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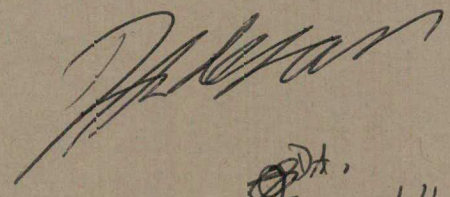
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Chancellor's (Lawson) Papers :
The Community Charge Safety Net .

DD's : 25 Years



~~14/2/89~~ 14/2/89 .

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10 DOWNING STREET
LONDON SW1A 2AA

REC.	- 5 JUN 1989
ACTION	Mr G White
COPIES TO	ex. Sir P Midgley, Mr Anson, Mr Munk, Mr Phillips, Mr Edwards, Mr Potter, Miss Pearson, Mrs Leman, Mr MacAvoy, Mr AM White

ch/ To be aware
before you see
PM at 12.30.

DIS

5 June 1989 Mr Hudson,
m call

From the Private Secretary

Dear David,

COMMUNITY CHARGE CAPPING IN SCOTLAND

The Prime Minister has seen the recent exchanges on this issue, initiated by the Chief Secretary in his letter of 3 May.

She sympathises with the views expressed by the Chief Secretary and the Secretary of State for the Environment in support of some degree of community charge capping in Scotland. But having studied the papers she has noted that:

- (i) some of the authorities proposed for capping have expenditure per head below average; and Glasgow's charge is well below that of Edinburgh;
- (ii) the timetable for introducing capping is now extremely difficult;
- (iii) the legal advice suggests there are doubts about the prospects of success in a judicial review.

Against that background, and in particular the third point, the Prime Minister is inclined to the view that no further action should be taken in Scotland this year on the possibility of capping. But she believes it is most important to make clear that this decision has no bearing on the possibility of capping in the first year of the community charge in England and Wales.

I am copying this letter to Roger Bright (Department of the Environment), Stephen Haddrill (Department of Energy), Stephen Williams (Welsh Office), Carys Evans (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

Yours,
Pd

(PAUL GRAY)

David Crawley, Esq.,
Scottish Office.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

1 Alex
2 BF 22/6

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

CH/EXCHEQUER	
REC.	08 JUN 1989
ACTION	CST
COPIES TO	

8 June 1989

✓ 8/6

Dear Nick

STANDARD COMMUNITY CHARGE

You will recall that I wrote to you and E(LF) colleagues on 22 February describing the problems which have arisen in Scotland following the introduction of the standard community charge and I took due note of colleagues' views in response to that minute.

However representations and adverse publicity about the standard charge have increased subsequently, to the extent that I think they are now diverting attention from the many positive points which are emerging from the introduction of the community charge system generally.

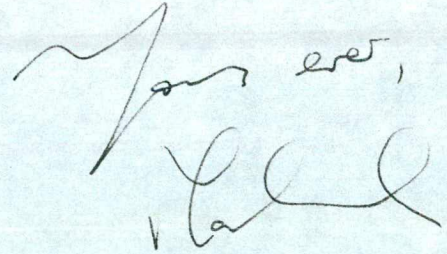
I am convinced that some action has to be taken and I think that there are a number of ways in which we could make adjustments to the present arrangements to meet the concerns that have been expressed, without undermining the objectives which the standard charge arrangements were originally intended to meet. I have therefore prepared a paper which describes the main problems (paragraph 5) and suggests some solutions (paragraph 8). In formulating these proposals I have had particular regard to your concerns and those of Peter Walker about the standard charge multiplier, and for this reason I have suggested taking powers to prescribe the multiplier in Scotland up to a maximum level of two. This would, in practice, bring the Scottish arrangements more closely into line with your own powers. I appreciate, of course, that you have no intention at the moment of prescribing anything less than a maximum multiplier of 2 for that class of properties which broadly equates to those properties in respect of which our local authorities have discretion over the level of multiplier. Nevertheless, our particular problem is that we have no powers to limit the multiplier even if, as is happening, local authority action in setting (with two exceptions) their charges at the

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maximum is having serious practical effects upon certain categories of people, and equally serious effects upon our presentation of the charge in Scotland. My Scottish Office colleagues and I are all firmly of the view that the level of multiplier is the key to the problems we are facing and that without some early promise of action we are going to continue to face considerable criticism.

I would be pleased to discuss any of the proposals with you and I would be grateful for your comments on the paper and for those of other E(LF) colleagues to whom I am copying this letter.

A handwritten signature in black ink, appearing to read "Malcolm Rifkind", written in a cursive style.

MALCOLM RIFKIND

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THE STANDARD COMMUNITY CHARGE IN SCOTLAND

1. The Green Paper 'Paying for Local Government' (Cmnd 9714), published on 28 January 1986 made proposals for the introduction of the community charge and paragraph G39 of Annex G to that paper proposed that owners of second homes should pay a standard charge equivalent to two individual charges. Members of E(LF) subsequently agreed that the local authorities should be given discretion to set the standard charge multiplier at up to a maximum of 2.

2. The standard community charge arrangements which are now in operation in Scotland under section 10 of the Abolition of Domestic Rates (Etc) Scotland Act 1987 in summary provide that the standard community charge is payable in respect of domestic property which is not the sole or main residence of anybody. Local authorities have some discretion in setting the level of the charge through the standard charge multiplier which can be set at between one and two (ie they can set the standard charge for their area at from one to two times the level of the personal community charge). Similar arrangements apply in respect of the standard community water charge. There is a statutory 'period of grace' of 3 months under which the standard charge will not be payable for the first 3 months that any unfurnished property has nobody solely or mainly resident in it. The 3 month period is indefinitely extendable at the discretion of the local authority. The 1987 Act also provides that properties can be exempted from the standard charge by means of regulations.

3. This paper proposes that a number of changes should be made to the present arrangements to deal with problems which have emerged and which were not foreseen at the time the 1987 Act was drafted. Two of the three proposed changes would require amendments to be made to the 1987 Act and this paper proposes that these amendments could be made in the context of the Local Government and Housing Bill which is now before Parliament. The changes would all be capable of being brought into effect on 1 April 1990.

The main problems

4. The standard charge arrangements as they stand have extended to situations considerably beyond the original Green Paper proposals described above. An illustration of this is that there are an estimated 19,000 second homes in Scotland but about 85,000 properties registered for the standard charge. A significant proportion of the difference may be accounted for by empty local authority houses and houses which become empty for a short while during changes of ownership. Other reasons for a standard charge liability arising other than for conventional second homes include the situation where persons, because of their employment or for other reasons, are obliged to live away from their property and cases where people in tied housing have bought properties for occasional use, for security or for their retirement.

5. The standard charge arrangements have generated a very considerable amount of adverse publicity and critical correspondence at a level sufficient to divert public attention away from many of the positive aspects of the introduction of the community charge in Scotland.

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The main problems are as follows:-

5.1 Many more second home owners than expected have been faced with very substantial increases in some cases 10 times or more over the amounts they paid in rates before 1 April. In many cases their losses on the standard charge have not been made up by savings on the rates they used to pay on their main residence. The expectation at the time of the Green Paper (paragraph G39 of Annex G) was that a standard charge set at 2 "would leave second home owners broadly unaffected by the removal of rates". This has not been borne out by experience in Scotland.

5.2 Owners of unfurnished and unoccupied properties retained by them, for example by farmers for future use or because they are unsaleable or unlettable for a variety of reasons, are facing standard charges where previously in most cases they paid no rates because of the reliefs which applied.

5.3 People who are being cared for by their relatives, for example elderly people who are convalescing for an extended period before returning to their own home, are liable for a standard charge on that temporarily unoccupied home if the Community Charges Registration Officer (CCRO) determines that they are mainly resident at the address where they are convalescing and where they will also be liable for a personal charge.

5.4 People who are required by their terms of employment to live "in house" such as some hospital doctors, boarding school staff or people whose employment requires them to live away from a dwelling they regard as "home", may face both a standard charge and a personal charge.

5.5 People who live in tied housing and who buy a house for their retirement (eg ministers of religion or farmworkers) may face both a standard charge and a personal charge.

5.6 Owners of holiday self-catering accommodation previously rated as domestic property are tending to face a significant increase in the amount payable, unrelated to the income generated by the property.

5.7 Local authorities are facing considerable administrative burdens arising from the fact that a standard charge liability is generated the moment that nobody is solely or mainly resident in a property. The 'period of grace' provisions only apply to the liability actually to pay the charge. Thus where a house changes hands there often has to be a considerable amount of paperwork while no actual revenue is generated.

5.8 In many cases second home owners can claim to make negligible demands on local authority services, because limited use is made of their properties or because they are remote, and very often they have no vote in the charging authority's area so can exercise no influence through the ballot box. For these reasons and because the extent of liability has been greater and the range of circumstances

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in which it exists wider than was anticipated, it is not easy to hold that the standard charge is not an even blunter form of property tax than domestic rates.

Proposed Solutions

6. The law as it stands is not necessarily the cause of these problems (apart, perhaps from 5.7). Rather it is that the law as it applies to particular cases is having effects which were not envisaged or intended when the arrangements were drafted. The courts may come to interpret the statutory concept of a person's sole or main residence in ways which reduce the incidence of the standard charge where residence away from home is temporary although this may take time and it is not certain. It can also be argued that in some cases a solution lies in the hands of the person affected as anyone unable to pay the standard charge can rent or sell their property. However it is not always the case that there is an identifiable market for the property in question. While the domestic housing market in most areas in Scotland remains active, many of the properties are in areas where demand for houses is weak or in locations or physical states which make them literally unsaleable, even though their owners may have invested in the maintenance and improvement of the property. The last resort for owners of such properties is to avoid the standard charge by making them uninhabitable.

7. It is clear though that not all cases admit a simple solution and the opportunities for adverse publicity are obvious. Representations have tended to argue for alternatives to the present standard charge arrangements including the extremes of outright abolition, the re-introduction of rating for second homes or a system of variable multipliers related to the value of the property concerns. Abolition of the standard charge would leave second homes free of any local taxation and reduce the local tax base. The other 2 extreme options would in effect involve the re-introduction of local property taxes for dwellings, albeit on a restricted scale. While this may indeed be appropriate for self-catering accommodation used in the same way as other tourist accommodation already subject to non-domestic rates, it does not appear appropriate for second homes in general.

8. The courses of action which are proposed for Scotland are as follows:

8.1 The Secretary of State should be given the power to prescribe the standard charge multiplier up to a maximum of two. We would give serious consideration to a multiplier of one.

8.2 The existing 'period of grace' provisions should be repealed and existing powers used to prescribe as exempt from the standard charge any domestic property which is unoccupied and unfurnished.

8.3 Holiday self-catering accommodation should be moved into rating where it is genuinely available on the market for holiday lets.

8.4 Provisions similar to the existing 'period of grace' provisions should be applied to properties which are unoccupied but furnished.

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9. The most important of these proposals is 8.1. With the exception of two of the Islands Councils, all authorities in Scotland have set a multiplier of 2. The level of standard charge thus generated (the highest in Scotland being Lothian's at £784) is a common factor in most of the problems described above. As an illustration of this, in Strathclyde Region the average standard charge is £585. However an estimate by Strathclyde's own officials is that second homes in Strathclyde tend to be situated in the traditional holiday areas with typical rates paid of £210-£220 last year, well under half the standard charge. On Cumbrae, one of the particular problem areas, where about half the housing stock consists of small second homes, the income generated by the standard charge is over 170 per cent higher than that previously generated by rates (£398,652 as against £146,351). Had the standard charge multiplier been set at one, income from second home owners would have risen by 36 per cent. We have had representations from the owners of a number of premises where the rates paid are less than £100 per year in comparison with the standard charge of £556. Although the level of standard charge is the result of local authorities' decisions, there is in practice little incentive for authorities to set a lower figure. They will by and large be judged by their electorates on the level of their personal charge and it is therefore in their interests to maximise income from other charges. Furthermore the great majority of second home owners do not live and vote in the local authority area in which their second home is situated.

10. The power to prescribe a maximum multiplier would enable the Scottish Office to determine a maximum figure in a context in which these other influences did not have a bearing with account taken of the problems referred to at 5.1, 5.3, 5.4, 5.5 and 5.8. Local authorities would still have the discretion to set a multiplier below the maximum. The Secretaries of State for the Environment and Wales already have a similar power under section 40 of the Local Government Finance Act 1988 which could be used if the circumstances arise in England and Wales which required a limitation to be placed on the level of standard charges set by local authorities on second homes. The financial effects of a decision to limit the multiplier would be modest, since the total revenue generated by the charge in Scotland this year is likely to be between £9 million and £12 million - or about 1% of forecast income from all the community charges.

11. Proposal 8.2 would effectively restore the situation to what it was before 1 April 1989. It would resolve the problems described at 5.2 above, would alleviate the position of other problem groups such as those described at 5.5, and would reduce administration costs (5.7). The proposal is not likely to have a significant effect on revenue from the standard charge.

12. Proposal 8.3 is designed primarily to meet the situation in which owners of properties used as self-catering accommodation will be faced with a significant increase in the amount they have to pay (5.6). Representations have pointed to the limited income-generating potential of these homes as tourist accommodation and the fact that self-catering accommodation in complexes is subject to non-domestic rates which take income generating potential into account. The financial effects of taking these properties out of the standard charge would be balanced by the

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rates income they would generate. It is understood that similar action is proposed in England and Wales.

13. "Proposal 8.4 would give a period of statutory relief from the charge and would provide local authorities with the discretion to determine in individual cases what longer period of relief might be appropriate. It would, in particular, give people such as convalescents staying with their families a breathing space before a standard charge became payable to decide whether they wished to retain their own home in the long term. It would also enable relief to be given to unoccupied but unfurnished domestic church property, which in England and Wales it is proposed to exempt from the standard charge by means of regulations."

Legislative Requirements

14. To implement the proposal giving the Secretary of State power to prescribe the multiplier would require the repeal of section 10(7) of the 1987 Act which at present defines the term 'standard community charge multiplier' as a number not smaller than 1 nor greater than 2 which the local authority shall determine and its replacement with a definition of the multiplier as a number not greater than 2, or such other number, smaller than 2, which may be prescribed.

15. The proposal to exempt all unoccupied and unfurnished properties from the standard charge would require the repeal of section 10(8) to 10(8C) inclusive of the 1987 Act. Regulations could then be made under section 10(2) of the Act, which would exempt these properties from the standard charge.

16. The proposal relating to self-catering tourist accommodation could be achieved by regulations made under section 2(4) of the Act excluding such properties from the definition of domestic subjects. This would have the effect of moving such properties automatically into rating.

Summary of Recommendations

17. I invite Colleagues:

17.1 To note the problems which have emerged following the introduction of the standard community charge in Scotland summarised in paragraph 5 above; and

17.2 to agree to the proposals for amending the present standard community charge arrangements in Scotland summarised in paragraph 8 above.

MALCOLM RIFKIND

Scottish Office
June 1989

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phj

CHIEF SECRETARY

FROM : A J C EDWARDS (LG)
x4480
19 June 1989

cc PPS
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Potter
Mr A M White
Mr Hudson
Mr G C White
Mrs Chaplin

*Mr Rifkin's current
proposal on occupation
& occupation
proprietors?
To be aware of
Mr Rifkin's proposal.
Standard
OTT.*

STANDARD COMMUNITY CHARGE

Mr Rifkind's letter of 8 June seeks colleagues' agreement to soften in Scotland the impact of the standard community charge levied in respect of domestic property, basically second homes, at which no-one is solely or mainly resident.

Apparently LAs have discretion to charge up to 1/2 rates on rural properties; it's practical to exercise discretion. [No action taken]

*DJS
23/6*

Treasury interest

2. DOE, the Scottish Office and the Welsh Office have the major interest in this subject, rather than the Treasury. The key issue is equity as between chargepayers. There are however significant economic as well as political implications, not least for private rented housing and efficient use of the housing stock.

Past history

3. The 1986 Green Paper "Paying for Local Government" proposed that second homes should be subject to a standard community charge equivalent to two units of the personal community charge. The argument was that this would tend to produce charges similar to existing domestic rates.

4. Mr Rifkind has always been concerned that a standard charge of two units is too high. He argued in E(LF)'s 1986 discussions that second homes usually had below average rateable values so that a standard charge of one unit would be more appropriate.

5. Mr Walker on the other hand has always taken the view that the charge should be not less than two units so as to discourage people from buying second homes in Wales.

*EDWARDS
TO
CST
19/6*

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6. Mainly as a result of Mr Walker's advocacy, Ministers decided that the Local Government Finance Act 1988 should provide for local authorities to set standard community charges at up to two units of the personal community charge while leaving them with discretion to set the charge at less than two units. The Act does however empower Mr Ridley and Mr Walker to prescribe a limit below two units. Mr Rifkind's legislation, the Abolition of Domestic Rates (Scotland) Act 1987, gives him no such power.

7. By February of this year, it had become clear that most Scottish local authorities would set the standard community charge at two units. Mr Rifkind therefore sought colleagues' agreement to amend the Scottish legislation so as to limit the standard community charge to one unit. The Prime Minister, Mr Ridley and Mr Walker all resisted such a change.

Mr Rifkind's latest proposals

8. Mr Rifkind's latest proposal revives his earlier one in substance. He suggests that power should be taken in the Local Government and Housing Bill now before Parliament to enable him to prescribe a limit below two units for the standard community charge in Scotland. He clearly wishes to use the proposed power to prescribe a limit of one unit with effect from next year. Local authorities in Scotland have as foreseen mostly set the standard community charge at two units. Mr Rifkind is concerned that many owners of second homes in Scotland will be paying a great deal more than under the domestic rates system. He feels that the standard charge of two units has led to difficult cases and unreasonable burdens.

9. Mr Rifkind has taken the opportunity to propose softening the impact of the standard charge in three other respects as well. He proposes that:

- i. he should prescribe as exempt from the standard community charge any property which is unoccupied and unfurnished. This important change could be made under existing powers;
- ii. holiday self-catering accommodation which is genuinely available on the market should be subject to non-domestic rating rather than the community charge; and

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- iii. "period of grace" temporary exemptions from the standard charge should be available on properties which are unoccupied even if they remain furnished.

General assessment

10. The "second homes" provisions are among the most tortured elements of the community charge, along with the provisions for hostels and the distinction between business and domestic premises.

11. The underlying problem, as you will recall from earlier discussions, is that the community charge is neither a fully-fledged poll tax, despite the nickname, nor a property tax, but an uneasy compromise between the two. Although every adult, with limited exceptions, will be expected to pay the community charge, the legislation also provides that all domestic properties should have community charges attached to them - a standard or a collective charge if not the personal charge.

12. The standard charge provides a progressive element in the community charge, though obviously a very rough and ready one. The higher the level of the charge, the rougher the roughnesses become.

Two units or less for the standard charge

13. There are two separate but related issues here. First, what powers should Mr Rifkind have? Second, what use should he make of them?

14. On the first point Mr Rifkind is (as noted above) asking no more than that his own powers in Scotland be brought into line with those which Mr Ridley and Mr Walker already have in England and Wales. Under the Local Government Finance Act 1988 Section 40(4) Mr Ridley and Mr Walker can prescribe maximum standard charges for specified classes of property of 0, $\frac{1}{2}$, 1, $1\frac{1}{2}$ or 2 units of the personal community charge. It is not particularly easy to deny Mr Rifkind similar powers.

15. The second point - how the powers should be used - is more difficult. Mr Rifkind's concerns clearly have cogency. Many second home owners will pay more under the community charge system than previously, and some of them will not be particularly well off. The problems include the following:

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- i. The "second home" may be no more than a hut in the highlands. It may seem rather harsh to charge the equivalent of two personal community charges on such properties.
- ii. Alternatively the "second home" may be a small flat in town which is rented out to a tenant who lives there for three or four days a week. Whether the owner has to pay a standard community charge or not will depend on whether the community charge registration officer (CCRO) deems the tenant to have his "main residence" there (inevitably an arbitrary decision).
- iii. A couple with two homes will pay two community charges if they can persuade the CCRO that one is the main residence of one of them and the other of the other. They will probably pay the equivalent of up to four community charges if the CCRO decides that they share one main residence. Here too, therefore, a rather arbitrary decision by the CCRO will cost (or save) the couple no less than two community charges. A single person with two homes will usually pay three community charges.

These problems would be mitigated, at least, if the standard community charge were limited to one unit rather than two.

16. On the other side of the argument the community charge, taken by itself, will generally be more regressive, the lower the standard charge on second homes. Although a significant minority of people with chargeable second homes will not be particularly well-off, many of them will be wealthy and easily able to afford the standard charge. Limiting the standard charge to one unit rather than two would be criticised as a concession to the wealthy. It would fuel complaints that the community charge does not adequately reflect ability to pay.

17. The earlier Ministerial discussion assumed that if Mr Rifkind were allowed to limit the standard community charge to one unit in Scotland, then England and Wales would have to follow suit. This is not, perhaps, self-evident. It would seem quite possible for Wales to retain a standard charge of up to two units even if

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Scotland limits it to one unit. Individual local authorities will anyway have discretion to set standard community charges at different levels; and the lower expected level of community charges in Wales would provide some justification for a higher limit on the standard charge multiple there. The average CC figures for the three territories in the current year (notional for England and Wales) are:

	£
Scotland	281
England	274
Wales	171

Exemption of unused and unfurnished properties

18. Mr Rifkind's proposal that unoccupied and unfurnished properties should be exempt from the community charge risks repeating the errors of the "window tax" of an earlier age. DOE intend to limit the period of exemption to three months, with discretion to extend in certain defined cases. A continuing exemption would encourage people to leave second homes unoccupied and unfurnished, thus exacerbating the problems of housing shortage.

Other proposals

19. Mr Rifkind's proposals to apply "period of grace" exemptions to properties which are unoccupied but furnished and to treat holiday self-catering accommodation as subject to business rates rather than the community charge seem sensible and do not appear to raise significant issues of Treasury interest.

Conclusions

20. Since the main interest lies with DOE, the Scottish Office and the Welsh Office rather than the Treasury, we suggest you should delay commenting on Mr Rifkind's proposals until Mr Ridley has commented. That would anyway be tactful vis a vis Mr Ridley and Mr Rifkind. We understand that No 10 are pressing for early responses to Mr Rifkind's letter but DOE are having considerable difficulty in reaching a view.

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21. If you agree, we will stand ready to offer you a draft letter just as soon as Mr Ridley has commented. This should, we suggest, note the concerns discussed above about the effects on private rented accommodation and efficient use of the housing stock, together with any other points, not least on equity, which you think it right to make.

AJCE
A J C EDWARDS

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1. MR POTTER (LG1) BH 20/6
2. CHIEF SECRETARY

FROM : A P HUDSON (LG1)
Ext 4945
20 June 1989

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr A J C Edwards
Mrs Lomax
Mr MacAuslan
Mr G C White
Mr Rutnam
Mrs Chaplin

LOCAL AUTHORITY CURRENT : BRIEFING FOR E(LF), 22 JUNE

I attach a series of briefs prepared in LG1 for Thursday's meeting of E(LF). The top page lists the briefs.

Issues for the meeting

2. There are two key issues for the meeting:

- a. the main decisions on AEF and total standard spending (TSS);
- b. the form of the safety net.

3. In due course, E(LF) will have to consider other aspects of the settlement. The briefing provides background information on these just in case.

Objectives

4. The first objective is clear: to secure the Committee's agreement to the proposals on the TSS and AEF which have been agreed between you and Mr Ridley, and endorsed by the Prime Minister. Whether you can do so, in the light of the additional options now on the table on the safety net, and the scope this gives for further work to be commissioned, is doubtful.

5. On the question of the safety net, as you know, the position has become more complicated. Mr Ridley's main E(LF) paper proposes the form of safety net you agreed with him: the first £25 of losses borne; and protection above that to be financed by allowing

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through only the first £20 of gains, plus 25 per cent above that threshold. However, Mr Ridley is now proposing to circulate an addendum, setting out three further options for the safety net:

- a. the original formulation, with a maximum contribution from the gainers of £39 (assuming £25 of losses);
- b. allowing through 43 per cent of all gains, with no flat-rate allowance; and
- c. a variant of his previous top-slicing approach, under which everyone pays a flat-rate contribution of £26 - so big losers bear the first £26 of their losses, modest losers have their loss increased to £26, modest gainers become modest losers, and those gaining above £26 get their gains in full, less ~~from~~ the £26 contribution.

What is driving this, as before, is the desire to bring down the very high contributions to the safety net from Westminster, and parts of the Home Counties.

6. You may wish to discuss these revised proposals with us tomorrow. Annex I provides briefing.

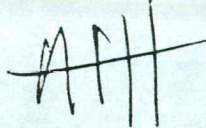
Tactics

7. You may also want to discuss the tactics for the meeting. As we see it, the key issues to decide are:

- What line to take on Mr Ridley's proposals on AEF and TSS? The present speaking note suggests that these proposals go too far. You would then allow yourself to be argued up.
- You would clearly have to explain this approach to Mr Ridley in advance. You might also want to talk to him about the safety net.
- Would it be worth either you or Mr Ridley talking to other members of E(LF) in advance? The one with the biggest interest is Mr Baker, through his paper on the bottom-up approach to total standard spending, and his interest in the new needs assessment package and in the ILEA specific grant.

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8. The Cabinet Office have scheduled further meetings of E(LF) for 6 July and, if necessary, for 13 July. Given the extra options on the safety net, it may be that the second meeting will look at a specified range of options on that. The best that can be hoped for is that the quantum of AEF is firmly settled on Thursday. If it is, there is probably no harm in taking the safety net at the second meeting.



A P HUDSON

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BRIEFS FOR E(LF)

- A. Speaking note
- B. Key points

"Needs"

- C. Terminology
- D. Total standard spending
- E. New needs assessment package
- F. Mr Baker's E(LF) paper

Grant

- G. Specific grants
- H. ILEA

Safety net

- I. Safety net ← NB.
- J. Distribution of CCs: what can be done
- K. Demand note * ~~(to follow)~~
- L. NNDR

Other issues (background only)

- M. RPI
- N. Scottish experience
- O. Years 2 and 3
- P. Use of reserves ~~(to follow)~~
- Q. General public expenditure pressures
- R. Pay pressures ~~(to follow)~~
- S. Figures.

Overtaken
- CST can explain
line he proposes to take.

ANNEX A

SPEAKING NOTE

1. Agree with Nick that this is a very important settlement, and very difficult.
2. Need to strike balance between:
 - (a) successful introduction of CC;
 - (b) maintaining ten-year policy of getting down LA overspending, which CC is designed to achieve.
3. Two levers for influencing LA behaviour: grant, ie AEF; and figure for total standard spending (TSS).

Grant

4. Nick proposes 7 per cent increase in AEF, nearly £1 billion over baseline. Very substantial increase, in what is a very difficult public expenditure round.
5. Understand reasons for this. But must be clear: cannot buy lower community charges with more grant.
6. Last year, very generous grant settlement - up 9 per cent. Intended to minimise level of rates preparatory to CC this year. Frankly didn't work. Expenditure rose in real terms by around 4 per cent - second largest overspend in ten years. And in Scotland, authorities increased spending by 11½ per cent, and increased CC by 14 per cent over domestic rates.
7. All this confirmed previous suspicions: extra grant tends to lead to extra spending, not lower rates or CCs.

8. Not surprising, since two-thirds of authorities not controlled by our supporters. Their instinct, given more cash, is to spend it, not reduce burden on taxpayer. Doubly true in first year of CC.

- Authorities will try to blame Government for high charges.

- Hard for chargepayer to compare this year's bill with last year's.

- And accountability blurred by safety net.

9. Aim therefore a settlement which enables reasonable LAs, including own supporters, to set reasonable charges. Not persuaded this requires as much grant as Nick proposes. Most of extra will simply go in higher spending, as we have seen before.

TSS

10. Also think Nick ^{may have gone} ~~goes~~ too far in setting TSS.

11. TSS intended to be prescriptive, not a forecast. Equivalent in old system is GREs, not provision, and still less budgets, which Nick bases his figure on. That builds in every penny piece of the £1.2 billion overspend Nick refers to.

12. Nick's proposals represent a 10½ per cent increase on GRE's, on top of a 4 per cent real increase last year. And these GREs not unrealistic - our own supporters, on average, stay within them.

13. TSS sends a signal to LAs about how much they need to spend to deliver standard level of services. Danger of levering up spending if TSS rises too far. Evidence in Scotland suggests that moderate spenders increased spending to equivalent benchmark, but that accountability has yet to have full impact on overspenders. Result: substantial increase overall.

14. Nick's proposals therefore go too far. And Kenneth Baker's proposal of £34.1 billion, 8 per cent up on last year's budgets, would frankly signal the end of any attempt to control local authority spending. Simply don't think this approach is a valid way of setting TSS: starts from budgets, thus validating overspending, and does not take proper account of scope for efficiency savings and benefits from compulsory competitive tendering. Thus bound to produce gross over-estimate.

Safety Net

15. Seen all of Nick's proposals on the safety net. Clearly very complicated, and a lot of difficult political judgements to make. Suggest we agree figures for AEF and TSS, and principles on which safety net should operate, and ask officials to look at further exemplifications. Suggest key questions are:

- how much of losses should feed through in first year;
- that decided, how do we finance that degree of protection from the gainers -by a maximum contribution, or a percentage, or a flat rate, or some combination of these approaches?

Personally, still see some attraction in Nick's proposal in the main paper. As he says, "gives protection only where it is most needed and finances it only from those who stand to make the larger gains in the long term" (paragraph 19).

16. But key thing is to decide AEF and TSS, so officials know the framework, and ask for more exemplifications. Not closing off any options, because legislation provides that safety net has to be self-financing. So more or less grant would not affect distributional questions, but simply mean higher or lower community charges across the board.

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ANNEX B

ANNEX
BKEY POINTSAggregate Exchequer Finance (AEF)

The DOE E(LF) paper proposes a figure for AEF of £23.0 billion in 1990-91. This is broken down as follows:

	£ billion
NNDR	10.5
Grants	12.5

2. The grants figure includes Revenue Support Grant (RSG) and specific grants. Our estimate of the likely Survey outcome is that specific grants will total £3.1 billion and RSG £9.4 billion (see Annex G).

Total Standard Spending

3. The DOE paper proposes standard spending of £32.8 billion in 1990-91, an increase of 10 per cent on 1989-90.

4. This recognises upward pressures but continues to signal that further restraint on spending is needed (see Annex D).

Community charge for standard spending (CCSS)

5. The CCSS is a central government responsibility: it must be realistic, achievable and credible.

6. A figure of £275 is a figure that well-run authorities can be expected to deliver - most Conservative authorities should be able to set their charges below the CCSS.

7. In the E(LF) paper the figure of £275 for 1990-91 is compared to £227 for 1989-90. The £227 figure is however artificial - it is based on adjusted figures that reflect a number of functional changes. It has not been published and is irrelevant because the Government would have taken different decisions with different functions and NNDR in place. The important point is that the CCSS is credible and valid for the new system - comparisons with notional figures for earlier years are irrelevant.

CONFIDENTIALActual spending

8. The E(LF) paper assumes local authorities actually spend £33.9 billion in 1990-91 - 1989-90 budgets plus 7 per cent. This represents a real increase of 3 per cent (based on the GDP deflator of 4 per cent).

9. Actual spending could well be higher - particularly in the light of the Scottish experience (see Annex N). But it is no use putting in more grant, this will only encourage higher spending.

Actual community charges

10. The paper assumes average actual community charges of £301. This is based on 1989-90 budgets plus 7 per cent. But community charges could be lower because of the use of reserves (see Annex P) and the increased use of fees and charges. This is particularly relevant if others argue that community charges will be much higher than £301.

11. It is important to remember that £301 is an average figure: with this AEF settlement, many community charges will be below £300; whatever the settlement some are bound to be higher.

Ready reckoner

12. For any given level of AEF, every extra £100 million of spending adds £3 to the community charge (ie assumes 36 million chargepayers).

13. Similarly, for any level of spending, an extra £100 million on AEF reduces the community charge by £3. (Note: Do not accept the argument that extra grant reduces community charges - it finances higher spending.)

Import

TERMINOLOGY: KEY TERMS

Mr Ridley is proposing several changes in the terminology that has so far been used in discussing the new system of local government finance. These changes are:

- Standard Spending Assessment, (SSA) in place of assessed need to spend, ie the amount we assess each individual authority needs to spend if it is to provide a standard level of service.
- Total Standard Spending, (TSS) for aggregate assessed need to spend, ie the total amount we think authorities in aggregate should be spending to provide a standard level of service (equals the sum of standard spending assessments).
- Community Charge for Standard Spending, in place of Community Charge for Spending at Need (CCSN), ie the community charge which would be set in all areas if all authorities spent at the level of their SSA (ignoring any safety net adjustments).

2. The aim in all these changes is to remove the objectionable phrase "need to spend". We have long been concerned about this terminology, and DoE have now accepted that it risks introducing pressure for authorities spending below the level at which we think they would have to spend to provide a standard level of service, to spend up to that level. These changes are therefore to be welcomed.

3. Mr Ridley has, however, stuck to the term Needs Grant instead of Revenue Support Grant. This is a recent innovation (unlike the phrases he has now dropped), and is much favoured by Mr Gummer. The term is dangerous, and we recommend you to press Mr Ridley hard to change it back to Revenue Support Grant.

Line to take

- welcome changes in terminology proposed in E(LF) paper
- but very unhappy about use of term 'Needs Grant', instead of Revenue Support Grant.

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- absurd to replace references elsewhere to spending necessary to meet 'needs' with spending for 'standard level of service' but retain concept in 'Needs Grant'.

- term 'Needs Grant' has no standing; correct term in legislation Revenue Support Grant; would oppose any change in legislation to introduce the term.

- very concerned about political pressure to which we will be exposing ourselves if we use term 'Needs Grant'; will raise profile of whole issue of Government's support for local authorities, advantages for ourselves; can see no sense in creating unnecessary difficulties.

Total standard spending

1. The DOE E(LF) paper proposes a figure of total standard spending (previously called "need to spend") of £32.8 billion for 1990-91.

2. This represents an increase of over 10 per cent on GREs (needs) in 1989-90.

3. Compared to 1989-90 budgets it represents an increase of about 3½ per cent. But it is important to distinguish between budgets (actual spending) and needs (standard spending). The appropriate comparison is with GREs (needs) for the following reasons:

(a) using budgets would validate local authority overspending;

(b) if needs were set in relation to budgets it would be an admission that local authorities (particularly Labour) had not been overspending in the past;

(c) budgets in 1989-90 are inflated by one-off spending of up to £1 billion from special funds/reserves (see Annex P);

(d) a distinction between needs/standard spending and actual spending is an important distinction to maintain. It provides a signal about the Government's desire to reduce overspending.

4. Arguments why £32.8 billion is appropriate:

(a) Existing levels of GREs by no means unrealistic - after all, taken together, all conservative authorities spend below GREs.

(b) Nothing in new system which implies a step change is justified.

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(c) An increase of 10 per cent is ample recognition of the pressures on pay and additional burdens. (For pay pressures, see Annex R.)

(d) Community charge is about getting spending down, anything higher gives the wrong signals.

(e) A higher figure will lever up actual spending by encouraging authorities that spend below standard spending to spend up.

(f) Still considerable scope for efficiency savings and contracting out more work. Need to maintain pressure for further savings, hence figure should not show large increase on budgets.

5. The DOE paper points out that the total of £32.8 billion includes financing items - loan charges, interest receipts, etc - and argues that if these go up then the current element (the amount left to be spent on services) will be squeezed. This could be seized on by departments as a reason for increasing the total. But it is tantamount to a "bottom-up" approach and there is no reason to specifically look at financing items. In fact they could go down as well as up and spending on services would benefit. However this is all for discussion in the autumn, as part of the discussions on the service distribution, and it would not be appropriate to get involved in detailed discussions now.

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Total standard spending - new assessment package

1. DOE officials have been discussing proposals for new needs assessment packages with the Local Authority Associations over the last 6 months. The aim is to introduce a simpler, fairer system for distributing Revenue Support Grant. Mr Ridley circulated a paper showing the effects of a number of packages to colleagues on 25 May 1989. He asked for comments so that he could construct a suitable package for use in E(LF) discussions.

2. The package that has been chosen for the E(LF) discussions reflects comments by colleagues and should not cause any great difficulties. However it only partly reflects Mr Baker's concerns on education in London - it increases Education needs in London from about £620 million to £750 million in 1989-90, compared to Mr Baker's request for £800 million. DOE believe that £800 million goes too far and leaves unacceptably low education figures for the rest of the country.

3. The main impact of the package is as follows:

(a) it moves grant away from the Shire counties;

(b) it moves grant into inner London (mainly as a result of the education change);

(c) it moves grant away from the Metropolitan districts but into the Shire districts.

4. This should not be controversial and there is little direct Treasury interest. The package chosen for E(LF) is for illustration purposes only and further changes can still be introduced. Final decisions will be taken in the autumn.

5. The new assessment package will provide the long term mechanism for distributing Revenue Support Grant. In the short term, any redistributive effects of the new assessment package are overridden by the safety net.

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ANNEX
E

Service departments' assessment of "Need to Spend"

1. The paper to be presented by Mr Baker proposes an aggregate "need to spend" figure of £34.1 billion in 1990-91.
2. You are aware that Mr Clarke has refused to endorse the Department of Health (DH) figures and these have been withdrawn from the paper. Thus instead of an aggregate of £34.5 billion, as previously expected, the total has been reduced because for DH the paper simply repeats 1989-90 budgets.
3. Mr Baker's paper reflects the "bottom-up" approach and can be criticised on the following grounds:
 - (a) It starts from the wrong base - actual spending rather than needs (see Annex D on why this is inappropriate).
 - (b) It proposes a 15 per cent increase on 1989-90 in needs (even without any increase for DH).
 - (c) A 15 per cent cash increase is more than twice the increase in any one year in the 1980s except one. (The highest increase was in 1986-87 - 7.8 per cent).
 - (d) It represents a real increase of more than 10 per cent in one single year - more than the total real increase over the last 10 years.
 - (e) Why does 1990-91 warrant special treatment? - it will give all the wrong signals to authorities.
 - (f) It is not a proper "bottom-up" approach. It does not look at unit costs and more efficient ways of providing services (it fails to take proper account of the spread of best practice). For example difficult to believe that there are no efficiency savings to come from over £500 million spending on OAL.

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(g) It does not take proper account of the savings identified by the Audit Commission - paper only identifies savings of £200 million compared to over £500 million that could be realistically expected from Audit Commission work. (Audit Commission have identified potential savings of some £2 billion. Individual auditors said that by March 1988 they had identified annual savings of £750 million but that authorities had only achieved savings of £250 million. So plenty of scope for more, certainly £500 million is not unreasonable.)

(h) Must therefore query whether whole approach is valid. Unlikely that departments have genuinely tried to assess costs of providing services on a consistent basis.

(i) The withdrawal of DH from the exercise only goes to emphasise the lack of consistency in the methodology.

(j) Even if the aggregate is of little value, the exercise might have had some marginal benefit in establishing relative service priorities. ^cWould have been useful to help establish service distribution in the Autumn. But the service distribution for 1990-91 is exactly the same as the 1989-90 distribution. This must again throw doubts on whether this has been a genuine exercise. X

4. Mr Baker's proposal is even higher than DOE's forecast of actual spending of £33.9 billion (1989-90 budgets plus 7 per cent). Mr Baker may argue that this is unrealistic. He will almost certainly query the inflation assumption of 4 per cent. However we can argue that 7 per cent on budgets still represents a large increase on 1989-90 and even if the inflation assumption were to increase this should still represent a real increase. It is, of course, possible that actual spending could be higher than 7 per cent above budgets but it is unlikely to be in our interests to put this forward at E(LF).

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ANNEX G

E(LF) BRIEFING : SPECIFIC GRANTS

The attached table summarises the bids for specific grants within AEF for 1990-91, along with Treasury divisions' forecast of the outcome.

2. As you will see, in the majority of cases the bids are very small. But there are significant bids for the Personal Social Services grants (items 10 and 11), and, of course, the Home Office grants (items 12-16).

3. As you will recall, the original aim was to settle specific grants within the AEF envelope before final decisions were taken on the quantum of AEF in E(LF). You agreed this with Mr Ridley and other colleagues earlier in the year, to get round the danger that Mr Ridley would seek to reopen the AEF decision in the autumn if substantial increases were agreed in specific grants, which left less room for Revenue Support Grant than he had envisaged at the time of the settlement.

4. However, it now looks as though a firm decision on AEF may be reached on Thursday, before we have been able to settle the specific grants. Neither Mr Ridley nor his officials have asked about the likely outcome on specific grants, and we have not taken this up with them.

5. We propose to continue to try to settle these specific grants this month, wherever possible. The question is whether you should tell Mr Ridley of the likely outcome, and if so, when.

6. The risk in telling Mr Ridley is that he will think the amount of room left for RSG within AEF is too low, and will seek to reopen the deal. But the argument for speaking to him is that it is better to sort this out now, rather than to risk him coming back at a later stage.

ANNEX
G

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7. The figures are as follows:

Breakdown of AEF

	£ billion		
	<u>DOE baseline (1989-90)</u>	<u>E(LF), with SGs up 4% + ILEA</u>	<u>E(LF), with SGs at HMT forecast</u>
AEF	21.4	23.0	23.0
Of which:			
RSG	9.1	9.5	9.4
SGs	2.8	3.0	3.1
NNDR	9.5	10.5	10.5

8. Our advice would be to say nothing on the subject until after Thursday's meeting if possible. But subject to the outcome of that meeting, you might take the opportunity to tell Mr Ridley the position, perhaps along the lines of:

- specific grants within AEF look like increasing by around £300 million over the equivalent 1989-90 figures;
- one-third of the increase is down to the new ILEA grant, and most of the rest to higher police grant;
- these grants will be settled soon, as agreed, so there will be no shocks in the autumn;
- and the increase in unhypothecated finance (RSG and NNDR) should be around 7 per cent, the same as the increase in specific grants excluding ILEA.

9. If asked about specific grants at the meeting, we suggest the line to take might be:

- still in early stages of assessing and discussing bids;
- and clearly some substantial bids, which will need careful consideration;
- but would expect increase in specific grants ^(excluding ILEA) over 1989-90 equivalent to be broadly in line with the increase in AEF as a whole, ^(excluding ILEA grant.)

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Version of: ²⁰ June 1989

1989 SURVEY: SPECIFIC GRANTS WITHIN AEF (ENGLAND)

GRANT	1990-91 fm					
	Baseline	Dept. position	Forecast outcome	HMT position	Grant rate %	Forecast addition to GGE (f
1. LEA TGS*	127.2	-0.2	-1.5	-1.5	65/50	0
2. Educ support*	84	0	-1	-1	60/50	0
3. Travellers' children	0	5	4	3	75	0
4. JLEA	0	100	100	100	100	0
5. Careers service	19.7	0	0	0	0	0
6. Shelter employment	17.8	3.9	0	0	50	0
7. National Parks SG	9.3	0.7	0.3	0.3	75/95	0.5
8. Urban Programme	55.9	0	0	0	75	0
9. Housing benefit admin.	93.8	0.7	0.7	0.7	50	1.4
10. AIDS and HIV	0	9.8	9.8	7	70	3
11. Soc services tra	0	26.4	19.4	13.1	70	6.5
12. Magistrates' courts	159.8	16.4	15.2		80	19
13. Probation	178.3	13.5	12.4		80	15.5
14. Police	1904.8	208.5	193.2		91	177.9
15. Civil defence	17.9	0.5	0.5		75/100	1.5
16. CWwealth immigrants	117.6	2.3	0		75	0.5
TOTAL	2784.6	387.5	353	121.6		427.9

* already settled

ILEA specific grant

1. ILEA currently spends about £1 billion on education compared to a needs assessment of about £600 million. Under the new needs assessment this is likely to increase to about £750 million.

2. To help finance the additional burden that is to be placed on the inner London boroughs it is proposed that a specific grant be introduced.

3. The specific grant would be phased out over a number of years. Mr Ridley has suggested 3 or 4 years. It would recognise that savings cannot be achieved immediately and would be designed to allow boroughs to achieve savings over this period. The level of grant would start at £100 million in 1990-91.

4. Mr Baker may argue that the grant needs to be phased out over a longer period. The longer the period of grant the less incentive there is for an authority to find the necessary savings. To maintain the pressure for efficiency gains the grant should only cover a 3-4 year period. This would also be consistent with the number of years proposed for the safety net.

5. The specific grant can be introduced in two ways:

(a) distribute the specific grant and then apply the safety net;

(b) apply the safety net and then distribute the grant.

The effects of the two are very different.

6. Under (a) the safety net dominates and, in the first year, the main authorities which benefit are contributors to the safety net (City of London, Kensington and Chelsea, and Westminster). The high spending London boroughs are protected by the safety net and this overrides the effect of the specific grant. The grant

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therefore provides little help to the 'losers' in the system, ie those who benefit from the safety net.

7. Under (b) all inner London boroughs gain. It has the effect of reducing CCs in high spending boroughs to relatively low levels. First they benefit from the safety net and then they benefit from the specific grant. Under (b) the grant reduces CCs by a further £50-60. It will mean low CCs in the first year but, as both grant and the safety net are phased out, there will be large increases in CCs.

8. The DOE E(LF) paper argues that all inner London boroughs need extra support and proposes (b).

9. The grant can be distributed to each authority in a number of ways. It can be based on:

- (i) number of charge payers;
- (ii) number of children;
- (iii) education service assessment;
- (iv) actual spending on education.

10. The E(LF) paper is based on (ii). Actual spending makes more sense because the inherited overspend will be greatest in those authorities spending most. DOE recognise this but have not yet been able to calculate the figures. A change to (iv) would benefit those authorities with more schools (ie Westminster would probably lose out) but it is unlikely to change community charges by more than £5-6. The exact details of the method of paying grant needs further exploration and need not be considered in detail in the first E(LF) meeting.

11. The number of community charge payers in Inner London is about 1.8 million. Thus an increase/decrease in the specific grant of £10 million will cut/raise community charges by £5-6.

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ANNEX I

SAFETY NETBackground

You are familiar from earlier briefing with the basic principles of the safety net. It is:

- intended to protect authorities from the effects of major changes in the distribution of income, following the introduction of the new system;
- a zero-sum game: it must be self-financing under the existing powers, with protection for losers on the transition to the new system offset by contribution from the gainers.

2. In public we have said the safety net will:

- protect all losers fully, apart from a few £s per head;
- be funded by taking all the gains away from gainers, subject to a maximum contribution of £75.

Summary of Options

3. When you met Mr Ridley last week, you agreed with him on the precise formulation of the safety net that should be put forward to E(LF) as a central option. This was, in short,

- (i) Losses of up to £25 to feed through at once. Losses above £25 to be protected by safety net.
- (ii) Financed by allowing through all gains up to £20, but then taking in 75 per cent of all gains above £20.

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I

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4. Mr Ridley has however now circulated an addendum to the E(LF) paper. This contains no fewer than 5 further options for the formulation of the safety net. In all there will therefore be 6 options on the table at E(LF) tomorrow. These are summarised in the attached table, which follows the order in Mr Ridley's new paper. (Also attached is a list of authorities, from largest losers to largest gainers, which should be consistent with the DOE exemplifications.)

5. The original E(LF) proposal is option 3. The 5 new options are:

(1) allow through no losses in the first year, and finance the safety net by taking in all gains as contributions, subject to a maximum contribution of £34 (column 3 in table 4 attached to Mr Ridley's note);

(2) allow through up to £25 of losses, and finance by taking in all gains up to maximum contribution of £39 (column 4);

(4) allow no losses to feed through, and finance by taking in a percentage of all gains, and allowing the rest (19%) to feed through (column 6);

(5) allow up to £25 of losses to feed through, and finance by taking in a percentage of all gains, and allowing the rest (43%) to feed through (column 7);

(6) raise the flat rate contribution (of £26) from everybody (including the losers).

6. The easiest way to assess these options is probably in two stages:

- first, decide how much of the losses should feed through;

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- and second, decide how the protection for losers should be paid for.

7. Mr Ridley's options have two different levels of losses. Options 1 and 4 allow no losses through. The rest allow £25-26 of losses.

8. He then has four different ways of paying for this protection.

- A maximum contribution, with no losses (option 1) or £25 losses (option 4).
- A percentage of the gain, with no losses (option 2) or £25 losses (option 5).
- The first E(LF) proposal, of allowing the first £20 of gains plus 25 per cent of the rest (option 3).
- A levy on everybody but the big losers of £26. This is the same as the amount of losses coming through, so would be presented as a contribution of £26 from everybody.

Assessment

Losers

9. The first question, therefore, is how much, if any, of the losses should feed through.

10. The arguments for introducing some losses are that:

- the safety net is a transitional arrangement, and it is not usual to begin a transition by actually freezing the bills of those protected;

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- the losses of many authorities are small, and it hardly seems worth operating a safety net that would protect against losses of a few pounds;
- a safety net that protected all authorities in full would be very expensive (£950m or so); a very large amount of gains would need to be deferred to achieve this; and much of this money would be used simply to defer small losses for a large number of authorities.

11. The arguments against introducing losses are two-fold:

- a high level of losses in the first year would add to the difficulties that areas like Pendle and Calderdale will already be facing as a consequence of the change to the new system;
- there would be a serious danger that Mr Ridley or colleagues would subsequently resile from an agreement to introduce a high level of losses, and expect the Exchequer (not gainers) to finance additional protection.

12. On balance, however, we do not feel that the arguments against introducing losses point to allowing no losses to feed through at all. A modest level of losses in the first year should not hurt areas in the North excessively; it should also not raise too great a danger that Mr Ridley or others will subsequently resile from the agreement. Introducing no losses, on the other hand, would be expensive in terms of contributions required - and you are well aware of the political pressure that Mr Ridley feels he is under to get gains through.

13. We think the arguments about losers point to allowing through a modest level of losses - such as £25.

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Gainers

14. You are aware that Mr Ridley feels he is under great pressure to get gains through, and not to delay them with the safety net. He is particularly keen to get the biggest gains through, for areas like South Bucks (£245) and Westminster (£247). John Mills (No.10 Policy Unit) has also drawn attention to the large gains in politically sensitive parts of the West Midlands (Birmingham, £88; Sandwell, £68; Solihull, £110; Wolverhampton, £110).

15. Our main interests are:

- to ensure that it is gainers who contribute to the safety net, not the Exchequer;
- to ensure that we come under no further pressure to put money into the safety net.

16. Apart from these interests, we do not think that there is a major Treasury interest in how the contributions should be distributed among the gainers. There is, however, clearly a political judgment to be taken here on how much big gainers should be made to pay relative to small gainers, and vice versa.

Details of Options

17. The effects of each option, and the pros and cons, are set out on the attached sheets.

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Option 1 Original formulation, no losses, maximum contribution £74 (Column 3 in table 4 of Mr Ridley's paper).

Contributions made: All gains contributed up to £74 maximum contribution

- Pros:
- full protection for losers
 - big gainers pay less than under:
 - Option 3 (option in first E(LF) paper).
 - Option 5 (£25 loss, contribution as percentage of all gains).

but more than under:

- Option 2 (£25 loss, maximum contribution £39
- Option 6 (£26 levy)

- Cons:
- large proportion of contributions go to protect small losers;
 - small and medium gainers lose all gains; only big gainers (above £74) see gains come through

- Assessment:
- Mr Ridley unlikely to pursue this option, as maximum contribution too high;
 - probably we should be prepared see some losses come through;
 - public expenditure risk: as safety net unwinds, gains realised by authorities may go into higher spending not lower charges; this risk is greater if we require larger contributions in the first year.

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Option 2 Original formulation, £25 losses, maximum contribution £39 (Column 4 in table 4 of Mr Ridley's paper)

Losses suffered: up to £25

Contribution made: all gains contributed, up to £39 maximum contribution

Pros: - big and medium gainers pay less than under all options except option 6

Cons: - small gainers lose all gains; only big and medium gainers (above £39) see gains come through

- losses feed through; hurts areas in North etc.

Assessment: - level of losses moderate, probably acceptable

- big and medium gainers should clearly perceive benefit, though unfair on small gainers;

- Mr Ridley will prefer this option to option 1; we should be content to go along with it if he presses;

- public expenditure risk probably less than option 1: more chance large gains will go to reducing community charges in year 1, rather than raising spendingⁱⁿ later years.

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Option 3 First E(LF) paper; £25 losses; contribution as 75% of all gains over £20 (column 5 in Table 4 of Mr Ridley's paper).

Losses suffered: up to £25

Contribution made: 75% of all gains above £20; gains up to £20 feed through immediately

Pros:

- small gains feed through in full;
- symmetrical: protection for big losers paid for by big gainers;

Cons;

- big gainers pay heavily; more than under options 2, 5, 6, though less than under options 1 and 4;
- complicated.

Assessment:

- Mr Ridley objects to high level of contributions from big gainers
- this option broadly meets Treasury interests: level of losses probably acceptable and low risk of being required to provide Exchequer money for more protection
- but perhaps slightly greater public expenditure risks than under option 2: as safety net unwinds more of gains may feed into high expenditure rather than low charges.

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Option 4: no losses; financed by taking percentage of all gains
(column 6 in Mr Ridley's paper)

Losses suffered: 0

Contributions made: 81% of all gains; remaining 19% feed through

Pros: - full protection for losers;

Cons: - big gainers pay very heavily; more than under any other option;

- complexity of taking proportion of numerous small gains.

Assessment: - probably not a runner, as hits big gainers so heavily;

- unlikely to be worthwhile taking contributions from large number of small gainers.

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Option 5: £25 losses; financed by taking percentage of all gains. (column 7 of Mr Ridley's paper)

Losses suffered: up to £25.

Contributions made: 57% of all gains; remaining 43% of gains feed through.

Pros: - better for big gainers than option 3 (which also has £25 of losses), and option 4 (which has no losses).

Cons: - worse for big gainers than option 2 and 6;
- complexity of taking proportions of numerous small gains.

Assessment: - to be considered alongside options 2, 3, 6, all of which involve £25 of losses;
- level of losses probably acceptable;
- but unlikely to be worthwhile taking contributions from large number of small gainers;
- some public expenditure risk, as option 3.

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Option 6: £26 losses; financed by taking £26 flat rate levy from everybody else. (column 8 of Mr Ridley's paper)

Losses suffered: £26 by all losers.

Contributions made: £26 by all gainers.

Pros:

- best deal for big gainers;
- according to Mr Ridley, 'simple to understand and present';
- some contribution from all gainers, equal to loss suffered by losers.

Cons:

- after year 1, contribution from gainers and losses actually suffered by losers no longer equal;
- turns small losers into £26 losers, after safety-net applied;
- turns gainers into losers, after safety-net applied;
- major public expenditure risks; risk £26 levy will be seen as surcharge on CC; pressure for Exchequer grant to cut levy, or reduce CCSS to compensate.

Assessment:

- variant of top-slicing;
- should be rejected as against Treasury interests;
- will attract public attention to safety net; may be in Exchequer's interest to make safety net less not more transparent;
- a silly scheme which makes small gainers into losers, and small losers into £26 losers.

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CONCLUSIONS

18. We doubt if Mr Ridley and colleagues will want to pursue the "no losses" options (1 and 4), simply because too much of the gains has to be deferred.

19. As indicated above, we think that £25 of losses is probably acceptable.

20. If you agree, the difference between the options is simply the way in which the remaining protection for losers is financed.

21. On the financing of protection, we see no overriding interest for the Treasury in choosing between options 2 (maximum contribution of £39), 3 (allow gains of £20 plus 25%) and 5 (allow 43% of gains). Options 3 and 5 may pose slightly greater risks for public expenditure than option 2, as they afford more scope for gains to be translated into higher expenditure rather than lower charges as the safety net unwinds. But this is a fine judgment, which should not drive your thinking. Basically the choice turns on a political judgment as to whether more or less of the contributions should come from small gainers or big gainers.

22. We do however see strong Treasury objections to option 6 (the £26 levy). This option leaves us most exposed to pressure for higher grant as a consequence of the safety net. We recommend you to oppose this option.

Line to take

23. General approach to adopt at meeting:

- safety net raises complex and important questions about how we distribute the amount of grant we have to decide on;
- a wide range of options just circulated by Nick Ridley: impossible to consider fully in time available;

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- should not therefore take any final decisions now, in particular on appropriate level of losses that should feed through (if any), and on precise mechanism for financing safety net.

[24. Remind meeting of major considerations at stake:

- should be cautious in introducing losses for losers, many are areas in North where position already difficult;
- these areas already face serious problems in adapting to new system;
- should not be deliberately exacerbated by decision on our part;
- that said, recognise Nick's concern that we should not be seen to penalise South to pay North; but safety net has to be a self-financing mechanism - one half of equation has to balance other half.]

25. Reaction to Nick Ridley's latest proposals:

- little time to study them;
- but initial reaction is that idea of taking in all gains as contributions, subject to a maximum contribution of £39 or £74 would not pose difficulty for us; but level of maximum contribution would of course depend on whether any losses introduced in first year;

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- but idea of percentage applied to all gains, or flat rate contribution unattractive. Percentage applied to all gains would involve collecting some very small sums. Flat rate contribution would appear to be a levy on all community charges: turns gainers into losers; and can see serious presentational disadvantages and risk of political pressure to provide extra grant to compensate;

- need further thought on all these points.

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	1	2	3	4	5	6
DESCRIPTION	Original formulation	Original formulation, £25 losses	First E(LF) paper	No losses, percentage of gain	£25 losses, percentage of gain	£26 levy
LOSSES SUFFERED	0	First £25	First £25	0	First £25	First £26 (and see below)
GAINS ALLOWED	All gains over £75 "maximum contribution"	All gains over £39 "maximum contribution"	First £20 of all gains, plus 25% of remainder	19% of all gains	43% of all gains	All gains less £26 levy
PROS	<ul style="list-style-type: none"> - Full protection for losers - Helps big gainers 	<ul style="list-style-type: none"> - Further help for big gainers 	<ul style="list-style-type: none"> - Small gains through in full - Protection for big losers, paid for by big gainers 	<ul style="list-style-type: none"> - Full protection for losers - Financed proportional to gain 	<ul style="list-style-type: none"> - Financed proportional to gain - More help for big gainers 	<ul style="list-style-type: none"> - Best deal for big gainers - NR: ° simple to understand and present - Same contribution from a
CONS	<ul style="list-style-type: none"> - Lots of gainers see no gain at all 	<ul style="list-style-type: none"> - Many gainers see no gain at all - Small losses feed through 	<ul style="list-style-type: none"> - Hits big gainers - Complicated - Small losses feed through 	<ul style="list-style-type: none"> - Restricts all gains - Hits big gainers 	<ul style="list-style-type: none"> - Restricts all gains - Still hits big gainers - Small losses feed through 	<ul style="list-style-type: none"> - Turns gainers into losers, and small losers into £26 losers. - Hard to present?
SELECTED CHARGES, pending at £32.8 bn						
BIG LOSERS:						
- Pandle	169	194	194	169	194	195
- Wandsworth	150	175	175	150	175	176
MALL LOSER:						
- Kingston-upon-Thames	324	328	328	324	328	351
MALL GAINER:						
- Peterborough	274	274	256	270	265	282
BIG GAINERS:						
- Huntingdonshire	250	246	224	242	230	234
- Westminster	414	379	480	505	448	367
						229

DOE CALCULATIONS

GAINS AND LOSSES ON FULL TRANSITION
TO NEW SYSTEM

(i.e. before safety net applied)

AUTHORITY	RBPA +4%	DOE CC1 @ANTS	LOSS GAIN
Greenwich	285	579	-294
Isles of Scilly	214	505	-291
Hammersmith and Fulham	373	563	-190
Southwark	281	439	-158
Lewisham	275	423	-148
Wandsworth	202	350	-148
Barnsley	221	367	-146
Calderdale	236	379	-143
Barrow in Furness	198	321	-123
Barking and Dagenham	244	365	-121
Bolsover	225	342	-117
Tower Hamlets	282	397	-115
Doncaster	258	372	-114
Wansbeck	238	348	-110
Kirklees	217	326	-109
Wear Valley	205	313	-108
Wakefield	237	344	-107
Sheffield	278	384	-106
Copeland	191	293	-102
Pendle	169	270	-101
Rotherham	249	349	-100
Sedgefield	225	324	-99
Kingston Upon Hull	233	330	-97
Derwentside	209	301	-92
Boothferry	220	309	-89
Easington	200	288	-88
Scunthorpe	284	371	-87
Allerdale	197	282	-85
Westfield	258	342	-84
Burnley	176	259	-83
Hyndburn	176	256	-80
Rochdale	262	342	-80
Rossendale	199	277	-78
E. Yorks	242	318	-76
Gateshead	248	324	-76
Blyth Valley	271	345	-74
Wigan	269	343	-74
Hillingdon	328	402	-74
High Peak	254	328	-74
Great Grimsby	251	322	-71
N.E. Derbs	276	347	-71
Cleethorpes	264	332	-68
Amber Valley	249	316	-67
Scarborough	204	269	-65
S. Tyneside	236	300	-64
Berwick-upon-Tweed	231	295	-64
York	187	248	-61
Erewash	265	325	-60
Sunderland	217	275	-58
Bradford	218	276	-58
Leicester	232	289	-57
Selby	205	262	-57
Newcastle upon Tyne	279	335	-56
North East Lincolnshire	227	282	-55
Merthyr Tydfil	247	301	-54
Alnwick	242	296	-54
Durham	226	280	-54
Mansfield	225	279	-54

LOSERS

Middlesbrough	277	330	-53
St. Helens	262	313	-51
Ashfield	206	257	-51
Blackburn	183	234	-51
Blackpool	239	290	-51
Tameside	253	303	-50
Thamesdown	253	302	-49
Eden	208	256	-48
Bradford	298	345	-47
Bexley	247	294	-47
Torridge	169	216	-47
Richmondshire	187	231	-44
Stoke-on-Trent	210	254	-44
Chester-le-Street	237	280	-43
Bath	255	298	-43
Lancaster	211	253	-42
Craven	197	238	-41
Teesdale	183	223	-40
Havering	257	297	-40
Darlington	248	285	-37
Ryedale	211	248	-37
Torbay	258	293	-35
N. Devon	185	220	-35
Haringey	532	566	-34
N. Tyneside	313	345	-32
Bassetlaw	228	259	-31
S. Lakeland	249	280	-31
Leeds	223	253	-30
Weymouth and Portlan	203	233	-30
Tynedale	257	287	-30
N. Wilts	226	256	-30
Ribble Valley	215	245	-30
Langbaugh-on-Tees	308	337	-29
W. Wilts	232	260	-28
Glanford	259	286	-27
S. Derbs	281	308	-27
Holderness	262	288	-26
Kerrier	193	219	-26
Mid Devon	194	219	-25
Forest of Dean	203	228	-25
Lincoln	199	224	-25
Exeter	216	238	-22
Oldham	237	259	-22
S. Ribble	228	249	-21
Great Yarmouth	222	242	-20
Oswestry	202	222	-20
S. Holland	204	224	-20
Merton	285	304	-19
Lambeth	316	334	-18
Derbyshire Dales	297	314	-17
Boston	208	225	-17
King's Lynn and W. N	203	220	-17
Nottingham	234	250	-16
Dartford	218	234	-16
Newcastle-under-Lyme	238	253	-15
Penwith	205	219	-14
Portsmouth	205	219	-14
Brighton	335	348	-13
W. Dorset	231	244	-13
Harrogate	260	272	-12
Restormel	205	217	-12
Redbridge	231	242	-11
Cannock Chase	244	255	-11

Hambleton	226	236	-10
Wyr...	239	249	-10
Ch...	228	238	-10
Wansdyke	278	288	-10
Staffs Moorlands	233	242	-9
Nuneaton and Bedwort	308	317	-9
Sedgemoor	259	267	-8
Taunton Deane	255	263	-8
Ha...	259	266	-7
Plymouth	217	223	-6
W. Devon	205	211	-6
Fenland	223	229	-6
S. Somerset	259	264	-5
Bromley	255	260	-5
Medina	245	250	-5
Swale	198	203	-5
Gloucester	228	232	-4
Teignbridge	225	229	-4
Norwich	256	260	-4
Kingston-upon-Thames	324	328	-4
Stockton-on-Tees	298	301	-3
Forest Heath	226	229	-3
Warrington	266	269	-3
Ipswich	283	286	-3
W. Lindsey	200	203	-3
E. Lindsey	204	207	-3
Broxtowe	258	260	-2
Newark and Sherwood	248	250	-2
N. Shropshire	200	201	-1
Bolton	242	243	-1
Kingswood	264	264	0
Bury	308	308	0
Derby	311	311	0
Cr...	269	269	0
N. Warwickshire	307	306	1
East Staffs	230	229	1
Mendip	250	249	1
Carrick	229	228	1
Kettering	246	244	2
Caradon	220	218	2
N. Kesteven	205	203	2
Sutton	309	306	3
Salford	286	283	3
Bournemouth	254	251	3
S. Wight	269	265	4
Babergh	253	249	4
Tonbridge and Mallin	228	223	5
N. Cornwall	220	215	5
Camden	446	441	5
W. Somerset	271	263	8
Harlow	425	417	8
Breckland	223	214	9
Ealing	321	312	9
N.W. Leics	259	249	10
Stroud	251	240	11
Wrekin	267	256	11
S. Kesteven	222	211	11
Dover	198	187	11
He...	185	173	12
N. Norfolk	228	215	13
Mid Suffolk	241	228	13
Preston	233	220	13
Northampton	296	282	14

NEUTRAL

GAINERS

Wellingborough	244	230	14
Ker	241	227	14
Val Royal	267	252	15
Beverley	317	302	15
Castle Morpeth	304	288	16
St. Edmundsbury	230	214	16
Peterborough	274	256	18
East Northants	233	215	18
Se	288	270	18
E. Devon	242	223	19
S. Norfolk	251	232	19
W. Dorset	222	203	19
Gedling	274	254	20
Woodspring	305	285	20
Tamworth	264	244	20
Islington	445	425	20
S. Shropshire	208	187	21
Tandridge	302	280	22
Fylde	272	250	22
N. Dorset	216	193	23
Hounslow	373	350	23
Brentwood	408	385	23
Northavon	184	275	24
Congleton	280	256	24
E. Cambs	235	211	24
Hinckley and Boswort	257	232	25
Cheltenham	280	255	25
Gillingham	211	186	25
Thanet	234	209	25
Canterbury	224	199	25
Ellesmere Port and N	292	267	25
Corby	274	248	26
Stafford	252	226	26
Liverpool	302	276	26
Wyre Forest	242	215	27
Melton	258	231	27
S. Hams	257	228	29
Newsbury and Atcha	251	222	29
try	311	281	30
	491	461	30
beck	227	197	30
Wirral	381	350	31
Hastings	269	238	31
Worthing	248	217	31
Rutland	243	212	31
Rugby	313	281	32
Leominster	179	147	32
Crewe and Nantwich	308	276	32
Southampton	221	189	32
Manchester	322	288	34
Broadland	253	218	35
W. Lancs	275	239	36
Newham	356	319	37
Oadby and Wigston	281	243	38
Salisbury	262	224	38
Cherwell	269	231	38
Gravesham	232	193	39
Rushcliffe	289	249	40
Bl	266	226	40
Brigg	228	187	41
S. Herefordshire	189	148	41
Huntingdonshire	250	208	42
Enfield	316	274	42

Rochester upon Medwa	205	163	42
Ashted	241	198	43
Adur	281	238	43
Worcester	259	216	43
Stockport	313	269	44
Chester	302	258	44
Runnymede	294	247	47
Suffolk Coastal	287	238	49
Sharnbury	278	229	49
Reading	274	224	50
Walsall	305	255	50
Waltham Forest	325	275	50
Richmond-upon-Thames	356	305	51
Charnwood	265	213	52
Thurrock	365	313	52
Trafford	287	235	52
Maidstone	231	179	52
W. Oxon	272	220	52
Dudley	302	249	53
Knowsley	300	247	53
Tunbridge Wells	245	190	55
Stevenage	386	331	55
Redditch	270	214	56
Tewkesbury	271	215	56
Cotswold	279	223	56
Daventry	303	247	56
Watford	340	283	57
Poole	292	235	57
Gosport	245	188	57
Rushmoor	231	174	57
Christchurch	305	247	58
Spelthorne	293	234	59
Arun	270	209	61
Colchester	291	230	61
E. Herts	336	274	62
Broxbourne	326	264	62
Harrow	327	264	63
Harborough	307	244	63
Lichfield	294	230	64
Wealden	289	224	65
Tendring	310	245	65
Sevenoaks	257	192	65
Bracknell	305	239	66
Hove	290	223	67
S. Staffs	291	224	67
Sandwell	279	211	68
Chichester	262	191	71
Mid Beds	316	244	72
North Beds	310	238	72
Malvern Hills	258	185	73
Eastbourne	343	269	74
Oxford	294	220	74
Braintree	302	228	74
New Forest	264	189	75
Mole Valley	336	261	75
Cambridge	323	248	75
Epsom and Ewell	398	323	75
Warwick	361	283	78
Mid Sussex	287	209	78
Welwyn Hatfield	417	337	80
Woking	368	288	80
Basildon	434	353	81
Horsham	261	179	82

Lewes	309	227	82
Vale of White Horse	302	220	82
Basingstoke and Dean	245	162	83
Reigate and Banstead	358	275	83
E. Dorset	317	234	83
S. Northants	293	209	84
Birmingham	281	193	88
Wychavon	281	191	90
Billingham	264	174	90
S. Oxfordshire	321	230	91
South Beds	364	273	91
Eastleigh	282	187	95
Test Valley	262	164	98
Stratford on Avon	369	268	101
Aylesbury Vale	288	186	102
Croydon	267	164	103
Southend-on-Sea	357	254	103
Maldon	327	224	103
Rother	325	221	104
Macclesfield	357	252	105
Fareham	287	182	105
S. Cambs	297	192	105
Havant	280	175	105
Castle Point	339	233	106
Hertsmere	405	297	108
Windsor and Maidenhe	348	240	108
Guildford	333	224	109
Wolverhampton	306	196	110
Solihull	318	208	110
N. Herts	374	264	110
Surrey Heath	352	240	112
Hackney	351	239	112
Milton Keynes	331	217	114
E. Hants	287	173	114
Slough	265	150	115
Barnet	361	246	115
Winchester	294	176	118
Newbury	299	178	121
Waverley	362	240	122
Dacorum	375	252	123
Rochford	366	242	124
Hait	314	190	124
Luton	361	233	128
Three Rivers	406	276	130
St. Albans	389	259	130
Uttlesford	363	226	137
Wokingham	340	201	139
Chelmsford	371	229	142
Elmbridge	445	303	142
Epping Forest	415	267	148
Wycombe	386	223	163
Kensington and Chels	393	204	189
City of London	541	325	216
Chiltern	463	231	232
S. Bucks	458	213	245
Westminster	587	340	247

DISTRIBUTION OF COMMUNITY CHARGES: WHAT CAN BE DONE

1. Actual community charges are up to individual local authorities not central government.
 2. Central government does determine the CCSS (Community Charge for Standard Spending) and the safety net; accordingly for 1990-1991 it determines the pattern of safety netted CCSSs across all LAs.
 3. For any given standard spending assumption and level of AEF, these safety netted CCSS figures are a product of three factors
 - i) the new needs assessment
 - ii) the precise form of safety net
 - iii) any specific grants paid after the safety net
- i) The new needs assessments determines the long term pattern of community charges: the proposals involve switching grant away from the shire districts and into London and to a lesser extent the metropolitan districts
 - ii) The safety net is expenditure neutral; it must be self-financing under existing powers. Therefore changing the pattern of the safety net can only reduce safety netted CCSS figures in the north (ie the eventual losing authorities) at the cost of putting up safety netted CCSS in the south (ie the eventual gainers). Moreover putting more grant in is ineffective: for any given safety net this merely takes away a common sum per adult off community charges everywhere. Should Mr Ridley pursue his top-slicing RSG, ^{provision} the main arguments against it are:

- pushes up the CCSS
- appears to require controversial legislation
- room would have to be found within AEF.

iii) Within a given quantum of AEF, new specific grants also change the pattern of safety-netted CCSS figures. The proposed ILEA grant - applied after the safety net - will reduce CCSS in all inner London boroughs.

- [If appropriate]: a specific grants for areas of low rateable value would reduce community charges in the north; proposal to be investigated further.

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ANNEX K

COMMUNITY CHARGE DEMAND NOTE

A copy of the demand note as currently drafted is attached.

2. As you will see, it includes a line for contributions to/receipts from the safety-net. You expressed doubts in correspondence last Autumn about the inclusion of this line, and suggested that we should look at this point further at the time decisions on the safety net more generally were taken. In the interim, the local authority associations have been told that the Government plans to introduce the type of demand note attached.

3. The arguments against including the safety net adjustment on the demand note are that:

- it will raise the profile of the safety-net, and prompt complaints in the contributing authorities that they are having to pay towards overspending in other areas;
- it risks provoking pressure for the Exchequer rather than gainers to pay for the safety net.

4. The arguments for including this adjustment are that:

- it is necessary to show contributions to/receipts from the safety-net if accountability is to work in the first few years of the new system;
- there is a risk that gaining authorities will use their gains to finance extra spending, rather than reduce the community charge, as the safety-net unwinds; this risk will be minimised if it is clear that contributions to the safety-net have fallen compared to previous years.

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ANNEX
K

5. On balance, we feel that the arguments point to including the adjustment in the demand note, because of the importance of accountability, and of the risks to public expenditure posed by the safety-net. We think that technically it should be possible to exclude the adjustment line, but would recommend that it should appear provided we are content that the form of safety net chosen does not expose the Exchequer to a serious risk that we shall have to provide extra grant.

Line to Take

6. Content in principle for the safety-net adjustment to appear, provided preferences on form of safety net satisfied.

NAME OF CHARGING AUTHORITY

COMMUNITY CHARGE BILL FOR THE PERIOD
1st April 1990 - 31st MARCH 1991

NAME
AND
ADDRESS

DATE OF ISSUE

ADDRESS OF PROPERTY GIVING RISE TO CHARGE
(IF DIFFERENT)

Ref No.

You are shown in the Community Charges Register as liable to pay a Community Charge as set out below. The Community Charge helps to pay for spending on local services. Some of this spending is also paid for by the Government and from rates paid by businesses. The Governments grant system is designed to allow (before transitional "safety net" contributions) a standard level of service to be provided for a community charge of £

YOUR BILL

THE READY RECKONER

	AMOUNT NEEDED BY YOUR SPENDING BODIES TO PAY FOR THE SPENDING THEY PROPOSE (If Per head)	AMOUNT NEEDED TO PAY FOR THE STANDARD LEVEL OF SERVICE (If Per head)
NAME OF PRECEPTING BODY 1		
NAME OF PRECEPTING BODY 2		
NAME OF PRECEPTING BODY 3		
NAME OF PRECEPTING BODY 4		
NAME OF PRECEPTING BODY 5		
LESS GOVERNMENT GRANTS BUSINESS RATES		
CONTRIBUTIONS TO OR FROM SAFETY NET (SEE NOTES)		
AMOUNT NEEDED		
ADJUSTMENT (SEE NOTES)		
COMMUNITY CHARGE		
TOTAL AMOUNT OF PERSONAL COMMUNITY CHARGE DUE FOR THE PERIOD DD/MM/YY - DD/MM/YY		
LESS REBATE ENTITLEMENT		
AMOUNT PAYABLE BY YOU		

This Community Charge account is payable in 10 monthly instalments.

First payment of £ due DD/MM/YY
followed by
9 payments of £ due on the nth day of each month

YOU MUST INFORM ME IF YOU CHANGE
YOUR PLACE OF RESIDENCE DO THIS
BY FILLING IN THE FORM OVERLEAF

Payment documents to follow

FOR DETAILS OF HOW TO PAY SEE OVER
TELEPHONE ENQUIRIES TO 123 456 7890

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ANNEX 3 L

NNDR: DECISIONS AND TIMING

Background

1. There will be two sets of decisions for Ministers on the NNDR:

(a) in June/July, final decisions on the transitional arrangements;

(b) in September/October, deciding the yield of NNDR and the starting poundage.

Transitional Arrangements

2. As you know, Mr Ridley has already put forward revised proposals here.

(a) He proposes doubling the threshold for special protection for small businesses from new rateable value of £7,500 to £15,000 in London, and from £5000 to £10,000 elsewhere.

(b) And he wants to drop the present proposal to limit gains to 10 per cent of the old rate bill, in real terms. Protection for losers would be financed instead by a premium on the NNDR poundage, coupled with a 20 per cent cap on gains in the first year only. Mr Ridley's objective is to allow the gains to come through much earlier.

As you will recall, you minuted the Prime Minister opposing both these proposals. She has said that the matter should be discussed at the next E(LF) meeting.

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ANNEX
L

3. It is therefore unlikely that this issue will come up on Thursday. In case it does, the key points are:

- (a) on small businesses,
- doubling limit risks letting in branches of multiples, eg off-licences, even small building society branches;
 - propose instead increase from £7,500 to £10,000 in London, and from £5000 to £7,500 elsewhere, covering 70 per cent of properties;
- (b) on the premium on the poundage,
- turns gainers into losers on a substantial scale;
 - benefits those with big gains to come, at the expense of those who just about break even;
 - means starting NNDR poundage would be perhaps one-eighth higher than it should be - tantamount to breach of faith with business community about level of business rates under new system.

Generally, you could welcome the chance to discuss this. It may be better to do this in a small meeting, rather than in E(LF).

Yield

4. The yield of the NNDR will be determined broadly as follows:
- 1989-90 yield from private sector and nationalised industries uprated by September RPI;
 - plus Crown contribution in lieu of rates (revalued and uprated);
 - plus allowance for buoyancy;
 - less mandatory reliefs for charities, deduction for effect of appeals etc.

5. This is largely a matter of arithmetic, and setting the initial poundage follows from the decisions on the yield. Mr Ridley may argue, in the autumn, that the burden on business ratepayers is too high, and that the uprating should be rather less than the September RPI, particularly if that turns out high. But indications so far are that he is reasonably robust on this point.

6. The E(LF) paper incorporates DOE's estimate of the NNDR yield for 1990-91, of £10.5 billion. We think this may be on the high side - it assumes a September RPI of 8 per cent, and buoyancy of 2 per cent. But it was agreed at the Prime Minister's 25 May meeting that it was right for this to feed through to local authorities, and for it to be fully offset within AEF by lower RSG. In any case, you could resist arguments that RSG looks low on the grounds that

- what matters, to local authorities and for public expenditure, is the quantum of AEF;
- the NNDR estimate may be on the high side; though this is offset by a low estimate of specific grants (see separate brief), so that the RSG figure may be broadly right.

THE COMMUNITY CHARGE AND THE RPI

There are two effects on the RPI when the community charge is introduced in 1990-91.

- a. A one-off effect when the community charge is introduced. This arises because the general RPI does not cover those households likely to benefit most from the new system (ie high earners and pensioners). The RPI Advisory Committee Report argued that as those households covered by the RPI will have to meet a larger share of the cost of local authority services, then this should be reflected in the RPI as a price increase. It will add between 0.1 and 0.2 percentage points to the RPI.
- b. The second effect is the extent to which increases in community charges feed through into the RPI. A 1 per cent increase in the community charge will add about 0.05 percentage points to the RPI.

2. The impact on the RPI of the community charges implied by the DOE proposal (spending at £33.9 billion and AEF at £23 billion) is as follows:

One-off effect	0.1 to 0.2
Increase in community charges (£301 in 1990-91 compared to a rate bill per adult of £274 in 1989-90 is an increase of 10 per cent)	<u>0.5</u>
	<u>0.6 to 0.7</u>

3. Changes to the RPI have a direct effect on public expenditure. A change in the RPI of one percentage point has the following effects:

- a. social security benefits £280 million⁽¹⁾
- b. inflation-proofed public service
pensions £ 20 million.

(1) Assuming no corresponding increase in RPI less housing.

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4. In addition, changes in community charges affect community charge rebates. A change of £10 on the community charge adds or reduces rebates by about £40-50 million.

5. So in total, from a base of £274, each extra £5 on the community charge adds 0.1 percentage points to the RPI and about £50 million to public expenditure.

Line to take (defensive)

[If others argue that AEF should be increased so as to reduce CCs and hence the RPI.]

6. Increasing AEF would not necessarily shield the RPI at all. It all depends on whether LAs would respond by reducing their CCs or (as is all too likely) by increasing their expenditure. In the latter case there would be no RPI effect.

7. Even if extra AEF did reduce CCs £ for £ (highly unlikely), then £200 million on to AEF would reduce community charges by £5-6. This would reduce the RPI by 0.1 percentage points and result in public expenditure savings of about £50 million (though mostly not until 1991-92).

8. The eventual public expenditure impact of increased grant remains considerable (about 75 per cent of the initial increase). The cost of extra grant far outweighs any public expenditure savings on CC rebates, social security benefits and public service pensions.

Scottish experience

The community charge was introduced in Scotland on 1 April 1989. The average personal community charge is £280, which when added to the average water community charge of £21, gives an overall average community charge bill of £301.

2. This represents a substantial increase of 14 per cent over the average domestic rate bill per adult in 1988-89.

3. Scottish local authorities have plans to increase spending in 1989-90 by 11½ per cent over 1988-89 and, in addition, to build up balances (ie most of the 14 per cent increase in income will be reflected in higher spending but some will feed through into increased balances).

4. This represents a real increase in spending of some 6 per cent, although Mr Rifkind will argue that the volume increase is not so high - perhaps 3½ to 4 per cent (and that is too high).

5. Local authorities plan to increase overspending relative to need by nearly 100 per cent in 1989-90 (ie from 4½ per cent above need in 1988-89 to 8½ per cent above need in 1989-90).

6. Twelve authorities will spend more than 15 per cent above needs in 1989-90 (highest is Glasgow at 45 per cent). All of these authorities have increased spending by large amounts in 1989-90 - they range from increases of 11 per cent to 35 per cent. In other words, they could have set community charges lower - they have taken the opportunity to blame the high level of community charges on the Government.

Conclusion

7. Evidence from Scotland suggests that the introduction of the community charge will encourage local authorities to increase spending. A generous grant settlement will only fuel any tendency for them to do so - it is therefore important for the grant settlement to give the appropriate signals and indicate the Government's intention to continue to exert downward pressure on local authority spending.

YEARS 2 AND 3Background

1. Mr Ridley's paper suggests that the next meeting of E(LF) should consider how to take the year 1 proposals forward into future Survey years.
2. In the Autumn Statement, we shall have to provide figures for years 2 and 3 for:
 - a. projected NNDR payments;
 - b. Revenue Support Grant;
 - c. specific grants;
 - d. projected local authority self-financed expenditure.

Specific grants will be shown as part of departmental programmes. There is no commitment to show figures for the aggregate of AEF for years 2 and 3 - we can decide whether it is to our advantage to do so, though it would be difficult to refuse to publish the figures if asked.

Assessment

3. These four items can and should be handled in different ways.
4. Local authority self-financed expenditure is important for its impact on GGE. Decisions on that will be taken towards the end of the Survey, by Treasury Ministers, consulting DOE only so far as it is necessary. No decisions should be taken now, and it would be best to void any discussion of the issue.
5. Grant and NNDR payments will need to be agreed with colleagues, probably in E(LF). But given the uncertainties surrounding the overall Survey prospects, decisions are probably best left until the autumn, when we will be better able to assess how hard we need to apply downward pressure on these items in the interest of securing an acceptable outcome overall.

6. We shall need to consider the approach to years 2 and 3 with you in more detail nearer the time. But we are likely to be arguing for much lower figures than colleagues will want to see.

- It would help most with the Public Expenditure aggregates to have the lowest plausible figures - at the extreme, even to have a stylised presentation, showing RSG and NNDR flat in cash terms.
- If colleagues found that unacceptable (which they almost certainly would), a natural next step would be to show AEF, including specific grants, flat in real terms; or at least to show RSG and NNDR flat in real terms.

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- Spending Ministers, however, will argue that the figures should be realistic (as intended within the new planning total and the new system of local government finance), and that increasing real needs should be reflected in increasing real grant.

- I understand that DOE have yet to give this much thought. They are likely to argue for realistic figures. But they might take the point that substantial real increases would give the wrong signal about spending to local authorities.

7. As far as specific grants for years 2 and 3 are concerned, divisions will begin discussions in the normal way, though without committing themselves to publishing realistic figures, in case it is decided to go for a stylised presentation of AEF across the board.

8. We suggest the main aim at Thursday's meeting should be to keep options open. It would be best to discuss this privately with Mr Ridley before any substantive discussion in E(LF).

Line to take

9. Look forward to considering proposals on years 2 and 3 in due course. No need to decide now. [In the past, has in fact been settled in the Autumn.]

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ANNEX P

USE OF RESERVES

1. Local authorities have budgeted to draw £945 million from reserves (balances and special funds) in 1989-90. This is a very substantial amount, though drawings in previous years have certainly run into hundreds of millions.

2. Nonetheless, they still have substantial reserves left. Mr Ridley's 13 June letter says that, at 31 March 1989, local authorities had rate fund balances of £1.6 billion, and special fund balances of £2.5 billion. The pattern varies widely, of course, from authority to authority.

3. The use of balances in 1989-90, and the potential for further use in 1990-91, do not directly affect the decisions on total standard spending (TSS) and the CCSS. You accepted early in discussions the DOE view that these decisions must assume no use of reserves. But use of reserves does affect the debates about likely actual spending, and hence actual CCs.

4. You could make a number of points, arguing that actual spending and actual CCs are likely to be lower than the DOE estimates:

- (anecdotal evidence suggests that) much of the spending financed out of balances this year was of a one-off nature - special purchases of school books etc;
- *manpower figures show slight decrease - also suggests substantial one-off spending*
- it will not all therefore be carried forward into 1990-91;
- even if it is, local authorities are able to fund it again out of reserves;

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- either way, charges will be lower than in the DOE estimates, which assume spending carrying on, with no use of reserves.

5. On the other hand, DOE are likely to argue that:

most of the spending out of reserves in 1989-90 is not one-off, but continuing spending, financed from reserves because of unexpectedly high inflation, and the desire to keep rates down and spending up with elections in the counties;

- LAs will therefore want to rebuild reserves next year, particularly since the blame for higher CCs will fall on the Government;
- and with rate fund balances down to £1.6 billion, it is unrealistic to expect, under any circumstances, that anything like £945 million will be drawn down again.

6. Our own view is that DOE may well be right that LAs will look to rebuild their balances this year. It looks as though some Scottish LAs did this this year. So this ground is best avoided. But if pressed on upward pressures and likely actual CCs, you could make the points:

- LAs still have over £4 billion in ^{total} reserves;
h
- these have been built up, over the years, from rates, to provide a cushion against unforeseen upward pressures and contingencies;
- reasonable therefore to expect LAs to draw on them if necessary, to avoid adding ^{to} burden on taxpayer or ratepayer/chargepayer.
h

GENERAL POINTS TO MAKE ON PUBLIC EXPENDITURE

- Public expenditure restraint crucial part of strategy: for medium term aim of reducing tax burden; to reassure markets of soundness of financial policy and determination to defeat inflation; if Government not prepared to restrain its spending, squeeze on rest of economy must be that much greater.
- Facing very difficult Survey. Huge bids entered; significant proportion reflects commitments already made or other non-discretionary changes [some £4 billion]; little prospect of further savings of sort achieved last year (£5 billion from benefits to unemployed, housing receipts, nationalised industries performance, and agricultural market support).
- Must look hard at priorities. Every £50 million more made available to local authorities is £50 million less for hospitals or roads or science.
- Size of PSDR not a reason to spend up. Surplus reflects Chancellor's Budget judgement. Nothing that has happened since suggests judgement too tight. Quite the reverse. While demand and inflationary pressures remain strong, must be cautious. [Much of surplus will disappear naturally as economic growth moderates. Rest must be available for reducing tax burden].
- Inflationary pressures are a reason for restraint in spending, not for pumping more money into local authorities.

TRENDS IN EXPENDITURE, TAX AND BORROWING

(% of GDP)

	<u>GGE</u> <u>ex priv proc</u>	<u>Tax burden</u> <u>(non-oil)*</u>	<u>PSBR</u>
1978-79	43½	34½	5½
1979-80	43½	35	4½
1980-81	46	36½	5½
1981-82	46½	38½	3½
1982-83	46½	38½	3½
1983-84	45½	37½	3½
1984-85	46½	37½	3
1985-86	44½	37½	1½
1986-87	43½	37½	1
1987-88	41½	37½	-¾
1988-89	39½	37½	-3
1989-90	39½	37½	-2½
1990-91	39	36½	-1½
1991-92	38½	36	-1
1992-93	38	35½	-½

(Source: FSBR)

* Non-oil taxes and NICs as % of non-oil GDP

AVERAGE ANNUAL REAL EXPENDITURE GROWTH

(%)	Planning total (old)	Planning total ex priv proc	GGE	GGE ex priv proc	Debt interest
<u>FSBR</u>					
1968-69 to 1978-79	2.8	2.8	2.9	2.9	3.5
1978-79 to 1988-89	0.4	0.9	0.9	1.3	1.2
1984-85 to 1988-89	-1.4	-0.7	-0.8	-0.2	-1.8
1984-85 to 1989-90	-0.1	0.1	-0.1	0.2	-3.8
1988-89 to 1991-92	4.1	3.4	2.2	1.7	-10.7

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ANNEX R

PAY PRESSURES

The main pressures on the pay of LA employees come from the following groups:

(a) Administration, technical and clerical (722,000 GB). Claim for 12% from July 1989. Latest offer from employers 7%. NALGO balloting on rejection of offer and industrial action (succession of 1, 2, 3 day strikes). Other unions (NUPE, TGWU) balloting on rejection of offer, but may be possible to settle around 8%. Could be lower from July 1990, say 5%-6%.

(b) Teachers (455,000 E & W) 6.3% settlement from April 1989. May be possible to settle around inflation rate for settlement from April 1990. Therefore likely be 6%-7%.

(c) Police (146,000 GB) 8.5% settlement from September 1988. Settlement based on average earnings in 12 month period to May. Therefore likely to be around 9% from September 1989. Assume similar increase, 7%-9%, from September 1990.

(d) Manuals (1 million) 5.6% settlement from September 1988; may well be higher from September 1989, c.6-8%. Assume lower increase from September 1990, say 6%.

2. As you know, DOE have projected LA spending in 1990-91 as 7% above 1989-90 budgets. On that basis, most of the cost of the rises assumed above could be regarded as included within the DOE projection if we argue that forecast rises in 1989-90 should

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already be reflected in 1989-90 budgets. On that basis, the 1990-91 rises projected above would put only limited additional pressure on LA spending in 1990-91, at most £100 million.

3. Colleagues may dispute this, particularly if there is uncertainty over the 1990 inflation rate. You will however wish to reject any suggestion that Total Standard Spending, or AEF, should be increased to reflect any extra pressures on pay.

Line to Take

4. - difficult to project pay trends beyond current year, but good chance many LA settlements next year will be lower than ⁱⁿ ~~this~~ ^{year};
- DOE projection of actual spending already assumes spending up 7% in 1990-91 compared to 1989-90; some 1990 pay settlements may in fact be below this, though there is of course always ^{pressure} on police pay; expected 1989-90 increases ^{for all groups} should already be reflected in 1989-90 budgets;
- reject any suggestion Total Standard Spending or AEF, should be increased to accommodate possible extra pressures on pay; best way in which we can hope to contain pay settlements is to hold down AEF and TSS.

CONFIDENTIALANNEX SBACKGROUND DATA

	<u>1989-90 adjusted figures</u>	<u>E(LF) proposal</u>	<u>Cash increase</u>	<u>% increase</u>
<u>Total Standard Spending</u> fbn	29.7	32.8	3.1	10.4%
<u>AEF</u> fbn	21.4	23.0	1.6	7.5%
Of which:				
RSG fbn	9.1	9.4*	0.3	3.3%
SGs fbn	2.8	3.1	0.3	10.7%
NNDR fbn	9.5	10.5	1.0	10.5%
<u>CCSS</u> £	227	275	48	21.1%
<u>DOE projected actual spending</u> fbn	31.7	33.9	2.2	6.9%
Actual CC	258	301	43	16.7%

* HMT forecast outcome, including ILEA specific grant

<u>Increases on baseline</u>	fbn
RSG	0
SGs	+0.2
NNDR	+0.7
AEF	+0.9

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Y SWYDDFA GYMREIG

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

mp

CHIEF SECRETARY		20 June 1989
REC.	21 JUN 1989	
ACTION	<i>Mr Potter</i>	
COPIES TO	<i>Co. Mr Anson, Mr Phillips, Mr Edwards Mr AM White, Mr Hudson, Mr G White</i>	

Dear Secretary of State

STANDARD COMMUNITY CHARGE

Malcolm Rifkind copied to me his letter to you of 8 June.

I sympathise with the difficulties which Malcolm is having in this area and I certainly have no objection to proposals which would bring the operation of the standard charge in Scotland more into line with the way in which it will work in Wales and England. But the proposals in his paper go further than that. I could not agree to his simply taking a power to prescribe the multiplier up to a maximum of 2, as proposed in paragraph 8.1 of his paper. I do not see how this would do anything to ease the pressures on Malcolm (indeed, it would increase them) unless at the same time he were to give a commitment to use it to set a maximum of one and it has already been agreed in our correspondence earlier this year that this would cause unacceptable difficulties for both of us.

I suggest that it would be better for Malcolm to allow greater flexibility in the operation of the charge by introducing more classes in the way our system does. He could at the same time take a power akin to ours to prescribe maximum multipliers in each case, but it would have to be made plain that there was no intention of using this to set an across-the-board level of a maximum of one.

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

/The experience

WALKER
TO
RIDLEY
20/6

CONFIDENTIAL



The experience with local authorities in Wales in relation to the standard charge suggests that a large factor in their decisions on the levels of the multipliers will be the assumptions which I will build into the Revenue Support Grant settlement. Malcolm assumed the maximum multiplier in his Settlement. Of course this is a matter for his judgement, but I wonder if he would find it helpful in dealing with criticism if he were to announce that he will equalise on the basis of a lower assumed multiplier next year.

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

Yours sincerely

Keith Jarvis

Approved by the Secretary of State
and signed in his absence



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

CONFIDENTIAL

The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

mp

20 June 1989

Dear Malcolm,

THE STANDARD COMMUNITY CHARGE

I have seen a copy of your letter of 8 June to Nicholas Ridley about problems being caused by the standard community charge in Scotland and proposing action to tackle them.

I mentioned in my letter of 2 March that if any reduction in authorities' revenue from the standard community charge were to be compensated for by increases in the level of personal community charge, this would have an impact on community charge rebate expenditure. About a quarter of any additional revenue raised through increased personal community charges would effectively be raised through additional benefit expenditure, and this has not been budgeted for. Furthermore, as 20% of the national average community charge has been added to the Income Support benefit rates on a "once-off" basis, any increase in the level of community charges would almost certainly lend to pressure for similar increases to Income Support rates.

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

CH/EXCHEQUER	
REC.	20 JUN 1989
ACTION	CST
COPIES TO	

✓ 20/6

John Moore
John Moore

JOHN MOORE

MOORE
TO
RIFKIND
20/6

POTTER
TO
CST
21 JUN

lg2.ds/potter/minutes/17

SECRET AND PERSONAL

FROM: BARRY H POTTER (LG1)
DATE: 21 June 1989
x4790

CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Phillips
Mr Edwards
Mr Hudson

NOTE ON ASSISTANCE TO COMMUNITY CHARGE PAYERS IN THE NORTH

I attach a speaking note for your discussion with No.10 as requested.

BHP

BARRY H POTTER

SECRET AND PERSONAL

NOTE ON ASSISTANCE TO COMMUNITY CHARGE PAYERS IN THE NORTH

Problem:

Original E(LF) proposal and Mr Ridley's latest ideas on the safety-net allow the first £25 per adult of grant losses to feed through to community charges. This figure on the basis of low spending assumption: in practice will be higher.

Necessary to feed through some losses in first year, if gains are to come through in the South. But difficult for the North to bear losses on this scale. Represents a considerably greater proportionate burden for them, because average domestic rate bill per adult is very low.

Solution:

Find mechanism to stop the first £25 per adult of losses being suffered in areas where average domestic rate bill per adult is low. Common characteristic of these areas is that they tend to have low average domestic rateable values. Suggest special treatment of these areas, linked to a threshold level of average domestic rateable value.

Specific Proposals:

(i) New specific grant paid to local authority areas with average domestic rateable values below threshold of £140. Would cover some 27 local authorities including Calderdale, Rossendale, Pendle, York and Hyndburn; but also Rotherham, Bolsover and Copeland.

SECRET AND PERSONAL

(ii) Grant paid at rate of £25 per adult - sufficient to allow no losses on average rate bill per adult in these areas, if authorities stick to the spending assumption.

(iii) Specific grant phased out over 5 years; but amounts could be fixed now; grant equal to a 10% subsidy for community charge payers in these areas in the first year falling in real terms thereafter.

Cost:

Around £75 million in 1990-91; cost in subsequent years depends on precise format.

Impact on Community

Charges:

Could be combined with either the original E(LF) or new Ridley proposals on the safety-net - or any other variant which allows through the first £25 of losses. If cost is additional on AEF, would decrease community charges in qualifying areas by £25 while leaving other CCs unchanged. If costs met from within AEF, would add £2-£3 on community charges elsewhere.

Legislation:

Would be necessary if paid as a specific grant [may be variant available in which the special treatment of these areas forms part of the safety-net]; should be able to withstand a legal challenge, providing legislation is drafted carefully.

POTTER
TO COST
21 JUN

SECRET AND PERSONAL

FROM: BARRY H POTTER (LG1)
DATE: 21 June 1989
x4790

CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Phillips
Mr A J C Edwards
Mr Hudson

THE SAFETY NET AND THE NORTH

I had a word with Juliet Wheldon (T.Sol) yesterday evening about whether the proposed specific grant for areas of low average domestic rateable values might be subject to judicial review.

2. Miss Wheldon was reassuring. The main point is that, as noted in the original minute, the specific grant would require new primary legislation. Providing that legislation were drafted in a sufficiently watertight form so that it overrode any other legislation pertaining to the safety net, Miss Wheldon believes that there should be no risk of successful legal challenge. She reminded me that the risks of judicial review arise mostly where one is seeking to interpret existing law in a new way.

3. Miss Wheldon's view, which of course is simply provisional and on the basis of a very quick telephone conversation yesterday evening, is that providing Parliamentary Counsel is properly instructed, the risks of successful challenge are low.

4. It has also occurred to me that there may be a variant of the proposal which does not require primary legislation at all. The relevant Section (84) of the Local Government Finance Act 1988 provides wide powers on the form of the safety net providing that it is self-financing. It ought therefore to be possible to phrase the safety-net in the following way:

SECRET AND PERSONAL

"The safety net will allow losses of up to £25 per adult to feed through in all losing areas, except in those authorities where average domestic rateable values per hereditament are below £135; these authorities will bear no losses in the first year; the cost of the safety-net will be financed by"

5. I asked Miss Wheldon whether such a formulation might be possible. Her view was that it would require further investigation of Section 84. She pointed out, however, that if there were any doubt about the vires for such a form of safety-net, powers could be taken in the Local Government and Housing Bill to provide the necessary cover.

BHP

BARRY H POTTER



mp

CHIEF SECRETARY	
REC.	2 JUN 89
ACTION	Mr EDWARDS
	Mr ANSON, Mr PULLIAS
	Mr CURPIN, Miss PEARSON
	Mr POTTER, Mr AM WHITE
	Mr THURSON, Mr G WHITE
	Mrs GRAPLIN

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

The Rt Hon Malcolm Rifkind MP
Scottish Office
Dover House
Whitehall
LONDON
SW1

My ref:
Your ref:

2

June 1989

Dear Secretary of State,

STANDARD COMMUNITY CHARGE

Thank you for your letter of 8 June. I have also seen the letters from Peter Walker and John Moore dated 20 June.

I understand the difficulties which the operation of the standard community charge is causing, but I do not believe that the solutions you propose are necessarily the best way of tackling them. I think that the way forward lies in allowing charging and levying authorities in all three countries more discretion than is currently available to them to allow a reduction or remission in the standard charge in cases where its effects appear unduly hard. (There would need to be some general criteria here to ensure that local authorities exercised their discretion fairly as between different individuals in similar circumstances.)

This approach would not involve a radical restructuring of the standard charge, with the concomitant danger of our being seen to be over-generous to second home owners, and would enable us to say quite genuinely that local authorities have it in their power to provide relief in the sorts of cases you mention. It would also, by targeting the relief on the cases where it is needed, minimise the effect on rebates expenditure, about which John Moore is concerned.

Any such provision would require an amendment both to our community charge legislation and yours, in the Local Government and Housing Bill which enters Lords Committee in mid-July. We will therefore need to agree the details quickly if you and colleagues are content with the approach I am suggesting.

We should need to handle any announcement carefully: I think that a PQ answer in advance of Lords Committee would be best, with simultaneous press releases in the three countries. If you are content, my officials can prepare drafts in consultation with your officials and Peter Walker's.

I am sending a copy of this letter to members of E(LF).

Yours sincerely
N. Ridley

PP NICHOLAS RIDLEY

(Approved by the Secretary of State & signed in his absence)

RIDLEY
TO
RIFKIND
23/6

CONFIDENTIAL

FROM: MISS C EVANS
DATE: 26 June 1989

MR A J C EDWARDS

cc: PPS
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Potter
Mr A M White
Mr Hudson
Mr G C White
Mrs Chaplin

STANDARD COMMUNITY CHARGE

The Chief Secretary was grateful for your submission of 19 June. He has also seen Mr Ridley's letter of 23 June. In principle he dislikes the standard community charge quite a lot. He does not see how we could, or why we should, deny Mr Rifkind the ~~powers that~~ ^{powers that}

Mr Ridley and Mr Walker already have. He would be quite happy to see the charge limited to one unit in view of its many anomalies, but he believes that an exemption for unused or unfurnished property would be unwise.

2 The Chief Secretary notes that Mr Ridley wishes to extend local authority discretion and, subject to the qualifications in his letter, the Chief Secretary thinks he could live with that.

3 The the Chief Secretary is therefore sympathetic to Mr Rifkind, but would prefer to see his response to Mr Ridley before commenting.

CE

MISS C EVANS
Private Secretary

POST
TO
EDWARDS
26/6



SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

RIFORD
TO
RIDLEY
29/6

BF 6/7

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

CH/EXCHEQUER	
REC.	29 JUN 1989
ACTION	CST
COPIES TO	

29 June 1989

✓ 29/6

Dear Nicholas,

STANDARD COMMUNITY CHARGE

Thank you for your letter of 23 June about proposals relating to the operation of the standard community charge. I have also noted the comments I have received from Peter Walker and John Moore, both writing on 20 June.

I consider that the level of multiplier set by local authorities is at the heart of the problems we are encountering. As I explained in my paper, the assumption made in the Green Paper that a multiplier of 2 would leave second home owners broadly unaffected by the removal of rates simply has not been borne out by experience in Scotland. The average rates bill on second homes in the Strathclyde Region, which contains almost 30% of standard charge properties in Scotland, was £210-£220 last year while the standard charge, based on a multiplier of 2, averages £585 in that Region. There are moreover many properties, both in Strathclyde and throughout Scotland, where the difference is extreme, involving an increase of 10 times or more on last year's domestic rates' bill.

This was not anticipated and the conclusion I would draw is that in Scotland a multiplier of 2 is not reasonable. While therefore I understand the preference to maintain the present position in practice so far as England and Wales is concerned, I feel I need additional powers. The fact is that you have these powers and can, if you so choose, adjust the level of the multiplier for particular purposes. My suggestion that I take such powers to intervene is aimed both at providing me with the same statutory powers as you have and at preserving the statutory position in all 3 countries that the maximum could be up to 2. While we would be likely to use our discretion differently in certain respects to reflect different circumstances in England, Scotland and Wales, the statutory position would therefore be the same.

I am pleased that you agree that we should take steps in any event to allow the incidence of the standard community charge to be reduced. However I am not sure that your suggestion that local authorities should be given greater discretion to allow a reduction or remission in the

standard charge in cases where its effects seem unduly hard offers us a way forward. The introduction of discretion to allow for specific categories of personal hardship would sit very uneasily alongside our policy that hardship arising from personal circumstances under the community charges relates to means and is therefore dealt with through the personal community charge rebate scheme. A major difficulty I see in this approach lies in drawing up the categories for which discretionary remission of the charge would be available. One of the points that has emerged from our detailed look at how the present arrangements are working is the number of different personal circumstances in which apparent hardship is occurring.

It was for these reasons that we moved away from any radical attempt to resolve the problem by reference to 'classes' of people that were affected and suggested building on our present arrangements. The main instrument I proposed for tackling the 'difficult' cases, (apart from those cases where the problem is simply a large increase of the pre-1 April rates bill) was the introduction of a flexible period of grace for unoccupied but furnished property. This seemed to me to offer authorities considerable flexibility to act on a case by case basis and in a manner in which they are already becoming familiar, in that they are already determining periods of grace for unoccupied and unfurnished properties. In other words it fits the Scottish context particularly well, and I hope it need not cause problems for colleagues. It also avoids the kind of problems I have outlined above.

I would therefore be grateful if you could consider this suggestion again. If there is continuing concern about the nature of this proposal (although I think this is misplaced) we would need to consider leaving aside the proposed statutory minimum period of 3 months and instead giving authorities the power to set any period of grace, on a case by case basis, with appropriate powers to extend or shorten the period where they thought fit.

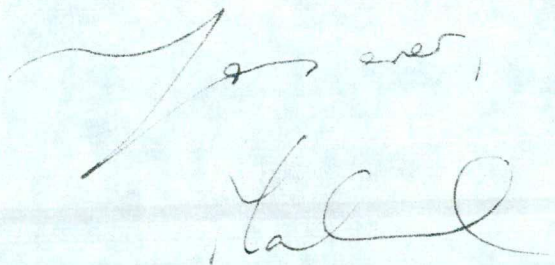
I am disappointed that more consideration does not appear to have been given to my other suggestions. The proposal to exempt unoccupied and unfurnished properties would resolve what is a serious, real and unavoidable bureaucratic tangle for local authorities and, as I indicated, the revenue foregone would be small, particularly since most authorities have set periods of grace at more than the minimum. In this connection, while I understand John Moore's concerns, I think that the revenue effects of our proposals have to be seen in perspective. A reduction of the multiplier to 1 would add, at the very most, £2-£3 to everybody's annual community charge bill. Our other proposals would add considerably less.

I would be grateful finally for an indication of how the proposal that holiday homes which are available for letting should move into rating is developing. This was, as you know, part of the package in my paper to colleagues and I understand that you are considering something similar.

While welcome in themselves I feel strongly that these more detailed changes, if we can agree them, would still be inadequate to deal with the discontent on the standard community charge arising not least from our own supporters in Scotland which will continue unless colleagues can agree that I tackle the multiplier issue. My proposal on that is framed with the precise object of bringing the primary legislation in the three

countries into line and I really do not see why either you or Peter Walker should be prejudiced if I do that.

I am sending a copy of this letter to members of E(LF).

A handwritten signature in black ink, appearing to read "Malcolm Rifkind". The signature is written in a cursive style with a large initial "M" and "R".

MALCOLM RIFKIND

CONFIDENTIAL

CHIEF SECRETARY

FROM : A J C EDWARDS (LG)
x4480
30 June 1989

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mr Culpin
Miss Peirson
Mr Potter
Mr McIntyre
Mr A N White
Mr Hudson
Mr G C White
Mrs Chaplin

ch/ To note that CST sympathises with Mr Rifkind's desire for a power - which Messrs Ridley and Walker already have - to prescribe a standard CC of less than 2 units. But, unlike Messrs Ridley + Walker, Mr Rifkind

STANDARD COMMUNITY CHARGE proposes to exercise this power. DIS

In response to my earlier submission, you said you would like to defer contributing to the Ministerial exchanges on this subject until you had seen Mr Rifkind's response to Mr Ridley's letter of 23 June. Mr Rifkind has now written (letter of 29 June received today) reaffirming his earlier position that he must have a power, like Mr Ridley and Mr Walker, to set the standard community charge multiplier at a level below two units. He would then use the power to set the multiplier at one unit in Scotland.

2. In accordance with your reaction to my earlier submission, the attached draft letter to Mr Rifkind combines sympathy for his problems over the standard community charge with support for Mr Ridley's preference for giving local authorities a discretion of clemency in defined categories of hard case.

3. One is bound to have sympathy with what Mr Rifkind has to say about hard cases. In one well-publicised recent Scottish case, a widow who has left her home to look after her terminally ill daughter has been ordered to pay a standard charge of two units on her own home as well as a personal charge at her daughter's home. The question at issue is whether Mr Ridley's solution of giving local authorities discretion to be merciful in defined categories of hard case will solve the problem or whether the only solution, as Mr Rifkind argues, is to reduce the standard charge multiplier. We understand that Mr Rifkind personally decided to take a harder line against Mr Ridley's suggestions than his officials had recommended.

EDWARDS
TO
CST
30/6

CONFIDENTIAL

From a Treasury point of view, setting the standard charge multiplier at one would have the disadvantage of raising personal community charges by about £3 on average and increasing community charge rebate expenditure by approaching £30 million a year if applied throughout Great Britain. The extra personal community charge payable by people on income support could also generate unwelcome pressures for additional expenditure.

5. From a wider point of view, a Government decision to prescribe a standard community charge multiplier of one would be severely criticised as being an unjustified concession to wealthy people with second homes, including Ministers themselves.

6. The draft letter attached would be intended to encourage Mr Rifkind to explore more sympathetically a solution along the lines sketched by Mr Ridley.

7. The draft letter also expresses concern about Mr Rifkind's 'window tax' proposal to exempt unoccupied and unfurnished dwellings from the standard charge altogether.

8. I understand that No 10 will advise the Prime Minister to arrange for this matter to be discussed and resolved at E(LF) on 11 July. This seems to offer the best way ahead in the circumstances.

AJCE

A J C EDWARDS

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY TO:

The Rt Hon Malcolm Rifkind MP
Scottish Office
Dover House
Whitehall
London SW1

STANDARD COMMUNITY CHARGE

I have seen the recent correspondence on this subject beginning with your letter of 8 June and resting with your letter of 29 June.

I sympathise with the point that your powers in Scotland differ from Nick Ridley's in England and Peter Walker's in Wales. I also share your concern about the potential damage to the community charge policy from "hard" cases on second homes.

That said, I share Nick Ridley's anxieties about prescribing a maximum multiplier of one for the standard community charge, even in Scotland. While it might be possible for this to co-exist with a maximum multiplier of two in England and Wales, there seems little doubt that Nick Ridley and Peter Walker would come under pressure to follow your lead. We would therefore risk ending up with a standard charge multiplier of one throughout the country.

My specific concerns about this are as follows:

- First, setting the standard charge multiplier at one would have the political difficulty that it would be seen as a substantial concession to the wealthy, including many Ministers.
- Second, a standard charge multiplier of one would increase the average personal community charge by an average of some £3 a head (and by substantially more in areas with a large number of second homes), with additional community charge rebate costs of some £2.5 million a year in Scotland and £25 million in England. In addition, people on income support would have to pay slightly more.

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Although I well understand your misgivings, I would hope it may be possible to solve the problem, as Nick Ridley has suggested, by giving local authorities discretion to deal appropriately with defined categories of hard cases. It seems to me that this solution merits close consideration as a matter of urgency.

I see no problem in your other proposals except that I would not favour prescribing as exempt from the standard charge any property which is unoccupied and unfurnished. I fear that a continuing exemption on these lines would encourage people to retain second homes, while leaving them unoccupied and unfurnished, thus exacerbating the problems of housing shortage. Would it not be better to limit the period of exemption to (say) three months, possibly with discretion to local authorities to extend the period in certain cases?

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

CH/EXCHEQUER	
REC.	03 JUL 1989
ACTION	CST
COPIES TO	

✓ 3/7

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~~BF 5/87~~

This string
on EF folder
pls

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 July 1989

Dear David,

STANDARD COMMUNITY CHARGE

The Prime Minister has seen the recent exchanges on the Standard Community Charge, culminating in your Secretary of State's letter of 29 June to the Secretary of State for the Environment. She suggests that this issue might be added to the agenda of the E(LF) meeting on 6 July.

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

Yours
Paul

PAUL GRAY

David Crawley, Esq.
Scottish Office

CONFIDENTIAL



CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

owp
*(Wh is not attending E(LF)
next Tuesday)*

My ref:

Your ref:

The Rt Hon Malcolm Rifkind
Scottish Office
Dover House
Whitehall
LONDON
SW1

CH/EXCHEQUER	
MP REC.	07 JUL 1989
ACTION	<i>EST</i>
COPIES TO	

✓ 7/2
6 July 1989

Dear Secretary of State,

STANDARD COMMUNITY CHARGE

Thank you for your letter of 29 June in response to mine of 23 June.

I certainly could not object to your having the same powers as are available to Peter Walker and me to prescribe maximum multipliers for certain classes of property. I would, however, still find great difficulties with any proposal to use this discretion to set a maximum multiplier of 1 in respect of any significant proportion of community charge properties. This would lead to great pressure on Peter and me to do the same in England and Wales, but there would be severe difficulties in our being seen to soften the effects of the charge in the case of people who would be represented by our opponents as a privileged class. While, therefore, I should be perfectly content for you to take the power to prescribe maximum multipliers, any specific proposals to exercise it in a way which differs from the situation in England and Wales should be the subject of consultation with E(LF) colleagues in the normal way.

From your letter it appears that there may be some misunderstanding of the nature of the proposal set out in my letter of 23 June. I was not suggesting that local authorities should have a discretion to remit or reduce the charge in individual cases. What I have in mind is a power by regulation to allow local authorities to make schemes under which people who fall within the terms of the scheme would be entitled to a reduction or remission of the charge. The regulations themselves could contain provisions on the fair and equitable application of such schemes, and I imagine that we should give general advice on how we see the power being used. Although it would be important to provide safeguards to ensure the power was not abused. I do not think we would want to be as prescriptive as to the

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classes of circumstance which would qualify people for a reduction or remission as you are suggesting. This is something which would be for individual local authorities to decide in the light of the criteria they had decided to adopt.

While I accept, of course, that local authorities have discretion now, the point is that if they exercise it they benefit all second home owners. Under my proposal an authority would be free to set a standard charge multiplier of 2, but would be able to set a lower multiplier for certain categories of property within the various classes. At the moment authorities can claim that the system is not flexible enough to enable them to be generous, and can blame the Government. Making the standard charge more "fine-tunable" would enable us to say quite genuinely that the remedy in particular sorts of cases lies in the hands of the local authority.

It follows that since I am not proposing a "hardship" relief to be operated in individual cases, the point you make about rebates does not really arise. It is worth making the point, however, that there are, of course, no rebates for the standard charge.

I think it would be undesirable to exempt all unoccupied and unfurnished property from the standard charge. We could, I think, be criticised if we adopt a policy which encouraged people to leave domestic property lying idle. The advantage of my proposal is that it would allow authorities to provide relief, if they wished, for property owned by people living in accommodation which went with their job, or property subject to a standard charge while an elderly person was being cared for by relatives or any of the other kinds of case which currently give rise to difficulties.

My proposal would also cover your suggestion that the existing period of grace provisions should apply to properties which are unoccupied and furnished. An authority would be able to provide any relief which seemed appropriate, without necessarily providing a windfall gain to every owner of such property.

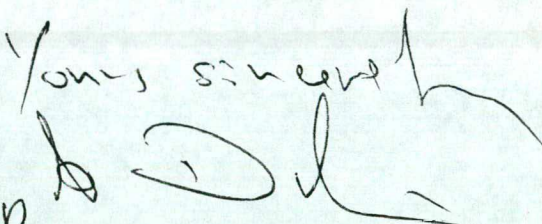
So far as holiday homes are concerned, I am proposing that commercially available holiday accommodation should in general be rateable as non-domestic property, except in cases where self-contained units of property are available for commercial letting for less than 140 days in the year. But I would see no difficulty in your making provisions which differed slightly in the details if you were so minded.

I short, I believe, that my proposals would provide a solution to the difficulties you identify, provided authorities made sensible use of the discretion available to them. It would be for the authorities themselves to justify any decision not to grant relief to people in circumstances which gave rise to controversy. It would, in my view, be better to take this approach than to involve Ministers directly in making decisions on which reliefs should or should not be offered. If, in the longer term, it becomes apparent that the standard charge is still giving rise to difficulties then we could consider a more direct use of powers to prescribe maximum

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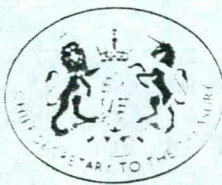
multipliers (which, as I have said, I should be quite content for you to take). But I do not think we should go down the road until we have tried the alternative approach I have suggested.

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

Yours sincerely

pp
NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)

CONFIDENTIAL



MP

Treasury Chambers, Parliament Street, SW1P

Chancellor
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr A J C EDWARDS
Mr Culpin
Miss Peirson
Mr Potter
Mr McIntyre
Mr A N White
Mr Hudson
Mr G C White
Mrs Chaplin

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London SW1

3rd July 1989

Dear Malcolm,

STANDARD COMMUNITY CHARGE

I have seen the recent correspondence on this subject beginning with your letter of 8 June and resting with your letter of 29 June.

I sympathise with the point that your powers in Scotland differ from Nick Ridley's in England and Peter Walker's in Wales. I also share your concern about the potential damage to the community charge policy from "hard" cases on second homes.

That said, I share Nick Ridley's anxieties about prescribing a maximum multiplier of one for the standard community charge, even in Scotland. While it might be possible for this to co-exist with a maximum multiplier of two in England and Wales, there seems little doubt that Nick Ridley and Peter Walker would come under pressure to follow your lead. We would therefore risk ending end up with a standard charge multiplier of one throughout the country.

My specific concerns about this are as follows:

- First, setting the standard charge multiplier at one would have the political difficulty that it would be seen as a substantial concession to the wealthy, and also to many Ministers.

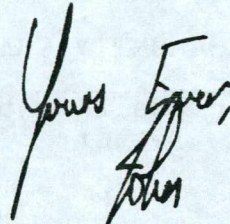
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- Second, a standard charge multiplier of one would increase the average personal community charge by an average of some £3 a head (and by substantially more in areas with a large number of second homes), with additional community charge rebate costs of some £2.5 million a year in Scotland and £25 million in England. In addition, people on income support would have to pay slightly more.

Although I well understand your misgivings, I would hope it may be possible to solve the problem, as Nick Ridley has suggested, by giving local authorities discretion to deal appropriately with defined categories of hard cases. It seems to me that this solution merits close consideration as a matter of urgency.

I see no problem in your other proposals except that I would not favour prescribing as exempt from the standard charge any property which is unoccupied and unfurnished. I fear that a continuing exemption on these lines would encourage people to retain second homes, while leaving them unoccupied and unfurnished, thus exacerbating the problems of housing shortage. Would it not be better to limit the period of exemption to (say) three months, possibly with discretion to local authorities to extend the period in certain cases?

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



JOHN MAJOR

CONFIDENTIAL

CHIEF SECRETARY

FROM : A J C EDWARDS (LG)
 x4480
 10 July 1989

cc **Chancellor**
 Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr Culpin
 Miss Peirson
 Mr Macintyre
 Mr Potter
 Mr A M White
 Mr Hudson
 Mr G C White
 Mrs Chaplin

Ch/ To be taken at E(LF) in the morning. Note Mr Ridley's latest position (see para 8); the only new development since you saw these papers last.

E(LF), 11 JULY :STANDARD COMMUNITY CHARGE

At the Prime Minister's suggestion (Paul Gray's letter of 3 July), E(LF) is to consider the issues surrounding the standard community charge raised in the recent correspondence between Mr Rifkind and Mr Ridley, to which you, Mr Walker and Mr Moore have contributed.

Treasury and wider interests

2. As noted in my minute of 19 June, which also summarised the past history, DOE, the Scottish Office and the Welsh Office have the leading interest in this subject. The key issue is equity between chargepayers. The Treasury does, however, have a considerable interest in:

i. maintaining the take from the standard community charge:

the less revenue local authorities raise from the standard charge, the higher the personal community charge will be and the higher will be the level of expenditure on community charge rebates (available on personal community charges only); and

ii. encouraging efficient use of the housing stock:

exempting unoccupied and unfurnished properties from the standard charge would encourage inefficient use and exacerbate housing shortage.

3. From a wider point of view, across-the-board reductions in the standard charge would make the community charge system more regressive and be criticised as a concession to the wealthy. On the other hand, the standard charge will continue to be a fertile

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source for anomalies and complaint unless local authorities have some discretion in its application. Since authorities will have an incentive to protect their personal community chargepayers, they are likely to exercise such discretion responsibly.

The debate so far

4. Mr Rifkind's original proposals (8 June letter) were:
 - i. He should take powers to prescribe a standard community charge multiplier of up to two personal community charge units in Scotland (and probably use the power to prescribe a maximum multiplier of one unit).
 - ii. Existing powers should be used to prescribe as exempt from the standard charge any domestic property which is unoccupied and unfurnished.
 - iii. Self-catering accommodation genuinely available on the market for holiday lets should be rated as business, not domestic, property.
 - iv. Local authorities should have discretion to waive the standard community charge on properties which are unoccupied but furnished for three months in the first instance, with discretionary extensions thereafter.

5. Mr Ridley (23 June) argued that a better approach would be to put the onus on local authorities to deal with hard cases. The legislation, primary and secondary, should, he suggested, be adapted to give local authorities in all three countries more discretion to allow deduction or remission of the standard community charge in cases where its effects appeared unduly hard. Mr Walker had earlier (20 June) taken a similar line.

6. Mr Rifkind's reply (29 June) reaffirmed his earlier demand for additional powers in line with Mr Ridley's and Mr Walker's; underlined the difficulties which would arise from trying to define in legislation or regulations the very many categories of hard case which might arise; and argued that such an approach would have disagreeable repercussions for the personal community charge. His proposed solution remains to reduce the standard charge multiplier in Scotland to one unit and give local authorities discretion to allow more than the statutory three months period of grace for unoccupied but furnished properties.

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7. Your own letter (3 July) sympathised with Mr Rifkind's wish to have the same powers as Mr Ridley and Mr Walker while expressing the hope that a solution might be found along the lines suggested by Mr Ridley. You stressed the political difficulties and community charge rebate consequences of any imposed general reduction in the standard community charge multiplier and argued against exemption for unoccupied and unfurnished properties on the grounds that this would encourage wasteful use of the housing stock.

8. Mr Ridley has now written again (6 July) saying that he has no objection to Mr Rifkind taking the same powers as he and Mr Walker already have but standing by his earlier proposal of putting the onus on local authorities to deal with hard cases. He explains that what he has in mind is, not to prescribe in detail what concessions local authorities should and should not give, but rather to take "a power by regulation to allow local authorities to make schemes under which people who fall within the terms of the scheme would be entitled to a reduction or remission of the charge". He adds that under his proposal "an authority would be free to set a standard charge multiplier of two, but would be able to set a lower multiplier for certain categories of property within the various classes".

9. Mr Ridley sees his approach of giving discretion to local authorities as providing a much better solution than that proposed by Mr Rifkind to the problems of unoccupied and unfurnished and unoccupied but furnished properties. For holiday homes, he confirms that he too proposes to rate these as non-domestic property except where they are available for letting for less than 140 days in the year.

General assessment

10. We suggest that you should continue to support a way ahead on the lines indicated, and now clarified, by Mr Ridley. Our impression is that the opposition to Mr Rifkind's approach comes more from Mr Rifkind himself than his officials. Putting the onus on local authorities, within certain broad guidelines, seems a much better targeted solution than imposing a lower standard community charge multiplier across-the-board and exempting unoccupied and unfurnished property from any form of tax charge.

CONFIDENTIALTechnical points

11. There are points of which you should be aware on the number of standard community charge properties in Scotland and the financial implications of setting a lower standard charge multiplier.

12. Standard charge properties. Scottish Office officials have told us that in practice only some 30,000 out of 80,000 properties in Scotland registered for the standard community charge are at present paying the charge. The rest are unfurnished and unoccupied. Many of them are local authority properties. Local authorities would like to lose the chore of having to review these properties every three months. From the point of view of encouraging efficient use of the housing stock, however, it seems highly desirable that this chore should continue.

13. Financial implications of lower multiplier. According to calculations by Scottish Office, Welsh Office and DOE respectively, a reduction from two to one in the standard charge multiplier would increase the average personal community charge by about £3 in Scotland and Wales and by about £5 in England: the increases in individual areas would vary considerably, depending on the number of second homes in the area. Such increases would, on DSS's estimates, increase the cost of community charge rebates by some £2 million in Scotland, £1 million in Wales and £25 million in England. In addition, people on income support would have to pay slightly more than otherwise.

Suggested line to take

14. - Agree that Mr Rifkind's powers to set maximum standard community charge multipliers should be brought into line with those of Mr Ridley and Mr Walker.
- On the suggestion of a maximum multiplier for standard community charge, do hope that solution may be found along lines Mr Ridley has suggested and clarified.

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- Three main problems with Mr Rifkind's approach of prescribing a maximum multiplier of one unit:
 - i. looks like concession to wealthy which would be damaging in present circumstances;
 - ii. would add significant amount, if generalised, to national bill for community charge rebate (£25-30 million);
 - iii. not well-targeted: even a multiplier of one will be excessive in certain hard cases.

- Much attracted by Mr Ridley's approach of giving local authorities substantial measure of discretion, while avoiding the excessive level of specification and prescription which Mr Rifkind earlier thought Mr Ridley was suggesting. Discretion would probably need to extend to personal circumstances as well as categories of property.

- Opposed to permanent exemption for unoccupied and unfurnished properties. Dangers of a new window tax. Would encourage dereliction and militate against efficient use of housing stock. Prefer fettered discretion for local authorities in this area, as envisaged by Mr Ridley.

- Content with Mr Rifkind's proposals on unoccupied but furnished property and holiday letting accommodation, subject to glosses noted by Mr Ridley.

- [IF MR WALKER RAISES HIS SUGGESTION of equalising Government grant in Scotland next year on assumption of a lower standard community charge multiplier.] Content that officials should explore this.

AJCE

A J C EDWARDS



Ch/

I couldn't find a
suitable drinks slot

(Mr Onslow is a busy man!)

so I have pencilled in

tea at 3.30pm on Tuesday

12 Sept, at Noll.

Are you content?

Julie **OK.**

*

AA

Let like the
 stop for → structure
 ASAA, so that a
 can be made on
 of M-O.

Phisow & Capital

11/7/89.

To Mr. Hon. Frank Ouslow MP

Thank you for your letter.

I am well aware of the concern among many of our backbench colleagues about the Community Charge safety net, despite the greatly improved prospects announced by Nick yesterday.

I do believe, however, that many of them have got the wrong end of the stick. For example, the fact - to which you refer - that some relatively poor people will lose and some rich people gain is inherent in the switch from rates to the Community Charge, and the safety net does not to exacerbate this. Indeed, to ~~exacerbate~~ a ~~working~~ extent it reduces the ^{overall} number of the relatively ~~poor~~ who lose, though I cannot say that there ~~is~~ is a ~~geographic~~ ^{in charge} ~~is~~ ^{affects} ~~main~~ effect of the ~~is~~ the geographical pattern of losses.

That brings me to what seems to me the main misconception about the safety net. Under the existing rating system, throughout the resource

Equilibrium mechanism between rate, year n, year n+1. Areas where rate values are high substitution those long in areas where rate values are low. The safety net, ~~is a net~~ so far from providing a low ~~transfer~~ transfer of that kind, is a means of planning ~~the~~ the transfer, rather than eliminating or overruling as we occur with us to introduce the Community change with no safety net at all. The effect is actually to reduce the size of the transfers to which ~~we~~ may allocate objects.

~~The reason for the transfer to~~
~~do not consider the~~ do not consider the unusually to phase
~~at a stage~~ at a stage out these transfers, rather than
cancel them outright, especially for the
the low rate areas include a fair number of
Constructive marginal states, which we do not
list. And as for the high rate areas, they
^{will} unequivocally benefit as compared with
the status quo.

and before the 1989
public expenditure was less
than before.

Finally, you ask to see to cut some
tax in the next year's budget. Whether to say
right ~~there~~ with what you get budget, it is
quite impossible to know ^{what} there will be
a ^{at all} hope for tax cuts in 1990. I would say
your own that those whose incomes are below
the tax threshold are, ~~not~~ in general, most
inclined to have to pay a tax like the
full country charge, given the way the
present system works, given the way the
work. But ^{of course} note your views.



CHANCELLOR

SAFETY NET ETC

I have talked to Andrew Hudson about Cranley Onslow's letter. There are, unfortunately, no DOE exemplifications to show the income distribution of the community charge with and without the safety net. The only ones available (attached) show the distribution of rates and of the community charge after the transition (ie with no safety net). These show that the community charge will be (on the assumptions used) slightly lower as a proportion of net income than rates for all the lower income bands, mainly because of the impact of housing benefit.

2. This doesn't tell us anything about the impact of the safety net, which affects the distribution between areas but not within areas. The main effect of it is to slow the shift from the north and London to the rest of the south. In principle, it seems likely that this will reduce the burden on low-income families, but the effects are not self-evident. And there will certainly be individuals in Woking who are low-paid, will lose from the switch from rates to the community charge, and who will have higher bills during the transition as a result of the safety net. The only way round this sort of problem is to have dual-running, or to have individual safety nets, which would be horrendously complex and no doubt horrendously expensive; but I suspect John Gummer may have put the idea in backbenchers' minds.



3. The main points to make are

- wait for Nick Ridley's statement tomorrow (since some of the latest twiddles may be seen as welcome responses to this sort of pressure).
- safety net cannot by definition do anything about distribution within areas: that is inevitable consequence of decision to abolish rates from 1/4/90.
- no good thinking that throwing more grant at the problem will help: local authorities will just spend more.

4. Andrew has not, I'm afraid, been able to get any numbers for housing benefit and tax thresholds. But the general point must stand, that most of those who won't benefit from tax cuts will be protected by housing benefit from any significant loss. It won't of course be all - for example some will be hit by the capital cut-off.

A handwritten signature in dark ink, appearing to be 'A C S Allan', written in a cursive style.

A C S ALLAN



FROM: A C S ALLAN
DATE: 11 JULY 1989

MR SEDGWICK

cc Sir P Middleton
Sir T Burns
Mr Monck
Mr A J C Edwards
Mr D J L Moore
Mr Bent
Mr Hibberd
Mr M L Williams
Mr O'Brien
Mrs Chaplin

RPI

The Chancellor would be grateful for a note setting out the forecast increases in the RPI attributable to water privatisation, electricity privatisation, and the introduction of the community charge, based on the following assumptions:

- (i) For water privatisation, the increases should be restricted to those directly attributable to privatisation itself: ie the net effect (if any) of moves to a new capital structure should score, but not the funding of investment that would take place with or without privatisation.
- (ii) The same assumptions should be used for electricity privatisation.
- (iii) For the introduction of the community charge, no assumptions should be made about whether local authority spending or revenue raising would be higher or lower if rates had been retained. The impact on the RPI should be confined to the 'index household effect'.

2. In each case, he would be grateful to know the forecast increase in prices for the service as a whole (ie the forecast percentage increase in water prices etc); and the portion



attributable to privatisation and the introduction of the community charge. In addition, he would like figures for the corresponding contributions to the total increase in the RPI. Quarterly figures up to Q4 1991 would be helpful.

3. I should be grateful if you could let me have this information by close of play on Monday 17 July.

A handwritten signature in black ink, appearing to read "A C S Allan".

A C S ALLAN

FROM: J S HIBBERD ✓
 DATE: 14 JULY 1989
 EXT : 4590

(Bloo)

CHANCELLOR

cc : Sir Peter Middleton
 Sir Terence Burns
 Mr Monck
 Mr A J C Edwards
 Mr D J L Moore
 Mr Sedgwick
 Mr Bent
 Mr M L Williams
 Mr O'Brien
 Mrs Chaplin

RPI:

You asked (Alex Allan's minute to Peter Sedgwick of 11 July, copy attached) for RPI inflation forecasts adjusted specifically for privatisation effects as they may affect water and electricity charges. You also asked for the impact of the Community Charge, assuming that its only impact was due to the index household effect.

see pen 6 & table

Water and Electricity Privatisation

2. I have discussed privatisation effects with PE division and paras 2-5 reflect their views. They are satisfied that it is reasonable to assume that the forecast price increases for Water and Electricity are no higher than if the industries were remaining in the public sector. Whatever their ownership, both industries, and Water in particular, face large investment programmes. If the industries had been continuing in the public sector the Treasury would have argued for an 8 per cent return on this new investment and for increases, so far as was practicable, in their present financial targets (Electricity (England and Wales) 4.75 per cent for 1989-90; Scottish Electricity 2.7 per cent for 1989-90; and Water 2½ per cent for 1988-89).

3. In practice, and particularly for the next two years, the debate would have been over what were the maximum politically acceptable price increases. It may be that for Water, ministers collectively would have settled on lower increases than those implied by the privatisation Ks, and accepted even larger EFL bids. But it is of course impossible to say how they would have decided.

4. In the longer term we would expect lower price increases to result from privatisation because of increased efficiency stimulated by privatisation and, in the case of Electricity, by competition. Electricity prices are also lower because of the more rigorous and commercial approach to coal prices with the financing burden shifted

from Electricity to the Coal industry; though this could also have happened under a public sector regime and indeed it would be a necessary precursor to the privatisation of BC. (An offsetting factor in the case of Electricity is the sharp increase in nuclear costs thrown up by the privatisation work; but that would have emerged sooner or later under any regime.)

5. For public consumption the safest generalisation is that the price increases are no higher in the short term than if the industries were staying in the public sector and that for the medium term and beyond, as the benefits of privatisation come through, price increases should be lower than otherwise.

Community Charge



6. The community charge indicator in the RPI is projected to rise by 20.8 per cent in April 1990. Of this, 3.5 per cent is due to the index household effect. For given local authority revenue spending plans, therefore, this is the only effect directly associated with the introduction of the community charge. It is worth 0.15 per cent on the all-items RPI inflation from April 1990 to March 1991. Thereafter even this effect drops out of the annual inflation rate calculation.

Conclusions

7. The attached table shows the quarterly path of inflation for water, electricity and community charge separately and their respective contributions to the RPI over 1989Q1-1991Q4. The forecast figures are based on the June forecast. The forecast for water charges is due to be updated in a few days; it is likely to be a little lower than we assumed in the forecast. Given that privatisation of itself is deemed to have no direct effect on inflation, the only factor to adjust for in the light of your request is the index household effect; this is also shown in the table.

J S HIBBERD

*Assumes 8 1/4% increase - LA
spending (GB) in 90-91 &
average charge of £319.*

Movements in Water, Electricity and Community Charges and their contributions to RPI inflation

<u>Charges</u>	<u>1989</u>				<u>1990</u>				<u>1991</u>			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Water</u>												
Increase on year earlier	8.0	14.3	13.7	13.7	13.1	12.1	12.7	12.7	12.7	11.7	11.7	11.7
Contribution to RPI inflation	0.06	0.10	0.10	0.10	0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.08
<u>Electricity prices</u>												
Increase on year earlier	8.6	7.4	6.5	6.5	6.5	6.6	7.2	7.2	7.2	5.5	3.8	3.8
Contribution to RPI inflation	0.22	0.20	0.17	0.17	0.17	0.17	0.19	0.19	0.19	0.14	0.10	0.10
<u>Rates Community Charge (excl index household effect)</u>												
Increase on year earlier	8.4	9.6	9.6	9.6	9.6	17.3	17.3	17.3	17.3	9.4	9.4	9.4
Contribution to RPI inflation	0.35	0.40	0.40	0.40	0.40	0.73	0.73	0.73	0.73	0.39	0.39	0.39
<u>Index household effect*</u>												
Increase on year earlier	-	-	-	-	-	3.5	3.5	3.5	3.5	-	-	-
Contribution to RPI inflation	-	-	-	-	-	0.15	0.15	0.15	0.15	-	-	-
<u>All items RPI inflation</u>	7.7	8.2	7.6	6.7	6.2	6.2	6.0	5.7	5.6	4.9	4.8	4.7
<u>All items RPI inflation excluding index household effects**</u>	7.7	8.2	7.6	6.7	6.2	6.0	5.8	5.5	5.4	4.9	4.8	4.7

** There is an index household effect in April 1989 associated with the introduction of community charge in Scotland. But it is minuscule, about 0.01 on the all-items inflation rate.

** Rounding 0.15 per cent index household effect to 0.2 per cent.

Ch/ This has just arrived from JOE.
D15

1990/91 LOCAL AUTHORITY GRANT SETTLEMENT - MAIN POINTS

19/7/89.

- * Total support for local authorities from the taxpayer (in revenue support grant and specific grants) and from business rates will rise by 8.5% in 1990/91. This is a fair settlement which will help meet the cost of local spending next year at a time when inflation is expected to be falling.
- * This settlement will ensure that next year each council in the country is able to charge £275 per adult for a standard level of service. If the council charges more, after allowing for the safety net, it will be because of its overspending. And every voter will know because this will be clearly set out on his bill.
- * There is no guarantee that extra grant would feed through to lower community charge levels. Exchequer grant to Scotland rose by 10% in 1989/90 but local authority spending rose by 12% producing no gain to the community charge payer.
- * At the present time areas with high rateable values subsidize areas with low rateable values. This is reflected in people's rate bills. clearly. The safety net is therefore not a new imposition. It is merely a means of phasing out this unfairness to avoid sudden disruption to loser areas.
- * New proposals for the safety net will ensure that gainer areas get between 40% and 50% of their gains in 1990/91. The remainder will go to loser areas to give them time to adjust spending levels. Gainer areas would not gain a single penny if the Government's reforms were not being introduced. They would continue to suffer from the unfairness of transfers of resources to areas with lower rateable values.
- * There will be about £100 million of extra help to Inner London boroughs to give them time to reduce the overspending which they will inherit from ILEA next year.
- * There will also be £100 million of additional support to areas with particularly low average rateable values. Those areas with average rateable values of £130 or less will receive up to £25 per adult. This will reduce to zero where average rateable values are £150 or more. Almost all this money will help areas in the North.

1989/90 COMMUNITY CHARGE FIGURES - AND THE ALTERNATIVES

- * The 1989/90 figures are an estimate of what the community charge would have been in each local authority area with and without the safety net if it had been in force this year. They are not in any sense a forecast of next year's community charge. This will depend both on the level of grant and business rate income for each authority and on the spending of that authority next year.
- * These figures are not related to the provision of Government grant for next year. Individual grant allocations for next year have yet to be decided.
- * The calculations have been done on a similar basis to last year's except that spending has been measured by estimated income from rates and government grants instead of using reported local authority expenditure. This method of calculation is more closely in line with the way actual charges will be determined in 1990/91.
- * The new decisions on the safety net have been incorporated into the figures.
- * Each council in the country could have charged £240 per adult, not taking account of the safety net if the system had been introduced this year.
- * The figures contain some estimates of the benefit to those local authorities gaining from the £100 million to Inner London and the £100 million to low rateable value areas.
- * The figures for Labour's two tax alternative and for the SLD policy of a local income tax are comparable to the community charge figures without the safety net.
- * The figures assume an 80/20 split between capital value rates and local income tax. They also assume an equalization of resources between authorities. This means that £1 per £1000 of capital value and 1p in local income tax raises the same amount everywhere in the country and that each authority gets an equal share of business rate income.
- * The figures are for a single person on male average earnings and entitled to the single person's allowance - about £14,000 gross. Ward sisters earn around this figure in many parts of the country.
- * Figures are given for a range of different property values. Constituencies can pick the figure most realistic for their area. Both council and private tenants will have to pay capital value rates.

Background

The background to the settlement is one of continued local authority over-spending.

- Budgets in 1989-90 are £1.9 billion more than the Government's assessment of a reasonable level of spending (the aggregate of all grant-related expenditure assessments - GREAs).

- On the basis of this year's budgets, Conservative authorities as a group spend below their GREA. But nearly 90% of Labour authorities spend above their GREA.

There is still enormous scope for savings. The Audit Commission has identified potential savings of over £2 1/2 billion for local authorities as a whole from contracting out, efficiency improvements etc. District auditors have identified £900 million savings for individual local authorities. Only £300 million of this has been realised.

Reducing public expenditure as share of national income is a central element of economic policy - the only way to create the conditions for sustained growth and the defeat of inflation. Local authorities must play their part.

New System of Local Government Finance

The new system of local government finance to be introduced from April 1990 is:

- simpler,
- fairer, and
- will lead to greater accountability of local authorities to the people they serve.

Its key features are:

- the community charge replaces domestic rates;
- a national uniform business rate replaces local business rates set by councils;
- a new grant system, once fully introduced, will distribute grant so that if all councils delivered a standard level of services, the community charge would be same everywhere.

Under the new system, some 70% of total standard spending will be met by the taxpayer and the business ratepayer. So the community charge only pays for part of the total.

The community charge system:

- spreads the burden of paying for local government over almost all those benefiting from local authority services;
- promotes accountability, since all electors will understand how much the council is spending compared with what it could spend; and
- ensures that over one in four will receive rebates.

Under the new system of business rates:

- all businesses will pay the same business rate poundage, set by central government;
- business rate revenue will be distributed to all councils on a per adult basis;
- in future the business rate poundage will rise no faster than inflation;
- transitional provisions will ensure that large increases are phased in; and

- the Midlands and the North will gain £850 million.

New grant system. The principle is that, if authorities spend at the level needed to provide a standard service, the community charge should be the same everywhere. This is a much simpler and fairer system.

- The Government starts by deciding the total amount local authorities need to spend to deliver a standard service - Total Standard Spending (TSS).
- Then it decides how much of this falls to each authority.
- It deducts the authority's share of business rate income.
- It then pays grant so that the cost of the remaining standard spending works out at the same amount per adult everywhere - community charge for standard spending (CCSS).
- Authorities with greater needs therefore get more grant.
- Any variations in spending from the standard level will feed through £1 for £1 into the level of community charge - up or down.

Grant Settlement for 1990-1

The Environment Secretary announced that government support for current spending for 1990-91 would be £23.1 billion, £1.8 billion more than in the current year. This increase of 8.5% is well above projected levels of inflation for next year.

This support (known as Aggregate Exchequer Finance (AEF)) includes Standard Spending Grant (the old rate support grant, now technically known as revenue support grant), and the payment to

local authorities from business rates. It also includes most specific grants. So most of the current grants which used to form part of Aggregate Exchequer Grant (AEG) are within AEF, such as police grant, and education support grants. But grants which pay for all or almost all of spending on a particular service - such as housing benefit, or mandatory student awards - are paid in addition to AEF.

The division of AEF between Standard Spending Grant, business rate payments, and specific grants will be made in the Autumn.

The Environment Secretary also announced Total Standard Spending - the amount authorities could spend in aggregate, to deliver a standard level of services. For 1990-91, this will be £32.8 billion. This is an increase of £1.2 billion on local authority budgets for 1989-90 - a challenging, but realistic target. Those authorities which stayed within their old grant-related expenditure assessment (GREA) should have no difficulty in spending at standard spending - and Conservative authorities as a whole spent below their GREA. However, the standard spending figure will impose a squeeze on overspending authorities, particularly high-spending Labour authorities. It thus maintains the Government's ten-year policy of getting down local authority overspending - a policy which the community charge will help achieve.

The community charge for standard spending (CCSS) depends on the level of TSS and grant (AEF). The figures above mean that, if local authorities spent in line with the standard assessment, the community charge for standard spending would be about £275. This is the benchmark for accountability in the new system. It is the community charge payer's ready reckoner and will be put on his bill alongside the figure he is asked to pay. After taking account of the safety net (see below) chargepayers will know that if their local authority is charging more than the CCSS they are overspending.

Actual community charges will depend partly on the safety net, and partly on each local authority's own decisions on spending. . If local authorities spend more, the money will have to come from the community charge.

This is a fair and balanced settlement. Reasonable, well run authorities will be well able to set community charges in line with the CCSS (after taking account of any contribution to or from the safety net). But overspending councils will have to account to chargepayers for their overspending.

Safety Net

The Environment Secretary also announced changes to the safety net, to enable gainers to get more of their gains sooner.

Not surprisingly, with such wide-ranging changes to the local government finance system, there will be substantial changes in domestic tax bills. In some authorities, the community charge is likely to be lower than the average domestic rate bill per head; in others, it will be higher.

One of the main reasons for this is that the old system distributed grant on the basis of rateable value. Where both spent at need, an area of low rateable value would get more grant than an area of high rateable value. So community charges will tend to be higher than average rate bills in areas of high rateable value. Charges are also likely to be high in some parts of Inner London because ILEA's overspending will now fall wholly on the chargepayer and not on the business ratepayer.

The Government has decided that it would not be right for the full impact of the changes to come through straight away - that would mean community charges in some authorities might be £100 above this year's average rate bill per head, or in some cases more. Where these increases would result from overspending, the accountability of the community charge will help to bring this

down. But this is bound to take time, and it would be unreasonable to expect chargepayers to bear the full burden straight away. So some form of safety net is essential.

The original proposal for the safety net was:

- losing authorities would see no increase in domestic tax bills in the first year: if they maintained their spending in real terms, the community charge in the first year need be no higher than the average rate bill per adult in real terms;
- this was to be paid for by gaining authorities subject to a maximum of £75 per adult for any authority.

The Government has reviewed the safety net in the light of representations. The new proposals are:

- charge payers in losing authorities will bear the first £25 of their loss;
- there will be special protection for two particular sets of authorities (see below);
- gainers will get between 40% and 50% of their gains in the first year;
- the £75 ceiling on contributions will be maintained.

This is a much better package for the gainers.

- Previously, only the larger gainers saw any benefit at all in the first year. Now all of them will get around 45% of their gains straight away.
- Previously, charge payers in some authorities had £75 of their gain deferred. Now, fewer will do so.

- For the great majority of gainers, the amount deferred by the safety net arrangement will be lower than previously expected, in some cases substantially so.

The new package is also a fair deal for the losers. On average, the community charge in losing areas need be no more than 50p a week above the average rate bill, if local authorities spend in line with the standard spending assumption. And in two particular caes, there will be special protection.

- Areas with the lowest domestic rateable values are among the heaviest losers. So there will be additional support of about £100 million to give these authorities more time to adjust to a higher level of charges.

- In Inner London, the boroughs are taking responsibility for education for the first time with the abolition of ILEA. It will undoubtedly take time for them to bring down ILEA's overspending. In the short term, a specific grant of £100 million will be paid to reduce the burden falling on the chargepayer. For the first year, much of this serves to reduce the cost of safety net protection for Inner London and thus reduce further the cost of the safety net falling on gaining authorities.

~~Tony~~
NB
→

~~Dist copy
to Penny~~

21/7/89.

imp

Prime Minister

CH/EXCHEQUER	
REC.	21 JUL 1989
ACTION	CSF
COMM TO	

✓21/7

COMMUNITY CHARGE BENEFIT

I said that I would write to you describing the way in which poorer people will be helped to pay the community charge. There is to be a Community Charge Benefit Scheme which will be operated by local authorities from April 1990. Everybody who is liable either for a full personal community charge or for collective community charge contributions will be able to claim rebate; only registered students who are exempted from 80% of their liability will be unable to claim. It will replace the Community Charge Rebate Scheme now operating in Scotland.

2. People who are on Income Support will automatically get the maximum rebate of 80% of their liability. In addition to this, they will receive help towards the remaining 20% through the adjustments we have already made to Income Support levels; these now include £1.15 for a single person aged under 25, £1.30 for a single person over 25, and £2.30 for a couple. The adjustments are now subsumed within Income Support and will be subject to the autumn uprating. The examples below show the amount of Community Charge Benefit a single person and a couple would receive with the community charge set at £300.

3. Where the community charge is below £300, everyone on Income Support will be better off. Single people under 25 and married couples will have to contribute more than the Income Support amounts where the community charge is over £300, and single people over 25 will have to contribute more where it is over £339.

**Single person receiving
Income Support**

**Couple receiving
Income Support**

	£	£
Community charge	300.00	300.00 each
Weekly charge	5.75	11.50
Maximum rebate (80% of liability)	4.60	9.20
20% charge to pay	1.15	2.30
Assistance from IS	1.30	2.30

4. People with incomes above their Income Support levels may be entitled to rebate of less than 80%. The amount of their rebate will depend upon their financial resources, their personal circumstances, and the amount of community charge they have to pay. The method of calculation will follow very closely the method currently used to calculate rate rebates, but it will be based on a 15% taper for income which is significantly more generous than the present 20% taper used for calculating rate rebates, and we estimate that it will increase the numbers of people receiving rebates by about 1 million.

5. Our most recent published estimate is that about 11 million people in Great Britain, about one chargepayer in four, will receive rebates on their community charge. We are reworking these estimates to take account of the revised forecasts of community charge levels published on Wednesday, and of more up-to-date demographic and financial data, and will publish them as soon as possible.

6. I am copying this letter to Cabinet colleagues.

91 July 1989



JM

000399



pnp

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 July 1989

REC.	24 JUL 1989
ACTION	Mr Porter
COPIES TO	Cx, Mr Anson, Mr Phillips, Mrs Lemax Mr Edwards, Mr McIntyre Mrs Chaplin

COMMUNITY CHARGE BENEFIT

The Prime Minister was grateful for your Secretary of State's minute of 21 July setting out the ways in which poor people would be helped to pay the Community Charge.

I should be grateful if you and copy recipients would ensure this letter is given a strictly limited circulation to named individuals.

The Prime Minister would be grateful if some work could be done on the possibility of setting the capital limit on eligibility for community charge rebates at £16,000, i.e. double the normal £8,000 limit, just for pensioner couples. She would be grateful if consideration could be given to the costs and implications of such a change, including the impact of the introduction of independent taxation for husband and wife in April 1990.

I am copying this letter only to Carys Evans (Chief Secretary's Office) Roger Bright (Department of the Environment) and Trevor Woolley (Cabinet Office).

(PAUL GRAY)

Stuart Lord, Esq.,
Department of Social Security.

RESTRICTED

1. MR POTTER (LG1) ^{BHP 25/7}
2. CHIEF SECRETARY

FROM : G C WHITE (LG1)
Ext 5731
25 July 1989

cc PS/Chancellor ✓
Sir P Middleton
Mr Anson
Mr Phillips
Mr Edwards
Mrs Lomax
Mr Hudson (LG1)
Mrs Chaplin

Ch/ To note final position
reached; Mr Rifkind
will be making statement
tomorrow.

DIS

STANDARD COMMUNITY CHARGE

E(LF) considered on 11 July issues surrounding the standard community charge raised in the recent correspondence between Mr Rifkind and Mr Ridley. The meeting concluded that Mr Rifkind, in consultation with Mr Ridley, Mr Walker and the Chief Secretary, should consider whether a package of measures could be agreed which would meet the problems he had identified.

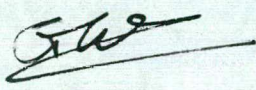
2. The standard community charge is levied on domestic properties at which no-one is solely or mainly resident, basically second homes. Local authorities can set standard community charges at up to two units of the personal community charge but in Scotland most authorities set the charge at two units. Mr Rifkind has been concerned for some time that many owners of second homes will be paying a great deal more than under the domestic rates system. He feels that the standard charge of two units has led to difficult cases and unreasonable burdens.

3. A summary of the issues discussed at the E(LF) meeting on 11 July is contained in Mr Edwards' submission of 10 July. Mr Rifkind's latest letter of 21 July outlines proposals that have been discussed at official level. These proposals are designed to soften the impact of the standard community charge. Broadly, he is proposing the following:

- a. Scottish legislation should be amended to bring his powers in relation to setting standard community charge multipliers into line with those in England and Wales. This allows the Secretary of State to specify lower multipliers for particular classes of property.

RESTRICTED

- b. Legislation would be introduced in Scotland, England and Wales to allow local authorities discretion to define different specified classes of property for the purpose of levying different multipliers. In doing so, local authorities would have to take account of certain factors. These factors would exclude the physical characteristics of properties and include the personal circumstances of those subject to the standard charge. This would enable local authorities to levy a lower charge where the multiplier specified for a certain class of property would cause personal difficulties;
- c. the list of classes of property for which reduced multipliers are specified would be extended to cover convalescent cases, eg where a property is left empty because the owner is absent being cared for by a friend or relative.
4. The package proposed by Mr Rifkind is very much along the lines originally suggested by Mr Ridley and supported by your predecessor in his letter of 3 July. It is designed to help alleviate some of the more difficult problems arising from the standard community charge without introducing any widespread repercussions that could affect personal community charges and hence community charge rebates.
5. Mr Ridley responded on 21 July saying that he was content with the proposals put forward by Mr Rifkind. Unfortunately, the letter was not copied to you or Mr Walker. This was presumably an oversight by DOE officials and the Scottish Office have sent us the attached copy. Although Mr Walker has not seen Mr Ridley's letter, we understand from Welsh Office officials that Mr Walker does not foresee any difficulties with Mr Rifkind's proposals.
6. If you are content with Mr Rifkind's proposals, a short draft letter is attached for you to send. Mr Rifkind will be minuting the Prime Minister outlining the package he has proposed and, providing everyone is content, would like to make a statement tomorrow. A draft of the proposed statement is attached at Annex A. This looks satisfactory and there is no strong Treasury interest but you may care to have a quick look through the statement. The Scottish Office will be clearing it at Ministerial level shortly.


G C WHITE

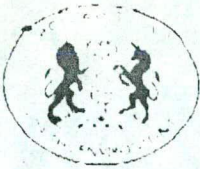
RESTRICTEDDRAFT LETTER FROM THE CHIEF SECRETARY TO MR RIFKINDSTANDARD COMMUNITY CHARGE

Thank you for my copy of your letter of 21 July to Nick Ridley. I have also seen Nick's response of the same day.

I think that the proposals you have put forward represent a sensible way of dealing with the problems associated with the standard community charge. I am therefore content for you to proceed along the lines outlined in your letter.

I am copying this letter to Peter Walker and Chris Patten.

NORMAN LAMONT



11/2/89
 (M/S/89)
 AS/10
 Solicitor
 Mr Jamieson
 Mr SIO
 Mr Carter
 Mr Butler.

270 5653

2 MARSHAM STREET
 LONDON SW1P 3EB
 01 276 3000

My ref
 Your ref

The Rt Hon Malcolm Rifkind MP
 Scottish Office
 Dover House
 Whitehall
 LONDON
 SW1

rec'd 24/7 04.
 21 July 1989

Dear Secretary of State

Thank you for your letter earlier today outlining your proposals for the standard community charge following our discussion at E(LF) last week.

We have already agreed that the Abolition of Domestic Rates Etc (Scotland) Act 1987 should be amended to give you the same powers as those available in England and Wales under Section 40 of the Local Government Finance Act 1988. It is important to ensure consistency in the treatment of empty property north and south of the border and I welcome your commitment that the two systems should be aligned wherever practicable. I am sure you will consult colleagues before seeking to use such powers.

You indicate that you intend to use your new power to prescribe a class of property that is empty because an individual is required to live with friends or relatives as a result of illness or infirmity. I agree with this. It is right that empty property owned or leased by people receiving care in the community should be distinguished from the general class of second homes. Furthermore it seems entirely appropriate that this distinction should be achieved by a centrally prescribed class - or classes. I therefore propose to mirror your extra class by prescribing two further classes under Section 40 of the Local Government Finance Act. The first would set a zero multiplier for property vacant for up to 12 months, the second would be an extension allowing authorities to set their own multipliers for such property, vacant in excess of 12 months. This approach takes account of the possible housing implications of the charge and is consistent with our treatment of property owned by long stay patients in hospital and residential care homes. I suggest that we provide the same relief regardless of whether it is the convalescent or the carer who owns the vacated property. As you say, officials will need to draw up the precise details of the new class.

I am grateful for your support in principle to give local authorities greater flexibility in administering the standard charge. We will need to consider the parameters for their discretion, balancing freedom to respond to local circumstances against possible abuse of the sort you describe.

Your view that the parameters exclude the ability to define a class by reference to physical characteristics of the property accords with mine. I think this closes the door on classes whose only distinguishable feature is low rateable value and I think this must be right. There would instead need to be some circumstance relating to the individual to justify the disabled.

Finally I note your decision to redraw the boundary between domestic and non-domestic property so that single dwellings available for holiday letting will be taken into non-domestic rating, with which I agree.

I am grateful for your constructive package of proposals which pave the way for significant improvements in the standard community charge. In view of the agreement between us I wonder whether a meeting is necessary at this stage. Perhaps it would be more productive to discuss these issues when officials have marshalled more detailed information on the possible parameters for local discretion. In the meantime you will no doubt wish to consider the scope for a public statement on all of this.

NICHOLAS RIDLEY

(Approved by the Secretary of State and Signed in his Absence)

STANDARD COMMUNITY CHARGE: STATEMENT ON PROPOSED CHANGES
BY THE SECRETARY OF STATE

I wish to announce a number of changes which I am proposing to make to the arrangements for administering the standard community charge in Scotland.

I have received a significant number of representations about the standard community charge and recently received a paper from the Convention of Scottish Local Authorities outlining their major concerns. I am quite clear that many of the problems which have arisen can be attributed directly to local authorities' decisions in almost every case to set their standard community charge multipliers at the maximum of 2 when we had given them the discretion to set the multiplier anywhere between one and 2.

Against this background and in the light of the real problems that have as a result arisen, I have decided to make the following changes to the present arrangements.

First I am proposing to take powers to prescribe certain classes of premises for which I will have the power to prescribe a maximum multiplier. I will be considering carefully what classes of premises I ought to prescribe under this proposal but it will certainly include those premises which are unoccupied because the owner is an old person who is convalescing with relatives and who would, but for the care provided for those relatives, be in a home or hospital and thus exempt from the standard charge. This is one of the particularly difficult cases where I am clear that something must be done.

I am aware also that different circumstances apply in different local authority areas which might not necessarily be covered by classes which I prescribed and I am therefore proposing to allow authorities to determine, within certain limits, their own classes of premises for which they could set different multipliers. Authorities might, for example, wish to extend the class for old people living with relatives beyond what I prescribed or, by way of another example, they might wish to create a class of premises owned by people obliged to live in tied accommodation. These

RESTRICTED

arrangements would also allow a Regional Council to set different maximum multipliers for its classes in different District Council areas, something specifically requested by COSLA in the proposals which they put to me. [Last, I will be reviewing the possibility of defining the boundary within which self-catering accommodation is included within non-domestic rating with the intention of prescribing conditions under which single units would be subject to rating rather than the standard community charge.]

These arrangements will give local authorities considerably greater flexibility in their operation of the standard community charge arrangements and this is precisely what COSLA have asked me for. I hope, therefore, that the new arrangements will be welcomed. I am proposing that the necessary amendments to the Abolition of Domestic Rates Etc (Scotland) Act 1987 to allow for the introduction of these changes should be made in the context of the Local Government and Housing Bill and amendments to that Bill are being tabled today. On this timetable, I would envisage the changes coming into effect for the financial year 1990-91.

These proposals tackle the main problems that have emerged in relation to the incidence of the standard charge and are a direct response to the concerns expressed by COSLA and others. I hope that local authorities will reciprocate by giving careful consideration to the burden on standard charge payers in setting standard community charge multipliers for 1990-91.

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FAB205L5



mp

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

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The Rt Hon Norman Lamont MP
Chief Secretary
Treasury
Parliament Street
LONDON
SW1P 3AG

CHIEF SECRETARY	
REF.	- 4 AUG 1989
ACTION	Mr POTTER
COPIES TO	CX, Mr PHILLIPS
	Mr EDWARDS, Mrs LOMAX
	Mr MCINTYRE, Mr GIEVE
	Mr J. SPENCER, Mr O'DONNELL

3 August 1989

Dear Chief Secretary *Mrs CHARLIN.*

As you will know, Nicholas Ridley wrote to John Major on 21 July, seeking his agreement to an expanded information strategy on the Community Charge. I am sorry to press you for a speedy and favourable reply so soon after we have both taken up our new posts, but I have now completed the urgent review of our arrangements for maximising take-up of rebates, which I announced during the Opposition debate last week. You will recall that the expanded publicity strategy focused primarily on increasing awareness of rebates. Having reviewed the proposals I am convinced that they are crucial to maximising take-up.

As I said in the House, I am extremely concerned that all who need help should receive it. The right to a rebate will be perhaps the most important right in practical terms that many people will have under the new system. Yet recent research conducted by Gallup has shown that, while a majority of interviewees knew of the existence of rebates, many were unclear about eligibility. There is also lower awareness among those in poorer socio-economic groups who are, of course, those whom rebates are intended to benefit most.

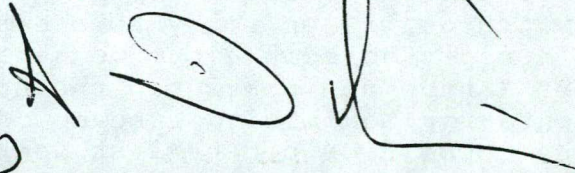
Nor is it only desirable in itself that we should increase awareness of rebates. By doing so, we shall contribute to an enhanced understanding of the Community Charge which should in turn make for smoother implementation of the whole system, to the benefit of local authorities, their potential charge revenues, and all charge payers. Our research showed substantial concern about cost and affordability. If people appreciate the fairness of the system, however, and understand that, through rebates, it meets their concerns, I consider that they are likely to participate more willingly in it.

The second reason for my writing now, is that I would like to announce our proposals as soon as possible this month. This would not only contribute significantly in increasing awareness of rebates, but would also be likely to attract widespread attention in a slack month for news.

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It is clearly necessary that we should ensure that the maximum number of people know about an important right under the new system. Indeed, I consider rebates to be a vital key to a better appreciation of this major reform. I should therefore be grateful for your speedy agreement to the proposals we have put forward.

I am copying this letter to the Prime Minister, Peter Walker, Malcolm Rifkind, Tony Newton and Sir Robin Butler.

Yours sincerely


PP
CHRIS PATTEN
(Approved by the Secretary of State
and signed in his absence)

est. jo/RRyder/01.4.8.89

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cc. PS/chancellor, PS/CST
Sir P Muddleton,
Mr Anson, Mr Phillips
Mr Monck, Mrs Lomax,
Mrs Case, Mr Potter,
Mr Farthing

Treasury Chambers. Parliament Street. SW1P 3AG

Rt Hon Richard Luce MP
Minister for the Arts
Office of Arts and Libraries
Horse Guards Road
LONDON
SW1P 3AL

RL

4 August 1989

Dear Minister,

COMMUNITY CHARGE: EFFECT ON ENGLISH NATIONAL OPERA AND ENGLISH NATIONAL BALLET

Thank you for your letter to John Major of 17 July outlining your intention to write to the Chairmen of the English National Opera (ENO) and English National Ballet (ENB) giving an assurance you will take the extent of local authority funding into account in making allocations to the two bodies next year. I am replying as the duty Minister in Norman Lamont's absence.

Although I can, of course, understand the Chairmen's concern, we must continue to put pressure on Westminster and all the other London boroughs to face up to their local responsibilities to the ENO and ENB. I would be most reluctant for anything to be done that implied that our resolve toward achieving this objective had, in any way, weakened.

Nevertheless, I am prepared, on a confidential and wholly exceptional basis, for you to give an assurance that account will be taken of any loss of local authority monies in determining future funding. It would however be helpful for your letter to make it clear that it is the Arts Council - and not the OAL directly - that will be the source of any extra funding. I must also stress that this should be seen very much as a 'one-off' response to the specific circumstance of these two bodies: I do



not expect any similar assurance to be given to any others. This must not be allowed to set a precedent.

There are a number of other points that I should also make clear. First, my agreement does not signify that I am prepared to concede the Survey bid of £m 2.5/2.5/2.5 outlined in your letter of 6 June. Any obligations which flow from the letters, must be met from within the provision which has already been agreed for 1990-91. Second, any increased support should be no greater than the level of local authority grant which is lost - without any notional allowance for inflation. Our officials have been discussing how such support could be offered, if the need arose - and I am of the view that it should be given on a temporary basis, tapering off after, say, two years. This would ensure that the companies would continue to seek local authority - or other form of - support and, to the extent that they were unsuccessful in finding it - would give them time to adjust to their new financial situations.

Third, that the implications of the effects of the Insolvency Act upon the Arts Council and, indeed, upon the Government itself are taken into account and, in particular, that proper measures are taken to avoid the Council or your department finding itself in the position of a "shadow director". I understand that your officials are seeking legal advice on these points following discussions with mine.

I attach a revised version of the letter, which includes a few drafting changes to reflect the points I have set out above.

A copy of this letter goes to Chris Patten.

Yours sincerely,

Richard Ryder

RICHARD RYDER

*(Agreed by the Economic Secretary
and signed in his absence)*

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DRAFT LETTER TO:

- (1) The Rt Hon The Earl of Harewood, KBE
Chairman
English National Opera
- (2) Sir Ian Hunter
Chairman
English National Ballet

When we met recently you again voiced your concern about the uncertainty facing the ENO and ENB directors over the effect of the local government financial changes on Westminster City Council next year.

As I told you then, I recognise that concern, and the need of the companies to enter into forward commitments for 1990/91 now or later this year which presume that you will have available the present support from Westminster adjusted for inflation. I cannot, of course, anticipate Westminster's decision on funding next year, and you must continue your efforts to secure assurances of support from them and from other London boroughs, and to increase your income in other ways as much as possible. But I can assure you, as I have already said, that I will ask the Arts Council to take the extent of the local authority funding of the company into account when they make their allocations next year.

I hope that this assurance will be sufficient to enable the ENO and ENB to continue planning, and where necessary enter contracts, for the new season.

RICHARD LUCE

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CHANCELLOR

NOTE @

FROM: B H POTTER (LG1)
X4790
Date: 4 August 1989

*cn/ Helpful to have your views on what approaches look promising (eg Option C?) and which, if any, can be ruled out (Boysor's?).
Misses Potter & Hudson will then put work in hand so that you can discuss sensibly with Mr Potter in Sept.*

cc: Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Edwards (LG)
Mrs Lomax (GEP)
Mr Hudson (LG1)

THE SAFETY NET

01

You asked us to consider (by way of contingency planning) how the proposed safety net arrangements for local authority (LA) current expenditure in England might be changed, in the light of the response to the July announcement. This note sets out the options in broad terms; we would be grateful for any guidance on which you think look most promising, so that we can work them up further.

The problems

2. It is helpful to analyse the reasons for the relatively poor reception given to Mr Ridley's proposals by backbenchers on 19 July. The most important point is that the criticism was not directed at the basic AEF settlement or the proposed Community Charge for Standing Spending (CCSS); instead it focussed almost entirely (and sometimes wrongly) on the safety net. And Mr Ridley failed to put across the very respectable case for the existing proposals.

3. At least five separate strands can be identified in the criticisms of the safety net.

- a) The increase in the burden of local taxes on particular individuals following the switch from rates to the community charge (CC) (eg Mrs Peacock, MP for Batley and Spen, quoted a typical hard case of a pensioner couple in a low rateable value property); this of course is inherent in the policy and has nothing to do with the safety net.

POTTER
TO
CHEX
4/8

- b) The continuing transfer of resources (or cross-subsidy) between areas of high and low local taxable capacity - ie the remnants of the old system of resource equalisation: Mr Ridley failed to get across that the scale of these transfers would be reduced in 1990-91 relative to 1989-90 and that, overall, the new system involves a switch of resources from North to South.
- c) The safety net involves switching resources from prudent LAs to profligate local councils.
- d) The safety net blurs identifiable accountability (even though there is full accountability at the margin): because safety netted CCs vary from the CCSS, even for standard spending, it is less easy for sensible council to demonstrate its prudent policies and management to the local electorate, by comparison with a profligate neighbouring council. Once the safety net is gone, the charges will be directly comparable.
- e) In some cases, criticism of the safety net may be coded attacks on the community charge system itself.

4. Nothing can be done to resolve problems a) and e) above - now that it is too late to consider some form of dual running with rates and community charge in tandem. The issue is whether we can find some means of recasting the safety net, without excessive additional public expenditure cost, so that it meets at least some of the concerns identified at b), c) and d) above.

Safety Net Options

5. The Treasury's objective must be to minimise the public expenditure cost of any changes to the safety net and ideally avoid any extra cost at all. Looked at more broadly, however, it will be important to get a safety net firmly in place very soon (probably in time for the party conference). And the revised arrangements must be capable of being successfully presented - with DOE making a proper effort to sell the policy.

6. Indeed, against that background, it might be argued that minor tinkering with the existing safety net model, with a few concessions here or there will not be enough. It could end up costing the Treasury more - if it proved inadequate to satisfy the critics. And pressure would have been seen to be successful. A more thorough revision may therefore be worth contemplating. In large part, this is for political judgement. But within LG we have looked at a range of options from minor tinkering to abandonment or fairly substantial reformulation of the safety net.

7. One option we have not considered is anything along the lines proposed by Sir Rhodes Boyson - the Exchequer paying for contributions to the safety net rather than gainers. The cost would be over £600 million. And E(LF) have repeatedly confirmed support for the principle of a self-financing safety net; and - as the experience in Scotland shows - there can be no guarantee that extra Exchequer support even to gaining areas in the South would be reflected in lower CCs. The risks would be higher expenditure; in other words, such a subsidy would have a high "deadweight" effect.

8. Instead we have considered:

- revisions to a self-financing safety net (options A, B and C below)
- abandonment of a safety net as such, while retaining transitional protection via payments of specific grants (option D).

9. An appraisal of four basic options (and a number of variants) is contained in the attached annexes (for which Messrs Hudson and Rutnam are largely responsible). They have, however, been prepared without the advantage of any numbers. In summary, the options are as follows:

A) Tinkering

- i) your own point that the inner London grant arrangements should be altered to avoid safety netted-CCs being below the uprated average rate bill per adult: this frees resources to the advantage of gainers; it is clearly desirable whatever other changes are made;
- ii) the specific grants for low-rateable value areas (and perhaps ILEA) could be increased
- iii) the rates at which gains and losses are allowed through within the self-financing safety net could be increased
- iv) the way in which gains (and losses) come through could be reformulated
- v) the needs assessment could be revised to help particular areas

B) The levy approach

- the idea favoured by Mr Ridley of setting a common levy on all bills to pay for the costs of safety net protection.

C) Change the basis of the safety net

- this would give no safety net protection for an authority's overspending: the equalisation would be conducted on the basis of the average rate bill for spending at need (GRE) in 1989-90: this would avoid cross subsidy between the prudent and the profligate.

D) Abandon the -
safety net

several variants are possible: at one extreme, the Government could introduce the community charge with no transitional arrangements at all; rather more politically defensible perhaps are variants which involve continuing with the ILEA and low rateable value specific grants (perhaps increased) as transitional protection, perhaps augmented by other such grants. One such grant might to keep down the very highest charges as put forward about nine months ago by the Prime Minister. (How the cost might be met is explored below.)

The options are not mutually exclusive. Options can be combined in various ways eg option C plus options A i) and iii).

10. Until we have had an opportunity to consider exemplifications on these bases, we are not in a position to recommend options. But in reaching views, it may be helpful to note how the options score in terms of the three problems identified earlier.

11. Option A - Tinkering - can ameliorate b), c) and d) (ref. paragraph 3). But it does not eliminate them: arguably the existence of any contributions to the safety net will still antagonise backbenchers. On the other hand, much can be done to present the existing safety net in a more attractive way: had Mr Ridley taken Treasury advice and included a column in his exemplifications showing the existing average rate bill, per adult, he could have drawn attention to the massive shift of resources under his safety net proposals in favour of the 'complaining' LAs in the South East. The benefits of better presentation of what remains a respectable case should not be underrated.

12. Option B - the levy - does nothing: its equity is illusory (as the annex shows), since contributions will still be made from all gainers and go, in some cases, from the prudent to the profligate.

13. Option C - a new basis for the net would eliminate cross subsidy between prudent and profligate: but it would retain contributions. We are very unsure what the pattern might look like in advance of seeing the numbers.

14. Finally Option D - abandonment of the safety net - removes all three difficulties because it does away with contributions, while nonetheless retaining transitional protection. But unless the scale and coverage of specific grant payments are increased, it leads back to the political problems - particularly losses in the North and Midlands - which underlay the case for the safety net in the first place. And that threatens to be costly.

15. In exploring the options, it will also be desirable to consider another factor - the period of the safety net. Existing policy is that the safety net will last four years. But that period could be reduced: and more rapid withdrawal of the safety net could be very attractive as part of a little change amendment to the form of the net. Again the transitional protection offered by the specific grants could be continued even if the safety net itself were abandoned after one, two or three years. So one possibility would be to make little change to the arrangements for year 1, but with a radical reform (options C or D) from year 2.

Who pays?

16. Several options eg option D would lead to higher costs (in terms of specific grants). There are three possibilities:

- i) the cost could be met from within the existing grant settlement, leaving NNDR unchanged;;

ii) the cost could be met from within the existing AEF, by increasing the grant element: this would require NNDR income to be reduced temporarily (see below);

iii) the cost could be met from new money, by increasing AEF.

17. Option i) is best from our point of view; but it may be judged that would not be sufficient to keep the backbenchers content. Option iii) is to be avoided if possible.

18. Option ii) would require action to depress the take from NNDR. It would be necessary to ensure this did not lead to a permanent loss of NNDR income: in short, the NNDR poundage would have to be held down on a transitional basis. The advantage would be that LAs would receive no more resources (ie unchanged AEF), and, arguably, that easing the transition to the NNDR would see off Parliamentary pressure on that front, and, more damaging still, any pressure to reduce the long-term take from business rates. The disadvantage would be that the balance between general taxes (increased) and business rates (reduced) would change. Any decision on this would need to take account of wider considerations of fiscal policy.

Handling

19. I understand that an early September meeting between you, the Chief Secretary and Mr Patten is planned. DOE officials are guarded but may well be working on safety net options. I appreciate that you will wish to consider this carefully and that we are not yet able to supply numbers on options. But Mr Hudson and I will be working further on these options; and any guidance on the merits in principle of different options would be helpful to provide a focus for further work.

Barry H. Potter

BARRY H POTTER

OPTION A: Tinkering with the safety netDescription

Adjust the details of the way the safety net is formulated to produce a better balance between gainers and losers. There could be (at least) four variants of this.

(a) Meeting the Chancellor's point that the ILEA grant should be restructured so that initial community charges were no lower than the 1989-90 rate bill per adult releases around £70 million, which would increase the proportion of gains coming through from, on the latest estimates, 47% to 53%.

(b) Increasing the amount of losses coming through would enable more gains to come through.

(c) Keeping the basic principle that gainers pay for protection for losers, but choosing one of the other options discussed in E(LF) for deferring gains - for example, allowing the first £20 of all gains through would reduce the number of authorities who had to make a safety net contribution at all, at the cost of higher contributions from big gainers; on the other hand, the previous approach of deferring all gains up to a maximum contribution of perhaps £40 would give a better deal for big gainers.

(d) Adjusting the needs assessment could direct more grant to particular areas, not just over the transitional period, but permanently (though in practice, the needs assessment can be revised at any time).

Advantages

1. Little or no extra cost. Some extra cost could arise if the amount of losses coming through generally were increased but Ministers decided to stick to the commitment to no losses in areas of low rateable value (Pendle etc), but the cost of this should only be tens of millions.

2. Consistent with present approach.

OPTION
A

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3. Arguably, a loss of £30 (or 60p a week) would not be excessive, especially given special protection for poorer areas.

4. Point (a) justified in principle.

Disadvantages

1. Tinkering on its own, may not satisfy backbench critics, who were objecting to the principle of the safety net rather than the details, and offered no thanks for the changes already announced, which allow more gains to come through in the first year than was previously expected.

Conclusion

We think point (a) is worth pursuing whatever else happens. But further tinkering along the lines of (b) and (c) may not be enough by itself. But it may be worth pursuing as part of a wider package, eg tinkering with the safety net for year 1, with radical reform promised for year 2.

Thanks. Option C clearly needs for workload to be junked. Option B can be dropped. Option A is work control, are suggestions announced, but (as ~~are~~ with no safety net for the first year or 2, a suggestion for the first years 2 & 3 some (expensive) work of option D.

OPTION B: The "Levy" Approach

Description Under this approach, each LA is required to make a flat-rate contribution to the cost of protecting "losing" authorities. The figure would be roughly £26 per adult. It would mean that, for standard spending, each gaining LA could set the long-term community charge + £26 per adult,; and each losing authority would pay the average rate bill per adult plus £26.

Advantages The previous Environment Secretary saw this approach as being perceived as fair - equal misery for all. Everyone both losers and gainers was forced to give up £26 per adult. Moreover the cost (at nearly £1b) was too high to be sensibly met from Exchequer.

Disadvantages i) Does not eliminate cross-subsidy: within the common £26 per adult figure still transferring resources from one authority to another.

ii) Indiscriminate nature of transfer: prudent authorities transfer money to the profligate (though size of transfers lower than under present regime).

iii) Turns small losers into big losers.

iv) Turns small gainers into losers.

v) DOE say it means increasing the community charge for standard spending (CCSN) by £26 to over £300. (Treasury think this can be got around.)

Conclusion Not a very promising revision. Nature of common levy would be seen through. Danger of pressure on the Exchequer to meet the costs.

OPTION
B

OPTION C: No Safety net protection for overspendingDescription

1. The basic aim here would be not to give safety net protection for the extent of a council's overspending, to meet the criticism that the present safety net means that prudent authorities are subsidising profligate ones.
2. Very broadly, the present safety net provides that the community charge in each authority should be no more than £25 higher than the 1989-90 actual rate bill per adult (uprated for inflation), assuming a given increase in spending over actual 1989-90 spending. So if an authority is overspending, the safety net delays, among other things, the time when the full consequences come home to charge payers.
3. A way round this might be to reformulate the safety net along the following lines:
 - (a) work out the average rate bill per adult if the LA spent at GRE in 1989-90;
 - (b) uprate this for inflation;
 - (c) work out the long run community charge if the LA spent at need in 1990-91 - this would, by definition, be the nation-wide community charge for standard spending (CCSS) of £275;
 - (d) if (c) is higher than (b) by more than £25, the authority would still qualify for safety net grant.
4. We need to do further work on the technicalities of this, to make sure that it produces a sensible result across the board. But some approach to stripping out overspending ought to be possible.

Advantages

1. Concentrates safety net protection on the structural changes in the system (new approach to grant distribution, new system of business rates, new needs assessments).
2. Improves accountability: Local authorities and charge payers have to face up to the full consequences of overspending straight away.

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3. Should appeal to backbench critics, whose main attack has been that the safety net bails out overspenders at the expense of the prudent.
4. Gains come through quicker (subject to working through the details).

Disadvantages

1. Likely to raise difficult technical questions about definitions etc.
2. Scheme is conceptually simple, but bound to be complicated in practice.
3. Will not satisfy those who want no safety net at all.
4. May mean very high charges and steep increases, in a number of areas. May need higher grant to mitigate this, meaning either extra costs, or safety net protection in another form.

Conclusion

This needs a lot more work, to see if it is viable. But we think it is worth pursuing further, if you see attractions in it.

OPTION D: Abandonment of the safety netDescription

Abandon the safety net altogether.

Advantages

1. No cost (subject to disadvantages 3-4 below)
2. Would mean full accountability of community charge came in straight away.
3. Full benefits for gainers straight away.
4. Would probably satisfy Tory backbench critics.
5. Some Tory losers (including Mr Trippier in Rossendale) would prefer to get the losses over with in one step, rather than have a series of increases in the community charge, as the safety net is phased out.

Disadvantages

1. Government has said many time that safety net would give losers time to adjust.
2. Scale of adjustment massive, in some cases. To take examples, from 1989-90 published exemplifications, charges would be around £200 above rate bill per adult in parts of Inner London, £70-100 higher in much of West Yorkshire, and £50-100 higher in County Durham.
3. This would lead to pressure for extra grant to maintain something like the expected degree of transitional protection: either specific grants to help losing areas; or higher RSG, to try to bring down CC everywhere.
4. Whether or not there was extra grant, higher CCs in poorer areas would certainly lead to higher spending on CC rebates.

Conclusion

Abandoning the safety net altogether would be a welcome simplification, and would please most of the backbench critics. But the scale of adjustment looks too much to bear without extra grant, so there could be extra cost in paying for any transitional protection. And the Government could be accused of bad faith in breaking its commitments to the losing areas.



FROM: D I SPARKES
DATE: 7 August 1989

MR B H POTTER (LG1)

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Edwards (LG)
Mrs Lomax (GEP)
Mr Hudson (LG1)

THE SAFETY NET

The Chancellor was grateful for your minute of 4 August concerning possible modifications to the safety net arrangements recently announced by Mr Ridley. He commented that Option C clearly needs to be worked up further. Option B can be dropped but Option A is worth considering on the basis you suggested, ie as part of a wider package in which the safety net is tinkered with in the first year and radical reform is promised (an inexpensive variant of Option D) for the later years.

D.I.

DUNCAN SPARKES

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POTTER
7/8

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000415



10 DOWNING STREET

LONDON SW1A 2AA

CHIEF SECRETARY

9 August 1989

From the Private Secretary

REC.	10 AUG 1989
ACTION	Mr Mc Intyre
COPIES TO	Mr Mc Anson
	Mr Phillips, Mr Schwarz,
	Mr Edwards, Mrs Lewis, Miss Peters
	Mr Potter, Mrs Chan

Dear Helen,

CAPITAL LIMIT FOR COMMUNITY CHARGE BENEFIT

The Prime Minister has seen your Secretary of State's note of 8 August.

I would be grateful if you and copy recipients would ensure that this letter is seen only by those on a strict need to know basis.

The Prime Minister considers that this cannot be taken in isolation from DoE's consideration of the safety net and any other community charge proposals. She has said that any proposal of the kind set out by Mr. Newton should be considered in the Economic Committee. She has also commented that these proposals would substantially increase the numbers of people dependent on benefit.

I am copying this letter to Carys Evans (Chief Secretary's Office), Roger Bright (Department of the Environment) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Caroline Slocock

CAROLINE SLOCOCK

Ms. Helen Dudley,
Department of Social Security

FROM: J P MCINTYRE
 DATE: 9 AUGUST 1989
 EXT : 4799

CHIEF SECRETARY

cc Chancellor
 Mr Anson
 Mr Phillips
 Mr Scholar
 Mr Edwards
 Mrs Lomax
 Miss Peirson
 Mr Potter
 Mr Francis
 Mr Hamshare
 Mrs Chaplin

COMMUNITY CHARGE BENEFIT

X Paul Gray's letter of 24 July conveyed the PM's request that DSS assess "the possibility of setting the capital limit on eligibility for community charge rebates at £16,000 i.e double the normal £8,000 limit, just for pensioner couples". The PM also wanted to know the costs and implications of this "including the impact of the introduction of independent taxation for husband and wife in April 1990". Mr Newton's minute of yesterday said the proposal had "clear attractions" and would cost £15 million a year; further work was in hand.

X 2. Predictably, Mr Newton's minute does not set out the arguments against this proposal. He only points out that, as a practical matter for Local Authorities who administer the scheme, the change could not be made in time for introduction of the community charge in England and Wales next April. He says the choice is between waiting till October 1990 and raising the capital limit for everybody in April and for housing benefit as well (a general increase to £10,000 would cost £30 million).

3. In this Survey, a concession of even £15-30 million is unwelcome, especially before negotiations have begun. Moreover:-

(i) Over 11 million (1 in 4) chargepayers are already due to get rebates, according to DSS estimates. So even as it

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stands, the scheme covers a large minority of the population, including 4½ million pensioners. This proposal would add another 90,000 or so (45,000 couples). If adopted, allowing people with up to £16,000 in the bank to get benefits, it would be pretty difficult to go on saying that help was being targeted on the poorest and that the government was concerned to limit dependence on benefits.

(ii) The rebate scheme for community charge is already more generous than for rates - the income taper is 15 per cent instead of 20 per cent (costing over £100 million). And the capital limit for housing benefit and rates/community charge rebates has already been raised from £6,000 to £8,000 in response to the outcry which greeted last April's reforms (cost £35 million).

(iii) Independent taxation will be of particular help to pensioner couples. 1.2 million taxpayers over 65 are expected to gain an average of £320 a year. This average gain is nearly 70 per cent higher than for taxpayers under 65.

(iv) Abolition of the pensioners' earnings rule and the poorer pensioners package (extra income support etc for pensioners over 75 or disabled) will have a combined cost of about £575 million in 1990-91; these measures will take effect in October this year. This will be additional money for pensioners in the social security programme, which will have to be accommodated in the Survey.

4. Nonetheless, there is a case in principle for a higher capital limit for couples than for single people. This is simply that they have to pay two community charges instead of one. And whereas the income level for entitlement to rebates is higher for couples than singles, the capital limit is the same, £8,000. The answer to this is that the capital limit for both couples and singles is already reasonably high, given that means tested benefits are intended to be targeted on those with few resources. Should either a couple or a single person with more than £8,000

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free capital, in bank deposits, unit trusts or whatever, be entitled to assistance with community charge payments?

5. The relationship with independent taxation, which the DSS work is meant to take in, is also more complicated. It is true that many pensioners will gain. But the point the PM may have in mind is that couples, including pensioner couples, will in future be taxed as individuals and also have an individual community charge liability. However, their entitlement to rebates (as for means tested benefits generally) will continue to depend on an assessment of joint incomes and capital. Thus, perhaps, the proposal for doubling the capital limit.

LG View

6. LG believe there are other considerations which you will wish to take into account. First the Prime Minister is clearly anxious about community charge benefit arrangements: she is aware of continuing backbench concern about pensioners liability for the community charge (eg Mrs Peacock MP spoke on this following the RSG announcement on 19 July). A concession now might be better than a wider easing of the community charge benefit rules later designed to facilitate the introduction of the community charge. Secondly, the new Environment Secretary will seek to reopen the LA current settlement for 1990-91 if he can: at the very least he will be seeking Exchequer support for the safety net, so that taxpayers rather than the gaining authorities pay for protecting losing authorities. Any concessions on the safety net would cost hundreds of millions. It is worth pausing to consider whether a relatively low cost concession on community charge benefits now might be better tactically for the Treasury: the Prime Minister's support for sticking close to the original AEF settlement will be absolutely vital.

Conclusions

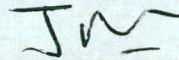
7. We are already committed to a generous community charge rebate scheme, to other measures designed specifically to help pensioners, and to independent taxation which will be of

particular help to pensioners. Against this background and the general policy of targeting help on those with few resources of their own, we can mount a strong case against raising the capital limit.

8. Tactically, head-on opposition may be unwise. There are also the safety-net considerations about which LG are concerned. But a reminder of the good news for pensioners already in the pipeline (and its heavy cost) and of the scale of the rebate scheme as already planned may help to ensure that any concession we might be forced to make is small and accurately targeted. Your intervention would also help to ensure that we are brought in on DSS' further work, including on the relationship with independent taxation.

9. We understand from No 10 that the PM has already seen Mr Newton's minute and has not reacted favourably. She is apparently aware that it does not bring out the wider issues and problems.

10. I attach a draft minute agreed with LG.



J P MCINTYRE

DRAFT

PRIME MINISTER

COMMUNITY CHARGE BENEFIT

Tony Newton me sent a copy of his minute dated 8 August. I look forward to seeing the further work he has commissioned on the possibility of raising the capital limit for pensioner couples to £16,000. I would like my officials to be involved. But I would like to mention now a number of points which argue for caution in considering this.

2. Naturally, I am concerned about the potential cost, especially in the difficult circumstances of this Survey. Even additional amounts of £15-30 million, to which Tony refers, would be unwelcome from this point of view. No doubt he will want to review his Department's bids. But they currently stand at over £1 billion in Years 1 and 2 of the Survey and at nearly £3½ billion in Year 3.

3. However, I believe we should also consider this in the context of the rebate scheme as it stands and of other measures in the pipeline which will be of particular help to pensioners.

4. The rebate scheme is already generous. DSS estimate that over 11 million chargepayers (1 in 4) will be helped including 4½ million pensioners, not far short of half the pensioner population. This compares with 7 million people getting help with

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rates, including 3½ million pensioners. The cost next year is estimated at nearly £2 billion, compared with less than £1½ billion if rates had continued. One of the reasons for this is that we have cut the income taper for community charge rebates from 20 per cent (which has applied for rate rebates) to 15 per cent, at a cost of £100 million. This will help an extra 1 million people next year, including pensioners, and I am sure we can take further credit for this measure when it is implemented in England and Wales, alongside the community charge, next April.

5. You will also recall that we have already raised the capital limit, for housing benefit as well as rates/community charge rebates, from £6,000 to £8,000, as part of the concessions made in the early weeks of the reforms last year. This was principally of help to pensioners.

6. Pensioners are also due to gain from other measures announced but not yet implemented. In October, the pensioners' earnings rule will be abolished. In the same month, the extra money for some 2½ million poorer pensioners (over 75 or disabled) will begin to be paid. This will be not only through income support and housing benefit but also in higher rebates of rates and community charge. These are major changes in expenditure terms. Together, they will add some £575 million a year to the Social Security programme in this year's Survey.

7. From April, independent taxation will be especially helpful for many pensioner couples. Inland Revenue estimates are that 1.2 million taxpayers over 65 will gain an average of £320 a year.

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This average gain is nearly 70 per cent higher than for taxpayers under 65.

8. In all these ways, we are already committed to do more for pensioners, at some considerable Exchequer cost. And I am sure we can take further credit for these changes as they are implemented. Against this background and the general Survey position, we need to think very hard before we decide to provide still more help through the benefit system, which would be directed to those with over £8,000 of free capital.

9. I am copying this minute to Tony Newton, Chris Patten and to Sir Robin Butler.

NORMAN LAMONT

22/8/89.

My letter has been released
as soon as the Chancellor says
starts to see with you - actually
said

HORROR



Lawson cash to cushion poll tax

By JOHN FISHER
THE Chancellor may provide extra cash to cushion the impact of the poll tax.

Nigel Lawson has promised to look again at the controversial 'safety net' proposals which have been criticised by backbench Tory MPs.

Last night the rebels were increasingly confident that his intervention would mean more money from the Treasury.

They say that in its present form, the safety net will rob prudent Conservative areas to give high-spending Labour councils time to adjust to the impact of the tax in its first four years.

Until now, Mr Lawson has insisted that the scheme must be self-financing. But in a private letter to Sir Rhodes Boyson, a former Local Government Minister, he gave an assurance that the Government is prepared to examine the case for additional Treasury cash.

The MP has been leading the backbench campaign to change the Government's mind over the

Turn to Page 2, Col 2

More the crash: The Kinnocks at a hurling championship in Dublin Picture: PAT MAXWELL

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

The Rt Hon Dr Sir Rhodes Boyson MP
House of Commons
LONDON
SW1A 0AA

22 August 1989

Mr Rhodes

Thank you for sending me a copy of your 10 July letter to Nicholas Ridley about the Community Charge Safety Net.

The Government will be giving careful thought to the points you have made.

[Handwritten signature]

NIGEL LAWSON

MCU

*Please could I have another
clean copy of this*

JSL Gene

*PPS
per Idone & co
have a copy
of this.*



HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt.Hon.Nicholas Ridley MP
Secretary of State
Dept.of the Environment,
2 Marsham Street,
London SW1P 3EB

10th July 1989.

I am very concerned about the dire effect on the support for our Party in next year's local elections and a subsequent General Election if the four year safety net to the community charge to be provided for heavy-spending Labour local authorities were to be financed by an additional levy on the community charge fixed in financially prudent largely Conservative local authorities.

Any such safety net must be financed entirely by new money from the Treasury. The advantage of the community charge is that local electorates have simply to carry the cost of local expenditure. To put an additional charge of up to £100 or more on each person in low spending authorities to finance the spending of extravagant local authorities will destroy all support for its introduction. Such a surcharge would be both unjust and politically indefensible.

Figures prepared by the House of Commons library and published in The Times would indicate that in at least 25 Conservative seats with majorities below (many well below) 5,500 the community charge payers would be levied such extra sums to help to finance other extravagant local authorities. I cannot think of any scheme which would be more resented by their electorates and our local and Parliamentary candidates would pay a heavy penalty in future polls.

There is no solution in juggling with the figures of the rate support grant. The answer is simple: the safety net must be financed by new money from the Treasury.

Since this matter affects the Treasury as well as your Department I am sending a copy of this letter to the Chancellor of the Exchequer.

The Rt. Hon. Dr. Sir Rhodes Boyson, MP.

cc. Chancellor of the Exchequer

28/8/89

mp

000413

Prime Minister

Mr POTTER
 Cr. Mr ANSON
 Mr PHILLIPS, Mrs LOMAX
 Mr EDWARDS, Mr McINTYRE
 Mrs CHARLIN.

COMMUNITY CHARGE BENEFIT

1. I have put in hand urgently the work on the capital limit for community charge benefit commissioned by Paul Gray's letter of 24 July. I fully share your concern that pensioner couples should not be discouraged from saving and a concession along the lines you propose would have clear attractions.
2. The cost of a £16,000 capital rule for pensioner couples in community charge benefit would be £15 million. If we did go down this road, there would be a logical case - and there would certainly be strong pressure - for the same concession to be extended to other groups such as disabled couples and couples with children. In fact, the extension to all couples would cost only an additional £2 million.
3. It would, of course, be highly desirable that any change should coincide with the introduction of the community charge. Unfortunately, virtually all local authorities use automated systems for the assessment and recording of rebates and it is now too late for them to make a structural change in their programmes without a very real risk of putting in peril the implementation of the entire rebate scheme. This means that we could not safely implement for April 1990 a concession limited to particular groups - whether pensioner couples or couples generally - or which resulted in different capital rules for community charge benefit and housing benefit.
4. In these circumstances there seem to be two main options for a concession on capital rules. One would be to adopt the tightly focussed concession which you proposed but from October 1990, the earliest date at which we think that such a structural change could

be implemented. The disadvantages of such delay are all too clear. The alternative would be to ease across the board from April 1990 the capital limit for both community charge benefit and housing benefit. Unfortunately this concession would not be targeted on couples and would cost substantially more: for example, an increase to £10,000 in the general capital limit for both benefits would cost £30 million. Such an increase could lead to pressure for a similar limit for income support but, at a cost of a further £45 million, that clearly could not be an immediate priority.

5. We shall need to balance such points carefully in the future work that is done and also, as you have noted, assess the likely impact of the move to independent taxation. Any proposals for extra spending would clearly have implications for the Survey which I would need to discuss with Norman Lamont, to whom I am copying this letter. Copies also go to Chris Patten and Sir Robin Butler.

8 AUG 1989

T N

PERSONAL

pwp

CHANCELLOR

FROM: A G TYRIE
DATE: 30 August 1989
cc: Chief Secretary
Mrs Chaplin
Mr Lightfoot

THE SAFETY NET

Has someone picked off Chris Patten to make sure that some DoE itching powder is not put down the necks of Party Conference delegates over the safety net?

2. On a related point, it strikes me that it would help if you square Geoffrey on our line on the safety net. He must have realised that this is one way in which he can twist the Prime Minister's tail while picking up enormous support from backbenchers. Curiously, if Sir Geoffrey forced some more money out of the Treasury for the safety net, he could also increase his credibility with spending colleagues if and when he comes to cut their pocket money in a Star Chamber.

TYRIE
SAFETY
NET
30/8

*I am sure
Chris Patten
I will have a word with
Gt in due course.*

AGT.
A G TYRIE

*pwp for bilateral with
Mr Patten on 7 Sept*