for primary legislation now, rather than secondary legislation on the more relaxed timetable that had previously been envisaged. In practice I suspect several of the candidates in the list might have to be dropped.

Second, such a proposal - especially if we lose some of the candidates - falls a long way short of the general enabling power which was discussed and approved in E(LF) last year and ^{confirmed} ~~again~~ only six months ago. It would be a meek measure rather than the general power which Christopher Chope confirmed to Parliament that we would introduce "at the earliest legislative opportunity".

My preference therefore remains that we should introduce the general power, thus setting the legislative basis for the specific items you have identified above and any others we might wish to introduce in the future. We ought to bear in mind that changes in LA functions in prospect in areas like housing, community care etc and the new post 1990 financial regime (including greater contracting out) ought to lead to a more enabling and overseeing role for local authorities - for which they can and in most cases should charge.

I do accept that there could be Parliamentary difficulties in presenting the new power. But the solution lies in making our intentions clear and perhaps showing a willingness to discuss each and every application of the powers in future. Thus in the primary legislation it should be possible to specify general areas where the powers would not be used (this was our agreed intention earlier); and we could give the opportunity for debate on each proposed application of the power by having the secondary legislation subject to affirmative resolution.

May I ask you again to reconsider? I am copying this letter to the Prime Minister, others members of E(LF) and to Sir Robin Butler.

JOHN MAJOR

CONFIDENTIAL

1. MR EDWARDS

FROM: R FELLGETT

2. CHANCELLOR

Date: 22 November 1988

I agree. DOE have also been toying with an alternative scheme whereby all gainers would reach their full gains by 1995 (say). For such a scheme to be self-financing, however, losers would likewise have to reach their new assessment by 1995, contrary to the undertakings which Mr Ridley has given.

cc: Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Phillips
 Mr Scholar
 Mr Culpin
 Mr Turnbull
 Mr Potter
 Mrs Holmans
 Mr H Burns
 Mrs Chaplin
 Mr Tyrie
 Mr Call

AJCE.
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Not R M.

UNIFORM BUSINESS RATES AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Mr Alex Allan's minute of 3 November reported your views on the transition to reformed rates bills after 1990, following my submission of 1 November. I subsequently met DOE officials and learnt that Mr Ridley's preliminary thinking was very close to your own.

2. I now attach a draft minute that Mr Ridley is being advised to send to the Prime Minister, proposing specific transitional arrangements. If you are content with all the details (and Mr Ridley is also) we will inform DOE before he writes, and prepare a draft minute you might send the Prime Minister to express your agreement a day or two after Mr Ridley has written.

Ch
 Some points to be picked up / sorted out, but generally OK.
 I'm nervous about publishing statistical study (para 12).

AA

The proposed scheme

3. The draft that DOE officials have prepared:

- i) recognises the overriding need for the scheme to be broadly self-financing, and for the cost of phasing for losers to be met by phasing gains.
- ii) proposes generally to phase increases in rate bills at 20% a year (before the annual change in the NNDR poundage, ie broadly in real terms), financed by phasing reductions for gainers at about 10-12% a year.
- iii) proposes quite an extensive special scheme for small businesses. Losers among small properties (defined by their new rateable value, with different thresholds in London and outside) would face increases of only 15% a year. Small premises, similarly defined, would receive gains in full immediately in 1990-91.
- iv) proposes to phase-in very small cash changes immediately, even if they represent large percentage changes, by making all changes for "properties" with a new rateable value of £100 or less immediately.

This general approach is consistent with your instructions to us, and one or two points reflect detailed suggestions we have made to DOE. I understand that the detailed proposals for losers are quite firm, but Mr Ridley may consider some variants on this precise approach for gainers.

Possible pressure points

4. It may be helpful to summarise the aspects of the scheme which are most likely to generate pressure for concessions.

5. The scheme envisages that small business losers will have slower phasing of increases in rates bills than large business; and all small business gainers will have immediate full reductions, whereas many large businesses gainers will not. The definition of small business by reference to its rateable value will generate anomalies, eg between a medium-sized shop and a chain of small ones. Large businesses may well complain. However, the total cost of the concessions to small business averages around £80 million a year (less in 1990-91, more towards 1994-95), and requires the percentage limit on gains for large business to be reduced by only about 1½ percentage points a year. It will be necessary to explain to the representatives of large business that the effect on their members is relatively small; but there is inevitably a danger that they will respond by saying that it could therefore easily be met by the Exchequer.

6. You will wish to consider whether the attractions of offering gains in full in 1990-91 to small business outweigh the chances of provoking a reaction from large business gainers, who will be subsidising both gainers and losers among small business. We would see merit in phasing gains similarly for large and small business; or, if some concession to small business gainers is necessary, having the same differential as for losers (eg 10% gains for big business and 15% for small). If you agree, we will let DOE know before Mr Ridley finalises his proposals.

7. The paper proposes to balance gains and losses over the five year period from 1990-91 to 1994-95 as a whole, not year by year. The arithmetic requires a deficit of £22-44m in the pool in 1990-91, which may have to be met by grant rather than Community Charge, and a surplus in most other years. It may prove difficult to claw back any extra RSG for 1990-91 in later years.

8. The scheme envisages that losers among large business will face increases at the rate of 20% a year, whereas reductions for gainers among large business will be around just half that - 10% a year. It should be no surprise that at present losers generally pay less rates than gainers, so in a self-balancing scheme

percentage increases will be larger than percentage reductions. But the gap will probably be wider than many people expected. Narrowing it would cost up to around £300 million a year, if it were closed completely.

9. No doubt these points, and perhaps others, will be made by business representatives when the scheme is announced. Apart from the possible reaction of large business to the small business scheme, however, we have no reason to expect that such pressure will be too severe to be dealt with; and DOE seem commendably robust in their defence of the requirement that the scheme be self-financing.

Handling and announcement

10. It has proved impossible to arrange another meeting of E(LF) before 22 December. Mr Ridley therefore hopes to clear the proposal in correspondence, although there remains a possibility that the Prime Minister or other colleagues may ask for a meeting.

11. The draft paper envisages that Mr Ridley will announce the scheme and the specific limits on losers as soon as possible. However, he will give only an estimate of the likely limit (or limits) on gains. More information will become available over the next few months, as the VO proceed with the rating revaluation and local authorities fix rate poundages for 1989-90. The calculation of the cap on gains can therefore be refined, to reduce the risk that it might not, after all, be self-financing. Regulations to implement the scheme would be taken through both Houses sometime between Easter and the summer Recess in 1989. We agree with this approach.

12. When the announcement is made, there will naturally be immediate questions about how the Government arrived at its decisions (or rather proposals, as business and local authorities will need to be given an opportunity to comment on them, and one cannot exclude minor revisions to the scheme as a result). We therefore envisage that a suitable version of the Inland Revenue

statistical study should be published on the date of announcement; indeed, Mr Ridley seems to have committed the Government to doing so. As he notes, this will need to be cleared with you and him. A draft is being prepared.

Wales

13. The paper assumes that very similar (although not identical) transitional arrangements will apply in Wales, although I understand Mr Walker has not yet considered the question himself. We will encourage the Welsh to keep as close as possible to the English scheme, but not (in view of your comment in Mr Allan's minute) to the extent of suggesting any transfers of grant from Wales to England to keep the two national NNDR and RSG totals in balance.

Other points

14. The DOE paper assumes that the transitional arrangements will be based on 1989-90 rates bills, whereas we are currently preparing advice on the option of basing them earlier to help meet the VO's shortage of professional valuers. We hope to forward final advice on this point very shortly. The paper also takes no account of the proposal in the Chief Secretary's letter of 21 November that the NNDR poundage should be calculated in 1990-91 to maintain the total amount of rates paid by private business, rather than allowing this element of the tax base to be eroded. (Your minute to the PM could usefully re-emphasise the importance of this point). If necessary, these points may need to be incorporated in the detailed figures to be published. But they should not affect them sufficiently to be relevant to the decisions that now need to be taken.

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DRAFT MINUTE FROM THE SECRETARY OF STATE TO THE PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION : TRANSITIONAL ARRANGEMENTS

We last considered this subject in February (my minute of 20 February, and John Major's and your Private Secretary's letters of 29 February), and I subsequently announced our agreed proposals in outline to the House at Report Stage of the Local Government Finance Bill on 21 April. I am now seeking your and colleagues' approval to detailed proposals to be contained in regulations, and an early announcement of their outline.

The background is that the revaluation and uniform rate in 1990 will cause major shifts in the rate burden for many businesses. Broadly, retailers are likely to face increases, along with all businesses in some low-rated inner London boroughs; manufacturers, especially in the North and Midlands, are likely to gain.

During the passage of the Bill, the retailers' and small businesses' organisations and some of our backbenchers pressed for a transitional package including:

- a 10% per year ceiling on increases, with the biggest increases spread over an indefinite period;
- increases in the uniform rate to be held below the RPI;
- a standard abatement of rateable value for small businesses;
- protection for losers to be financed by the Exchequer rather than by gainers.

We successfully resisted this. Instead, we announced a package consisting of;

- an unspecified percentage ceiling on increases for the first five years, with power to extend it beyond 1995 if required;

- power to set a lower ceiling for small businesses (more accurately, small premises);
- protection for losers to be financed by phasing benefits for gainers in corresponding fashion.

In resisting pressure to announce a figure for a ceiling on increases, we referred to an Inland Revenue survey of the forecast effects of revaluation, to be available in the autumn. We now have that survey; selected key tables are at ~~Annex A~~ ^{annexed}. Broadly, it confirms our expectations of the likely pattern of gains and losses by area and type of business. In one major respect, it contains good news. The increase in total rateable values from the old 1973 list is forecast to be a multiple of 7.5, higher than expected; the proportionate reduction in the new uniform poundage from the present average will be correspondingly greater. This means that individual businessmen who have forecast their own RV fairly accurately, but have relied on published forecasts of the poundage, will pay less than they have been expecting.

The less good news is that changes in rateable value, and hence rate bills, are even more widely dispersed than we had expected, with a significant proportion of properties facing very large increases (4% in excess of 200%). No doubt when we publish an edited version of the survey as we have promised, these cases will hit the headlines, although the businesses concerned will be protected by the transitional arrangements for at least five years.

The key findings of the survey are set out in Tables 1-3 at annex A. Table 1 shows the numbers of properties gaining and losing by specified percentages. Table 2 shows the effect on rate burdens by region, with the North and Midlands gaining some £900m after transition, around half of it paid for by businesses in the City and Westminster. Table 3 shows the effect by property type by region. (This last table uses small samples and some figures may be unreliable).

Proposed Transitional Arrangements

The survey goes on to analyse the cost of various possible transitional arrangements, in terms of the limit on gains that corresponds to specified levels of protection for losers in order to make the package self-financing and therefore neutral in its effect on local authority income. Table 4 shows

that limits on increases of 15%, 20% and 25% would mean respectively, limits on gains of 9%, 12% and 14% averaged out over the 5-year period; it also shows the numbers of properties with increases and reductions still to come after five years under each scheme and that a 5% lower limit on losses for small businesses would make very little difference to the overall "cost" of the package.

My proposals are set against the background of these figures, the expectations generated during passage of the Bill, and the overriding need to make the pool broadly self-financing. On the one hand, businesses, especially small shopkeepers, are very worried about the effect of revaluation on their businesses, and have strong support on our backbenches. They are pressing for a 10% ceiling, and I think looking realistically for 15%. On the other hand we also have an obligation to the manufacturers and others in the North and Midlands who stand to gain from our reforms; it will be particularly difficult to justify deferring these gains once it is on the public record what they "ought" to pay in rates.

I propose an annual percentage ceiling on increases of 20% for businesses at large, with a reduced ceiling of 15% for small businesses. The latter would be defined as properties with a new rateable value below £7500 in London and £5000 elsewhere; this includes the vast majority of corner shops, plus small workshops and other one-and two-man businesses. The ceiling works on a compound basis, with the result that for large businesses increases of up to 149% will come through in full by the fifth year; for small businesses the figure is 101%.

The cost of this in terms of the limit on gains, if spread over all gaining businesses, and averaged over five years as I propose, would be an 11½% limit on gains. This means deferring rate reductions exceeding 46% to beyond the fifth year. However, the survey also reveals that it would be possible to discriminate in favour of small business gainers as well as losers, at relatively little cost to the big business gainers. This has advantages of administrative simplicity besides appearing more generous at modest cost. I therefore propose that small businesses (defined as before) should receive their full gains immediately. This means setting the limit for larger gainers at 10%, and deferring their gains over 41% beyond the fifth year.

There is one further small refinement. Included in the figures are a number of very small properties, such as AA phone boxes, which are not really businesses at all. Again for the sake of simplicity, I propose that properties with a new RV below ~~£100~~ should be outside transition entirely. Below that level one can be confident that a property is not supporting even a one-man business. ~~Table 5 at Annex A~~ shows the detailed effects of all these proposals in combination.

The figures quoted above are all in real terms. There is a case for rolling up the annual RPI-linked increase in the uniform rate, making an assumption about inflation, and specifying the limits in cash. 20% and 15% limits on gains might thus become 25% and 20%, and a 10% limit on losses would become 6%. This would be simpler to explain and administer. On the other hand, it makes the increases look larger, and involves going public with what would be seen as an inflation forecast for longer ahead than is our practice. On balance, I therefore propose to specify the limits in regulations in real terms, with the actual annual RPI increase to be added year by year.

I propose to maintain our previous line of giving no commitment to extending the arrangements beyond the fifth year, and, if pressed on behalf of the few very big losers, to say that we shall consider their position when we can forecast the results of the 1995 revaluation. By that time they may have benefited from some reduction in rents as the cost of the rate increases are passed on in part to landlords.

Taken as a whole, I believe my proposals strike the right balance between giving businesses in the North and Midlands their long overdue benefits, and checking the drift of economic activity to the South-East; and on the other hand giving small retailers the protection they are entitled to expect and ensuring that the horror stories from their organisations of widespread bankruptcies will not materialise. It is worth noting that rates are typically 1-4% of business turnover, and very rarely exceed 10%. A 15% annual increase will therefore commonly be less than ½% of turnover, and 2% at the very most.

The arrangements in Wales would be subject to the same structure, but it would be open to Peter Walker to adopt different figures if he thought fit. In practice, I understand through officials that he is content to have the same

limits for losers, but plans to calculate a different limit for gainers to balance the separate Welsh pool. The position in Scotland is different, with no uniform rate in 1990 and much less turbulence likely to result from revaluation because of the shorter interval since the last one. It is for Malcolm Rifkind to decide whether to use his powers to phase the effects of the revaluation.

I do not need to make the regulations until next summer. I undertook during passage of the Bill, however, to make an announcement this autumn when the Inland Revenue survey was complete. Subject to colleagues' agreement, therefore, I propose to make a statement in the House shortly containing a firm commitment on the protection for losers, and a provisional indication of what this will mean for the limit on gains. Leaving the latter open will give time to refine the figures and consult colleagues on matters not considered here including how, if at all, the arrangements are to apply to Crown property. Before the announcement, Nigel Lawson and I will also need to clear for publication an edited version of the Inland Revenue survey. I should be grateful for your and colleagues' agreement to my proposals for the transitional arrangements, and to my making an announcement on the lines I have described.

I am sending copies to members of E(LF), to John Wakeham and David Waddington, and to Sir Robin Butler.

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TABLE 1
Distribution of gainers and losers nationally (England)

	No of properties '000	%	1989-90 rate bills £m*	1990-91 burden £m	Real change in rates burden £m	% change in rates burden
<u>Change in rates burden</u>						
Reduction of 50% or over	131	8	1097	431	-666	-61
" 25% but less than 50%	281	18	2480	1576	-904	-36
" 5% " " " 25%	262	16	2013	1725	-288	-14
" of 0.5% " " 5%	53	3	420	409	- 10	- 3
Change of less than +/- 0.5%	13	1	60	60	---	---
Increase of 0.5% but less than 5%	46	3	351	360	9	3
" of 5% but less than 10%	50	3	347	371	24	7
" " 10% " " " 15%	57	4	367	411	43	12
" " 15% " " " 20%	59	4	352	411	59	17
" " 20% " " " 25%	54	3	287	350	62	22
" " 25% " " " 50%	196	12	1138	1541	402	35
" " 50% " " " 75%	115	7	499	808	308	62
" " 75% " " " 100%	74	5	337	634	297	88
" " 100% " " " 200%	131	8	263	626	362	137
" " 200% " " " 300%	35	2	30	104	74	242
" " 300% " " " 500%	22	1	22	109	86	381
" " 500% or more	7	--	20	158	137	669
 SUMMARY						
All Gainers	728	46	6012	4143	-1869	-31
No gain/no loss	13	1	60	60	--	--
All Losers	852	53	4019	5888	1869	47
Overall Totals	1593		10091	10091	--	--

* In 1990-91 Prices

TABLE 2

Changes by region in rates burden: estimated 1990-91 burdens after revaluation and the introduction of NNDR compared with indexed 1989-90 burdens.

Region	Indexed 1990-91 burden		1990-91 burden after revaluation and introduction of NNDR		Change in rate burden relative to indexed 1989-90 burden	
	£m	% of National total	£m	% of National total	£m	% change
England:-						
North	596	6	517	5	-79	-13
Yorkshire & Humberside	928	9	733	7	-195	-21
East Midlands	731	7	575	6	-155	-21
East Anglia	325	3	375	4	49	15
Inner London	1809	18	2311	23	501	28
Outer London	881	9	947	9	65	7
Rest of South East	1963	19	2214	22	251	13
South West	692	7	836	8	144	21
West Midlands	948	9	727	7	-221	-23
North West	1212	12	852	8	-360	-30
England	10091	100	10091	100	--	--

Note : All figures in assumed 1990/91 prices

TABLE 3

ANALYSIS OF BURDEN CHANGES BY PROPERTY TYPE WITHIN REGIONS
COMPARISON OF 1990-91 BURDEN (BEFORE TRANSITIONAL ARRANGEMENTS)
WITH INDEXED 1989-90 BURDEN

Region	PROPERTY TYPE						
	Shops with living accommodation	Shops without living accommodation	Offices	Warehouses	Factories	Other + Properties	All Properties
	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)	Burden Change (%)
Northern	-3	-15	-36	-47	4*	-15	-13
Yorkshire & Humberside	21	-15	-14	-32	-36	-14	-21
East Midlands	-3	-10	-26	-21	-40	-14	-21
East Anglia	34	36	10	2	-10	24	15
Inner London	69	61	20	3	-30	43	28
Outer London	32	30	0	-9	-24	25	7
Rest of South East	15	27	28	4	-8	17	13
South West	38	39	21	11	-4	25	21
West Midlands	-10	-13	-19	-35	-50	-4	-23
North West	-15	-28	-32	-38	-44	-19	-30
<u>England</u>	17	12	12	-14	-26	7	0

*The result for this category is suspected of being inaccurate

+ Includes Crown, local authority, public utilities, pubs and hotels, sport, entertainment and miscellaneous.

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TABLE 4

EFFECTS BY FINANCIAL YEAR OF VARIOUS REVENUE NEUTRAL TRANSITIONAL SCHEMES

	Increase in burdens met by losers before transition	Effect of transitional scheme for losers		Restriction on gains to finance scheme		
		£m	number benefiting '000	Cost £m	Cap on gainers %	Number affected '000
UNIFORM CEILINGS FOR ALL LOSERS						
15% CAP ON ALL LOSERS						
1990-91	1869	696	1367	9	617	1384
1991-92	1944	521	1005	10	497	1008
1992-93	2022	382	738	9	410	747
1993-94	2102	285	537	9	330	537
1994-95	2186	204	394	8	266	398
20% CAP ON ALL LOSERS						
1990-91	1869	639	1233	12	584	1240
1991-92	1944	428	811	12	442	827
1992-93	2022	293	533	12	336	527
1993-94	2102	190	356	10	254	357
1994-95	2186	115	256	9	201	261
25% CAP ON ALL LOSERS						
1990-91	1869	584	1114	15	542	1103
1991-92	1944	361	663	14	394	668
1992-93	2022	220	391	13	279	398
1993-94	2102	124	255	11	202	255
1994-95	2186	70	182	8	159	185
LOWER 'SMALL BUSINESS' CEILING						
15% CAP WHERE 1990 LIST VALUES LESS THAN £7500 IN LONDON, £5000 ELSEWHERE; OTHERWISE 20%						
1990-91	1869	674	1242	12	584	1240
1991-92	1944	478	825	12	442	827
1992-93	2022	346	548	11	344	551
1993-94	2102	245	370	10	264	374
1994-95	2186	170	269	8	208	274

Note : Cash figures in this table are assumed current prices in each year, derived by a uniform 4% pa uplift on 1988/9 prices.

TABLE 5

EFFECTS OF TRANSITION IN ENGLAND BY FINANCIAL YEAR

MAXIMUM INCREASE IN REAL TERMS RATE BILLS SET TO 20% GENERALLY, 15% FOR SMALL BUSINESSES
 ALTERNATIVE 10% AND 10.5% REAL TERMS CAP ON BIG BUSINESS GAINERS ONLY

	1990/91	1991/92	1992/93	1993/94	1994/95
COST OF NET FOR LOSERS	£1242m	£825m	£548m	£370m	£269m
YIELD OF 10% CAP ON GAINERS	£1220m	£883m	£623m	£423m	£284m
POOL IMBALANCE	£-22m	£+58m	£+75m	£+53m	£+15m
YIELD OF 10.5% CAP ON GAINERS	£1198m	£851m	£588m	£391m	£259m
POOL IMBALANCE	£-44m	£+26m	£+40m	£+21m	£-10m
NUMBERS AFFECTED (000's)					
a) PROTECTED LOSERS	674	478	346	245	170
b) GAINERS CAPPED AT 10%	232	187	147	108	78
c) GAINERS CAPPED AT 10.5%	230	183	141	103	73

- NOTES: 1. In outturn prices assuming 4% per annum inflation from 1988/89.
2. Small businesses are those with an RV of below £7,500 in London, £5,000 elsewhere, on the 1990 list.
3. No allowance made for a de-minimis rule excluding the smallest hereditaments from transition.
4. The caps and nets were calculated in nominal terms. Hence a 20% real net is 24% in cash, (a 10% cap on gains is 6%), since inflation is assumed to be 4%.

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PS/Chancellor
 Sir Peter Middleton
 Mr Anson
 Mr H Phillips
 Mr A J C Edwards
 Mrs Case
 Mr Turnbull
 Mr Potter
 Mr Laite
 Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG

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

22nd November 1988

MP

Dear Nick,

LOCAL AUTHORITY FEES AND CHARGES

Thank you for your letter of 17 November. I have also seen Peter Walker's letter in support of mine of 14 November.

I have considered carefully your revised proposal to introduce a power to set charges for the specific items identified in the attachment to your letter. With great reluctance I must say that I am not convinced that this would be the right way forward.

First I wonder whether, starting at this late stage, it would prove possible to draft the necessary schedule in time: it would involve a wide range of Departments in preparing for primary legislation now, rather than secondary legislation on the more relaxed timetable that had previously been envisaged. In practice I suspect several of the candidates in the list might have to be dropped.

Second, such a proposal - especially if we lose some of the candidates - falls a long way short of the general enabling power which was discussed and approved in E(LF) last year and confirmed only six months ago. It would be a meek measure rather than the general power which Christopher Chope confirmed to Parliament that we would introduce "at the earliest legislative opportunity".

My preference therefore remains that we should introduce the general power, thus setting the legislative basis for the specific items you have identified above and any other we might wish to introduce in the future. We ought to bear in mind that change in LA functions in prospect in areas like housing, community care etc

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and the new post 1990 financial regime (including greater contracting out) ought to lead to a more enabling and overseeing role for local authorities - for which they can and in most cases should charge.

I do accept, of course, that there could be Parliamentary difficulties in presenting the new power. But the solution lies in making our intentions clear and perhaps showing a willingness to discuss each and every application of the powers in future. Thus in the primary legislation it should be possible to specify general areas where the powers would not be used (this was our agreed intention earlier); and, if absolutely necessary, we could give the opportunity for debate on each proposed application of the power by having the secondary legislation subject to Affirmative Resolution.

I would be grateful for your further views on this. I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours Ever,
John
JOHN MAJOR

CONFIDENTIAL

FROM: JUDITH CHAPLIN
DATE: 23 November 1988

CHANCELLOR

Cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Scholar
Mr Culpin
Mr Turnbull
Mr Edwards
Mr Potter
Mrs Holmans
Mr Fellgett
Mr H Burns
Mr Tyrie
Mr Call

[Handwritten notes in red ink:]
[this is comment a
Fellgett note below]
In general, I agree with 7-9 for
Pittman, I agree with 2-4
5-6, for political reasons
has to be some special
arrangements for small
businesses; but for
the reasons given
for more
1 unit
same to
SHT
or M.F.
gaining
John

UNIFORM BUSINESS RATES AND REVALUATION: TRANSITIONAL ARRANGEMENTS

Although businessmen should be aware of the likely rateable values of their properties having completed revaluation returns I believe, from my experience at the IOD, that many are still ignorant of the scale of the change. I think the publication of the Valuation Office report on the likely changes will raise substantial protest mainly, of course, in the South. There will be protest too from particular businesses who expect their rates to go down because they are, for example, in the Midlands and yet whose rates may go up because of the type of business and because of the increase over time of the rate poundage. All the losers will, of course, shout louder than the gainers.

2. I therefore think it would be a pity if the Secretary of State for the Environment maintains his line that he can give no commitment to extend the relief beyond the fifth year or if he decides to bring in a scheme which ensures that all gainers reach their full gain by the next revaluation which

would by definition mean all losers would have to reach their new assessments by the same date.

3. It would be easier to defend the changes, however large, if at the same time it could be said that there would be no change in a single year greater than X per cent. The RPI increase has to be added to the X per cent. I think the 20 per cent you favour would be acceptable to the business organisations although they will make a fuss about their original request of 10 per cent not being met.

4. The argument that for equitable reasons the change should be brought in within five years seems to me less strong than the value of having a clear ceiling above which increases won't go. The gainers are by definition surviving even with the higher rates.

5. I am also fairly sceptical about the value of a different level of phasing for small and large businesses. The small business organisations which were asking for a lower percentage for small businesses were doing so because they claimed that rates are the equivalent of a larger percentage of small business profits than large business profits. They were looking at small businesses in financial terms which are not, of course, always closely correlated to the rateable value of business premises which for practical reasons are being suggested to define small businesses. I think there will be substantial anomalies and the accusation that some small businesses, which are small in rateable value terms but perfectly successful, are being given an unfair competitive edge compared with other businesses in larger premises which are far less profitable.

6. However the DOE may feel that they need to make the differential for the losers so as not to be accused of damaging small businesses - a powerful lobby. I think the argument becomes even weaker when looking at the gainers, for the large gainers are having their gains slowed down both by

the losers and the small gainers. I would have thought that all businesses should gain at the same rate.

7. Finally, I think that the implications from the suggestion that the gains and losses will balance over the five year period rather than from year to year should be fully explored. Local Authorities seldom remember that they had extra in grant one year for a specific reason and always shout that there are cuts if that additional grant is removed.

J
JUDITH CHAPLIN

FROM: A J C EDWARDS
DATE: 23 NOVEMBER 1988

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr Fellgett

Ab.
Items OK to me
AA

**LOCAL AUTHORITIES:
SIMPLIFIED NEEDS ASSESSMENTS**

In accordance with my note of 17 November, which you kindly endorsed, we have discussed the position with DoE officials.

2. We have, I think, achieved a substantial meeting of minds. DoE officials now accept that DoE must avoid giving unnecessary hostages to fortune, in the sense of undermining the existing rate-capping and RSG settlements by implying that new and superior needs assessments are now available. They also accept that a minute from you underlining the fact that we do not have a 'new' set of GREs (certainly nothing worthy of the name) at this stage will be helpful in the light of their legal advice and vis-a-vis other Departments.

3. I attach accordingly a draft minute from you to the Prime Minister, which I trust will be self-explanatory.

AJCE
A J C EDWARDS

DRAFT

PRIME MINISTER

SIMPLIFIED NEEDS ASSESSMENT

Nicholas Ridley minuted you on 15 November about preliminary work by officials on the assessment of relative needs under the new grant system for local authorities. Nicholas proposes that consultation with the local authority associations should begin straight away on the basis of the draft paper attached to his minute (but not, of course, the illustrative exemplifications).

2. I am in principle content that the consultation process should now begin - but subject to two important points.

3. First, we need to be clear that, as Nicholas has indicated, what we have at the moment is no more than some highly preliminary results from the first runs in a major exercise. We do not yet have a reliable new assessment of relative needs, much less anything superior to the existing GREs. My officials have a number of technical concerns about the proposed approach, for example the dependence of the suggested new 'other services' assessments on past levels of actual expenditure rather than needs, and the difficult question of area costs adjustments. Interesting as the preliminary analysis undoubtedly is, I am sure Nicholas would agree that in no sense at this early stage do we have any reliable or agreed alternative basis for assessing relative needs.

4. Second, we must be particularly careful to avoid giving any impression to local authorities or the rest of the world that we

to have an alternative basis of needs assessment at this stage or that particular groups of authority are likely to do better than others under the simplified system. If we were to give any indications, along these or other lines, which the authorities could argue undermined the existing GREs, we would risk running into major difficulties (not excluding the possibility of legal challenge) over operation of the existing rate capping and RSG systems in 1989-90. The existing GREs, with all their imperfections, are the best we have until we have devised something comprehensive and reliable to put in their place.

5. Against this background, it will be important to avoid giving exemplifications to the authorities at this stage in service areas where we do not yet have agreed proposals or models we can trust; and to include for each of the other service assessments a wide range of options.

6. So far as the draft paper attached to Nicholas's minute is concerned, I think it would be premature to indicate how we propose to treat capital financing before we have decided among ourselves (much less told anyone else) how we should proceed in the light of the consultation on the capital finance system. It would, I believe, be much better to say simply that the Department will make specific proposals in due course. The uncertainties in this area do incidentally provide yet another indication of how far we are from having a reliable 'new' set of GREs at this stage.

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

JOHN MAJOR



1. ACISA
2. pnp

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

CH/EXCHEQUER	
REC.	25 NOV 1988
ISSUE	CST
TO	

✓25/11

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

Nick Ridley

24 NOV 1988

SIMPLIFIED NEEDS ASSESSMENTS

Thank you for sending me a copy of your minute of 15 November to the Prime Minister.

The proposals our officials have devised for the coverage of transport are very much simpler and more satisfactory than the present system, whilst recognising the differing responsibilities of local authorities in London and the Metropolitan areas.

I want, however, to put up an early marker against the option for the treatment of capital receipts, which would spread the allowance for them evenly across all authorities. I am strongly opposed to this because it would perpetuate in the needs assessment the unfairness which has been such a problem in the present capital control system.

This is, however, only an option in the paper, and need not hold up its circulation. I think it is very important that you should be able to circulate it before the end of November. There is little enough time to deal with all the detailed technical issues that arise, and my Department has also been under considerable pressure to reveal proposals on the transport and capital need assessments.

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

Paul Channon

PAUL CHANNON

MP



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Llinell Union)
01-270 0549 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0549 (Direct Line)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

CT/6221/88

25 November 1988

CH/EXCHEQUER	
REC.	28 NOV 1988
ACTION	CST
COPIES TO	

✓ 28/11

Dear Alison

WELSH RATE SUPPORT GRANT SETTLEMENT 1988/89

I am writing to give you notice of my Secretary of State's intention to lay the Welsh Rate Support Grant Report 1989/90, together with Supplementary Reports for 1988/89, 1987/88 (No 2) and 1986/87 (No 3), before the House of Commons in December.

As you know, the Welsh Rate Support Grant Report for the coming year, along with any Supplementary Reports, is announced by way of an oral statement on the day that the Reports are laid. This is followed by a debate on the Reports.

We are currently consulting on the details of the Reports and expect to be in a position to lay them on Thursday 8 December. This would mean that, after consideration by the Scrutiny Committee on 13 December, the Reports could be debated by the House during the week commencing 19 December.

My Secretary of State is conscious of the pressures on the Parliamentary timetable before the Christmas recess but we should be grateful if you could arrange for a short debate on the Reports during the week commencing 19 December.

/I am....

Ms Alison Smith
Private Secretary to
The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON SW1A 2AT



I am copying this letter to Murdo Maclean and Rhodri Walters in the Chief Whip's office; to the Private Secretaries of E(LF) members; and to Trevor Woolley in Sir Robin Butler's office.

Yours sincerely
Keith

E K DAVIES

CONFIDENTIAL

Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mr A J C Edwards
Mr Potter
Mr Fellgett
PRIME MINISTER



FROM: CHIEF SECRETARY
DATE: 25 November 1988

SIMPLIFIED NEEDS ASSESSMENT

Nicholas Ridley minuted you on 15 November about preliminary work by officials on the assessment of relative needs under the new grant system for local authorities. Nick proposes that consultation with the local authority associations should begin straight away on the basis of the draft paper attached to his minute (but not, of course, the illustrative exemplifications).

2. I am in principle content that the consultation process should now begin - but subject to two important points.

3. First, we need to be clear that, as Nick has indicated, what we have at the moment is no more than some highly preliminary results from the first runs in a major exercise. We do not yet have a reliable new assessment of relative needs, much less anything superior to the existing GRES. My officials have a number of technical concerns about the proposed approach, for example the dependence of the suggested new 'other services' assessments on past levels of actual expenditure rather than needs, and the difficult question of area costs adjustments. Interesting as the preliminary analysis undoubtedly is, I am sure Nick would agree that in no sense at this early stage do we have any reliable or agreed alternative basis for assessing relative needs.

4. Second, we must be particularly careful to avoid giving any impression to local authorities or the rest of the world that we do have an alternative basis of needs assessment at this stage or that particular groups of authority are likely to do better than others under the simplified system. If we were to give any indications, along these or other lines, which the authorities

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could argue undermined the existing GREs, we would risk running into major difficulties (not excluding the possibility of legal challenge) over operation of the existing rate capping and RSG systems in 1989-90. The existing GREs, with all their imperfections, are the best we have until we have devised something comprehensive and reliable to put in their place.

5. Against this background, it will be important to avoid giving exemplifications to the authorities at this stage in service areas where we do not yet have agreed proposals or models we can trust; and to include for each of the other service assessments a wide range of options.

6. So far as the draft paper attached to Nick's minute is concerned, I think it would be premature to indicate how we propose to treat capital financing before we have decided among ourselves (much less told anyone else) how we should proceed in the light of the consultation on the capital finance system. It would, I believe, be much better to say simply that the Department will make specific proposals in due course. The uncertainties in this area do incidentally provide yet another indication of how far we are from having a reliable 'new' set of GREs at this stage.

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

P. Walker

pp JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]



25/11/88.

BF 28/11

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REG.	25 NOV 1988
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Prime Minister

COMMUNITY CHARGE TRANSITIONAL ARRANGEMENTS

You asked me to review the way that the safety net and grant distribution arrangements might work to see in particular whether they could be used to limit community charges in all areas to a maximum of, say, £350. I have concluded that it is feasible for us to calculate the safety net so as to achieve a specified maximum community charge in all areas at a specified level of spending. But the cost of reducing community charges in the high charge areas would have to be borne by community charge payers in all other areas through an increase in their charges.

There are a number of factors to take into account before deciding to adopt such an arrangement. In particular we could not guarantee that actual community charges were set at below £350 since that would depend on the actual spending decisions of authorities. Even if we were to adopt such an arrangement we should not announce it now as this would lend to increased expenditure in 1989/90 by the higher spending authorities since they would bear no community charge penalty in 1990/91. This is clearly undesirable.

What is desirable is that we use the safety net arrangements to discourage high spending in 1989/90 wherever possible. In practice the arrangements that we have used for calculating the transitional safety net in our published exemplifications of community charges do tend to encourage higher spending in 1989/90 given the arrangements that we have now announced for closing down the present RSG system. I have identified alternative arrangements that would avoid this and I intend to discuss these with the local authority associations so that authorities are not misled into thinking that we will underwrite high expenditure in 1989/90.



We do not have to take decisions now on the precise arrangement for the transitional safety net. The safety net is the most important lever that we have available for distributing grant in 1990/91 and we ought to retain flexibility on this until we take decisions on the actual settlement next year. At that time I will bring forward options including ones that would limit community charges at specified levels of spending.

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

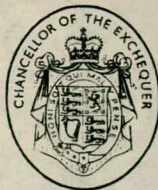
R Butler

NR

N R

25 November 1988

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

FROM: A C S ALLAN *ACS*

DATE: 28 November 1988

MR FELLGETT

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Scholar
Mr Culpin
Mr A J C Edwards
Mr Turnbull
Mr Potter
Mrs Holmans
Mr H Burns
Mrs Chaplin
Mr Tyrie
Mr Call

UNIFORM BUSINESS RATES AND REVALUATION: TRANSITIONAL ARRANGEMENTS

The Chancellor was grateful for your minute of 22 November, and for Mrs Chaplin's comments in her minute of 23 November.

2. He is broadly content with Mr Ridley's scheme, subject to:

- (i) he agrees with your proposal in paragraph 6 that if some concession to small business gainers is necessary, the best would be to have the same differential as for losers (eg 10 per cent gains for big business and 15 per cent for small). But he thinks we shall need to explain fully why this would be preferable;
- (ii) he would not wish to publish the IR statistical study, which was designed to enable us to decide on transitional arrangements, and which - if published - would cause immense aggravation to no benefit.



3. On Mrs Chaplin's minute, he agreed with the points in her paragraphs 2-4, that there is little to be gained by the Secretary of State for the Environment maintaining his line that he can give no commitment to extend the relief beyond the fifth year. He also agreed with the point in her paragraph 7 that we must look carefully at the suggestion that the gains and losses will balance over the five year period rather than from year to year. On her paragraphs 5-6, expressing scepticism about the value of a different level of phasing for small and large businesses, he feels that for political reasons there has to be some special treatment for small businesses; but for the reasons Mrs Chaplin gives it should be more limited than Mr Ridley seems to envisage.

ACSA

A C S ALLAN



CONFIDENTIAL

1 Alex 2mp

CH/EXCHEQUER	
REC.	28 NOV 1988
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Prime Minister

NEEDS ASSESSMENT

I was interested to see Nicholas Ridley's minute to you of 15 November outlining his progress on simplifying needs assessments in England for the new system of local government finance.

I have also been reviewing need assessments in Wales. The simpler structure of local government here means that assessments in Wales are already less complex and more stable than in England, so fewer changes have been needed. In fact the county councils have expressed themselves content with their present formula and I see no reason to seek to change it. The district councils are considering a relatively small change to their needs assessment which has the effect of moving resources towards the Valley areas, and if they bring forward an acceptable proposal I am willing to accommodate them on this. I expect to have agreement on a revised formula early next year.

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

P W

28 November 1988

CONFIDENTIAL



BF 29/11

MP

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 November 1988

Dear Roger,

LOCAL AUTHORITY FEES AND CHARGES

The Prime Minister has seen the recent correspondence between your Secretary of State and the Chief Secretary.

The Prime Minister recognises the sensitivity of proposals for introducing charges, and thinks it important to be clear what is in mind and whether it is possible. At the same time she believes it is important to plan for the post-1990 financial regime for local authorities, which should lead to a more enabling and overseeing role in which charging could become more important.

The Prime Minister therefore sees attraction in proceeding broadly along the lines suggested by the Chief Secretary in his latest letter of 22 November, of introducing a general power but with each application through secondary legislation being subject to Affirmative Resolution. In the course of debate on the general power she thinks it would be helpful to highlight the main possibilities currently in mind for further charging drawing on the list attached to your Secretary of State's letter of 17 November.

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

*Yes,
P.G.*

(PAUL GRAY)

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REC.	28 NOV 1988
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Roger Bright, Esq.,
Department of the Environment.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 November 1988

Dear Roger

COMMUNITY CHARGE TRANSITIONAL ARRANGEMENTS

X The Prime Minister was grateful for your Secretary of State's minute of 25 November. She has noted that there is no need to take decisions now on the precise arrangements for the transitional safety net, and is content for your Secretary of State to proceed as he proposes by bringing forward options in the context of next year's settlement.

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

Y
 Paul
Paul Gray

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL

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ST. ANDREW'S HOUSE
EDINBURGH EH1 3SX

Nicholas Scott Esq MP
Minister of State for Social Security
and the Disabled
Richmond House
79 Whitehall
LONDON
SW1A 2NS

CH/EXCHEQUER	
REC.	30 NOV 1988
ACTION	CST
COPIES TO	
	29 November 1988

— 30/11

COMMUNITY CHARGE: DEDUCTIONS FROM BENEFIT

Thank you for copying to me your letter of 8 November to Nicholas Ridley.

As I indicated in my letter of 9 September, my main concern on the detail of this matter is that the amounts we provide for the upper limit on deductions are sufficient to eliminate arrears within a reasonable period. The figure you have in mind for singles - £1.70 per week - seems sufficient, but I cannot understand why you reckon that the same cash sum should also apply to couples. They have twice the community charge liability of singles, which is significantly different from the situation which arises in relation to rent, water charges or fuel costs which you mention - and, correspondingly, the amounts we are building into their income support are twice what singles will get. In the circumstances it seems to me that there must be a higher deduction for couples, and that the most appropriate solution would be to set this at 5%, as you are doing for singles, which will produce a figure around £2.70.

More generally, may I repeat what I said in the first paragraph of my letter of 9 September: these provisions need to be in place in good time before the introduction of the community charge in Scotland next April, so that local authorities can work out their procedures in liaison with your offices. I therefore hope that it will now be possible to make swift progress in resolving the remaining outstanding points.

I am copying this letter to Nicholas Ridley, other Members of E(LF) and to Sir Robin Butler.

MALCOLM RIFKIND



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

29 November 1988

CH/EXCHEQUER	
REC.	29 NOV 1988
ACTION	CST
COPIES TO	

✓ 29/11

Dear John

NON-DOMESTIC RATING

Thank you for your letter of 21 November about harmonisation of rating valuation and related issues.

I have to say that I do not agree at all with your general approach, which will be seen as what it is - an attempt to shift some of the tax burden from public property onto business ratepayers at the outset of the new system.

Taking first your proposal that we should ring-fence the yield from the private sector (in which I assume you include public corporations), rather than non-domestic rates as a whole, that is consistent with our public statements only because we have not been pressed to give that degree of detail. We have repeatedly referred to, for example, "holding the yield of non-domestic rates constant in real terms", and all our published exemplifications have assumed a constant yield from non-domestic rates as a whole. There has been no doubt what we meant, and it will be seen as casuistic to argue otherwise.

The effect of your proposal would be to increase the business rate by some 2%, and increase the proportion of losers from around 54% to 56%. On its own this may not seem much, but there are other factors pulling in the same direction, for example, the cost of the concession to charities, the treatment of mixed hereditaments and any margin we include in the first year's poundage to avoid a deficit in the pool resulting from successful appeals. There is also the threat of increases in the average poundage in 1989/90 as authorities try to build up balances ahead of the new system. Against this background, we cannot justify any further increase in business rates. We will have enough difficulty with business rates as it is, without being accused of concealing a switch from the public to the private sector of 2% as well.

We need not form a final view on this point until we come to forecast the distributable amount of NNDR when we consult on the grant settlement next summer. Meanwhile I suggest we go on working on the same assumptions as in the past, that is with total yield to the pool held constant, and in particular that any exemplifications we publish when I announce the transitional arrangements should be on that basis, as previous ones have been.

Second, although final decisions on the amount of revenue support grant are also for a later stage, I do not accept that there is or should be any automatic trade-off between increases in the "rates" paid by central and local government and the total of RSG. The main argument for paying rates on Crown and local authority property is that public sector occupiers should pay the same marginal costs for occupying accommodation as the private sector. We would not reduce RSG now if the Crown's rate bill increased as a result, for example, of a change of control at Westminster City Council. I see revaluation as no different in principle.

You express concern about the increase in local authority expenditure and community charges resulting from any rise in the decapitalisation rate. The effect of your proposals, however, is to transfer this cost from community charge payers, who can exert downward pressure on local authority expenditure, onto business ratepayers who cannot.

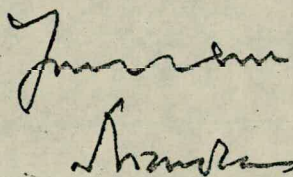
Turning to the decapitalisation rate itself, I do not accept your arguments for a uniform reduced rate for the public sector. This would in effect provide a continued subsidy for the public sector and would distort investment decisions. It would look perverse and inconsistent with our other policies if, when for example an office block was transferred from local authority to private occupation along with a contracted out service, the effect was to increase the rates bill by 20%. I believe you also underestimate the difficulties of principle associated with what you call the small technical amendment required. The rating system operates by reference to the value of the property, not its cost or value to the individual occupier. Moreover, the contractor's method is meant to give a proxy for rental value; and the Government is not able to negotiate significantly lower rents than other major occupiers, so it is unclear why it should pay less for property valued by other means. One merit of my proposal for a lower rate for schools, which other colleagues with an interest have agreed, is that school buildings are physically distinct and rarely put to other uses.

In relation to your comments on educational charities, I think it is worth noting that it was common ground among those who spoke in the House of Lords that the purpose of the concession we gave was to benefit, broadly, social welfare charities, especially those raising funds through charity shops, and that the benefit to the public schools was adventitious and not necessarily welcome. I accept, however, that if we were to adopt your approach to the main rates, we would probably have to concede a 4% rate for educational charities.

Finally, on the main decapitalisation rate, I question whether we should canvass options above 6%. I do not think it likely that in the outcome we shall adopt any rate above that level, and the effect of airing higher figures may be to shift the balance of opinion in the industries concerned against prescription on the basis that they would hope to do better through the normal appeal machinery.

It would, I think, be helpful if we were to discuss the decapitalisation rate and the wider issues you raise on grant, with a view to subsequent discussion at E(LF) if necessary. Meanwhile I trust you can agree that I should exemplify the transitional arrangements on the basis we have always assumed.

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



NICHOLAS RIDLEY

CH/EXCHEQUER	
REC.	30 NOV 1988
ACTION	CST
COPIES TO	

✓ 30/11

CONFIDENTIAL



MP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 November 1988

Dear Roger,

SIMPLIFIED NEEDS ASSESSMENTS

The Prime Minister was grateful for your Secretary of State's minute of 15 November and the Chief Secretary's minute of 25 November.

The Prime Minister is content for the consultation process to proceed on the basis set out by the Chief Secretary.

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

Yan,
P.G.

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL



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 Security

MP

CH/EXCHEQUER	
REC.	30 NOV 1988
ACTION	CST
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30/11

CONFIDENTIAL

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

30 November 1988

Dear Nicholas.

SIMPLIFIED NEEDS ASSESSMENT

You wrote to the Prime Minister on 15 November with proposals to issue a consultation document setting out your ideas for a simplified needs assessment.

I agree that we should act quickly in seeking views on the proposed changes and I am content with the annexes.

I am sending copies of this letter to recipients of your minute.

JOHN MOORE

PH



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

CH/EXCHEQUER	
REC.	- 1 DEC 1988
ACTION	CST
COPIES TO	

✓ 1/12 30 November 1988



Dear Nicholas,

LOCAL AUTHORITY FEES AND CHARGES

I have been following your exchange of letters with John Major on how we should implement E(LF)'s decision to widen local authority powers to levy fees and charges.

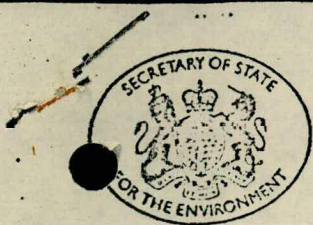
Although I understand the political risk of seeking a general enabling power, the alternative you propose also presents difficulties. Listing specific areas may prove unduly restrictive, resulting in time-consuming discussions on the existence of some activities which will come within the scope of the power (e.g. sex shops) and, more important, may cut across the need to consult interested parties before making our intentions known in the Bill.

eh?

On balance, I favour taking a general enabling power which would allow us to move at a more leisurely pace and consult as necessary before introducing secondary legislation. I agree with John Major that we should be prepared to offer the Affirmative Resolution procedure as a means of heading off criticisms about the use of the new power. If we are to adopt this general approach it would, of course, be necessary to specify exemptions as agreed by E(LF) for such services as policing, firefighting and the conduct and registration of elections. I understand that work defining these areas is well advanced.

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

Jones,
Doyl



2 MARSHAM STREET
LONDON SW1P 3ED
01-212 3434

My ref:
Your ref:

CH/ CHEQUE	
REC.	5 DEC 1988
ACTION	CST
COPIES TO	

✓ 5/12 MP

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

2 December 1988

Dear Chief Secretary

LOCAL AUTHORITY FEES AND CHARGES

In the light of the Prime Minister's view (as expressed in her Private Secretary's letter of 28 November) I am prepared to proceed on the lines suggested in your letter of 22 November. There are, however, a number of issues concerning the nature of the enabling power which remain to be resolved.

First, I propose to confine the power to enabling local authorities to charge and not to proceed with the proposition (reflected in the draft clauses) that it should be capable of being used to require local authorities to charge.

Second, I am concerned about the proposition (also reflected in the clauses as currently drafted) that the power should be capable of being used to override existing statutory prohibitions on charging. I do recognise, however, that it will be necessary to override existing statutory prohibitions on charging for library services, if Richard Luce is to give effect to his proposals. I propose, therefore, to provide for this one prohibition to be overridden, but not to allow the enabling power to be used generally to override statutory prohibitions.

Third, as you know, there is an outstanding difficulty with Malcolm Rifkind concerning the form of words to be used to refer to consultation with local government. I see no way of avoiding considerable embarrassment if we use two forms of words, to refer to consultation north and south of the border, as Malcolm has proposed. I therefore propose that the enabling power in the Local Government and Housing Bill should apply in England and Wales only, so that Malcolm can make separate legislative provision for Scotland.



Fourth, there is the question of whether the enabling power should be capable of being used by the Lord President in respect of library services. I have no objection to this approach, and my officials will therefore ask Parliamentary Counsel to amend the draft clauses accordingly.

Finally, I agree with your suggestion that the Bill, on introduction, should indicate that regulations made under this power will be subject to affirmative resolution procedure.

I am copying this letter to the Prime Minister, members of E(LF) and Richard Luce.

Yours sincerely
RB

RB NICHOLAS RIDLEY

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



MP *6/12 APH*
3/12

CH/EXCHEQUER	
REC.	-6 DEC 1988 <i>✓ 6/12</i>
ACTING	CST
COPIES TO	

PRIME MINISTER

SIMPLIFIED NEEDS ASSESSMENTS

I have seen a copy of Nicholas Ridley's minute to you of 15 November about simplified needs assessments. I welcome his proposal to consult the local authority associations on the basis set out in his paper.

The paper proposes continuing to use New Earnings Survey data in calculating area cost adjustments. There are some difficulties in using this data for small areas and for some occupations because of the small size of the sample used. Nick's officials may like to discuss these with my statisticians to ensure that the new system takes these limitations into account as far as possible. The official dealing with this here is Mr C Lewis who can be contacted on 273 5569.

Copies of this minute go to other members of E(LF) and Sir Robin Butler.

NF
NF

1/12/88

py

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

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

CH/EXCHEQUER	
REC.	- 8 DEC 1988
ACTION	Mr AJC Edwards
COPIES TO	Sir PM Middleton, CST, Mr Anson, Mr H Phillips, Mr Culpin, Mr Potter, Mr Fellgett, Ms Chaplin

My ref:

Your ref:

✓ s/p

December 1988

Dear Chancellor PS/IR

RATING APPEALS

When we corresponded on this subject during the summer we agreed that officials should examine the scope for measures to reduce the burden of valuation proposals and appeals which the Valuation Office is expecting to face during the remaining currency of the 1973 list.

I have now considered the joint report produced by our officials on this difficult issue and have concluded that we should take whatever action is needed to ensure that the Valuation Office can devote to the 1990 revaluation the resources necessary to ensure that it is completed on time. You have, I know, already taken some measures to reduce the shortage of valuers and to make the most effective use of the resources available; you have other measures in hand. It is very important that these supply side initiatives should be pursued. However it is clear that if the volume of appeals against the 1973 list increases substantially, as it is likely to do once we have announced the transitional arrangements for the business rate, the Valuation Office may not be able to carry out the revaluation satisfactorily, notwithstanding the measures which you are taking.

Despite the likely adverse reaction, therefore, I think that we have to take action on proposals and appeals. I suspect that the incentives for non-domestic ratepayers to make proposals will be so great that the intermediate options canvassed by officials would have little impact. My inclination therefore would be to remove all domestic and non-domestic rights to make proposals in respect of the 1973 list. We could justify this on the grounds that the list is now 15 years old and ratepayers have had ample opportunity to object to it. I am clear however that we must provide for cases where there is a substantial change in the state of the property or in its environment. It would be inequitable if ratepayers were unable to secure a reduction in the RV where, for instance, the property had been badly damaged by fire. I think this can be achieved by placing an obligation on the Valuation Officer to make a proposal in any case brought to his attention where, in his opinion, the effect of the change would be to reduce the RV by, say, 20% or more. We ought perhaps to place a parallel restriction on the right of Valuation Officers to propose increases in RV.



In my view we would also need a mechanism for aggrieved ratepayers to use where the Valuation Officer refused to make a proposal. This could obviously not be a formal right of appeal, but some non-statutory arrangement akin to that used in immigration cases under which an MP could ask the Chief Valuer to re-examine a case might be a possibility.

I propose that we should ask our officials to look urgently at this and other aspects of these proposals and produce a package which we can recommend to colleagues. We shall in particular need to seek the Law Officers' views again, given that a "midnight tonight" statement would be needed and a provision in the Local Government and Housing Bill, to validate the scheme from the date of the announcement.

I believe that in order to minimise the possibility of these proposals becoming known publicly before we are ready, we must aim to make an announcement as soon as possible after the Recess. There would be strong presentational advantages in linking this with the announcement on transition; indeed I think it essential to do so. It follows that we must also try to reach agreement quickly on the other related issues which are outstanding, on which I wrote to John Major on 29 November.

In view of the sensitivity of this issue I am not copying this letter more widely at this stage.

Yours sincerely
N Ridley

pp NICHOLAS RIDLEY

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



CH/EXCHEQUER	
REC.	-9 DEC 1988
ACTION	CST ✓ 9/12
COPIES TO	

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

BF 12/12
15/12

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

9 December 1988

Dear Nicholas,

py

HARMONISATION OF RATING: THE CONTRACTOR'S BASIS

I refer to your most recent letter dated 29 November on this subject.

I am glad that we are in agreement that decapitalisation rates should be prescribed on a national basis: this will be an important element in the harmonisation of the valuation system and will also simplify preparations for the 1990 Revaluation.

I think the most important question is the basic decapitalisation rate on which we should consult. As I said in my minute of 19 October to the Prime Minister, I think we should recognise that there is a range of possibilities, though I do not think we need imply, as John Major is suggesting that we are tending to look at a figure somewhat above 6%.

It is important that the consultation process should make very clear that we are willing to respond to the points that are put to us. I am aware of some problem issues such as sports grounds (valued on the contractor's principle in Scotland) but there may be others: and we want to avoid unnecessary criticism. I hope we can make early progress on this basis.

For the rest, I agree with you that, whatever the structure of rates we adopt, we should not attempt to ring-fence private business ratepayers. This would not be possible within the existing statutory provisions in Scotland, but apart from that I think we must accept that any redistribution of burdens resulting from revaluation, including changes attributable to harmonisation, must apply to the whole of the non-domestic sector. Nor can I accept John Major's proposal that there should be a trade-off between RSG and rates payments by central and local government.

Turning to the rates to be prescribed for the public sector and for charities, I find the balance of the arguments between you and John difficult to judge. Your approach offers if anything a marginal benefit to local authorities in Scotland, because of the large number of schools they own, valued on the contractor's principle but means added costs for the Crown (NHS, prisons and MOD); John's approach means less change, given the decapitalisation rates at present established in Scotland. On these grounds I am inclined to favour his proposal of 5% for the public sector generally and 4% for charities, though I would be content for the consultation to proceed on a basis which reflects a range of possibilities.

I must re-emphasise that on the basis you have proposed, there will be an additional rates burden on the Crown and it is clear that additional funds will have to be made available to reflect these additional payments.

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

*Yours ever,
Malcolm*

MALCOLM RIFKIND



MP

CH/EXCHEQUER	
REC.	15 DEC 1988
ACTION	CST
COPIES TO	

✓14/17

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 December 1988

Dear Rose,

**INTERDEPARTMENTAL WORKING GROUP
ON LAND COMPENSATION**

The Prime Minister was grateful for your Secretary of State's minute of 5 December. She is content with the amendment to the earlier proposals, involving an increase in the minimum rate of home loss payment to £1200 while leaving the maximum unchanged to £1500.

I am sending a copy of this letter to the Private Secretaries to members of E(A) and to Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

BF 21/12

FROM: A J C EDWARDS
DATE: 16 DECEMBER 1988

1. FINANCIAL SECRETARY*
2. CHANCELLOR

cc Chancellor*
Chief Secretary*
Sir P Middleton*
Mr Anson*
Mr Phillips*
Mr Scholar*
Mr Culpin
Mr Chivers
Mr Gilhooly
Mr Potter
Mr Fellgett

Mr Shutler (VO)
Mr Pitts (IR)

[* with attachments]

RESTRICTING VALUATION APPEALS:
NEXT ACTION

all annexes in buff folder.

Mr Ridley's letter of 8 December (Annex A) proposes that he should make an announcement, as soon as possible after Parliament reassembles, removing the existing statutory rights of all ratepayers, both domestic and non-domestic, to make proposals and appeals against the present (1973) rateable values List. In our view, Mr Ridley is right to argue that the time has now come to take firm decisions. The longer decisions are delayed, the less effect they will have in reducing appeals and solving the problems of valuer shortage; the greater, too, will be the risks of leakage and forestalling. The immediate action is for the Chancellor to reply, before Christmas I fear (if humanly possible), to Mr Ridley's letter.

Main papers

2. As you will recall, the Chancellor wrote on 22 July to Mr Ridley (letter at Annex B), after consultation with you, proposing an announcement before the Summer Recess which would have restricted non-domestic ratepayers' rights to propose and appeal against the existing (1973) rateable values list so as to reduce pressures on the Valuation Office as they undertake the new revaluation for the NNDR.

3. Mr Ridley's reply of 27 July (Annex C) argued that it would not be possible to prepare a suitable statement so quickly and suggested that officials should consider the options further with a view to decisions in the autumn. The Chancellor agreed to this in his reply of 1 August (Annex D).

4. The Solicitor General commented subsequently that it would not be possible to stop work on proposals and appeals against the existing list until the legislation had received the Royal Assent: letter of 18 August at Annex E.

5. DOE have taken the lead in preparation of the note by officials, which is at Annex F. Because of the complexities of the subject and other seasonal pressures, preparation of this note unfortunately took considerably longer than we would have wished.

6. We also have notes (Annex G) which you commissioned from the Inland Revenue on the supply of valuers and the measures which the Valuation Office have taken.

7. We have, finally, the letter of 8 December, already mentioned, from Mr Ridley (Annex A). To our considerable surprise, this effectively accepts and indeed goes further than the Chancellor's July letter by proposing to remove all formal proposal and appeal rights in respect of the existing valuation list, both domestic and non-domestic.

The problem

8. The reason for contemplating such drastic action remains as before: the Inland Revenue and Valuation Office are much concerned about their ability, in the absence of such action, to carry through both (a) the current revaluation and introduction of the NNDR to an acceptable standard, within the deadlines set in the legislation, and (b) their other duties, not least in relation to tax matters. Last year's Act provides for the compiled list of new rateable values for the NNDR to be deposited with the rating authorities by 31 December 1989. It then comes into force on 1 April 1990.

9. There is a parallel concern about the ability of the new Valuation and Community Charge Tribunals to cope adequately with the expected flood of appeals relating to the new rateable values List and the Community Charge in the absence of action to close down appeals against the existing List.

10. The Inland Revenue have said, and repeatedly confirmed, that they regard the revaluation as a top priority and the Valuation Office will complete it to time. But they remain of the view that if no action is taken to restrict the flow of rating appeals they face a shortfall of 265-285 valuers at 1 April 1989 against a total requirement (for all purposes) of some 1950. By the end of 1989-90, they forecast that the minimum shortfall will be reduced to 120 valuers as a result of management measures which they are taking, including improvements in productivity and withdrawal from half the projected workload of RTB cases. However, a further 100 valuers are likely in their judgement to be needed to clear the surge in rating appeals, to take advantage of the NNDR transitional arrangements, which is virtually certain to occur if nothing is done.

11. In terms of backlog, the Valuation Office estimate that about one year's work will be outstanding at 1 April 1990. Their priorities would then be to clear first the appeals against the from the new list. In London and the South East, the position is expected to be especially bad. Between 1990 and 1993 the Valuation Office estimate that they will require about 7,200 man years of valuer effort; but with an estimated supply of only 4,800 man years (three times the existing number of valuers) they would expect in 1993 to have between 1½ and 2 years work outstanding. Work on the 1995 Revaluation would almost certainly have to be postponed for two years.

12. The period since July has seen the following mostly favourable developments with regard to the supply of valuers:

(i) the IPCS settlement has given an extra 12% to valuers in the case-work grades in London but only an extra 3% elsewhere (7½ per cent for senior valuation officers);

(ii) the Valuation Office have during the summer succeeded through management measures in reducing the shortfall by 85 valuers although this improvement has been largely offset by continued staff losses;

(iii) the Valuation Office have developed proposals for using non-professionals from the domestic rating side to assist with the settlement of unrepresented non-domestic appeals. That will provide 35 man years in 1989-90.

In addition, if the property market becomes less buoyant, the supply of valuers could become more plentiful. We cannot however rely on that. Indeed, the opposite could happen.

13. Although these developments are likely to improve the balance between the supply and demand for valuers, there must be a continuing concern about the position, particularly over the next two to three years.

Objectives

14. The main objectives as we see them must be to find acceptable ways of

(i) ensuring that the Valuation Office can complete the 1990 Revaluation within the required timescale and to an acceptable quality, and then manage the transitional arrangements;

(ii) enabling the Valuation Office and the new Valuation and Community Charge Tribunals to deal promptly with the expected flood of proposals and appeals against the new Revaluation, avoiding log-jams and associated delays which could rise to up to three years; and

(iii) avoiding unacceptable delays in other areas of the Valuation Office's work, notably on tax and other Government

programmes.

The problems which would be exacerbated by a sub-standard Revaluation are listed at the beginning of the note by officials. The main ones are unpredictability of yield from the NNDR, more appeals, long appeal queues, and postponement of the further revaluation which the legislation provides for in 1995.

Demand side solutions

15. The problems of valuer shortage could in principle be tackled either on the demand side, by action to reduce the workload on the Valuation Office, or on the supply side, by action to increase the numbers of valuers, or both. The note by officials at Annex F examines three broad options on the demand side:

(i) removal of proposal and appeal rights against the existing rateable values list as soon as practicable;

(ii) limitation of proposal and appeal rights against the existing lists;

(iii) changing the base date for the NNDR transitional arrangements from 1989-90 to 1987-88, so as to reduce the incentive to continue appealing against the existing valuation list.

The note by officials is concerned mainly with identifying broad options rather than discussing them, and thinking has anyway developed further since the note was completed, particularly as regards sub-options within option (i). The paragraphs which follow need therefore, I fear, to offer a fairly full discussion.

Removal of proposal and appeal rights

16. Specification. Under this option, the Government would announce that, with effect from midnight on the day of the announcement (or the previous midnight), subject to passage of the

necessary legislation, ratepayers would lose their existing statutory rights to lodge formal proposals and appeals against the existing rateable values list. This would apply to both domestic and non-domestic rateable values. The Valuation Office would, however, retain the right, and indeed the duty, to change valuations even-handedly, at least in the case of new buildings or in cases where the changes involved were more than (say) 20% in either direction: the main sub-options for Valuation Office procedures are discussed further below.

17. The reasons for removing domestic as well as non-domestic appeal rights are threefold. First there would be a problem over 'mixed hereditaments' if formal proposals and appeals continued to be allowed on domestic premises (eg shops with flats on the first floor). Second, about 50 more valuers would be saved. Third, since domestic rateable values will have no influence on rate bills after April 1990, removing domestic proposal and appeal rights would arguably be a less serious step than removing the corresponding non-domestic rights (which will continue under the transitional arrangements to affect NNDR bills for several years).

18. Valuer savings. The Valuation Office estimate that the number of valuers released by this option could build up to a maximum of about 340 in a year's time (290 if domestic appeal rights were not similarly removed), though the actual figures could be well below these maxima, depending on what continuing obligations with regard to the existing List the Valuation Office undertook. The savings in the next 12 months while the initial Revaluation is taking place would anyway be much less than the figures just mentioned, since proposals put forward by ratepayers before the announcement would need to be processed as before and there is a lag of about 12 months between lodging of proposals and the subsequent appeals (it is the appeals which are particularly costly in valuer time). The Solicitor General has advised that work would need also to continue on any proposals lodged after the announcement until such time as the Bill received Royal Assent. The situation should however be greatly eased by the critical first quarter of 1990 when the Valuation Office will be at full stretch revising the initial valuations list in time for the first operational list. In addition, the handling of appeals against the new valuation list, and the work of the Valuation and Community Charge Tribunals in general would get off to a far better start.

19. Legislation. The note by officials envisages that this Session's Housing and Local Government Bill would be used to give legal effect to this option. A short Bill introduced as soon as possible would make the fullest reduction in the Valuation Office's workload and reduce the interval between announcement and the legislation but is unlikely to be practicable given the other pressures on Parliamentary time.

20. Advantages. The main advantage of this approach is that it would be much the most effective way of reducing demands on the Valuation Office - much more effective than any partial withdrawal of statutory proposal and appeal rights - and would thus enable them to concentrate on the Revaluation and its subsequent defence with much less disturbance to their other functions. The effect would be significantly to reduce the number of proposals made. Of those which were made, most would not require valuers', as distinct from clerical, attention for some time. This course would also enable the Valuation Office to prevent worsening backlogs in tax and other areas.

21. If no action on these lines were taken and ratepayers' proposals and appeals against the existing list were allowed to continue unabated, the Valuation Office would be stretched on covering this current work and diverted in part from the priority of a soundly based 1990 Revaluation and beginning to the new NNDR system. In addition the Valuation and Community Charge Tribunals could find themselves log-jammed at 1 April 1990 with at least a year's appeals outstanding, and appellants to the new (1990) list would have to wait until 1991 at the very earliest for a hearing. In the Inland Revenue's view, setting and distribution of the NNDR would become precarious, and the earliest date at which work could begin on preparations for the 1995 Revaluation would be deferred for a year or two.

22. Disadvantages. As you will be well aware, the option of removing statutory proposal and appeal rights against the 1973 List does also involve two major difficulties:

(i) it would be seen by many as removing for administrative reasons the citizen's fundamental right of appeal on a taxation matter. Ministers will be better placed than we are to judge the possible Parliamentary difficulties;

(ii) it would make the Government's proposals for the NNDR transitional arrangements somewhat harder to defend: the rating bills which many firms actually pay will continue until 1995 or later to depend on 1989-90 rateable values.

23. Sub-options. Both the difficulties noted in the previous paragraph are inherent in the option of removing the existing statutory rights of ratepayers. They could however be mitigated to a greater or lesser extent by the obligations which Ministers place on Valuation Officers with regard to the existing rateable values List. The three main options, or sub-options, are:

(a) frozen list/no petitions

The Valuation Office's obligation with regard to the existing List would be limited to adding new buildings and major additions to existing buildings. With these exceptions, the List would be 'frozen'.

No provision would be made for non-statutory appeals or petitions by aggrieved ratepayers.

(b) Ridley variant

Where the state of a property or its environment is substantially changed, the Valuation Office would be obliged to implement reductions of 20 per cent or more in rateable values where this was brought to their attention: increases in rateable values of less than 20 per cent might similarly be ignored.

Aggrieved ratepayers might be able to ask the Chief Valuer via their MPs to re-examine their cases.

(c) Valuation Office variant

Where a physical change had occurred in the property or locality, the Valuation Officer would be obliged to make any changes he considered right in rateable values of non-domestic buildings in the 1973 List; for domestic premises, such changes would be implemented only if they exceed 20 per cent in either direction.

Aggrieved ratepayers would be able to appeal to the Valuation Office's Regional Superintending Valuer if they were dissatisfied with the local valuer's decision.

24. Sub-option (a) above, the frozen list, would maximise the reduction in the Valuation Office's workload and hence the saving in valuers. Ministers may feel, however, that this sub-option would be altogether too brutal. It would do nothing to mitigate the disadvantages discussed in paragraphs 22 (i) and (ii).

25. Sub-option (b), as proposed in Mr Ridley's letter, would be much easier to defend in the sense that the aggrieved ratepayer, while deprived of his existing statutory rights in relation to the 1973 List, would at least have the opportunity to make representations in accordance with an established procedure. However, many non-domestic ratepayers would doubtless complain, with some cogency, that under the NNDR transitional arrangements their actual rate bills would continue to be affected by the 1973 List for several years to come, and it was not acceptable that changes of less than 20 per cent in this List should be ignored. There would also be a revenue loss from the 20 per cent cut-off (perhaps £25 million in 1989-90). In addition, the idea of appeals via MPs to the Chief Valuer (or in practice to Ministers) seems unattractive.

26. Sub-option (c), the Valuation Office's variant, would avoid these two problems. The non-domestic list would be kept up to date as being still an operational list for the purposes of the transitional arrangements. The 20 per cent de minimis limitation

would be applied only to domestic rateable values. (The 20 per cent limitation could alternatively be dropped for domestic rateable values as well.) The idea that aggrieved ratepayers could make representations or appeals from the District Valuer to the Regional Controller would likewise seem a far better system than appeals via MPs to the Chief Valuer or Ministers.

27. A small disadvantage in sub-option (c) is that the different treatment of domestic and non-domestic rateable values in the existing List could give rise to some problems in the case of mixed hereditaments (though these would not be nearly as serious as if there were a right of appeal in one case but not in the other). DOE have also in the past attached importance to symmetric treatment of domestic and non-domestic ratepayers. The Valuation Office take the view that it would be worthwhile retaining the 20 per cent cut off for domestic rateable values, even so.

28. In the view of Treasury officials, the Valuation Office's sub-option at (c) above would unquestionably be the best-buy within the broad option of removing existing statutory proposal and appeal rights against the existing List, even though the valuer savings would be significantly less than under the more draconian sub-option (a) and somewhat less than under the Ridley option (b). The Valuation Office believe that the savings will nevertheless be substantial. New estimates are being prepared.

Restricting proposals and appeals

29. Specification. It would in principle be possible, in contrast with the options discussed above, to retain ratepayers' existing statutory proposals and appeal rights against the 1973 List but provide that changes would be implemented only if they exceeded 20 per cent of the original valuation.

30. Valuer savings. The Inland Revenue estimate that this approach might yield about half of the valuer savings under the most draconian version of the removal of appeals option discussed above.

31. Legislation. Legislation would be required as in the complete removal option.

32. Advantages. On this approach, the existing statutory proposal and appeal system would be retained, but with a high de minimis threshold.

33. Disadvantages. The disadvantages of this approach are:

(i) it would probably stimulate a great deal of litigation, since many ratepayers have inflated expectations of the reductions in rateable values which are due to them;

(ii) the savings in valuers' and tribunals' time would therefore be much more uncertain as well as being much reduced; and

(iii) many non-domestic ratepayers would be likely to complain that getting the 1973 valuation List right to within 20 per cent was simply not good enough when this List would continue to affect actual rate bills under the transitional arrangements for several years ahead.

34. For all the above reasons, the option of retaining the existing statutory proposals and appeals system on a restricted basis seems less attractive than the option of removing the existing statutory rights altogether while charging the Valuation Office to keep the 1973 non-domestic list up to date and to operate a non-statutory representations or appeals procedure.

Re-basing the transitional arrangements

35. Specification. Under this option, the NNDR transitional arrangements limiting the annual increase in any business ratepayer's rate bill to N per cent (probably 20 per cent) would be measured, not from a 1989-90 base period as hitherto envisaged, but from 1987-88 (that is, two years earlier). This would substantially reduce, without removing, the incentives which firms

will have to propose and appeal against existing rateable values in 1988-89 or 1989-90 since any reductions in rateable values which they won would affect rate bills only during those years and not during the transitional period.

36. Valuer savings. The Valuation Office estimate that this course could prevent the demand ~~for~~ valuers from rising by a further 100.

37. Legislation. The latest legal advice is that this option, too, would require legislation.

38. Advantages. This approach would have the considerable merit of reducing the incentive to propose and appeal against the existing Valuation List without taking away or curtailing what may be perceived as the taxpayer's fundamental rights. Businesses would still have an incentive to propose and appeal in order to reduce their rates bills in 1988-89 and 1989-90. Hence it is uncertain how many firms would in practice be deterred from proposing and appealing. But significant savings in the Valuation Office's workload would be likely.

39. Disadvantages. The disadvantages in this approach are partly practical and partly political.

40. The main practical difficulty would be how exactly to define the base period. Rates bills will have changed substantially, and by varying amounts, between 1987-88 and the first year of the new system, 1990-91, predominantly though by no means exclusively in an upwards direction. If the rule were simply that the 20 per cent annual growth limitation applied in 1990-91 to the change compared with 1987-88 rate bills, large numbers of firms would qualify for relief (though many fewer would do so in the two following years). Similarly, a smaller number of firms would find their rate bills falling, and making the transitional arrangements self-financing overall could be a problem. Possible solutions would be to amend the transitional arrangements so as to set a growth percentage limit considerably above 20 per cent in 1990-91 or alternatively to define the base for the transitional arrangements as 1987-88 rateable values multiplied by 1989-90 local poundages. These would however be considerable, and perhaps unwelcome, complications.

41. The main political problems in this approach, which would prevent a difficult situation becoming worse rather than improving it, would be:

(i) It would be difficult to defend publicly choosing such an early base period for the transitional arrangements: Ministers would probably have to admit that the choice was prompted by the need to discourage appeals.

(ii) As with any such arrangement, there would be significant gainers and losers compared with the 'natural' base date of 1989-90, and the losers would complain loudly, while the gainers would rejoice quietly. The losers (eg: firms whose local Councils' rate poundages had risen slowly in 1988-89 and 1989-90 or whose rateable values had been reduced in 1988-89 or 1989-90) would complain that their legitimate expectations had been dashed.

Since the incentives to propose and appeal would not be removed, the extent of savings in valuer effort would inevitably be uncertain.

42. In the opinion of officials the rebasing option is rather unattractive.

Lesser demand-side changes

43. Lesser demand-side changes which we have considered are:

(i) further reordering of work priorities within the Valuation Office, perhaps including elimination of certain categories of work;

(ii) making appeals more risky for the appellant (by requiring local valuation Courts to consider whether appealed rateable values should be increased and to award costs against dismissed appellants);

(iii) requiring all proposals against rateable values to include a full statement of reasons; and

(iv) continuous as against 'big-bang' revaluations.

44. The first of these options (prioritisation) would not require legislation and already plays an important role. As the Valuation Office are short of valuers, they assign priorities to different areas of work; at present the Revaluation is the first priority and Revenue Valuation second. In some cases, such as Right to Buy valuations, they have withdrawn altogether in certain areas of the country, and this process will be extended further: they currently have about 100 full-time equivalent valuers doing RTB work, but only 50 next year on current plans, and about 100 valuers in all doing other Local Authority work. Clearly prioritisation could be taken still further and may anyway need to be. But the Valuation Office would prefer not to withdraw from all this work or to increase the delays and backlogs in their other work while Revaluation and NNDR work is at its peak.

45. Options (ii) and (iii) would require legislation and do not seem worth pursuing for the existing Valuation List. The new NNDR appeal system will provide for tribunals to take an even-handed view of whether rateable values should be reduced or increased, though it will not provide for dismissed appellants to bear costs or for proposals to be accompanied by full statements of reasons. These aspects may well be worth considering as part of the development of the new system.

46. Another possibility which we think should be considered as a longer term matter is replacement of the existing "big-bang" Revaluation every so many years by a system of continuous revaluation (option (iv) above). Although this was considered and rejected at an earlier stage, recent experience has underlined the disadvantages of the periodic big-bang approach, in particular:

(i) the disruptive effect on the Valuation Office's workload and

(ii) the need for complex transitional arrangements to phase in new valuations where these have changed substantially compared with previous valuations.

The way in which a continuous revaluation process might best work would of course need further study. The broad approach might be, however, that particular regions or types of property would be revalued each year. The rateable values of other regions or types of property would be adjusted pro rata on the basis of these actual revaluations and/or sample revaluations.

Supply side

47. The other way to mitigate the prospective shortage of valuers is to take steps to increase their supply. The Valuation Office have already succeeded in substantially raising recruitment numbers. As noted earlier, the supply of valuers may increase anyway should the property market run out of steam. We cannot, however, count on this. The recent IPCS deal should help with retention in London itself, though its effect elsewhere is uncertain.

48. The Valuation Office paper at Annex G explains what has been done already. Further action would be likely to mean providing more generous incentives for valuers such as:

further selective local pay increases (especially around London) building on the IPCS settlement, designed to improve retention of existing valuers and recruitment from the private sector;

productivity incentives (item 3(a) of Annex B to Valuation Office paper)

more generous overtime arrangements, (item 2(b) at Valuation Office's Annex B);

a retirement package, to discourage retirement and attract back valuers who have recently retired (compare item 4(b) at Annex);

redeployment of valuers within the public sector.

We consider that, since the skills of surveyors and valuers are substantially interchangeable, action along these lines could well significantly improve the position over the next twelve critical months, before the full effects of the demand -side measures (if Ministers pursue these) are felt. We would not want to take action under the first of these headings immediately: it would be too soon after the IPCS deal, and we ought to allow a decent interval to see what effect the latest pay increases may have. But we should keep the pay position under review. The remaining possibilities should be urgently pursued and costed.

The choice

49. The preceding paragraphs have discussed the following main options:

(i) removal of the existing statutory proposal and appeal rights against the existing valuation list, with the following sub-options:

(a) freezing the existing list/no non-statutory appeals,

(b) the Ridley variant, and

(c) the Valuation Office variant;

(ii) restricting but not removing these existing proposal and appeal rights;

(iii) rebasing the transitional arrangements from 1989-90 to 1987-88;

(iv) further reallocation of Valuation Office work (especially RTB valuations and local authority work, where the scope for charging is being separately examined);

(v) supply side measures to increase the numbers of valuers; and

(vi) longer term demand side measures which might be incorporated in the new system:

(a) failed appellants to bear costs;

(b) proposals to be accompanied by substantive statements of reasons;

(c) rolling annual revaluations in place of periodic big-bang revaluations.

50. Taking these options in reverse order, Treasury, Inland Revenue and Valuation Office officials are agreed that the items in option (vi) should be pursued as possibilities for the longer-term.

51. We are agreed that options (iv) and (v) should be pursued to whatever extent is necessary, not least to deal with the problems of the next, critical 12 months during which the current Revaluation has to be completed. We recommend accordingly.

52. Officials are also agreed in recommending against option (iii) (rebasings the transitional arrangements). They also consider that option (ii) (restricting existing proposal and appeal rights) is distinctly inferior to option (i).

53. The most difficult issue is whether to pursue one or other of the option (i) variants, and if so which.

54. The Inland Revenue and the Valuation Office continue to favour removal of the existing proposal and appeal rights, in accordance with one or other of the option (i) variants. As between the three variants, they see the draconian option (i) (a) as having the merit that it would greatly simplify their task in making a success of the new NNDR system and enabling them to clear backlogs of work in both rating and other taxation fields.

55. Mr Ridley is now going for option (i) (b). We think, however, that for the reasons explained earlier the Valuation Office variant option, (i) (c), would provide a much more defensible basis for the transitional arrangements, as well as being less risky in revenue terms and providing a more satisfactory representations procedure, and would therefore be preferable.

56. If Mr Ridley had remained opposed, as we in the Treasury expected, to any form of curtailment of proposal and appeal rights, Treasury officials would have been inclined to suggest that the Chancellor should not press him to do so but concentrate instead on the other measures listed above - supply side measures, reordering of priorities and alleviation of the post-1990 position through longer term measures such as those sketched in option (vi).

57. Mr Ridley's conversion to some form of restriction, broadly along the lines which you yourself and the Chancellor earlier advocated, has increased the range of realistic options. You and the Chancellor may feel that the best solution to go for in the new circumstances would be the Valuation Office's variant on Mr Ridley's option, ie option (i) (c) above, together with options (iv) to (vi).

58. The draft letter attached from the Chancellor to Mr Ridley assumes that this will be your and the Chancellor's preferred option.

Next action

59. The next steps, as we see them, should be as follows:

(a) you will doubtless wish to give your views to the Chancellor;

(b) the Chancellor will wish to reply to Mr Ridley's letter, possibly along the lines of the attached draft;

(c) it will then be for Mr Ridley to minute the Prime Minister, the Chancellor, the Lord President, the Law Officers, Mr Walker, Mr Rifkind and any other Ministers concerned;

(d) officials will need in the meantime to work up the outstanding technical details on the assumption that Ministers wish to proceed with options (i) or (ii); all this in preparation for

(e) a mid-January announcement by Mr Ridley, no later than the general statement about the transition to the NNDR.

60. In view of the tight timetable it will, I fear, be important for you to advise the Chancellor, and for the Chancellor to reply to Mr Ridley's letter, before Christmas. If you or the Chancellor wish to discuss, we are of course at your service.

AJCE
A J C EDWARDS

Please type for Ch's sign.

DRAFT LETTER FROM THE CHANCELLOR
TO RT HON NICHOLAS RIDLEY AMICE MP

RATING APPEALS

As you know, I very much support your proposal that we should

Thank you for your letter of 8 December.

~~I am glad you now feel, as I have done since the summer, that some action is needed to restrict proposals and appeals against the existing Valuation List. The aim should be to announce this in mid-January, as you suggest - no later than the forthcoming announcement on transitional arrangements for the NNDR.~~

~~On the substance, I agree that the broad approach should be to remove the existing statutory proposal and appeal rights against the 1973 List, while giving the Valuation Office the power and duty to act as arbiters with regard to the existing List, and I also agree that this new arrangement should apply to both domestic and non-domestic premises.~~

I have two ^{points on the details of what you propose.} ~~main concerns about your precise suggestions.~~

First, I think that non-domestic ratepayers would criticise the NNDR transitional arrangements as being unfair if we were to ignore any changes ^{smaller than} ~~below~~ 20 per cent in the existing non-domestic Valuation List, when this list will continue to affect the actual rate bills of many companies for several years to come: we would also be likely to lose significant amounts of revenue.

Second, I think it would be better to provide for aggrieved ratepayers to make representations to the Valuation Office's Regional Superintending Valuers if they are dissatisfied with the local valuer's decisions, rather than to their MPs and the Chief Valuer (or, in practice, Ministers).

Finally,
I am ~~also~~ advised that these arrangements ^{should} ~~would better~~ be applied to circumstances where there has been a 'physical alteration in the property or locality' rather than a 'substantial change in the state of the property or its environment'.

The variant which I would prefer would therefore have the following elements:

(a) the ratepayer's rights to propose and appeal against the 1973 List would be removed ~~in the same way~~, though he would retain the right to make representations to the local Valuation Officer;

(b) in the case of non-domestic premises, the Valuation Officer would be obliged to make any changes he considered right in the rateable values in the 1973 list, without any cut-off point;

(c) in the case of domestic premises, such changes would be made (as you envisage) only if they exceeded 20 per cent in either direction; and

SECRET

(d) aggrieved ratepayers would be able to make representations to the Valuation Office's Regional Superintending Valuer if dissatisfied with the local Valuer's decisions.

I very much agree with
~~[I can assure]~~ you that the supply-side initiatives ~~[are indeed being]~~ *should be*
 pursued as well, not least because the full savings in valuer
 time from the measures discussed above will not come through for
^{twelve} 12 months, and the next ^{twelve} 12 months will be critical ones. We shall
 be pursuing all the promising possibilities and ~~likewise the~~ *looking at the scope for*
~~possibilities]~~ for further reordering of priorities, for example
~~[with regard to] RTB~~ *on mlu-15-buss* and other local authority work.

also
 I agree with you that we should ask officials to work out the remaining technical details as a matter of urgency. In addition, and in a rather less hectic timescale, I would like them to examine and report back on three further possibilities for the new NNDR system:

(a) rolling annual revaluations in place of the periodic big-bang revaluations which are now causing us such problems of workload and transition;

(b) a presumption that rejected appellants will have to bear costs; and

(c) obliging proposers to include a full statement of reasons with their original proposals.

The next stage is presumably for you to

~~I imagine that you will now take the lead in~~ consulting the Prime Minister, the Lord President, the Law Officers and other Ministers as necessary.



pwp pr

FROM: FINANCIAL SECRETARY
DATE: 21 December 1988

CHANCELLOR

cc

- Chief Secretary
- Sir P Middleton
- Mr Anson
- Mr Phillips
- Mr Scholar
- Mr Culpin
- Mr Edwards
- Mr Chivers
- Mr Gilhooly
- Mr Potter
- Mr Fellgett

Good. OK
OK to write, as unrecorded?

Ch
This is a welcome & unexpected move by Mr Ridley. No real need to waste through all of Andrew Edwards' note, which appears to have been written before Mr Ridley's views were known.

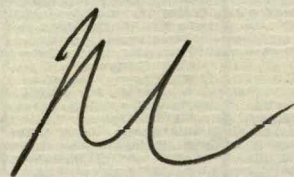
RESTRICTING VALUATION APPEALS: NEXT ACTION

I agree with the advice in Mr Edwards' minute of 19⁶ December. *ADP*

In my view, option (i) (removal of the existing statutory right to lodge formal proposals and appeals against the existing rateable values list) is the best way forward. I also agree that within that broad option, the Valuation Office's variant would be easier to defend than the 'draconian' or 'Ridley' variants. The obligation on the Valuation Officer to make any changes in rateable values for non-domestic buildings in the 1973 List he considered right meets the point about equity in the NNDR transitional arrangements. In addition, the Valuation Office's recommended procedure whereby aggrieved ratepayers would be entitled to make representations to the Regional Superintending Valuer would be preferable to Nick Ridley's idea of encouraging representations to MPs. The VO option would go quite a long way to meeting criticism that we had removed the citizen's fundamental right of appeal in a tax matter. Furthermore, it would save roughly £25 million in yield as compared with £15 million under Nick Ridley's option, since most revisions increase rateable values and there would not be a 20% de minimis limitation on changes in the non-domestic List.

My main concern with this option lies with the savings in valuers which it would bring. We need to be sure that these savings, together with those which will result from the other measures which the Valuation Office have introduced (or will introduce) on the supply side or in reordering priorities, will be sufficient to see them through the difficult period ahead. Mr Shutler has now completed the further work on the figures foreshadowed in para 28 of Mr Edwards' note. He estimates that the Valuation Office variant would build up to a saving of work equivalent to 242 valuers in 1989-90. The 'Ridley' variant would, on the Valuation Office's estimates, produce only slightly more valuer savings (perhaps 280 valuers) while causing the yield and other problems mentioned above.

On the basis of these estimates, I am content with what is proposed. Mr Edwards had confirmed informally with the DoE Deputy Secretary concerned that DoE officials would be favourably disposed towards the line recommended. It would, I believe, be immensely helpful if you could reply to Nick Ridley as early as possible tomorrow, since that would enable him to minute the Prime Minister before Christmas.



NORMAN LAMONT



Department of Employment
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5803
Telephone 01-273
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Secretary of State

CH/EXCHEQUER	
REC.	03 JAN 1989
ACTION	MR SEDGWICK 4311
COPIES TO	EST
	SIR P FRODLTON
	SIR T. BURNS
	MR SCHOLAR
	MR EDWARDS
MR PERETS	
MR HIBBERT	
MR PRICE, MISS O'MARA	

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

See Nigel (with red checkmark)
Receives 23 (with signature)
py (with signature)

MARKET TESTING - RPI PRICE COLLECTION

I have been considering ways in which the private sector can become involved in a cost effective way in the activities of my department. One area that I have identified as being worth further investigation is the process of collecting prices for the RPI. At present this work is carried out using my department's staff in our local office network. While there are clear advantages in this arrangement I believe that it is worth exploring alternative ways in which it can be undertaken to see if we can improve our cost effectiveness.

Given the sensitivity that surround the index I intend, as a first step, to inform the Advisory Committee of this proposal in the Spring, after it has completed its deliberations on the treatment of the Community Charge in the index. I thought that, in view of your interest in the index, you would like to have advance notification of this development.

I am copying this letter to the Prime Minister and Mr Hibbert, head of the Government Statistical Service.

You (handwritten)
Norman Fowler (signature)
NORMAN FOWLER



Employment Department · Training Agency
Health and Safety Executive · ACAS

Re pay

FROM: A J C EDWARDS
DATE: 23 DECEMBER 1988

CHIEF SECRETARY

- cc Chancellor
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mrs Lomax
- Miss Peirson
- Mr Potter
- Mr McIntyre
- Mr Fellgett
- Mr G C White
- Mrs Chaplin
- Mr Call
- Mr Tyrie

Rever

Ch
I can't see any attractions in the Treasury taking the lead in running any new options on this.

AA

RSC
Ans + Undersecretary Mr Roll

[passed to PS/CST]
AA 5/1

COMMUNITY CHARGE:
TRANSITIONAL ARRANGEMENTS

The so-called "safety-net" phasing arrangements will crucially affect the impact of the Community Charge in its first few years. These arrangements will also affect the pressures on the Government to provide extra RSG: if (perish the thought) we had to provide extra grant to cover the total transfer from London and the North to the rest of the country, the amount involved would be of the order of £1 billion. Although a certain amount has been said publicly about how the safety-net will operate, the legislation leaves Ministers with a great deal of latitude.

2. Firm decisions on the safety-net will be needed during the RSG discussions in the summer or early autumn. Treasury Ministers will wish, however, to be well prepared for these discussions. We have therefore been giving some thought to what the problems are likely to be and what helpful options might usefully be examined between now and the summer. Mr Fellgett's minute attached sets out our preliminary thoughts.

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3. The key point, as you will recall, is that, with the demise of dual running, the phasing arrangements as now conceived will directly affect local authorities rather than individuals. The consequences for individual charge-payers, though substantial in many cases, will be a by-product.

4. As Mr Fellgett's minute explains, there would be various possibilities for amending the safety-net arrangements. My own instinct is that the notion of minimising any change in the distribution of revenues between local authorities in the first, critical year of the Community Charge remains a sound one, though there may as Mr Fellgett points out be disappointment, particularly in the South of England, that gains will not begin to come through, at authority level, until 1991-92. On average, households within any given authority which continues to spend at the same level in real terms will pay the same in 1990-91 as they would have done under the existing domestic rating system.

5. The devil lurks, of course, in the words "on average". At the individual level, many households will face large increases in their bills (up to about £500 per head). Others will receive large reductions. The problems are likely to be especially acute, as so often, in London, where significant numbers of people now paying little or nothing will in 1990-91 face bills of more like £350 per head (rising to £550 after the transition). More generally, the main losers will be people living in low-value accommodation, especially in high spending areas.

6. It was doubtless with this in mind that No.10 Policy Unit advisers (now departed) persuaded the Prime Minister to raise the possibility of amending the safety-net arrangements so as to place a limit, say £350, on the Community Charge which anyone should be expected to pay in the first year. For the reasons explained in Mr Fellgett's minute, we do not think this is a good idea. Neither, we think, does Mr Ridley. You might like to send a short minute supporting Mr Ridley's tactful note to No.10 on this subject. A draft is attached to Mr Fellgett's minute.

or at least
not one the
Treasury
has any
interest
in disturbing

A bit
misleading

CONFIDENTIAL

HB! HB

The fundamental issue, as it seems to me, is whether it is a viable strategy to do nothing directly to protect the position of individuals. We think there might be an option to introduce a safety-net at the level of the person or household as well as the local authority, which would limit the annual increases in the rates/Community Charge bills of individual households on a self-financing basis within an authority. The idea raises all sorts of difficulties, which Mr Fellgett's minute briefly mentions. From a narrow Treasury point of view, however, a personal safety-net could significantly reduce the pressures to provide more grant overall in order to soften the impact on the worst-affected households. From a wider point of view, it would have the merit of bearing directly on the problems of individual households.

8. We could, of course, simply wait and see whether DoE come up with any ideas in this area. I suspect, however, that rather than find ourselves having to respond to half-baked ideas a week or two before the RSG decisions, there would be much to be said for investigating this and other possibilities, informally and in-house. X

9. We should be most grateful for your guidance both on this point and generally.

AJCE

A J C EDWARDS

FROM: R FELLGETT
DATE: 23 DECEMBER 1988

- [1. MR EDWARDS] *agreed in draft*
2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mrs Lomax
Miss Peirson
Mr Potter
Mr McIntyre
Mr G C White
Mrs Chaplin
Mr Call
Mr Tyrie

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

The proposals in Mr Ridley's minute of 25 November to the Prime Minister (which she accepted on 28 November) are sensible. Although it is not essential that you comment on them, you might like to write briefly to say that you are content.

2. Much more substantively, we have taken this opportunity first to consider, and now to seek your views on, the way in which we should approach the construction of the Community Charge safety net in England (and Wales) over the next few months. This is likely to be a very important part of the grant distribution arrangements over the next few years, and we will need to ensure that it remains self-financing, as always intended. (If it was instead financed by the Exchequer, that would cost about £1 billion.)

The Safety Net

3. The Safety Net was originally conceived as part of a package of measures to phase-in changes in the distribution of grant and business rate revenue to local authorities, and local domestic taxation, as a result of the introduction of the Community Charge system. When the system is fully in place about £1 billion of

grant and business rate revenue (taken together) will have been transferred, roughly from inner London and the North to outer London and the South. Unless local authorities modify their spending, there will be equal and opposite changes in Community Charge compared to domestic rates per head. The CC will be higher in inner London and the North, and lower elsewhere.

4. The Green paper "paying for local government" in January 1986 said:

"The Government envisages that special arrangements would be introduced to avoid any significant shifts in the burden of local taxation between local authorities on moving to a new system. These arrangements would take the form of a "safety net", which would prevent changes in authorities' income in the first year of the new system arising from the structural changes to the grant and non-domestic rate arrangements proposed in this Green Paper".

It added:

"The safety net would take the form of ...adjustments to the grant and non-domestic rate allocations of authorities; it would effectively operate as a self-financing pooling arrangement.the effect of the safety net would be to preserve authorities' grant and non-domestic rate income in the first year of the new system at broadly the same level as under the present grant and taxation arrangements."

5. In the little yellow booklet "Paying for Local Government: the need for change", published in July 1987 the formulation of the safety net was:

"There will be a safety net designed to make sure that a local council will need to raise only the same amount [in real terms] from.... Community Charge in 1990-91 as it raised from domestic rates in the previous year, provided that it spends the same amount in real terms in both years. This safety net....will be phased out by 1 April 1994."

6. It was subsequently decided, and announced in November 1987, to amend the operation of the safety net slightly. The safety net would no longer preserve exactly the 1989-90 distribution of business rates and grant income together in 1990-91. Instead, those few areas (eg in Buckinghamshire) that were expected to gain by more than the equivalent of £75 per adult resident from the new system, would receive sufficient gains in 1990-91 so that only £75 per adult of further gains were due in subsequent years. Areas that were expected to gain by less than £75 per adult would be unaffected by this modification. Areas that were expected to lose, would face initial losses of perhaps £3 per adult in 1990-91, to pay for the concession to large gaining areas like Buckinghamshire.

7. Without the other part of the original package of phasing measures - dual running, or moving gradually from domestic rates to Community Charge over a number of years - the rationale for any safety net is less clear. There will be very large gains and losses for individuals immediately in 1990-91. People with above average value accommodation per head will gain, and others will lose up to (in the extreme) about £500. But, apart from the concession to Buckinghamshire etc, there will be no significant geographical gains and losses from the new system. It is, as you and the Chancellor argued at the time, curious (to say the least) to treat geographical changes more carefully than those for individuals. It also has the perverse effect that some individuals will see curious movements in their local domestic taxation, first up and then down or first down and then up, between 1989-90 and 1994-95 when the new system is fully in place.

8. On the other hand, DOE (who deal with local authorities and not people) see nothing wrong with providing stability in 1990-91 in the income of local authorities, even alongside quite large gains and losses among individual local taxpayers. There is also, of course, a political dimension to geography - constituencies are geographical and the Community Charge in any area, compared to average domestic rates previously, may be a key concern towards the end of this Parliament.

Mr Ridley's minute

9. Mr Ridley's minute responded to a request from the Prime Minister that he consider a very different form of safety net. Grant would be diverted to a limited number of areas where the Community Charge in 1990-91 would otherwise be likely to exceed, say, £350. All other areas would pay for this diversion by receiving less grant than they would otherwise be entitled to. In contrast to the announced form of safety net (see paragraphs 5-6), there would thus be a major change in the distribution of grant and business rates together between 1989-90 and 1990-91. There would be further staged changes thereafter, as the safety net was withdrawn. A similar, but more limited, arrangement is planned for Scotland in 1989-90, and the No.10 policy unit (before recent changes in personnel) favoured a similar system south of the border.

10. Mr Ridley says in reply that he does not propose to consider this arrangement now, but will do so when final decisions on the safety net are taken. He envisages taking those decisions alongside the next RSG round in June and July.

11. We agree that it would not be sensible to take final decisions about the distribution of grant in 1990-91 before the total has been settled. Indeed, there may be advantages in settling the total first and considering the distribution (ie mainly the safety net) later, as broadly happens now.

12. Mr Ridley's minute also notes that the formulation of the safety net which has been announced (see paragraphs 5-6), together with closedown of the RSG system, may give authorities incentives to budget for high spending in 1989-90, financed out of balances and low rates. There will be no grant penalty for high expenditure. They might also hope that the safety net would enable them to maintain the same high spending with the same low rates, but without using balances, in the following year. We very much agree that authorities should be shown sufficient alternative formulations of the announced type of type of safety net to prevent them perceiving such an incentive; we are in touch with DOE officials about this.

Possible Safety Nets

13. Any further changes in the form of safety net, compared to that which has already been announced, may provoke complaints from those who had expected to do better between 1990-91 and 1993-94 under the system already announced. This is an argument against any change, to which we previously gave some weight. But the DOE exemplifications of a possible Community Charges each year have changed so often, and the safety net is such an obscure and little understood part of the new system, that we have given some thought to possible alternatives to the announced form of safety net. The legislation gives wide discretion to the Government over the construction of the safety net.

The Safety Net in 1990-91

14. We have considered, first, whether it is still right to use a safety net to prevent (or at least severely curtail) geographical gains and losses from the new system in 1990-91. The alternative would be to introduce some gains and losses in 1990-91. The safety net has, after all, already been modified slightly to allow gains in 1990-91 in the few parts of the country where the eventual gain is expected to exceed £75 per adult. It might be possible to go further. Rather than broadly freeze the distribution of grant and business rates together in 1990-91, at its 1989-90 pattern, one could bring in, say, one quarter of all the gains and losses in 1990-91, rather than deferring them a year. Half of gains and losses could then be completed in 1991-92, three quarters in 1992-93 and all in the following year.

15. The argument for bringing in some gains and losses in 1990-91, is that the Community Charge has been sold in the South and outer London partly on the basis that it would be less than rates for the average household. People in these areas may be expecting quick gains for a majority of residents (ie expecting geographical gains in addition to gains for roughly the half of individuals living in above-average value accommodation). As you will recall, we suspected that much of the pressure in the Autumn of 1987 to

ring in the Community Charge quickly was in fact motivated by a desire to bring in the redistribution of grant and business rate income, rather than simply to replace domestic rates with the Community Charge. Expectations that the Community Charge will mean reductions for the average person in the South (outside inner London) will have been reinforced by recent newspaper stories about the Charge being lower in the South than the North. That will only be true once the safety net has been withdrawn, and not in 1990-91. There may be very strong pressure to fulfil all these expectations by bringing in significant gains for southern and outer London areas quickly in 1990-91, rather than deferring them.

16. It would be preferable to pay for such geographical gains by similarly phasing geographical losses quickly, rather than through additional Exchequer grant.

17. On the other hand, if political pressures will not require significant gains in southern areas, it would be better to stick with the announced arrangement that, with a few exceptions like Buckinghamshire, there will be neither geographical gains nor geographical losses in 1990-91. The forthcoming RSG round is likely to be dominated by the introduction of the Community Charge in England and Wales, including the fact that there will be some quite large losses among individuals. It would be counter-productive to add to those difficulties in the negotiations by accepting also geographical losses in half the country. It would be better to defer losses until later years when the Community Charge will be a little older and the pressures, at least outside election years, to make it popular a little less intense.

18. The choice therefore depends crucially on a political judgement about the extent of pressures for gains in the bulk of the South and outer London in 1990-91.

Quicker Phasing?

19. Second, we have considered whether it is still right to withdraw the safety net (ie phase-in the re-distribution of grant and business rate income together) in broadly four equal steps, beginning either in 1991-92 under the announced formulation or in 1990-91 under the alternative discussed above. Another option would be to phase the changes in three steps, to be completed for 1993-94 or 1992-93 respectively or in two steps, or even in one go.

20. Under the announced four steps, ~~the for~~ ^{losses} losers are equivalent in the worst case to £80 extra Community Charge per adult in each of the four years (in Greenwich). The highest Community Charge would rise by the end of the period to around £700, in Camden and Tower Hamlets. With quicker phasing, the annual changes would be bigger and highest Community Charges in London would be reached earlier.

21. Among gainers, significant gains for the few large gainers will appear in 1990-91 even under the announced arrangements, due to the modification for Buckinghamshire etc described above. Remaining gains of up to £75 per adult, would then be phased in in however many annual steps were thought appropriate.

22. Another variant would be to begin the process of gains and losses for all areas in 1990-91, as discussed above, but phase in five equal steps (apart from any special concession to Buckinghamshire etc, to prevent them being worse off than under the announced arrangements) to complete the process in 1994-95, as originally announced.

23. The effect of some options is summarised in annex A.

24. The arguments for faster phasing include:

(i) it allows more gains to accrue to southern and outer London areas in the present Parliament, without additional Exchequer support;

(ii) by similarly phasing losses more quickly, there will be fewer RSG negotiations in which complaints from losing areas will be an argument for extra Exchequer support;

(iii) there will be fewer years in which local authorities can point to the phasing arrangements as a reason for changes in Community Charges, which they can therefore blame more effectively on the Government rather than on their own expenditure decisions;

(iv) there will similarly be fewer years in which local authorities gaining from the new system can put up their spending, rather than reduce their Community Charges, and thereby add to total local authority expenditure. (Unfortunately, the propensity of authorities to raise expenditure as they are given more grant and business rates is greater than the willingness of losing authorities to reduce their spending.)

25. The arguments against faster phasing are mainly:

(i) with larger annual geographical losses, there will be greater pressure to moderate them through Exchequer support in each year of the transition;

(ii) there will be less time for London boroughs, in particular, to moderate their expenditure habits to reduce the very highest prospective Community Charges.

26. On balance, we feel that the arguments against faster phasing are stronger, so long as Community Charges of up to around £700 a year are in prospect. We do not underestimate the difficulties of imposing such high charges on individuals, some of whom will have paid no local domestic taxes at all up to 1989-90. The pressures to deal with them will be intense, and Community Charge capping will be an important, but only partial, answer to the problem because there is a limit to the pressures that can be placed on these authorities, who have some of the weakest management in the country. They will also have to deal with the transfer of education responsibilities from ILEA, as well as all the other reforms planned for April 1990. We could well be faced with strong requests to assist the boroughs directly, or to assist their charge payers through higher levels of income support of housing benefit in some regions (on which we are aware DOE have done some preliminary thinking).

27. There are, however, some modest signs that the very highest Community Charges may not be quite so extreme as earlier thought. Some London boroughs have made genuine reductions in spending as a result of rate-capping. The new needs assessments (GRES) may also recognise higher spending needs in inner London, particularly for education and some other services, and thereby redistribute grant into inner London and moderate Community Charges. But the costs of unwinding creative accounting deals, which broadly deferred loan charges into the 1990s, will go in the other direction.

28. We therefore favour keeping an eye on these prospects, with a view to considering faster phasing if (but only if) the prospect of extremely high Community Charges in London does indeed recede.

The Policy Unit option

29. Third, we have considered the alternative form of safety net, which would distribute extra grant towards those areas where the Community Charge might otherwise be higher than, say, £350. This is at first sight attractive, because it tackles directly the problem of very high Community Charges in 1990-91. It is also

misleading
(wives,
adult
children
etc)

likely in practice to be somewhat similar to the announced type of safety net, mainly because those areas with the highest prospective Community Charges are also those who have had access to substantial business rate income under the present system, which they will lose from the change.

30. It is, however, quite different in conception to the announced approach to constructing the safety net, which can be defended as phasing-in changes and giving local authorities time to react to them. This option would be a blatant subsidy towards those areas who are the highest overspenders. It would be seen as a reward for overspending, contrary to our public expenditure policies. It would also be seen as an unfair diversion of grant from more moderate areas to these high spenders. There would undoubtedly be more pressure to find the extra grant for London etc from the Exchequer, rather than overtly from the rest of the country.

31. We do not therefore favour this approach.

A personal safety net

32. Fourth, we have considered whether it would be possible to review the decision to do away with phasing for individuals. It is clearly not possible to go back to dual running, ie retaining domestic rates in parallel with the Community Charge for a number of years. But it might be possible to devise a form of personal safety net, to go with the safety net for areas. Individuals could be assured that their local domestic tax bill would not go up by more than X% or £Y in 1990-91, or in following years, unless their council increased its spending in real terms.

33. At first sight, this looks difficult. It would have, in practice, to operate on households rather than individuals, because the only records of rate payments will be at the household level. There would be problems with people who moved, or whose household circumstances changed between 1989-90 and subsequent years. There might be complex interactions with the Community Charge benefit system. To solve all these problems, we might be pushed back to calculating what the domestic rates would have been, if they had continued to apply. That would be seen by critics as bringing back dual running through the back door. A personal safety net would require primary legislation.

not on
@ this
stage

34. Nevertheless, in principle it should be possible to devise a system in which large losers among households were protected, either at the expense of a supplement to the Community Charge for everyone else or by similarly deferring the largest gains among households in the same area. We would, of course, require such a system to be self-financing within each area.

35. We should be grateful to know whether you would like us to think these ideas through a little further, over the next few months. Despite the difficulties, they may prove to be useful if the experiment of introducing the Community Charge in one go, without any phasing for individuals, in Scotland in April 1989 does not go well.

Conclusion

36. A very brief draft letter to Mr Ridley is attached.

37. We do not need to reach final conclusions on our attitude to the safety net at this stage. But our preliminary conclusions are:

(i) Whether we argue for modifying the safety net to allow significant geographical gains and losses in 1990-91, depends on a (primarily political) judgement about whether gains for average residents are firmly expected in the south and outer London in 1990-91;

(ii) We are not at this stage convinced that it would be in our interests to phase-in the full redistribution of grant and business rate income faster than the four steps already announced, but we should consider this option seriously if the very highest Community Charges are unlikely to be quite as large as currently estimated;

(iii) We do not favour the alternative approach to constructing the safety net, previously championed by the No.10 policy unit;

(iv) We should think further about the possibility of a personal safety net, in case something is needed, although there are substantial difficulties.

38. We should be glad to know whether you agree, to inform our preparations for the next RSG round in the coming months.

Robin Fellgett

R FELLGETT

ANNEX A

EFFECTS OF DIFFERENT SAFETY NETS ON CHANGES IN COMMUNITY CHARGES
(£ PER YEAR)

Announced scheme

	1990-91	Each Year 1991-92 to 1994-95
Big gainers (eg Bucks)	all gains above 75	19
Other gainers	0	up to 19
Losers	3	up to 80

Variant 1: $\frac{1}{4}$ of gains and losses brought forward to 1990-91

	1990-91	Each Year 1991-92 to 1993-94
Big gainers	all gains above 94	19
Other gainers	up to 19	up to 19
Losers	up to 81	up to 81

Variant 2: announced scheme for 1990-91, but quicker phasing
subsequently

	1990-91	3 steps 1991-92 to 1993-94	2 steps 1991-92 to 1992-93	1 step 1991-92
Big gainers	all gains above 75	25	38	75
Other gainers	0	up to 25	up to 38	up to 75
Losers	3	up to 107	up to 160	up to 320

Variant 3: $\frac{1}{5}$ of gains and losses brought forward to 1990-91,
phased in 5 steps

	1990-91	Each Year 1991-92 to 1994-95
Big gainers	all gains above 90	15
Other gainers	0	up to 15
Losers	up to 65	up to 65

DRAFT LETTER TO

Secretary of State for the Environment

COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENTS

I was grateful for my copy of your minute of 25 November to the Prime Minister.

I would like to record that I agree fully with your conclusions. We must not encourage local authorities to believe they have any incentive to overspend in 1989-90. I also agree that final decisions about the distribution of grant in 1990-91 should not be taken until we have the latest information, and have reached conclusions on the total amount of grant that will be available.

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

[JM]